



ANNUAL REPORT and 10-K

For the Transition Period from July 1, 2011 to December 31, 2011

BUSINESS SNAPSHOT

Through its subsidiaries, MGP Ingredients, Inc. produces distillery products and certain ingredients which are derived from corn and wheat flour, respectively, primarily to serve the branded consumer packaged goods industry. The Company has three reportable operating segments: **Distillery Products**, **Ingredient Solutions** and **Other**. Our Distillery Products segment consists of food grade alcohol, along with distillers feed and fuel grade alcohol, which are co-products of our distillery operations. The Ingredient Solutions segment primarily consists of specialty starches, specialty proteins, commodity starches and commodity vital wheat gluten. Our Other segment is comprised of plant-based biopolymers and composite resins produced and sold for use in the manufacture of eco-friendly products.

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FORM 10-K

STOCKHOLDER INFORMATION — Inside Back Cover



FINANCIAL HIGHLIGHTS

Dollars and shares in thousands,
except per share, performance and current ratio data.

	6 months July-Dec. 2011	6 months July-Dec. 2010	2011 FY ended June 30	2010 FY ended June 30
Operations				
Net Sales	\$ 146,477	\$ 114,929	\$ 247,915	\$ 201,971
Income from Operations	\$ 3,162	\$ 7,909	\$ 645	\$ 7,255
Pre-tax Income (Loss)	\$ 2,329	\$ 8,278	\$ (1,245)	\$ 3,970
Net Income (Loss)	\$ 10,635	\$ 8,244	\$ (1,313)	\$ 8,738
Per Share				
Net Income (Loss) – Diluted	\$ 0.59	\$ 0.46	\$ (0.07)	\$ 0.51
Dividends Paid	\$ 0.05	0.05	\$ 0.05	—
Book Value*	\$ 4.66	\$ 4.52	\$ 4.20	\$ 4.37
Performance				
Operating Income Margin	2.2%	6.9%	0.3%	3.6%
Return on Net Sales	7.3%	7.2%	(0.5%)	4.3%
Return on Average Assets	7.0%	6.8%	(1.0%)	6.6%
Return on Average Stockholders' Equity	13.3%	10.7%	(1.8%)	12.8%
Financial Position				
Total Assets	\$ 169,157	\$ 121,183	\$ 136,483	\$ 121,284
Current Ratio	1.3	2.4	1.6	2.1
Stockholders' Equity	\$ 84,430	\$ 80,594	\$ 75,198	\$ 72,784
Long-term Debt to Total Capital	9.2%	2.9%	11.1%	3.7%
Average Shares Outstanding – Diluted**	16,879	16,714	16,726	17,082
Other Information				
Net Cash Provided by Operating Activities	\$ (9,603)	\$ (1,160)	\$ 3,139	\$ 32,667
Property, Plant and Equipment – Net	\$ 77,079	\$ 58,080	\$ 63,250	\$ 57,605
Capital Expenditures	\$ 12,403	\$ 3,663	\$ 12,775	\$ 2,062
Depreciation and Amortization	\$ 5,047	\$ 4,083	\$ 8,843	\$ 8,631

*See Note 8 of the Selected Financial data table in Item 6 of the Form 10-K

**See Note 7 of the Selected Financial data table in Item 6 of the Form 10-K

TO OUR STOCKHOLDERS

April 2, 2012

As previously announced, the Company changed its fiscal year end to December 31 from June 30. As a result, the six months ended December 31, 2011 represent a transition period, with the next fiscal year covering the period from January 1, 2012 through December 31, 2012.

Our net income for the six months increased 29.7 percent to \$10.6 million, or \$0.59 per diluted common share. This compares with \$8.2 million, or \$0.46 per diluted share for the prior comparable period. Our latest results include a \$13 million purchase gain associated with the acquisition of Lawrenceburg Distillers Indiana's distillery business, as well as a tax benefit. This was offset by lower earnings in distillery products, ingredient solutions, and other segments; an impairment charge on long-lived assets; and a loss related to joint venture operations.

