

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2003

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 000-17196

MGP Ingredients, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Kansas

48-0531200

(State or Other Jurisdiction
of Incorporation or Organization)

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

1300 Main Street, Box 130, Atchison, Kansas

66002

(Address of Principal Executive Offices)

(Zip Code)
(913) 367-1480

Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
NONE

Name of Each Exchange on Which Registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to their Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on December 31, 2002, was \$47,529,348

The number of shares of the registrant's common stock outstanding as of September 1, 2003 was 7,657,044.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

- (1) Portions of the MGP Ingredients, Inc. 2003 Annual Report to Stockholders, pages 13 through 36 thereof, are incorporated by reference into Part II and contained in Exhibit 13.
- (2) Portions of the MGP Ingredients, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on October 9, 2003 are incorporated by reference into Part III of this report to the extent set forth herein.

CONTENTS

PART I

Item 1.	Business	3
	General Information	3
	Ingredients	5
	Distillery Products	9
	Transportation	11
	Raw Materials	11

	Energy	12
	Employees	13
	Regulation	13
Item 2.	Properties	14
Item 3.	Legal Proceedings	14
Item 4.	Submission of Matters to a Vote of Security Holders	15
Item 4A.	Executive Officers of the Registrant	16

PART II

Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters	18
Item 6.	Selected Financial Data	18
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	18
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk	18
Item 8.	Financial Statements and Supplementary Data	18
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	19
Item 9A.	Controls and Procedures	19

PART III

Item 10.	Directors of the Registrant	20
Item 11.	Executive Compensation	20
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	20
Item 13.	Certain Relationships and Related Transactions	20
Item 14.	Principal Accountant Fees and Services	20

PART IV

Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	21
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SIGNATURES

FINANCIAL STATEMENT SCHEDULES	25
Report of Independent Public Accountants on Schedules	S-1
Schedule VIII. Valuation and Qualifying Accounts	S-2
	S-3

The calculation of the aggregate market value of the Common Stock of the Company held by non-affiliates is based on the assumption that non-affiliates do not include directors. Such assumption does not constitute an admission by the Company or any director that any director is an affiliate of the Company.

FORWARD LOOKING STATEMENTS

This report, including the portions of the Annual Report incorporated herein by reference, contains forward-looking statements as well as historical information. Forward-looking statements are usually identified by or are associated with such words such as "intend," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "could" and similar expressions. 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. The forward-looking statements are based on many assumptions and factors, including those relating to grain prices, gasoline prices, energy costs, product pricing, competitive environment and related market conditions, operating efficiencies, access to capital and actions of governments and insurers. Any changes in the assumptions or factors could produce materially different results than those predicted and could impact stock values.

PART I

Item 1. Business.

General Information

MGP Ingredients, Inc. (the "Company") is a Kansas corporation headquartered in Atchison, Kansas. It was incorporated in 1957 and is the successor to a business founded in 1941 by Cloud L. Cray, Sr. On August 27, 2002, the holders of the Company's preferred stock approved an amendment to the Company's Amended and Restated Articles of Incorporation which changed the Company's name from Midwest Grain Products, Inc. to MGP Ingredients, Inc., effective as of October 10, 2002.

The Company is a fully integrated producer of ingredients and distillery products and has two reportable segments, ingredients and distillery products. Ingredients consist of specialty ingredients, consisting primarily of specialty wheat starches and proteins, commodity ingredients, including commodity wheat starches and vital wheat gluten, 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 Company processes its products at plants located in Atchison, Kansas and Pekin, Illinois. The Company also operates a facility in Kansas City, Kansas for the further processing and extrusion of wheat proteins and starches. The Company purchases wheat directly from local and regional farms and grain elevators and mills it into flour and mill feeds. The flour is processed with water to extract vital wheat gluten, a portion of which is further processed into specialty wheat proteins. Vital wheat gluten and most wheat protein products are dried into powder and sold in packaged or bulk form. The starch slurry which results after the extraction of the gluten and wheat proteins is further processed to extract premium wheat starch, which is also dried into powder and sold in packaged or bulk form, either as commodity wheat starch or, after further processing, as specialty wheat starch. The remaining slurry is mixed with mill feeds, corn and/or milo and water and then cooked, fermented and distilled into alcohol. The residue of the distilling operations is dried and sold as a high protein additive for animal feed. Carbon dioxide which is produced during the fermentation process is trapped and sold. Mill feeds not used in the distilling operations are sold to feed manufacturers.

On September 13, 2002, an explosion at the Company's Atchison plant caused significant damage to the Company's distillery operations at that location. There were no life-threatening injuries; however, damage to the distillery was major and affected operations throughout fiscal 2003. Historically, the Atchison distillery has produced approximately one third of the Company's total alcohol output, accounting for approximately 19% of its total fuel grade alcohol production and approximately 67% of its total food grade alcohol production during the fiscal year ended June 30, 2002. Since the date of the explosion, the Company has been unable to produce finished alcohol at its Atchison plant. The Company has been able to produce unfinished alcohol since December 2002, most of which has been shipped to the Pekin, Illinois facility for further processing. The Company is proceeding with plans to resume full alcohol production in Atchison and the total distillery rebuilding process is expected to take until November or December of 2003 to complete. The Company generally has been able to meet the needs of its regular customers with its production facilities at the Pekin, Illinois facility, supplemented with purchases from third party suppliers; however, the Company's ability to supply spot business over this period has been substantially reduced. Because its ingredient and alcohol production processes are integrated, the distillery slowdown in Atchison has also affected the Company's ability to produce the base proteins and starches, which are used in the production of specialty ingredients at this location. For a time, the Company altered its operations to use its Illinois facility to produce base proteins and starches that were then shipped to the Atchison facility as raw material for producing specialty ingredients. As a result, while production costs increased, the Company was able to limit the effects of the distillery explosion on its ability to supply specialty products to customers. The adverse impact of the distillery slowdown on the Company's operations has been substantially reduced by business interruption insurance.

Note 14 of the Company's Notes to Consolidated Financial Statements, which is incorporated herein by reference, includes information about sales, depreciation, income before income taxes and identifiable assets for the last three fiscal years by reportable segment. The following table shows the Company's sales from continuing operations by each class of similar products during the past five fiscal years ended June 30, 2003, as well as such sales as a percent of total sales.

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Ingredients:										
Specialty Ingredients	\$ 41,735	21.7	\$ 37,396	17.4	\$ 32,918	14.4	\$ 31,615	13.6	\$ 28,445	13.2
Commodity Ingredients	14,698	7.6	27,478	12.8	44,751	19.5	68,483	29.6	54,881	25.3
Mill Feed and Other										
Mill Products	<u>782</u>	0.4	<u>1,358</u>	0.7	<u>2,034</u>	0.9	<u>2,759</u>	1.2	<u>3,046</u>	1.4
Total Ingredients	57,215	29.7	66,232	30.9	79,703	34.8	102,857	44.4	86,372	39.9
Distillery Products:										
Food Grade Alcohol	35,885	18.7	34,402	16.0	42,320	18.4	43,864	18.9	49,649	23.0
Fuel Grade Alcohol	74,615	38.8	86,385	40.3	83,686	36.5	62,066	26.7	54,639	25.3
Distillery By-products	<u>24,657</u>	<u>12.8</u>	<u>27,509</u>	<u>12.8</u>	<u>23,532</u>	<u>10.1</u>	<u>23,093</u>	<u>10.0</u>	<u>25,441</u>	<u>11.8</u>
Total Distillery										
Products	<u>135,157</u>	<u>70.3</u>	<u>148,296</u>	<u>69.1</u>	<u>149,538</u>	<u>65.2</u>	<u>129,023</u>	<u>55.6</u>	<u>129,729</u>	<u>60.1</u>
Net Sales	<u>\$192,372</u>	<u>100.0</u>	<u>\$214,528</u>	<u>100.0</u>	<u>\$229,241</u>	<u>100.0</u>	<u>\$231,880</u>	<u>100.0</u>	<u>\$216,101</u>	<u>100.0</u>

The Company's results for fiscal 2003 declined from the prior fiscal year. Net income was \$5.2 million compared to \$6.3 million in fiscal 2002. The decline was due primarily to higher grain and energy costs. The effects of the distillery explosion at the Atchison facility in September 2002 also contributed to the reduction in earnings.

Approximately 99% of the Company's ingredient sales and 100% of its distillery sales are made directly or through distributors to manufacturers and processors of finished goods. Sales to customers are usually evidenced by short-term agreements that are cancelable within 30 days and under which products are usually ordered, produced, sold and shipped within 60 days. However, depending on market conditions, varying amounts of the Company's fuel alcohol are sold under longer term contracts, primarily to cover the needs of gasoline refiners during September through April of each year. During fiscal 2003, two fuel alcohol customers, BP Products North America, Inc. and Martin Oil Marketing, Ltd., accounted for approximately 41% of the Company's distillery sales and 29% of the Company's consolidated revenues.

Historically, the Company's sales have not been seasonal except for variations affecting alcohol and vital wheat gluten sales. Fuel alcohol sales usually increase during the period August through March due to requirements of the Clean Air Act which inhibit the sale of ethanol in certain areas of the country during May 1 through September 15 each year. Certain environmental regulations also favor greater use of ethanol during the winter months of the year. See "Distillery Products — Fuel Grade Alcohol." Food grade alcohol sales tend to peak in the fall as beverage alcohol distributors order stocks for the holiday season. In prior years, vital wheat gluten sales have tended to increase to a minor extent during the second half of the fiscal year as demand increases for hot dog and hamburger buns and similar bakery products; however, this was not the case in fiscal 2003 because of the Company's decision to reduce production of vital wheat gluten. See "Ingredients — Commodity Ingredients — Vital Wheat Gluten."

The Company's strategy in recent years has been to focus on the marketing and development of specialty wheat protein and starch products for use in unique market niches. As a result of the expiration of the import quota on foreign wheat gluten, the Company has intensified its efforts to focus on developing markets for its specialty wheat proteins and starch products. As described herein, during fiscal 2002 the Company received approximately \$17.3 million under a new government program designed to assist manufacturers of wheat gluten in their transition

from the historical vital wheat gluten business to new markets and received an additional \$8.3 million in fiscal 2003. See "Ingredients — Commodity Ingredients — Vital Wheat Gluten." These funds were used for research, marketing, promotional and capital costs related to specialty wheat protein and starch products to help accelerate the Company's growth in these markets.

For further information, see the "Consolidated Financial Statements" of the Company and "Management's Discussion and Analysis of the Company's Financial Condition

Ingredients

Ingredients consist primarily of specialty wheat starches and proteins, commodity starches and proteins, consisting of commodity wheat starches and vital wheat gluten, and mill feed.

During fiscal 2003, sales of ingredients declined by 14% from the prior year due to a planned reduction in sales of commodity wheat starch and vital wheat gluten. The Company elected to reduce production of vital wheat gluten due to pricing pressures from subsidized European Union producers. As noted above, the Company’s overall strategy is to focus on the development and marketing of specialty wheat protein and starch products for use in unique market niches, and such products are accounting for an increasing share of the Company’s total ingredient sales. During fiscal 2003, specialty ingredient sales increased by nearly 12%, to approximately 73% of total ingredient sales. That share is expected to continue to increase due to two factors: (i) increased capacity to produce these products and increased marketing efforts, resulting in greater customer recognition and the ability to meet anticipated rising demand, and (ii) continuing decline in vital wheat gluten sales resulting from an increase in supplies and pricing pressures from European Union producers.

Specialty Ingredients

Specialty Wheat Proteins. In recent years, the Company began the development of a number of specialty wheat proteins for food and non-food applications. Specialty wheat proteins are derived from vital wheat gluten through a variety of proprietary processes which change the molecular structure of vital wheat gluten. Food application wheat proteins include gliadin, glutenin, products in the Wheatex®, FP™ and Arise® series and Pasta Power™. Non-food applications include wheat proteins designed for use primarily in cosmetics and personal care products and biodegradable wheat protein that can be molded to form a variety of biodegradable plastic-like objects. The Company’s specialty wheat proteins generally compete with other ingredients and modified proteins having similar characteristics, primarily soy proteins and other wheat proteins, with competition being based on factors such as functionality, price and, in the case of food applications, flavor. Although a number of the specialty wheat proteins have been launched, additional products are in the test marketing or development stage.

Food Applications

- **Gliadin and Glutenin** are the two principal molecules that make up vital wheat gluten. The Company’s patented process enables the separation of glutenin and gliadin for a variety of end uses without the use of alcohol, which has been the traditional method of separating the two. Glutenin, a large molecule responsible for the elastic character of vital wheat gluten, increases the strength of bread dough, improves the freeze-thaw characteristics of frozen dough and may be used as a functional protein source in beef jerky-type products, as well as in meat extension. Gliadin, the smaller of the two molecules, is soluble in water and other liquids, including alcohol, and is responsible for the viscous properties of wheat gluten. Those characteristics make it ideal to improve the texture of noodles and pastas. Gliadin is also used in a number of cosmetics and personal care products as described below under “Non-Food Applications.”
- **Wheatex® Series** consists of texturized wheat proteins made from vital wheat gluten by changing it into a pliable substance through special processing. The resulting solid food product can be further enhanced with flavoring and coloring and reconstituted with water. Texturized wheat proteins are used for meat, poultry and fish substitutes, extenders and binders. Wheatex® mimics the textural characteristics and appearance of meat, fish and poultry products. It is available in a variety of sizes and colors and can be easily formed into patties, links or virtually any other shape the customer

requires. Because of its neutral taste, Wheatex® will not alter flavors that are added to the product. It also has excellent water-binding capacities for the retention of natural meat juices. Wheatex® is presently being sold for applications in vegetarian and extended meat products.

- **FP™ Series.** The FP™ series of products consists of specialty wheat proteins, each tailored for use in a variety of food applications. These include proteins that can be used to form barriers to fat and moisture penetration to enhance the crispness and improve batter adhesion in fried products, effectively bond other ingredients in vegetarian patties and extended meat products and fortify nutritional drinks.
- **Arise® Series.** The Arise® series of products consists of specialty wheat proteins that increase the freshness and shelf life of frozen, refrigerated and fresh dough products after they are baked.
- **Pasta Power™** is a specialty wheat protein that is a cost-effective replacement for whole eggs and egg whites and enhances the strength, texture, quality and functionality of fresh, frozen and flavored pasta products. The added strength enables the canning of pasta and its treatment with spices without significant deterioration of the noodle or other pasta product, as in the case of canned spaghetti and similar products.
- **Cosmetics and Personal Care Products.** Specialty wheat proteins include proteins that have been hydrolyzed or otherwise altered to become soluble in water and other liquids. This enables their use in food as well as non-food cosmetic applications such as hair sprays, shampoos, skin lotions and similar products. These include Foam Pro®, a hydrolyzed wheat protein that has been developed as a foam booster to naturally enhance detergent systems such as shampoos, liquid hand soaps and bath and shower gels; Aqua Pro® II WAA, a solution of amino acids produced from natural wheat proteins that helps provide excellent moisturizing and film forming properties in both hair and skin systems; Aqua Pro® 11 WP, an additive for shampoo; Aqua Pro® QWL, which enhances the functionality of hair conditioners; and Omni-Smooth™, which is a natural skin tightening agent used in anti-wrinkle treatments.
- **Biodegradable Gluten/Starch Resins.** Polytriticum™ 200 and Polytriticum™ 2000 are the Company’s environmentally friendly biodegradable gluten/starch resins that can be molded to produce a variety of plastic-like objects. Polytriticum™ 200 may be used as a commercial raw material for the production of pet treats and chews. Polytriticum 2000™ has been developed for use in disposable eating utensils, golf tees, food and feed containers and similar type vessels.

In July of 2001, the Company received the first \$17.3 million out of a total of approximately \$26 million under a Bush Administration program intended to enable the gluten industry to move forward in the face of subsidized and protected competition from the European Union. An additional \$8.3 million was received after the start of fiscal 2003. See “Commodity Ingredients – Vital Wheat Gluten”. The Company has used the funds to pay certain capital, research, marketing and promotional costs incurred in developing products and markets for value-added wheat gluten, or wheat protein, and wheat starch products.

In October, 2001, the Company’s Board approved plans for an \$8.7 million expansion project designed to substantially strengthen production and sales capabilities for certain of the Company’s specialty wheat proteins. The expansion was completed at the Company’s Atchison plant in early fiscal 2003. The project involved the installation of additional processing and drying equipment for the production of ingredients for bakery, pasta and noodle and related food markets, both domestic and foreign. The cost of this

project was offset by funds provided through the U.S. Department of Agriculture Commodity Credit Corporation program referred to above. During fiscal 2003, the Company started an expansion of its Kansas City facility to better accommodate current and long-term growth initiatives for its PolytriticumTM line of wheat protein and starch based bio-resins and its Wheatex[®] line of textured wheat proteins for vegetarian food applications. The expansion at the Kansas City facility is scheduled to be completed by March 2004 at a cost of approximately \$3.8 million, half of which is expected to be offset by funds from the same Commodity Credit Corporation program.

Specialty Wheat Starch. Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. The Company produces a pure white premium wheat starch powder by extracting the starch from the starch slurry,

6

substantially free of all impurities and fibers, and then by spray, flash or drum drying the starch. Premium wheat starch differs from low grade or B wheat starches, which are extracted along with impurities and fibers and are used primarily as a binding agent for industrial applications, such as the manufacture of charcoal briquettes. The Company does not produce low grade or B starches because its integrated processing facilities are able to process the slurry remaining after the extraction of premium wheat starch into alcohol, animal feed and carbon dioxide. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

A substantial portion of the Company's premium wheat starch is altered during processing to produce certain unique specialty wheat starches designed for special applications in niche markets. The Company's specialty wheat starches are used primarily as an additive in a variety of food products to affect their appearance, texture, tenderness, taste, palatability, cooking temperature, stability, viscosity, binding and freeze-thaw characteristics. Important physical properties contributed by wheat starch include whiteness, clean flavor, viscosity and texture. For example, the Company's starches are used to improve the taste and mouth feel of cream puffs, éclairs, puddings, pie fillings, breadings and batters; to improve the size, symmetry and taste of angel food cakes; to alter the viscosity of soups, sauces and gravies; to improve the freeze-thaw stability and shelf life of fruit pies and other frozen foods; to improve moisture retention in microwavable foods; and to add stability and to improve spreadability in frostings, mixes, glazes and sugar coatings. The Company also sells its specialty starches for a number of industrial and non-food applications, which include uses in the manufacture of adhesives, paper coatings and carbonless paper.

The Company sells specialty wheat starches on a nationwide basis, primarily to food processors and distributors.

Although wheat starch enjoys a relatively small portion of the total United States starch market, the market is one which has experienced substantial growth over the years. The unique characteristics of wheat starch provide it with a number of advantages over corn and other starches for certain baking and other end uses. The Company has developed a number of different specialty wheat starches, and continues to explore the development of additional starch products with the view to increasing sales of value added specialty starches. The Company's strategy is to market its specialty wheat starches in special market niches where the unique characteristics of these starches are better suited to a customer's requirements for a specific use.

Both commodity and specialty wheat starches compete primarily with corn starch, which dominates the United States market. Competition is based upon price, name, color and differing granular and chemical characteristics which affect the food product in which it is used. Specialty wheat starches usually enjoy a price premium over corn starches and low grade wheat starches. Commodity wheat starch price fluctuations generally track the fluctuations in the corn starch market. The specialty wheat starch market usually permits pricing consistent with costs which affect the industry in general, including increased grain costs. However, this was not the case during fiscal 2003, when increases in grain and fuel prices outpaced market price increases in the specialty wheat starch market.

Commodity Ingredients

Vital Wheat Gluten. Vital wheat gluten is a free-flowing light tan powder which contains approximately 75% to 80% protein. Its vitality, water absorption and retention and film-forming properties make vital wheat gluten desirable as an ingredient in many food products. It appears to be the only commercially available high protein food additive which possesses vitality. "Vitality" is a term used to indicate the relative viscoelasticity of gluten, which enables an end product containing gluten to maintain a cohesive texture and withstand stretching or tearing. For example, it is the vitality of the wheat gluten used in making hot dog buns that gives greater "hinge" strength to the buns, thus allowing consumers to open and close the buns without breaking them.

Vital wheat gluten is added by bakeries and food processors to baked goods, such as breads, and to pet foods, cereals, processed meats, fish and poultry to improve the nutritional content, texture, strength, shape and volume of the product. The neutral flavor and color of wheat gluten also enhances, but does not change, the flavor and color of food. The cohesiveness and elasticity of the gluten enables the dough in wheat and other high protein breads to rise and to support added ingredients, such as whole cracked grains, raisins and fibers. This allows the baker to make an array of different breads by varying the gluten content of the dough. Vital wheat gluten is also added to white breads, hot dog buns and hamburger buns to improve the strength and cohesiveness of the product.

7

The Company produces vital wheat gluten from modernized facilities at the Atchison and Pekin plants, although its ability to do so during the current fiscal year was disrupted for a time as a result of the explosion at the Atchison facility. Gluten is shipped throughout the continental United States in bulk and in 50 to 100 pound bags to distributors and also is sold directly to major food processors and bakeries.

Vital wheat gluten is considered a commodity and therefore competition is based primarily upon price. The Company's principal competitors in the U.S. vital wheat gluten market consist primarily of three other domestic producers and producers in the European Union, Australia and certain other regulated countries (the "Foreign Exporters").

Between June 30, 1994 and June 30, 1998, the European Union took an increasingly large share of the U.S. gluten market. As a result of the increasing surge of large, subsidized volumes of European Union wheat gluten into the U.S., vital wheat gluten prices have been primarily affected by (i) excess European Union capacity, (ii) high tariff barriers, subsidies and other protective measures ("Subsidies") provided to European Union exporters by their host governments, (iii) low U.S. tariffs and (iv) gluten import quotas. The Subsidies and low U.S. tariffs encouraged European Union producers to expand wheat starch and wheat gluten production capacity and to continue the development of even greater capacities. On May 30, 1998, the Clinton administration imposed annual quantitative limitations for three years on imports of wheat gluten from the European Union and other Foreign Exporters at an amount equal to the total average imports of wheat gluten shipped into the United States by the Foreign Exporters during the three crop years ended June 30, 1995. In lieu of extending the quota when it expired in June, 2001, the Bush Administration announced a program to provide the wheat gluten industry up to \$40 million over two years to help it complete its transition to competitiveness. Administered by the U.S. Department of Agriculture's Commodity Credit Corporation, the program ended on May 31, 2003. Under the program, the Company received approximately \$26 million of the program total of \$40 million. On June 29, 2001, the Company received approximately \$17,280,000 for the first year of the program. The Company received the balance of the award for the second year of the program in July, 2002. The funds were awarded for use for capital, research, marketing and promotional costs related to value-added wheat protein and wheat starch products and not intended to be used to

reduce production and marketing related costs for commodity vital wheat gluten and wheat starches that could extend the U.S. industry's participation in those markets. The Company was required to submit quarterly reports to the Commodity Credit Corporation listing costs incurred and activities conducted and an annual performance report after each year of the program explaining its activities. The Commodity Credit Corporation is empowered to ask for a refund with interest of some or all of the funds allocated to the Company if it determines that the Company has not made significant progress in completing its stated activities. Based on its contacts with Commodity Credit Corporation personnel through the quarterly reporting process, the Company believes that it has made satisfactory progress.

Since the imposition of the quota, the Company has focused its efforts on developing and increasing the production and sales of specialty wheat products. These are niche products that the Company expects will be able to compete more effectively with increased foreign imports. Although additional quota relief would have been helpful, the Commodity Credit program has supported the Company's strategy and should strengthen its efforts to move increasingly into the development, production and marketing of value-added wheat proteins and starches. However, there can be no assurance that the Company will be able to compete effectively in a market that is inundated with low cost, subsidized foreign gluten.

Commodity Wheat Starch. In addition to specialty wheat starches, the Company's premium wheat starches include commodity wheat starches. As is the case with specialty wheat starches, commodity wheat starches have both food and non-food applications, but such applications are more limited than those of specialty wheat starches and commodity wheat starches command a lower price in the marketplace. As noted above, commodity wheat starches compete primarily with corn starches, which dominate the marketplace, and commodity wheat starch price fluctuations generally track the fluctuations in the corn starch market.

Mill Feed and Other Mill Products

The Company owns and operates a flour mill at the Atchison plant. The mill's output of flour is used internally to satisfy a majority of the raw material needed for the production of vital wheat gluten and premium wheat starch.

In addition to flour, the wheat milling process generates mill feeds or "midds." Midds are sold to processors of animal feeds as a feed additive.

Distillery Products

The Company's Atchison and Pekin plants process mill feeds and corn and/or milo, mixed with the starch slurry from gluten and starch processing operations, into food grade alcohol, fuel grade alcohol, distiller's feed and carbon dioxide.

Food grade alcohol, or grain neutral spirits, consists of beverage alcohol and industrial food grade alcohol that are distilled to remove all impurities and all but approximately 5% of the water content to yield high quality 190 proof alcohol. Fuel grade alcohol, or "ethanol," is a lower grade of grain alcohol that is distilled to remove all water to yield 200 proof alcohol suitable for blending with gasoline.

