MGP INGREDIENTS INC
Form 10-Q
May 11, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009.

or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 0-17196

MGP INGREDIENTS, INC.
(Exact name of registrant as specified in its charter)

KANSAS	**48-0531200**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Commercial Street, Atchison Kansas	**66002**
(Address of principal executive offices)	(Zip Code)

(913) 367-1480

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

o Large accelerated filer	o Accelerated filer
o Non-accelerated filer	x Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock, no par value 16,598,585 shares outstanding as of March 31, 2009

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as intend, plan , believe, estimate, expect, anticipate, hopeful, should, may, will , could and or the negatives of t variations of them or similar terminology. They reflect management s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) our ability to continue as a going concern, (ii) access to capital and the ability to maintain compliance with all applicable loan agreement covenants, (iii) our ability to sell our Pekin plant, (iv) the availability and cost of grain and fluctuations in energy costs, (v) competitive environment and related market conditions, (vi) our ability to realize operating efficiencies, (vii) the effectiveness of our hedging programs, (viii) and actions of governments. For further information on these and other risks and uncertainties that may affect our business, see *Item 1A. Risk Factors* of our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 and Part II - Item 1A, *Risk Factors* in this Quarterly Report on Form 10-Q.

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PART I

ITEM 1 FINANCIAL STATEMENTS

MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Dollars in thousands, except per-share amounts

	Quarter Ended		Year-to-Date Ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Net sales	**$ 54,562**	$ 106,694	**$ 226,824**	$ 288,666
Cost of sales: Product costs	**52,365**	102,954	**259,515**	275,870
Unrealized loss on natural gas contract	**2,106**		**7,553**	
Total cost of sales	**54,471**	102,954	**267,068**	275,870
Gross profit	**91**	3,740	**(40,244)**	12,796
Selling, general and administrative expenses	**5,067**	6,532	**16,919**	17,626
Other operating costs	**2,076**		**2,076**	
Impairment of long lived assets		8,100	**8,931**	8,100
Severance and early retirement costs			**3,288**	
Other restructuring costs			**5,241**	
Loss from operations	**(7,052)**	(10,892)	**(76,699)**	(12,930)
Other income (expense), net	**21**	456	**95**	570
Gain on settlement of litigation, net of related expenses				7,046
Interest expense	**(705)**	(359)	**(2,230)**	(1,040)
Equity in loss of joint venture	**(45)**		**(79)**	
Loss before income taxes	**(7,781)**	(10,795)	**(78,913)**	(6,354)
Benefit for income taxes	**(1,533)**	(4,166)	**(12,706)**	(4,601)
Net loss	**(6,248)**	(6,629)	**(66,207)**	(1,753)
Other comprehensive income (loss), net of tax:	**(9)**	(869)	**(2,186)**	4,765
Comprehensive income (loss)	**$ (6,257)**	$ (7,498)	**$ (68,393)**	$ 3,012
Per Share Data				
Total basic loss per common share	**$ (0.38)**	$ (0.40)	**$ (3.99)**	$ (0.11)
Total diluted loss per common share	**$ (0.38)**	$ (0.40)	**$ (3.99)**	$ (0.11)
Dividends per common share	**$**	$	**$**	$ 0.15

See accompanying notes to condensed consolidated financial statements

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MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(Unaudited)

	March 31, 2009	March 31, 2008	June 30, 2008
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 503**	$	$
Restricted cash	**1,444**	3	3
Receivables (less allowance for doubtful accounts: March 31, 2009 - $378; March 31, 2008 -$207 and June 30, 2008 -$264)	**21,056**	33,112	34,087
Inventory	**21,793**	67,820	63,620
Prepaid expense	**1,738**	1,560	362
Deposits	**854**	1,869	580
Deferred income taxes	**3,276**		394
Refundable income taxes	**6,255**	1,348	8,570
Assets held for sale	**31,571**		5,600
Total current assets	**88,490**	105,712	113,216
Property and equipment, at cost	**170,349**	355,782	315,782
Less accumulated depreciation	**(102,858)**	(239,368)	(206,808)
Property and equipment, net	**67,491**	116,414	108,974
Investment in joint venture	**258**	358	399
Other assets	**725**	403	479
Total assets	**$ 156,964**	$ 222,887	$ 223,068
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Current maturities of long-term debt	**$ 3,793**	$ 3,547	$ 432
Liabilities related to assets held for sale	**6,372**		8,760
Revolving credit facility	**24,176**	10,000	23,000
Accounts payable	**22,094**	20,912	23,315
Accrued expenses	**6,723**	8,603	6,582
Accrued natural gas derivative	**3,946**		
Deferred income taxes		588	
Total current liabilities	**67,104**	43,650	62,089
Long-Term debt	**1,104**	6,404	1,301
Deferred credit	**6,484**	7,615	7,127
Other non-current liabilities	**10,733**	8,244	8,047
Deferred income taxes	**3,276**	8,134	7,630
Stockholders Equity			
Capital stock			
Preferred, 5% non-cumulative; $10 par value; authorized 1,000 shares; issued and outstanding 437 shares	**4**	4	4
Common stock			
No par value; authorized 40,000,000 shares; issued 19,530,344 shares	**6,715**	6,715	6,715
Additional paid-in capital	**11,395**	11,766	11,862
Retained earnings	**65,606**	141,864	131,813
Accumulated other comprehensive income (loss)	**(671)**	3,533	1,515
	83,049	163,882	151,909
Treasury stock, at cost			
Common; March 31, 2009 2,931,759 shares; March 31, 2008 - 2,971,091 shares and June 30, 2008 - 2,969,766 shares	**(14,786)**	(15,042)	(15,035)
Total stockholders equity	**68,263**	148,840	136,874
Total liabilities and stockholders equity	**$ 156,964**	$ 222,887	$ 223,068

