

MGP INGREDIENTS INC

FORM 10-Q (Quarterly Report)

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Address	1300 MAIN ST ATCHISON, KS 66002
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Industry	Food Processing
Sector	Consumer/Non-Cyclical
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**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 September 30, 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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
16,050,040 shares outstanding
as of September 30, 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 September 30, 2005 and the related condensed consolidated statements of income and cash flows for the three-month periods ended September 30, 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 September 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
October 31, 2005

MGP Ingredients, Inc.

Notes to Condensed Consolidated Financial Statements

MGP Ingredients, Inc.

Condensed Consolidated Balance Sheets (in Thousands)

	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,458	\$ 10,384
Receivables, net of allowance of \$320 at September 30, 2005 and \$320 at June 30, 2005	32,985	28,097
Inventories	35,169	31,252
Prepaid expenses	2,130	628
Deferred income taxes	945	663
Refundable income taxes	213	2,622
Total current assets	<u>74,900</u>	<u>73,646</u>
Property and Equipment, at cost	324,357	317,626
Less accumulated depreciation	<u>(204,970)</u>	<u>(201,997)</u>
Total property and equipment, net	<u>119,387</u>	<u>115,629</u>
Other		
Other assets	221	225
Total other assets	<u>221</u>	<u>225</u>
Total assets	<u>\$ 194,508</u>	<u>\$ 189,500</u>

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

MGP Ingredients, Inc.**Condensed Consolidated Balance Sheets (in Thousands)**

	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Line of credit	\$ 2,000	\$ —
Current maturities of long-term debt	3,583	4,705
Accounts payable	14,038	11,744
Accrued expenses	7,324	5,621
Income taxes payable	426	—
Deferred revenue	10,554	10,948
Total current liabilities	<u>37,925</u>	<u>33,018</u>
Long-term Debt	<u>15,217</u>	<u>16,785</u>
Post-Retirement Benefits	<u>6,469</u>	<u>6,342</u>
Deferred Income Taxes	<u>12,811</u>	<u>12,828</u>
Stockholders' Equity		
Capital stock		
Preferred, 5% cumulative, \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares	4	4
Common, no par; authorized 40,000,000 shares; issued 19,530,744 shares	6,715	6,715
Additional paid-in capital	5,536	5,341
Retained earnings	126,002	124,754
Accumulated other comprehensive loss - Cash flow hedges	<u>(363)</u>	<u>(228)</u>
	<u>137,894</u>	<u>136,586</u>
Treasury stock, at cost		
Common		
September 30, 2005 - 3,480,704 shares		
June 30, 2005 - 3,536,064 shares	<u>(15,808)</u>	<u>(16,059)</u>
Total stockholders' equity	<u>122,086</u>	<u>120,527</u>
Total liabilities and stockholders' equity	<u>\$ 194,508</u>	<u>\$ 189,500</u>

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

MGP Ingredients, Inc.**Condensed Consolidated Statements Of Income (In Thousands)
Three Months Ended September 30, 2005 and 2004
(Unaudited)**

	<u>2005</u>	<u>2004</u>
Net sales	77,046	68,878
Cost of sales	<u>64,862</u>	<u>63,804</u>
Gross profit	12,184	5,074
Selling, general and administrative	(5,709)	(4,882)
Other operating income	<u>168</u>	<u>286</u>
Operating income	6,643	478
Other income (expense)	116	309
Interest (expense)	<u>(565)</u>	<u>(306)</u>
Income before income taxes	6,194	481
Provision for income taxes	<u>(2,463)</u>	<u>(190)</u>
Net income	3,731	291
Other comprehensive income (loss), net of tax:	(135)	(313)
Comprehensive income (loss)	\$ 3,596	\$ (22)
Earnings per common share (1)		
Basic	\$ 0.23	\$ 0.02
Diluted	\$ 0.23	\$ 0.02
Dividends per common share	\$ 0.15	\$ 0.15

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

MGP Ingredients, Inc.**Condensed Consolidated Statements of Cash Flows (in Thousands)
Three Months Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
Net income	\$ 3,731	\$ 291
Items not requiring cash		
Depreciation and amortization	3,002	3,893
Gain on sale/conversion of property and equipment	—	(709)
Deferred income taxes	(299)	(900)
Stock compensation	45	—
Changes in:		
Accounts receivable	(4,888)	2,336
Inventories	(4,052)	(6,710)
Accounts payable and accrued expenses	3,687	(6,029)
Deferred revenue	(394)	(415)
Income taxes (receivable) payable	2,835	(161)
Other	(1,502)	(2,245)
Net cash provided by (used in) operating activities	<u>2,165</u>	<u>(10,649)</u>
Cash Flows from Investing Activities		
Additions to property and equipment	(6,319)	(5,646)
Proceeds from disposition of equipment	—	709
Net cash used in investing activities	<u>(6,319)</u>	<u>(4,937)</u>
Cash Flows from Financing Activities		
Exercise and vesting of stock options	401	428
Principal payments on long-term debt	(9,690)	(2,259)
Proceeds from issuance of long-term debt	7,000	9,700
Net proceeds on line of credit	2,000	6,000
Dividends payable	(2,483)	—
Net cash provided by (used in) financing activities	<u>(2,772)</u>	<u>13,869</u>
Increase (decrease) in cash and cash equivalents	(6,926)	(1,717)
Cash and cash equivalents, beginning of period	10,384	6,488
Cash and cash equivalents, end of period	<u>\$ 3,458</u>	<u>\$ 4,771</u>

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

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. Accordingly, 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, 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.

<u>(in Thousands, except per share data)</u>	<u>For the three months ended September 30, 2004</u>
Net income, as reported	\$ 291
Plus: Stock-based employee compensation included in net income	66
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	<u>157</u>
Pro forma net income	<u>\$ 200</u>
Earnings per share	
Basic - as reported	<u>\$ 0.02</u>
Basic - pro forma	<u>\$ 0.01</u>
Diluted - as reported	<u>\$ 0.02</u>
Diluted - pro forma	<u>\$ 0.01</u>
Weighted average shares:	
Basic	15,932,913
Diluted	16,648,019

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. Compensation expense recorded for the three months ended September 30, 2005 was approximately \$45,000.

Note 3. Long-Term Debt

Secured promissory note :

On September 29, 2005 the Company borrowed \$7,000,000 from General Electric Capital Corporation (GECC) 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 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 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 is currently 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 IEPA has most recently requested a \$600,000 penalty to resolve its complaint, and the USEPA matter has been settled, in connection with which the Company has agreed to pay a federal penalty of \$172,000. 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 September 30, 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 distillers 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.

(in Thousands)	Three Months Ended September 30,	
	2005	2004
Sales to customers		
Ingredients	\$ 22,450	\$ 22,754
Distillery products	54,596	46,124
	<u>\$ 77,046</u>	<u>\$ 68,878</u>
Depreciation		
Ingredients	\$ 1,546	\$ 1,565
Distillery products	1,325	2,179
Corporate	127	149
	<u>\$ 2,998</u>	<u>\$ 3,893</u>
Income before income taxes		
Ingredients	\$ (219)	\$ (115)
Distillery products	6,949	874
Corporate	(536)	(278)
	<u>\$ 6,194</u>	<u>\$ 481</u>
	September 30, 2005	June 30, 2005
Identifiable assets		
Ingredients	\$ 80,867	\$ 81,507
Distillery products	91,935	79,678
Corporate	21,706	28,315
	<u>\$ 194,508</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.

The components of the Net Periodic Benefit Cost for the three months ended September 30 are as follows:

<u>(in Thousands)</u>	Three Months Ended September 30,	
	2005	2004
Service cost	\$ 74	\$ 60
Interest cost	74	75
Prior service cost	(9)	(12)
(Gain) loss	—	(1)
Total post-retirement benefit cost	<u>\$ 139</u>	<u>\$ 122</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, 2005.

Total employer contributions for the three months ended September 30, 2005 amounted to \$12,000.

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, and amendment of ARB No. 43, Chapter 4. This Statement clarifies that items such as idle facility expense, excessive spoilage, double freight, and re-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 our financial position or our 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 obligation 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.

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.

**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.

Developments in the Ingredients Segment

In the first quarter of fiscal 2006, we acquired a facility in Onaga, Kansas, which is presently used to make wood composites. We plan to upgrade the facility and utilize it for the production of our plant-based biopolymers for use in the manufacture of degradable and non-degradable plastic-like products. The upgrades are expected to be completed by the spring of 2006 at a projected cost of \$1.9 million.

Developments in the Distillery Products Segment

We recently completed the installation of new equipment for processing distillers feed at the Atchison distillery and for the installation of new distillation equipment at the Pekin plant. The costs of these projects were approximately \$12 million and \$4 million, respectively, and both are expected to strengthen our ability to realize additional improvements in alcohol production efficiencies, especially in regard to energy

usage. The new equipment at the Atchison distillery also includes new, state-of-the-art emission control technology that will enable us to comply with government environmental standards.

On August 5, 2005, President Bush signed the Energy Policy Act of 2005, a comprehensive energy bill that includes a provision for establishing a renewable fuels standard. For further information, see our Annual Report on Form 10-K for the fiscal year ended June 30, 2005 under *Item 1 Business—Distillery Products-Fuel Grade Alcohol*.

Segment Results

The following is a summary of revenues and pre-tax profits/(loss) allocated to each reportable operating segment for the three months ended September 30, 2005 and 2004.