During fiscal 2003, distillery product sales were lower than the prior year due primarily to lower average prices for both fuel alcohol and food alcohol compared to the prior year and to reduced production resulting from the distillery explosion at the Company's Atchison facility that occurred in the first quarter. See "*General Information.*"

Food Grade Alcohol

Beverage Alcohol. Food grade beverage alcohol consists primarily of grain neutral spirits and gin. Grain neutral spirits is sold in bulk or processed into vodka and gin and sold in bulk quantities at various proof concentrations to bottlers and rectifiers, which further process the alcohol for sale to consumers under numerous labels.

The Company believes that in terms of fiscal 2003 net sales, it is one of the three largest bulk sellers of grain neutral spirits, vodka and gin in the United States. The Company's principal competitors in the beverage alcohol market are Grain Processing Company of Muscatine, Iowa and Archer Daniels Midland of Decatur, Illinois. Competition is based primarily upon price and service, and in the case of gin, formulation. The Company believes that the centralized location of its Illinois and Kansas distilleries and the capacity of its dual production facilities combine to provide the Company with a customer service advantage within the industry.

Industrial Alcohol. Food grade alcohol which is not sold as beverage alcohol is marketed as food grade industrial alcohol. Food grade industrial alcohol is sold as an ingredient in foods (e.g., vinegar and food flavorings), personal care products (e.g., hair sprays and deodorants), cleaning solutions, biocides, insecticides, fungicides, pharmaceuticals, and a variety of other products. Although grain alcohol is chemically the same as petroleum-based or synthetic alcohol, certain customers prefer a natural grain-based alcohol. Food grade industrial alcohol is sold in tank truck or rail car quantities direct to a number of industrial processors from both the Atchison and Pekin plants.

The Company is a minor competitor in the total United States market for food grade industrial alcohol, which is dominated by petroleum-based or synthetic alcohol. Food grade industrial alcohol prices are normally consistent with prices for synthetic industrial alcohol.

Fuel Grade Alcohol

Fuel grade alcohol, which is commonly referred to as ethanol, is sold primarily for blending with gasoline to increase the oxygen and octane levels of the gasoline. As an octane enhancer, ethanol can serve as a substitute for lead and petroleum based octane enhancers. As an oxygenate, ethanol permits gasoline to meet certain environmental regulations and laws that regulate air quality by reducing carbon monoxide, hydrocarbon particulates and other toxic emissions generated from the burning of gasoline ("toxics"). Because ethanol is produced from grain, a renewable resource, it also provides a fuel alternative that tends to reduce the country's dependence on foreign oil.

Although ethanol can be blended directly with gasoline as an oxygenate to enable it to reduce toxic air emissions, it also increases the volatility of gasoline or its tendency to evaporate and release volatile organic compounds ("VOC's"). This latter characteristic has precluded it from meeting certain Clean Air Act requirements for gasoline that pertain to nine of the smoggiest U. S. metropolitan areas during the summer months (May 1

through September 15). As a consequence, the demand for ethanol typically increases during the period from August through March of each fiscal year as gasoline blenders acquire stocks for blending with gasoline to be marketed in the period September 16 through April 30.

Since the adoption of the Clean Air Act, the gasoline industry has relied primarily upon methyl tertiary butyl ether (MTBE) to reduce toxic emissions of air pollutants to meet the requirements of the Act and related EPA regulations. Ethanol is also used to a lesser extent during the cooler months of the year. However, the EPA has concluded that the use of MTBE has created a “significant and unacceptable risk to drinking water and groundwater resources.” Concerns have also been raised as to the effectiveness of MTBE versus the effectiveness of ethanol as a reducer of air pollutants. As the result of these concerns, the EPA commissioned a “Blue Ribbon Panel” to investigate the matter and recommend solutions. In March 2000, the EPA announced the recommendations of the Panel. The recommendations proposed that the Clean Air Act be amended to provide the EPA with authority to significantly reduce or eliminate the use of MTBE, and to “replace the 2 percent oxygenate requirement in the Clean Air Act with a renewable fuel annual average content for all gasoline at a level that maintains the current level of renewable fuel (1.2 percent of the gasoline supply) and allows for sustained growth over the next decade.”

According to the Renewable Fuels Association, several states also have begun to take action to curb the use of MTBE. These states include California, Connecticut, Illinois, Michigan, New York and Ohio. In June of 2001, the Bush Administration denied California’s request for a waiver from the clean octane provisions of the Clean Air Act that require oxygenates in gasoline. As a result of such actions, certain producers increased capacity and/or built inventories of ethanol in anticipation of the expanded market for ethanol in California and elsewhere. However, the governor of California delayed the state’s ban on MTBE for a year, from January 2003 to January 2004, causing a surplus of fuel alcohol and a resulting softening in prices during the latter part of fiscal 2002. Notwithstanding the delay, according to the Renewable Fuels Association, all major refiners in California have committed to blending ethanol and it is estimated that ethanol-blended fuels will account for approximately 80% of the California market in 2003.

In the long-term, the Company believes the future for ethanol remains promising. This is partially based on the expectation that the U.S. Congress will pass a comprehensive energy bill in the near future that includes a provision for establishing a renewable fuels standard. An energy bill with such a provision is now being considered by a U.S. House-Senate Conference Committee. Based on information published by the Renewable Fuels Association, this provision could substantially increase the use of ethanol to 5 billion gallons annually by 2012. However, similar bills have been considered before, and there can be no assurance that the bill will be enacted in its present form, if at all. Nor can there be any assurance, in light of the manner in which the industry is expanding, that ethanol prices will improve even though such a provision is passed. According to the Renewable Fuels Association, 2002 was a record year for growth in the industry, with annual ethanol production surpassing two billion gallons, a 20% increase over 2001 and a 45% increase over 1999; production in 2003 is expected to approximate 2.7 billion gallons. The Company believes such expansion has contributed to the two-year decline in average prices for fuel ethanol realized by the Company on its fuel ethanol sales.

The cost of producing ethanol has historically exceeded the cost of producing gasoline and gasoline additives, such as MTBE, all of which are derived from fossil non-renewable fuels such as petroleum. Accordingly, to encourage the production of ethanol for use in gasoline, the Federal government and various states have enacted tax and other incentives designed to make ethanol competitive with gasoline and gasoline additives. In December, 2000, the U.S. Department of Agriculture initiated a program to provide a cash incentive for ethanol producers who increase their grain usage over comparable quarters in the prior year to raise fuel alcohol production. The Company presently satisfies the program’s eligibility requirements and began receiving payments in the third quarter of fiscal 2001. It received payments of approximately \$1.6 million in fiscal 2001, approximately \$4.1 million in fiscal 2002 and approximately \$3.2 million in fiscal 2003 under this program. The program extends through September 2006, with funding determined annually. The Company’s eligibility to participate in the program is determined quarter to quarter.

Under the internal revenue code, and until the end of 2007, gasoline that has been blended in qualifying proportions with ethanol provide sellers of the blend with certain income tax credits and excise tax reductions that amount to up to \$0.52 per gallon of ethanol that is mixed with the gasoline (the “Federal Tax Credit”). A mix of at least 10% ethanol by volume is required to receive the maximum credit. Although the Federal Tax Credit is not directly available to the Company, it allows the Company to sell its ethanol at prices competitive with less expensive

additives and gasoline. From time to time, legislation is proposed to eliminate, reduce or extend the tax benefits enjoyed by the ethanol industry and indirectly by producers of the grain that is converted into ethanol. During 1998, legislation was enacted that extended the credit through 2007, with the credit being reduced to \$0.51 per gallon beginning in 2005.

The Kansas Qualified Agricultural Ethyl Alcohol Producer Incentive Fund, which has been extended to 2011, provides incentives for sales of ethanol produced in Kansas to gasoline blenders. After 2004, incentives will be paid only for increased production over base year (calendar year 2000) sales. Fiscal 2003 payments to the Company out of the fund totaled \$483,000, compared to \$544,000 for the prior year.

The fuel grade alcohol market is dominated by Archer Daniels Midland, with the Company being among the smaller of a few other larger second tier ethanol producers. The Company competes with other producers of fuel grade alcohol on the basis of price and delivery service.

Distillery By-Products

The bulk of fiscal 2003 sales of alcohol by-products consisted of distillers feeds. Distillers feeds are the residue of corn, milo and wheat from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. The Company competes with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers feeds and mill feeds.

The balance of alcohol by-products consists primarily of carbon dioxide. During the production of alcohol, the Company traps carbon dioxide gas that is emitted in the fermentation process. The gas is purchased and liquefied on site by three principal customers, one at the Atchison Plant and two at the Pekin Plant, who own and operate the carbon dioxide processing and storage equipment under long term contracts with the Company. The liquefied gas is resold by these processors to a variety of industrial customers and producers of carbonated beverages.

Transportation

The Company’s output is transported to customers by truck, rail and barge transportation equipment, most of which is provided by common carriers through arrangements made by the Company. The Company leases 334 rail cars which may be dispatched on short notice. Shipment by barge is offered to customers through barge loading facilities on the Missouri and Illinois Rivers. The barge facility on the Illinois River is adjacent to the Pekin plant and owned by the Company. The facility on the Missouri River, which is not company-owned, is approximately one mile from the Atchison plant.

Raw Materials

The Company’s principal raw material is grain, consisting of wheat, which is processed into all of the Company’s products, and corn and milo, which are processed into alcohol, animal feed and carbon dioxide. Grain is purchased directly from surrounding farms, primarily at harvest time, and throughout the year from grain elevators. To assure supplies, the Company may enter into contracts to take future delivery within 30 days. These are fixed price contracts which are based on prices of future contracts and specify the amount, type and class of grain and the price. The Company can call for delivery at any time within thirty days of the contract. The Company does not have any long-term contracts with any suppliers. During fiscal year 2003, the Company purchased approximately 55% of its grain at spot market prices.

Historically, the cost of grain is subject to substantial fluctuations depending upon a number of factors which affect commodity prices in general, including crop conditions, weather, government programs and purchases by foreign governments. Such variations in grain prices have had and are expected to have from time to time significant adverse effects on the results of the Company's operations. This is primarily due to a variety of factors. From time to time it has been difficult for the Company to compensate for increases in grain costs through adjustments in prices charged for the Company's vital wheat gluten due to the surge of subsidized European Union wheat gluten, whose artificially low prices are not affected by such costs. Now that the quota has been lifted, it has been more difficult to do so. Also, fuel grade alcohol prices, which historically have tracked the cost of gasoline, do

not usually adjust to rising grain costs. Similarly, prices of commodity wheat starches generally track the prices of corn starch and usually do not adjust to rising wheat prices.

During fiscal 2003, market prices for grain increased significantly. The average price paid by the Company per bushel for corn increased twenty percent in fiscal 2003 compared to fiscal 2002, while the average price for a bushel of wheat paid by the Company increased fifteen percent over the same period.

The Company engages in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. During fiscal 2003, the Company hedged approximately 45% of corn processed, compared to 48% in 2002. Of the wheat processed by the Company, 44% was hedged in fiscal 2003 compared to none in fiscal 2002. The contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and related products are sold. For fiscal 2003, raw material costs included a net hedging gain of approximately \$0.2 million on contracts settled during the year compared to a net loss of \$1.8 million for fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk" in the Annual Report.

Energy

Because energy comprises a major cost of operations, the Company seeks to assure the availability of fuels for the Pekin and Atchison plants at competitive prices.

The Company needs fuel to operate boilers that it uses to make steam heat. In Atchison, the Company can use either oil or natural gas and switch from one to the other when prices dictate. Natural gas for the Atchison plant is procured in the open market from various suppliers. The Company can purchase contracts for the delivery of gas in the future or can purchase future contracts on the exchange. Depending on existing market conditions, the Company has the ability to transport the gas through a gas pipeline owned by a wholly-owned subsidiary of the Company. In Pekin, the Company only uses natural gas, which it can either procure through Central Illinois Light Company or through other suppliers. The Company has a multi-year agreement with Central Illinois Light Company expiring no earlier than 2009 under which the utility will transport gas to the Company's plant on the utility's pipeline. The Company may purchase gas from Central Illinois Light Company on a negotiated basis or on a fixed price basis for up to 24 months. In order to control energy costs, the Company has a risk management program whereby, at pre-determined prices, the Company will purchase a portion of its natural gas requirements for future delivery.

In 1995, the Company entered into a long-term arrangement with Central Illinois Light Company and its subsidiary, CILCORP Development Services Inc. (collectively "CILCO"), with respect to the Company's Pekin, Illinois plant. Under the arrangement, the Company has leased a portion of its plant facility to CILCO for a term ending in December 2009. CILCO constructed a new gas fired electric and steam generating facility on ground leased from the Company and agreed to provide steam heat to the Company's plant. If the Company fails to renew the lease for 19 years at the end of the lease term, it must pay CILCO the book value of the boiler plant and cogeneration facility, which the Company estimates will be \$10.6 million. Under a related steam heat service agreement, the Company has agreed to purchase its requirements for steam heat from CILCO until no earlier than December 2009. Either party may terminate the service agreement at the end of the initial term or thereafter upon two years notice. Also, if gas prices have risen to a level such that operating a steam facility with alternative fuel would be more attractive and the payback period for a new facility would be five years or less, the Company may terminate the service agreement prior to the end of the initial term upon two years notice by making a specified payment to CILCO, currently approximately \$1.5 million. The Company must make adjustable minimum monthly payments over the term of the service agreement, currently \$119,000, with declining fixed charges for purchases in excess of minimum usage, and is responsible for fuel costs and certain other expenses. However, CILCO also uses the boilers to run electric generating units that it constructed on the leased site and pays the Company for a portion of the fuel costs that the Company incurs for the production of steam, based on savings realized by CILCO from electricity generated at the facility.

The Company also has a three-year contract, which expires in December 2006, to purchase electricity from Central Illinois Light Company at fixed rates.

Employees

As of June 30, 2003, the Company had 443 employees, 257 of whom are covered by two collective bargaining agreements with one labor union. One agreement, which expires on August 31, 2005, covers 170 employees at the Atchison Plant. The other agreement, which expires on October 31, 2003, covers 87 employees at the Pekin plant. As of June 30, 2002, the Company had 436 employees.

The Company considers its relations with its personnel to be good and has not experienced a work stoppage since 1978.

Regulation

The Company's beverage and industrial alcohol business is subject to regulation by the Bureau of Alcohol, Tobacco and Firearms ("BATF") and the alcoholic beverage agencies in the States of Kansas and Illinois. Such regulation covers virtually every aspect of the Company's alcohol operations, including production facilities, marketing, pricing, labeling, packaging, and advertising. Food products are also subject to regulation by the Food and Drug Administration. BATF regulation includes periodic BATF audits of all production reports, shipping documents, and licenses to assure that proper records are maintained. The Company is also required to file and maintain monthly reports with the BATF of alcohol inventories and shipments.

The Company is subject to extensive environmental regulation at the federal, state and local levels. The regulations include the regulation of water usage, waste water discharge, disposal of hazardous wastes and emissions of volatile organic compounds, nitrogen oxides, sulfur dioxides, particulates and other substances into the air. Under these regulations the Company is required to obtain operating permits and to submit periodic reports to regulating agencies. For the Atchison and Kansas City, Kansas plants,

the air quality is regulated by both the U.S. Environmental Protection Agency (“USEPA”) and the Division of Environment of the Kansas Department of Health and Environment (the “KDHE”). The KDHE regulates all air emissions. The Company also was required to obtain a Class I air operating permit from the KDHE and must obtain KDHE approval to make plant alterations that could modify the emission levels. The KDHE also regulates the discharge water quality at the Atchison plant. This includes process water, non-contact water and storm water. The Company monitors process water and non-contact water discharge on a daily basis and submits monthly reports to the KDHE documenting the test results from these water discharges. The USEPA and KDHE also monitor hazardous waste disposal for the Atchison and Kansas City plants. The Company also is required to submit annual reports pursuant to the Kansas and Federal Emergency Planning Community Right-to-Know Acts. Local officials, such as the local emergency planning committees in the Atchison and Kansas City communities, also receive copies of these annual reports.

Similar environmental regulations apply to the Pekin, Illinois facility. Air quality at the Pekin plant is regulated by both the USEPA and the Illinois Environmental Protection Agency (the “IEPA”). The IEPA regulates all air emissions. The Company has permits to make certain emissions, and the IEPA has the right to do on-site testing to verify that the Company’s emissions comply with its permits. Also, the IEPA regulates waste water, cooling water and storm water discharge at the Pekin plant. The Company tests wastewater effluent quality twice each week and files monthly reports with the IEPA. The Company also files an Annual Emissions Report and a Toxic Release Inventory annually with the IEPA. The Pekin facility is also required to submit periodic reports pursuant to the Illinois and Federal Emergency Planning Community Right-to-Know Acts.

During 1997, the IEPA commenced an action against the Company with respect to alleged noncompliance of the Pekin Plant with certain air quality regulations. In 2002, the USEPA began an enforcement initiative relating to air emissions standards, focusing on all ethanol producers in its Midwestern region. The Company has been in contact with the USEPA, the IEPA and the KDHE about both of its facilities. As a result of these proceedings, which are further described under “*Item 3. Legal Proceedings*,” the Company anticipates that it will be required to make capital expenditures of approximately \$2.0 million at its Pekin facility and capital expenditures in excess of that amount at its Atchison facility to bring them into compliance with applicable standards. Any settlements of these matters will provide for phased schedules to implement the modifications, which are expected to extend for periods of months to a year or two depending on the modifications. Of the \$11.0 million that the Company presently has committed during the current fiscal year to improvements and replacements of existing equipment,

approximately \$0.8 million has been allocated to modifications at the Pekin facility. Depending on settlement terms, additional expenditures may be required during the current fiscal year.

Item 2. Properties.

The Company maintains the following principal plants, warehouses and office facilities:

<u>Location</u>	<u>Purpose</u>	<u>Plant Area (in sq. ft.)</u>	<u>Tract Area (in acres)</u>
Atchison, Kansas	Principal executive offices, grain processing, distillery, warehousing, and research and quality control laboratories.	494,640	25
Kansas City, Kansas	Specialty protein and starch further processing and extrusion facility and warehouse.	83,200	12.5
Pekin, Illinois	Grain processing, distillery, warehousing and quality control laboratories.	462,926	49

The distillery at the Atchison facility was substantially damaged by an explosion that occurred on September 13, 2002. The total rebuilding process is expected to take until November or December 2003 to complete. As a result, the Company’s operations have been affected as described under “*Item 1. Business General Information*.” Except for the foregoing, the facilities mentioned above are generally in good operating condition, are currently in normal operation, are generally suitable and adequate for the business activity conducted therein and have productive capacities sufficient to maintain prior levels of production. The Atchison and Pekin facilities are owned, and the Kansas City facility is leased from the Unified Government of Wyandotte County, Kansas City, Kansas pursuant to an industrial revenue bond financing. The Company has entered into loan agreements which contain covenants that limit its ability to pledge its facilities to others. The Company also owns transportation equipment and a gas pipeline described under “*Business – Transportation*” and “*Energy*.”

Item 3. Legal Proceedings.

On April 13, 1997, an administrative proceeding was filed against the Company’s Illinois subsidiary before the Illinois Pollution Control Board (the “Board”), by the Illinois Attorney General on behalf of the Illinois Environmental Protection Agency (the “IEPA”). The proceeding relates to the Company’s installation and operation of two feed dryers at its facility in Pekin, Illinois. The Complaint alleges that the dryers exceed the particulate emission limitations specified in the construction permits for the units; that the dryers are being operated without operating permits; and that the dryers were constructed without a Prevention of Significant Deterioration (PSD) construction permit setting forth a best available control technology (“BACT”) emission limitation. The Complaint seeks a Board order ordering the Company to cease and desist from violations of the Illinois Environmental Protection Act and associated regulations, assessing a civil penalty, and awarding the state its attorneys fees.

The Company has filed an Answer before the Board admitting that compliance tests have shown particulate emissions in excess of the limits set forth in the construction permits, but denying the remainder of the State’s claims. Since the time operational problems were discovered with the dryers’ pollution control equipment, the Company has been conferring and negotiating with the IEPA on the issues involved in the Complaint. The Company and the IEPA have been conducting air modeling to support the construction of new pollution control equipment for the dryers. It is anticipated that the new equipment will bring emissions into compliance with all applicable limitations. Currently, the modeling indicates that the addition of the pollution control equipment plus raising certain air emission stacks will be sufficient to bring emissions into compliance with all applicable limitations.

compliance activities. The Company anticipates negotiating a settlement of the remainder of the State's claims shortly, including any penalties. The state has recently indicated that it may be asking for some penalty associated with the economic benefit of not installing the new pollution control equipment sooner. No penalty amount has been discussed, and the Company intends to contest any request for a penalty because the State's difficulty in completing its modeling has contributed to the delay in bringing emissions into compliance.

The U.S. Environmental Protection Agency ("USEPA"), Region V, has recently begun an enforcement initiative focusing on all ethanol producers in its Midwestern region. Along with all other ethanol producers in the region, the Company's subsidiary, MGP Ingredients of Illinois, Inc. ("MGP-Illinois"), was contacted, and it attended a meeting with other ethanol producers where USEPA explained that it believed the ethanol producers had likely violated various provisions of the USEPA air emissions regulations in the past. USEPA explained that rather than initiate enforcement proceedings against individual companies, it would prefer to work with the companies and settle any outstanding issues in a cooperative fashion. Since the meeting, MGP Illinois has been in contact with the IEPA and USEPA regarding the USEPA air emissions initiative, and USEPA has issued an information request to MGP Illinois. Based on these discussions, it appears MGP-Illinois may need to make certain modifications to its feed dryer emission controls (which are expected to be the same as the modifications that will be made to resolve the pending IEPA action) and add emission controls to its fuel truck loading operations. In negotiations involving a draft Consent Decree to resolve any violations, the USEPA has requested a penalty of \$180,000 to resolve this matter, which the Company understands is based on total sales of products from its Pekin facility. MGP-Illinois has not agreed to this requested penalty and will continue negotiations.

Based on representations by the USEPA that ethanol producers who voluntarily contacted state or federal regulators to begin negotiations regarding installation of air pollution control technology would receive the benefit of "minimum fines", the Company has advised the Kansas Department of Health and Environment (the "KDHE") of its willingness to discuss the applicability of the enforcement initiative to the Company's Atchison facility. The Company has met with representatives of the USEPA and the Kansas Department of Health and Environment and provided the KDHE with its written response to the enforcement initiative. The parties continue to discuss the applicability of the enforcement initiative to the Atchison facility, but the Company anticipates that it will be required to make modifications to its Atchison facility feed dryer, boiler, fermentation, fuel truck load out, fugitive VOC and particulate emission controls. No level of fines have been discussed. Investigations of several companies in Minnesota by the USEPA and the state of Minnesota resulted in settlement agreements in which each company agreed to install air pollution control technology and to pay a minimal fine, generally ranging from \$10,000 to \$50,000. If the USEPA seeks a fine with respect to the Atchison facility on the same basis as it has with respect to the Pekin facility, the Company believes the fine may exceed the amounts generally paid by the Minnesota producers but should be less than that sought with respect to the Pekin facility.

In the aggregate, the Company estimates that costs of capital expenditures to address the issues raised with respect to its Pekin facility will aggregate approximately \$2 million. The costs of modifications to the Atchison facility are not known at this time, but involve more work and are expected to exceed the costs at the Pekin facility. Any settlements of these matters will provide for phased schedules to implement the modifications, which are expected to extend for periods of months to a year or two depending on the modifications.

There are no other legal proceedings pending as of June 30, 2003 which the Company believes to be material.

Item 4. Submissions of Matters to a Vote of Security Holders.

No matters have been submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

Item 4A. Executive Officers of the Registrant.

Executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Cloud L. Cray, Jr.	80	Chairman of the Board
Laidacker M. Seaberg	57	President, Chief Executive Officer
Sukh Bassi, Ph.D.	62	Vice President, New Products Innovation and Technology
Gerald Lasater	65	Vice President, International Marketing and Sales
Brian Cahill	49	Vice President, Finance and Administration and Chief Financial Officer
Clodualdo "Ody" Maningat, Ph.D.	48	Vice President, Application Technology and Technical Services
Marta L. Myers	43	Secretary and Administrative Assistant to the President
Steven J. Pickman	50	Vice President, Corporate Communications and Marketing Services
David E. Rindom	48	Vice President, Human Resources
Randy M. Schrick	53	Vice President, Manufacturing and Engineering
William R. Thornton	51	Vice President, Quality Management
Michael J. Trautschold	55	Executive Vice President, Marketing and Sales

Mr. Cray, Jr. has served as Chairman of the Board since 1980. He served as Chief Executive Officer from 1980 to September, 1988, and has been an officer of the Company and its affiliates for more than thirty years.

Mr. Seaberg joined the Company in 1969 and has served as the President of the Company since 1980 and as Chief Executive Officer since September, 1988. He is the son-in-law of Mr. Cray, Jr.

Dr. Bassi has served as Vice President - New Products, Innovations and Technology since July 2002. He was Vice President - Research and Development from 1985 until July 2002 and Vice President - Specialty Ingredients Marketing and Sales between 1998 and 2000. He also previously served as Technical Director from 1989 to 1998 and Vice President-Vital Wheat Gluten Marketing from 1992 to 1998. From 1981 to 1992 he was Manager of the Vital Wheat Gluten Strategic Business Unit. He was previously a professor of biology at Benedictine College for ten years.