See accompanying notes to condensed consolidated financial statements

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MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Year-to-Date Ended	
	March 31, 2009	**March 31 2008**
Cash Flows from Operating Activities		
Net income (loss)	**$ (66,207)**	$ (1,753)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	**9,713**	11,515
Loss (gain) on sale of assets	**(264)**	10
Impairment of long lived assets	**8,931**	8,100
Deferred income taxes	**(7,210)**	(4,718)
Equity in loss of joint venture	**79**	
Changes in working capital items:		
Restricted cash	**(1,441)**	3,333
Accounts receivable	**13,031**	1,189
Inventory	**41,063**	(17,258)
Accounts payable	**(786)**	5,625
Accrued expenses	**141**	834
Deferred credit	**(643)**	(925)
Income taxes payable/receivable	**2,315**	(984)
Accrual for natural gas derivative	**3,946**	
Other non-current liabilities	**2,686**	384
Gains previously deferred in other comprehensive income	**(2,149)**	
Other	**(1,793)**	(2,392)
Net cash provided by operating activities	**1,412**	2,960
Cash Flows from Investing Activities		
Additions to property and equipment	**(2,057)**	(4,277)
Investments in and advances to joint venture		(358)
Proceeds from disposition of equipment	**694**	
Net cash used in investing activities	**(1,363)**	(4,635)
Cash Flows from Financing Activities		
Purchase of treasury stock	**(34)**	
Proceeds from stock plans	**12**	451
Tax effect of restricted stock awarded	**(40)**	
Proceeds from long-term debt and capital leases	**2,150**	
Principal payments on long-term debt	**(2,810)**	(3,140)
Proceeds from line of credit	**98,940**	20,000
Principal payments on line of credit	**(97,764)**	(17,000)
Dividends paid		(2,536)
Net cash provided by (used in) financing activities	**454**	(2,225)
Increase (Decrease) in cash and cash equivalents	**503**	(3,900)
Cash and cash equivalents, beginning of year		3,900
Cash and cash equivalents, end of period	**$ 503**	$

See accompanying notes to condensed consolidated financial statements

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MGP INGREDIENTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per-share amounts

Note 1. Accounting Policies and Basis of Presentation.

Basis of Presentation

The accompanying condensed consolidated financial statements of MGP Ingredients, Inc. and its subsidiaries (Company) reflect all adjustments (consisting only of normal adjustments) which, in the opinion of the Company s management, are necessary to fairly present the financial position, results of operations and cash flows of the Company. These unaudited condensed consolidated financial statements as of and for the period ended March 31, 2009 should be read in conjunction with the consolidated financial statements and notes thereto in the Company s Form 10-K Annual Report for the fiscal year ended June 30, 2008 filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

In accordance with the guidance of Staff Accounting Bulletin No. 108, these interim consolidated financial statements reflect immaterial adjustments made to the Company s March 31, 2008 balance sheet. These adjustments had no impact upon the Company s previously reported earnings. For the balance sheet as of March 31, 2008, the Company reclassified $2,542 from other current liabilities to additional paid-in capital to reflect equity share-based awards, reclassified deferred credits totaling $7,615 from current liabilities to non-current liabilities and reclassified current deferred tax assets of $3,060 to reduce non-current deferred tax liabilities.

The Company s financial statements for the quarter ended March 31, 2009 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has experienced large losses from operations and has relied on borrowings under its credit agreements to operate.

As further discussed in Note 2 *Indebtedness*, on March 26, 2009, the lenders under the Company s Credit Agreement agreed to a Sixth Amendment to our Credit Agreement which waived prior designated defaults under the Credit Agreement and extended the termination date of the Credit Agreement to September 3, 2009. Because the Credit Agreement s original financial covenants were once again in effect, the Company was again in default under these covenants as of March 31, 2009 and was in cross default under certain of its other debt obligations, but its lenders also have waived these defaults. Although the Company has obtained approximately $6,300 through April 15, 2009 in additional debt financing from other lenders, which temporarily improved its short-term liquidity, the Company continues to believe that its cash needs over the next several months will exceed amounts available to it from operations and its credit facility. The Company has agreed with its lenders that by June 15, 2009, it will either have procured a commitment letter or agreement from a buyer to purchase its Pekin facility or obtained a commitment letter or agreement for $25,000 in financing from another bank or lender, and one of such transactions must close by July 17, 2009. The Company is currently pursuing both alternatives but there can be no assurance that it will be successful in either. Accordingly, the Company s ability to continue as a going concern is dependent upon future events.

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Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Accounting

On July 1, 2008, the Company adopted, without any material effect on its consolidated financial statements, the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement*, for our financial assets and liabilities with respect to which the Company has recognized or disclosed at fair value on a recurring basis. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date for nonfinancial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, except for items that are measured at fair value in the financial statements on a recurring basis at least annually. Beginning July 1, 2009, the Company will adopt the provisions for nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis. Management does not expect the provisions of SFAS No. 157 related to these items to have a material effect on the consolidated financial statements.

Overdrafts

The Company s historical policy has been to record book overdrafts, checks outstanding which have not been presented to the bank for payment, as accounts payable. Changes in the amount of book overdrafts outstanding between periods are reported as operating cash flows. The Company had no book overdraft at March 31, 2009 and a book overdraft of $4,400 at June 30, 2008.

Impairment

The Company tests its long-lived assets for impairment whenever events or conditions and circumstances indicate a carrying amount of an asset may not be recoverable. During the first three quarters of our fiscal year, declines in overall equity values, including our common stock value, and changes in our operations triggered impairment evaluations. Updated forecasts that reflect recent changes made to our business were used in these analyses. The use of forecasts requires considerable management judgment. Management believes the judgments used in this analysis are reasonable. The testing and analysis as of March 31, 2009 identified no other impaired assets (see Note 8 *Restructuring Costs and Loss on Impairment of Assets* for details regarding impairment charges recorded earlier this fiscal year).