(In Thousands)	First Quarter Fiscal 2006	First Quarter Fiscal 2005
Ingredients		
Net Sales	\$ 22,450	\$ 22,754
Pre-Tax Income	(219)	(115)
Distillery Products		
Net Sales	\$ 54,596	\$ 46,124
Pre-Tax Income	6,949	874

General

Results for the first quarter of fiscal 2006 represented a substantial improvement over results for the first quarter of the prior fiscal year. This was due to increased sales of distillery products, which rose 18 percent above distillery products sales in the first quarter of fiscal 2005. Sales of ingredients were down slightly due to lower sales of specialty ingredients, which principally consist of specialty wheat proteins and wheat starches. This reduction offset increased sales of commodity ingredients, which primarily consist of commodity wheat gluten and wheat starches.

The increase in distillery products sales resulted from higher selling prices for both food grade and fuel grade alcohol combined with higher unit sales of food grade alcohol for industrial applications. Sales of distillers feed, the principal by-product of the alcohol production process, decreased compared to the prior year due to lower prices, which more than offset increased unit sales. Total sales of distillery products in the first quarter of fiscal 2006 rose by approximately \$8.5 million compared to the first quarter of fiscal 2005.

Increased sales of commodity ingredients in the current year's first quarter resulted from higher unit sales of commodity gluten. Sales of commodity wheat starch, meanwhile, declined compared to a year ago. The decrease in sales of specialty ingredients was due principally to a decline in sales of specialty ingredients for non-food applications. Sales of specialty ingredients for food applications were just slightly below the prior year's first quarter level as increased sales of specialty starches were offset by lower sales of specialty proteins.

The increase in commodity gluten sales was due to higher unit sales resulting from higher quantities on hand compared to the prior year's first 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 our sales of specialty proteins have not kept pace proportionately with our specialty starch sales, we had more gluten available for sale during the first quarter of fiscal 2006 than in the first quarter of fiscal 2005, as less gluten has been processed into specialty proteins.

The decrease in sales of specialty ingredients for non-food applications resulted mainly from a decline 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. We believe this decline is attributable to the impact of higher gas costs and a weakening labor market, which has contributed to weaker consumer spending and declining consumer confidence and a resulting slowdown in pet industry sales. Sales of ingredients for use in personal care products were slightly lower than the prior year. The decline in sales of specialty ingredients for food applications was primarily caused by lower sales of our Arise® line of specialty wheat protein isolates. Sales of our specialty starches improved compared to the prior year due largely 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 grew slightly during the current year's first quarter compared to the same period the prior year. Although Arise® sales were down compared to the first quarter of fiscal 2005, they improved sequentially over the fourth quarter of this past fiscal year. Sales of Wheatex® were also higher than in the immediately preceding fourth quarter.

Ingredients

Total ingredient sales in the first quarter of fiscal 2006 decreased by approximately \$304,000, or 1 percent, compared to the prior year's first quarter. This principally was due to a nearly \$1.6 million, or 1 percent, decline in sales of specialty ingredients for non-food applications. Sales of specialty ingredients for food applications were slightly lower than the same period a year ago, while sales of mill feed and other mill products decreased by \$171,000, or 39 percent. Sales of commodity ingredients, on the other hand, increased by approximately \$1.3 million, or 47 percent compared to a year ago. The increase in commodity ingredient sales resulted from a \$1.7 million, or 206 percent, rise in sales of commodity gluten, which more than offset a \$254,000, or 17 percent, decrease in sales of commodity starches. The decrease 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 specialty ingredients for food applications compared to the prior year's first quarter was almost entirely attributable to reduced sales of our Arise® specialty wheat protein isolates, which were principally offset by increased sales of our Fibersym™ and certain of our Pregel™ specialty starches combined with higher sales of our Wheatex® textured wheat proteins. The reduction in sales of commodity starches resulted from our decision to place increased emphasis on the production and marketing of specialty starches. The reduction in sales of mill feeds (which is a by-product in the manufacture of flour) and other mill products resulted from the processing of less flour in the current year's first quarter for use in producing specialty proteins.

Distillery Products

Total sales of our distillery products in the first quarter of fiscal 2006 rose by approximately \$8.5 million, or 18 percent, compared to the first quarter of fiscal 2005. This improvement was due to an \$8.5 million, or 74 percent, increase in sales of food grade alcohol and a \$1.3 million, or 5.0 percent, increase in sales of fuel grade alcohol, offset by an approximately \$1.3 million, or 17 percent decrease, in sales of distillers feed. In the food grade area, sales of alcohol for industrial applications rose by \$8.3 million, or nearly 124 percent as the result of both higher unit sales and prices compared to a year ago. Sales of food grade alcohol for beverage applications rose by approximately \$237,000, or 5 percent, due to higher prices, which offset a slight decrease in unit sales. The increased sales of fuel grade alcohol also resulted from higher average selling prices. Unit sales of fuel grade alcohol declined compared to a year ago. [We recorded no cash incentives for ethanol production from the U.S. Department of Agriculture during the quarter, compared with approximately \$161,000 pre-tax (\$97,000 net of income taxes) during the first quarter of fiscal 2005.]

The decline in depreciation expense of \$0.85 million results from certain equipment that was installed at our Pekin facility in 1994 having become fully depreciated.

Sales

Net sales in the first quarter of fiscal 2006 were approximately \$8.2 million, or 12 percent, higher than net sales in the first quarter of fiscal 2005. This improvement was due to an \$8.5 million, or 18 percent, increase in sales of distillery products, offset by a \$304,000, or 1 percent decrease in sales of ingredients. The increase in distillery products resulted from increased unit sales and higher selling prices for food grade alcohol for industrial applications, higher selling prices for food grade alcohol for beverage applications and higher selling prices for fuel grade alcohol. The decrease in ingredients sales was principally due to lower sales of specialty ingredients for non-food applications, which offset higher sales of commodity gluten. Sales of specialty ingredients for food applications were slightly lower than experienced during the same period the prior year. The increase in sales of commodity wheat gluten was due to higher unit sales, while sales of commodity wheat starches and mill feeds decreased compared to the prior year due to lower unit sales.

Cost of Sales

The cost of sales in the first quarter of fiscal 2006 rose by approximately \$1.1 million, or 2 percent, over cost of sales in the first quarter of fiscal 2005. This increase was mainly due to higher energy costs and was partially offset by lower raw material costs for grain and reduced depreciation expense. The increased energy costs primarily resulted from higher natural gas prices, which were up approximately 26 percent compared to the prior fiscal year's first quarter. Corn prices averaged 17 percent lower, while wheat prices were approximately 10 percent lower than those experienced in the first quarter of fiscal 2005.

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 first quarter of fiscal 2006, we hedged approximately 36 percent of corn processed compared with 54 percent of corn hedged in the first quarter of fiscal 2005. Of the wheat that we processed, none was hedged in the first quarter of fiscal 2006 or fiscal 2005. In the first quarter of fiscal 2006, raw material costs included a net hedging loss of approximately \$634,000 compared to a net hedging loss of \$515,000 in the first 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. During the first quarter 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 quarter of fiscal 2005. The reduction in depreciation

expense arose primarily because certain equipment that was installed at our Pekin facility in 1994 has become fully depreciated.

Selling, General and Administrative Expenses

In the first quarter of fiscal 2006, our selling, general and administrative expenses increased by approximately \$827,000, or 17 percent, above selling general and administrative expenses in the first quarter of fiscal 2005. This increase was mainly due to increased costs associated with incentives and professional and consultant fees. The increase in professional and consultant fees was mainly due to functions and activities that have been implemented to comply with Sarbanes-Oxley Act requirements and include increased utilization of accounting and consulting services.

Interest Expense

Interest expense increased over the prior period due to the payment of accrued interest and 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 first quarter of fiscal 2006 was 39.8 percent. The general effects of inflation were minimal.

Net Income

As the result of the foregoing factors, we experienced net income of \$3,731,000 in the first quarter of fiscal 2006 compared to net income of \$291,000 in the first quarter of fiscal 2005.

LIQUIDITY AND CAPITAL RESOURCES

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

<u>(Dollars in Thousands)</u>	<u>September 30,</u> <u>2005</u>	<u>June 30,</u> <u>2005</u>
Cash and cash equivalents	\$ 3,458	\$ 10,384
Working capital	36,975	40,628
Amounts available under lines of credit	18,000	20,000
Notes payable and long-term debt	20,800	21,490
Stockholders' equity	122,086	120,527

Cash Flow.

Cash flow from operations increased by \$12,814,000 during the first three months of fiscal 2006 compared to the first three months of fiscal 2005. This increase resulted from a combination of factors. Accounts payable and accrued expenses showed an increase of \$3.5 million during the first three months of fiscal 2006 related to accrued dividends and increased trade payables, compared to a decrease of \$6.0 million during the first three months of fiscal 2005 which was attributable primarily to payments under incentive and retirement plans and reductions of accounts payable. Another significant component of the improvement was the \$3.5 million increase in net income, which resulted from an increase in sales volume from the first three months of fiscal 2006 compared to the first three months of fiscal 2005. The Company experienced an increase in total inventories of \$4.0 million in the first three months of fiscal 2006 related to

increased alcohol inventories and seasonal increases in grain inventories (primarily corn), compared to increases of \$6.7 million in the first three 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 \$4.9 million in the first three months of fiscal 2006 related to increased sales versus a decrease of \$2.3 million during the first three months of fiscal 2005.

Capital Expenditures.