Mr. Cahill has served as Vice President - Finance and Administration since October 2002. Prior thereto he served as general manager of the Company's Pekin facility since 1992.

Mr. Lasater joined the Company in 1962. He has served as Vice President - International Marketing and Sales since 1998. Previously, he served as Vice President - Starch Marketing from 1992 to 1998. Prior to that he served as Vice President in charge of the Wheat Starch Strategic Business Unit.

Dr. Maningat joined the Company in 1986. He has served as Vice President of Application Technology and Technical Services since June 2002. Previously, he was Corporate Director of Research and Development and

Technical Marketing from 1997 to 2002. He served as Corporate Director of Research and Development and Quality Control for the Company from 1993 to 1997.

Ms. Myers joined the Company in 1996. She has served as Secretary since October 1996 and as Administrative Assistant to the President since 1999. Previously she was executive secretary for Superintendent of Schools for Unified School District 409, Atchison, Kansas.

Mr. Pickman joined the Company in 1985. He has served as Vice President, Corporate Communications and Marketing Services since July 2002. He was Vice President, Corporate Relations from June 2000 until July 2002. Previously he was Executive Director of Corporate Relations from 1999 to June 2000 and prior to that Corporate Director of Public and Investor Relations. Between 1985 and 1989 he served as the Director of Public Relations and Marketing Administration for the Company's former subsidiary, McCormick Distilling Company, Weston, Missouri.

Mr. Rindom joined the Company in 1980. He has served as Vice President, Human Resources since June 2000. He was Corporate Director of Human Relations from 1992 to June 2000, Personnel Director from 1988 to 1992 and Assistant Personnel Director from 1984 to 1988.

Mr. Schrick, a Director since 1987, joined the Company in 1973. He has served as Vice President - Manufacturing and Engineering since July 2002. He served as Vice President - Operations from 1992 until July 2002. From 1984 to 1992 he served as Vice President and General Manager of the Pekin plant. From 1982 to 1984 he was the Plant Manager of the Pekin Plant. Prior to 1982, he was Production Manager at the Atchison plant.

Mr. Thornton joined the Company in 1994. He has served as Vice President of Quality Management since June 2000. He was Corporate Director of Quality Management from 1997 to June 2000 and Corporate Director of Continuous Quality Improvement from 1994 to 1997.

Mr. Trautschold joined the Company in September 2000. He has served since then as Executive Vice President of Marketing and Sales. He was Vice President of Product Strategy in the Consumer Direct Division of Schwan's Sales Enterprises, Inc. from 1999 to September 2000, Vice President of Corporate Marketing Services for ConAgra, Inc. from 1994 to 1999 and President of ConAgra Brands, Inc. from 1997 to 1999.

PART II

Item 5. Market for Registrants Common Equity and Related Stockholders Matters.

The Common Stock of the Company has been traded on the NASDAQ National Market System since November 1988. Following the effective date of its name change to MGP Ingredients, Inc. on October 10, 2002, the Company's trading symbol changed from MWGP to MGPI.

The following table below reflects the high and low closing prices of the Common Stock for each quarter of fiscal 2002 and 2003. The Company paid a cash dividend of \$.10 per share in November 2000, a dividend of \$.15 per share in November 2001, and a dividend of \$.15 per share in November 2002. Previously, cash dividends had not been paid since the end of 1995. Any future dividends will be paid at the discretion of the Board of Directors, which will consider various factors, including the Company's operating results and cash requirements, in making any decision respecting dividends.

		<u>High</u>	<u>Low</u>
2003	First Quarter	\$13.87	\$ 7.11
	Second Quarter	10.08	5.86
	Third Quarter	10.41	5.96
	Fourth Quarter	9.18	6.49
2002	First Quarter	\$11.05	\$ 8.65
	Second Quarter	12.18	9.01
	Third Quarter	14.73	11.50
	Fourth Quarter	14.60	12.40

At June 30, 2003 there were approximately 790 holders of record of the Company's Common Stock. It is believed that the Common Stock is held by approximately 1,960 beneficial owners.

Item 6. Selected Financial Data.

Incorporated by reference to the information under "*Selected Financial Information*" on page 13 of the Annual Report, a copy of which page is included in Exhibit 13 to this Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Incorporated by reference to the information under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Liquidity and Capital Resources*" on pages 14 through 19 and 22 through 23 of the Annual Report, copies of which pages are included in Exhibit 13 to this Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Incorporated by reference to the information under "*Market Risk*" on page 21 of the Annual Report, a copy of which page is included in Exhibit 13 to this Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference to the information under "*Quarterly Financial Information*" on page 20 of the Annual Report and to the consolidated financial statements and related notes on pages 24 through 36 of the Annual Report, copies of which pages are included in Exhibit 13 to this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures.

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the design and effectiveness of the Company's disclosure controls and procedures 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-K Annual Report was being prepared.

Changes in internal controls.

There has been no change in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III
Item 10. Directors of the Registrant.

Incorporated by reference to the information under “*Election of Directors*” at pages 2 through 4 and “*Section 16(a) Beneficial Ownership Reporting Compliance*” at page 16 of the Proxy Statement.

Item 11. Executive Compensation.

Incorporated by reference to the information in the last paragraph under “*Certain information concerning the Board and its Committees*” at page 6 of the Proxy Statement and under “*Executive Compensation*” on pages 8 through 10 of the Proxy Statement. The material under the captions “*Report of The Human Resources Committee*” on page 11 to 13 and “*Performance of the Company’s Common Stock*” on page 10 and 11 is not incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the information under “*Principal Stockholders*” on pages 14 to 16 of the Proxy Statement.

The following is a summary of securities authorized for issuance under equity compensation plans as of June 30, 2003:

	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average of exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(1))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	749,550	\$10.98	182,060
Equity compensation plans not approved by security holders	---	---	---
Total		\$10.98	

(1) Of these securities, as of June 30, 2003 an aggregate of 128,000 shares may also be issued as performance or restricted stock awards under the terms of Stock Incentive Plan of 1996 and the 1998 Stock Incentive Plan for Salaried Employees.

Item 13. Certain Relationships and Related Transactions.

None.

Item 14. Principal Accountant Fees and Services.

Incorporated by reference to the information under “*Audit and Certain Other Fees Paid Accountants*” at page 7 of the Proxy Statement.

PART IV
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

The following documents are filed as part of this report:

(1) Financial Statements:

Auditors' Report on Financial Statements.
Consolidated Balance Sheets at June 30, 2003, 2002 and 2001.
Consolidated Statements of Income — for the Three Years Ended June 30, 2003, 2002 and 2001.
Consolidated Statements of Stockholders' Equity for the Three Years Ended June 30, 2003, 2002 and 2001.
Consolidated Statements of Cash Flow — for the Three Years Ended June 30, 2003, 2002 and 2001.
Notes to Consolidated Financial Statements.

The foregoing have been incorporated by reference to the Annual Report as indicated under Item 8.

(2) Financial Statement Schedules:

Auditors' Report on Financial Statement Schedules:
VIII - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the information is contained in the Consolidated Financial Statements or notes thereto.

(3) The exhibits required by Item 601 of Regulation S-K (paragraph (c) below)

The Company filed reports on Form 8-K on April 17, 2003 and May 7, 2003 reporting information under Item 9.

Exhibits:

Exhibit No.	Description
3(a)(1)	Articles of Incorporation of the Company, as amended (Incorporated by reference to Exhibit 3 of the Company's Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 0-17196)).
3(b)	Bylaws of the Company (Incorporated by reference to Exhibit 3(b) of the Company's Registration Statement No. 33-24398 on Form S-1).
4(a)	Copy of Note Agreement dated as of August 1, 1993, providing for the issuance and sale of \$25 million of 6.68% term notes ("Term Notes") (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).
4(b)	Copy of Term Notes dated August 27, 1993 (incorporated by reference to Exhibit 4.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).

*4(c)	Copy of Ninth Amended Line of Credit Loan Agreement with Commerce Bank, N.A. providing for the Issuance of a Line of Credit Note in the amount of \$10,000,000
*4(d)	Copy of Line of Credit Note Under Ninth Amended Line of Credit Loan Agreement.
4(e)	In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the Commission upon request.
9(a)	Copy of Cray Family Trust (incorporated by reference to Exhibit 1 of Amendment No. 1 to Schedule 13D of Cloud L. Cray, Jr. dated November 17, 1995).
10(a)	Summary of informal cash bonus plan (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended June 30, 2001 (file number 0-17196)).
10(b)	Executive Stock Bonus Plan as amended June 15, 1992 (incorporated by reference to Exhibit 10(b) to the Company's Form 10-K for the year ended June 30, 1992 (file number 0-17196)).
10(c)	Copy of MGP Ingredients, Inc. Stock Incentive Plan of 1996, as amended as of August 26, 1996 (incorporated by reference to Exhibit A to the Company's Notice of Annual Meeting and Proxy Statement filed September 17, 1996).
10(d)	Copy of amendment to MGP Ingredients, Inc. Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
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10(f)	Copy of MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors, as amended as of August 26, 1996 (incorporated by reference to Exhibit B to the Company's Notice of Annual Meeting and Proxy Statement filed September 17, 1996).

- 10(g) Copy of amendment to MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
- 10(h) Copy of MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated September 17, 1998, filed with the Securities and Exchange Commission on September 15, 1998).
- 10(i) Form of Stock Option with respect to stock options granted under the MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, 1996 (file number 0-17196)).
- 10(j) Copy of amendments to Options granted under MGP Ingredients, Inc. Stock Option Plans (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).

22

- 10(k) Form of Option Agreement for the grant of Options under the MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors, as amended (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
- 10(l) Form of Amended Option Agreements for the grant of Options under the MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
- 10(m) Form of Option Agreement for the grant of Options under the MGP Ingredients, Inc. Stock Incentive Plan of 1996, as amended (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
- 10(n) Form of Incentive Stock Option Agreement approved on December 7, 2000, for use thereafter under the Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
- 10(o) Form of Incentive Stock Option Agreement approved on December 7, 2000 for use thereafter under the 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
- 10(p) Form of Memorandum of Agreement Concerning Options approved on December 7, 2000 between the Company and certain members of senior management, including the following named executive officers: Ladd M. Seaberg, Randall M. Schrick and Dr. Sukh Bassi (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
- *10(q)(1) Lease Agreement dated as of August 1, 2001 among GE Capital Public Finance, Inc., The Unified Government of Wyandotte County/Kansas City, Kansas, and MGP Ingredients, Inc.
- *10(q)(2) Amendment No. 1 dated as of July 1, 2003, to Lease Agreement referred to in Item 10(q)(1) among General Electric Capital Corporation, as assignee and successor-in-interest to GE Capital Public Finance, Inc., The Unified Government of Wyandotte County/Kansas City, Kansas and MGP Ingredients, Inc.
- 10(r) Form of Memorandum of Agreement Concerning Options approved on December 10, 2001 between the Company and certain members of senior management, including the following named executive officers: Ladd M. Seaberg, Randall M. Schrick and Dr. Sukh Bassi (incorporated by reference to Exhibit 10 to the Company's form 10-Q for the quarter ended December 31, 2001 (file number 0-17196)).
- 10(s) Lease dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(s) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).

23

- 10(t) Steam Heat Service Agreement dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(t) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
- 10(u) Cogeneration Agreement dated December 16, 1993 among MGP Ingredients, Inc., Central Illinois Light Company and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(u) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
- *13 Information contained in the MGP Ingredients, Inc. 2003 Annual Report to Stockholders that is incorporated herein by reference.

22 Subsidiaries of the Company other than insignificant subsidiaries:

Subsidiary

Midwest Grain Pipeline, Inc.
MGP Ingredients of Illinois, Inc.
Kansas City Ingredient Technologies, Inc.

**State of Incorporation
or Organization**

Kansas
Illinois
Kansas

- *23 Consent of BKD, LLP.
- 25 Powers of Attorney executed by all officers and directors of the Company who have signed this report on Form 10-K (incorporated by reference to the signature pages of this report).
- *99.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *99.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *99.3 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *99.4 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

SIGNATURES

Pursuant to requirements of Section 13 of 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, in the city of Atchison, State of Kansas, on this 16th day of September, 2003.

MGP INGREDIENTS, INC.

By: /s/ Laidacker M. Seaberg
Laidacker M. Seaberg, President

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Cloud L. Cray, Jr., Laidacker M. Seaberg and Brian Cahill and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all reports of the Registrant on Form 10-K and to sign any and all amendments to such reports and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities & Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Laidacker M. Seaberg</u> Laidacker M. Seaberg	President (Principal Executive Officer) and Director	September 16, 2003
<u>/s/ Brian Cahill</u> Brian Cahill	Vice President and Treasurer (Principal Financial and Accounting Officer)	September 16, 2003
<u>/s/ Michael Braude</u> Michael Braude	Director	September 16, 2003
<u>/s/ Cloud L. Cray, Jr.</u> Cloud L. Cray, Jr.	Director	September 16, 2003
<u>/s/ Michael R. Haverty</u> Michael R. Haverty	Director	September 16, 2003

/s/ Linda E. Miller
Linda E. Miller

Director

September 16, 2003

/s/ Robert J. Reintjes
Robert J. Reintjes

Director

September 16, 2003

/s/ Randy M. Schrick
Randy M. Schrick

Director

September 16, 2003

/s/ Daryl R. Schaller
Daryl R. Schaller

Director

September 16, 2003

25

/s/ James A. Schlindwein
James A. Schlindwein

Director

September 16, 2003

26

MGP INGREDIENTS, INC.

**Consolidated Financial Statement Schedules
(Form 10-K)**

**June 30, 2003, 2002, and 2001
(With Auditors' Report Thereon)**

BKD, LLP

Twelve Wyandotte Plaza
120 West 12th Street, Suite 1200
Kansas City, MO 64105-1936

bkd.com

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

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

In connection with our audit of the consolidated financial statements of MGP INGREDIENTS, INC. for each of the three years in the period ended June 30, 2003, we have also audited the following financial statement schedule. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits of the basic financial statements. The schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations and is not a required part of the consolidated financial statements.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ BKD, LLP

Kansas City, Missouri
August 1, 2003

MGP INGREDIENTS, INC

VIII. VALUATION AND QUALIFYING ACCOUNTS

	<u>Balance, Beginning Of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Write-Offs</u>	<u>Balance, End of Period</u>
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(In Thousands)

Year Ended June 30, 2003 Allowance for doubtful accounts	\$252	\$24	- ---	\$24	\$252
Year Ended June 30, 2002 Allowance for doubtful accounts	252	473	- ---	473	252
Year Ended June 30, 2001 Allowance for doubtful accounts	252	82	---	82	252

S-3

EXHIBIT INDEX

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- *13 Information contained in the MGP Ingredients, Inc. 2003 Annual Report to Stockholders that is incorporated herein by reference.
- 22 Subsidiaries of the Company other than insignificant subsidiaries:

Subsidiary

Midwest Grain Pipeline, Inc.
MGP Ingredients of Illinois, Inc.
Kansas City Ingredient Technologies, Inc.

**State of Incorporation
or Organization**

Kansas
Illinois
Kansas

- *23 Consent of BKD, LLP.
- 25 Powers of Attorney executed by all officers and directors of the Company who have signed this report on Form 10-K (incorporated by reference to the signature pages of this report).
- *99.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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- *99.3 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *99.4 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

LINE OF CREDIT NOTE

\$10,000,000
Maximum Amount and Interest

April 6, 2002
Kansas City, Missouri

FOR VALUE RECEIVED, the undersigned, MGP INGREDIENTS, INC., a Kansas corporation ("Borrower"), hereby promises to pay to the order of Commerce Bank, N.A. ("Bank"), at its offices in Kansas City, Missouri, the aggregate unpaid principal amount and accrued interest of all borrowings hereunder on November 30, 2003. The aggregate unpaid principal amount shall become immediately due and payable, without demand or further action on the part of Bank, upon the occurrence of an Event of Default as set forth in the Ninth Amended Line of Credit Loan Agreement of even date herewith (the "Agreement").

This Line of Credit Note shall bear interest at the per annum rates as set forth in the Agreement. Accrued interest shall be paid on the days provided therefor in the Agreement and upon the due date and payment (including prepayment) in full of the unpaid principal amount hereof. Accrued interest shall be calculated on the actual number of days outstanding based on a year consisting of 360 days. After maturity (whether by demand, acceleration or otherwise), this Line of Credit Note shall bear interest at 3% in excess of the Prime Rate (as that term is defined in the Agreement), and if not paid monthly, such interest shall be compounded monthly.

So long as the Agreement has not been terminated, Borrower may, from the date of this Line of Credit Note borrow, repay and reborrow sums, at any one time outstanding, not to exceed \$10,000,000 until and including November 30, 2003. Bank is authorized to endorse on the schedule annexed hereto and made a part hereof, or on a continuation thereof, or to otherwise record in a manner satisfactory to the Bank, appropriate notations evidencing the date and amount of each advance, and the date and amount of each payment, which endorsement or recording shall constitute prima facie evidence of the accuracy of the information endorsed or recorded; provided, however, that the failure to make such notations or recordings shall not affect the obligations of Borrower under this Line of Credit Note or the Agreement or affect the validity of any payment with respect thereto.

Borrower hereby waives presentment, protest, demand and notice of dishonor or default.

This Line of Credit Note is issued pursuant to the terms of the Agreement, to which Agreement, and any amendments thereto, reference is hereby made for a statement of the terms and conditions under which this borrowing was made, and is to be repaid.

IN WITNESS WHEREOF, Borrower has duly caused this Line of Credit Note to be executed and delivered as of the date first written above.

MIDWEST GRAIN PRODUCTS, INC.

By: /s/ Ladd M. Seaberg
Title: President and CEO

By: /s/ Robert G. Booe
Title: V.P. -CFO

LEASE AGREEMENT

Among

GE CAPITAL PUBLIC FINANCE, INC.,

as Bondholder,

and

THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS,

as Lessor,

and

MIDWEST GRAIN PRODUCTS, INC.,

as Lessee

Dated as of August 1, 2001

**This instrument constitutes a security agreement
under the Kansas Uniform Commercial Code.**

LEASE AGREEMENT

Bondholder: GE Capital Public Finance, Inc.
Suite 470
8400 Normandale Lake Boulevard
Minneapolis, MN 55437
Telephone: (800) 346-3164
Telecopier: (952) 897-5601

Lessor: The Unified Government of Wyandotte County/Kansas City, Kansas
701 N. 7th Street, 9th Floor
Kansas City, KS 66101
Telephone: (913) 573-5076
Telecopier: (913) 573-5243

Lessee: Midwest Grain Products, Inc.
1300 Main Street
Atchinson, KS 66002
Telephone: (913) 367-1480
Telecopier: (913) 367-0192

THIS LEASE AGREEMENT dated as of August 1, 2001 (this "Agreement") among GE Capital Public Finance, Inc., a Delaware corporation, as bondholder (with its successors and assigns, "Bondholder"), The Unified Government of Wyandotte County/Kansas City, Kansas, a municipal corporation duly organized and validly existing under the laws of the State of Kansas (the "State"), as lessor ("Lessor"), and Midwest Grain Products, Inc., a Kansas corporation, as lessee ("Lessee").

WHEREAS, Lessor is authorized and empowered under the laws of the State, including KSA § 12-1740 *et. seq.*, as now in effect and as may from time to time hereafter be amended and supplemented (the "Act"), to issue industrial development revenue bonds and to enter into lease agreements, contracts and other instruments and documents necessary or convenient to obtain Leases for the purpose of facilitating the financing of certain projects as described in the Act; and

WHEREAS, in furtherance of the purposes of the Act, Lessor proposes to finance all or a portion of the acquisition and rehabilitation of the Project (as hereinafter defined) by Lessee pursuant to this Agreement by issuing the Bond (as hereinafter defined); and

WHEREAS, Lessee has obtained or will obtain title to the Project and will sell the Project to Lessor in exchange for Lessor's agreeing to obtain the financing from Bondholder and to make certain payments in accordance with this Agreement; and

WHEREAS, in order to obtain funds to make such payments, Lessor proposes to lease the Project to Lessee in exchange for Lessee's agreeing to make Lease Payments (as hereinafter defined) in accordance with this Agreement; and

WHEREAS, Lessee shall make Lease Payments directly to Bondholder as assignee of Lessor and holder of the Bond pursuant to the terms set forth in this Agreement; and

WHEREAS, this Agreement and the Bond shall not be deemed to constitute a debt or liability or moral obligation of the State or any political subdivision thereof, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a special obligation payable solely from the Lease Payments payable hereunder by Lessee to Bondholder as assignee of Lessor;

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, and in consideration of the premises contained in this Agreement, Bondholder, Lessor and Lessee agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.01. Definitions. The following terms used herein will have the meanings indicated below unless the context clearly requires otherwise:

"*Acquisition Costs*" means the contract price paid or to be paid to the Vendors or reimbursed to Lessee for any portion of the Project upon Lessee's acceptance thereof, including administrative, engineering, legal, financial and other costs incurred by Bondholder, Lessor, Lessee, Escrow Agent and Vendors in connection with the acquisition and rehabilitation and financing by Bondholder of such Project.

"*Agreement*" means this Agreement, including all exhibits hereto, as any of the same may be supplemented or amended from time to time in accordance with the terms hereof.

“*Assignment*” means the Assignment of Rents and Leases dated as of August 1, 2001 executed by Lessee in favor of Bondholder.

“*Bond*” means Lessor’s \$6,500,000 Industrial Development Revenue Bond (Midwest Grain Products, Inc. Project) Series 2001 in the form attached hereto as Exhibit F.

“*Bondholder*” means (i) GE Capital Public Finance, Inc., acting as bondholder under this Agreement, (ii) any surviving, resulting or transferee corporation of GE Capital Public Finance, Inc., and (iii) except where the context requires otherwise, any assignee(s) of Bondholder.

“*Business Day*” means a day other than a Saturday or Sunday on which banks are generally open for business in New York, New York.

“*Code*” means the Internal Revenue Code of 1986, as amended, and United States Treasury regulations promulgated thereunder.

“*Default*” means an event that, with giving of notice or passage of time or both, would constitute an Event of Default as provided in Article XI hereof.

“*Determination of Taxability*” means any determination, decision or decree by the Commissioner of Internal Revenue, or any District Director of Internal Revenue or any court of competent jurisdiction, or an opinion obtained by Bondholder of counsel qualified in such matters, that an Event of Taxability shall have occurred. A Determination of Taxability also shall be deemed to have occurred on the first to occur of the following:

- (a) the date when Lessee files any statement, supplemental statement, or other tax schedule, return or document, which discloses that an Event of Taxability shall have occurred; or
- (b) the effective date of any federal legislation enacted after the date of this Agreement or promulgation of any income tax regulation or ruling by the Internal Revenue Service that causes an Event of Taxability after the date of this Agreement; or
- (c) if upon sale, lease or other deliberate action taken with respect to the Project within the meaning of Treas. Reg. § 1.141-2(d), the failure to receive an unqualified opinion of bond counsel to the effect that such deliberate action will not cause interest payable by Lessee hereunder to become includable in the gross income of the recipient.

“*Environmental Laws*” means any federal, state and local laws relating to emissions, discharges, releases of Hazardous Wastes or Materials into ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Wastes or Materials.

“*Escrow Agent*” means Commerce Bank, N.A., as escrow agent under the Escrow Agreement, and its successors and assigns permitted under the Escrow Agreement.

“*Escrow Agreement*” means the Escrow Agreement dated as of August 1, 2001 among Bondholder, Lessor, Lessee and Escrow Agent.

“*Escrow Fund*” means the fund established and held by Escrow Agent pursuant to the Escrow Agreement.

“*Event of Taxability*” means, if as the result of any act, failure to act or use of the proceeds of the Lease, a change in use of the Project or any misrepresentation or inaccuracy in any of the representations, warranties or covenants contained in this Agreement or the Tax Compliance Agreement by Lessor or Lessee or the enactment of any federal legislation after the date of this Agreement or the promulgation of any income tax regulation or ruling by the Internal Revenue Service after the date of this Agreement, the Interest is or becomes includable in Bondholder’s gross income.

“*Gross-Up Rate*” means, with respect to any Interest payment (including payments made prior to the Event of Taxability), the rate necessary to calculate a total payment in an amount sufficient such that the sum of the Interest payment plus an additional payment would, after reduced by the federal tax (including interest and penalties) actually payable thereon, equal the amount of the Interest payment.

“*Hazardous Substances Agreement*” means the Certificate and Indemnity Agreement regarding Hazardous Substances dated as of August 1, 2001 executed by Lessee for the benefit of Bondholder.

“*Hazardous Waste or Materials*” means any substance or material defined in or designated as hazardous or toxic wastes, hazardous or toxic material, a hazardous, toxic or radioactive substance, or other similar term, by any Environmental Law now or hereafter in effect.

“*Interest*” means the portion of any payment from Lessor to Bondholder designated as and comprising interest as shown in Exhibit A hereto.