Note 2. Indebtedness;

Secured Credit Agreement. At June 30, 2008, the Company was not in compliance with the tangible net worth and the EBITDA based financial covenants in its Credit Agreement. Its tangible net worth at such date, as defined in the Credit Agreement, was $132,500 instead of at least $135,000, its fixed charge coverage ratio was 0.56 to 1 instead of at least 1.5 to 1 and its leverage ratio was (11.03) to 1 instead of at least 3.0 to 1. Its fixed charge coverage ratio, as defined in its lease related to its 5.26% industrial revenue bond lease, was (0.51) to 1 instead of at least 1.5 to 1. As a result, the Company was in default under the Credit Agreement and 5.26% industrial revenue bond lease. Due to cross default provisions, it also was in default under its 5.45% Secured Promissory Note to Commerce Bank . As of September 3, 2008, Commerce Bank waived the default under the 5.45% Promissory Note and the lenders

under the Credit Agreement agreed to a First Amendment to the Credit Agreement providing for a standstill period expiring on October 31, 2008, unless the Company defaulted under interim covenants. The amendment imposed new, monthly interim minimum adjusted EBITDA requirements (as defined in the credit agreement) of $(7,500) for July, $(2,500) for August and $(1,400) for September, and minimum tangible net worth requirements (as defined in the credit agreement) of $125,000 at the end of July, $123,000 at the end of August and $121,000 at the end of September. The Company met the requirements for July and August but did not meet the September requirements and as of October 25, 2008 was in forbearance default under the credit agreement and was also in cross default under its 5.45% Secured Promissory Note to Commerce Bank.

Although it was in forbearance default, the Company s lenders agreed to extend the original expiration date of the forbearance period under its Credit Agreement, as amended, to November 10, 2008, while a new amendment to the Credit Agreement was being discussed. Subsequently, as of November 7, 2008, the lenders under the Credit Agreement entered a Second Amendment extending the standstill period to February 27, 2009, during which the Company was subject to new interim financial covenants. These required the Company to maintain fiscal year-to-date adjusted EBITDA (EBITDA adjusted to eliminate any mark-to-market adjustments reflected in net income) of ($30,000) at the end of October 2008, ($44,000) at the end of November 2008, and ($46,000) at the end of December 2008 and January 2009. Other terms included (i) an increase in the interest rate on outstanding borrowings from LIBOR plus 2.75% or prime plus 0.50% to prime plus 3%, with prime being not less than the greater of 4%, Agent s prime rate or the federal funds rate plus 1%, (ii) an amendment fee of $110 (in addition to the banks out of pocket expenses), (iii) a fee of 1% of the outstanding credit commitment, as defined, payable on February 27, 2009 unless all outstanding obligations were paid in full and the credit agreement was terminated, (iv) the pledge of substantially all of the Company s remaining unpledged assets, (v) limiting the Company s use of the commitment under the credit agreement to either fund margin calls or for other grain hedging positions to an amount equal to a tax refund received in the second quarter (approximately $9,200) , and (vi) requiring the Company to use any portion of such tax refund received after November 7 ($8,000) to reduce outstanding borrowings under the Credit Agreement. In the amendment, Commerce also waived the cross default under the 5.45% Secured Promissory Note to Commerce.

As a result of inventory reductions and continued operating losses, in December 2008, the Company s outstanding borrowings under the Credit Agreement exceeded its borrowing base, and on December 19, 2008 the lenders agreed to a Third Amendment to the Credit Agreement which permitted the Company, on a temporary basis, to obtain loans and other credit extensions under the Credit Agreement in amounts in excess of the borrowing base. Under the terms of the Third Amendment, until January 30, 2009, the Company could obtain credit extensions of $3,000 over the borrowing base; thereafter, until February 26, 2009, the Company could obtain credit extensions of $1,500 over the borrowing base; and thereafter the Company was to have been able to obtain credit extensions of $500 over the borrowing base. The Third Amendment did not affect the standstill period to which the Company was subject or otherwise impose any duty on any lender to extend credit to the Company beyond any date after which such lender was not obligated to extend credit pursuant to the Credit Agreement as in effect immediately prior to the Third Amendment.

The Company met adjusted EBITDA targets imposed by the Second Amendment for each of October and November but did not meet the targets for December because of impairment and other restructuring charges recognized as of quarter end. On January 30, 2009, the lenders agent notified the Company that it was in default under the credit facility. It also notified the Company that because of cross default provisions, it was in default under its 5.45% Secured Promissory Note to Commerce Bank. Accordingly, the Company reclassified all long-term debt to current.

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On February 27, 2009, the lenders agreed to a Fourth Amendment to the Credit Agreement, which extended the forbearance period under the Credit Agreement and the February 26, 2009 over advance step-down referred to above to March 13, 2009. The Fourth Amendment also (i) reduced the lenders aggregate commitment under the Credit Agreement to $40,000, (ii) eliminated Sections 3.4(e) (Reserve Amounts Tax Refunds), 3.6(d) Reserve Amount Proceeds) and 3.21 (Reserve Against Revolving Credit Availability) to the Credit Agreement, which were related to a tax refund and related reserves and were added in the Second Amendment to the Credit Agreement, (iii) required the Company to submit to the lenders by March 6, 2009 an operating plan outlining how it proposed to improve its financial position with the ultimate goal of repaying the lenders and (iv) required the Company to pay for the retention by the lenders of Moglia Advisors to advise the lenders regarding the Company and its operating plan.

On March 11, 2009, in connection with the Company s request that the lenders release their lien on two parcels of land in Atchison that the Company was not using in its business so that it might sell them, the Company agreed to apply the net proceeds ($219,214.64) to its obligations under the Credit Agreement and that the amount of its borrowing base under the Credit Agreement would thereafter be deemed reduced by the amount of such net proceeds.

