

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2005.

or

**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**

(State or other jurisdiction of incorporation or organization)

**48-0531200**

(I.R.S. Employer Identification No.)

**1300 Main Street, Atchison Kansas**  
(Address of principal executive offices)

**66002**  
(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.  
 Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b02 of the Exchange Act.  
(Check One)  Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  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  
16,027,180 shares outstanding  
as of December 31, 2005

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors  
and Stockholders  
MGP Ingredients, Inc.  
Atchison, Kansas

We have reviewed the accompanying condensed consolidated balance sheet of MGP Ingredients, Inc. as of December 31, 2005 and the related condensed consolidated statements of income for the three-month and six-month periods ended December 31, 2005 and 2004, and cash flows for the six-month periods ended December 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of June 30, 2005 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated August 26, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP

Kansas City, Missouri  
January 31, 2006

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**MGP Ingredients, Inc.**

**Condensed Consolidated Balance Sheets (in Thousands)**

	December 31, 2005	June 30, 2005
	(Unaudited)	
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 3,771	\$ 10,384
Receivables, net of allowance of \$320 at December 31, 2005 and June 30, 2005	32,662	28,097
Inventories	37,291	31,252
Prepaid expenses	1,719	628
Deferred income taxes	945	663
Refundable income taxes	—	2,622
<b>Total current assets</b>	<b>76,388</b>	<b>73,646</b>
Property and Equipment, at cost	327,717	317,626
Less accumulated depreciation	(207,964)	(201,997)
<b>Total property and equipment, net</b>	<b>119,753</b>	<b>115,629</b>
Other		
Other assets	218	225
<b>Total assets</b>	<b>\$ 196,359</b>	<b>\$ 189,500</b>

See Accompanying Notes to Condensed Consolidated Financial Statements and Independent Accountants' Review Report.

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**MGP Ingredients, Inc.**

**Condensed Consolidated Balance Sheets (In Thousands)**

	December 31, 2005	June 30, 2005
	(Unaudited)	
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Line of credit	\$ 4,000	\$ —

Current maturities of long-term debt	3,721	4,705
Accounts payable	14,958	11,744
Accrued expenses	5,588	5,621
Income taxes payable	568	—
Deferred revenue	10,160	10,948
<b>Total current liabilities</b>	<b>38,995</b>	<b>33,018</b>
Long-term Debt	14,272	16,785
Post-Retirement Benefits	6,597	6,342
Deferred Income Taxes	12,811	12,828
Stockholders' Equity		
Capital stock		
Preferred, 5% non-cumulative, \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares	4	4
Common, no par; authorized 40,000,000 shares; issued 19,530,344 shares	6,715	6,715
Additional paid-in capital	5,774	5,341
Retained earnings	126,820	124,754
Accumulated other comprehensive income (loss) - Cash flow hedges	30	(228)
	139,343	136,586
Treasury stock, at cost		
Common		
December 31, 2005 - 3,503,164 shares		
June 30, 2005 - 3,536,064 shares	(15,659)	(16,059)
	123,684	120,527
Total liabilities and stockholders' equity	<b>\$ 196,359</b>	<b>\$ 189,500</b>

See Accompanying Notes to Condensed Consolidated Financial Statements and Independent Accountants' Review Report.

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#### MGP Ingredients, Inc.

#### Condensed Consolidated Statements Of Income (In Thousands) Three And Six Months Ended December 31, 2005 And 2004 (Unaudited)

	Three Months		Six Months	
	2005	2004	2005	2004
Net sales	\$ 75,671	\$ 61,164	\$ 152,717	\$ 130,042
Cost of sales	69,931	54,392	134,793	118,196
<b>Gross profit</b>	<b>5,740</b>	<b>6,772</b>	<b>17,924</b>	<b>11,846</b>
Selling, general and administrative	(5,039)	(4,508)	(10,748)	(9,390)
Other operating income	281	140	449	426
<b>Operating income</b>	<b>982</b>	<b>2,404</b>	<b>7,625</b>	<b>2,882</b>
Other income (expense)	521	56	637	365
Interest expense	(267)	(384)	(832)	(690)
<b>Income before income taxes</b>	<b>1,236</b>	<b>2,076</b>	<b>7,430</b>	<b>2,557</b>
Provision for income taxes	418	722	2,881	912
<b>Net income</b>	<b>818</b>	<b>1,354</b>	<b>4,549</b>	<b>1,645</b>
Other comprehensive income (loss)	393	(34)	258	(347)
<b>Comprehensive income (loss)</b>	<b>\$ 1,211</b>	<b>\$ 1,320</b>	<b>\$ 4,807</b>	<b>\$ 1,298</b>
Basic earnings per common share	\$ 0.05	\$ 0.08	\$ 0.28	\$ 0.10
Diluted earnings per common share	\$ 0.05	\$ 0.08	\$ 0.27	\$ 0.09
Dividends per common share	\$ —	\$ —	\$ 0.15	\$ 0.15

See Accompanying Notes to Condensed Consolidated Financial Statements and Independent Accountants' Review Report.

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#### MGP Ingredients, Inc.

#### Condensed Consolidated Statements Of Cash Flows (In Thousands) Six Months Ended December 31, 2005 And 2004 (Unaudited)

	2005	2004
Cash Flows from Operating Activities		

Net income	\$	4,549	\$	1,645
Items not requiring cash				
Depreciation and amortization		6,011		7,788
Gain on sale/conversion of property and equipment		(14)		(783)
Deferred income taxes		(299)		(1,800)
Changes in:				
Accounts receivable		(4,565)		8,883
Inventories		(5,781)		(9,246)
Insurance receivable		—		1,425
Accounts payable and accrued expenses		4,535		(4,851)
Deferred income		(788)		2,701
Income taxes receivable		3,190		1,076
Other		(1,091)		(1,410)
<b>Net cash provided by operating activities</b>		<b>5,747</b>		<b>5,428</b>
Cash Flows from Investing Activities				
Additions to property and equipment		(11,264)		(9,566)
Proceeds from sale/conversion of property and equipment		51		875
<b>Net cash used in investing activities</b>		<b>(11,213)</b>		<b>(8,691)</b>
Cash Flows from Financing Activities				
Exercise of stock options		833		571
Net proceeds from line of credit		4,000		—
Proceeds from issuance of long-term debt		7,000		9,990
Payments on long-term debt		(10,497)		(3,072)
Dividends paid		(2,483)		(2,431)
<b>Net cash provided by (used in) financing activities</b>		<b>(1,147)</b>		<b>5,058</b>
Increase (decrease) in cash and cash equivalents		(6,613)		1,795
Cash and cash equivalents, beginning of period		10,384		6,488
Cash and cash equivalents, end of period	\$	<u>3,771</u>	\$	<u>8,283</u>

See Accompanying Notes to Condensed Consolidated Financial Statements and Independent Accountants' Review Report.

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## MGP Ingredients, Inc.

### Notes To Condensed Consolidated Financial Statements

#### Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of the Company's management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. The condensed consolidated balance sheet as of June 30, 2005 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements 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, 2005 filed with the Securities and Exchange Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

#### Note 2. Earnings Per Share

Earnings per common share data is based upon the weighted average number of common shares outstanding. Employee stock-based compensation is the only potentially dilutive security held by the Company.

The Company has a stock-based employee compensation plan, which it accounted for under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations for the year ended June 30, 2005. Compensation expense is recognized in net income over the vesting period for restricted stock awards. No compensation expense is reflected in net income related to stock options issued in periods prior to June 30, 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to all of the stock based employee compensation under those plans.

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	Three Months Ended December 31, 2005	Six Months Ended December 31, 2005	Three Months Ended December 31, 2004	Six Months Ended December 31, 2004
Net income, as reported			\$ 1,354	\$ 1,645
Plus: Stock-based employee compensation included in net income			66	132
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes			(156)	(312)
Pro forma net income			<u>1,264</u>	<u>1,465</u>
Earnings per share				
Basic - as reported	\$ 0.05	\$ 0.28	\$ 0.08	\$ 0.10
Basic - pro forma	\$ —	\$ —	\$ 0.08	\$ 0.09
Diluted - as reported	<u>\$ 0.05</u>	<u>\$ 0.27</u>	<u>\$ 0.08</u>	<u>\$ 0.10</u>

Diluted - pro forma	\$	—	\$	—	\$	0.08	\$	0.09
<b>Weighted average shares:</b>								
Basic		16,064,041		16,035,482		15,982,031		15,957,472
Diluted		16,666,037		16,601,642		16,452,782		16,586,519

Effective July 1, 2005, the Company adopted Statement of Financial Accounting Standard (“SFAS”) No. 123(R), Share-Based Payment, using the modified prospective application transition method. This standard requires the Company to record compensation costs, on a prospective basis, for the unvested portion of stock awards with such amount being calculated under the fair value based method. The adoption of this standard did not have a material impact on the Company’s financial statements. Compensation expense recorded for the six months ended December 31, 2005 was approximately \$159,000.

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### Note 3. Long Term Debt

#### Secured promissory note:

The Company borrowed an additional \$7,000,000 from General Electric Capital Corporation (GECC) during the first quarter of fiscal year 2006 and paid the unsecured senior notes payable to The Principal Mutual Life Insurance Company of \$6,816,000. The Company’s obligations to GECC are evidenced by a promissory note bearing interest at 5.92% per annum and payable in 60 consecutive monthly payments, with the first payment on November 1, 2005 being \$138,525, the next 58 payments being \$135,071 and the final payment on October 1, 2010 being the remaining amount of outstanding principal and interest. The note may be prepaid at any time in its entirety subject to the payment of a prepayment premium equal to 3% of the original principal amount if the note is prepaid prior to the first anniversary, declining to 1% if paid prior to the third anniversary and 0% thereafter.

The Company also entered into a security agreement to secure the note. The security agreement grants a security interest in all the Company’s equipment located or to be located at the Company’s KCIT facility in Kansas City, Kansas. Under the security agreement, the Company has agreed to indemnify the secured party against any claim arising in connection with the collateral.

