



## MGP Ingredients, Inc. Announces Fiscal 2008 Second Quarter Results

### Highlights:

- Q2 total sales of \$93.9 million increased 7.2% over year ago
- Q2 diluted EPS of \$0.31 compared with \$0.40 in year-ago quarter
- Q2 net income includes \$7 million pre-tax gain on litigation settlement
- Sales in ingredient solutions segment show significant improvement vs. year ago
- Distillery results impacted by lower ethanol pricing and higher corn costs

**ATCHISON, Kan., February 7, 2008**—MGP Ingredients, Inc. (**Nasdaq/MGPI**) today reported net income of \$5.3 million, or \$0.31 in diluted earnings per share, for the second quarter of fiscal 2008, which ended December 30, 2007. These results include a \$7 million gain on settlement of litigation, net of related expenses, without which the company would have reported a loss before taxes of \$2 million. This compares with net income of \$6.8 million, or \$0.40 in diluted earnings per share, for the second quarter of fiscal 2007. Total sales in the second quarter of fiscal 2008 were \$93.9 million, an increase of 7.2 percent from sales a year ago.

Total ingredient solutions sales increased over 70 percent led principally by higher sales of vital wheat gluten. Sales of specialty ingredients improved by 35 percent compared with the previous year's quarter, while also showing a strong gain over the first quarter of the current fiscal year. The growing contribution from specialty ingredients helped to offset higher wheat costs, which increased 51.3 percent over a year ago. A pre-tax loss of \$124,000 in the ingredient solutions segment included inventory write-downs of approximately \$938,000. This compares with a loss of \$ 2.8 million in last year's second quarter. Distillery products sales declined by 5.8 percent compared with fiscal 2007 second quarter levels. This was due to a significant decline in selling prices for fuel grade alcohol (ethanol) and reduced sales units compared with the year-ago period. The company's earnings performance in the distillery products segment was also adversely affected by higher costs for corn, the principal raw material used in the alcohol production process. The per-bushel cost of corn averaged nearly 37.8 percent higher than the prior year's second quarter. Pre-tax income in the distillery products segment declined to \$1.3 million compared with \$15.7 million in last year's second quarter. Pre-tax losses of \$3.1 million, including inventory write-downs of approximately \$356,000, were reported in the company's other segment, consisting primarily of products in development for pet and plant-based biopolymer applications.

On December 27, 2007, the company settled its two year patent infringement and contract litigation and was paid \$8 million. Professional fees related to this litigation in the first and second quarters of fiscal 2008 have been netted against the gross proceeds for a net amount of \$7,046,000 and recorded as a separate line item below income from operations. The company used the proceeds to reduce its line of credit. As a result of a February 6 amendment to its line of credit agreement increasing the maximum borrowing capacity to \$30 million, at that date the company had \$18 million available for borrowings under its line of credit.

"We have been feeling the impact of lower ethanol pricing on distillery profits since the fourth quarter of last fiscal year," said Ladd Seaberg, chairman and chief executive officer. "This situation in the current year's second quarter was further aggravated by near record corn prices, a major component of our cost of goods sold. We also fell short of achieving full planned distillery capacity due to some temporary fermentation issues which have since been resolved. Although corn prices have remained at or near this higher level and, based upon Chicago Board of Trade Futures, are expected to increase this summer, we are encouraged by the prospect of strengthened ethanol pricing for the balance of the fiscal year.

Seaberg added, "The progress we are making with our ingredient solutions segment is more apparent on the top line than the bottom line. Granted we did benefit from gluten sales but we are also achieving better sales and margin improvements in our core specialty ingredients. As we continue to migrate to a higher mix of value-added products, the impact of rising wheat costs should lessen over time."

### Segment Results

The following is a summary of sales and pre-tax profits/(loss) allocated to each operating segment for the second quarter and six months ended December 30, 2007, and the second quarter and six months ended December 31, 2006. Interest expense, investment income and other general miscellaneous expenses are classified as corporate.

<i>(In thousands)</i>	<b>Second Qtr FY 2008</b>	<b>Second Qtr FY 2007</b>	<b>Six Months FY 2008</b>	<b>Six Months FY 2007</b>
<b>Ingredient Solutions</b>				
Net Sales	\$24,963	\$14,665	\$47,251	\$29,089
Pre-Tax Inc. (Loss)	(124)	(2,757)	187	(5,220)
<b>Distillery Products</b>				
Net Sales	\$67,523	\$71,682	\$131,881	\$140,687
Pre-Tax Income	1,338	15,711	2,017	30,953
<b>Other</b>				
Net Sales	\$1,509	\$1,298	\$2,840	\$2,864
Pre-Tax Income (Loss)	(3,075)	(2,570)	(4,125)	(3,669)
<b>Corporate</b>				
Gain on Settlement of litigation, net of related expenses	(\$181)	\$974	(\$567)	\$109
	\$7,046	--	\$7,046	--

Total sales of distillery products in the second quarter of fiscal 2008 declined approximately 5.8 percent to \$67.5 million compared to the same quarter of fiscal 2007. This decline was due to an \$8.1 million, or 21 percent, decrease in sales of fuel grade alcohol. Sales of food grade alcohol improved by \$2.3 million, or 9.6 percent, over the prior year with gains in both beverage and industrial applications. Sales of distillers feed, the principal by-product of the alcohol production process, increased by approximately \$846,000, or 11.7 percent, over last year's second quarter.