On March 13, 2009, the lenders agreed to a Fifth Amendment to the Credit Agreement which extended the forbearance period under the Credit Agreement and the over advance step-down date referred to in the preceding paragraph to March 27, 2009.

On March 26, 2009, the lenders agreed to a Sixth Amendment to the Credit Agreement, which waived prior designated defaults under the Credit Agreement and cross defaults under the 5.45% Secured Promissory Note to Commerce and extended the termination date of the Credit Agreement to September 3, 2009. The Sixth Amendment also reduced the lenders commitment under the Credit Agreement so that the lenders maximum commitment thereunder, subject to borrowing base limitations, declines as follows;

- $33,500 to April 30, 2009;

- $25,000 from May 1 to July 16, 2009; and

- $7,500 from July 17, 2009 to September 3, 2009.

The lenders commitment and the Company s borrowing base as of any date will be reduced by 70% of the net proceeds of any asset sale or debt or equity issue (other than loans aggregating approximately $6,300 from the Cloud L. Cray Jr. Trust, the Bank of Atchison and Exchange National Bank & Trust). Until April 1, 2009, the borrowing base was increased by an over advance amount of $3,500, reduced by the amount (but not below zero) of the foregoing loans. After April 1, the over advance amount is zero. As of March 31, 2009 the amount available to the Company under the Credit Agreement (taking into account the over advance amount) was $2,169 and the amount of the Company s outstanding borrowings under the Credit Agreement was $24,176.

The Sixth Amendment imposed new covenants on the Company, including the following:

- The Company was required to close on loans from the Cray Trust and Bank of Atchison by April 1 and on loans from the Exchange National Bank by April 15;

- The Company is required to meet weekly cumulative cash flow targets; generally, this covenant requires that the Company s cumulative weekly cash flow not vary negatively from cash flow targets agreed to with its lenders by an amount that exceeds the greater of 10% of the cumulative targeted cash flow at the end of any week or $200; and

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- By June 15, 2009, the Company must have received either a:

- Written commitment letter or agreement from a third party to purchase its Pekin facility by July 17, 2009, or

- Written commitment letter or agreement by a bank or other lender to provide not more than $25,000 of debt financing by July 17, 2009 guaranteed in whole or in part by the USDA.

The Company has incurred and expensed bank fees related to these amendments of approximately $458 as of March 31, 2009.

Although the Sixth Amendment waived the Company s prior defaults and imposed new financial covenants, it did not address the Credit Agreement s original financial covenants. Because these covenants were once again in effect, the Company was again in default under the fixed charge coverage, working capital, tangible net worth and leverage ratio covenants as of March 31, 2009, and, as result, was in cross-default under its 5.45% Secured Promissory Note to Commerce Bank and under its loan agreement with Union State Bank, described below. As a result of the Company s defaults under the Credit facility, its lenders could, at their election, have terminated the Company s ability to borrow under the credit facility and/or accelerated its obligations to repay amounts borrowed under the credit facility and other debt. If its lenders were to terminate the credit facility, the Company would not have sufficient funds available to continue normal operations. If the Company s lenders were to accelerate its debt, it could result in the acceleration of debt under other secured obligations, and the Company would be unable to repay its obligations immediately. However, the Company s lenders did not take such actions and when the Company brought the matter to their attention waived these most recent defaults, and the credit facility banks and Union State Bank expressly waived any future defaults of these covenants.

Cloud L. Cray Jr. Trust loan. On March 27, 2009, the Company borrowed $2,000 from the Cloud L. Cray, Jr. Trust pursuant to a subordinated secured promissory note which provides for interest at the rate of 7percent per annum and the payment of principal and interest in a lump sum on March 27, 2010. The note is secured by second mortgages on the Company s Atchison and Pekin production facilities. The note is subject to the provisions of a subordination agreement between the Cloud L. Cray, Jr. Trust and Commerce Bank, N.A., as Agent under the Credit Agreement referred to above. Mr. Cray, who is settlor and trustee of the Trust, is a director of the Company and its principal stockholder with an approximate 21 percent beneficial ownership interest in the common stock of the Company.

Union State Bank Loan. On March 31, 2009, the Company borrowed $1,500 from Union State Bank Bank of Atchison. The loan bears interest, payable semi-annually commencing on September 30, 2009, at a variable rate (which adjusts quarterly commencing on June 30, 2009) equal to 6% plus the weekly average yield on US Treasury securities adjusted to a constant maturity of three years. The current interest rate on borrowings under the loan agreement is 7.25%. Principal installments of $150 are payable on March 31, 2011, March 31, 2012 and March 31, 2013, and the balance of the loan is payable on March 31, 2014. The loan is secured by a mortgage and security interest on the Company s Onaga, Kansas plant and equipment and its Atchison flour mill plant and equipment. The lenders under the Company s Credit Agreement and Union State Bank have entered an intercreditor agreement whereby the lenders under the Credit Agreement generally have agreed to subordinate their lien in these assets to the lien of Union State Bank. Under the intercreditor agreement, the Company has agreed that an event of default or demand for payment in full by any of the lenders will be deemed to be an event of default under the loan documents of each of the other lenders. In addition to payment defaults and covenant defaults which are not cured within 5 days, events of default under the Union State Bank loan agreement include mergers or sales of a substantial part of the Company s property or if the bank determines in good faith that a material adverse change has occurred in the Company s financial condition or that the prospect for its performance of its loan obligations is impaired. This note was funded on April 1, 2009.

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Accordingly, the borrowings are not included within outstanding debt as of March 31, 2009. The Company s CEO, Mr. Newkirk, is a director of Union State Bank.

Note 3. Earnings Per Share.

Basic loss per share data is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Potentially dilutive instruments are stock options and unvested restricted stock awards. Antidilutive share units were 984,718 and 822,400 for the three and nine months ended March 31, 2009 respectively and 157,634 and 131,560 for the three and nine months ended March 31, 2008 respectively.