Indebtedness under the note can be accelerated if any payment is not made within 10 days of its due date or if there is an event of default under the security agreement, certain acts of bankruptcy or insolvency, defaults by the Company under any other obligations and the merger or consolidation of the Company without the consent of GECC, which consent may not be unreasonably withheld.

At the time of the loan from GECC, the Company’s other indebtedness included a note payable to GE Capital Public Finance (“GECPF”), an affiliate of GECC, which also is secured by equipment at the Company’s Kansas City, Kansas facility. In connection with the loan to GECC, the Company also entered into a cross-collateral and cross default agreement with GECC and GECPF in which the Company agreed, among other matters, that all collateral in which either creditor has a security interest will secure the payment of liabilities to both creditors.

### Note 4. Contingencies

There are various legal proceedings involving the Company and its subsidiaries. Except as noted below, 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.

The Company has been in negotiations with the United States Environmental Protection Agency (USEPA), the Illinois Attorney General’s Office and the Illinois Environmental Protection Agency (IEPA) to settle two separate enforcement proceedings related to emissions at the Pekin, Illinois location. The Company also has been in discussions with the Kansas Department of Health and Environment (KDHE) relating to air emissions at its Atchison facility. The Company has entered into a consent agreement with KDHE resolving past allegations relating to its Atchison facility and agreed to pay a civil penalty of \$26,000. The Company has entered a consent decree to resolve the USEPA Illinois proceeding and agreed to pay a federal

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penalty of \$172,000. The consent decree has been submitted to the court but has not yet been approved. The Department of Justice has asked that the court not act on the decree until the Department has evaluated any comments that may have been made on the proposed decree during a public comment period that is scheduled to end on February 6, 2006. The IEPA has most recently requested a \$600,000 penalty to resolve its complaint. The Company and IEPA are involved in efforts to settle the IEPA proceeding, but no resolution has occurred and the Company has not agreed to the IEPA requested penalty. As of December 31, 2005, the Company had accrued \$600,000, which is included in other accrued liabilities, with respect to these matters. The amount of the ultimate settlement could differ materially in the near future.

### Note 5. Operating Segments

The Company is a fully integrated producer of ingredients and distillery products. Products included within the ingredients segment consist of starches, including commodity wheat starch and modified and specialty wheat and potato starches, proteins, including commodity wheat gluten, specialty wheat, soy and other proteins, and mill feeds. Distillery products consist of food grade alcohol, including beverage alcohol and industrial alcohol, fuel alcohol, commonly known as ethanol, and distiller’s grain and carbon dioxide, which are by-products of the Company’s distillery operations.

The operating profit for each segment is based on net sales less identifiable operating expenses. Interest expense, investment income and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate. Receivables, inventories and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2005	2004	2005	2004
	(In thousands)			
Sales to customers				
Ingredients	\$ 22,012	\$ 18,860	\$ 44,462	\$ 41,614
Distillery products	53,659	42,304	108,255	88,428
	75,671	61,164	152,717	130,042

Depreciation				
Ingredients	1,552	1,558	3,098	3,123
Distillery products	1,325	2,176	2,650	4,358
Corporate	129	158	256	307
	<u>\$ 3,006</u>	<u>\$ 3,892</u>	<u>\$ 6,004</u>	<u>\$ 7,788</u>
Income before income taxes				
Ingredients	(2,174)	(1,684)	(2,393)	(1,800)
Distillery products	3,856	4,301	10,805	5,175
Corporate	(446)	(541)	(982)	(818)
	<u>\$ 1,236</u>	<u>\$ 2,076</u>	<u>\$ 7,430</u>	<u>\$ 2,557</u>
			December 31, 2005	June 30, 2005
Identifiable assets			\$ 81,440	\$ 81,507
Ingredients			94,437	79,678
Distillery products			20,482	28,315
Corporate			<u>\$ 196,359</u>	<u>\$ 189,500</u>

#### Note 6. Pension and Post Retirement Benefit Obligations

In December 2003, the Financial Accounting Standards Board published a revision to Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS 132R). The revisions require the Company to disclose in its interim financial statements the components of net periodic benefit cost recognized in the period along with the total employer contributions for the period and any changes in estimate of the total employer contributions expected to be paid for the fiscal year.

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The components of the Net Periodic Benefit Cost for the three months and six months ended December 31 are as follows:

(In Thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2005	2004	2005	2004
Service cost	\$ 74	\$ 60	\$ 148	\$ 120
Interest cost	74	75	148	150
Prior service cost	(9)	(12)	(18)	(24)
(Gain) loss	—	(1)	—	(2)
Total post-retirement benefit cost	<u>\$ 139</u>	<u>\$ 122</u>	<u>\$ 278</u>	<u>\$ 244</u>

The Company previously disclosed in its financial statements for the year ended June 30, 2005, 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, 2006.

On December 8, 2003, the Medicare Prescription Drug, Improvement Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act. Accordingly, the net periodic post-retirement benefit costs above do not reflect any amount associated with the subsidy.

#### Note 7. New Accounting Pronouncements

Effective July 1, 2005, the Company implemented Financial Accounting Standards Board (FASB) Statement No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. This Statement clarifies that items such as idle facility expense, excessive spoilage, freight, and handling costs should be classified as a current-period charge. The Statement also requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. The adoption of SFAS 151 did not have a significant impact on the Company's financial position or its results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company has not yet determined the impact that this new pronouncement will have on the Company's consolidated financial statements.

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In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS Statement No. 154 ("SFAS 154"), Accounting Changes and Error Corrections. SFAS 154 requires that, when a company changes its accounting policies, it must apply the change retrospectively to all prior periods presented instead of a cumulative effect adjustment in the period of the change. SFAS 154 may also apply when the FASB issues new rules requiring changes in accounting. However if the new rule allows cumulative effect treatment, it would take precedence over SFAS 154. This statement is effective for fiscal years beginning after December 15, 2005. The Company has not yet determined the impact that this new pronouncement will have on the Company's consolidated financial statements.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### FORWARD-LOOKING STATEMENTS

This section 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 such 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, (vi) our ability to realize operating efficiencies, (vii) the effectiveness of our hedging programs, (viii) access to capital and (ix) actions of governments. For further information on these and other risks and uncertainties that may affect our business, see *Item 1. Business – Risks and Uncertainties* of our Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

## RESULTS OF OPERATIONS

### General

Reference is made to *Management’s Discussion and Analysis of Financial Condition and Results of Operations—General*, incorporated by reference to Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2005, for certain general information about our principal products and costs.

### Critical Accounting Policies

Reference is made to *Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*, incorporated by reference to Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2005, for accounting policies which are considered by management to be critical to an understanding of the Company’s financial statements.

### Segment Results

The following is a summary of revenues and pre-tax profits/(loss) allocated to each reportable operating segment for the three months and six months ended December 31, 2005 and 2004. (See Note 5 in our [Notes to Consolidated Financial Statements](#) for additional information regarding our operating segments.)

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(In Thousands)	Second Quarter Fiscal 2006	Second Quarter Fiscal 2005	Six Months Fiscal 2006	Six Months Fiscal 2005
<b>Ingredients</b>				
Net Sales	\$ 22,012	\$ 18,860	\$ 44,462	\$ 41,614
Pre-Tax Income	(2,174)	(1,684)	(2,393)	(1,800)
<b>Distillery Products</b>				
Net Sales	\$ 53,659	\$ 42,304	\$ 108,255	\$ 88,428
Pre-Tax Income	3,856	4,301	10,805	5,175

### General

While we experienced growth in total sales revenue, our earnings in the second quarter of fiscal 2006 declined compared to the second quarter of fiscal 2005 due to reduced profitability in our distillery products segment combined with a loss in our ingredients segment. The decrease in distillery profits was primarily due to increased energy costs resulting from hikes in natural gas prices. The profitability of our ingredients segment also was affected by the increased energy costs. Although we had increased sales of higher valued specialty ingredients in the second quarter, our profitability in the ingredients segment has continued to be adversely affected by increased sales of lower valued commodity wheat gluten. Additionally, the average prices for certain of our specialty proteins for food applications were lower than a year ago due principally to competitive pressures.

The improvement in total sales revenue compared to a year ago resulted from increased sales in both the distillery products and ingredients segments of our business. Distillery products sales rose by approximately \$11.4 million, or 27 percent, above distillery products sales in the second quarter of fiscal 2005. Sales of ingredients were up approximately \$3.2 million, or 17 percent, compared to last year’s second quarter.

The increase in distillery products sales resulted from higher unit sales and higher selling prices for food grade alcohol for beverage and industrial applications as well as for fuel grade alcohol. Sales of distillers feed, the principal by-product of the alcohol production process, also increased compared to the prior year’s second quarter due to higher unit sales.

The increase in ingredients sales resulted primarily from higher sales of specialty ingredients for both food and non-food applications combined with higher sales of commodity gluten. Sales of commodity wheat starch, meanwhile, declined compared to a year ago.

The increase in commodity gluten sales resulted from higher unit sales compared to the prior year’s second quarter. This increase adversely affected our profitability, as market prices for gluten have been below our cost of production. Although we have deemphasized gluten sales because of such poor market conditions, gluten remains a co-product from the processing of flour. Because increases in sales of our specialty proteins have not grown proportionately with increases in our specialty starch sales, we had more gluten available for sale during the second quarter of fiscal 2006 than in the second quarter of fiscal 2005, as less gluten has been processed into specialty proteins.

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The increase in sales of specialty ingredients for food applications was principally due to higher unit sales of our Fibersym™ line of resistant starches for incorporation in fiber-enriched, reduced carbohydrate and lower calorie foods together with increased unit sales of certain of our Pregel™ instant starches that are used in a variety of processed and bakery food applications. Sales of our Wheatex® line of textured proteins for use in the production of vegetarian products and meat extension applications also grew during the current year’s second quarter compared to the same period the prior year. These increases offset a decline in sales of our Arise® line of specialty wheat protein isolates. Although Arise® sales were down compared to the second quarter of fiscal 2005, they improved slightly on a sequential basis over the first quarter of the current fiscal year. The increase in sales of specialty ingredients for non-food applications resulted mainly from an improvement in sales of our MGPI Chewtex™ line of protein- and starch-based resins, which is produced for use in the manufacture of pet chews and related treats. However, Chewtex™ sales declined on a sequential basis compared to the first quarter. Sales of ingredients for use in personal care products improved modestly compared to the prior year.