“*Lease*” means the lease from Lessor to Lessee pursuant to this Agreement.

“*Lease Payments*” means the lease payments payable by Lessee pursuant to the provisions of this Agreement and the Bond as specifically set forth in Exhibit A hereto. As provided in Article II hereof, Lease Payments shall be payable by Lessee directly to Bondholder, as assignee of Lessor and holder of the Bond, in the amounts and at the times as set forth in Exhibit A hereto.

“*Lease Proceeds*” means the total amount of money to be paid to (i) Escrow Agent for deposit and application in accordance with the Escrow Agreement and (ii) Lessee for reimbursement of expenditures made by Lessee for the Project.

“*Lessee*” means Midwest Grain Products, Inc., a Kansas corporation.

“*Lessor*” means The Unified Government of Wyandotte County/Kansas City, Kansas, acting as lessor under this Agreement.

“*Mortgage*” means the Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of the date hereof executed by Lessee in favor of Bondholder, relating to the Project.

“*Note Agreement*” means the Note Agreement dated as of August 1, 1993, as amended and supplemented and in effect on the date hereof, between Lessee and Principal Mutual Life Insurance Company, without giving effect to any amendment thereof or supplement thereto after the date hereof, which Note Agreement shall be deemed to apply to Lessee and to the Lease under this Agreement (in lieu of the obligations under the Note Agreement) and shall survive this Agreement notwithstanding any termination of the Note Agreement.

“*Permitted Exceptions*” means the permitted exceptions listed on Exhibit J hereto.

“*Personal Property*” means the property and equipment acquired as part of the Project as set forth on Exhibit B hereto.

“*Prepayment Amount*” means the amount which Lessee may or must from time to time pay or cause to be paid to Bondholder as assignee of Lessor and holder of the Bond in order to prepay the Lease and the Bond, as provided in Section 2.07 hereof, such amounts being set forth in Exhibit A hereto, together with accrued interest and all other amounts due hereunder.

“*Principal*” means the portion of any Lease Payment designated as principal in Exhibit A hereto.

“*Project*” means (i) all of Lessee’s estate, right, title and interest, now owned, including any reversion or remainder interest, in the real property located in the City of Kansas City, County of Wyandotte, State of Kansas described on Exhibit I hereto, including all heretofore vacated alleys and streets abutting the property, and all easements, rights, appurtenances, tenements, hereditaments, rents, royalties, mineral, oil and gas rights and profits, water, water rights and water stock appurtenant to the property (collectively, the “Premises”), (ii) all buildings, structures, improvements, parking areas, landscaping and fixtures now erected on, attached to, or used or adapted for use in the operation of such real property, including (without limitation) all heating, air conditioning, manufacturing and incinerating apparatus and equipment; all boilers, engines, motors, dynamos, generating equipment, piping and plumbing fixtures, water heaters, ranges, cooking apparatus and mechanical kitchen equipment, refrigerators, freezers, cooling, ventilating, sprinkling and vacuum cleaning systems, fire extinguishing apparatus, gas and electric fixtures, carpeting, floor coverings, underpadding, elevators, escalators, partitions, mantels, built-in mirrors, window shades, blinds, draperies, screens, storm sash, awnings, signs, furnishings of public spaces, halls and lobbies, and shrubbery and plants (other than manufacturing equipment not included as a portion of the Personal Property), (iii) the Personal Property, and (iv) the property and the improvements acquired or constructed with the Rehabilitation Expenditures.

“*Property*” means, collectively, all of Lessee’s estate, right, title and interest, now owned or hereafter acquired, including any reversion or remainder interest, in the real property located in the City of Kansas City, County of Wyandotte, State of Kansas described on Exhibit I hereto, including all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, tenements, hereditaments, rents, royalties, mineral, oil and gas rights and profits, water, water rights and water stock appurtenant to the property; together with all of Lessee’s estate, right, title and interest, now owned or hereafter acquired, in:

(a) all buildings, structures, improvements, parking areas, landscaping, equipment, software intangibles, fixtures and articles of property now or hereafter erected on, attached to, or used or adapted for use in the operation of the Premises, including (without limitation) all heating, air conditioning, manufacturing and incinerating apparatus and equipment; all boilers, engines, motors, dynamos, generating equipment, piping and plumbing fixtures, water heaters, ranges, cooking apparatus and mechanical kitchen equipment, refrigerators, freezers, cooling, ventilating, sprinkling and vacuum cleaning systems, fire extinguishing apparatus, gas and electric fixtures, carpeting, floor coverings, underpadding, elevators, escalators, partitions, mantels, built-in mirrors,

Exhibit 10.10(q)(1)

window shades, blinds, draperies, screens, storm sash, awnings, signs, furnishings of public spaces, halls and lobbies, and shrubbery and plants, and including also all interest of any owner of the Premises in any of such items hereafter at any time acquired under conditional sale contract, chattel mortgage or other title retaining or security instrument, but excluding any manufacturing equipment now or hereafter acquired that does not consist of any portion of the Personal Property (all of the foregoing together with any replacements thereto are referred to herein as the “Improvements”);

(b) all compensation, awards, damages, rights of action and proceeds, including interest thereon and/or the proceeds of any policies of insurance therefor, arising out of or relating to a (i) taking or damaging of the Premises or Improvements thereon by reason of any public or private improvement, condemnation proceeding (including change of grade), sale or transfer in lieu of condemnation, or fire, earthquake or other casualty, or (ii) any injury to or decrease in the value of the Premises or the Improvements for any reason whatsoever;

(c) all the right, title and interest of Lessee in, to and under all written and oral leases and rental agreements (including extensions, renewals and subleases; all of the foregoing shall be referred to collectively herein as the “Leases”) now or hereafter affecting the Premises including, without limitation, all rents, issues, profits and other revenues and income therefrom and from the renting, leasing or bailment of Improvements and equipment, all guaranties of tenants’ performance under the Leases, all letter of credit rights and all other supporting obligations associated with the Leases, and all rights and claims of any kind that Lessee may have against any tenant under the Leases or in connection with the termination or rejection of the Leases in a bankruptcy or insolvency proceeding; and the leasehold estate, if applicable;

(d) plans, specifications, contracts, documents and agreements relating to the design or construction of the Improvements; Lessee’s rights under any payment, performance or other bond in connection with the design or construction of the Improvements; all landscaping and construction materials, supplies and equipment used or to be used or consumed in connection with construction of the Improvements, whether stored on the Premises or at some other location; and contracts, agreements and purchase orders with contractors, subcontractors, suppliers and materialmen incidental to the design or construction of the Improvements;

(e) all books, records, surveys, reports and other documents related to the Premises, the Improvements, the Leases or other items of Property described herein; and

(f) all additions, accessions, replacements, substitutions, proceeds and products of the real and personal property, tangible and intangible, described herein.

“*Purchase Agreements*” means Lessee’s purchase agreements with Vendors of the Project.

“*Purchase Price*” means \$6,500,000.

“*Rehabilitation Expenditures*” means those capital expenditures to be incurred by Lessee with respect to the Project as set forth on Exhibit C hereto.

“*State*” means the State of Kansas.

“*Tax Compliance Agreement*” means the Tax Compliance Agreement of even date herewith among Lessee, Lessor and Escrow Agent, as such Tax Compliance Agreement may be amended from time to time in accordance with its terms.

“*UCC*” means the Uniform Commercial Code as adopted and in effect in the State.

“*Vendor*” means the manufacturer, contractor or vendor of any portion of the Project, as well as the agents or dealers of the manufacturer or contractor, from whom Lessee has purchased or is purchasing portions of the Project.

Section 1.02. Exhibits The following exhibits are attached hereto and made a part hereof:

- Exhibit A:* Schedule of Lease Payments setting forth the Lease Payments and Prepayment Amounts.
- Exhibit B:* Description of Personal Property.
- Exhibit C:* Description of Rehabilitation Expenditures.
- Exhibit D:* Reserved.
- Exhibit E:* Reserved.
- Exhibit F:* Form of Bond.
- Exhibit G:* Form of Certificate of Chief Financial Officer.
- Exhibit H:* Reserved.
- Exhibit I:* Legal Description of Real Property.
- Exhibit J:* List of Permitted Exceptions.
- Exhibit K:* List of Trade Names.
- Exhibit L:* Survey Requirements.
- Exhibit M:* Permanent Lease Insurance Requirements.
- Exhibit N:* Phase I Requirements.

Section 1.03. Rules of Construction. (a) The singular form of any word used herein, including the terms defined in Section 1.01 hereof, shall include the plural, and vice versa. The use herein of a word of any gender shall include correlative words of all genders.

(b) Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivision of this Agreement as originally executed. The words “hereof,” “herein,” “hereunder” and words of similar import refer to this Agreement as a whole.

(c) The headings or titles of the several articles and sections shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

FINANCING OF PROJECT AND TERMS OF LEASE

Section 2.01. Acquisition of Project. (a) Lessee either has obtained or shall obtain the Project pursuant to one or more Purchase Agreements from one or more Vendors. Lessee shall remain liable to the Vendor or Vendors in respect of its duties and obligations in accordance with each Purchase Agreement and shall bear the risk of loss with respect to any loss or claim relating to any portion of the Project covered by any Purchase Agreement, and neither Bondholder nor Lessor shall assume any such liability or risk of loss. Lessee covenants and agrees to pay or cause to be paid such amounts as may be necessary to complete the acquisition, installation, construction and improvement of the Project and to ensure that the Project is operational to the extent that the Lease Proceeds are insufficient to cause such acquisition, installation, construction and improvement.

(b) Lessee agrees to sell, and does hereby sell, to Lessor the Project on the terms and conditions of this Agreement, and Lessor agrees to purchase, and subject to the satisfaction of the conditions contained in Article III hereof, does purchase the Project in accordance with the terms and conditions of this Agreement, at the Purchase Price. Lessor and Lessee agree that, upon payment of the Purchase Price by Lessor to Lessee, title to the Project shall be deemed to be conveyed to and vested in Lessor. Lessee agrees to execute any and all documents, certificates and agreements necessary to effectuate such purchase of the Project.

(c) Lessor agrees to lease and hereby leases the Project to Lessee, and Lessee agrees to lease and hereby leases, the Project from Lessor in accordance with the terms and conditions of this Agreement. Lessee agrees that it shall be liable for all of its obligations under any agreements with Vendors in the event that the conditions contained in Article III hereof are not satisfied or the Lease Proceeds are not applied as provided in Section 2.02 hereof for any reason. Lessor and Lessee agree to execute any and all documents, certificates and agreements necessary to effectuate such lease of the Project.

(d) Title to the Project shall pass from Lessor to Lessee automatically and without further act upon the end of the term of this Agreement. Lessor agrees to execute any and all documents, certificates and agreements necessary to effectuate such transfer of the Project.

Section 2.02. Lease. Bondholder hereby agrees, subject to the terms and conditions of this Agreement, to purchase the Bond in the amount of \$6,500,000; Lessor hereby agrees, subject to the terms and conditions of this Agreement, to issue the Bond and to use the proceeds thereof to purchase the Project from Lessee; and Lessee hereby agrees to lease the Project from Lessor. The basic term of the Lease is seven years, commencing upon the delivery of this Agreement, and with a scheduled termination date of September 1, 2008. Upon fulfillment of the conditions set forth in Article III hereof, Bondholder shall (i) deposit \$900,000.00 of the Lease Proceeds in the Escrow Fund to be held, invested and disbursed for Rehabilitation Expenditures, as provided in the Escrow Agreement and (ii) disburse \$5,600,000.00 of the Lease Proceeds to Lessee for reimbursement of expenditures previously made by Lessee for the Project. Lessor's obligation to make payments on the Bond, and Lessee's obligation to repay the Lease, shall commence, and interest shall begin to accrue, on the date that Lease Proceeds are deposited in the Escrow Fund and disbursed to Lessee.

Section 2.03. Interest. The principal amount of the Bond and the Lease hereunder outstanding from time to time shall bear interest (computed on the basis of actual days elapsed in a 360-day year) at the rate of five and twenty-three hundredths percent (5.23%). Interest accruing on the principal balance of the Bond and the Lease outstanding from time to time shall be payable as provided in Exhibit A and in the Bond and upon earlier demand in accordance with the terms hereof or prepayment in accordance with the terms of the Bond and Section 2.07 hereof. Upon the occurrence of a Determination of Taxability, Lessee shall, with respect to future interest payments, begin making Lease Payments calculated at the Gross-Up Rate. In addition, Lessee shall make immediately upon demand of Bondholder a payment to Bondholder sufficient to supplement prior Lease Payments to the Gross-Up Rate.

Section 2.04. Payments. Lessor shall pay the principal of, premium, if any in accordance with Section 2.07 hereof, and interest on the Bond, but only out of the amounts paid by Lessee pursuant to this Agreement. Lessee shall pay to Bondholder, as assignee of Lessor, Lease Payments, in the amounts and on the dates set forth in Exhibit A hereto. As security for its obligation to pay the principal of, premium, if any in accordance with Section 2.07 hereof, and interest on the Bond, Lessor assigns to Bondholder all of Lessor's right to receive Lease Payments from Lessee hereunder, all of Lessor's rights hereunder and all of Lessor's right, title and interest in and to the Project, and Lessor irrevocably constitutes and appoints Bondholder and any present or future officer or agent of Bondholder as its lawful attorney, with full power of substitution and resubstitution, and in the name of Lessor or otherwise, to collect the Lease Payments and any other payments due hereunder and under the Bond and to sue in any court for such Lease Payments or other payments, to exercise all rights hereunder with respect to the Project, and to withdraw or settle any claims, suits or proceedings pertaining to or arising out of this Agreement upon any terms. Such Lease Payments and other payments shall be made by Lessee directly to Bondholder, as Lessor's assignee and holder of the Bond, and shall be credited against Lessor's payment obligations hereunder and under the Bond. No provision, covenant or agreement contained in this Agreement or any obligation imposed on Lessor herein or under the Bond, or the breach thereof, shall constitute or give rise to or impose upon Lessor a pecuniary liability, a charge upon its general credit or taxing powers or a pledge of its general revenues. In making the agreements,

provisions and covenants set forth in this Agreement, Lessor has not obligated itself except with respect to the Project and the application of the Lease Payments to be

Exhibit 10.10(q)(1)

paid by Lessee hereunder. All amounts required to be paid by Lessee hereunder shall be paid in lawful money of the United States of America in immediately available funds. No recourse shall be had by Bondholder or Lessee for any claim based on this Agreement, the Bond or the Tax Compliance Agreement against any director, officer, employee or agent of Lessor alleging personal liability on the part of such person, unless such claim is based on the willful dishonesty of or intentional violation of law by such person.

Section 2.05. Payment on Non-Business Days. Whenever any payment to be made hereunder or under the Bond shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or the fees hereunder, as the case may be.

Section 2.06. Lease Payments To Be Unconditional. The obligations of Lessee to make the Lease Payments required under this Article II and to make other payments hereunder and to perform and observe the covenants and agreements contained herein shall be absolute and unconditional in all events, without abatement, diminution, deduction, setoff or defense for any reason, including (without limitation) any failure of the Project to be delivered or installed, any defects, malfunctions, breakdowns or infirmities in the Project or any accident, condemnation, destruction or unforeseen circumstances. Notwithstanding any dispute between Lessee and any of Lessor, Bondholder, any Vendor or any other person, Lessee shall make all Lease Payments when due and shall not withhold any Lease Payments pending final resolution of such dispute, nor shall Lessee assert any right of set-off or counterclaim against its obligation to make such payments required under this Agreement.

Section 2.07. Prepayments. (a) Lessee may, in its discretion, prepay the Lease and the Bond in whole at any time after the third anniversary of the date hereof by paying the applicable Prepayment Amount.

(b) Lessee shall prepay the Lease and the Bond in whole or in part at any time pursuant to Article IX hereof by paying the applicable Prepayment Amount.

(c) Lessee shall prepay the Lease and the Bond in full immediately upon demand of Bondholder after the occurrence of an Event of Default by paying the applicable Prepayment Amount.

(d) Lessee shall prepay the Lease and the Bond in full immediately upon demand of Bondholder after the occurrence of a Determination of Taxability by paying the applicable Prepayment Amount plus an amount necessary to supplement the prior Lease Payments to the Gross-Up Rate.

(e) The amounts due hereunder shall be repaid, and the amounts due under the Bond shall be paid, in part with funds remaining in the Escrow Fund upon termination of the Escrow Agreement as provided in Sections 2.03 or 2.04 of the Escrow Agreement.

Exhibit 10.10(q)(1)

Upon any prepayment in part of the Lease and the Bond other than pursuant to Section 2.03 of the Escrow Agreement, the prepayment shall be applied to the Principal portion of the Lease Payments in the inverse order of maturity.

Section 2.08. Security. The obligations of Lessee to make the Lease Payments required by this Article II and to make other payments hereunder and to perform or observe the covenants and agreements contained herein shall be secured, among other things, by a security interest in the Project, and pursuant to the Mortgage covering the Project as described therein, and by certain other documents executed and delivered in connection herewith. Nothing herein shall limit the liability of Lessee under the Hazardous Substances Agreement.

ARTICLE III

CONDITIONS PRECEDENT

Bondholder's agreement to purchase the Bond and to disburse the Lease Proceeds shall be subject to the condition precedent that Bondholder shall have received all of the following, each in form and substance satisfactory to Bondholder:

- (a) This Agreement, properly executed on behalf of Lessor and Lessee, and each of the Exhibits hereto properly completed.
- (b) The Bond, properly executed on behalf of Lessor.
- (c) The Tax Compliance Agreement, properly executed on behalf of Lessor and Lessee.
- (d) The Mortgage, properly executed on behalf of Lessee.
- (e) The Assignment, properly executed on behalf of Lessee.
- (f) The Hazardous Substances Agreement, properly executed on behalf of Lessee.
- (g) The Escrow Agreement, properly executed on behalf of Lessor, Lessee and Escrow Agent.
- (h) A certificate of the Secretary or an Assistant Secretary of Lessee, as to (i) the resolutions of the board of directors and, if required, the shareholders of Lessee, authorizing the execution, delivery and performance of this Agreement, the Mortgage, the Assignment, the Hazardous Substance Agreement, the Escrow Agreement and the Tax Compliance Agreement and any related documents, (ii) the bylaws of Lessee, and (iii) the signatures of the officers or agents of Lessee authorized to execute and deliver this Agreement, the Mortgage, the Assignment, the Hazardous Substance Agreement, the Escrow Agreement Tax Compliance Agreement and other instruments, agreements and certificates on behalf of Lessee.
- (i) Currently certified copies of the Articles of Incorporation of Lessee.

Exhibit 10.10(q)(1)

- (j) A Certificate of Good Standing issued as to Lessee by the Secretary of the State of the state of Lessee's incorporation not more than 10 days prior to the date hereof.
- (k) Certificates of the insurance required hereunder, containing a lender's loss payable clause or endorsement in favor of Bondholder and permanent loan insurance requirements set forth in Exhibit M hereto.
- (l) A completed and executed Form 8038 or evidence of filing thereof with the Secretary of Treasury.
- (m) An ordinance taken by or on behalf of Lessor to authorize the transactions contemplated hereby.
- (n) Evidence that the issuance of the Bond for the purpose of financing of the Project has been approved by the "applicable elected representative" of Lessor after a public hearing held upon reasonable notice.
- (o) As applicable, financing statements executed by Lessee, as debtor, and naming Lessor, as secured party, and Bondholder, as assignee.
- (p) Financing statements executed by Lessor, as debtor, and naming Bondholder, as secured party.
- (q) Current searches of appropriate filing offices showing that (i) no state or federal tax liens have been filed and remain in effect against Lessee, (ii) no financing statements have been filed and remain in effect against Lessee relating to the Project except those financing statements filed by Bondholder, (iii) Bondholder has necessary to perfect the security interest created pursuant to this Agreement and (iv) Bondholder has duly filed all financing statements necessary to perfect the transfer of Lessor's interest in this Agreement and the Lease Payments.
- (r) An opinion of counsel to Lessee, addressed to Bondholder and Lessor, in form and substance acceptable to Bondholder and Lessor.

- (s) An opinion of counsel to Lessor, addressed to Bondholder and Lessee, in form and substance acceptable to Bondholder and Lessee.
- (t) An environmental engineering report for the Premises prepared by an engineer, and in a manner satisfactory to Bondholder, based upon an investigation relating to and making appropriate inquiries concerning the Premises and in substantial compliance with the Environmental Phase I Requirements set forth in Exhibit N hereto.
- (u) A completed Environmental Questionnaire in the form provided by Bondholder executed on behalf of Lessee.
- (v) An as built survey of the Project prepared in compliance with the requirements set forth in Exhibit L hereto.

12

Exhibit 10.10(q)(1)

- (w) An ALTA (or equivalent) mortgagee policy of title insurance in the amount of \$3,120,000.00, with endorsements as Bondholder may require, containing no exceptions to title (printed or otherwise) which are unacceptable to Bondholder, and insuring that the Mortgage is a first-priority lien on the Project. Without limitation, such policy shall (i) be in the ALTA 1992 form (deleting arbitration and creditors' rights, if permissible) or, if not available, the form commonly used in the State, insuring Bondholder and its successors and assigns; and (ii) include the following endorsements and/or affirmative coverages: (A) ALTA 9 Comprehensive, (B) Survey, (C) Access, (D) Subdivision, (E) Tax Parcel and (F) Address and Improvement.
- (x) A zoning compliance letter from the applicable City Planner's, County Clerk's or Zoning Department's office. Without limitation, such zoning compliance letter shall (i) provide the zoning classification code for the property, (ii) be addressed to Lessee and Bondholder, (iii) include the address of the Property, (iv) describe the type(s) of permitted use of the Property, and (v) include an expiration-dated copy of conditions or restrictions of use. If the applicable governmental agency does not, or is unwilling to, provide the required zoning compliance letter, Bondholder will require an ALTA 3.1 Zoning Endorsement (with additional coverage for number and type of parking spaces) to the mortgagee policy of title insurance.
- (y) A copy of the final, permanent and unconditional Certificate of Occupancy for the Project.
- (z) An engineer's "walk-through" inspection prepared by an engineer acceptable to Bondholder at Lessee's expense stating that the Project was built in conformance with approved plans and specifications with no evident structural deficiencies and including the building's compliance with the Americans with Disabilities Act of 1990 and all regulations promulgated thereunder.
- (aa) A Final Appraisal of the Project addressed to Bondholder, in form and substance acceptable to Bondholder and prepared by an MAI certified appraiser acceptable to Bondholder in conformance with the guidelines and recommendations set forth in the Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. In addition to the foregoing requirements, whenever the Income Approach is utilized by the appraiser, the report shall include a direct capitalization analysis as well as a discounted cash flow analysis and a final estimate of value based on the property's fee simple estate.
- (bb) An opinion of special tax counsel, addressed to Bondholder, Lessor and Lessee, in form and substance acceptable to the addressees.
- (cc) Payment of Bondholder's fees, commissions and expenses required by Section 12.01 hereof.

13

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- (dd) Payment of Lessor's fees, commissions and expenses incurred in connection with this Agreement and the transactions contemplated hereby.
 - (ee) Any other documents or items reasonably required by Bondholder.
 - (ff) Payment of Lessor's Bond origination fee.

Bondholder's agreement to purchase the Bond, to disburse the Lease Proceeds and to consider approval of any disbursement from the Escrow Fund shall be subject to the further conditions precedent that on the date thereof:

- (gg) Each of the items required for a disbursement pursuant to the Escrow Agreement.
- (hh) Invoice(s) and/or bill(s) of sale relating to the Project and, if such invoices have been paid by Lessor or Lessee, evidence of payment thereof and, if applicable, evidence of official intent to reimburse such payment as required by the Code.
- (ii) The representations and warranties contained in Articles IV and V hereof are correct on and as of the date of such disbursement as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.
- (jj) No event has occurred and is continuing, or would result from the Bond or the Lease which constitutes a Default, an Event of Default or a Determination of Taxability.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS OF LESSOR

Lessor represents, warrants and covenants for the benefit of Bondholder and Lessee, as follows:

- (a) Lessor is a municipal corporation duly created and validly existing under the Constitution and laws of the State.
- (b) Lessor will exercise its best efforts to preserve and keep in full force and effect its existence as a municipal corporation.
- (c) Lessor is authorized under the Constitution and laws of the State to issue the Bond and to enter into this Agreement, the Escrow Agreement, the Tax Compliance Agreement and the transactions contemplated hereby and to perform all of its obligations hereunder.
- (d) Lessor has duly authorized the issuance of the Bond and the execution and delivery of this Agreement, the Escrow Agreement and the Tax Compliance Agreement under the terms and provisions of the resolution of its governing body or by other appropriate official approval, and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability of the Bond, this Agreement, the Escrow Agreement and the Tax

Compliance Agreement against Lessor, and Lessor has complied with such public bidding requirements as may be applicable to the Bond, this Agreement, the Escrow Agreement and the Project. Lessor has taken all necessary action and has complied with all provisions of the Act, including but not limited to the making of the findings required by the Act, required to make the Bond, this Agreement, the Escrow Agreement and the Tax Compliance Agreement the valid and binding obligation of Lessor.