The past six months were much more than a 'transition period' for financial reporting purposes. We made significant changes to our corporate and legal structure to best accommodate our growing business portfolio. We also improved our strategic positioning in high-quality food grade alcohol. However, this was also a period of unprecedented challenges for MGP. The price of corn and wheat, our key raw materials, rose to levels that depressed our profit margins. At the same time, we faced shortfalls in manufacturing output due to a temporary plant shutdown and other factors. Even though our revenues for the transition period increased more than 27 percent, we reported a significant loss at the operating income line.

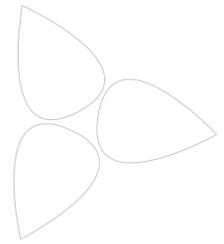
What is not readily apparent from our reported results is the solid progress made across the Company in terms of lowering our fixed costs and increasing our flexibility. We expanded our team of

strategic partners to include the critical areas of raw materials, transportation logistics, and supply chain management. These and other foundational changes were made with one goal: to generate sustainable cost and capital savings, improve our hedging, and generate higher cash flows on growing sales.

That was then. Let's look at what your Company accomplished since the beginning of the new fiscal year. We completed several actions designed to drive future growth by creating a tighter focus within operating units while enhancing commercial activities and financing options. This includes:

- ▶ Negotiating the sale of 20 percent of the Company's interest in the ICP joint venture for approximately \$9.1 million, with proceeds to be used mainly for debt reduction;
- ▶ Obtaining a new company-wide grain origination agreement for lower cost sourcing and improved hedging of corn, one of our major raw materials; and
- ▶ Bringing the distillery in Lawrenceburg, Ind., closer to full production rates since being acquired. Further improvements in operating costs at the facility are planned during the first half of the new fiscal year.

Along with structural improvements to our core operations, the acquisition of the Lawrenceburg distillery provides added potential for improving margins over the course of the coming year. While it may take several quarters to maximize the new distillery's profitability, we have the opportunity to generate sales from our finished goods inventory of premium spirits. In the meantime, our Atchison distillery is now running close to peak yield levels.



We also have the benefit of new pricing that took effect on January 1.

Our strategy for the ingredients segment can be broken down into the near term and the longer term. Our immediate priority is to reach consistent profitability. This will result from manufacturing process improvements and a better cost-price spread for our products. Looking out the next five to ten years, we aim to build upon the success of our flagship specialties, such as Fibersym® RW for bakery goods. Our current pursuits in packaged and processed foods include new applications, new customers, and continuing clinical studies on the dietary benefits of our resistant starches.

To strengthen our production capabilities, we enhanced the management and staffing in the areas of engineering, operations, maintenance, and quality control. As of this writing, our protein and starch operations in Atchison continue to break records in quality levels and product yield. This is key to achieving and sustaining our targeted gross margin. We also have the benefit of new pricing on certain products that took effect at the beginning of the new fiscal year.

In summary, the transformation to a more profitable MGP can be described as a company with:

- ▶ **More opportunities to ‘buy the commodity and sell the brand’**—expect to see a growing percentage of revenues from premium-priced products and value-added specialty ingredients;
- ▶ **Greater direct control over our high-quality alcohol production**—this includes the upgrades and process improvements at our Atchison facility, and new management and sales personnel at our Lawrenceburg distillery;

- ▶ **Greater capabilities for commercialization of new ingredient formulations**—new food safety certifications and research collaborations have raised the value to our customers and partners; and
- ▶ **More capital allocated to strategic assets with potentially higher returns**—we moved resources away from non-core operating activities and passive investments, and into areas where we are competitively advantaged.

The journey to transform our future has been very difficult, taking much longer than we anticipated. We’re still focused on delivering high quality product solutions across a range of food and beverage applications for branded packaged goods. However, we’ve made significant changes in how we execute our strategy going forward in order to produce more positive, and more consistent, results.

We wish to thank our employees for their hard work and dedication; our customers for the opportunity to serve them year after year; our communities for providing places where we can live, work, and give back; and our stockholders for their continuing support.