### Ingredients

Total ingredient sales in the second quarter of fiscal 2006 increased by approximately \$3.2 million, or 17 percent compared to the prior year’s second quarter. This principally was due to a nearly \$2.4 million, or 21 percent, increase in sales of specialty ingredients for food applications and a \$109,042, or 2 percent, increase in sales of specialty ingredients for non-food applications. Commodity ingredient sales increased by approximately \$347,000, or 13 percent. This increase resulted from a \$373,314, or 23 percent,

rise in sales of commodity gluten, which more than offset a \$26,428, or 3 percent, decrease in sales of commodity starches. Sales of mill feed and other mill products rose by \$323,714, or 128 percent. The improvement in sales of specialty ingredients for food applications compared to the prior year's second quarter was mainly attributable to increased sales of our Fibersym™ and certain of our Pregel™ specialty starches combined with higher sales of our Wheatex® textured wheat proteins. These increases offset reduced sales of our Arise® specialty wheat protein isolates. The increase in sales of specialty ingredients for non-food applications principally occurred in sales of our Chewtex® protein- and starch-based resins for use in pet industry products. The reduction in sales of commodity starches resulted from our decision to place increased emphasis on the production and marketing of specialty starches. The increase in sales of mill feeds (which is a by-product in the manufacture of flour) and other mill products resulted from the processing of more flour in the current year's second quarter for use in producing specialty starches and proteins.

### **Distillery Products**

Total sales of our distillery products in the second quarter of fiscal 2006 rose by approximately \$11.4 million, or 27 percent, compared to the second quarter of fiscal 2005. This improvement was due to a \$6.4 million, or 58 percent, increase in sales of food grade alcohol, a \$4.1 million, or 16 percent, increase in sales of fuel grade alcohol, and an \$893,000, or 15 percent, increase in sales of distillers feed. In the food grade area, sales of alcohol for industrial applications rose by \$5.3 million, or nearly 76 percent, and sales of food grade alcohol for beverage applications rose by approximately \$1.1 million, or 26 percent, due to a combination of higher prices and increased unit sales. The increased sales of fuel grade alcohol also resulted from higher average selling prices and unit sales. Distillers feed sales rose as the result of higher unit sales.

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### **Sales**

Net sales in the second quarter of fiscal 2006 were approximately \$14.5 million, or 24 percent, higher than net sales in the second quarter of fiscal 2005. This improvement was due to an \$11.4 million, or 27 percent, increase in sales of distillery products and a \$3.1 million, or 17 percent increase in sales of ingredients. The increase in distillery products resulted from increased unit sales and higher selling prices for food grade alcohol for both industrial and beverage applications, higher unit sales and selling prices for fuel grade alcohol, and increased unit sales of distillers feed. The increase in ingredients sales was principally due to higher sales of specialty ingredients for both food and non-food applications together with higher unit sales of commodity gluten and slightly higher unit sales of mill feeds. Sales of commodity wheat starches were lower than the prior year due to reduced unit sales.

For the first six months of fiscal 2006, net sales increased by \$22.7 million, or 17 percent, above net sales for the first six months of fiscal 2005. This improvement was principally due to increased distillery products sales in both the first and second quarters of fiscal 2006 and increased ingredients sales in the second quarter of the current fiscal year. The increase in distillery products sales largely resulted from higher unit sales and prices for food grade alcohol for industrial and beverage applications and increased prices for fuel grade alcohol, which offset a small decline in fuel alcohol unit sales. The increase in ingredients sales for the first six months of fiscal 2006 principally resulted from increased unit sales of specialty ingredients for food applications together with higher unit sales of commodity gluten. These increases offset a decline in unit sales of specialty ingredients for non-food applications, which occurred in the first quarter of fiscal 2006, combined with decreased unit sales of commodity starches in both the first and second quarters of the year.

### **Cost of Sales**

The cost of sales in the second quarter of fiscal 2006 rose by approximately \$15.5 million, or nearly 29 percent, over cost of sales in the second quarter of fiscal 2005. This increase was mainly due to a 68% increase in energy costs and, to a significantly lesser extent, higher costs of supplies used in our manufacturing processes and higher raw material costs for grain. The increase was partially offset by reduced depreciation expense resulting from certain equipment at our Pekin facility installed in 1994 having become fully depreciated. The increased energy costs primarily resulted from higher natural gas prices, which were up approximately 75 percent compared to the prior fiscal year's second quarter. The higher costs of manufacturing-related supplies and grain were primarily due to increased production. While wheat prices were approximately 1 percent higher than those experienced in the second quarter of fiscal 2005, corn prices averaged 5 percent lower compared to a year ago.

The cost of sales for the first six months of fiscal 2006 increased by approximately \$17 million, or 14 percent, primarily due to higher energy costs, which were partially offset by a decrease in raw material costs for grain, which occurred in the first quarter.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, we enter into commodity contracts to reduce or hedge the risk of future grain price increases. During the second quarter of fiscal 2006, we hedged approximately 42 percent of corn processed compared with 58 percent of corn hedged in the second quarter of fiscal 2005. Of the wheat that we processed, none was hedged in the second quarter of fiscal 2006 or fiscal 2005. During the first six months of fiscal 2006, we hedged approximately 39 percent of corn processed compared with 56 percent of corn hedged in the first six months of fiscal 2005. Of the wheat that we processed, none was hedged in the first six months of fiscal 2006 or fiscal 2005.

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In the second quarter of fiscal 2006, raw material costs included a net hedging loss of approximately \$714,000 compared to a net hedging loss of \$1,708,000 in the second quarter of fiscal 2005. From time to time, we also use gasoline or ethanol futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. No gasoline or ethanol futures were used to hedge fuel alcohol sales during the second quarter of fiscal 2006 or the second quarter of fiscal 2005.

In the first six months of fiscal 2006, raw material costs included a net hedging loss of approximately \$1,348,000 compared to a net hedging loss of \$2,223,000 in the first six months of fiscal 2005. During the first six months of fiscal 2006, we experienced a loss of \$24,000 on ethanol futures. No gasoline or ethanol futures were used to hedge fuel alcohol sales during the first six months of fiscal 2005.

### **Selling, General and Administrative Expenses**

In the second quarter of fiscal 2006, our selling, general and administrative expenses increased by approximately \$531,000, or 12 percent, above selling, general and administrative expenses in the second quarter of fiscal 2005. This increase was mainly due to increased costs associated with incentives, bad debt charge-offs and expenses related to the Company's stock option plans.

Selling, general and administrative expenses in the first six months of fiscal 2006 rose by approximately \$1.4 million, or 14 percent, compared to selling, general and administrative expenses in the first six months of fiscal 2005. The reasons for this increase were essentially the same as those cited above.

### **Other Income**

The increase of \$465,000 in other income in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005 was principally attributable to interest capitalized combined with the effect of certain other non-recurring, non-operating revenue items.

### **Interest Expense**

Interest expense in the three months ended December 31, 2005 decreased compared to the three months ended December 31, 2004 primarily as a result of lower average



outstanding debt balances.

Interest expense in the six months ended December 31, 2005 increased compared to the six months ended December 31, 2004 primarily due to the payment of a make whole premium in connection with the refinancing of our notes to the Principal Mutual Life Insurance Company.

#### Taxes and Inflation

The consolidated effective income tax rate of the provision for income taxes for the second quarter of fiscal 2006 was 33.8 percent. The general effects of inflation were minimal.

#### Net Income

As the result of the foregoing factors, we experienced net income of \$818,000 in the second quarter of fiscal 2006 compared to net income of \$1,354,000 in the second quarter of fiscal 2005. Our net income for the first six months of fiscal 2006 was \$4,549,000 compared to net income of \$1,645,000 for the first six months of fiscal 2005.

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### LIQUIDITY AND CAPITAL RESOURCES

The following table is presented as a measure of the Company's liquidity and financial condition:

(Dollars in Thousands)	December 31, 2005	June 30, 2005
Cash and cash equivalents	\$ 3,771	\$ 10,384
Working capital	37,393	40,628
Amounts available under lines of credit	16,000	20,000
Notes payable and long-term debt	21,993	21,490
Stockholders' equity	123,684	120,527

#### Cash Flow.

Cash flow from operations increased by \$319,000 during the first six months of fiscal 2006 compared to the first six months of fiscal 2005. This increase resulted from a combination of factors. A significant component of the improvement was the \$2.9 million increase in net income, which resulted from an increase in sales volume from the first six months of fiscal 2006 compared to the first six months of fiscal 2005. Accounts payable and accrued expenses showed an increase of \$4.5 million during the first six months of fiscal 2006 related to increased trade payables, compared to a decrease of \$4.9 million during the first six months of fiscal 2005 which was attributable primarily to payments under incentive and retirement plans and reductions of accounts payable. The Company experienced an increase in total inventories of \$5.8 million in the first six months of fiscal 2006 related to increased alcohol inventories and seasonal increases in grain inventories (primarily corn), compared to increases of \$9.2 million in the first six months of fiscal 2005 when less than anticipated demand resulted in a build-up of wheat and commodity wheat protein inventories. Accounts receivable showed an increase of \$4.5 million in the first six months of fiscal 2006 related to increased sales versus a decrease of \$8.9 million during the first six months of fiscal 2005.

#### Capital Expenditures.

During the quarter ended December 31, 2005, we made \$5.0 million in capital expenditures, including expenditures with respect to a feed dryer in Atchison and a molecular sieve in Pekin. As of December 31, 2005, our Board of Directors had approved \$7.8 million in capital expenditures which we expect to make over the course of the next 12 months, and of that amount, we had contracts to acquire capital assets of approximately \$6.2 million. The amounts approved do not include additional expenditures that we may make in connection with environmental proceedings to which the Company is a party. We estimate such amounts may range from approximately \$2.0 million to \$10.0 million in Pekin depending on whether we elect to install a new emission-controlled dryer/evaporator system that would both address regulatory requirements and increase plant efficiency, and from \$2.0 to \$4.0 million in Atchison. We anticipate that we may require additional external financing for some capital expenditures, but have not determined the amount, type, or source of such financing.