- (e) The officer of Lessor executing the Bond, this Agreement, the Escrow Agreement, the Tax Compliance Agreement and any related documents has been duly authorized to issue the Bond and to execute and deliver this Agreement, the Escrow Agreement and the Tax Compliance Agreement and such related documents under the terms and provisions of a resolution of Lessor's governing body, or by other appropriate official action.
- (f) The Bond, this Agreement, the Escrow Agreement and the Tax Compliance Agreement are legal, valid and binding obligations of Lessor, enforceable in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights.
- (g) Lessor has assigned to Bondholder all of Lessor's rights in the Project and this Agreement (except any indemnification payable to Lessor pursuant to Sections 7.07 (d) and 7.12 hereof and notice to Lessor pursuant to Section 12.03 hereof) including the assignment of all rights in the security interest granted to Lessor by Lessee.
- (h) Lessor will not pledge, mortgage or assign this Agreement or its duties and obligations hereunder to any person, firm or corporation, except as provided under the terms hereof.

(i) None of the issuance of the Bond or the execution and delivery of this Agreement, the Escrow Agreement or the Tax Compliance Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and conditions of the Bond, this Agreement, the Escrow Agreement or the Tax Compliance Agreement violates any law, rule, regulation or order, conflicts with or results in a breach of any of the terms, conditions or provisions of any restriction or any agreement or instrument to which Lessor is now a party or by which it is bound or constitutes a default under any of the foregoing or results in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Lessor under the terms of any instrument or agreement.

(j) There is no action, suit, proceeding, claim, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best of Lessor's knowledge, threatened against or affecting Lessor, challenging Lessor's authority to issue the Bond or to enter into this Agreement, the Escrow Agreement or the Tax Compliance Agreement or any other action wherein an unfavorable ruling or finding would adversely affect the enforceability of the Bond, this Agreement, the Escrow Agreement or the Tax Compliance Agreement or any other transaction of Lessor which is

Exhibit 10.10(q)(1)

similar hereto, or the exclusion of the Interest from gross income for federal tax purposes under the Code, or would materially and adversely affect any of the transactions contemplated by this Agreement.

(k) Lessor will submit or cause to be submitted to the Secretary of the Treasury a Form 8038 (or other information reporting statement) at the time and in the form required by the Code.

(l) The issuance of the Bond for the purpose of financing the Project has been approved by the "applicable elected representative" (as defined in Section 147(f) of the Code) of Lessor after a public hearing held upon reasonable notice.

(m) Lessor will comply fully at all times with the Tax Compliance Agreement, and Lessor will not take any action, or omit to take any action, which, if taken or omitted, respectively, would violate the Tax Compliance Agreement.

(n) Lessor will take no action that would cause the Interest to become includable in gross income for federal income tax purposes under the Code (including, without limitation, intentional acts under Treas. Reg. § 1.148-2(c) or consenting to a deliberate action within the meaning of Treas. Reg. § 1.141-2(d)), and Lessor will take and will cause its officers, employees and agents to take all affirmative actions legally within its power necessary to ensure that the Interest does not become includable in gross income of the recipient for federal income tax purposes under the Code (including, without limitation, the calculation and payment of any rebate required to preserve such exclusion).

ARTICLE V

REPRESENTATIONS, WARRANTIES AND COVENANTS OF LESSEE

Lessee represents, warrants and covenants for the benefit of Bondholder and Lessor, as follows:

(a) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the State of Kansas, has power to enter into this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, and by proper corporate action has duly authorized the execution and delivery of this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement. Lessee is in good standing and is duly licensed or qualified to transact business in the State and in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary. Lessee's exact legal name is as set forth on the execution page hereof.

(b) Lessee has been fully authorized to execute and deliver this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement under the terms and provisions of the resolution of its board of directors, or by other appropriate official approval, and further represents,

covenants and warrants that all requirements have been met, and procedures have occurred in order to ensure the enforceability of this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement and this Agreement, Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement have been duly authorized, executed and delivered.

(c) The officer of Lessee executing this Agreement, the Escrow Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, and the Tax Compliance Agreement and any related documents has been duly authorized to execute and deliver this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement and such related documents under the terms and provisions of a resolution of Lessee's board of directors.

(d) This Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement constitute valid and legally binding obligations of Lessee, enforceable against Lessee in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights.

(e) The execution and delivery of this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement and the Tax Compliance Agreement, the consummation of the transactions contemplated hereby and the fulfillment of the terms and conditions hereof do not and will not violate any law, rule, regulation or order, conflict with or result in a breach of any of the terms or conditions of the articles of incorporation or bylaws of Lessee or of any corporate restriction or of any agreement or instrument to which Lessee is now a party and do not and will not constitute a default under any of the foregoing or result in the creation or imposition of any liens, charges or encumbrances of any nature upon any of the property or assets of Lessee contrary to the terms of any instrument or agreement.

(f) The authorization, execution, delivery and performance of this Agreement by Lessee do not require submission to, approval of, or other action by any governmental authority or agency, which action with respect to this Agreement has not been taken and which is final and nonappealable.

(g) There is no action, suit, proceeding, claim, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best of Lessee's knowledge, threatened against or affecting Lessee, challenging Lessee's authority to enter into this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement or the Tax Compliance Agreement or any other action wherein an unfavorable ruling or finding would adversely affect the enforceability of this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement or the Tax Compliance Agreement or any other transaction of Lessee which is similar hereto, or the exclusion of the Interest from

gross income for federal tax purposes under the Code, or would materially and adversely affect any of the transactions contemplated by this Agreement.

(h) The property at which the Project and the Property are located is properly zoned for its current and anticipated use and the use of the Project and the Property will not violate any applicable zoning, land use, environmental or similar law or restriction. Lessee has all licenses and permits to use the Project and the Property.

(i) Lessee has furnished to Bondholder a Phase I Environmental Site Assessment dated December 6, 2000, prepared by Black & Veatch Corporation, and an Environmental Questionnaire dated August 17, 2001 (collectively, the "Report"). Except as disclosed to Bondholder in writing or in the Report, Lessee has received no notification of any kind suggesting that the Property or any adjacent property is or may be contaminated with any Hazardous Waste or Materials or is or may be required to be cleaned up in accordance with any applicable law or regulation; and Lessee further represents and warrants that, except as previously disclosed to Bondholder in writing or in the Report, to the best of its knowledge as of the date hereof after due and diligent inquiry, there are no Hazardous Waste or Materials located in, on or under the Property, or incorporated in any Improvements, nor has the Property ever been used as a landfill or a waste disposal site, or a manufacturing, handling, storage, distribution or disposal facility for Hazardous Waste or Materials. Lessee has obtained all permits, licenses and other authorizations which are required under federal, state and local laws or any Environmental Law at the Property or in connection with the operation of the Project. Except as previously disclosed to Bondholder in writing, Lessee and all activities of Lessee at the Property comply with all Environmental Laws and with all terms and conditions of any required permits, licenses and authorizations applicable to Lessee with respect thereto. Except as previously disclosed to Bondholder in writing, with respect to the Property and the Project, Lessee is also in compliance with all limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in Environmental Laws or contained in any plan, order, decree, judgment or notice of which Lessee is aware. Except as previously disclosed to Bondholder in writing, Lessee is not aware of, nor has Lessee received notice of, any events, conditions, circumstances, activities, practices, incidents, actions or plans which may interfere with or prevent continued compliance with, or which may give rise to any liability of Lessee under, any Environmental Laws with respect to the Property and the Project.

(j) The Project is of the type authorized and permitted to be financed with the proceeds of the Bond pursuant to the Act.

(k) Lessee intends to operate the Project, or cause the Project to be operated, as a "project," within the meaning of the Act, until the date on which all of the Lease Payments have been fully paid or the applicable Prepayment Amount has been fully paid.

(l) Lessee will not take any action that would cause the Interest to become includable in gross income of the recipient for federal income tax purposes under the Code (including, without limitation, intentional acts under Treas. Reg. § 1.148-2(c) or

deliberate action within the meaning of Treas. Reg. § 1.141-2(d)), and Lessee will take and will cause its officers, employees and agents to take all affirmative actions legally within its power necessary to ensure that the Interest does not become includable in gross income of the recipient for federal income tax purposes under the Code (including, without limitation, the calculation and payment of any rebate required to preserve such exclusion).

(m) Lessee has heretofore furnished to Bondholder the audited financial statements of Lessee for its fiscal years ended June 30, 1997, June 30, 1998, June 30, 1999 and June 30, 2000 and the unaudited financial statement of Lessee for the nine-months ended March 31, 2001, and those statements fairly present the financial condition of Lessee on the dates thereof and the results of its operations and cash flows for the periods then ended and were prepared in accordance with generally accepted accounting principles. Since the date of the most recent financial statements, there has been no material adverse change in the business, properties or condition (financial or otherwise) of Lessee.

(n) Lessee has paid or caused to be paid to the proper authorities when due all federal, state and local taxes required to be withheld by it. Lessee has filed all federal, state and local tax returns which are required to be filed, and Lessee has paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by it to the extent such taxes have become due.

(o) Lessee has or as of closing will have good and absolute title to its interest in the Project subject to the rights of Lessor free and clear of all mortgages, security interests, liens and encumbrances except for the security interest created pursuant to this Agreement and the Mortgage and except for the Permitted Exceptions.

(p) Lessee has provided to Bondholder signed financing statements sufficient when filed to perfect the security interest created pursuant to this Agreement. When such financing statements are filed in the offices noted therein, Bondholder, as assignee of Lessor and holder of the Bond, will have a valid and perfected security interest in the Project, subject to no other security interest, assignment, lien or encumbrance. None of the Project constitutes a replacement of, substitution for or accessory to any property of Lessee subject to a lien of any kind. Lessee owns the Project subject to no liens or encumbrances of any kind other than the Permitted Exceptions and the liens created hereunder and under the Mortgage.

(q) Lessee will aid and assist Lessor in connection with preparing and submitting to the Secretary of the Treasury a Form 8038 (or other applicable information reporting statement) at the time and in the form required by the Code.

(r) Lessee will comply fully at all times with the Tax Compliance Agreement, and Lessee will not take any action, or omit to take any action, which, if taken or omitted, respectively, would violate the Tax Compliance Agreement.

Exhibit 10.10(q)(1)

(s) Expenses for work done by officers or employees of Lessee in connection with the Project will be included as an Acquisition Cost, if at all, only to the extent (i) such persons were specifically employed for such particular purpose, (ii) the expenses do not exceed the actual cost thereof and (iii) such expenses are treated or capable of being treated (whether or not so treated) on the books of Lessee as a capital expenditure in conformity with generally accepted accounting principles applied on a consistent basis.

(t) Any costs incurred with respect to that part of the Project paid from the Lease Proceeds shall be treated or capable of being treated on the books of Lessee as capital expenditures in conformity with generally accepted accounting principles applied on a consistent basis.

(u) No part of the Lease Proceeds will be used to finance inventory or rolling stock or will be used for working capital or to finance any other cost not constituting an Acquisition Cost.

(v) No person other than Lessee or Kansas City Ingredients Technology, Inc. is in occupancy or possession of any portion of the Property.

(w) The Project is property of the character subject to the allowance for depreciation under Section 167 of the Code.

ARTICLE VI

TITLE TO PROJECT; SECURITY INTEREST

Section 6.01. *Title to Project.* Legal title to the Project and any and all repairs, replacements, substitutions and modifications to such Project shall be in Lessor. Lessee will at all times protect and defend, at its own cost and expense, its and Lessor's title from and against all claims, liens and legal processes of creditors of Lessee, and keep all the Property and the Project free and clear of all such claims, liens and processes except for the Permitted Exceptions and the liens created hereunder and under the Mortgage.

Section 6.02. *Security Interest in Project.* This Agreement is intended to constitute a security agreement within the meaning of the UCC. As security for Lessee's payment to Bondholder, as assignee of Lessor, of Lease Payments and all other amounts payable to Bondholder hereunder, Lessee hereby grants to Lessor a security interest constituting a first lien on all of Lessee's rights, title and interest as lessee in and to (i) the Project, (ii) all securities, funds, moneys, deposits and other property at any time held in or subject to the Escrow Fund, (iii) all repairs and modifications to any of the foregoing property, (iv) all substitutions for or replacement of any of the foregoing property, (v) products and proceeds of any of the foregoing property, and (vi) all of Lessee's rights hereunder. As security for the Bond, Lessor hereby grants a security interest to Bondholder constituting a lien on all of Lessor's rights, title and interest in and to (i) the Project, (ii) all securities, funds, moneys, deposits and other property at any time held in or subject to the Escrow Fund, (iii) all repairs and modifications to any of the foregoing property, (iv) all substitutions for or replacement of any of the foregoing property, (v) products

Exhibit 10.10(q)(1)

and proceeds of any of the foregoing property and (vi) all of Lessor's rights hereunder, including rights to receive Lease Payments. Lessee ratifies its previous authorization for Bondholder to pre-file UCC financing statements and any amendments thereto describing the Project and all other collateral described above and containing any other information required by the applicable UCC. Lessee authorizes Bondholder, and

hereby grants Bondholder a power of attorney (which is coupled with an interest), to file financing statements and amendments thereto describing the Project and containing any other information required by the applicable UCC and all proper terminations of the filings of other secured parties with respect to the Project or the Property, in such form and substance as Bondholder, in its sole discretion, may determine. Lessor and Lessee agree to execute such additional documents, including financing statements, demands for terminations, assignments, affidavits, notices and similar instruments, in form satisfactory to Bondholder, and take such other actions that Bondholder deems necessary or appropriate to establish and maintain the security interest created by this Section, and Lessor and Lessee hereby designate and appoint Bondholder as their agent, and grant to Bondholder a power of attorney (which is coupled with an interest), to execute on behalf of Lessor and Lessee, as the case may be, such additional documents and to take such other actions. Lessee hereby waives any right that Lessee may have to file with the applicable filing officer any financing statement, amendment, termination or other record pertaining to the Project and/or Bondholder's interest therein.

Section 6.03. *Change in Name or Corporate Structure of Lessee; Change in Location of Lessee's Chief Executive Office.* Lessee's chief executive office is located at the address set forth above, and all of Lessee's records relating to its business and the Property and the Project are kept at such location. Lessee hereby agrees to provide written notice to Bondholder and Lessor of any change or proposed change in its name, corporate structure or chief executive office or change or proposed change in the location of the Personal Property. Such notice shall be provided 30 days in advance of the date that such change or proposed change is planned to take effect. Lessee does business, and has done business, only under its own name and the trade names, if any, set forth on Exhibit K hereto.

Section 6.04. *Liens and Encumbrances to Title.* Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, deed of trust, pledge, lien, charge, encumbrance or claim (together, "Liens") on or with respect to the Project or the Property other than the respective rights of Bondholder and Lessor as herein provided and provided in the Mortgage and except for the Permitted Exceptions.

Section 6.05. *Assignment of Insurance.* As additional security for the payment and performance of Lessee's obligations hereunder, Lessee hereby assigns to Bondholder, as assignee of Lessor, any and all moneys (including, without limitation, proceeds of insurance and refunds of unearned premiums) due or to become due under any and all policies of insurance now or at any time hereafter covering the Project or any evidence thereof or any business records or valuable papers pertaining thereto, and Lessee hereby directs the issuer of any such policy to pay all such moneys directly to Bondholder if Lessee fails to comply with Section 9.01 hereof. Lessee hereby assigns to Bondholder, as assignee of Lessor, and grants a security interest to Bondholder in, any and all moneys due or to become due with respect to any condemnation proceeding affecting the Project. At any time, whether before or after the occurrence of any

Event of Default, Bondholder may (but need not), in Bondholder's name or in Lessee's name, execute and deliver proof of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the Lessor of any such policy or party in any condemnation proceeding.

Section 6.06. *Agreement as Financing Statement.* To the extent permitted by applicable law, a carbon, photographic or other reproduction of this Agreement or of any financing statements signed by Lessee is sufficient as a financing statement in any state to perfect the security interests granted in this Agreement.

Section 6.07. *Subordination of Leasehold Interest.* The leasehold interest created pursuant to this Agreement is now, and shall at all times continue to be, unconditionally subject and subordinate in each and every respect, to the Mortgage and to any and all renewals, modifications, extensions, substitutions, replacements and/or consolidations of the Mortgage. For so long as the Mortgage is a lien on the Project, Lessee shall not mortgage or otherwise encumber its leasehold interest or subordinate the estate of Lessee in this Agreement to any other mortgage or any other security instrument.

ARTICLE VII

AFFIRMATIVE COVENANTS OF LESSEE

So long as the Lease shall remain unpaid, Lessee will comply with the following requirements:

Section 7.01. *Reporting Requirements.* Lessee will deliver, or cause to be delivered, to Bondholder each of the following, which shall be in form and detail acceptable to Bondholder:

(a) as soon as available, and in any event within 120 days after the end of each fiscal year of Lessee, audited financial statements of Lessee with the unqualified opinion of independent certified public accountants selected by Lessee and acceptable to Bondholder, which annual financial statements shall include the balance sheet of Lessee as at the end of such fiscal year and the related statements of income, retained earnings and cash flows of Lessee for the fiscal year then ended, all in reasonable detail and prepared in accordance with generally accepted accounting principles applied on a consistent basis, together with a certificate of the chief financial officer of Lessee in the form of Exhibit G hereto stating (i) that such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, (ii) whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder and, if so, stating in reasonable detail the facts with respect thereto all relevant facts in reasonable detail to evidence, and (iii) all relevant facts in reasonable detail to evidence, the computations as to, whether or not Lessee is in compliance with the requirements set forth in Sections 7.14 through 7.16 hereof;

(b) as soon as available and in any event within 90 days after the end of each fiscal quarter of Lessee, an unaudited/internal balance sheet and statements of income and retained earnings of Lessee as at the end of and for such quarter and for the year to date

22

Exhibit 10.10(q)(1)

period then ended, in reasonable detail and stating in comparative form the figures for the corresponding date and periods in the previous year, all prepared in accordance with generally accepted accounting principles applied on a consistent basis and certified by the chief financial officer of Lessee subject to year-end audit adjustments; and accompanied by a certificate of that officer in the form of Exhibit G hereto stating (i) that such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, (ii) whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto, and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not Lessee is in compliance with the requirements set forth in Sections 7.14 through 7.16 hereof;

(c) immediately after the commencement thereof, notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting Lessee of the type described in Article V hereof or which seek a monetary recovery against Lessee in excess of \$1,000,000;

(d) as promptly as practicable (but in any event not later than ten Business Days) after an officer of Lessee obtains knowledge of the occurrence of any event that constitutes a Default or an Event of Default hereunder, notice of such occurrence, together with a detailed statement by a responsible officer of Lessee of the steps being taken by Lessee to cure the effect of such Default or Event of Default;

(e) promptly upon knowledge thereof, notice of loss or any material destruction of or damage to the Project or the Property or of any material adverse change in the Project or the Property;

(f) promptly upon their distribution, copies of all financial statements, reports and proxy statements that Lessee shall have sent to its stockholders;

(g) promptly after the amending thereof, copies of any and all amendments to its certificate of incorporation, articles of incorporation or bylaws;

(h) within 30 days of request by Bondholder, evidence satisfactory to Bondholder that Lessee has complied with the capital expenditure limitations of Code section 144(a)(4).

Section 7.02. Books and Records; Inspection and Examination. Lessee will keep accurate books of record and account for itself pertaining to the Project and the Property and pertaining to Lessee's business and financial condition and such other matters as Bondholder may from time to time request in which true and complete entries will be made in accordance with generally accepted accounting principles consistently applied and, upon request of Bondholder, will permit any officer, employee, attorney or accountant for Bondholder, at Bondholder's expense, to audit, review, make extracts from, or copy any and all corporate and financial books, records and properties of Lessee relating to the Project and the Property at all times during ordinary business hours, and to discuss the affairs of Lessee with any of its

23

directors, officers, employees or agents. Lessee will permit Bondholder, or its employees, accountants, attorneys or agents, to examine and copy any or all of its records relating to the Property and the Project and to examine and inspect the Project and the Property at any time during Lessee's business hours.

Section 7.03. *Compliance With Laws; Environmental Indemnity.* Lessee will (a) comply with the requirements of applicable laws and regulations, the noncompliance with which would materially and adversely affect its business or its financial condition, (b) comply with all applicable Environmental Laws and regulations and obtain any permits, licenses or similar approvals required by any such laws or regulations and (c) use and keep the Project and the Property, and will require that others use and keep the Project and the Property, only for lawful purposes, without violation of any federal, state or local law, statute or ordinance. Lessee shall secure all permits and licenses, if any, necessary for the installation and operation of the Project and the Property. Lessee shall comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Project and the Property) with all laws of the jurisdictions in which its operations involving any component of the Project or the Property may extend and of any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the portions of the Project or the Property or its interest or rights under this Agreement. Lessee will indemnify, defend and hold Lessor and Bondholder harmless from and against any claims, loss or damage to which Lessor or Bondholder may be subjected as a result of any past, present or future existence, use, handling, storage, transportation or disposal of any hazardous waste or substance or toxic substance by Lessee on the Property or Project. This indemnification shall survive the termination of this Agreement and payment of the indebtedness hereunder and under the Bond.

Section 7.04. *Environmental Compliance.* Lessee shall promptly comply with all statutes, regulations and ordinances, and with all orders, decrees or judgments of governmental authorities or courts having jurisdiction, relating to the use, collection, treatment, disposal, storage, control, removal or cleanup of Hazardous Waste or Materials in, on or under the Property or the Project, at Lessee's expense. In the event that Bondholder upon an Event of Default reasonably believes that the Property or the Project is not free of all Hazardous Waste or Materials or that Lessee has violated any applicable Environmental Laws with respect to the Property or the Project, then immediately, upon request by Bondholder, Lessee shall obtain and furnish to Bondholder, at Lessee's sole cost and expense, an environmental audit and inspection of the Property or the Project from an expert satisfactory to Bondholder. In the event that Lessee fails to immediately obtain such audit or inspection, Bondholder or its agents may perform or obtain such audit or inspection at Lessee's sole cost and expense. Bondholder may, but is not obligated to, enter upon the Property and take such actions and incur such costs and expenses to effect such compliance as it deems advisable to protect its interest in the Project; and whether or not Lessee has actual knowledge of the existence of Hazardous Waste or Materials on the Property, the Project or any adjacent property as of the date hereof, Lessee shall reimburse Bondholder as provided herein for the full amount of all costs and expenses incurred by Bondholder prior to Bondholder acquiring title to the Project through foreclosure or acceptance of a deed in lieu of foreclosure, in connection with such compliance activities. Neither this provision nor any provision herein or in the Mortgage, the Assignment or related documents shall operate to put Bondholder in the position of an owner of the Property or the Project prior to any

acquisition of the Project by Bondholder. The rights granted to Bondholder herein and in the Mortgage, the Assignment or related documents are granted solely for the protection of Bondholder's lien and security interest covering the Project and do not grant to Bondholder the right to control Lessee's actions, decisions or policies regarding Hazardous Waste or Materials.

Section 7.05. *Payment of Taxes and Other Claims.* Lessee will pay or discharge, when due, (a) all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, upon the Project and the Property or upon or against the creation, perfection or continuance of the security interest created pursuant to this Agreement, prior to the date on which penalties attach thereto, (b) all federal, state and local taxes required to be withheld by it, and (c) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the Project or the Property; provided, that Lessee shall not be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings. Lessee will pay, as the same respectively come due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project or the Property, as well as all gas, water, steam, electricity, heat, power, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project or the Property.

Section 7.06. *Maintenance of Project and Property.* (a) Lessee shall, at its own expense, maintain, preserve and keep the Property in

good repair, working order and condition, and shall from time to time make all repairs and replacements necessary to keep the Project and the Property in such condition, and in compliance with state and federal laws, ordinary wear and tear excepted, (b) shall not commit waste or permit impairment or deterioration of the Project or the Property, (c) shall not abandon the Project or the Property, (d) shall restore or repair promptly and in a good and workmanlike manner all or any part of the Project or the Property in a way that does not diminish the value or utility of the Project or the Property, (e) shall keep all improvements, fixtures, equipment, machinery and appliances on the Project or the Property, in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (f) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Project or the Property, (g) if all or part of the Project or the Property is for rent or lease, then Bondholder, at its option after the occurrence of an Event of Default, may require Lessee to provide for professional management of the Property by a property manager satisfactory to Bondholder pursuant to a contract approved by Bondholder in writing, unless such requirement shall be waived by Bondholder in writing, (h) shall generally operate and maintain the Project and the Property in a manner to ensure maximum rentals, and (i) shall give notice in writing to Bondholder of and, unless otherwise directed in writing by Bondholder, appear in and defend any action or proceeding purporting to affect the Project or the Property, the security of this Agreement or the rights or powers of Bondholder hereunder. Neither Lessee nor any tenant or other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Project or the Property or any fixture, equipment, machinery or appliance that constitutes a portion of the Project or the Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind. In the event that any parts or accessories forming part of any item or items of the Project become worn out, lost, destroyed, damaged beyond repair or otherwise rendered unfit for use, Lessee, at its own expense and expeditiously,

will replace or cause the replacement of such parts or accessories by replacement parts or accessories free and clear of all liens and encumbrances and with a value and utility at least equal to that of the parts or accessories being replaced (assuming that such replaced parts and accessories were otherwise in good working order and repair). All such replacement parts and accessories shall be deemed to be incorporated immediately into and to constitute an integral portion of the Project and, as such, shall be subject to the terms of this Agreement. Neither Bondholder nor Lessor shall have any responsibility in any of these matters, or for the making of improvements or additions to the Project or the Property.