Sincerely,

John R. Speirs
Chairman of the Board

Timothy W. Newkirk
President and CEO

BOARD OF DIRECTORS

JOHN R. SPEIRS

**Chairman of the Board,
MGP Ingredients, Inc.**

Chairman and Co-Founder,
Stellus Consulting
(strategy consulting)
Arroyo Seco, New Mexico

MICHAEL BRAUDE

- ▶ *Audit Committee*
- ▶ *Human Resources and Compensation Committee*
- ▶ *Nominating and Governance Committee*

Retired President,
Board of Trade Kansas City,
Missouri, Inc.
Mission Woods, Kansas

J. GARY GRADINGER

- ▶ *Audit Committee*
- ▶ *Human Resources and Compensation Committee*
- ▶ *Nominating and Governance Committee*

Chairman and
Chief Executive Officer,
Golden Star, Inc.
(textile cleaning, communication
and safety products)
Kansas City, Missouri

DARYL SCHALLER, Ph.D.

- ▶ *Human Resources and Compensation Committee (Chairman)*
- ▶ *Audit Committee*
- ▶ *Nominating and Governance Committee*

President, Schaller Consulting
(food industry consulting)
Homosassa, Florida

TIMOTHY W. NEWKIRK

**President and Chief Executive Officer,
MGP Ingredients, Inc.**

CLOUD L. "BUD" CRAY

Former Chairman of the Board and
Executive Officer, MGP Ingredients, Inc.

JOHN E. BYOM

- ▶ *Audit Committee (Chairman)*
- ▶ *Human Resources and Compensation Committee*
- ▶ *Nominating and Governance Committee*

Co-owner and CEO,
Classic Provisions, Inc.
(specialty foods distribution)
Plymouth, Minnesota

LINDA E. MILLER

- ▶ *Nominating and Governance Committee (Chairman)*
- ▶ *Audit Committee*
- ▶ *Human Resources and Compensation Committee*

Marketing Consultant and Faculty
Member, University of Kansas
Lawrence, Kansas

KAREN SEABERG

Executive Travel Agent and
Business Entrepreneur
Atchison, Kansas

OFFICERS

TIMOTHY W. NEWKIRK

President and
Chief Executive Officer

DON TRACY

Vice President of Finance
and Chief Financial Officer

MARTA L. MYERS

Corporate Secretary

DONALD G. COFFEY, Ph.D.

Executive Vice President,
Research, Development and Innovation

CLODUALDO "ODY" MANINGAT, Ph.D.

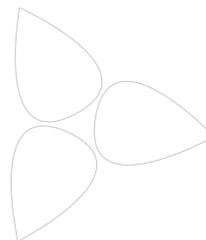
Vice President, Applications Technology
and Technical Services