	Quarter Ended		**Year-to-Date**	
Weighted average shares:	**March 31, 2009(1)**	**March 31, 2008(1)**	**March 31, 2009(1)**	**March 31, 2008(1)**
Basic and Diluted Shares:	**16,598,582**	16,554,262	**16,580,969**	16,522,021
Additional weighted average shares attributable to:				
Stock options:				
Unvested restricted stock awards:				
Potentially Diluted Shares(1)	**16,598,582**	16,554,262	**16,580,969**	16,522,021

(1) The stock options and the restricted stock awards have not been considered due to the loss experienced during both periods.

Note 4. Derivative Instruments and Fair Value Measurements.

Derivative Instruments. In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company enters into readily marketable exchange-traded derivative instruments in the form of commodity futures and option contracts consistent with our established risk management policies.

Certain commodities the Company uses in its production process are exposed to market price risks due to volatility in the prices for those commodities. Currently, the Company uses derivative instruments to reduce the risk related to price volatility for corn, flour and natural gas. The Company manages its exposure through a combination of forward purchases, long-term contracts with suppliers and exchange traded commodity futures and option contracts. However, under the sixth amendment to the Credit Agreement, the Company s debt covenants do not allow it to enter into any commodity derivative transactions, except for derivative instruments to protect the Company from price movements associated with forward sales contracts the terms of which do not exceed six months. Derivative instruments are recorded as either assets or liabilities and are measured at fair market value with any changes in fair value being marked to market as a component of cost of sales in the Condensed Consolidated Statements of Income. Since these derivatives are not accounted for as hedges, fluctuations in the related commodity prices could have a material impact on earnings in any given period.

Prior to April 1, 2008, changes in the fair market value of the derivative instruments designated as cash flow hedges were recorded either in current earnings or in other comprehensive income, depending on the nature of the hedged transaction, consistent with the application of hedge accounting under Statement of Financial Accounting Standards No. 133 as amended (SFAS 133). Gains or losses recorded in other comprehensive income were reclassified into current earnings in the periods in which the hedged items

were consumed. Any ineffective portion of a hedged transaction was immediately recognized in current earnings.

Application of hedge accounting under SFAS 133 requires significant resources, recordkeeping and analytical systems. As a result of the rising compliance costs and the complexity related to the application of hedge accounting under SFAS 133, the Company s management elected to discontinue the use of hedge accounting for all commodity derivative positions effective April 1, 2008. Accordingly, changes in the value of derivatives subsequent to March 31, 2008 have been recorded in cost of sales in the Company s Consolidated Statements of Income.

The Company s production process involves the use of natural gas which it purchases under contracts that require it to commit to the purchase of certain quantities on a monthly basis and allow the Company to lock in prices on such purchase quantities. Because the quantities involved have always been for amounts to be consumed within the normal production process, the Company has excluded the market value of these commitments within its contracts from its hedge accounting consistent with normal purchases and sales as defined under SFAS 138.

With the shutdown of the Company s Pekin plant, commitments for the purchase of natural gas through the remainder of the fiscal year under a single contract for the this facility are in excess of projected consumption. Accordingly, the Company anticipates settling its commitments for the difference between the prices to which the Company committed to and the market price of natural gas upon settlement. The Company has recorded a charge of $2,106 and $7,553 in the quarter and year-to-date periods ended March 31, 2009, respectively, to cost of sales for unrealized losses for projected settlements and will continue to mark this obligation to market through June 30, 2009.

Fair Value Measurements. As discussed in Note 1 to the Condensed Consolidated Financial Statements, the Company adopted SFAS 157 on July 1, 2008 with the exception of nonfinancial assets and nonfinancial liabilities that were deferred by FASB Staff Position 157-2. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

- Level 1 quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.
- Level 2 observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 unobservable inputs for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

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The following table sets forth by level within the fair value hierarchy of the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2009.

	Fair Values of Assets				Fair Values of Liabilities			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives not designated as hedging instruments:								
Corn commodity contracts (a) (c)	$	$	$	$	$ 785	$	$	$ 785
Accrued natural gas derivative (b) (c)	$	$	$	$	$	$ 3,946	$	$ 3,946
Total financial assets, liabilities and derivative positions:	$	$	$	$	$ 785	$ 3,946	$	$ 4,731

(a) Corn commodity contracts consist of futures contracts and options and are recorded as a component of inventory in the Company s Consolidated Balance Sheet.

(b) Recorded on the Company s Consolidated Balance Sheet as accrued natural gas derivative.

(c) Based on prices of futures exchanges and recently reported prices in the marketplace.

Information related to our derivatives for the quarter and year-to-date periods ended March 31, 2009 is as follows:

	Quarter Ended March 31, 2009	**Year-to-Date Ended March 31, 2009**
Derivatives Not Designated as Hedging Instruments:		
Corn commodity contracts		
Amount of gain (loss) recognized in earnings (a)	$ (278)	$ (7,143)
Pekin Natural Gas contracts		
Amount of gain (loss) recognized in earnings (a)	$ (2,106)	$ (7,553)
Derivatives De-Designated as Hedging Instruments:		
Wheat commodity contracts		
Amount of gain (loss) recognized in earnings (b)	$	$ (260)
Amount of gain (loss) reclassified from AOCI into earnings before Atchison Mill closure(c)	$	$ 2,485
Amount of gain (loss) reclassified from AOCI into earnings after Atchison Mill Closure(d)	$	$ 1,108

(a) Mark-to-market gain (loss) on derivatives not designated as hedging instruments is recognized in current earnings in cost of sales for commodity contracts.

(b) Subsequent mark-to-market gain (loss) on derivatives de-designated as hedging instruments is recognized in current earnings in cost of sales for commodity contracts.