During the quarter ended September 30, 2005, we made \$6.3 million in capital expenditures, including expenditures with respect to a feed dryer in Atchison and a molecular sieve in Pekin. As of September 30, 2005, our Board of Directors had approved \$4.2 million in capital expenditures over the course of the next 12 months and we had contracts to acquire capital assets of approximately \$4.0 million. The amounts approved do not include additional expenditures that 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. Nor do the amounts approved include expenditures approved subsequent to September 30 for the upgrade of our facility in Onaga, Kansas, in the amount of \$1.8 million, or for the construction of new office and laboratory facilities in Atchison, Kansas, in the amount of \$4.7 million. 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 .

Stock Purchase and Sales.

During the quarter ended September 30, 2005, our employees exercised options on 55,360 shares of common stock and the company received proceeds of \$323,000. As of September 30, 2005, the Board has authorized the purchase of approximately 1,626,000 additional shares of common stock. No purchases were made under this authority during the quarter .

Contractual Obligations.

As of September 30, the amount of long term debt was \$20.8 million compared to \$21.5 million at June 30, 2005.

On September 29, 2005 we borrowed \$7,000,000 from General Electric Capital Corporation (“GECC”) and paid our unsecured senior notes payable to The Principal Mutual Life Insurance Company, which had an outstanding principal balance of \$6,816,000. We also paid accrued interest of \$75,000 and a make-whole payment of approximately \$248,000. 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 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 our equipment located or to be located at our 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 other indebtedness included a note payable to GE Capital Public Finance ("GECPF"), 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 GECPF 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 has been extended. As of September 30, 2005 our remaining obligation is approximately \$150,000. 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 loan 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 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 .

Lines of Credit

We have a \$20 million line of credit, of which \$18 million was available at September 30, 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 September 30, 2005, we had \$2 million outstanding borrowings under the line.

Working Capital

Our working capital decreased by \$3.6 million from June 30, 2005 to September 30, 2005. This decrease was primarily due to a decrease of \$6.9 million in cash and a \$2.4 million decrease in income tax receivable offset by an increase of \$4.9 million in accounts receivable, an increase of \$3.9 in inventories, an increase of \$4.0 million in accounts payable and accrued payable and an \$800,000 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 September 30, 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.

(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

We are on schedule to launch our Enterprise Resource Planning (ERP) system at the beginning of our third quarter. Management believes that the system will incorporate effective internal control over the purchasing and materials management functions involving system access by personnel, transaction authorization, the purchase requisition process, vendor invoice approval and overall management of maintenance, chemicals and packaging materials usage and inventories.

Pending implementation of the new ERP system, we continue to work on interim remediation measures which, we believe, would 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 orders at our Atchison facility and the monitoring of expenses included in our maintenance, chemicals and packaging materials accounts. These control activities require further modification involving operational and design effectiveness to minimize the potential for material weakness over financial reporting in this area. Management expects to refine the design and operational effectiveness of these control activities by the end of the second quarter.

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.

Year End Financial Closing Process

Management has developed a formalized, detailed schedule that was utilized in the financial closing process for the quarter ended September 30, 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. Although management believes that the 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, it will work further to improve the process to further reduce the deficiencies previously noted.

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 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. Discovery has commenced and on November 2, 2005 a hearing commonly known in patent litigation as a "Markman" hearing commenced to determine the meaning of the relevant claims in the patents involved in the litigation.

Another matter referred to was a USEPA enforcement initiative relating to our Illinois facility. 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.

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 September 30, 2005.

<u>Period</u>	<u>Total Number Of Shares) or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units (that May Yet Be Purchased Under the Plans or Programs</u>
July 1 – Jul 31, 2005	0	-		
August 1 – August 31, 2005	0			
September 1 – September 30, 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 September 30, 2005. This program was first announced on June 5, 1997. During the three months ended September 30, 2005, no shares were purchased under the program. The program has no expiration date.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The annual meeting of stockholders of the Company was held on October 14, 2004.

(b) At the annual meeting, the following persons were elected to the Board of Directors:

Gary Gradinger was elected to the office of Group A Director for a term expiring in 2008 with 14,979,326 common share votes for his election and 320,160 votes withheld.

Randall M. Schrick was elected to the office of Group B Director for a term expiring in 2008 with 410 preferred share votes for his election and zero votes withheld; and

Laidacker M. Seaberg was elected to the office of Group B Director for a term expiring in 2008 with 410 preferred share votes for his election and no votes withheld.

In addition, the terms of John R. Spiers, Linda E. Miller and Daryl R. Schaller, Ph.D. as Group A Directors continued after the annual meeting and the terms of Michael Braude, Cloud L. Cray, Jr. and John E. Byom as Group B Directors continued after the annual meeting.

(c) No other actions were taken by stockholders at the annual meeting.

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))
- *4.1 Promissory Note to General Electric Capital Corporation dated as of September 29, 2005
- *4.2 Security Agreement to General Electric Capital Corporation dated as of September 29, 2005
- *4.3 Cross-Collateral and Cross-Default Agreement dated as of September 29, 2005 in favor of General Electric Capital Corporation and GE Capital Public Finance
- *10.1 Guidelines for Issuance of Fiscal 2006 Restricted Share Awards
- *10.2 Agreement with Ladd M. Seaberg as to Award of Restricted Shares Granted under the Stock Incentive Plan of 2004 (Similar agreements have been made with the following named executive officers as to the number of shares indicated following their respective names: Michael J. Trautschold — 14,600 shares; Sukh D. Bassi, Ph.D. — 13,600 shares; Brian T. Cahill — 13,000 shares; Randy M. Schrick — 13,500 shares.)
- *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

* Filed herewith

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: November 9, 2005

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

Date: November 9, 2005

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

PROMISSORY NOTE

9/29/05
(Date)

FOR VALUE RECEIVED, MGP Ingredients, Inc. a corporation located at the address stated below (“Maker”) promises, jointly and severally if more than one, to pay to the order of General Electric Capital Corporation or any subsequent holder hereof (each, a “Payee”) at its office located at 16479 Dallas Parkway #300, Addison, TX 75001-2512 or at such other place as Payee or the holder hereof may designate, the principal sum of Seven Million and 00/100 Dollars (\$7,000,000.00), with interest on the unpaid principal balance, from the date hereof through and including the dates of payment, at a fixed, simple interest rate of Five and 92/100 percent (5.92%) per annum, to be paid in lawful money of the United States, in Sixty (60) consecutive monthly installments of principal and interest as follows:

<u>Periodic Installment</u>	<u>Amount</u>
1 @	\$ 138,524.90
58 @	\$ 135,071.23

each (“Periodic Installment”) and a final installment which shall be in the amount of the total outstanding principal and interest. The first Periodic Installment shall be due and payable on 11/1/05 and the following Periodic Installments and the final installment shall be due and payable on the same day of each succeeding period (each, a “Payment Date”). All payments shall be applied first to interest and then to principal. The acceptance by Payee of any payment which is less than payment in full of all amounts due and owing at such time shall not constitute a waiver of Payee’s right to receive payment in full at such time or at any prior or subsequent time. Interest shall be calculated on the basis of a 365 day year (366 day leap year). The payment of any Periodic Installment after its due date shall result in a corresponding decrease in the portion of the Periodic Installment credited to the remaining unpaid principal balance. The payment of any Periodic Installment prior to its due date shall result in a corresponding increase in the portion of the Periodic Installment credited to the remaining unpaid principal balance.

The Maker hereby expressly authorizes the Payee to insert the date value is actually given in the blank space on the face hereof and on all related documents pertaining hereto.

This Note may be secured by a security agreement, chattel mortgage, pledge agreement or like instrument (each of which is hereinafter called a “Security Agreement”).

Time is of the essence hereof. If any installment or any other sum due under this Note or any Security Agreement is not received within ten (10) days after its due date, the Maker

agrees to pay, in addition to the amount of each such installment or other sum, a late payment charge of five percent (5%) of the amount of said installment or other sum, but not exceeding any lawful maximum. If (i) Maker fails to make payment of any amount due hereunder within ten (10) days after the same becomes due and payable; or (ii) Maker is in default under, or fails to perform under any term or condition contained in any Security Agreement, then the entire principal sum remaining unpaid, together with all accrued interest thereon and any other sum payable under this Note or any Security Agreement, at the election of Payee, shall immediately become due and payable, with interest thereon at the lesser of eighteen percent (18%) per annum or the highest rate not prohibited by applicable law from the date of such accelerated maturity until paid (both before and after any judgment).

The Maker may prepay in full, but not in part, its entire indebtedness hereunder upon payment of the entire indebtedness plus an additional sum as a premium equal to the following percentages of the original principal balance for the indicated period:

Prior to the first annual anniversary date of this Note: Three percent (3%)
Thereafter and prior to the second annual anniversary date of this Note: Two percent (2%)
Thereafter and prior to the third annual anniversary date of this Note: One percent (1%)
and zero percent (0%) thereafter, plus all other sums due hereunder or under any Security Agreement.

