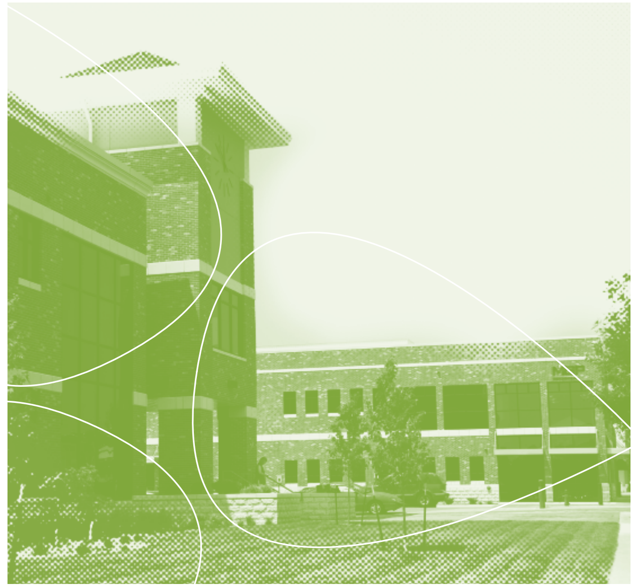
Chairman's Letter to Stockholders

John R. Speirs
Chairman of the Board



Fiscal 2009 proved to be what undoubtedly was the most difficult period in the 68-year history of MGP Ingredients (MGPI). A perfect storm of record high commodity prices, vascillations in selling prices, the collapse of operating margins in the fuel ethanol market and the freezing of credit markets helped push the Company to the limit. These factors contributed significantly to the record net loss of $69.1 million that we experienced in fiscal 2009. The decline in our net sales from prior fiscal years was also indicative of the conditions we faced and reflective of the strategic, but tough, decisions that were made in rightsizing our business operations. However, not only did your Company survive in an environment where approximately 30% of the operating ethanol capacity in the country fell into bankruptcy, but it has transformed itself into a leaner, value-added–focused business that provides ingredients to the packaged goods industry. We believe we have emerged from this past fiscal year as a more profit-sustaining enterprise capable of generating positive returns to our stockholders, securing jobs for our employees and supporting a better quality of life for the communities in which we operate.

In February 2009, the Board of Directors asked me to assume the role of lead Director to assist management in the transformation of the Company with an emphasis on strategy, refinancing and business development activities focusing on the disposal of non-core assets. In August 2009, the Board elected me Chairman, at which time I succeeded Ladd Seaberg, who retired from Board service. First, I wish to thank the Board for the faith they have invested in me to assume this position. I realize I am the first person who is not a member of the extended Cray family to become Chairman of this long-established Company. As a result, I feel the extra responsibility to deliver the results stockholders expect while maintaining the culture that is so critical to MGPI. Second, I extend my most sincere appreciation to Ladd for his myriad contributions over an illustrious 40-year career at the Company, including the last three years as Board Chairman, 30 years as a Board member and 26 years as President, the last 20 of which he also served as CEO. I am pleased that Ladd has agreed to continue to offer advice to me and management in the future so that we can benefit from his extensive knowledge of our business. Meanwhile, we wish Ladd the best and are grateful beyond words for his many years of leadership at this Company.

As I mentioned, while navigating the turmoil of credit and commodity markets in 2009, MGPI completed a transformation process that positions us well for fiscal 2010 and the future. This process has required very difficult, often agonizing decisions on the part of management. Upon completion of a massive analysis of the value chain to determine where we uniquely create value, critical decisions were made and actions taken, including the following:

- decreasing our presence in the fuel alcohol market through a substantial exit from this business;
- discontinuing our decades-old focus on the manufacturing and sales of commodity wheat proteins (vital wheat gluten) and commodity starches;
- ceasing wheat flour milling at our Atchison, Kansas, plant and entering a long-term flour supply agreement with ConAgra Mills;
- idling our Pekin, Illinois, facility temporarily while exploring strategic options for the future of this site; and
- selling our Kansas City, Kansas, facility and pet-related business.