(c) Gain (loss) on wheat commodity contracts reclassified from AOCI into earnings was recognized in cost of sales prior to closure of the Atchison Mill.

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(d) Gain (loss) on wheat commodity contracts reclassified from AOCI into earnings was recognized in other restructuring costs subsequent to closure of the Atchison Mill.

Counterparty credit risk. We enter into commodity derivatives through a broker with a diversified group of counterparties. As these commodity derivatives currently represent a liability, there is no risk of counterparty credit risk. Under the terms of the Company s account with its broker, it is required to maintain a cash margin account as collateral to cover any shortfall in the market value of derivatives, which has been accounted for as restricted cash in the condensed consolidated balance sheets.

Repayment terms on accrued natural gas derivatives. Under the terms of the Company s agreement with its natural gas provider for its Pekin, Illinois plant, it is billed monthly for settlements pursuant to the Company s contract. Full payment is due within two weeks of receipt of the billing. As of March 31, 2009, approximately $1,400 related to settled amounts is contained within accounts payable as reported in the Company s condensed consolidated balance sheet. Additionally, a liability for $3,946 for additional commitments that will settle by June 30, 2009 is reported in the Company s condensed consolidated balance sheet as accrued natural gas derivative.

Note 5. Contingencies.

The Company is a party to various legal proceedings which are of an ordinary, routine nature and incidental to its operations. Except for the following matters, management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or operations of the Company.

From September 16, 2008 until February 11, 2009, tests on the Company s feed drying unit indicated that it was not in compliance with the volatile organic compound emission limit established in the Consent Agreement and Final Order (CAFO) entered into with the Kansas Department of Health and Environment (KDHE) on January 11, 2006. Official compliance testing in February 2009 demonstrated the unit to be in compliance. The KDHE has discretion under its penalty policy to pursue an enforcement action against the Company for failing to comply with the emission limit. The Company s management has provided regular updates to the KDHE on efforts to bring the unit into compliance with the permit. Although no formal action has been taken, the KDHE may seek a penalty, but the Company is unable to predict the magnitude of any penalty that KDHE may ultimately assess against it.

Note 6. Operating Segments.

The Company is a fully integrated producer of ingredient solutions, distillery and other products. Products included within the ingredient solutions segment have historically consisted of specialty wheat starches and proteins, vital wheat gluten, commodity wheat starch, and mill feeds. Distillery products have consisted of food grade alcohol (consisting of beverage and industrial alcohol) and fuel grade alcohol, commonly known as ethanol. Distillers grain and carbon dioxide, have been co-products of the Company s distillery operations. Other products include pet treat resins and plant-based biopolymers as well as other products. For the quarter and year-to-date period ended March 31, 2009, revenues from products in the other segment represent less than 2.0 percent of the Company s consolidated revenues. As noted in Note 8, during the second quarter the Company closed the flour mill at its Atchison facility and ceased protein and starch production operations at its Pekin, Illinois plant. As a result of these actions, it no longer sells mill feeds, has substantially exited the vital wheat gluten business and curtailed production of commodity wheat starch. In the third quarter, it shut down its Pekin plant. Other than the production of fuel alcohol as a co-product of high

quality alcohol, the Company ceased production of fuel alcohol in the third quarter.

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The operating results for each segment are based on net sales less identifiable operating expenses directly attributable to each segment. Indirect selling, general and administrative as well as interest expense, investment income and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate, consistent with the measurements used to evaluate segment performance internally. Receivables, inventories and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

	Quarter Ended		Year-to-Date Ended	
(in thousands)	**March 31, 2009**	**March 31, 2008**	**March 31, 2009**	**March 31, 2008**
Sales to Customers				
Ingredient solutions	**$ 16,266**	$ 25,960	**$ 64,618**	$ 73,212
Distillery products	**37,263**	79,064	**158,378**	210,945
Other	**1,033**	1,670	**3,828**	4,509
Total	**54,562**	106,694	**226,824**	288,666
Depreciation and amortization				
Ingredient solutions	**665**	1,021	**2,358**	3,078
Distillery products	**1,783**	2,044	**5,986**	5,992
Other	**62**	385	**184**	1,163
Corporate	**377**	421	**1,185**	1,282
Total	**2,887**	3,871	**9,713**	11,515
Income (Loss) before Income Taxes				
Ingredient solutions	**1,415**	(2,593)	**(8,128)**	373
Distillery products	**41**	5,474	**(28,282)**	11,011
Other	**(162)**	(508)	**74**	(2,796)
Corporate	**(6,969)**	(5,068)	**(17,564)**	(13,888)
Impairment of long lived assets(1)		(8,100)	**(8,931)**	(8,100)
Severance and early retirement costs(1)			**(3,288)**	
Other restructuring costs(1)			**(5,241)**	
Unrealized loss on natural gas contract(1)	**(2,106)**		**(7,553)**	
Gain on Settlement of litigation net of related expenses(1)				7,046
Total	**$ (7,781)**	$ (10,795)	**$ (78,913)**	$ (6,354)

(1) For purposes of comparative analysis, the impairment of long lived assets, severance and early retirement costs and other restructuring costs, unrealized loss on natural gas contract and the gain on the settlement of litigation have been excluded from segments for the periods indicated.

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	March 31, 2009	March 31, 2008	June 30, 2008
Identifiable Assets			
Ingredient solutions	**$ 38,774**	$ 75,900	$ 70,071
Distillery products	**61,714**	126,581	121,650
Other	**4,290**	9,321	2,969
Assets held for sale	**31,571**		5,600
Corporate	**20,615**	13,557	22,778
Total	**$ 156,964**	$ 225,359	$ 223,068

For the quarter and year-to-date periods ended March 31, 2009, the Company refined its methodology for assessing identifiable earnings (losses) before income taxes for all segments whereby only direct sales, general and administrative costs are allocated to operating segments. Previously, the Company had allocated substantially all selling, general and administrative expenses to each operating segment based upon numerous factors and attributes. All selling, general and administrative expenses not directly attributable to operating segments have been restated within Corporate income (loss) before taxes for the quarter and year-to-date periods ended March 31, 2008. Accordingly, amounts previously disclosed as earnings (loss) before income taxes for the quarter and year-to-date periods ended March 31, 2008 have been adjusted to reflect these changes.