It is the intention of the parties hereto to comply with the applicable usury laws; accordingly, it is agreed that, notwithstanding any provision to the contrary in this Note or any Security Agreement, in no event shall this Note or any Security Agreement require the payment or permit the collection of interest in excess of the maximum amount permitted by applicable law. If any such excess interest is contracted for, charged or received under this Note or any Security Agreement, or if all of the principal balance shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received under this Note or any Security Agreement on the principal balance shall exceed the maximum amount of interest permitted by applicable law, then in such event (a) the provisions of this paragraph shall govern and control, (b) neither Maker nor any other person or entity now or hereafter liable for the payment hereof shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by applicable law, (c) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal balance or refunded to Maker, at the option of the Payee, and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under applicable law as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under this Note or any Security Agreement which are made for the purpose of determining whether such rate exceeds the maximum lawful contract rate, shall be made, to the extent permitted by applicable law, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the indebtedness evidenced hereby, all interest at any time contracted for, charged or received from Maker or otherwise by Payee in connection

with such indebtedness; provided, however, that if any applicable state law is amended or the law of the United States of America preempts any applicable state law, so that it becomes lawful for the Payee to receive a greater interest per annum rate than is presently allowed, the Maker agrees that, on the effective date of such amendment or preemption, as the case may be, the lawful maximum hereunder shall be increased to the maximum interest per annum rate allowed by the amended state law or the law of the United States of America.

The Maker and all sureties, endorsers, guarantors or any others (each such person, other than the Maker, an "Obligor") who may at any time become liable for the payment hereof jointly and severally consent hereby to any and all extensions of time, renewals, waivers or modifications of, and all substitutions or releases of, security or of any party primarily or secondarily liable on this Note or any Security Agreement or any term and provision of either, which may be made, granted or consented to by Payee, and agree that suit may be brought and maintained against any one or more of them, at the election of Payee without joinder of any other as a party thereto, and that Payee shall not be required first to foreclose, proceed against, or exhaust any security hereof in order to enforce payment of this Note. The Maker and each Obligor hereby waives presentment, demand for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, and all other notices in connection herewith, as well as filing of suit (if permitted by law) and diligence in collecting this Note or enforcing any of the security hereof, and agrees to pay (if permitted by law) all expenses incurred in collection, including Payee's actual attorneys' fees. Maker and each Obligor agrees that fees not in excess of twenty percent (20%) of the amount then due shall be deemed reasonable.

EACH THE PAYEE AND THE MAKER HEREBY UNCONDITIONALLY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS NOTE, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS BETWEEN MAKER AND PAYEE RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN MAKER AND PAYEE. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT (INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS). THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE, ANY RELATED DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS TRANSACTION OR ANY RELATED TRANSACTION. IN THE EVENT OF LITIGATION, THIS NOTE MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

This Note and other Debt Documents constitute the entire agreement of the Maker and Payee with respect to the subject matter hereof and supercedes all prior understandings, agreements and representations, express or implied.

No variation or modification of this Note, or any waiver of any of its provisions or conditions, shall be valid unless in writing and signed by an authorized representative of Maker and Payee. Any such waiver, consent, modification or change shall be effective only in the specific instance and for the specific purpose given.

Any provision in this Note or any of the other Debt Documents which is in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

MGP Ingredients, Inc.

(Witness)

(Print Name)

(Address)

By: /s/ Brian T. Cahill _____

Name: Brian T. Cahill

Title: CFO

Federal Tax ID #:

Address: 1300 Main Street Atchison,
Atchison County, KS 66002

MASTER SECURITY AGREEMENT

dated as of 9/29/05("Agreement")

THIS AGREEMENT is between General Electric Capital Corporation (together with its successors and assigns, if any, "Secured Party") and MGP Ingredients, Inc. ("Debtor"). Secured Party has an office at 16479 Dallas Parkway #300, Addison, TX 75001-2512. Debtor is a corporation organized and existing under the laws of the state of Kansas ("the State"). Debtor's mailing address and chief place of business is 1300 Main Street, Atchison, KS 66002.

1. CREATION OF SECURITY INTEREST.

Debtor grants to Secured Party, its successors and assigns, a security interest in and against all property listed on any collateral schedule now or in the future annexed to or made a part of this Agreement ("Collateral Schedule"), and in and against all additions, attachments, accessories and accessions to such property, all substitutions, replacements or exchanges therefor, and all insurance and/or other proceeds thereof (all such property is individually and collectively called the "Collateral"). This security interest is given to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever of Debtor to Secured Party, now existing or arising in the future, including but not limited to the payment and performance of certain Promissory Notes from time to time identified on any Collateral Schedule (collectively "Notes" and each a "Note"), and any renewals, extensions and modifications of such debts, obligations and liabilities (such Notes, debts, obligations and liabilities are called the "Indebtedness").

2. REPRESENTATIONS, WARRANTIES AND COVENANTS OF DEBTOR.

Debtor represents, warrants and covenants as of the date of this Agreement and as of the date of each Collateral Schedule that:

(a) Debtor's exact legal name is as set forth in the preamble of this Agreement and Debtor is, and will remain, duly organized, existing and in good standing under the laws of the State set forth in the preamble of this Agreement, has its chief executive offices at the location specified in the preamble, and is, and will remain, duly qualified and licensed in every jurisdiction wherever necessary to carry on its business and operations;

(b) Debtor has adequate power and capacity to enter into, and to perform its obligations under this Agreement, each Note and any other documents evidencing, or given in connection with, any of the Indebtedness (all of the foregoing are called the "Debt Documents");

(c) This Agreement and the other Debt Documents have been duly authorized, executed and delivered by Debtor and constitute legal, valid and binding agreements enforceable in accordance with their terms, except to the extent that the enforcement of remedies may be limited under applicable bankruptcy and insolvency laws;

(d) No approval, consent or withholding of objections is required from any governmental authority or instrumentality with respect to the entry into, or performance by Debtor of any of the Debt Documents, except any already obtained;

(e) The entry into, and performance by, Debtor of the Debt Documents will not (i) violate any of the organizational documents of Debtor or any judgment, order, law or regulation applicable to Debtor, or (ii) result in any breach of or constitute a default under any contract to which Debtor is a party, or result in the creation of any lien, claim or encumbrance on any of Debtor's property (except for liens in favor of Secured Party) pursuant to any indenture, mortgage, deed of trust, bank loan, credit agreement, or other agreement or instrument to which Debtor is a party;

(f) There are no suits or proceedings pending in court or before any commission, board or other administrative agency against or affecting Debtor which could, in the aggregate, have a material adverse effect on Debtor, its business or operations, or its ability to perform its obligations under the Debt Documents, nor does Debtor have reason to believe that any such suits or proceedings are threatened;

(g) All financial statements delivered to Secured Party in connection with the Indebtedness have been prepared in accordance with generally accepted accounting principles, and since the date of the most recent financial statement, there has been no material adverse change in Debtor's financial condition.

(h) The Collateral is not, and will not be, used by Debtor for personal, family or household purposes;

(i) The Collateral is, and will remain, in good condition and repair and Debtor will not be negligent in its care and use;

(j) Debtor is, and will remain, the sole and lawful owner, and in possession of, the Collateral, and has the sole right and lawful authority to grant the security interest described in this Agreement;

(k) The Collateral is, and will remain, free and clear of all liens, claims and encumbrances of any kind whatsoever, except for (i) liens in favor of Secured Party; (ii) liens for taxes not yet due or for taxes being contested in good faith and which do not involve, in the judgment of Secured Party, any risk of the sale, forfeiture or loss of any of the Collateral; (iii) inchoate materialmen's, mechanic's, repairmen's and similar liens arising by operation of law in the normal course of business for amounts which are not delinquent; and (iv) liens in favor of GE Public Finance, Inc. related specifically to the Promissory Note and Collateral Schedule 001 dated September 24, 2004 (all of such liens are called "Permitted Liens"); and

(l) Debtor is and will remain in full compliance with all laws and regulations applicable to it including, without limitation, (i) ensuring that no person who owns a controlling interest in or otherwise controls Debtor is or shall be (Y) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation, or (Z) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders; and (ii) compliance with all applicable Bank Secrecy Act ("BSA") laws, regulations and government guidance on BSA compliance and on the prevention and detection of money laundering violations.

3. COLLATERAL.

(a) Until the declaration of any default, Debtor shall remain in possession of the Collateral; except that Secured Party shall have the right to possess (i) any chattel paper or instrument that constitutes a part of the Collateral, and (ii) any other Collateral in which Secured Party's security interest may be perfected only by possession. Secured Party may inspect any of the Collateral during normal business hours after giving Debtor reasonable prior notice. If Secured Party asks, Debtor will promptly notify Secured Party in writing of the location of any Collateral.

(b) Debtor shall (i) use the Collateral only in its trade or business, (ii) maintain all of the Collateral in good operating order and repair, normal wear and tear excepted, (iii) use and maintain the Collateral only in compliance with manufacturers recommendations and all applicable laws, and (iv) keep all of the Collateral free and clear of all liens, claims and encumbrances (except for Permitted Liens).

(c) Secured Party does not authorize and Debtor agrees it shall not (i) part with possession of any of the Collateral (except to Secured Party or for maintenance and repair), (ii) remove any of the Collateral from the continental United States, or (iii) sell, rent, lease, mortgage, license, grant a security interest in or otherwise transfer or encumber (except for Permitted Liens) any of the Collateral.

(d) Debtor shall pay promptly when due all taxes, license fees, assessments and public and private charges levied or assessed on any of the Collateral, on its use, or on this Agreement or any of the other Debt Documents. Notwithstanding the foregoing, so long as there exists no default hereunder, Debtor may have up to thirty (30) days to contest the assessment of any taxes, license fee, assessment or public or private charge on or against the Collateral; provided the contest is made in good faith, is diligently pursued, and does not subject the Collateral to a material risk of confiscation, forfeiture or seizure. At its option, Secured Party may discharge taxes, liens, security interests or other encumbrances at any time levied or placed on the Collateral and may pay for the maintenance, insurance and preservation of the Collateral and effect compliance with the terms of this Agreement or any of the other Debt Documents. Debtor agrees to reimburse Secured Party, on demand, all costs and expenses incurred by Secured Party in

connection with such payment or performance and agrees that such reimbursement obligation shall constitute indebtedness.