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#### Stock Purchase and Sales.

During the quarter ended December 31, 2005, our employees exercised options on 32,900 shares of common stock and the company received proceeds of \$164,480. As of December 31, 2005, the Board has authorized the purchase of approximately 1,613,716 additional shares of common stock. No purchases were made under this authority during the quarter.

#### Contractual Obligations.

As of December 31, 2005, the amount of long term debt was \$22.0 million compared to \$21.5 million at June 30, 2005.

We borrowed an additional \$7,000,000 from General Electric Capital Corporation (GECC) during the first quarter of fiscal year 2006 and paid the unsecured senior notes payable to The Principal Mutual Life Insurance Company of \$6,816,000. Our obligations to GECC are evidenced by a promissory note bearing interest at 5.92% per annum and payable in 60 consecutive monthly payments, with the first payment on November 1, 2005 being \$138,525, the next 58 payments being \$135,071 and the final payment on October 1, 2010 being the remaining amount of outstanding principal and interest. The note may be prepaid at any time in its entirety subject to the payment of a prepayment premium equal to 3% of the original principal amount if the note is prepaid prior to the first anniversary, declining to 1% if paid prior to the third anniversary and 0% thereafter.

We also entered a security agreement to secure the note. The security agreement grants a security interest in all of our equipment located or to be located at our KCIT facility in Kansas City, Kansas. Under the security agreement, we have agreed to indemnify the secured party against any claim arising in connection with the collateral.

Indebtedness under the note can be accelerated if any payment is not made within 10 days of its due date or if there is an event of default under the security agreement, certain acts of bankruptcy or insolvency, defaults by the Company under any other obligations and the merger or consolidation of the Company without the consent of GECC, which consent may not be unreasonably withheld.

At the time of the loan from GECC, our Company's other indebtedness included a note payable to GE Capital Public Finance ("GECPPF"), an affiliate of GECC, which also is secured by equipment at our Kansas City, Kansas facility. In connection with the loan to GECC, we also entered into a cross-collateral and cross default agreement with GECC and GECPPF in which we agreed, among other matters, that all collateral in which either creditor has a security interest will secure the payment of liabilities to both creditors.

As previously reported, we had an obligation to purchase \$6.2 million of our potato-based resistant starch product by August 2005 from Penford Corporation. At the request of Penford, this obligation was extended. As of December 31, 2005, we had completed our obligation to Penford. Although this will result in excess inventories of the product for a period of time, we anticipate that we will be able to sell those inventories by the end of December, 2006.

### Financial Covenants

In connection with our line of credit and capital lease agreements, we are required, among other covenants, to maintain certain financial ratios, including a current ratio (current assets to current liabilities) of 1.5 to 1, minimum consolidated tangible net worth (stockholders' equity less intangible assets) equal to the greater of (i) \$86 million or (ii) the sum of \$86 million plus 50 percent of consolidated net income since September

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30, 2001, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge ratio (generally, the ratio of (x) the sum of (a) net income [adjusted to exclude gains or losses from the sale or other disposition of capital assets and other matters] plus (b) provision for taxes plus (c) fixed charges, to (y) fixed charges) for the period of the four consecutive fiscal quarters ended as of the measurement date of 1.5 to 1. In addition, we may not permit consolidated funded debt (generally, asset acquisition related debt plus capitalized lease obligations) to exceed 60 percent of total capitalization.

### Line of Credit

We have a \$20 million line of credit, of which \$16 million was available at December 31, 2005, for general corporate purposes. We amended the line of credit on September 9, 2005 so that it now extends to July 1, 2006. As of December 31, 2005, we had \$4 million outstanding borrowings under the line.

### Working Capital

Our working capital decreased by \$3.2 million from June 30, 2005 to December 31, 2005. This decrease was primarily due to a decrease of \$6.6 million in cash and a \$2.6 million decrease in income tax receivable offset by an increase of \$4.6 million in accounts receivable, an increase of \$6.0 in inventories, an increase of \$3.1 million in accounts payable and accrued payable and a \$3.0 million increase in short term borrowings.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company produces its products from wheat, corn and milo and, as such, is sensitive to changes in commodity prices. Grain futures and/or options are used as a hedge to protect against fluctuations in the market. The information regarding inventories and futures contracts at June 30, 2005, as presented in the annual report, is not significantly different from December 31, 2005.

## ITEM 4. CONTROLS AND PROCEDURES.

### (a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the design and effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequately designed and operating effectively to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this Form 10-Q Quarterly Report was being prepared.

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### (b) Changes in Internal Controls

As previously reported in Item 8. of our Annual Report on Form 10K for the year ended June 30, 2005, we identified two material weaknesses in internal control over financial reporting involving the Atchison Purchasing and Materials Management functions and the Year End Financial Closing Process. Set forth below is a status report with respect to these matters. Except as noted, we have not implemented any new controls that would materially affect financial reporting during the period.

#### Purchasing and Materials Management - Atchison

The Company's Enterprise Resource Planning (ERP) system, which was scheduled for implementation at the beginning of our third quarter, has been delayed until July 1, 2006. The delay in implementation is required in order to allow sufficient time for testing of the system, training of personnel and creating system documentation. We believe the additional time is necessary in order to ensure a successful implementation.

Pending implementation of the new ERP system, we continue to work on interim remediation measures which, we believe, reduce the number of significant deficiencies in controls over the purchase and management of maintenance materials and supplies at our Atchison facility. These interim measures relate to the review of purchase requisition and purchase order activity at our Atchison facility and the monitoring of expenses included in our maintenance, chemicals and packaging materials accounts. More specifically, management has required that the Atchison plant manager document a weekly review of all purchase orders initiated to ensure that the purchases are for legitimate business purposes and are properly authorized. Additionally, management has been documenting a monthly analysis of maintenance and electrical materials and chemicals accounts and requiring that significant variances are researched, resolved and documented.

The Company is in the process of consolidating its current stockroom facilities at the Atchison, Kansas location. This process involves multiple steps, including the sale of an existing off-site stockroom facility and the acquisition and construction of a new on-site central stockroom facility. Design of this facility will incorporate security through lock and key, swipe cards, and/or the use of surveillance equipment.

With respect to the annual inventory of maintenance materials in Atchison, we expect to document the procedures that persons taking inventory should follow prior to implementation of the ERP system mentioned above.

Management, with the participation of our Chief Executive and Chief Financial Officers, has evaluated the interim internal controls implemented over the monitoring of purchase requisition and purchase order activity and of expenses included in our maintenance, chemicals and packaging materials accounts and believe that the interim controls are operating effectively and significantly reduce the likelihood of unauthorized or purchases or undocumented use of maintenance, chemicals and packaging materials. Although, as noted above, certain deficiencies noted in our Report on Form 10-K relating to the material weakness in our purchasing and materials management at our Atchison facility must still be addressed, management believes that the previously mentioned material weakness is reduced to a significant deficiency.

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## Year End Financial Closing Process

Management has developed a formalized, detailed schedule that was utilized in the financial closing process for the quarter ended December 31, 2005. The schedule details specific responsibilities and due dates that must be adhered to in order to present timely and accurate financial statement information. In addition, management has implemented other initiatives that include improved communication processes between the Company, our external audit firm, and the firm that we have hired to assist us in the preparation of our periodic financial reports. As of the end of the second quarter, management believes that these control activities are operating effectively, and that implementation of these additional financial reporting controls reduces the likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

Reference is made to Item 3. *Legal Proceedings* in the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and to Part II, Item 1. Legal Proceedings in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 for information regarding certain legal proceedings to which the Company or its Illinois subsidiary are subject.

One of the matters mentioned was *National Starch and Chemical Investment Holding Corporation, Penford Australia, Ltd. and Penford Holdings Pty v. Cargill, Inc. and MGP Ingredients, Inc.*, Civil Action 04-1442, U.S. District Court, District of Delaware. As reported in our 10-Q for the quarter ended September 30, 2005, discovery has commenced and on November 2, 2005 a hearing commonly known in patent litigation as a "Markman" hearing was held to determine the meaning of the relevant claims in the patents involved in the litigation. Following that hearing, on January 17 the court entered an interim order adopting a modified version of the plaintiffs' proposed claim construction, holding that the terms "amylose content" and "apparent amylose content" as used in the patents in question meant amylose content as determined by the Blue Value method specifically described in the patents. The Company does not believe that this ruling changes the merits of the case in any material respects.

Another matter referred to was a USEPA enforcement initiative relating to our Illinois facility. As reported in our 10-Q for the quarter ended September 30, 2005, we have entered the Consent Decree referred to in our Form 10-K for the year ended June 30, 2005 and agreed to pay the federal penalty of \$172,000 referred to therein. The consent decree has been submitted to the court but has not yet been approved. The Department of Justice has asked that the court not act on the decree until the Department has evaluated any comments that may have been made on the proposed decree during a public comment period that is scheduled to end on February 6, 2006.

Another matter referred to in our annual report on Form 10K was an administrative proceeding brought in 1997 by the Illinois Attorney General on behalf of the Illinois Environmental Protection Agency relating to our Pekin facility. We have previously reported that settlement discussions had broken down. They have resumed once more and discovery is being held in abeyance pending installation of air emission stack height extensions and issuance of a permit to install new dryers.