Note 7. Pension and Post Retirement Benefit Obligations.

Post Retirement Benefits. The Company and its subsidiaries provide certain post-retirement health care and life benefits to all employees. The liability for such benefits is unfunded. The Company uses a June 30 measurement date for the plan.

The components of the Net Periodic Benefit Cost for the quarter and year-to-date periods ended March 31, 2009 and March 31, 2008, respectively, are as follows:

	Quarter Ended		Year-to-Date Ended	
(in thousands)	**March 31, 2009**	**March 31, 2008**	**March 31, 2009**	**March 31, 2008**
Service cost	**$ 75**	$ 61	**$ 225**	$ 183
Interest cost	**124**	117	**372**	351
Prior service cost	**(9)**	(9)	**(27)**	(27)
(Gain) loss	**5**	11	**15**	33
Total post-retirement benefit cost	**$ 195**	$ 180	**$ 585**	$ 540

The Company previously disclosed in its financial statements for the year ended June 30, 2008, amounts expected to be paid to plan participants. There have been no revisions to these estimates and there have been no changes in the estimate of total employer contributions expected to be made for the fiscal year ended June 30, 2009.

Total employer contributions for the quarter ended March 31, 2009 were $22.

Pension Benefits. The Company and its subsidiaries also provide defined retirement benefits to certain employees covered under collective bargaining agreements. Under the collective bargaining agreements, the Company s pension funding contributions are a function of the wages paid and are

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determined as a percentage of wages paid. The funding is divided between the defined benefit plan and a 401(k) plan. It has been management s policy to fund the defined benefit plan in accordance with the collective bargaining agreement. The collective bargaining agreements allow the plan s trustees to develop changes to the pension plan to allow benefits to match funding, including reductions in benefits. The Company uses a June 30 measurement date for the plan.

The components of the Net Periodic Benefit Cost for the quarter and year-to-date periods ended March 31, 2009 and March 31, 2008, respectively, are as follows:

(in thousands)	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Year-to-Date Ended March 31, 2009	Year-to-Date Ended March 31, 2008
Service cost	**$ 141**	$ 130	**$ 423**	$ 390
Interest cost	**49**	35	**147**	105
Expected return on plan assets	**(44)**	(35)	**(132)**	(105)
Prior service cost	**6**	6	**18**	18
Recognition of net loss(gain)	**4**	(2)	**12**	(6)
Total pension benefit cost	**$ 156**	$ 134	**$ 468**	$ 402

The Company has made employer contributions of $787 for the year-to-date period ended March 31, 2009, all of which were in the quarter ended September 30, 2008.

Note 8. Restructuring Costs and Loss on Impairment of Assets.

In response to the losses incurred during fiscal 2009, actions were taken in the current fiscal year in an effort to return the Company to profitability. These actions include significant changes to operations in the Company s Atchison and Pekin facilities. As a result of these actions, restructuring costs and loss on impairment of assets were recognized in the second quarter. Amounts for such charges included in results for the year-to-date period ending March 31, 2009 were as follows:

(in thousands)	Total
Impairment of long lived assets	$ 8,931
Severance and early retirement costs	3,288
Other restructuring costs	5,241
Total	$ 17,460

On October 20, 2008 the Company announced that it had signed a non-binding letter of intent to acquire its flour requirements from a third party, was ceasing operations at its flour mill in Atchison, Kansas and was reducing its workforce. The Company s decision to close its flour mill was due to the fact that it could no longer produce flour for its own use at costs that were competitive with those of third party producers. As a result of this action by the Company, the Company performed an impairment analysis and recorded a $2,831 non-cash impairment charge in the Condensed Consolidated Statements related to the flour mill assets.

On November 5, 2008, the Company announced plans to significantly reduce production of commodity wheat proteins and starches by ceasing protein and starch production operations at its Pekin, Illinois plant, effective November 12, 2008. The majority of the Pekin facility s protein and starch production consisted of gluten and commodity starches. As a result of the shutdown, the Company performed an impairment analysis and recorded a $4,960 non-cash impairment charge in the Condensed

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Consolidated Statements related to the Pekin protein and starch assets. Going forward, management expects to concentrate its efforts on the production of value added proteins and starches at the Atchison facility.

As a result of the closure of the Company s Atchison flour mill and the protein and starch operations at its Pekin plant, the Company also incurred $3,288 in severance and early retirement cost in the Company s Condensed Consolidated Financial Statements.

On January 29, 2009, the Company exited the production of fuel grade alcohol and temporarily shut down food grade alcohol production operations at its Pekin, Illinois plant. On March 31, 2009, the Company announced that it was considering its strategic options, including the sale of the Pekin plant. Management has performed an impairment analysis of the Pekin plant at the end of the third quarter based upon appraisals and has determined that no further impairment charge related to the Pekin plant was warranted based upon management s expectation of value to be realized upon sale. The remaining net book value of assets at the Pekin facility approximates $29,000.

On January 29, 2009, the Company determined that it would cease the manufacture and sale of personal care ingredients products. The Company has concluded all its contractual obligations with respect to its personal care customers, completed all production and liquidated all remaining inventory. As a result of this action, the Company performed an impairment analysis and recorded a $329 non-cash impairment charge in the Condensed Consolidated Statements related to the write-down of equipment used in the production of personal care products.