(e) Debtor shall, at all times, keep accurate and complete records of the Collateral, and Secured Party shall have the right to inspect and make copies of all of Debtor's books and records relating to the Collateral during normal business hours, after giving Debtor reasonable prior notice.

(f) Debtor agrees and acknowledges that any third person who may at any time possess all or any portion of the Collateral shall be deemed to hold, and shall hold, the Collateral as the agent of, and as pledge holder for, Secured Party. Secured Party may at any time give notice to any third person described in the preceding sentence that such third person is holding the Collateral as the agent of, and as pledge holder for, the Secured Party.

4. INSURANCE.

(a) Debtor shall at all times bear the entire risk of any loss, theft, damage to, or destruction of, any of the Collateral from any cause whatsoever.

(b) Debtor agrees to keep the Collateral insured against loss or damage by fire and extended coverage perils, theft, burglary, and for any or all Collateral which are vehicles, for risk of loss by collision, and if requested by Secured Party, against such other risks as Secured Party may reasonably require. The insurance coverage shall be in an amount no less than the full replacement value of the Collateral, and deductible amounts, insurers and policies shall be acceptable to Secured Party. Debtor shall deliver to Secured Party policies or certificates of insurance evidencing such coverage. Each policy shall name Secured Party as a loss payee, shall provide for coverage to Secured Party regardless of the breach by Debtor of any warranty or representation made therein, shall not be subject to co-insurance, and shall provide that coverage may not be canceled or altered by the insurer except upon thirty (30) days prior written notice to Secured Party. Debtor appoints Secured Party as its attorney-in-fact to make proof of loss, claim for insurance and adjustments with insurers, and to receive payment of and execute or endorse all documents, checks or drafts in connection with insurance payments. Secured Party shall not act as Debtor's attorney-in-fact unless Debtor is in default. Proceeds of insurance shall be applied, at the option of Secured Party, to repair or replace the Collateral or to reduce any of the Indebtedness.

5. REPORTS.

(a) Debtor shall promptly notify Secured Party of (i) any change in the name of Debtor, (ii) any change in the state of its incorporation, organization or registration, (iii) any relocation of its chief executive offices, (iv) any relocation of any of the Collateral, (v) any of the Collateral being lost, stolen, missing, destroyed, materially damaged or worn out, or (vi) any lien, claim or encumbrance other than Permitted Liens attaching to or being made against any of the Collateral.

(b) Debtor will deliver to Secured Party Debtor's complete financial statements, certified by a recognized firm of certified public accountants, within ninety (90) days of the close of each fiscal year of Debtor. If Secured Party requests, Debtor will deliver to Secured Party copies of Debtor's quarterly financial reports, certified by Debtor's chief financial officer, within ninety (90) days after the close of each of Debtor's fiscal quarter. Debtor will deliver to Secured Party copies of all Forms 10-K and 10-Q, if any, within 30 days after the dates on which they are filed with the Securities and Exchange Commission.

6. FURTHER ASSURANCES.

(a) Debtor shall, upon request of Secured Party, furnish to Secured Party such further information, execute and deliver to Secured Party such documents and instruments (including, without limitation, Uniform Commercial Code financing statements) and shall do such other acts and things as Secured Party may at any time reasonably request relating to the perfection or protection of the security interest created by this Agreement or for the purpose of carrying out the intent of this Agreement. Without limiting the foregoing, Debtor shall cooperate and do all acts deemed necessary or advisable by Secured Party to continue in Secured Party a perfected first security interest in the Collateral, with the exception of liens in favor of GE Public Finance, Inc. related specifically to the Promissory Note and Collateral Schedule 001 dated September 24, 2004, and shall obtain and furnish to Secured Party any subordinations, releases, landlord waivers, lessor waivers, mortgagee waivers, or control agreements, and similar documents as may be from time to time requested by, and in form and substance satisfactory to, Secured Party.

(b) Debtor authorizes Secured Party to file a financing statement and amendments thereto describing the Collateral and containing any other information, required by the applicable Uniform Commercial Code. Debtor irrevocably grants to Secured Party the power to sign Debtor's name and generally to act on behalf of Debtor to execute and file applications for title, transfers of title, financing statements, notices of lien and other documents pertaining to any or all of the Collateral; this power is coupled with Secured Party's interest in the Collateral. Debtor shall, if any certificate of title be required or permitted by law for any of the Collateral, obtain and promptly deliver to Secured Party such certificate showing the lien of this Agreement with respect to the Collateral. Debtor ratifies its prior authorization for Secured Party to file financing statements and amendments thereto describing the Collateral and containing any other information required by the Uniform Commercial Code if filed prior to the date hereof.

(c) Debtor shall indemnify and defend the Secured Party, its successors and assigns, and their respective directors, officers and employees, from and against all claims, actions and suits (including, without limitation, related attorneys' fees) of any kind whatsoever arising, directly or indirectly, in connection with any of the Collateral.

7. DEFAULT AND REMEDIES.

(a) Debtor shall be in default under this Agreement and each of the other Debt Documents if:

(i) Debtor fails to pay within 10 days after its due date any installment or other amount due or coming due under any of the Debt Documents;

(ii) Debtor, without the prior written consent of Secured Party, attempts to or does sell, rent, lease, license, mortgage, grant a security interest in, or otherwise transfer or encumber (except for Permitted Liens) any of the Collateral;

(iii) Debtor breaches any of its insurance obligations under Section 4;

(iv) Debtor breaches any of its other obligations under any of the Debt Documents and fails to cure that breach within thirty (30) days after written notice from Secured Party;

(v) Any warranty, representation or statement made by Debtor in any of the Debt Documents or otherwise in connection with any of the Indebtedness shall be false or misleading in any material respect;

(vi) Any of the Collateral is subjected to attachment, execution, levy, seizure or confiscation in any legal proceeding or otherwise, or if any legal or administrative proceeding is commenced against Debtor or any of the Collateral, which in the good faith judgment of Secured Party subjects any of the Collateral to a material risk of attachment, execution, levy, seizure or confiscation and no bond is posted or protective order obtained to negate such risk;

(vii) Debtor breaches or is in default under any other agreement between Debtor and Secured Party;

(viii) Debtor or any guarantor or other obligor for any of the Indebtedness (collectively "Guarantor") dies or is declared incompetent (if an individual), or dissolved, terminates its existence, becomes insolvent or ceases to do business as a going concern;

(ix) A receiver is appointed for all or any part of the property of Debtor or any Guarantor, or Debtor or any Guarantor makes any assignment for the benefit of creditors;

(x) Debtor or any Guarantor files a petition under any bankruptcy, insolvency or similar law or any such petition is filed against Debtor or any Guarantor and is not dismissed within forty-five (45) days;

(xi) Debtor's improper filing of an amendment or termination statement relating to a filed financing statement describing the Collateral;

(xii) Any Guarantor revokes or attempts to revoke its guaranty of any of the indebtedness or fails to observe or perform any covenant, condition or agreement to be performed under any guaranty or other related document to which it is a party;

(xiii) Debtor is declared in default under any other material obligation for (A) borrowed money, (B) the deferred purchase price of property or (C) payments due under any lease agreement;

(xiv) There is any merger or consolidation of Debtor or any Guarantor without prior written consent of Secured Party, which shall not be unreasonably withheld.

(b) If Debtor is in default, the Secured Party, at its option, may declare any or all of the Indebtedness to be immediately due and payable, without demand or notice to Debtor or any Guarantor. The accelerated obligations and liabilities shall bear interest (both before and after any judgment) until paid in full at the lower of eighteen percent (18%) per annum or the maximum rate not prohibited by applicable law.

(c) After default, Secured Party shall have all of the rights and remedies of a Secured Party under the Uniform Commercial Code, and under any other applicable law. Without limiting the foregoing, Secured Party shall have the right to (i) notify any account debtor of Debtor or any obligor on any instrument which constitutes part of the Collateral to make payment to the Secured Party, (ii) with or without legal process, enter any premises where the Collateral may be and take possession of and remove the Collateral from the premises or store it on the premises, (iii) sell the Collateral at public or private sale, in whole or in part, and have the right to bid and purchase at said sale, or (iv) lease or otherwise dispose of all or part of the Collateral, applying proceeds from such disposition to the obligations then in default. If requested by Secured Party, Debtor shall promptly assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties. Secured Party may also render any or all of the Collateral unusable at the Debtor's premises and may dispose of such Collateral on such premises without liability for rent or costs. Any notice that Secured Party is required to give to Debtor under the Uniform Commercial Code of the time and place of any public sale or the time after which any private sale or other intended disposition of the Collateral is to be made shall be deemed to constitute reasonable notice if such notice is given to the last known address of Debtor at least five (5) days prior to such action.

(d) Proceeds from any sale or lease or other disposition shall be applied: first, to all costs of repossession, storage, and disposition including without limitation attorneys', appraisers', and auctioneers' fees; second, to discharge the obligations then in default; third, to discharge any other Indebtedness of Debtor to Secured Party, whether as obligor, endorser, guarantor, surety or indemnitor; fourth, to expenses incurred in paying or settling liens and claims against the Collateral; and lastly, to Debtor, if there exists any surplus. Debtor shall remain fully liable for any deficiency.