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Another matter referred to in our annual report on Form 10-K related to discussions that we have been having with the Kansas Department of Health and Environment ("KDHE") regarding air pollution control matters at our Atchison facility. On January 31, 2006, we entered a consent agreement with the KDHE resolving past allegations relating to permits, emission levels and compliance with air pollution regulations. We agreed to pay a civil penalty of \$26,000 and to undertake certain modifications to our facility over the next 2 and one-half years, including replacing a dryer, replacing or modifying our boilers and modifying fermentation, fuel truck load-out, fugitive VOC and VOC and particulate emission controls. We also agreed to a facility-wide cap on emissions, additional monitoring and record keeping and performance testing of new equipment. We have previously installed the dryer and estimate the cost of the other modifications to be an additional \$2 to \$4 million.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

As shown in the following table, the Company did not repurchase any shares of stock during the three months ended December 31, 2005.

Period	Total Number Of Shares) or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units (that May Yet Be Purchased Under the Plans or Programs
October 1 – October 31, 2005	0	—		
November 1 – November 30, 2005	0			
December 1 – December 31, 2005	0			1,613,716 (a)

(a) On various dates, the Board of directors authorized the purchase of an aggregate of 6,000,000 shares of Common Stock of which 4,386,284 shares had been purchased as of December 31, 2005. This program was first announced on June 5, 1997. During the three months ended December 31, 2005, no shares were purchased under the program. The program has no expiration date.

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### ITEM 6. EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)
- 3.2 Bylaws of the Company (Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed March 4, 2005 (File Number 0-17196)
- \* 9.1 Voting Trust Agreement dated as of November 16, 2005 among Cloud L. Cray, Jr. Richard B. Cray and Laidacker Seaberg, as trustees of the Cray Family Trust and Cloud L. Cray, Jr., Richard B. Cray and Laidacker M. Seaberg, as trustees.
- \* 9.2 First Amendment to Cray Family Trust dated November 13, 1980.
- \*15.1 Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 2 hereof).

- \*15.2 Letter from independent public accountants concerning the use of its Review Report in the Company's Registration Statement Nos. 333-51849 and 333-119860
- \*31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
- \*31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith

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#### SIGNATURES

Pursuant to the requirements on the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MGP INGREDIENTS, INC.

Date: February 9, 2006

By /s/ Ladd M. Seaberg  
Ladd M. Seaberg, President  
and Chief Executive Officer

Date: February 9, 2006

By /s/ Brian T. Cahill  
Brian T. Cahill, Vice President  
and Chief Financial Officer

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**VOTING TRUST AGREEMENT  
(MGP INGREDIENTS, INC. VOTING TRUST)**

VOTING TRUST AGREEMENT (the "Agreement") made and entered into this 16th day of November, 2005, by and between **Cloud L. Cray, Jr., Richard B. Cray and Laidacker M. Seaberg**, as trustees of the Cray Family Trust U/T/A dated April 4, 1975, as amended by a First Amendment dated November 13, 1980 (the "Family Trust"), as depositors (the "Depositors"), and **Cloud L. Cray, Jr., Richard B. Cray and Laidacker M. Seaberg**, as trustees of this Agreement (each a "Trustee" and collectively the "Trustees"). The voting trust created under the terms and conditions of this Agreement shall be known as the "**MGP Ingredients, Inc. Voting Trust**".

Recitals:

A. The Family Trust holds 333 shares (the "Shares") of Preferred Stock, par value \$10.00 per share, of MGP Ingredients, Inc. (f/k/a Midwest Grain Products, Inc. and Midwest Solvents Company, Inc., a Kansas corporation) (the "Company"). The Depositors are the trustees of the Family Trust, and Cloud L. Cray, Jr. and Richard B. Cray are also Trustors of the Family Trust, each in such capacity as Trustor having the power of appointment with respect to 1/3 of the assets of the Family Trust, totaling in the aggregate 2/3 of the assets of the Family Trust. The sole vested beneficiary of the remaining 1/3 of the assets has consented to the execution of this Agreement by the Depositors and the deposit of the Shares held by the Family Trust in the voting trust hereunder.

B. The Depositors deem it to be to the advantage of the Trustors and the Family Trust and in the best interests of the Company to establish arrangements to provide for the continuity and stability of Company policies and prudent and competent management of the Company's business during the intended term of the Family Trust.

C. The Depositors, as trustees of the Family Trust, are empowered to retain in trust any property in the form received by them, including property which may be received in exchange or substitution by reason of a voting trust.

D. The Trustees have consented to act as Trustees of the voting trust under this Agreement.

IT IS THEREFORE AGREED BY THE PARTIES HERETO AS FOLLOWS:

**ARTICLE I  
DEPOSIT OF SHARES AND ISSUANCE OF  
VOTING TRUST CERTIFICATES**

Section 1.1. **Deposit of Shares.** On behalf of the Family Trust, the Depositors deposit with the Trustees, simultaneously with the execution of this Agreement, certificates representing the Shares. The Trustees covenant and agree that they will receive and will hold the Shares, and all additional stock of the Company as may be transferred to them as provided in this Agreement, in trust to be held, used, transferred

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and disposed of for the uses and purposes and upon the terms and conditions set forth in this Agreement. At the time of deposit of said stock certificates with the Trustees, the Depositors shall transfer to the Trustees, by proper endorsement, the Family Trust's full legal title to all of the deposited Shares and the Trustees shall have and be vested with all of the rights and powers of the owner and holder of those Shares, with full rights and powers of the owner of whatever nature necessary to enable the Trustees to exercise the powers granted to the Trustees under this Agreement.

Section 1.2. **Issuance of Trust Certificates.** The Trustees shall issue to the Depositors Voting Trust Certificates ("Trust Certificates") for the Shares transferred by them to the Trustees in substantially the form hereto annexed and marked as Exhibit A. All stock certificates representing the Shares transferred and delivered to the Trustees pursuant to this Agreement shall be surrendered by the Trustees to the Company and the Company shall issue new certificates therefor in the names of the Trustees. Each certificate issued to the Trustees shall state that it is issued pursuant to this Voting Trust Agreement, a copy of which shall be on file both at the Company's registered office and with the Trustees.

Section 1.3. **Transfers.** The Trust Certificates issued pursuant to Section 1.2 shall be transferable only on the books of the Trustees under such regulations as the Trustees may make, and the Trustees may at all times and for all purposes treat the registered owner (each a "Beneficiary" and collectively the "Beneficiaries") of each outstanding Trust Certificate as the sole owner thereof. If the shares of stock of the Company transferred to the Trustees by the Depositors are subject to share transfer restrictions or a buy-out agreement, or both, then these restrictions and buy-out rights and obligations shall be fully applicable to the Trust Certificates issued pursuant to this Agreement; and for this purpose each Beneficiary shall be considered as if the Beneficiary were a shareholder holding shares of stock equal to the number of shares transferred to the Trustees, as shown on the Trust Certificate issued to the Beneficiary.

Section 1.4. **Replacement Trust Certificates.** If any Trust Certificate becomes mutilated, destroyed, stolen or lost, the Trustees shall issue a duplicate Trust Certificate, which shall be so marked, and the Trustees may, as a condition precedent to issuing the duplicate Trust Certificate, require the applicant to furnish satisfactory evidence of that mutilation, destruction, theft or loss, together with reasonable indemnity satisfactory to the Trustees.

**ARTICLE II  
DISTRIBUTIONS, REDEMPTION, SALE, LIQUIDATION, AND  
REORGANIZATION**

Section 2.1. **Distributions.**

(a) Prior to the termination of this Agreement, the holder of each Trust Certificate shall be entitled to receive payments equal to the cash dividends, if any, received by the Trustees upon a like number and class of shares of stock of the Company as is called for by each Trust Certificate.

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(b) If any dividend in respect of the stock deposited with the Trustees is paid, in whole or in part, in voting stock of the Company, the Trustees shall likewise hold, subject to the terms of this Agreement, the certificates for stock which are received by the Trustees on account of that dividend, and the holder of each Trust Certificate representing stock on which the stock dividend has been paid shall be entitled to receive a Trust Certificate issued under this Agreement for the number of shares and class of stock received as such dividend.

(c) If the Trustees receive any monies (other than cash dividends) or any property (other than stock of the Company or any subsidiary of the Company or any other instrument granting voting rights) which constitute a distribution by the Company to its stockholders, the Trustees shall distribute such money or property to the holders of Trust Certificates representing the shares on account of which such money or property was distributed, less any reasonable expenses incurred in the administration of the Trust.

(d) The Trustees in their discretion may direct the Company to pay directly to the Beneficiaries, as their interests may appear, any dividend or distribution payable by the Company to the Trustees in cash or other property, excluding, however, dividends or distributions in the form of shares of Company stock, or the stock of any subsidiary of the Company, or any other instrument granting voting rights. The Company shall be entitled to rely upon any such direction and shall comply therewith, if made in writing, signed by a majority of the Trustees and delivered to the Secretary of the Company, until and unless such direction is revoked by the Trustees in the same manner.

Section 2.2. **Record Dates.** If any dividend or distribution in respect of the stock deposited with the Trustees is paid, then the holders of the Trust Certificates registered as such at the close of business on the day fixed by the Company, or, if not fixed by the Company, on the date fixed in accordance with law, as the record date to determine the holders of its stock entitled to receive that dividend or distribution shall be the persons entitled to receive the distribution to the Beneficiaries under Section 2.1 with respect to the dividend or distribution. If no record date is fixed by the Company or by law, the holders of the Trust Certificates registered as such at the close of business on the date such dividend or distribution is received by the Trustees shall be the persons entitled to receive the distribution to the Beneficiaries under Section 2.1 with respect to the dividend or distribution. The distribution shall be made to those holders of voting trust certificates ratably, in accordance with the number of shares represented by their respective Trust Certificates.

Section 2.3. **Redemption; Sale** If the shares represented by a Trust Certificate are redeemed by the Company or sold by the Trustees, the proceeds from this redemption or sale, less any reasonable expenses incurred in the administration of the trust, shall be distributed to the registered Beneficiary of the Trust Certificate in question on the date of such redemption or sale upon surrender of the Trust Certificate duly endorsed to the Trustees.