(b) Lessee will defend the Project and the Property against all claims or demands of all persons (other than Bondholder and Lessor) claiming the Project or the Property or any interest therein. Lessee represents, warrants and covenants that the Project and the Property, if applicable, is and shall be in compliance with the American with Disabilities Act of 1990 and all of the regulations promulgated thereunder, as the same may be amended from time to time.

(c) Lessee will keep the Project and the Property free and clear of all security interests, liens and encumbrances except the security interest created pursuant to this Agreement and the Mortgage and except for the Permitted Exceptions.

Section 7.07. Insurance. (a) Lessee shall obtain and maintain the following types of insurance upon and relating to the Project:

(i) "All Risk" property and fire insurance (with extended coverage endorsement including malicious mischief and vandalism) in an amount not less than the full replacement value of the Project (with a deductible not to exceed \$100,000 and with co-insurance limited to a maximum of 10% of the amount of the policy), naming Bondholder and Lessor under a lender's loss payee endorsement (form 438BFU or equivalent) and including agreed amount, inflation guard, replacement cost and waiver of subrogation endorsements;

(ii) Comprehensive general liability insurance in an amount not less than \$1,000,000.00 insuring against personal injury, death and property damage and naming Bondholder and Lessor as additional insured;

(iii) Business interruption insurance covering loss of rental or other income (including all expenses payable by tenants) for up to twelve (12) months; and

(iv) Such other types of insurance or endorsements to existing insurance as may be reasonably required from time to time by Bondholder.

(b) All of the insurance policies required hereunder shall be issued by corporate insurers licensed to do business in the state in which the Property is located and rated A:X or better by A.M. Best Company, and shall be in form acceptable to Bondholder. If and to the extent that the Project is located within an area that has been or is hereafter designated or identified as an area having special flood hazards by the Department of Housing and Urban Development or such other official as shall from time to time be authorized by federal or state law to make such

designation pursuant to any national or state program of flood insurance, Lessee shall carry flood insurance with respect to the Project in amounts not less than the maximum limit of coverage then available with respect to the Project or the amount of the Bond, whichever is less. Certificates of all insurance required to be maintained hereunder shall be delivered to Bondholder, along with evidence of payment in full of all premiums required thereunder, contemporaneously with Lessee's execution of this Agreement. All such certificates shall be in form acceptable to Bondholder and shall require the insurance company to endeavor to give to Bondholder at least 30 days' prior written notice before canceling the policy for any reason. Certificates evidencing all renewal and substitute policies of insurance shall be delivered to Bondholder, along with evidence of the payment in full of all premiums required thereunder, at least 15 days before termination of the policies being renewed or substituted. If any loss shall occur at any time when Lessee shall be in default hereunder, Bondholder shall be entitled to the benefit of all insurance policies held or maintained by Lessee, to the same extent as if same had been made payable to Bondholder, and upon foreclosure hereunder, Bondholder shall become the owner thereof. Bondholder shall have the right, but not the obligation, to make premium payments, at Lessee's expense, to prevent any cancellation, endorsement, alteration or reissuance of any policy of insurance maintained by Lessee, and such payments shall be accepted by the insurer to prevent same.

(d) As among Bondholder, Lessee and Lessor, Lessee assumes all risks and liabilities from any cause whatsoever, whether or not covered by insurance, for loss or damage to any portion of the Project or Property and for injury to or death of any person or damage to any property, whether such injury or death be with respect to agents or employees of Lessee or of third parties, and whether such property damage be to Lessee's property or the property of others. Whether or not covered by insurance, Lessee hereby assumes responsibility for and agrees to reimburse Bondholder and Lessor for and will indemnify, defend and hold Bondholder and Lessor harmless from and against all liabilities, obligations, losses, damages, penalties, claims, actions, costs and expenses (including reasonable attorneys' fees) of whatsoever kind and nature, imposed on, incurred by or asserted against Bondholder or Lessor that in any way relate to or arise out of this Agreement, the transactions contemplated hereby, the Project and the Property, including but not limited to, (i) the selection, manufacture, purchase, acceptance or rejection of the Project and the Property or the ownership of the Project and the Property, (ii) the delivery, lease, possession, maintenance, use, condition, return or operation of the Project and the Property, (iii) the condition of the Project and the Property sold or otherwise disposed of after possession by Lessee, (iv) any patent or copyright infringement, (v) the conduct of Lessee, its officers, employees and agents, (vi) a breach of Lessee of any of its covenants or obligations hereunder and (vii) any claim, loss, cost or expense involving alleged damage to the environment relating to the Project or the Property, including, but not limited to investigation, removal, cleanup and remedial costs. All amounts payable by Lessee pursuant to the immediately preceding sentence shall be paid immediately upon demand of Lessee or Bondholder, as the case may be. This provision shall survive the termination of this Agreement.

Section 7.08. *Preservation of Corporate Existence.* Lessee will preserve and maintain its corporate existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business; and shall conduct its business in an orderly, efficient and regular manner.

Section 7.09. *Performance by Bondholder.* If Lessee at any time fails to perform or observe any of the covenants or agreements contained in this Agreement, and if Lessee shall not have commenced to cure such failure 10 calendar days after Bondholder gives Lessee written notice thereof (or in the case of the agreements contained in Sections 7.06 and 7.07 hereof, immediately upon the occurrence of such failure, without notice or lapse of time), Bondholder may, but need not, perform or observe such covenant on behalf and in the name, place and stead of Lessee (or, at Bondholder's option, in Bondholder's name) and may, but need not, take any and all other actions which Bondholder may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens or encumbrances, the performance of obligations owed to account debtors or other obligors, the procurement and maintenance of insurance, the execution of assignments, security agreements and financing statements, and the endorsement of instruments); and Lessee shall thereupon pay to Bondholder on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by Bondholder in connection with or as a result of the performance or observance of such agreements or the taking of such action by Bondholder, together with interest thereon from the date expended or incurred at the lesser of 18% per annum or the highest rate permitted by law. To facilitate the performance or observance by Bondholder of such covenants of Lessee, Lessee hereby irrevocably appoints Bondholder, or the delegate of Bondholder, acting alone, as the attorney in fact of Lessee with the right (but not the duty)

from time to time to create, prepare, complete, execute, deliver, endorse or file in the name and on behalf of Lessee any and all instruments, documents, assignments, security agreements, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Lessee under this Agreement.

Section 7.10. Limitations of Liability. In no event, whether as a result of breach of contract, warranty, tort (including negligence or strict liability), indemnity or otherwise, shall Bondholder, its assignees, if any, or Lessor be liable for any special, consequential, incidental, punitive or penal damages, including, but not limited to, loss of profit or revenue, loss of use of the Premises or any associated equipment, service materials or software, damage to associated equipment, service materials or software, cost of capital, cost of substitute property, service materials or software, facilities, services or replacement power or downtime costs.

Section 7.11. Kansas Retailers' Sales Tax. The parties have entered into this Agreement in contemplation that, under the existing provisions of K.S.A. 79-3606(d) and other applicable laws, sales of tangible personal property or services purchased in connection with construction of the Project are entitled to exemption from the tax imposed by the Kansas Retailers' Sales Tax Act. The parties agree that Lessor shall, upon the request of and with Lessee's assistance, promptly obtain from the State and furnish to the contractors and suppliers an exemption certificate for the construction of the Project. Lessee covenants that the exemption will be used only in connection with the purchase of tangible personal property or services becoming a part of the Project.

Section 7.12. Indemnification. (a) Lessee releases Lessor from, agrees that Lessor shall not be liable for, and indemnifies Lessor against, all liabilities, losses, damages (including reasonable attorneys' fees), causes of action (including negligent acts), suits, claims, costs and

expenses, demands and judgments of any nature imposed upon or asserted against Lessor on account of:

- (i) any loss or damage to property or injury to or death of or loss by any person that may be occasioned by any cause whatsoever pertaining to the construction, maintenance, operation and use of the Project;
- (ii) any breach or default on the part of Lessee in the performance of any covenant or agreement of Lessee under this Agreement or any related document, or arising from any act or failure to act by Lessee, or any of its agents, contractors, servants, employees or licensees;
- (iii) violation of any law, ordinance or regulation affecting the ownership, occupancy or use of the Project;
- (iv) the authorization, issuance and sale of the Bond, and the provision of any information furnished by Lessee in connection therewith concerning the Project or Lessee or arising from (A) any errors or omissions of any nature whatsoever such that the Bond, when delivered to Bondholder, are not validly issued and binding obligations of Lessor or (B) any fraud or misrepresentations or omissions contained in the proceedings of Lessor furnished by or attributable to Lessee relating to the issuance of the Bond which, if known to the original purchaser of the Bond, might reasonably be considered a material factor in its decision to purchase the Bond; and
- (v) any claim or action or proceeding with respect to the matters set forth in subsections (i), (ii), (iii) and (iv) above brought thereon.

(b) Lessee agrees to indemnify Lessor for and to hold it harmless against all liabilities, claims, costs and expenses incurred without negligence or willful misconduct on the part of Lessor, on account of any action taken or omitted to be taken by Lessor in accordance with the terms of this Agreement, the Bond or the Escrow Agreement or any action taken at the request of or with the consent of Lessee, including the costs and expenses of Lessor in defending itself against any such claim, action or proceeding brought in connection with the exercise or performance of any of its powers or duties under this Agreement, the Bond or the Escrow Agreement.

(c) In case any action or proceeding is brought against Lessor in respect of which indemnity may be sought hereunder, the party seeking indemnity shall promptly give notice of that action or proceeding to Lessee, and Lessee upon receipt of that notice shall have the obligation and the right to assume the defense of the action or proceeding; provided, that failure of a party to give that notice shall not relieve Lessee from any of its obligations under this Section unless that failure prejudices the defense of the action or proceeding by Lessee. At its own expense, an indemnified party may employ separate legal counsel and participate in the defense. Lessee shall not be liable for any settlement without its consent.

(d) The indemnification set forth above is intended to and shall include the indemnification of all affected commissioners, officials, directors, officers, attorneys, accountants, financial advisors, staff and employees of Lessor. That indemnification is intended to and shall be enforceable by Lessor to the full extent permitted by law.

Section 7.13. Agreement to Pay Attorneys' Fees and Expenses. In connection with any Event of Default by Lessee, if Lessor employs attorneys or incurs other expenses for the collection of amounts payable hereunder or the enforcement of the performance or observance of any covenants or agreements on the part of Lessee herein contained, Lessee agrees that it will, on demand therefore, pay such party the reasonable fees of such attorneys and such other reasonable expenses so incurred by such party.

Section 7.14. Current Ratio. Borrower will at all times keep and maintain the ratio of Consolidated Current Assets (as defined in the Note Agreement) to Consolidated Current Liabilities (as defined in the Note Agreement) at not less than 1.50 to 1.00.

Section 7.15. Consolidated Tangible Net Worth. Borrower will at all times keep and maintain Consolidated Tangible Net Worth (as defined in the Note Agreement) at an amount not less than the greater of (i) \$70,000,000 and (ii) the sum of \$70,000,000 plus 50% of Consolidated Net Income (as defined in the Note Agreement) for the period from and after March 31, 1993 to the date of determination thereof (considered as a single accounting period).

Section 7.16. Fixed Charges Coverage Ratio. Borrower will not permit, as at the end of each fiscal quarter, the ratio of Net Income Available for Fixed Charges (as defined in the Note Agreement) to Fixed Charges (as defined in the Note Agreement) for the period of four consecutive fiscal quarters then ending to be less than 1.50 to 1.00.

ARTICLE VIII

NEGATIVE COVENANTS OF LESSEE

So long as the Lease and the Bond shall remain unpaid, Lessee agrees that:

Section 8.01. Lien. Lessee will not create, incur or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, assignment or transfer upon or of any of the Project or the Property except for the security interest created pursuant to this Agreement and the liens created pursuant to the Mortgage and the Permitted Exceptions.

Section 8.02. Sale of Assets. Lessee will not sell, lease, assign, transfer or otherwise dispose of all or a substantial part of its assets or of any portion of the Project or the Property or any interest therein (whether in one transaction or in a series of transactions). Notwithstanding any provision herein, in the Mortgage or in the Assignment to the contrary, Lessee may sub-lease the Property and the Project to any wholly-owned subsidiary of Lessee, provided that such wholly-owned subsidiary subordinates in writing its leasehold interest in the Project and the Property to the Mortgage.

Section 8.03. Consolidation and Merger. Lessee will not consolidate with or merge into any person, or permit any other person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all of the assets of any other person, unless:

(a) Lessee shall be the continuing corporation, or the successor or transferee corporation ("Successor") shall be a corporation organized under the laws of the United State of America or a state thereof or the District of Columbia;

(b) Successor, if any, expressly assumes in writing delivered to Bondholder the due and punctual payment of all obligations under this Agreement according to their tenor and the due and punctual performance and observance of all covenants and conditions of this Agreement to be performed by Successor, and Bondholder has received a legal opinion, in form and substance acceptable to Bondholder, to the effect that this Agreement is the legal, valid and binding obligation of Successor enforceable in accordance with its terms;

- (c) if Lessee becomes a wholly-owned subsidiary of another entity (“Parent”), Parent delivers to Bondholder a guaranty in form and substance acceptable to Bondholder, guaranteeing the due and punctual payment of all obligations hereunder;
- (d) Bondholder has received an opinion of bond counsel, in form and substance acceptable to Bondholder, to the effect that under then existing laws the consummation of such merger, consolidation or sale would not cause the interest on the Bond to become includable in gross income under the Code or adversely affect the validity of this Agreement or the Bond;
- (e) immediately after such merger, consolidation or sale, Lessee or Survivor shall meet the requirements of Sections 7.14 through 7.16 hereof; and
- (f) immediately after such consolidation or merger, no Default or Event of Default exists under this Agreement.

Section 8.04. Accounting. Lessee will not adopt, permit or consent to any material change in accounting principles other than as required by generally accepted accounting principles. Lessee will not adopt, permit or consent to any change in its fiscal year.

Section 8.05. Transfers. Lessee will not in any manner transfer any property without prior or present receipt of full and adequate consideration.

Section 8.06. Other Defaults. Lessee will not permit any breach, default or event of default by Lessee to occur under any note, loan agreement, indenture, lease, mortgage, contract for deed, security agreement or other contractual obligation binding upon Lessee or any judgment, decree, order or determination applicable to Lessee that would have a material adverse effect on Lessee’s financial or operating condition.

Section 8.07. Modifications and Substitutions. Lessee will not make any material alterations, modifications or additions to the Project or the Property without the prior written consent of Bondholder unless required pursuant to Section 7.06 hereof. Lessee shall provide such documents or assurances as Bondholder may reasonably request to maintain or confirm the security interest assigned to Bondholder in the Project and the Property as so modified or substituted.

Section 8.08. Use of the Project and the Property. Lessee will not install, use, operate or maintain the Project or the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Agreement. Also, unless required by applicable law or unless Bondholder has otherwise agreed in writing, Lessee shall not allow changes in the use for which all or any part of the Property or the Project was intended at the time this Agreement was executed. Lessee shall not, without Bondholder’s prior written consent, (a) initiate or acquiesce in a change in the zoning classification (including any variance under any existing zoning ordinance applicable to the Property or the Project), (b) permit the use of the Property or the Project to become a non-conforming use under applicable zoning ordinances, (c) file any subdivision or parcel map affecting the Property or the Project, or (d) amend, modify or consent to any easement or covenants, conditions and restrictions pertaining to the Property or the Project.

ARTICLE IX

DAMAGE AND DESTRUCTION; USE OF NET PROCEEDS; CONDEMNATION

Section 9.01. Damage and Destruction. Lessee shall provide a complete written report to Bondholder immediately upon any loss, theft, damage or destruction of any portion of the Project that exceeds \$100,000 and of any accident involving any Project. If all or any portion of the Project with a value of at least \$100,000 is lost, stolen, destroyed or damaged beyond repair (“Damaged Property”), Lessee shall as soon as practicable after such event either: (a) replace the same at Lessee’s sole cost and expense with property having substantially similar specifications and of equal or greater value to the Damaged Property immediately prior to the time of the loss occurrence, such replacement property to be subject to Bondholder’s approval, whereupon such replacement property shall be substituted in this Agreement and the other related documents by appropriate endorsement or amendment; or (b) pay the applicable Prepayment Amount of the Damaged Property. Lessee shall notify Bondholder of which course of action it will take within 15 calendar days after the loss occurrence. If, within 45 calendar days of the loss occurrence, (a) Lessee fails to notify Bondholder; (b) Lessee and Bondholder fail to execute an amendment to this Agreement to delete the Damaged Property and add the replacement property or (c) Lessee fails to pay the applicable Prepayment Amount, then Bondholder may, at its sole discretion, declare the applicable Prepayment Amount to be immediately due and payable, and Lessee is required to pay the same. The payment of the Prepayment Amount and the termination of Bondholder’s interest in the Damaged Property is subject to the terms of Section 2.07 hereof. For purposes of this Article, the term “Net Proceeds” shall mean the amount remaining from the gross proceeds of any

insurance claim or condemnation award after deducting all expenses (including reasonable attorneys' fees) incurred in the collection of such claim or award.

Section 9.02. Condemnation. If the Project, or any part thereof, shall be condemned for any reason, including without limitation fire or earthquake damage, or otherwise taken for public or quasi-public use under the power of eminent domain, or be transferred in lieu thereof, all damages or other amounts awarded for the taking of, or injury to, the Project shall be paid to Bondholder who shall have the right, in its sole and absolute discretion, to apply the amounts so received against (a) the costs and expenses of Bondholder, including attorneys' fees incurred in connection with collection of such amounts, and (b) the balance against the Indebtedness; *provided, however*, that if (i) no Event of Default shall have occurred and be continuing hereunder, (ii) Lessee provides evidence satisfactory to Bondholder of its ability to pay all amounts becoming due hereunder during the pendency of any restoration or repairs to or replacement of the Project, (iii) Bondholder determines, in its sole discretion, that the proceeds of such award are sufficient to restore, repair, replace and rebuild the Project as nearly as possible to its value, condition and character immediately prior to such taking (or, if the proceeds of such award are insufficient for such purpose, if Lessee provides additional sums to Bondholder's satisfaction so that the aggregate of such sums and the proceeds of such award will be sufficient for such purpose), and (iv) Lessee provides evidence satisfactory to Bondholder that none of the tenants of the Project will terminate their lease agreements as a result of either the condemnation or taking or the repairs to or replacement of the Project, the proceeds of such award, together with additional sums provided by Lessee, shall be placed in a separate account for the benefit of Bondholder and Lessee to be used to restore, repair, replace and rebuild the Project as nearly as possible to its value, condition and character immediately prior to such taking. All work to be performed in connection therewith shall be pursuant to a written contract therefore, which contract shall be subject to the prior approval of Bondholder. To the extent that any funds remain after the Project has been so restored and repaired, the same shall be applied against the Indebtedness in such order as Bondholder may elect. To enforce its rights hereunder, Bondholder shall be entitled to participate in and control any condemnation proceedings and to be represented therein by counsel of its own choice, and Lessee will deliver, or cause to be delivered to Bondholder such instruments as may be requested by it from time to time to permit such participation. In the event Bondholder, as a result of any such judgment, decree or award, believes that the payment or performance of the Lease or the Bond is impaired, Bondholder may declare the obligations hereunder immediately due and payable.

ARTICLE X

ASSIGNMENT, SUBLEASING AND SELLING

Section 10.01. Assignment by Bondholder. This Agreement, and the obligations of Lessee to make payments hereunder, may be assigned and reassigned in whole or in part to one or more assignees or subassignees (who shall be purchaser of the Bond or an interest therein) by Bondholder at any time subsequent to its execution, without the necessity of obtaining the consent of Lessor or Lessee; *provided, however*, that no such assignment or reassignment shall be effective unless and until (a) Lessor and Lessee shall have received notice of the assignment or reassignment disclosing the name and address of the assignee or subassignee, which notice Lessor shall maintain as evidence of the ownership and registration of the Bond, and (b) in the event that such assignment or reassignment is made to a bank or trust company as trustee for holders of certificates representing interests in this Agreement and the Bond, such bank or trust

company agrees to maintain, or cause to be maintained, a book-entry system by which a record of the names and addresses of such holders as of any particular time is kept and agrees, upon request of Lessor or Lessee, to furnish such information to Lessor or Lessee. Upon receipt of notice of assignment, Lessee will reflect in a book-entry the assignee designated in such notice of assignment, and shall agree to make all payments to the assignee designated in the notice of assignment, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of this Agreement or otherwise) that Lessor and Lessee may from time to time have against Bondholder or the assignee. Lessor and Lessee agree to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by Bondholder or its assignee to protect their interest in the Project and in this Agreement.

Section 10.02. No Sale or Assignment by Lessee. This Agreement and the interest of Lessee in the Project or the Property may not be

ARTICLE XI

EVENTS OF DEFAULT AND REMEDIES

Section 11.01. *Events of Default.* The following constitute "Events of Default" under this Agreement:

- (a) failure by Lessee to pay to Bondholder, as assignee of Lessor, when due any Lease Payment or to pay any other payment required to be paid hereunder and the continuation of such failure for a period of 10 days;
- (b) failure by Lessee to maintain insurance on the Project in accordance with Section 7.06 hereof;
- (c) failure by Lessee to comply with the provisions of Sections 6.04, 7.14, 7.15, 7.16, 8.01, 8.02 or 8.03 hereof;
- (d) failure by Lessee or Lessor to observe and perform any other covenant, condition or agreement contained herein, in the Escrow Agreement, in the Mortgage, in the Assignment, in the Hazardous Substances Agreement, in the Tax Compliance Agreement or in any other document or agreement executed in connection herewith on its part to be observed or performed for a period of 30 days after written notice is given to Lessee or Lessor, as the case may be, specifying such failure and directing that it be remedied; *provided, however,* that, if the failure stated in such notice cannot be corrected within such 30-day period, Bondholder will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by Lessee or Lessor, as the case may be, within the applicable period and diligently pursued until the default is corrected;
- (e) initiation by Lessor of a proceeding under any federal or state bankruptcy or insolvency law seeking relief under such laws concerning the indebtedness of Lessor;

- (f) Lessee shall be or become insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefit of creditors; or Lessee shall apply for or consent to the appointment of any receiver, trustee or similar officer for it or for all or any substantial part of its property; or such receiver, trustee or similar officer shall be appointed without the application or consent of Lessee, as the case may be; or Lessee shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against Lessee; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of Lessee;
- (g) determination by Bondholder that any representation or warranty made by Lessee or Lessor herein, in the Mortgage, in the Assignment, in the Hazardous Substance Agreement, in the Tax Compliance Agreement or in any other document executed in connection herewith was untrue in any material respect when made;
- (h) Lessee improperly files an amendment or termination relating to a filed financing statement describing any of the Project or (ii) anyone (other than Lessee or Bondholder) improperly files an amendment or termination relating to a filed financing statement describing any of the Project and such filing remains of record for 20 days after written notice is given to Lessee by Bondholder;
- (i) an Event of Taxability shall occur;
- (j) the occurrence of a default or event of default under the Mortgage or the Assignment; or
- (k) the occurrence of a default or an event of default under any instrument, agreement or other document evidencing or relating to any indebtedness or other monetary obligation of Lessee that has a material adverse effect on Lessee's financial or operating condition.

Section 11.02. *Remedies on Default.* Whenever any Event of Default shall have occurred, Bondholder, as assignee of Lessor, shall have the right, at its sole option without any further demand or notice, to take any one or any combination of the following remedial steps insofar as the same are available to secured parties under Article 9 of the UCC in effect in the State from time to time and which are otherwise accorded to Bondholder, as assignee of Lessor, by applicable law:

(a) by notice to Lessor and Lessee, declare the entire unpaid principal amount of the Lease and the Bond then outstanding, all interest accrued and unpaid thereon and all amounts payable under this Agreement to be forthwith due and payable, whereupon the Lease, all such accrued interest and all such amounts shall become and be forthwith due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which are hereby expressly waived by Lessee;

Exhibit 10.10(q)(1)

(b) take possession of the Project wherever situated, without any court order or other process of law and without liability for entering the premises, and lease, sublease or make other disposition of the Project for use over a term in a commercially reasonable manner, all for the account of Bondholder, provided that Lessee shall remain directly liable for the deficiency, if any, between the rent or other amounts paid by a lessee or sublessee of the Project pursuant to such lease or sublease during the same period of time, after deducting all costs and expenses, including reasonable attorneys' fees and expenses, incurred with respect to the recovery, repair and storage of the Project during such period of time;

(c) take possession of the Project wherever situated, without any court order or other process of law and without liability for entering the premises, and sell the Project in a commercially reasonable manner. All proceeds from such sale shall be applied in the following manner:

FIRST, to pay all proper and reasonable costs and expenses associated with the recovery, repair, storage and sale of the Project, including reasonable attorneys' fees and expenses;

SECOND, to pay (i) Bondholder the amount of all unpaid Lease Payments or other obligations (whether direct or indirect owed by Lessee to Bondholder), if any, which are then due and owing, together with interest and late charges thereon, (ii) Bondholder the then applicable Prepayment Amount (taking into account the payment of past-due Lease Payments as aforesaid), plus a pro rata allocation of interest, at the rate utilized to calculate the Lease Payments, from the next preceding due date of a Lease Payment until the date of payment by the buyer, and (iii) any other amounts due hereunder, including indemnity payments, taxes, charges, reimbursement of any advances and other amounts payable to Bondholder or Lessor hereunder; and

THIRD, to pay the remainder of the sale proceeds, purchase moneys or other amounts paid by a buyer of the Project to Lessee;

(d) exercise all rights and remedies under the Mortgage and the Assignment;

(e) proceed by appropriate court action to enforce specific performance by Lessor or Lessee of the applicable covenants of this Agreement or to recover for the breach thereof, including the payment of all amounts due from Lessee. Lessee shall pay or repay to Bondholder or Lessor all costs of such action or court action, including, without limitation, reasonable attorneys' fees; and

(f) take whatever action at law or in equity that may appear necessary or desirable to enforce its rights with respect to the Project. Lessee shall pay or repay to Bondholder or Lessor all costs of such action or court action, including, without limitation, reasonable attorneys' fees.