(e) Debtor agrees to pay all reasonable attorneys' fees and other costs incurred by Secured Party in connection with the enforcement, assertion, defense or

preservation of Secured Party's rights and remedies under this Agreement, or if prohibited by law, such lesser sum as may be permitted. Debtor further agrees that such fees and costs shall constitute Indebtedness.

(f) Secured Party's rights and remedies under this Agreement or otherwise arising are cumulative and may be exercised singularly or concurrently. Neither the failure nor any delay on the part of the Secured Party to exercise any right, power or privilege under this Agreement shall operate a waiver, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise of that or any other right, power or privilege. SECURED PARTY SHALL NOT BE DEEMED TO HAVE WAIVED ANY OF ITS RIGHTS UNDER THIS AGREEMENT OR UNDER ANY OTHER AGREEMENT, INSTRUMENT OR PAPER SIGNED BY DEBTOR UNLESS SUCH WAIVER IS EXPRESSED IN WRITING AND SIGNED BY SECURED PARTY. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

(g) DEBTOR AND SECURED PARTY UNCONDITIONALLY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, ANY OF THE OTHER DEBT DOCUMENTS, ANY OF THE INDEBTEDNESS SECURED HEREBY, ANY DEALINGS BETWEEN DEBTOR AND SECURED PARTY RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN DEBTOR AND SECURED PARTY, THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT. THIS WAIVER IS IRREVOCABLE. THIS WAIVER MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING. THE WAIVER ALSO SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, ANY OTHER DEBT DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS TRANSACTION OR ANY RELATED TRANSACTION. THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

8. MISCELLANEOUS.

(a) This Agreement, any Note and/or any of the other Debt Documents may be assigned, in whole or in part, by Secured Party without notice to Debtor, and Debtor agrees not to assert against any such assignee, or assignee's assigns, any defense, set-off, recoupment claim or counterclaim which Debtor has or may at any time have against Secured Party for any reason whatsoever. Debtor agrees that if Debtor receives written notice of an assignment from Secured Party, Debtor will pay all amounts payable under any assigned Debt Documents to such assignee or as instructed by Secured Party. Debtor also agrees to confirm in writing receipt of the notice of assignment as may be reasonably requested by Secured Party or assignee.

(b) All notices to be given in connection with this Agreement shall be in writing, shall be addressed to the parties at their respective addresses set forth in this Agreement (unless and until a different address may be specified in a written notice to the other party), and shall be deemed given (i) on the date of receipt if delivered in hand or by facsimile transmission, (ii) on the next business day after being sent by express mail, and (iii) on the fourth business day after being sent by regular, registered or certified mail. As used herein, the term “business day” shall mean and include any day other than Saturdays, Sundays, or other days on which commercial banks in New York, New York are required or authorized to be closed.

(c) Secured Party may correct patent errors and fill in all blanks in this Agreement or in any Collateral Schedule consistent with the agreement of the parties.

(d) Time is of the essence of this Agreement. This Agreement shall be binding, jointly and severally, upon all parties described as the “Debtor” and their respective heirs, executors, representatives, successors and assigns, and shall inure to the benefit of Secured Party, its successors and assigns.

(e) This Agreement and its Collateral Schedules constitute the entire agreement between the parties with respect to the subject matter of this Agreement and supersede all prior understandings (whether written, verbal or implied) with respect to such subject matter. **THIS AGREEMENT AND ITS COLLATERAL SCHEDULES SHALL NOT BE CHANGED OR TERMINATED ORALLY OR BY COURSE OF CONDUCT, BUT ONLY BY A WRITING SIGNED BY BOTH PARTIES.** Section headings contained in this Agreement have been included for convenience only and shall not affect the construction or interpretation of this Agreement.

(f) This Agreement shall continue in full force and effect until all of the Indebtedness has been indefeasibly paid in full to Secured Party or its assignee. The surrender, upon payment or otherwise, of any Note or any of the other documents evidencing any of the Indebtedness shall not affect the right of Secured Party to retain the Collateral for such other Indebtedness as may then exist or as it may be reasonably contemplated will exist in the future. This Agreement shall automatically be reinstated if Secured Party is ever required to return or restore the payment of all or any portion of the Indebtedness (all as though such payment had never been made).

(g) **THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CONNECTICUT (WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE), INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, REGARDLESS OF THE LOCATION OF THE COLLATERAL.**

IN WITNESS WHEREOF, Debtor and Secured Party, intending to be legally bound hereby, have duly executed this Agreement in one or more counterparts, each of which shall be deemed to be an original, as of the day and year first aforesaid.

SECURED PARTY:

General Electric Capital Corporation

By: /s/ Chris Jones

Name:Chris Jones

Title:Senior Risk Analyst

DEBTOR:

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name:Brian T. Cahill

Title:CFO

COLLATERAL SCHEDULE NO. 001

THIS COLLATERAL SCHEDULE NO. 001 is annexed to and made a part of that certain Master Security Agreement dated as of 9/29/05 between General Electric Capital Corporation, together with its successors and assigns, if any, as Secured Party and MGP Ingredients, Inc. as Debtor and describes collateral in which Debtor has granted Secured Party a security interest in connection with the Indebtedness (as defined in the Security Agreement) including without limitation that certain Promissory Note dated 9/29/05 in the original principal amount of \$7,000,000.00.

<u>Quantity</u>	<u>Manufacturer</u>	<u>Serial Number</u>	<u>Year/Model and Type of Equipment</u>
See Attached Exhibit A			

and including all additions, attachments, accessories and accessions thereto, and any and all substitutions, replacements or exchanges therefor, and all insurance and/or other proceeds thereof.

SECURED PARTY:

General Electric Capital Corporation

By: /s/ Chris Jones

Name:Chris Jones

Title:Senior Risk Analyst

Date: 9/29/05

DEBTOR:

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name:Brian T. Cahill

Title:CFO

Date: 9/28/05

Exhibit A

<u>Make</u>	<u>Model</u>	<u>S/N</u>	<u>Description</u>
Krauss Maffei	KM650/3500/C2IMC	61005733	2005 Injection Molding & Compounding Line 728 ton injection molding machine; 103 oz. Shot size, 1,000mm x 930mm tie bar spacing, 1,400mm x 1,440mm platen size, 1,750mm maximum daylight, 600mm minimum daylight; with Loss-in-Weight Colortonic hopper feed, and Krauss Maffei model MC4 1.7 CNC Control; Colortronic Gravblend Food processing blender, S/N 04K41-68-1110, with (8) stainless steel mixing canisters, tote bag mixer including 2-chain hoist, Mucon material release head, and 25' inclined auger screw conveyor
Wenger	TX80B	98380	1994 Wenger TX80B Extrusion Line Extruder with (7) zones, twin screw, 25:1 L/D ratio, 3 1:1 gear ratio, 80mm diameter screw, water cooling system, 300lb capacity food hopper, pneumatic transfer system; Stainless steel mixer, 40"X60", skid mounted, with Prater model 91-A Mixer, S/N 395320; MAC 200 cubic foot stainless steel hopper with (8) AccuRate measurement feeders, two (2) Wenger 100-gallon liquid blending stainless steel tanks, each with Lightnin' mixer/aerator; (2) Wenger 50 gallon stainless steel tanks, each with Brawn ½ hp agitator; 150 gallon liquid blending stainless steel tank with Lightnin' aerator; (2) Wenger 500 gallon liquid blending stainless steel tanks, each with Lightnin' aerator; computer process control

Wenger	TX85	97670	<p>1993 Wenger TX85 Extrusion Line</p> <p>100 hp extruder with (5) zones, twin screw, 25:1 T/D ratio, 3.1:1 gear ratio, 85mm diameter of screw with vented barrel, water cooling system, 300 lb capacity Wenger feed hopper, and Wenger APM controls; 10"X15' power belt conveyor, Extrusion Services embosser with 60" pneumatic embossing head, 10" power belt conveyor and enclosure; Extrusion Services 10" cutter; Hauser model linear drive HPLA 180 robotic gantry lifter with Allen Bradley model PanelView Plus 1500 push button control and 40'X10" power belt conveyor, Bryant model 52504 24" plastic belt transfer conveyor and 24" stainless steel vibratory table; Meyer model PA-452-18-S 100' bucket elevator, S/N 5204, with Safeline metal detector; 12' stainless steel spiral conveyor; Bartlet model IM/S-9-14 pouch line, S/N 3607 with dual pouch infeed, 3.5" X 20' plastic power belt conveyor, Safeline metal detector, (2) Mettler Toledo model micromate high speed scales, and 12"X6' plastic belt type outfeed conveyor, Ishada model CCW-M-216B-D/30-PB overhead checkweigher with overhead conveyor, ink jet printer, 14-position multi-head checkweigher, and Safeline metal detector; Delta Systems flow wrapper with 3" chain conveyor, heat shrink tunnel, infeed conveyor, and Delta Systems soft flow digital display</p>
Wenger	TX144A	10205	<p>1997 Wenger TX144A Extrusion Line</p> <p>300 hp extruder with (4) zones, twin screw, 19.51 L/D ratio, 3 107:1 gear ratio, 144mm diameter of screw, water cooling system, 800 lb capacity feed hipper, Wenger APM control; Flotronics stainless steel feed hopper with AccuRate measurement feeders; Wenger 40"X60" stainless steel mixer, skid mounted, MAC stainless steel feed hopper, (3) Wenger 150 gallon stainless steel liquid blending tanks, each with agitator; T & C Machine 200-gallon liquid blending stainless steel tank, S/N TCFP990123 with agitator; Wenger 2-pass stainless steel dryer/cooler, 132" width, with overhead blowers; 200 cubic foot stainless steel hopper' 14-head checkweigher; Bemis Packaging Machinery model 7115XC packaging machine, S/N 7115XC28-F with 36"X12' bag magazine belt type conveyor, vacuum bag lift attachment, Bemis model 3313887 bag sealer, S/N 3313887, Marsh ink jet printer, Safeline metal detection system, belt conveyor, Mettler Toledo model Panther Plus 60-lb bag weigher, 48"X5'; Bemis model 3033A46 belt type transfer conveyor, Bemis model 3028 bag flattener, S/N 3028A104, and power belt type outfeed conveyor</p>

All of Debtor's equipment whether now owned and/or hereafter acquired that is at any time located at the facility commonly known as 16 Kansas Avenue, Wyandotte County, Kansas and as more specifically described on the Schedule A attached hereto and incorporated herein, and including all additions, attachments, accessories and accessions thereto, and any and all substitutions, replacements or exchanges therefore, and all insurance and/or other proceeds thereof by and between Debtor and Secured Party whether now owned or hereafter acquired.