Section 2.4. **Dissolution.** In the event of the dissolution or total or partial liquidation of the Company, whether voluntary or involuntary, the Trustees shall receive

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the monies, securities, rights, or property to which the holders of the capital stock of the Company deposited hereunder are entitled, and, after any reasonable expenses incurred in the administration of the trust have been paid or provided for, shall distribute the same among the Beneficiaries in proportion to their interests, as shown by the books of the Trustees, as of the date determined in accordance with Section 2.2.

Section 2.5. **Merger; Successor Company.** In case the Company is merged into or consolidated with another corporation or business entity, or all or substantially all of the assets of the Company are transferred to another corporation or business entity, then, in connection with that transfer, the term "Company" for all purposes of this Agreement shall be taken to include that successor corporation or business entity, and the Trustees shall receive and hold under this Agreement any stock of the successor corporation or business entity received on account of the ownership, as Trustees hereunder, of the stock held hereunder prior to the merger, consolidation or transfer. Trust Certificates issued and outstanding under this Agreement at the time of the merger, consolidation or transfer may remain outstanding, or the Trustees may substitute for the outstanding Trust Certificates new Trust Certificates in appropriate form. The terms "stock" and "capital stock" as used in this Agreement include any stock or other voting interests which may be received by the Trustees in lieu of all or any part of the capital stock of the Company. Any property other than voting stock or voting interests received by the Trustees as part of the transaction will be distributed in accordance with the provisions of Sections 2.2 through 2.4.

### ARTICLE III POWERS AND OBLIGATIONS OF THE TRUSTEES; PASS-THROUGH VOTING RIGHTS

Section 3.1. **Power of Trustees.** Except as otherwise provided in this Agreement, the Trustees shall be vested with all of the rights, powers and privileges of every kind and character of an owner in respect to the stock held under this Agreement, including the rights to vote this stock, either in person or by proxy, for every purpose. Without limiting the generality of the foregoing, the Trustees shall be irrevocably authorized and empowered in the Trustees' discretion to exercise the following powers with respect to the stock held under this Agreement:

(a) To vote or fail to vote for the election of directors and for any act or purpose, any and all of the stock having voting rights, or to consent or fail to consent to any act or proposal, including any act, purpose or proposal to do any of the following:

- (i) to increase, reduce, issue, reclassify or change any stock or other securities of the Company;
- (ii) to waive any preemptive rights, if any, of the stockholders or Beneficiaries to subscribe to additional securities of the Company;
- (iii) to sell, mortgage, hypothecate or lease all or any part of the assets of the Company or its subsidiaries;

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(iv) to authorize the merger or consolidation of the Company or any subsidiary into or with other entities, or to dissolve, reorganize or recapitalize the Company or any subsidiary; and

(v) to authorize, ratify or approve any other corporate act or other act (or non-action) of any nature whatsoever as fully as if the Trustees were the absolute owners of the securities held under this Agreement.

(b) To give proxies or other instruments of authority with full power of substitution and revocation, to vote or consent with respect to any or all of the securities held under this Agreement in any manner, on any matter, and for any purpose.

(c) To receive dividends or distributions on all securities held under this Agreement.

(d) To exchange securities held under this Agreement, in whole or in part, for other securities, upon such terms as the Trustees in their sole discretion may deem advisable, including the surrender and exchange of securities in a merger, consolidation, reorganization or recapitalization, or the sale or exchange of all or part of the assets of the Company for securities of another entity. All securities received in any such exchange shall be held by the Trustees in lieu of the securities theretofore held under this Agreement.

(e) To sell all or any part of the securities held under this Agreement for the consideration and upon the terms as the Trustees in their sole discretion may deem advisable.

(f) To prepare, execute, verify and file in the name of, and on behalf of, any Beneficiary any tax form, return, amended return, declaration of estimated tax, amended declaration of estimated tax, report, protest, application for correction of assessed valuation of real or other property, appeal, brief, claim for refund, or petition, including any petition to the United States Tax Court or any other judicial or administrative tribunal, in connection with any tax imposed or purported to be imposed by any government, or claimed, levied or assessed by any government, and to pay any such tax and to obtain any extension of time for any of the foregoing.

(g) To perform any and all acts necessary and appropriate in connection with the organization and operation of the voting trust.

(h) To participate in, to intervene in, to become a party to or to defend any actions of any character, suits or legal proceedings relating to or affecting this Agreement, or the securities held under this Agreement or the rights of the parties to this Agreement.

Section 3.2. **Trustees Acting in Other Capacities.** A Trustee, individually or otherwise, may hold stock of the Company or Trust Certificates issued to the Trustee pursuant to this Agreement and, individually or as a Trustee, may vote for himself as a director and officer of the Company and participate in fixing the amount of compensation

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therefor or as an employee of the Company. A Trustee, or any firm of which a Trustee is an employee, owner, director or agent, may contract with the Company or any of the Trustees or be or become pecuniarily interested in any matter or transaction to which the Company or any of the Trustees may be a party, as fully as though that person were not a Trustee hereunder.

Section 3.3. **Compensation and Expenses.** The Trustees shall serve without compensation. The Trustees shall have the right to incur and pay reasonable expenses and charges, and to employ and pay the agents, attorneys and counsel that the Trustees may deem necessary and proper for carrying this Agreement into effect. Any expenses or charges incurred by and due to the Trustees may be deducted from the dividends or other monies or property received by the Trustees on the stock deposited hereunder or, if there are no such cash dividends, then from the proceeds of any sale or pledge of the securities held under this Agreement.

Section 3.4. **Duty to Beneficiaries of Trust.** The Trustees shall hold the stock held under this Agreement for the benefit of the Beneficiaries, and their successors in interest, subject to the terms and conditions of this Agreement.

Section 3.5. **Duty to Vote Shares.** It shall be the duty of the Trustees, and they shall have full power and authority, and they are hereby fully empowered and authorized, to vote the stock of the Company held under this Agreement, as in the judgment of the Trustees or of any majority of them may be for the best interests of the Beneficiaries while taking account of the interest of the Company as set forth in Section 3.6, at all meetings of the shareholders of the Company, in the election of Directors, and upon any and all matters and questions which may be brought before such meetings, as fully as any shareholder might do if personally present.

Section 3.6. **Duty to Exercise Judgment in Interest of Company.** The Trustees agree to exercise their reasonable judgment in the interest of the Company to assure proper, stable, and continuous management of the affairs of the Company, but the Trustees as such are not responsible for the acts of the directors and officers of the Company whether or not taken pursuant to the vote or consent of the Trustees or ratified afterward by the Trustees. The Trustees may, in their discretion, notice and call a meeting of all Beneficiaries to obtain instructions from the Beneficiaries with respect to voting of stock of the Company held under this Agreement on any particular question. However, the Trustees shall not be bound to vote such stock in accordance with the vote or instructions of the Beneficiaries. The decisions of the Trustees in the good faith exercise of their judgment and discretion shall be binding on all interested parties and Beneficiaries.

Section 3.7. **Holding of Shares.** It is the intention of the Depositors and the direction of the Depositors that the Trustees hold the Shares or other stock of the Company deposited hereunder until the termination of this voting trust, at which time the Shares and any other stock of the Company deposited hereunder shall be distributed as provided in Section 5.4. Notwithstanding such intention and direction, however, if at any time a majority of the Trustees deem it to be in the best interests of the intent of the

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Depositors in establishing this voting trust to transfer by sale or exchange all or part of such Shares or other stock, then such majority decision shall control and the Trustees of this voting trust may make such transfer.

Section 3.8. **Exculpation.** The Trustees shall exercise their reasonable judgment in the performance of their duties and the exercise of their powers, all in the best interests of the Beneficiaries, while taking account of the interests of the Company, as set forth in Section 3.6. No Trustee shall be liable in his individual capacity for any error of judgment, or mistake of law or fact, or act or failure to act, except such as may be attributable to his bad faith or reckless indifference to the purpose of this voting trust or the interests of the Beneficiaries, and in voting stock held in the voting trust, no Trustee shall incur any responsibility except for such Trustee's individual malfeasance. The Trustees shall not be liable for any failure to diversify the assets of the trust nor shall the Trustees be liable for any failure to sell any securities of the Company if an offer is made to purchase such securities, even if such offer would be acceptable to the holders of Trust Certificates, if in the exercise of the Trustees' sole and absolute discretion and good faith judgment they believe the retention of such securities is justified. If the Trustees become parties to litigation involving the voting trust in either their individual or their fiduciary capacities, the Trustees shall be entitled to employ attorneys of their own selection and to be reimbursed by the voting trust in the manner provided in Section 3.3 for all reasonable costs, fees, and expenses incurred in such litigation unless and except to the extent, by reason of such litigation, damages are assessed against them in their individual capacities in connection with their voting of stock by reason of their individual malfeasance or otherwise by reason of their bad faith or reckless indifference to the purpose of this voting trust of the interests of the Beneficiaries. No Trustee shall be required to give or file any bond in order to qualify or continue as a Trustee hereunder, unless the giving of that bond be directed by the Trustees, in which event the cost of the bond shall be considered and treated as an expense of the trust.

Section 3.9. **Manner of Acting by Trustees.** All actions taken by the Trustees in their capacities as Trustees pursuant to this Agreement shall be taken by majority vote of all the Trustees in accordance with rules established by such majority. Any determination by the Trustees may be communicated by written instrument executed by two Trustees. In the event of an even division between the Trustees as to the voting of the shares held under this Agreement on any issue, the vote of such shares shall be divided equally among the Trustees. A Trustee may vote in person or by proxy on any action required to be taken pursuant to this Agreement. Meetings of the Trustees may be called by any Trustee by depositing notice of the date, time and place of the meeting in the mail properly addressed to the remaining Trustees at least 5 days prior to the scheduled date of the meeting; however, action of the Trustees may be taken by informal action without the necessity of a formal meeting.

#### ARTICLE IV RESIGNATION AND REPLACEMENT OF A TRUSTEE

Section 4.1. **Number.** It is the direction of the Depositors that there shall always be three (3) individual Trustees.