One of the serious and most painful consequences of our value chain analysis was a more than 50% reduction in our workforce through a series of temporary and permanent lay-offs and early retirements. While these decisions are always difficult, they were among measures deemed necessary to ensure the survival of our Company in the short-term and provide greater potential for a more profitable business in the long-term. Indeed, if one extracts the one-time restructuring costs from our published results, MGPI delivered significantly improved results beginning in March. With the start of the new fiscal year, these expenses are behind us.

As a result of the tumultuous conditions we encountered, MGPI found itself in violation of covenants of our previous bank agreement at the start of fiscal 2009. I would like to note that our bank group at the time stood by the Company during this period. As was appropriate for the time, they exhibited what might be called "tough love" in terms of the demands that were made of us. These demands helped to accelerate our transformation efforts because of the difficult decisions that were placed upon us. I would like to thank the group for sticking with us. Additionally, we are grateful and fortunate to have engaged the financial support of two local banking institutions, Exchange National Bank and Trust Co. and Union State Bank (The Bank of Atchison), as well as Cloud L. "Bud" Cray, MGPI Board member and former longtime officer and Chairman of the Company. Their involvement was key to helping us work through this extremely trying period.

Even more important, I would like to thank our valued customers and suppliers who supported us through the worst financial crisis since the Great Depression. I think it is testimony to the quality of the products and services that we supply and the multi-decade relationships we have in the marketplace.

In July 2009, the beginning of our new fiscal year, we entered into a new bank agreement with Wells Fargo Bank, National Association to supply our operating cash needs. I can assure you that Wells Fargo thoroughly scrutinized our business plans before committing to the financing. This, we believe, is further testimony to the significance and value of the Company's transformation, especially considering the fact that we were able to secure this package in the current economic environment. We are ecstatic about working with Wells Fargo and look forward to a long and prosperous relationship.

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Another major change we made was in our risk management strategy. Essentially, we have shortened our pricing horizon with customers and shortened our commitment to commodity futures to closely align costs with price. This should allow better margin management than we have had in the past. It should also aid in preventing us from finding ourselves on the wrong side of commodities markets and taking massive mark-to-market write-downs as we did in fiscal 2009.

For investors, fiscal 2009 was a confounding year. If you owned stock at the beginning and through the end of the fiscal year, your share price fell from a high of $6.35 in the first quarter to a high of $3.10 in the fourth quarter, which represented a price decline of 51%. The low for the year, as well as for the entire time since the Company went public in 1988, was 50 cents per share, which occurred in the third quarter of fiscal 2009. The decreased share value was further compounded by the absence of a dividend. If you purchased shares at the low of 50 cents in March, you enjoyed appreciation of nearly 500% to a closing price of $2.86 at year-end on June 30. While a good deal of the price volatility was a function of broader market and macroeconomic trends, the majority of it was Company specific. The transformation actions we have taken are specifically designed to greatly reduce the Company-related causes of this performance, not the least of which was the reduction of the Company's revolver balance from a high of $54.5 million in October 2008 to a year-end level of approximately $17.8 million.

So where are we as we enter fiscal 2010? MGP Ingredients is now a leaner company. As an example, SG&A expenses in the fourth quarter of fiscal 2009 were down 33% year-over-year. Invested capital will continue to decline as our exploration of strategic options for our assets bears fruit and generates cash. While we are a smaller Company in terms of sales, we have substantially exited low or non-margin businesses to concentrate on our valued-added ingredient businesses. We are now better prepared to perform as a higher gross margin business. We now treat our outstanding food grade industrial and beverage alcohols, which generate positive margins with much greater consistency than fuel alcohol, as truly value-added ingredients. This has produced a unifying approach in our go-to-market strategy with our specialty ingredients. We are increasingly focusing on research to promote the technological superiority of our food ingredients, and will be applying our research capabilities with greater effort toward our distillery products and technologies.

In conclusion, I want to emphasize three very basic points: The past has been difficult. Our transformation has occurred. Our future looks bright.

Sincerely,

John R. Speirs
Chairman of the Board
September 9, 2009