As previously reported, at the end of the third quarter of fiscal 2008 the Company concluded that its pet business assets in the other segment and certain of its ingredient solutions segment assets in a mixed use facility in Kansas City, Kansas at which the Company s pet treat resins are made were impaired. At that time, the Company recorded an impairment charge of $8,100. For the quarter ended December 31, 2008, the Company performed another test for impairment of these assets as a result of an appraisal resulting in a further charge of $811. As part of its closing process for the quarter ended March 31, 2009, management performed an additional impairment test of these assets. No further impairment charge was deemed warranted.

Other restructuring costs of $5,241 include $2,925 related to lease termination costs which the Company expects to incur as a result of the flour mill closure with respect to 147 railcars which it formerly used to transport flour and whose leases expire through 2013. The Company has recognized this expense because it no longer utilizes these cars in its business. Expected payments accrued reflect the net present value of the remaining obligation net of units which are estimated to be returned to the lessor sooner than the lease termination date. The discount rate used was 7.0 percent and was based on the Company s borrowing costs at December 31. 2008. Twenty-six of these railcars have been returned to the lessor as of March 31, 2009. The Company estimates that the remaining railcars will either be returned to the lessor or assigned to other third parties over the course of four years. Other restructuring costs also includes a $2,185 net loss resulting from sales of excess wheat no longer needed for milling operations. The charge is net of approximately $1,109 in realized gains previously recorded in accumulated other comprehensive income.

Note 9. Assets Held for Sale.

At the end of the fiscal year ended June 30, 2008, the Company s management evaluated strategic alternatives with respect to its mixed use facility in Kansas City, Kansas. The Company had previously concluded that its pet business assets in its other segment and certain of its ingredient solutions segment assets were impaired during the quarter ended March 31, 2008, and during the fourth quarter of the fiscal

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year ended June 30, 2008 committed to a plan to sell the assets at this facility. Buildings and equipment with an adjusted cost basis of $5,600 were reported as current assets as Assets held for sale on the Company s consolidated balance sheet as of June 30, 2008 and subsequently as of September 30, 2008. During the quarter ended December 31, 2008, the Company s management, after evaluating new strategic alternatives with respect to this facility, concluded that the building and related land could be used for other manufacturing and storage purposes consistent with the Company s updated business plan. Accordingly, assets consisting of a building with a net book value of $1,067, land with a book value of $506 and equipment with a book value of $679, for a total net book value of approximately $2,252, previously reported as current assets in Assets held for sale have been reclassified to non-current assets as Property and equipment, at cost and Less: accumulated depreciation.

As discussed above in Note 8 *Restructuring Costs and Loss on Impairment of Assets,* the Company ceased protein and starch production operations at this facility effective November 12, 2008 and, after performing an impairment analysis, recorded a $4,960 non-cash impairment charge in the Condensed Consolidated Financial Statements. As noted previously in Note 8 *Restructuring Costs and Loss on Impairment of Assets*, the remaining net book value of assets at the Pekin facility approximates $29,000.

Subsequently, the Company also temporarily idled all distillery operations at the Pekin facility and on March 31, 2009 announced that it was considering its strategic options, including the sale of the plant. Accordingly, assets related to the Pekin plant with an adjusted costs basis of $29,000 are reported as current assets as Assets held for sale on the Company s consolidated balance sheet as of March 31, 2009.

		September 30, 2008		Effect of Reclassification of KCIT assets		Pekin plant assets held for sale.		March 31, 2009
Property and equipment, at cost(1)	$	12,490	$	(7,379)	$	146,165	$	151,276
Less accumulated depreciation		(6,890)		4,316		(117,131)		(119,705)
Assets held for sale, net	$	5,600	$	(3,063)	$	29,034	$	31,571

(1) KCIT Assets at cost further adjusted for the $811 impairment charge recorded in 2nd quarter.

Note 10. Subsequent Events: Exchange National Bank & Trust Note.

On April 15, 2009, the Company borrowed $2,800 from Exchange National Bank & Trust Co. The loan is evidenced by a promissory note and bears interest, payable monthly on the third day of each month commencing on May 3, 2009, at the rate of 7% per annum. Principal on the note is due on September 3, 2009. The loan is secured by a third mortgage and security interest on the Company s Pekin plant and equipment, a leasehold mortgage on its new executive office building and technical center in Atchison and a pledge of the related industrial revenue bond issued by the City of Atchison that the Company holds. The lenders under the Credit Agreement and Exchange National Bank & Trust have entered an intercreditor agreement whereby the lenders under the Credit Agreement generally have agreed to subordinate their lien in the bond collateral to the lien of Exchange National Bank & Trust. In addition to payment defaults, events of default under the promissory note include mergers or sales of a substantial part of the Company s property or if the bank determines in good faith that a material adverse change has occurred in its financial condition or that the prospect for its performance of its loan obligations is

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impaired. Ladd Seaberg, the Company s Chairman of the Board, is a director on Exchange National Bank & Trust s board.

On May 4, 2009, the Company signed an unsecured note payable to a vender for approximately $998 which reduced trade accounts payable by a like amount. The note is evidenced by a promissory note and bears interest at the rate of 10 percent per annum and is payable in 14 monthly installments of principal and interest aggregating $75 and a final payment of $12..

Note 11. Recently Issued Accounting Pronouncements.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1 which amends FASB No. 132(R), Employers Disclosures About Pensions and Other Postretirement Benefits. This FSP requires more detailed disclosures about employers plan assets, including employers investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The Company will be required to adopt these new requirements as of the fiscal year ended after December 31, 2009 and provide this additional information at that time. The adoption will have no impact on the Company s financial position or net earnings.

In April 2009, the FASB issued FSP 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSp provides additional guidance for estimating fair value when volume and level of activity for the asset or liability have significantly decreased. The Company will be required to adopt this FSP in the fourth quarter of 2009. Management believes the adoption of this FSP will not have an impact on the Company s financial position or net earnings.

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ITEM 2.