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Section 4.2. **Resignation.** The Trustees (and any Successor Trustees, as defined below) may at any time resign by mailing to the other Trustees, the Beneficiaries and the Secretary of the Company a written resignation, to take effect 10 days thereafter or upon the prior acceptance thereof. A resignation mailed to the Trustees and the Secretary of the Company shall be effective notwithstanding that not all Beneficiaries are notified of the resignation. A Trustee shall be deemed to have resigned if either of the following should occur:

(a) upon any adjudication of his partial or total incapacity and the judicial appointment of a guardian or conservator of either his person or his estate;

(b) upon the receipt by any other Trustee then serving as such, of a written certificate signed by two licensed, board certified medical doctors, each of whom certifies that he or she has examined the individual and has concluded in his or her professional opinion that the individual has become unable to act rationally and prudently in making decisions normally required of controlling shareholders of business entities comparable to the Company, and each of whom further certifies that such condition of the individual is likely to continue for a substantial or indefinite period of time.

Section 4.3. **Replacement.** In the event a Trustee resigns or for any other reason is unable to continue to perform the duties required by this Agreement, a replacement Trustee shall be selected by the following procedure:

(a) Each Trustee shall have the power to name and appoint an individual to succeed such Trustee in office as a successor trustee (each, a Successor Trustee"), and may revoke an appointment at any time prior to the time the Successor Trustee takes office. Any such designation or revocation shall be made in a written instrument signed and acknowledged by said Trustee and deposited with the other Trustees and the Secretary of the Company prior to his death or resignation. In the event of inconsistent designations, the designation in the document bearing the last execution date shall control and be deemed to revoke any prior designation. To qualify as Successor Trustee, an individual must meet the officer and shareholder qualifications that a successor trustee of the Family Trust must meet under the terms of the First Amendment dated November 13, 1980 to the Family Trust, which are incorporated herein by reference and made a part hereof. An individual must be so qualified at the time the individual becomes a Successor Trustee and must remain so qualified to maintain his Trusteeship as a Successor Trustee. (The original Trustees named in the first paragraph of this Agreement are not subject to this requirement.) A Trustee, whether original or a Successor Trustee, may name the Trustee's own Successor Trustee at any time and, in the manner provided above, may revoke the document naming such Successor Trustee prior to the Successor Trustee taking office with or without substituting a new Successor Trustee.

(b) In the event an office of one of the Trustees is vacant and the prior Trustee in such office has not chosen an individual Successor Trustee, then the other two Trustees shall select the third Trustee who shall be deemed to be a Successor Trustee hereunder. If the other two Trustees cannot agree on a successor, then the Beneficiaries,

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pursuant to an affirmative vote by Beneficiaries holding Trust Certificates representing a majority of the shares held in trust under this Agreement, shall select the third Trustee. In the event there is only one Trustee in office, then such sole Trustee shall name two other individuals who shall each become a Successor Trustee.

(c) In the event that there should be no individual Trustee in office, then the Beneficiaries, pursuant to an affirmative vote by Beneficiaries holding Trust Certificates representing a majority of the shares held in trust under this Agreement, shall elect three Successor Trustees. Any Beneficiary may call for a meeting of the Beneficiaries for this purpose by mailing a written notice of the place, date, and time of the meeting to each Beneficiary at least 10 days prior to the scheduled date of the meeting.

Section 4.4. **Successor Trustees.** The rights, powers, and privileges of the Trustees named hereunder shall be possessed by Successor Trustees(s), with the same effect as though the successors had originally been parties to this Agreement. The word "Trustees," as used in this Agreement, means the Trustees or any Successor Trustees acting hereunder.

## ARTICLE V TERM OF THE TRUST: RIGHTS ON TERMINATION

Section 5.1. **Term.** The voting trust created under this Agreement shall commence as of the date of this Agreement and unless sooner terminated shall continue until the last death of the issue of Cloud L. Cray, Sr. living on April 4, 1975, which issue are identified in Exhibit B to this Agreement.

Section 5.2. **Termination.** The voting trust created under this Agreement and the Agreement shall terminate prior to expiration of its stated term as to a class of stock held under this Agreement upon the first to occur of the following events:

(a) if a majority of the Trustees feel that it to be in the best interest of the intent of the Depositors in establishing the voting trust, upon the written consent of a majority of the Trustees;

(b) upon the written consent of Beneficiaries holding Trust Certificates representing 90% of all of the shares of such class of stock held in trust under this Agreement; or

(c) upon the distribution of all shares of Company stock and other property held by the Trustee under this Agreement pursuant to Section 2.3 or 2.4, or the sale of all the shares of Company Stock.

Section 5.3. **Effect of Termination.** Upon termination of this Agreement, the Trustees shall promptly mail written notice of the termination to the registered owners of the Trust Certificates at the addresses appearing in the business records of the Trustees. After the date specified in this notice (which date shall be fixed by the Trustees), the Trust Certificates shall cease to have any effect, and the holders of the Trust Certificates

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shall have no further rights under this Agreement other than to receive certificates for shares of stock of the Company or other property distributable under the terms hereof upon the surrender of their respective Trust Certificates.

Section 5.4. **Delivery of Stock Certificates.** Following termination of this Agreement, upon surrender of the Trust Certificates, duly endorsed in blank by the registered owner thereof, and payment to the Trustees of the costs, expenses, and disbursements incurred by the Trustees in administration of this Agreement, the Trustees shall, within 30 days of receipt of those Trust Certificates, deliver, or cause to be delivered to the registered owner thereof share certificates in the Company equal to the number of shares represented by the surrendered Trust Certificates.

## ARTICLE VI AMENDMENT

The Trustees shall have the power to amend this Agreement in accordance with this Article VI. After an amendment has been approved by a majority of the Trustees, notice of the amendment shall be given to the Beneficiaries and if, within a period of 120 days from the giving of the notice, Beneficiaries holding Trust Certificates representing two-thirds (66 2/3%) (or 90% in the case of an amendment seeking to reduce either the term of the voting trust or the percentage requirement in Section 5.2(b) or seeking to amend this Article VI) of the aggregate number of shares of each class represented by the Trust Certificates shall file with the Trustees written notice of their



consent to the amendment, then the amendment shall become effective and shall be binding upon all parties to this Agreement, and all of them shall be finally and conclusively deemed to have assented to the amendment whether they receive actual notice or not, and this Agreement shall be modified accordingly. For so long as the Family Trust is in existence, it shall be deemed the sole Beneficiary of the Trust Certificates held by it for all purposes under this Agreement, and the consent of the majority of the trustees of the Family Trust shall be the only consent that shall be required with respect to such Trust Certificates for any such amendment.

**ARTICLE VII  
MISCELLANEOUS**

Section 7.1. **Notice.** Any and all notices to the Beneficiaries herein provided for shall be in writing and may be personally delivered or shall be given by mailing the notice by first-class mail, postage prepaid, to the address of the person or corporation to whom that notice is given, as shown upon the records of the Trustees. Any notice may be waived by written document to that effect. Notice of any meeting will be deemed waived by all attending the meeting. The Depositors have provided the Trustees with the initial notice address of the initial Beneficiary and other information relating to the administration of this Agreement.

Section 7.2. **Severability.** If any provision of the Agreement shall under any circumstances be deemed invalid or inoperative to any extent, it is agreed and understood that this invalidity shall not invalidate the whole Agreement, but the Agreement shall be

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construed as not containing the provision or provisions deemed invalid and inoperative, and the rights and obligations of the parties shall be construed and enforced accordingly.

Section 7.3. **Governing Law.** The construction and interpretation of this Agreement shall at all times and in all respects be governed by the laws of the State of Kansas.

Section 7.4. **Beneficiaries Have Shareholder Inspection Rights in the Company.** During the term of this Agreement, the Beneficiaries shall retain all shareholder inspection and copying rights authorized by the law of the state in which the Company is incorporated. In the event the Company refuses a copy or inspection request by a Beneficiary on the grounds that the Beneficiary is not the record owner of shares, the Trustees hereby agree to make the identical request to the Company, provided that the Beneficiary agrees to reimburse the Trustees for any expenses or costs incurred by the Trustees in connection with this request.

Section 7.5. **Beneficiaries' Inspection Rights of Trustees' Books.** During the terms of this Agreement, the Beneficiaries shall have the rights at any time during normal business hours to inspect and copy the records of the Trustees with respect to this Agreement upon giving two business days advance written notice of the request to the Trustees.

Section 7.6. **Interpretation.** In construing the Agreement, feminine or neuter pronouns shall be substituted for those masculine in form and vice versa, and plural terms shall be substituted for singular and singular for plural in any place in which the context so requires. The words "includes" and "including" are used as words of illustration and not of limitation.

Section 7.7. **Counterparts of this Agreement.** This Agreement shall be executed in counterparts by the Depositors and the original Trustees, as originally constituted. At least one of the counterparts and a copy of all amendments to this Agreement shall be retained by the Trustees at all times and one of the counterparts and a copy of all amendments to this Agreement shall be filed with the secretary of the Company.

Section 7.8. **Binding Effect.** This Agreement shall be binding upon the parties hereto and their respective heirs, executors, administrators, successors, and assigns.

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IN WITNESS WHEREOF, the parties have hereunto affixed their signatures and seals as of the day and year first above written.

**Depositors:**

**Trustees:**

/s/ Cloud L. Cray, Jr.

/s/ Cloud L. Cray, Jr.

Cloud L. Cray, Jr., as trustee of the Cray Family Trust U/T/A dated April 4, 1975, as amended by a First Amendment dated November 13, 1980.

Cloud L. Cray, Jr., as Trustee of the MGP Ingredients, Inc. Voting Trust

/s/ Richard B. Cray

/s/ Richard B. Cray

Richard B. Cray, as trustee of the Cray Family Trust U/T/A dated April 4, 1975, as amended by a First Amendment dated November 13, 1980.

Richard B. Cray, as Trustee of the MGP Ingredients, Inc. Voting Trust

/s/ Laidacker M. Seaberg

/s/ Laidacker M. Seaberg

Laidacker M. Seaberg, as trustee of the Cray Family Trust U/T/A dated April 4, 1975, as amended by a First Amendment dated November 13, 1980.