Exhibit 10.10(q)(1)

Notwithstanding any other remedy exercised hereunder, Lessee shall remain obligated to pay to Bondholder any unpaid portion of the Prepayment Amount.

Section 11.03. No Remedy Exclusive. No remedy herein conferred upon or reserved to Bondholder or Lessor is intended to be exclusive

and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Bondholder or Lessor to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be required by this Article. All remedies herein conferred upon or reserved to Bondholder or Lessor shall survive the termination of this Agreement.

Section 11.04. Late Lease Payments. If Lessee is set up on an automatic debit/credit payment system in connection with making the Lease Payments hereunder, any Lease Payment not paid by Lessee on the due date hereof shall bear interest from the due date to the date of payment at the lesser of 18% or the highest rate permitted by law, and Lessee shall be obligated to pay the same immediately upon receipt of Bondholder's written invoice therefore. If Lessee is not set up on an automatic debt/credit payment system, any Lease Payment not paid by Lessee on the due date thereof shall, to the extent permissible by law, bear a late charge equal to the lesser of five cents (\$.05) per dollar of the delinquent amount or the lawful maximum, and Lessee shall be obligated to pay the same immediately upon receipt of Bondholder's written invoice therefor.

ARTICLE XII

MISCELLANEOUS

Section 12.01. Costs and Expenses of Bondholder. Lessee shall pay to Bondholder, in addition to the Lease Payments payable by Lessee hereunder, such amounts in each year as shall be required by Bondholder in payment of any reasonable costs and expenses incurred by Bondholder in connection with the enforcement of this Agreement (including, without limitation, attorneys' fees and disbursements) and all other direct and necessary costs of Bondholder or charges required to be paid by it in order to enforce its rights under, this Agreement. Such costs and expenses shall be billed to Lessee by Bondholder from time to time, together with a statement certifying that the amount so billed has been paid by Bondholder for one or more of the items above described, or that such amount is then payable by Bondholder for such items. Amounts so billed shall be due and payable by Lessee within 30 days after receipt of the bill by Lessee.

Section 12.02. Disclaimer of Warranties. BONDHOLDER AND LESSOR MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROJECT OR THE PROPERTY, OR ANY OTHER WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT THERETO. In no event shall Bondholder or Lessor be liable for any loss or damage in

connection with or arising out of this Agreement, the Project, the Property or the existence, furnishing, functioning or Lessee's use of any item or products or services provided for in this Agreement.

Section 12.03. Notices. All notices, certificates, requests, demands and other communications provided for hereunder or under the Escrow Agreement or the Tax Compliance Agreement shall be in writing and shall be (a) personally delivered, (b) sent by first class United States mail, (c) sent by overnight courier of national reputation, or (d) transmitted by telecopy, in each case addressed to the party to whom notice is being given at its address as set forth above and, if telecopied, transmitted to that party at its telecopier number set forth above or, as to each party, at such other address or telecopier number as may hereafter be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall be deemed to have been given on (a) the date received if personally delivered, (b) the third Business Day following deposit when deposited in the mail if delivered by mail, (c) the date after delivery to an overnight carrier if sent by overnight courier, or (d) the date of transmission if delivered by telecopy. If notice to Lessee of any intended disposition of the Project or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in this Section) at least 10 calendar days prior to the date of intended disposition or other action.

Section 12.04. Further Assurance and Corrective Instruments. Lessor and Lessee hereby agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such further acts, instruments, conveyances, transfers and assurances, as Bondholder reasonably deems necessary or advisable for the implementation, correction, confirmation or perfection of this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement or the Tax Compliance Agreement and any rights of Bondholder hereunder or thereunder.

Section 12.05. Binding Effect; Time of the Essence. This Agreement shall inure to the benefit of and shall be binding upon Bondholder, Lessor, Lessee and their respective successors and assigns. Time is of the essence.

Section 12.06. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 12.07. Amendments. To the extent permitted by law, the terms of this Agreement shall not be waived, altered, modified, supplemented or amended in any manner whatsoever except by written instrument signed by the parties hereto, and then such waiver, consent, modification or change shall be effective only in the specific instance and for the specific purpose given.

Section 12.08. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such

counterpart, provided that only the original marked "Original: 1 of 6" on the execution page thereof shall constitute chattel paper under the UCC.

Section 12.09. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

Section 12.10. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

Section 12.11. Entire Agreement. This Agreement, the Tax Compliance Agreement, the Escrow Agreement and the exhibits hereto and thereto constitute the entire agreement among Bondholder, Lessor, Lessee and Escrow Agent. There are no understandings, agreements, representations or warranties, express or implied, not specified herein or in such documents regarding this Agreement or the Project financed hereby.

Section 12.12. Usury. It is the intention of the parties hereto to comply with any applicable usury laws; accordingly, it is agreed that, notwithstanding any provisions to the contrary in this Agreement, in no event shall this Agreement require the payment or permit the collection of interest or any amount in the nature of interest or fees in excess of the maximum permitted by applicable law.

Section 12.13. Bound Transcripts. Within 90 days of the day of closing, Lessee shall prepare and furnish or cause to be prepared and furnished, at Lessee's expense, to Bondholder and its counsel, bound transcripts containing this Agreement, the Mortgage, the Assignment, the Hazardous Substances Agreement, the Escrow Agreement, the Tax Compliance Agreement and all other documents related thereto.

Section 12.14. No Pecuniary Liability. No provision, representation, covenant or agreement contained in this Agreement, the Escrow Agreement or the Bond or any obligation herein or therein imposed upon Lessor, or the breach thereof, shall constitute or give rise to or impose upon Lessor a pecuniary liability (except to the extent of any rental payments, revenues and receipts derived by Lessor pursuant to this Agreement). No provision hereof shall be construed to impose a charge against the general credit of Lessor or any personal or pecuniary liability upon any commissioner, official or employee of Lessor.

Section 12.15. Extent of Covenants of Lessor; No Personal or Pecuniary Liability. (a) No covenant, agreement or obligation contained in this Agreement shall be deemed to be a covenant, agreement or obligation of any present or future commissioner, officer, employee or agent of Lessor in his or her individual capacity, and neither the commissioners of Lessor nor any officer thereof executing the Bond shall be liable personally on the Bond or be subject to any personal liability or accountability by reason of the issuance thereof. No commissioner, officer, employee or agent of Lessor shall incur any personal liability with respect to any other action taken by him pursuant to this Agreement or the Act, provided such member, officer, employee or agent acts in good faith.

(b) No agreements or provisions contained in this Agreement nor any agreement, covenant or undertaking by Lessor contained in any document executed by Lessor in connection with the Project, or the issuance, sale and delivery of the Bond shall give rise to any pecuniary

liability of Lessor or a charge against its general credit, or shall obligate Lessor financially in any way except as may be payable from the Lease Payments by Lessee and the proceeds of the Bond. No failure of Lessor to comply with any term, condition, covenant or agreement herein or in any document executed by Lessor in connection with the issuance and sale of the Bond shall subject Lessor to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Lease Payments or proceeds of the Bond. Nothing in this Agreement precludes a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against Lessor for any failure to comply with any term, condition, covenant or agreement herein, provided that no costs, expenses or other monetary relief will be recoverable from Lessor except as may be payable from the repayments by Lessee under this Lease Agreement or from the proceeds of the Bond.

(c) No recourse shall be had for the payment of this principal of or premium or interest on the Bond or for any claim based thereon or upon any obligation, covenant or agreement contained in this Agreement against any past, present or future officer, commissioner, employee or agent of Lessor, or of any successor corporation, as such, either directly or through Lessor or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, commissioners, employees or agents, as such, is hereby expressly waived and released as a condition of, and consideration for, the execution of this Agreement and the issuance of the Bond.

(d) Anything in this Agreement to the contrary notwithstanding, it is expressly understood and agreed by the parties hereto that (i) Lessor may rely conclusively on the truth and accuracy of any certificate, opinion, notice, or other instrument furnished to Lessor by Lessee as to the existence of any fact or state of affairs required hereunder to be noticed by Lessor; (ii) Lessor shall not be under any obligation hereunder to perform any record keeping or to provide any legal services; and (iii) none of the provisions of this Agreement shall require Lessor to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers under this Agreement, unless it shall first have been adequately indemnified to its satisfaction against the cost, expense, and liability which may be incurred.

Section 12.16. Waiver of Jury Trial. BONDHOLDER, LESSOR AND LESSEE HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS AGREEMENT, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS AMONG BONDHOLDER, LESSOR OR LESSEE RELATING TO THE SUBJECT MATTER OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED AMONG BONDHOLDER, LESSOR AND LESSEE. 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 THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, ANY RELATED DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY RELATED TRANSACTIONS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

[REMAINDER OF PAGE INTENTIONALLY BLANK; EXECUTION PAGE FOLLOWS.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in their respective corporate names by their duly authorized offices, all as of the date first written above.

Bondholder: GE CAPITAL PUBLIC FINANCE, INC.

By: /s/ [Illegible]
Title: Vice President

Lessor: THE UNIFIED GOVERNMENT OF
WYANDOTTE COUNTY/KANSAS CITY,
KANSAS

[SEAL] By: /s/ Carol Marinovich
Name: Carol Marinovich
Title: Mayor/CEO

ATTEST:
By: /s/ Tom G. Roberts
Name: Tom G. Roberts
Title: Unified Government Clerk

Lessee: MIDWEST GRAIN PRODUCTS, INC.

By: /s/ Robert G. Booe
Title: V.P. - CFO

ORIGINAL: ___ OF 6

[EXECUTION PAGE OF LEASE AGREEMENT]

Closing Date: August 22, 2001

Coupon Rate: 5.23%

<u>Payment Date</u>	<u>Payment Number</u>	<u>Lease Payment</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Principal Balance*</u>	<u>Prepayment Amount*</u>
8/21/2001	0	--	--	--	6,500,000.00	6,630,000.00
10/1/2001	1	114,208.87	77,380.95	36,827.92	6,422,619.05	6,551,071.43
11/1/2001	2	105,372.87	77,380.96	27,991.91	6,345,238.09	6,472,142.85
12/1/2001	3	105,035.62	77,380.96	27,654.66	6,267,857.13	6,393,214.27
1/1/2002	4	104,698.36	77,380.95	27,317.41	6,190,476.18	6,314,285.70
2/1/2002	5	104,361.11	77,380.95	26,980.16	6,113,095.23	6,235,357.13
3/1/2002	6	104,023.86	77,380.95	26,642.91	6,035,714.28	6,156,428.57
4/1/2002	7	103,686.61	77,380.96	26,305.65	5,958,333.32	6,077,499.99
5/1/2002	8	103,349.36	77,380.96	25,968.40	5,880,952.36	5,998,571.41
6/1/2002	9	103,012.10	77,380.95	25,631.15	5,803,571.41	5,919,642.84
7/1/2002	10	102,674.85	77,380.95	25,293.90	5,726,190.46	5,840,714.27
8/1/2002	11	102,337.60	77,380.95	24,956.65	5,648,809.51	5,761,785.70
9/1/2002	12	102,000.35	77,380.96	24,619.39	5,571,428.55	5,682,857.12
10/1/2002	13	101,663.10	77,380.96	24,282.14	5,494,047.59	5,603,928.54
11/1/2002	14	101,325.84	77,380.95	23,944.89	5,416,666.64	5,524,999.97
12/1/2002	15	100,988.59	77,380.95	23,607.64	5,339,285.69	5,446,071.40
1/1/2003	16	100,651.34	77,380.95	23,270.39	5,261,904.74	5,367,142.83
2/1/2003	17	100,314.09	77,380.96	22,933.13	5,184,523.78	5,288,214.26
3/1/2003	18	99,976.84	77,380.96	22,595.88	5,107,142.82	5,209,285.68
4/1/2003	19	99,639.58	77,380.95	22,258.63	5,029,761.87	5,130,357.11
5/1/2003	20	99,302.33	77,380.95	21,921.38	4,952,380.92	5,051,428.54
6/1/2003	21	98,965.08	77,380.95	21,584.13	4,874,999.97	4,972,499.97
7/1/2003	22	98,627.83	77,380.95	21,246.88	4,797,619.02	4,893,571.40
8/1/2003	23	98,290.58	77,380.96	20,909.62	4,720,238.06	4,814,642.82
9/1/2003	24	97,953.32	77,380.95	20,572.37	4,642,857.11	4,735,714.25
10/1/2003	25	97,616.07	77,380.95	20,235.12	4,565,476.16	4,656,785.68
11/1/2003	26	97,278.82	77,380.95	19,897.87	4,488,095.21	4,577,857.11
12/1/2003	27	96,941.57	77,380.95	19,560.62	4,410,714.26	4,498,928.55
1/1/2004	28	96,604.32	77,380.96	19,223.36	4,333,333.30	4,419,999.97
2/1/2004	29	96,267.06	77,380.95	18,886.11	4,255,952.35	4,341,071.40
3/1/2004	30	95,929.81	77,380.95	18,548.86	4,178,571.40	4,262,142.83
4/1/2004	31	95,592.56	77,380.95	18,211.61	4,101,190.45	4,183,214.26
5/1/2004	32	95,255.31	77,380.95	17,874.36	4,023,809.50	4,104,285.69
6/1/2004	33	94,918.06	77,380.96	17,537.10	3,946,428.54	4,025,357.11
7/1/2004	34	94,580.80	77,380.95	17,199.85	3,869,047.59	3,946,428.54
8/1/2004	35	94,243.55	77,380.95	16,862.60	3,791,666.64	3,867,499.97
9/1/2004	36	93,906.30	77,380.95	16,525.35	3,714,285.69	3,788,571.40
10/1/2004	37	93,569.05	77,380.95	16,188.10	3,636,904.74	3,709,642.83
11/1/2004	38	93,231.80	77,380.96	15,850.84	3,559,523.78	3,630,714.26
12/1/2004	39	92,894.54	77,380.95	15,513.59	3,482,142.83	3,551,785.69
1/1/2005	40	92,557.29	77,380.95	15,176.34	3,404,761.88	3,472,857.12
2/1/2005	41	92,220.04	77,380.95	14,839.09	3,327,380.93	3,393,928.55
3/1/2005	42	91,882.79	77,380.95	14,501.84	3,249,999.98	3,314,999.98
4/1/2005	43	91,545.54	77,380.96	14,164.58	3,172,619.02	3,236,071.40
5/1/2005	44	91,208.28	77,380.95	13,827.33	3,095,238.07	3,157,142.83
6/1/2005	45	90,871.03	77,380.95	13,490.08	3,017,857.12	3,078,214.26
7/1/2005	46	90,533.78	77,380.95	13,152.83	2,940,476.17	2,999,285.69
8/1/2005	47	90,196.53	77,380.95	12,815.58	2,863,095.22	2,920,357.12
9/1/2005	48	89,859.28	77,380.96	12,478.32	2,785,714.26	2,841,428.55
10/1/2005	49	89,522.02	77,380.95	12,141.07	2,708,333.31	2,762,499.98
11/1/2005	50	89,184.77	77,380.95	11,803.82	2,630,952.36	2,683,571.41
12/1/2005	51	88,847.52	77,380.95	11,466.57	2,553,571.41	2,604,642.84
1/1/2006	52	88,510.27	77,380.95	11,129.32	2,476,190.46	2,525,714.27
2/1/2006	53	88,173.02	77,380.96	10,792.06	2,398,809.50	2,446,785.69
3/1/2006	54	87,835.76	77,380.95	10,454.81	2,321,428.55	2,367,857.12
4/1/2006	55	87,498.51	77,380.95	10,117.56	2,244,047.60	2,288,928.55
5/1/2006	56	87,161.26	77,380.95	9,780.31	2,166,666.65	2,209,999.98
6/1/2006	57	86,824.01	77,380.95	9,443.06	2,089,285.70	2,131,071.41
7/1/2006	58	86,486.76	77,380.96	9,105.80	2,011,904.74	2,052,142.83
8/1/2006	59	86,149.50	77,380.95	8,768.55	1,934,523.79	1,973,214.27
9/1/2006	60	85,812.25	77,380.95	8,431.30	1,857,142.84	1,894,285.70
10/1/2006	61	85,475.00	77,380.95	8,094.05	1,779,761.89	1,815,357.13
11/1/2006	62	85,137.75	77,380.95	7,756.80	1,702,380.94	1,736,428.56
12/1/2006	63	84,800.50	77,380.96	7,419.54	1,624,999.98	1,657,499.98
1/1/2007	64	84,463.24	77,380.95	7,082.29	1,547,619.03	1,578,571.41
2/1/2007	65	84,125.99	77,380.95	6,745.04	1,470,238.08	1,499,642.84
3/1/2007	66	83,788.74	77,380.95	6,407.79	1,392,857.13	1,420,714.27
4/1/2007	67	83,451.49	77,380.95	6,070.54	1,315,476.18	1,341,785.70
5/1/2007	68	83,114.24	77,380.96	5,733.28	1,238,095.22	1,262,857.12
6/1/2007	69	82,776.98	77,380.95	5,396.03	1,160,714.27	1,183,928.56
7/1/2007	70	82,439.73	77,380.95	5,058.78	1,083,333.32	1,104,999.99
8/1/2007	71	82,102.48	77,380.95	4,721.53	1,005,952.37	1,026,071.42
9/1/2007	72	81,765.23	77,380.95	4,384.28	928,571.42	947,142.85
10/1/2007	73	81,427.98	77,380.96	4,047.02	851,190.46	868,214.27
11/1/2007	74	81,090.72	77,380.95	3,709.77	773,809.51	789,285.70

12/1/2007	75	80,753.47	77,380.95	3,372.52	696,428.56	710,357.13
1/1/2008	76	80,416.22	77,380.95	3,035.27	619,047.61	631,428.56
2/1/2008	77	80,078.97	77,380.95	2,698.02	541,666.66	552,499.99
3/1/2008	78	79,741.72	77,380.96	2,360.76	464,285.70	473,571.41
4/1/2008	79	79,404.46	77,380.95	2,023.51	386,904.75	394,642.84

A-2

5/1/2008	80	79,067.21	77,380.95	1,686.26	309,523.80	315,714.28
6/1/2008	81	78,729.96	77,380.95	1,349.01	232,142.85	236,785.71
7/1/2008	82	78,392.71	77,380.95	1,011.76	154,761.90	157,857.14
8/1/2008	83	78,055.46	77,380.96	674.50	77,380.94	78,928.56
9/1/2008	84	77,718.20	77,380.94	337.26	(0.00)	(0.00)
TOTAL		7,712,488.36	6,500,000.00	1,212,488.36		

*After payment of Lease Payment due opposite Prepayment Amount.

A-3

Exhibit B to Lease Agreement

DESCRIPTION OF PERSONAL PROPERTY

Asset Number	Asset Description
93	Cleaver Brooks 200 H.P. Boiler
94	Boiler Electrical
259	Boiler Upgrades
314	Boiler Upgrades
95	Boiler Mechanical
120	Wall Above the Boiler
363	Gas Meter Phone Line
375	Primary Switch Gear
386	Inspection Platform

390	Plant 6" Water Header
222	Steam Cleaning System
232	Freezer Room
354	Freezer Upgrades
226	Tx-144 Mix System Platforms
230	Process Electrical Tx-144
344	Tx-144 PLC Processor
231	Process Mechanical Tx-144
236	Tx-144 Cooking Extruder, Mix System, Cooler, Pneumatics
406	Tx-144 Comitrol Processor
400	Tx-144 Drying System
401	Tx-144 Drying System Electrical
402	Tx-144 Drying System Mechanical
404	Tx-144 Drying System Platform
272	Tx-144 Misc. Parts
326	Tx-85 Mix System
225	Tx-85 Extruder Modifications
104	Tx-85 Mix System Platform
124	Tx-85 Extruder Platform
294	Tx-85 Stuffer
405	Tx-85 Comitrol Processor
327	Tx-85 Magnum Upgrade
229	Fabrication of Tx-85 System Pneumatics
8	Tx-80 Cylinder, Live Bin, Mix System, Pneumatics, Cooler
24	Platforms & Ladders
25	Bulk Bag Unloader
224	Silo Pad Expansion
328	F2/K2 Peabody TecTank Silos and Mac Equip. Pneumatics
267	F2/K2 Silo Kinergy Rings

B-1

224	Silo Pad Expansion For F3, F4, F5, K3 Silos
239	F3, F4, F5, K3 Peabody TecTank Silos
337	Silo Modifications
237	Line #4 Bemis 7115 Packaging System
378	Line #3 Bemis 7115 Packaging System
366	Linx #4 Date Coder
377	2 Safe Line Metal Detectors
407	1 safe Line Bag Metal Detector
106	1 Gardner/Denver Air Compressor
373	2 Gardner/Denver Air Compressors
122	Moisture Analyzer

149	Break Room Water Heater
349	NIR Analyzer
353	Liquid Process Tanks
382	Moyno Pumps for Process Tanks
355	Plant Platform Scale
403	Scott Continuous Batching Mix System
388	Plant Racking
335	Dock Shelters
312	Trash Compactor Enclosure
370	Motorized Hand Jack
170	Mig Welder
364	Hydraulic Press
53	Floor Crane
26	Tool Cage
369	Shop Platforms
55	Telephone System
171	Richcol Copier
275	Office Remodel
290	CFO Office Furniture
292	RTC Office Furniture

DESCRIPTION OF REHABILITATION EXPENDITURES

BUILDING ROOF REPLACEMENT
RESIN COOLER UPGRADE
MILLING & PACKAGING UPGRADE
MULTIPLE INGREDIENT BLENDING
COMITROL PROJECT FOR TX-144
OFFICE RENOVATION

FORM OF BOND

\$6,500,000 The Unified Government
of Wyandotte County/Kansas City, Kansas
Industrial Development Revenue Bond
(Midwest Grain Products, Inc. Project)
Series 2001

No.: R-1 \$6,500,000

Maturity Date
September 1, 2008

Interest Rate
5.23%

THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS, a municipal corporation created and validly existing under the laws of the State of Kansas (hereafter referred to as "Lessor"), for value received, hereby promises to pay GE Capital Public Finance, Inc., 8400 Normandale Lake Boulevard, Suite 470, Minneapolis, Minnesota 55437, or to registered assigns, but solely from the Lease Payments hereinafter described, the principal sum of

SIX MILLION FIVE HUNDRED THOUSAND DOLLARS

in any coin or currency of the United States of America which on the date of payment thereof is the legal tender for the payment of public and private debts, and to pay, solely from such Lease Payments, in like coin and currency, interest on the principal sum from the date hereof, such interest to be at the rates, and all such payments of interest, principal or interest and principal to be payable at the time and place, in the amounts and in accordance with the terms set forth in that certain Lease Agreement dated as of August 1, 2001 (the "Lease Agreement") among Lessor, GE Capital Public Finance, Inc. and Midwest Grain Products, Inc. ("Lessee"). All terms used herein in capitalized form and not otherwise defined herein shall have the meanings ascribed thereto in the Lease Agreement.

This Bond is payable as to principal and prepayment premium, if any, solely from Lease Payments to be made by Lessee and is secured by, among other things, a lien on the Project financed pursuant to the Lease Agreement.

This Bond shall not represent or constitute a debt or pledge of the faith and credit of Lessor, and this Bond is payable solely from the revenues pledged therefor pursuant to the Lease Agreement, and no moneys of Lessor raised by taxation shall be obligated or pledged for the payment of Lease Payments or any other amounts due under this Bond.

This Bond is subject to prepayment upon the terms and conditions set forth in the Lease Agreement.

It is hereby certified, recited and declared that all acts, conditions and things required to exist to happen and to be performed precedent to and in the issuance of this Bond exist, have happened and have been performed in regular and due form and time as required by the Constitution and laws of the State of Kansas applicable thereto and that the issuance of this Bond is in full compliance with all Constitutional and statutory

limitations, provisions and restrictions.