DAVID E. RINDOM

Vice President, Human Resources

RANDALL M. SCHRICK

Vice President, Engineering

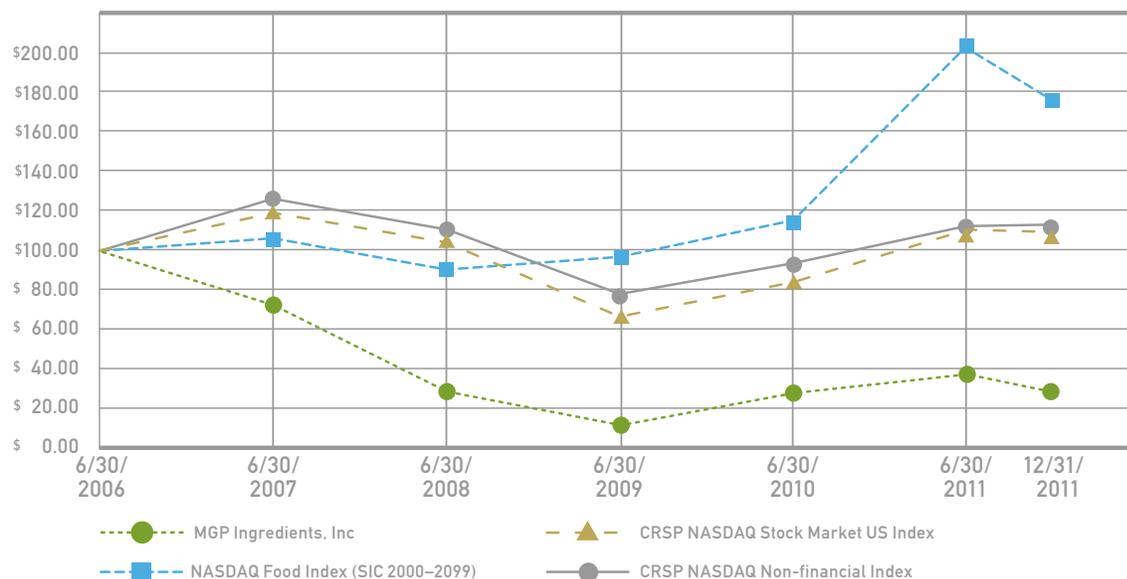


Performance of the Company's Common Stock

The following performance graph compares the performance of the Company's Common Stock during the period beginning June 30, 2006 and ending December 31, 2011 to the CRSP NASDAQ Stock Market Index (US) and a peer group index, the CRSP NASDAQ Food Index, consisting of companies selected from CRSP NASDAQ Stock Market US Index for the same period. These companies include US processors of food and kindred products having SIC codes: 2000-2099, and vary in number from period to period but consisted of 38 companies at the end of December 2011. The graph assumes a \$100 investment in the Company's Common Stock and in each of the indexes at the beginning of the period, and a reinvestment of dividends paid on such investments throughout the period. There has been no change in indices used from the prior year.

Value of \$100 Investments

Assuming reinvestment of dividends at June 30, 2006 and at the end of each subsequent June.



	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	12/31/2011
MGP Ingredients, Inc.	\$100.0	\$73.83	\$26.07	\$12.86	\$29.81	\$39.40	\$23.03
NASDAQ Food Index (SIC 2000-2099)	\$100.0	\$105.54	\$88.08	\$96.59	\$115.40	\$206.46	\$165.45
CRSP NASDAQ Stock Market US Index	\$100.0	\$119.19	\$104.26	\$67.21	\$83.29	\$111.04	\$106.05
CRSP NASDAQ Non-financial Index	\$100.0	\$122.32	\$110.83	\$69.77	\$86.96	\$116.90	\$110.54

NOTE: Data complete through last fiscal year. Corporate Performance Graph with peer group uses peer group only performance (excludes only company). Peer group indices use beginning of period market capitalization weighting. Prepared by Zacks Investment Research, Inc. Used with permission. All rights reserved. Copyright © 1980-2012. Index Data: Calculated (or Derived) based from CRSP NASDAQ Stock Market (US Companies) and CRSP NASDAQ Non-Financial, Center for Research in Security Prices (CRSP®), Graduate School of Business, The University of Chicago. Copyright © 2012. Used with permission. All rights reserved.

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www.mgpingredients.com

Common Stock

The Common Stock of MGP Ingredients, Inc. is listed on the NASDAQ Global Select Market and trades under the symbol MGPI. Stock price quotations can be found in major daily newspapers and the *Wall Street Journal*, and on the Internet at www.nasdaq.com.

As of December 31, 2011, there were 704 stockholders of record of MGP Ingredients, Inc. Common Stock. The Company believes that the Common Stock is held by 4,673 beneficial owners.

Independent Public Accountants

KPMG LLP
Kansas City, Missouri

Transfer Agent

Wells Fargo Bank, n.a., Shareowner Services, 161 North Concord Exchange, South St. Paul, MN 55075. Telephone: 800.468.9716. For change of address, lost dividends or lost stock certificates, write or call the above and address your inquiry to: Shareowner Services.

Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m. (Central Time), May 31, 2012 at the Benedictine College Administration Building, 1020 North 2nd St., Atchison, Kansas.

Additional Information

MGP Ingredients, Inc.'s Transition Report on Form 10-K and other Company SEC filings can be accessed on the Company's website, www.mgpingredients.com, in the "For Investors" section.
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