Total ingredient solutions sales in the second quarter of fiscal 2008 increased by approximately \$10.3 million, or 70.2 percent, compared to the prior year's quarter. Sales of specialty proteins and starches increased by \$3.8 million, or 35.1 percent, during the quarter compared to the same quarter in fiscal 2007. The company also reported a \$6.3 million increase in sales of vital wheat gluten compared to a year ago, which resulted from significantly higher volumes as well as per-unit pricing compared with year-ago levels. Revenues for commodity starch decreased \$115,000, or 12.3 percent, as a result of reduced sales volume consistent with the implementation of our strategy of continued development and commercialization of our value-added wheat proteins and starches.

Sales of other products, consisting primarily of pet products and plant-based biopolymers, increased \$211,000, or 16.3 percent, compared to the same quarter a year ago due to improved per-unit prices related to product mix, as well as increased unit sales.

## Results for Six Months

For the first six months of fiscal 2008, the company had net income of \$4.9 million, or \$0.29 in diluted earnings per share, on total sales of \$181.9 million, compared with net income of \$13.8 million, or \$0.82 in diluted earnings per share, on sales of \$172.6 million for the first six months of fiscal 2007. These results include a \$7 million gain on settlement of litigation, net of related expenses, without which the company would have reported a loss before taxes of \$2.5 million. This increase in sales was primarily due to an \$18.2 million, or 62 percent increase, in ingredients solutions sales, which resulted mainly from higher sales of vital wheat gluten. Distillery products sales declined by \$8.8 million, or 6 percent, for the six month period compared to a year-ago.

Pre-tax income for the distillery segment was \$2.0 million, a decrease of \$28.9 million over the prior year's first six months. Pre-tax income in the ingredient solutions segment was \$187,000 and compares favorably to the pre-tax loss of \$5.2 million incurred in the same period in the prior fiscal year. Net income for the six months of fiscal 2008 included a net litigation settlement of \$7 million.

## Income Taxes

For the second quarter, the company recorded an income tax benefit of \$260,000 for an effective rate of (5.2) percent compared to a provision of \$4.5 million for the same quarter a year ago for an effective rate of 39.8 percent. For the six-months, the income tax benefit was \$388,000 for an effective rate of (8.5) percent compared to a tax provision of \$8.4 million for the previous year-to-date period for an effective rate of 37.7 percent. During the second quarter, management determined

that a valuation allowance related to unused tax credits was no longer appropriate and was therefore removed, resulting in a new tax benefit in the quarter of approximately \$2.0 million. Excluding certain one-time discrete items applicable to this quarter, the effective rate was 34.0 percent.

## **On Track with Top Line Growth in Ingredient Solutions**

"We are most encouraged by our initial results in the reconfigured ingredient solutions business," said Tim Newkirk, president and chief operating officer. "While we still have further to go before reaching volume levels that will generate sustained profitability, the product mix continues to shift in the right direction. The key measure is our average sales price, which is up significantly over a year ago due to an improved product mix. As further evidence, we showed sequential improvement over our first quarter sales in key product lines, including our Fibersym® RW resistant starch, as well as our Wheatex® textured proteins. Along with a renewed focus on specialty sales, we have better visibility into our operations with a new ERP system. During the quarter we identified a portion of our inventories that we felt were no longer aligned with our new ingredient solutions technology platforms. This resulted in a write-down of those products, impacting pre-tax income on both our ingredient solutions and other segments. Excluding the write-downs, the ingredients segment continues to track our plan for strengthened contributions to our bottom line. It needs to be emphasized that we are still very early in the process of re-engaging our customers across a growing number of new opportunities."

Newkirk added, "This was a particularly challenging quarter for us on the ethanol side, where we have been dealing with lower selling prices for some time and because we fell short of our alcohol production targets, estimated to be between 10 and 15 percent of our capacity. The higher corn costs only aggravated the situation. We fully expect to ramp up production beginning in the current quarter, and from a contracting perspective we are in an ideal position to capture higher fuel pricing. If ethanol prices continue to strengthen, we would expect improvements in the second half of our fiscal year."

Seaberg concluded, "We continue to experience earnings volatility on the fuel alcohol side of our business, but are encouraged by the recent firming of prices. At the same time, our food grade alcohol products remain a solid contributor to our bottom line. This is not the first time in our history that we have had to deal with commodity price headwinds. With new equipment and operational improvements we remain focused on lowering our per-gallon alcohol production costs. On the ingredients side, it's all about gaining traction. With more resources than ever concentrated on our best prospects, we look forward to generating more positive results as we go forward."

## **Investor Conference Call**

The company will host an investor conference call today (February 7) at 10 a.m. central time to review second quarter results. Stockholders and other interested parties may listen to the call live via telephone by dialing 888-603-6873 domestically or 973-582-2706 internationally by 9:50 a.m. central time, or access it on the Internet by clicking [here](#). The conference identification number for entering the call is 32432143. To see the Earnings Statement and Consolidated Balance Sheet information in .PDF format, click [here](#).

## **About MGP Ingredients**

In business since 1941, MGP Ingredients, Inc. is a recognized pioneer in the development and production of natural grain-based products. The Company has facilities in Atchison, Kan., Pekin, Ill., Kansas City, Kan., and Onaga, Kan. that utilize the latest technologies to assure high quality products and to maintain efficient production and service capabilities.

## **Cautionary Note Regarding Forward-Looking Statements**

*This news release contains forward-looking statements as well as historical information. 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 these terms or 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) the availability and cost of grain, (ii) fluctuations in gasoline prices, (iii) fluctuations in energy costs, (iv) competitive environment and related market conditions, (v) our ability to realize operating efficiencies, (vi) the effectiveness of our hedging programs; (vii) access to capital and (viii) actions of governments. For further information on these and other risks and uncertainties that may affect the company's business, see Item 1A. Risk Factors in the company's Annual Report on Form 10-K for the fiscal year ended July 1, 2007.*