CROSS-COLLATERAL AND CROSS-DEFAULT AGREEMENT

General Electric Capital Corporation &
GE Capital Public Finance, Inc.
16479 Dallas Parkway #300
Addison, TX 75001-2512

Gentlemen:

You, General Electric Capital Corporation and GE Capital Public Finance, Inc. (and/or each of your successors or assigns, hereinafter referred to individually and collectively as, "you") have entered into or purchased one or more conditional sale contracts, lease agreements, chattel mortgages, security agreements, notes and other choses in action (herein designated "Accounts") arising from the bona fide sale or lease to us, by various vendors or lessors, of equipment and inventory (herein designated "Collateral") and/or you have made direct loans to or otherwise extended credit to us evidenced by Accounts creating security interests in Collateral.

In order to induce you to extend our time of payment on one or more Accounts and/or to make additional loans to us and/or to purchase additional Accounts and/or to lease us additional equipment, and in consideration of your so doing, and for other good and valuable consideration, the receipt of which we hereby acknowledge, we agree as follows:

All presently existing and hereafter acquired Collateral in which you have or shall have a security interest shall secure the payment and performance of all of our liabilities and obligations to you of every kind and character, whether joint or several, direct or indirect, absolute or contingent, due or to become due, and whether under presently existing or hereafter created Accounts or agreements, or otherwise.

We further agree that your security interest in the property covered by any Account now held or hereafter acquired by you shall not be terminated in whole or in part until and unless all indebtedness of every kind, due or to become due, owed by us to you is fully paid and satisfied and the terms of every Account have been fully performed by us. It is further agreed that you are to retain your security interest in all property covered by all Accounts held or acquired by you, as security for payment and performance under each such Account, notwithstanding the fact that one or more of such Accounts may become fully paid.

This instrument is intended to create cross-default and cross-security between and among all the within described Accounts now owned or hereafter acquired by you.

A default under any Account or agreement shall be deemed to be a default under all other Accounts and agreements. A default shall result if we fail to pay any sum when due on any Account or agreement, or if we breach any of the other terms and conditions thereof, or if we become insolvent, cease to do business as a going concern, make an assignment for the benefit of creditors, or if a petition for a receiver or in bankruptcy is filed by or against us, or if any of our property is seized, attached or levied upon. Upon

our default any or all Accounts and agreements shall, at your option, become immediately due and payable without notice or demand to us or any other party obligated thereon, and you shall have and may exercise any and all rights and remedies of a secured party under the Uniform Commercial Code as enacted in the applicable jurisdiction and as otherwise granted to you under any Account or other agreement. We hereby waive, to the maximum extent permitted by law, notices of default, notices of repossession and sale or other disposition of collateral, and all other notices, and in the event any such notice cannot be waived, we agree that if such notice is mailed to us postage prepaid at the address shown below at least five (5) days prior to the exercise by you of any of your rights or remedies, such notice shall be deemed to be reasonable and shall fully satisfy any requirement for giving notice.

All rights granted to you hereunder shall be cumulative and not alternative, shall be in addition to and shall in no manner impair or affect your rights and remedies under any existing Account, agreement, statute or rule of law.

This agreement may not be varied or altered nor its provisions waived except by your duly executed written agreement. This agreement shall inure to the benefit of your successors and assigns and shall be binding upon our heirs, administrators, executors, legal representatives, successors and assigns.

IN WITNESS WHEREOF , this agreement is executed this 29th day of September, 2005.

MGP Ingredients, Inc.

(Name of Proprietorship, Partnership or Corporation, as applicable)

By: /s/ Brian T. Cahill

(Signature)

Title: CFO

(Owner, Partner or Officer, as applicable)

Address: 1300 Main Street
Atchison, KS 66002

**Guidelines for Issuance of Fiscal 2006 Restricted Share Awards
Adopted by the Human Resources Committee of the Board of Directors
of MGP Ingredients, Inc.**

RECITALS:

1. MGP INGREDIENTS, INC. has adopted the Stock Incentive Plan of 2004 (the "Plan").
2. Under the provisions of Section 5 of the Plan, the Committee may grant Stock Incentives in the form of Stock Awards.
3. Under the provisions of the Plan, the Committee may provide for Stock Awards in the form of restricted shares (herein "Restricted Shares") to such eligible persons as may be selected by the Committee in its discretion.

Pursuant to the authority granted to it under the provisions of Section 13(c) of the Plan, the Committee adopts the following guidelines with respect to the issuance in 2005 of Stock Awards in the form of Restricted Shares.

A. **Terms of Awards of Restricted Shares.** Restricted Shares awarded under the Plan in 2005 are subject to the following terms and conditions.

(i) **Number of Shares.** The number of shares issued to a Participant pursuant to a Stock Award in the form of Restricted Shares shall be as determined by the Committee.

(ii) **Vesting.** Subject to the provisions of paragraphs C and D of these Guidelines, Restricted Shares issued as Stock Awards under the Plans shall vest (i.e., become owned by the Participant without a substantial risk of forfeiture) only upon either (a) the Participant's completion of seven (7) full years of employment with the Company, commencing on July 1, 2005 and ending on June 30, 2012, or (b) (1) the Participant's completion of three (3) full years of employment, commencing on July 1, 2005 and ending on June 30, 2008 and (2) the satisfaction by the Company of a Performance Measure, as specified below, established by the Committee (the "Restriction Period").

(c) **Performance Measure.** The Performance Measure shall be earnings per share on a cumulative basis over the period beginning on July 1, 2005 and ending on June 30, 2008 in the amount established by the Committee on or prior to the date of the 2005 Stock Awards. The Company's earnings per share shall be determined by the independent accounting firm regularly engaged by the Company and, except as follows, shall be determined in accordance with generally accepted accounting principles. The Committee may

determine whether the calculation of earnings per share should include or exclude any unusual or non-recurring item or be adjusted to reflect any unusual or non-recurring event, such as an acquisition, divestiture, change in accounting principles or tax regulations. Without limiting the foregoing, in the event of a sale by the Company of shares of its stock, a recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation, rights offering, reorganization or liquidation, or any other change in the corporate structure or shares of the Company, the Committee may make such equitable adjustments, designed to protect against dilution or enlargement, as it may deem appropriate with respect to the Performance Measure.

B. **Forfeiture.** Except as provided in paragraph C, if the employment of the Participant to whom Restricted Shares has been issued terminates for any reason prior to the end of the Restriction Period, such Restricted Shares shall be immediately forfeited by such Participant and cancelled by the Company.

C. **Further Conditions on Vesting and Forfeiture.**

(i) In the event of a Participant's death, Disability, Retirement or, in the sole discretion of the Committee, involuntary termination of employment without cause, in any such case after one year from the date of grant specified in the agreement evidencing the Stock Award but prior to June 30, 2008, the Restricted Shares issued to such Participant shall vest, on the date the Committee determines that the Performance Measure has been met, as to the number of Restricted Shares issued to such Participant multiplied by a fraction, the numerator of which shall equal the number of months (including fractional months as full months) that such Participant was employed by the Company, commencing as of July 1, 2005 and ending on the date of termination of employment, and the denominator of which shall be thirty-six. The balance of Restricted Shares issued to such Participant shall be forfeited by the Participant and cancelled by the Company. Pending determination by the Committee that the Performance Measure has been met, the provisions of paragraph E below shall continue to apply.

(ii) If the Performance Measure is not attained, then, in the event of a Participant's death, Disability, Retirement or, in the sole discretion of the Committee, involuntary termination of employment without cause, in any such case after three years from the date of grant specified in the agreement evidencing the Stock Award but prior to June 30, 2012, the Restricted Shares issued to such Participant shall vest on the date of termination as to the number of Restricted Shares issued to such Participant multiplied by a fraction, the numerator of which shall equal the number of months of employment (including fractional months as full months) that such Participant was employed by the Company, commencing as of July 1, 2005 and ending on the date of termination of employment, and the denominator of which shall be eighty-four. The balance of Restricted Shares issued to such Participant shall be forfeited by the Participant and cancelled by the Company.

(iii) Any Restricted Shares shall become fully vested in the Participant in the event of a Change of Control, as defined in the Plan.