Laidacker M. Seaberg, as Trustee of the MGP Ingredients, Inc. Voting Trust

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The undersigned, a designated beneficiary of the Family Trust, hereby consents to the foregoing MGP Ingredients, Inc. Voting Trust and to the deposit thereunder of Shares of stock of the Company held by the Family Trust.

Young Men's Christian Association,  
Atchison Kansas

By: /s/ James L. Taylor

Name:

Title: President

STATE OF KANSAS)

COUNTY OF ATCHISON ) ss:  
)

On this 16th day of November, 2005, at my office in said County and State, before me, the undersigned, a notary public, personally appeared CLOUD L. CRAY, JR., to me personally known and known to me to be the same person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed and in his capacities as Depositor and Trustee of the MGP Ingredients, Inc. Voting Trust and as trustee of the Family Trust.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

/s/ Marta L. Myers  
Notary Public

My Commission Expires: 12-7-05

STATE OF MISSOURI )

COUNTY OF JACKSON ) ss:  
)

On this 30th day of January, 2006, at my office in said County and State, before me, the undersigned, a notary public, personally appeared RICHARD B. CRAY, to me personally known and known to me to be the same person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed and in his capacities as Depositor and Trustee of the MGP Ingredients, Inc. Voting Trust and as trustee of the Family Trust.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

/s/ Nelda M. Frank  
Notary Public

My Commission Expires: Sept. 18, 2009

STATE OF KANSAS)

COUNTY OF ATCHISON ) ss:  
)

On this 16th day of November, 2005, before me at my office in said County and State, personally appeared LAIDACKER M. SEABERG, to me personally known and known to me to be the same person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed and in his capacities as Depositor and Trustee of the MGP Ingredients, Inc. Voting Trust and as trustee of the Family Trust.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

/s/ Marta L. Myers  
Notary Public

My Commission Expires: 12-7-05

STATE OF Kansas )

COUNTY OF Atchison ) ss.  
)

On this 16th day of November, 2005, before me, a Notary Public in and for said state, personally appeared James L. Taylor, who stated that he is the President of the Young Men's Christian Association, Atchison Kansas, a Kansas corporation, known to me to be the person who executed the within instrument on behalf of said corporation and acknowledged to me that he executed the same for the purposes therein stated.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Marta L. Myers  
Notary Public in and for said County and State

My Commission Expires: 12-7-05

**EXHIBIT A**

No.

Shares

**TRUST CERTIFICATE**

(or his predecessor in interest) has deposited with the undersigned Trustees \_\_\_\_\_ shares of \_\_\_\_\_ stock of MGP Ingredients, Inc. (f/k/a Midwest Grain Products, Inc. and Midwest Solvents Company, Inc.), a Kansas corporation (the "Company").

This stock was deposited and this certificate is issued under and pursuant to the terms of that certain Voting Trust Agreement dated as of November \_\_\_\_\_, 2005 relating to the MGP Ingredients, Inc. Voting Trust and now on file with the undersigned Trustees, and the successive holders of this Trust Certificate are entitled to the rights,

benefits, and privileges and this Trust Certificate is subject to the terms, provisions, and conditions of the above-mentioned Voting Trust Agreement.

This certificate is transferable only on the books of the Trustees. The Trustees named in the Voting Trust Agreement and any successor Trustees, at all times and for all purposes and irrespective of notice to the contrary, may regard the registered holder(s), as the name of such registered holder(s) appears on the books of the Trustees, as the sole owner(s) of all rights hereunder.

This certificate is a non-registered security and can only be transferred upon registration or with an opinion of counsel satisfactory to the Company and its legal counsel to the effect that a proposed transfer of the certificate will not violate any applicable federal or state securities laws.

Dated at \_\_\_\_\_, \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_.

(Trustees of the MGP Ingredients, Inc. Voting Trust)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**REVERSE SIDE**

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ all his interest in the \_\_\_\_\_ stock of MGP Ingredients, Inc. (f/k/a Midwest Grain Products, Inc. and Midwest Solvents Company, Inc.), a Kansas corporation (the "Company") evidenced by the within Trust Certificate and all other rights represented thereby, subject to the Voting Trust Agreement dated as of November \_\_\_\_\_, 2005, and hereby authorizes the Trustees to transfer this certificate on the books of the Trustees(s) and to issue to the assignee, in lieu thereof, a new certificate or certificates in accordance with this assignment and with said Agreement.

Dated \_\_\_\_\_, 200\_\_\_\_.

IN THE PRESENCE OF:

\_\_\_\_\_

(SEAL)

\_\_\_\_\_

\_\_\_\_\_

CRAY FAMILY TRUST

FIRST AMENDMENT

This First Amendment to the Cray Family Trust is entered into by and between Cloud L. Cray, Jr. and Richard B. Cray, Trustees, and Cloud L. Cray, Jr., Richard B. Cray and Laidacker Seaberg, Trustees, this 13th day of November, 1980.

WITNESSETH

WHEREAS, the Cray Family Trust ("Trust") was established on the 4th day of April, 1975; and

WHEREAS, the Trustees desire to increase the number of persons who may act as Successor Trustees.

NOW, THEREFORE, BE IT AGREED: That said Cray Family Trust be amended as follows:

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Paragraph 2 of Article V is hereby deleted in its entirety and the following is substituted in lieu thereof:

2. Each Trustee shall have the power to name and appoint an individual to succeed such Trustee in office as a Successor Trustee. It is the direction of the Trustees that there shall always be three (3) individual Trustees. To qualify as a Successor Trustee to an original Trustee, an individual must be both active as a major officer (i.e., chief executive officer, chief operating officer, executive vice president, vice president, secretary, treasurer or equivalent) and a shareholder of Midwest Solvents Company, Inc., or Midwest Grain Asset Company, Inc., or any successor corporation thereof, or any corporation which is a member of a "controlled group of corporations" of which Midwest Solvents Company, Inc., or Midwest Grain Asset Company, Inc., or any successor thereof, is a member. For this purpose, the meaning of the term "controlled group of corporations" shall be as that set forth in Section 1563(a) of the Internal

Revenue Code of 1954, as amended as of July 9, 1979. Such Successor Trustee must have both such qualifications at the time he succeeds as a Successor Trustee and must fulfill both qualifications to maintain his Trusteeship as a Successor Trustee. Each Successor Trustee who resigns, becomes incapacitated or is no longer qualified shall choose his Successor Trustee who at the time of his succession and thereafter must meet the two qualifications. A Trustee whether original or Successor may name his own Successor at any time and may withdraw the document naming the Successor prior to the Successor's taking office with or without substituting a new Successor. In the event an office of one of the Trustees is vacant and the prior Trustee in such office has not chosen an individual Successor Trustee then the other two Trustees shall select the third Trustee who shall be deemed to be a Successor Trustee hereunder. In the event there is only one Trustee in office then such sole Trustee shall name two other individuals who shall each become a Successor Trustee.

IN WITNESS WHEREOF, the Trustees have caused this instrument to be executed on the 13th day of November, 1980.

Witness /s/ Robert G. Booe /s/ Cloud L. Cray, Jr.
Cloud L. Cray, Jr.

Witness /s/ Robert G. Booe /s/ Richard B. Cray
Richard B. Cray
"TRUSTORS"

The undersigned, Trustees of the Cray Family Trust, have caused this instrument to be executed on the 13th day of November, 1980 and agree as Trustees to accept said instrument.

Witness /s/ Robert G. Booe /s/ Cloud L. Cray, Jr.
Cloud L. Cray, Jr.

Witness /s/ Robert G. Booe /s/ Richard B. Cray
Richard B. Cray

Witness /s/ Robert G. Booe /s/ Laidacker M. Seaberg
Laidacker M. Seaberg
"TRUSTEES"

The undersigned, the income beneficiary of that portion of the Cray Family Trust which was subject to a general power of appointment by Cloud L. Cray, Sr., hereby approves and agrees to this First Amendment to the Cray Family Trust.

Witness /s/ (Illegible) /s/ Harold E. Parker, Pres.
"Income Beneficiary"

The undersigned, the remainderman of that portion of the Cray Family Trust which was subject to a general power of appointment by Cloud L. Cray, Sr., hereby approves and agrees to this First Amendment to the Cray Family Trust.

Witness /s/ (Illegible) /s/ Harold E. Parker, Pres.
"Remainderman"



**Accountants' Acknowledgement**

We acknowledge the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-119860 and 333-51849) of MGP Ingredients, Inc. (Company) of our report dated January 31, 2006, included with the Quarterly Report on Form 10-Q for the quarter ended December 31, 2005. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered part of the Registration Statement prepared or certified by us within the meaning of Sections 7 and 11 of the Act.

/s/ BKD, LLP

Kansas City, Missouri  
January 31, 2006

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## CERTIFICATION

I, Laidacker M. Seaberg, President and Principal Executive Officer of MGP Ingredients, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2006

/s/ Laidacker M. Seaberg  
Laidacker M. Seaberg  
President and Principal Executive Officer

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## CERTIFICATION

I, Brian T. Cahill, Vice President and Treasurer and Principal Financial and Accounting Officer of MGP Ingredients, Inc., certify that:

1. I have reviewed this annual report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2006

/s/ Brian T. Cahill  
Brian T. Cahill  
Vice President and Treasurer and Principal Financial and  
Accounting Officer

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**CERTIFICATION**  
**OF**  
**PERIODIC REPORT**

I, Laidacker M. Seaberg, President and Chief Executive Officer of MGP Ingredients, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2006

/s/ Laidacker M. Seaberg

Laidacker M. Seaberg  
President and Chief Executive Officer

[A signed original of this written statement required by Section 906 has been provided to MGP Ingredients, Inc. and will be retained by MGP Ingredients, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

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**CERTIFICATION**  
**OF**  
**PERIODIC REPORT**

I, Brian T. Cahill, Vice President and Chief Financial Officer of MGP Ingredients, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2006

/s/ Brian T. Cahill

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Brian T. Cahill

Vice President and Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to MGP Ingredients, Inc. and will be retained by MGP Ingredients, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

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