(iv) As used herein, the term “Disability” shall mean the inability of a Participant to perform substantially such Participant’s duties and responsibilities due to a physical or mental condition that would entitle such Participant to benefits under the Company’s Long-Term Disability Plan (or any successor to the plan in effect on the date of adoption of these Guidelines) or, if no such plan is in effect, such condition as would enable the Participant to receive an award for permanent and total disability from the Social Security Administration, and the term “Retirement” means the attainment by the Participant of age 62.

(v) The Committee’s determinations to permit vesting in the event of involuntary terminations of employment without cause need not be uniform and may be made selectively among participants, whether or not such participants are similarly situated.

D. Issuance of Restricted Shares. A certificate or certificates representing the number of shares awarded as a Stock Award in the form of Restricted Shares shall be issued from the Company’s treasury shares and registered in the Participant’s name and may bear substantially the following legend:

“The shares evidenced by this Certificate have been issued pursuant to the MGP Ingredients, Inc. Stock Incentive Plan of 2004 and a related agreement (the “Agreement”) between the Company and the registered holder. The holder’s rights are subject to the restrictions, terms and conditions of the Plan and to the Agreement, which restricts the transfer of the shares and subjects them to forfeiture to the Company under the circumstances referred to in the Agreement. This legend may be removed when the holder’s rights to the shares vest under the Agreement.”

All certificates so registered in the Participant’s name shall be deposited with the Company, together with stock powers or other instruments of assignment, each endorsed in blank with a guarantee of signature deemed appropriate by the Company which would permit transfer to the Company of all or a portion of the Restricted Shares in the event such award is forfeited in whole or in part. Upon vesting and provision for taxes required to be withheld, such certificate or certificates evidencing unrestricted ownership of the requisite number of shares of Common Stock shall be delivered to the holder of such Stock Award.

E. Rights with Respect to Restricted Shares. The holder of an award of Restricted Shares shall have the following rights of a stockholder of the Company: voting rights and the right to receive dividends during any applicable Restriction Period.

F. Non-Assignability. Except as may be permitted by the Plan, until they have vested, Restricted Shares may not, by operation of law or otherwise, be sold,

assigned, transferred, pledged, hypothecated or otherwise disposed of by the holder thereof or be subject to execution, attachment or other legal process.

G. **Provisions of Plan Apply.** Even though not set forth herein or in any related grant agreement, the provisions of the Plan applicable to Stock Awards, including those relating to adjustment of Stock Awards, shall apply to Restricted Shares.

H. **Taxes.** No certificates evidencing ownership of shares shall be delivered to the holder of a Stock Award upon vesting until the holder makes such provision as the Company deems appropriate for the payment of any taxes which the Company may withhold in connection with the vesting of such Stock Award. Withholding taxes resulting from vesting of Stock Awards may be settled with cash or shares of the Company's Common Stock in accordance with the following guidelines.

(i) Holders may deliver to the Company a personal check satisfactory to the Company in the amount of the tax liability.

(ii) Holders may elect to pay the tax liability in shares of the Company's Common Stock by directing the Company to withhold from the number of shares to be delivered upon vesting that number of shares equal to the amount of the tax liability divided by the fair market value (as defined by the Plan) of one share of the Company's common stock on the date the tax to be withheld is to be determined (the "Tax Date"); or

(iii) Holders may elect to pay the tax liability in shares of the Company's Common Stock by delivering to the Company good and marketable title to that number of shares of Mature Stock (as defined in the Plan) owned by the holder as shall equal the amount of the tax liability divided by the fair market value of one share of the Company's common stock on the Tax Date.

(iv) If a holder does not notify the Company on or before the Tax Date as to the manner the holder wishes to provide for withholding taxes, the Company may, without notice to the holder, satisfy its withholding obligations as provided in clause (ii) above or any other manner permitted by law.

(v) No fractional shares will be issued in connection with any election to satisfy a tax liability by paying in shares. The balance of any tax liability representing a fraction of a share will be settled in cash by the Participant.

(vi) The amount of tax which may be paid pursuant to a stock payment election under clause (ii), (iii) or (iv) above will be the Company's minimum required federal (including FICA and FUTA) and state withholding amounts at the time of the election to pay the taxes with surrendered or withheld shares.

(vii) The foregoing provisions relating to the use of stock to satisfy obligations may be unilaterally revised by the Committee from time to time to conform the same to any applicable laws or regulations

The undersigned Secretary of MGP Ingredients Inc. does hereby certify that the foregoing Guidelines were adopted by the Human Resources Committee of the Board of Directors of the Company on August 30, 2005.

/s/ Marta Myers

Marta Myers, Secretary

MGP INGREDIENTS, INC.
AGREEMENT AS TO AWARD OF RESTRICTED SHARES
GRANTED UNDER THE STOCK INCENTIVE PLAN OF 2004

Date of Grant: August 30, 2005
Time of Grant: 10:15 a.m. CST

29,600 Restricted Shares

In accordance with and subject to the terms and restrictions set forth in the MGP Ingredients, Inc. Stock Incentive Plan of 2004 (the "2004 Plan") and this Agreement, MGP INGREDIENTS, INC., a Kansas corporation (the "Company"), hereby grants to the Participant named below the number of Restricted Shares of Common Stock of the Company as set forth below:

Participant: **Laidacker M. Seaberg**
Number of Restricted Shares under the 2004 Plan: **29,600**

NOW, THEREFORE, the Company and the Participant hereby agree to the following terms and conditions:

1. Issuance of Restricted Shares. The shares described above are being issued by the Company to the Participant as Restricted Shares pursuant to the terms and provisions of the 2004 Plan and of the Guidelines for Issuance of Fiscal 2006 Restricted Share Awards (the "Guidelines") adopted by the Human Resources Committee of the Board of Directors of the Company, true copies of which are attached hereto as Exhibits A and B and incorporated herein by reference. Upon the execution of this Agreement, the Company shall issue in the Participant's name the aggregate number of Restricted Shares described above, subject to the provisions of the Guidelines requiring that such certificate or certificates be held in the custody of the Company.
 2. Vesting in Restricted Shares. Subject to the provisions of the Guidelines, Restricted Shares shall vest in the Participant upon the Participant's completion of seven (7) full years of employment with the Company commencing on July 1, 2005. However, in the event that the Performance Measure is achieved, the Restricted Shares shall vest in the Participant upon completion of three (3) full years of employment commencing on July 1, 2005. The Performance Measure means that the Company has achieved earnings per share on a cumulative basis for the period beginning on July 1, 2005 and ending on June 30, 2008 of \$1.73 per share. The Performance Measure is subject to adjustment, as provided in the Guidelines, and the inclusion or exclusion of unusual or non-recurring items is subject to the discretion of the Compensation Committee, as provided in the Guidelines. Except as provided in the Guidelines, the Restricted Shares issued to the Participant shall be forfeited to the Company if the Participant's employment
-

with the Company is terminated prior to the end of the applicable Restriction Period.

3. Restriction on Transfer. The Participant shall not voluntarily sell, exchange, transfer, pledge, hypothecate, or otherwise dispose of any Restricted Shares to any other person or entity during the applicable Restriction Period. Any disposition or purported disposition made in violation of this paragraph shall be null and void, and the Company shall not recognize or give effect to such disposition on its books and records.

4. Legend on Certificates. In order that all potential transferees and others shall be put on notice of this Agreement and so long as the risk of forfeiture exists under the Plan and Guidelines, each certificate evidencing ownership of the Restricted Shares issued pursuant to the Plan (and any replacements thereto) shall bear a legend in substantially the following form:

“The shares evidenced by this Certificate have been issued pursuant to the MGP Ingredients, Inc. Stock Incentive Plan of 2004 and a related agreement (the “Agreement”) between the Company and the registered holder. The holder’s rights are subject to the restrictions, terms and conditions of the Plan and to the Agreement, which restricts the transfer of the shares and subjects them to forfeiture to the Company under the circumstances referred to in the Agreement. This legend may be removed when the holder’s rights to the shares vest under the Agreement.”

5. Controlling Provisions. The provisions of the Guidelines shall apply to the award made under this Agreement. In the event of a conflict between the provisions of this Agreement and the Guidelines, the provisions of the Guidelines will control.

IN WITNESS WHEREOF, this Instrument has been executed as of this 20th day of September, 2005.

MGP INGREDIENTS, INC.

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

ACKNOWLEDGEMENT

I understand and agree that the Restricted Shares to be acquired by me are subject to the terms, provisions and conditions hereof and of the Plan and Guidelines, to all of which I

hereby expressly assent. This Agreement shall be binding upon and inure to the benefit of the Company, myself, and our respective successors and legal representatives.

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and may not be modified, amended, renewed or terminated, nor may any term, condition or breach of any term or condition be waived, except in writing signed by the parties sought to be bound thereby. Any waiver of any term, condition or breach shall not be a waiver of any term or condition of the same term or condition for the future or any subsequent breach. In the event of the invalidity of any part or provision of this Agreement, such invalidity shall not affect the enforceability of any other part or provision of this Agreement.

Signed this 20th day of September, 2005.

/s/ Ladd Seaberg

Signature of Participant

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 October 31, 2005, included with the Quarterly Report on Form 10-Q for the quarter ended September 30, 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
October 31, 2005

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: November 9, 2005

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

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: November 9, 2005

/s/ Brian T. Cahill

Brian T. Cahill

Vice President and Treasurer and Principal Financial and
Accounting Officer

**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: November 9, 2005

/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.]

**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: November 9, 2005

/s/ Brian T. Cahill

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.]