IN WITNESS WHEREOF, THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS has issued this Bond and has caused the same to be signed by the signature of its authorized representative this ___ day of _____, 2001.

THE UNIFIED GOVERNMENT OF WYANDOTTE
COUNTY/KANSAS CITY, KANSAS

By: _____
Name: Carol Marinovich
Its: Mayor/CEO

[SEAL]

ATTEST:

By: _____
Name: Tom G.Roberts
Title: Unified Government Clerk

F-2

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned _____ (the "Transferor") hereby sells, assigns and transfers unto _____ (the "Transferee")

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF TRANSFEREE

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ as attorney to register the transfer of the within Bond on the books kept for registration of transfer thereof, with full power of substitution in the premises.

Date:
Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e., Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP) or New York Stock Exchange Medallion Signature Program.

NOTICE: No transfer will be registered and no new Bond will be issue in the name of the Transferee, unless the signature(s) to this assignment correspond(s) with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatever and the Social Security or Federal Employer Identification Number of the Transferee is supplied.

F-3

Exhibit I to Lease Agreement

LEGAL DESCRIPTION OF REAL PROPERTY

Tract I

A tract of land in the Southeast Quarter of Section 15, Township 11 South, Range 25 East of the Sixth Principal Meridian in Kansas City, Wyandotte County, Kansas being more particularly described as follows:

Beginning at a point on the North right-of-way line of Berger Avenue, as now established, said point being 343.29 feet East of the East right-of-way line of vacated 1st Street as now established, said point also being 906.0 feet North and 1460.79 feet East of the Southwest corner of the Southeast Quarter of said Section 15;

>Thence Northwesterly 124.81 feet, along a curve concave to the Northeast, having a radius of 1208.11 feet through a central angle of 5E 55' 16" and to which the center of the circle of said curve bears North 52E 15' 04" East;

Thence North 29E 36' 07" West 139.08 feet, along a line which makes a right deflection angle of 2E 13' 34" with the tangent of the curve last described;

Thence North 28E 33' 48" West 57.55 feet to a point on the center line of vacated Bayard Avenue (also know as Delaware Avenue), said point being 177.49 feet East of the East right-of-way line of vacated 1st Street;

Thence North 9E 11' 48" East 278.87 feet to a point on the South right-of-way line of vacated Carr Avenue, as now established, said point being 223.68 feet East of the East right-of-way line of vacated 1st Street;

Thence North 0E 20' 15" West 30.0 feet to a point on the centerline of vacated Carr Avenue;

Thence North 89E 38' 27" East 123.82 feet, along the center line of vacated Carr Avenue, to a point 347.5 feet East of the East right-of-way line of vacated 1st Street;

Thence North 0E 20' 15" West 27.22 feet, along a line parallel with and 347.5 feet East of the East right-of-way line of vacated 1st Street;

Thence South 84E 28' 27" East 904.85 feet to a one-half inch reinforcing bar found with LS-533 survey cap;

Thence South 05E 31' 33" West 261.82 feet to the beginning of a non-tangent curve concave to the Northwest having a radius of 431.80 feet and a one-half inch reinforcing bar found with LS-533 survey cap;

I-1

Thence Southwesterly 129.60 feet, along said non-tangent curve, through a central angle of 17E 11' 49" having a chord bearing of South 30E 09' 18" West and a chord distance of 129.12 feet, said curve being parallel with and 46.5 feet Northwesterly of the center line of the Kansas City Belt Railway connection to Badger Lumber Yard, as recorded in Book 82 at Page 420, to a one-half inch reinforcing bar found with LS-533 survey cap;

Thence South 37E 10' 40" West 12.06 feet, parallel with and 46.5 feet Northwesterly of the center line of said railway connection, to a one-half inch reinforcing bar found with LS-533 survey cap;

Thence South 58E 47' 33" West 273.49 feet to a point on the North right-of-way line of Berger Avenue, as now established, and a one-half inch reinforcing bar found with LS-533 survey cap;

Thence South 89E 38' 27" West 501.80 feet, along said North right-of-way line to the point of beginning, containing 497,928 square feet or 11.4309 acres, more or less.

Subject to all easements and restrictions of record.

Tract II

Lots 1, 10, 11, 12, and 13, Block 1 and Lots 1, 2, 3, 4, 5, 6 and 7, Block 2, THE JUNCTION, a subdivision of land in Kansas City, Wyandotte County, Kansas.

I-2

Exhibit J to Lease Agreement

LIST OF PERMITTED EXCEPTIONS

1. All assessments and taxes for the year 2001 and all subsequent years. None are now due and payable.
2. Memorandum of Agreement by and between Union Pacific Railroad Company, Cedrite Technologies, Inc., formerly known as SNP, Inc., by instrument dated November 9, 1987, filed for record November 30, 1987, as Document No. 1044269 in Book 3262, Page 276.
3. All coal, oil, gas and the minerals and mineral rights reserved in the premises by the Union Pacific Railroad Company, in a Deed dated September 24, 1987, and recorded in Book 3262, Page 283, as Document No. 1044270.

4. Corporation Easement by and between Prime Investments, Inc., and the City of Kansas City, Kansas for the use and benefit of the Board of Public Utilities of Kansas City, Kansas filed January 25, 1988, in Book 3272, Page 89, as Document No. 1046997, granting the right to erect, maintain and repair wires and all appurtenances thereto, for the transmission and distribution of electric energy and the right to trim or remove such trees, branches, shrubs, bushes, and other obstacles as may interfere with, the safe, proper and expeditious erection, reconstruction, operation and maintenance under varying conditions of operation, renewal and removal of said line or any part thereof, said right of way being over, under, along and across the following lands in the City of Kansas City, Kansas, to wit:

A strip of land 10.00 feet wide situated in the Southeast Quarter of Section 15, Township 11 South, Range 25 East of the Sixth Principal Meridian in Kansas City, Wyandotte County, Kansas, said strip of land lying 5.00 feet on each side of the following described center line: Beginning at a point on the North right of way line of Berger Avenue, as now established, said point being 640.05 feet East of the East right of way line of vacated First Street, as now established, said point also being 906.0 feet North and 1757.55 feet East of the Southwest corner of the Southeast Quarter of said Section 15; thence North 2 degrees 18 minutes 39 seconds West 12.92 feet, along said center line, to Point "A"; thence North 32 degrees 57 minutes 47 seconds East 153.42 feet, along said center line; thence South 84 degrees 28 minutes 27 seconds East 111.42 feet, along said center line; thence North 5 degrees 31 minutes 33 seconds East 335.76 feet, along said center line; thence North 84 degrees 28 minutes 27 seconds West 237.42 feet, along said center line, to the "point of terminus" of said easement description. Together with a 10.00 feet wide guy anchor easement lying 5.00 feet on each side of the following described center line; Beginning at Point "A" in the above described easement; thence North 2 degrees 18 minutes 39 seconds West 20.00 feet to the "Point of Terminus" of said easement description.

J-1

NOTE: The side lines of the above described easements are to be lengthened and/or shortened at the points of beginning, points of intersection and/or points of terminus to prevent any gores, gaps or overlaps which may be created by this description.

5. Easement granted to City of Kansas City, Kansas by the instrument filed April 25, 1989 as Document No. 1073766 in Book 3360 at Page 163, over a portion of the premises in question, as more fully described therein.

J-2

**FIRST AMENDMENT TO LEASE AGREEMENT
AND MODIFICATION AGREEMENT**

THIS FIRST AMENDMENT TO LEASE AGREEMENT AND MODIFICATION AGREEMENT is dated as of July 1, 2003 (this "Agreement") among General Electric Capital Corporation, a Delaware corporation ("GECC"), as assignee of and successor-in-interest to GE Capital Public Finance, Inc., a Delaware corporation ("GECPF"), The Unified Government of Wyandotte County/Kansas City, Kansas, a municipal corporation duly organized and validly existing under the laws of the State of Kansas ("Lessor"), and MGP Ingredients, Inc., f/k/a Midwest Grain Products, Inc., a Kansas corporation ("Lessee"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Lease Agreement dated as of August 1, 2001 (the "Lease Agreement") among Bondholder, Lessor and Lessee.

Recitals

WHEREAS, GECPF, Lessor and Lessee entered into the Lease Agreement, pursuant to which (a) GECPF purchased the Bond (as defined in the Lease Agreement) from Lessor, (b) Lessor used the proceeds of the Bond to acquire and renovate the Project (as defined in the Lease Agreement) from Lessee, (c) Lessee leased the Project from Lessor and (d) Lessor assigned all of its rights and interest in the Lease Agreement (subject to certain reserved rights specified in the Lease Agreement) to GECPF as security for the Bonds, all in order to finance for Lessee all or a portion of the acquisition and renovation of the Project (as defined in the Lease Agreement).

WHEREAS, GECPF assigned all of its rights, title and interest in the Lease Agreement to GECC, and GECC is holder of the Bond ("Bondholder"). GECPF has been appointed to serve as subservicer with respect to the Lease Agreement on behalf of Bondholder;

WHEREAS, as of July 17, 2003 (the "Closing Date"), the outstanding principal amount of the Bond and the Lease is \$4,797,619.02;

WHEREAS, by Lessor's and Lessee's compliance with certain requirements of the Code, the interest on the Bond is not included in the gross income of Bondholder ("Tax-Exempt");

WHEREAS, Lessee is unable to continue to comply with certain on-going requirements of the Code that are necessary in order to maintain the Tax-Exempt status of the Bond;

WHEREAS, Bondholder, Lessor and Lessee desire to amend certain provisions of the Lease Agreement in order to (a) convert the interest rate on the Bond and the Lease to a taxable interest rate and (b) remove certain representations, warranties and covenants that relate to the Tax-Exempt status of the Bond; and

WHEREAS, pursuant to the terms hereof, on the Closing Date Lessor will deliver its \$4,797,619.02 Taxable Industrial Development Revenue Bond (MGP Ingredients, Inc.) Series 2003 in the form attached hereto as Exhibit A (the "Taxable Bond"), and Bondholder will tender the Bond in exchange for the Taxable Bond;

NOW, THEREFORE, for good and valuable considerations, receipt of which is hereby acknowledged and in consideration of the mutual covenants and agreements hereinafter contained, the parties agree as follows:

Section 1. **Amendments.** Provided that the terms and conditions hereof are satisfied, Bondholder, Lessor and Lessee hereby amend the following provisions of the Lease Agreement:

(a) Article I of the Lease Agreement is hereby amended by deleting the following definitions contained therein: (i) Determination of Taxability, (ii) Event of Taxability, (iii) Gross-Up Rate and (iv) Tax Compliance Agreement.

(b) The Lease Agreement is hereby amended by amending and replacing the following sections therein with "Reserved": (i) Section 2.07(d); (ii) Article IV(m) and (n); (iii) Article V(l), (r), (s), (t), (u) and (w); (iv) Section 7.01(h); (v) Section 8.03(d) and (vi) Section 11.01(i).

(c) Article I of the Lease Agreement is hereby amended by adding the following new definition:

"Modification Agreement" means the First Amendment to Lease Agreement and Modification Agreement dated as of July 1, 2003 among Lessor, Lessee and Bondholder.

(d) The definition of “Bond” set forth in Article I of the Lease Agreement is hereby amended and replaced with the following new definition:

“Bond” means Lessor’s \$4,797,619.02 Taxable Industrial Development Revenue Bond (MGP Ingredients, Inc.) Series 2003.

(e) Section 2.03 of the Lease Agreement is hereby amended and replaced with the following new section:

Section 2.03. Interest. The principal amount of the Bond and the Lease hereunder outstanding from time to time shall bear interest (computed on the basis of actual days elapsed in a 360-day year) at the rate of five and twenty-six hundredths percent (5.26%). Interest accruing on the principal balance of the Bond and the Lease outstanding from time to time shall be payable as provided in Exhibit A and in the Bond and upon earlier demand in accordance with the terms hereof or prepayment in accordance with the terms of the Bond and Section 2.07 hereof.

(f) Section 11.01 of the Lease Agreement is hereby amended by adding the following new subsections:

2

(l) failure by Lessee to observe and perform any covenant, condition or agreement contained in the Modification Agreement herein for a period of 30 days after written notice is given to Lessee; *provided, however,* that, if the failure stated in such notice cannot be corrected within such 30-day period, Bondholder will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by Lessee within the applicable period and diligently pursued until the default is corrected; or

(m) any representation or warranty by Lessor or Lessee in the Modification Agreement shall prove materially false or misleading; or

(g) Exhibit A of the Lease Agreement is hereby amended and replaced with Exhibit B attached hereto.

Section 2. **Issuance of Taxable Bond.** Bondholder agrees, subject to the terms and conditions hereof, to acquire the Taxable Bond in the amount of \$4,797,619.02 in exchange for the Bond; Lessor hereby agrees, subject to the terms and condition hereof, to execute and deliver the Taxable Bond in exchange for the Bond; and Lessee hereby agrees to continue to lease the Project from Lessor pursuant to the terms of the Lease Agreement, as amended by this Agreement. Upon receipt of the Taxable Bond, Bondholder shall surrender the Bond to Lessor, and Lessor shall cancel the Bond.

Section 3. **Conditions Precedent.** Bondholder’s agreement to exchange the Bond for the Taxable Bond and to enter into this Agreement shall be subject to the condition precedent that Bondholder shall have received all of the following, each in form and substance acceptable to Bondholder:

(a) This Agreement, properly executed on behalf of Lessee and Lessor;

(b) The First Amendment to Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing and to Assignment of Rents and Leases dated as of July 1, 2003 (the “Mortgage Amendment”), properly executed on behalf of Lessee;

(c) The Taxable Bond, properly executed on behalf of Lessor;

(d) A certificate of the Secretary or an Assistant Secretary of Lessee, certifying as to (i) the resolutions of the board of directors and, if required, the shareholders of Lessee, authorizing the execution, delivery and performance of this Agreement and the Mortgage Amendment and any related documents, (ii) the bylaws of Lessee, and (iii) the signatures of the officers or agents of Lessee authorized to execute and deliver this Agreement and the Mortgage Amendment and other instruments, agreements and certificates on behalf of Lessee;

(e) Currently certified copies of the Articles of Incorporation of Lessee;

(f) A Certificate of Good Standing issued as to Lessee by the Secretary of the State of the state of Lessee’s incorporation not more than 10 days prior to the date hereof;

3

- (g) An ordinance taken by or on behalf of Lessor to authorize the transactions contemplated hereby;
- (h) A mortgage modification endorsement to Bondholder's existing title policy relating to the Property;
- (i) An opinion of counsel to Lessee, addressed to Bondholder and Lessor, in form and substance acceptable to Bondholder and Lessor;
- (j) An opinion of counsel to Lessor, addressed to Bondholder and Lessee, in form and substance acceptable to Bondholder and Lessee;
- (k) Payment to Bondholder of a documentation fee in the amount of \$8,500.00;
- (l) Payment to Bondholder of a modification fee in the amount of \$47,976.19 to be applied as set forth in Bondholder's proposal letter to Lessee dated June 2, 2003; and
- (m) Any other items required by Bondholder.

Section 4. ***Representations, Warranties and Covenants of Lessor.*** Lessor represents, warrants and covenants for the benefit of Bondholder and Lessee that:

- (a) The representations, warranties and covenants of Lessor contained in the Lease Agreement are true and correct on and as of the Closing Date as though made on and as of the Closing Date, except to the extent that such representations and warranties relate solely to an earlier date or are modified or deleted by this Agreement.
- (b) Lessor is authorized under the Constitution and laws of the State to execute and deliver the Taxable Bond and to enter into this Agreement and the transactions contemplated hereby and to perform all of its obligations hereunder.
- (d) Lessor has duly authorized the execution and delivery of the Taxable Bond and this Agreement under the terms and provisions of the resolution of its governing body or by other appropriate official approval, and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability of the Taxable Bond and this Agreement against Lessor, and Lessor has complied with such public bidding requirements as may be applicable to the Taxable Bond and this Agreement.
- (e) The officer of Lessor executing the Taxable Bond and this Agreement and any related documents has been duly authorized to execute and deliver the Taxable Bond and this Agreement and such related documents under the terms and provisions of an ordinance of Lessor's governing body, or by other appropriate official action.
- (f) The Taxable Bond and this Agreement are legal, valid and binding obligations of Lessor, enforceable in accordance with their respective terms, except to the

extent limited by bankruptcy, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights.

Section 5. ***Representations, Warranties and Covenants of Lessee.*** Lessee represents, warrants and covenants for the benefit of Bondholder and Lessor that:

- (a) The representations, warranties and covenants of Lessee contained in the Lease Agreement and in the Certificate and Indemnity Agreement regarding Hazardous Substances dated as of August 1, 2001 by Lessee for the benefit of Bondholder are true and correct on and as of the Closing Date as though made on and as of the Closing Date, except to the extent that such representations and warranties relate solely to an earlier date or are modified or deleted by this Agreement.
- (b) Lessee has been fully authorized to execute and deliver this Agreement and the Mortgage Amendment under the terms and provisions of the resolution of its board of directors, or by other appropriate official approval, and further represents, covenants and warrants that all requirements have been met, and procedures have occurred in order to ensure the enforceability of this Agreement and the Mortgage Amendment and this Agreement and Mortgage Amendment have been duly authorized, executed and delivered.
- (c) The officer of Lessee executing this Agreement and the Mortgage Amendment and any related documents has been duly authorized to execute and deliver this Agreement and the Mortgage Amendment and such related documents under the terms and provisions of a resolution of Lessee's board of directors.

(d) This Agreement and the Mortgage Amendment constitute valid and legally binding obligations of Lessee, enforceable against Lessee in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights.

Section 6. *Miscellaneous.* (a) This Agreement can be waived, modified, amended, terminated or discharged only explicitly in a writing signed by Bondholder. A waiver signed by Bondholder shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Bondholder's rights or remedies.

(b) The obligation of Lessee to make the payments required under the Lease Agreement, as amended by the terms hereof, and to make any payments due hereunder and thereunder and to perform and observe the covenants and agreements contained herein and therein shall be absolute and unconditional in all events, without abatement, diminution, deduction, setoff or defense for any reason, including (without limitation) any accident, condemnation, destruction or unforeseen circumstances. Notwithstanding any dispute among Lessor, Lessee and Bondholder, Lessee shall make all payments when due and shall not withhold any payments pending final resolution of such dispute, nor shall Lessee assert any right of set-off or counterclaim against its obligation to make such payments required hereunder and under the Lease Agreement, as amended by the terms hereof.

5

(c) This Agreement shall be binding upon and inure to the benefit of Lessor, Lessee and Bondholder and their respective heirs, representatives, successors and assigns and shall take effect when signed by Lessor, Lessee and Bondholder.

(d) This Agreement shall be governed by the substantive laws of the State of Kansas.

(e) This Agreement shall not be construed to amend the Lease Agreement, except as is expressly provided hereby, and the Lease Agreement is hereby ratified and confirmed in all respects, and Lessee's obligations thereunder are not subject to any defense, counterclaim or offset.

(f) If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby.

(g) This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

(h) BONDHOLDER, LESSOR AND LESSEE HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS AGREEMENT, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS AMONG BONDHOLDER, LESSOR AND LESSEE RELATING TO THE SUBJECT MATTER OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED AMONG BONDHOLDER, LESSOR AND LESSEE. 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 THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, ANY RELATED DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY RELATED TRANSACTIONS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the above date.

Bondholder:

GENERAL ELECTRIC CAPITAL
CORPORATION

By: GE CAPITAL PUBLIC FINANCE, INC.,
as subservicer for and on
behalf of General Electric Capital
Corporation

By: /s/Bruce Gruys
Title: Vice President

Lessor:

THE UNIFIED GOVERNMENT OF WYANDOTTE
COUNTY/KANSAS CITY, KANSAS

By: /s/ Carol Marinovich
Name: Carol Marinovich
Title: Mayor/CEO

Attest:

By: /s/ Kathy Kovac
Name: Kathy Kovac
Title: Unified Government Clerk

Lessee:

MGP INGREDIENTS, INC., f/k/a
MIDWEST GRAIN PRODUCTS, INC.

By: /s/ Brian T. Cahill
Title: Vice President/CFO

[EXECUTION PAGE OF FIRST AMENDMENT TO LEASE AGREEMENT
AND MODIFICATION AGREEMENT]

\$4,797,619.02
The Unified Government of Wyandotte County/Kansas City, Kansas
Taxable Industrial Development Revenue Bond
(MGP Ingredients, Inc. Project)
Series 2003

No.: R-2 \$4,797,619.02

Maturity Date
September 1, 2008

Interest Rate
5.26%

THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS, a municipal corporation created and validly existing under the laws of the State of Kansas (hereafter referred to as "Lessor"), for value received, hereby promises to pay General Electric Capital Corporation, 8400 Normandale Lake Boulevard, Suite 470, Minneapolis, Minnesota 55437, or to registered assigns, but solely from the Lease Payments hereinafter described, the principal sum of

FOUR MILLION SEVEN HUNDRED NINETY-SEVEN THOUSAND
SIX HUNDRED NINETEEN AND 02/100 DOLLARS

in any coin or currency of the United States of America which on the date of payment thereof is the legal tender for the payment of public and private debts, and to pay, solely from such Lease Payments, in like coin and currency, interest on the principal sum from the date hereof, such interest to be at the rates, and all such payments of interest, principal or interest and principal to be payable at the time and place, in the amounts and in accordance with the terms set forth in that certain Lease Agreement dated as of August 1, 2001, as amended and modified by the First Amendment to Lease Agreement and Modification Agreement dated as of July 1, 2003 (the "Lease Agreement"), among Lessor, General Electric Capital Corporation, as successor-in-interest to GE Capital Public Finance, Inc., and MGP Ingredients, Inc., f/k/a Midwest Grain Products, Inc. ("Lessee"). All terms used herein in capitalized form and not otherwise defined herein shall have the meanings ascribed thereto in the Lease Agreement.

This Bond is payable as to principal and prepayment premium, if any, solely from Lease Payments to be made by Lessee and is secured by, among other things, a lien on the Project financed pursuant to the Lease Agreement.

This Bond shall not represent or constitute a debt or pledge of the faith and credit of Lessor, and this Bond is payable solely from the revenues pledged therefor pursuant to the Lease Agreement, and no moneys of Lessor raised by taxation shall be obligated or pledged for the payment of Lease Payments or any other amounts due under this Bond.

This Bond is subject to prepayment upon the terms and conditions set forth in the Lease Agreement.

It is hereby certified, recited and declared that all acts, conditions and things required to exist to happen and to be performed precedent to and in the issuance of this Bond exist, have happened and have been performed in regular and due form and time as required by the Constitution and laws of the State of Kansas applicable thereto and that the issuance of this Bond is in full compliance with all Constitutional and statutory limitations, provisions and restrictions.

IN WITNESS WHEREOF, THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS has issued this Bond and has caused the same to be signed by the signature of its authorized representative this ___ day of _____, 2003.

THE UNIFIED GOVERNMENT OF
WYANDOTTE COUNTY/KANSAS CITY, KANSAS

By: _____
Name: _____
Its: Mayor/CEO

[SEAL]

ATTEST:

By: _____
Name: _____

[EXECUTION PAGE OF BOND]

A-2

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned _____ (the "Transferor") hereby sells, assigns and transfers unto _____ (the "Transferee")

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF TRANSFEREE

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ as attorney to register the transfer of the within Bond on the books kept for registration of transfer thereof, with full power of substitution in the premises.

Date:
Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e., Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP) or New York Stock Exchange Medallion Signature Program.

NOTICE: No transfer will be registered and no new Bond will be issue in the name of the Transferee, unless the signature(s) to this assignment correspond(s) with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatever and the Social Security or Federal Employer Identification Number of the Transferee is supplied.

A-3

**EXHIBIT B TO FIRST AMENDMENT TO LEASE AGREEMENT
AND MODIFICATION AGREEMENT**

Schedule of Lease Payments

<i>Interest Rate 7/1/03 — 7/16/03:</i>		<i>5.23%</i>		<i>Tax-exempt</i>		
<i>Interest Rate thereafter:</i>		<i>5.26%</i>		<i>Taxable</i>		
Payment Date	Payment Number	Lease Payment	Principal Component	Interest Component	Principal Balance*	Prepayment Amount*
7/1/2003		--	--	--	4,797,619.02	4,893,571.40
8/1/2003	1	98,346.55	77,380.95	20,965.60	4,720,238.07	4,814,642.83
9/1/2003	2	98,071.33	77,380.95	20,690.38	4,642,857.12	4,735,714.26
10/1/2003	3	97,732.14	77,380.95	20,351.19	4,565,476.17	4,656,785.69
11/1/2003	4	97,392.95	77,380.95	20,012.00	4,488,095.22	4,577,857.12
12/1/2003	5	97,053.77	77,380.95	19,672.82	4,410,714.27	4,498,928.56
1/1/2004	6	96,714.58	77,380.95	19,333.63	4,333,333.32	4,419,999.99
2/1/2004	7	96,375.39	77,380.95	18,994.44	4,255,952.37	4,341,071.42
3/1/2004	8	96,036.21	77,380.95	18,655.26	4,178,571.42	4,262,142.85
4/1/2004	9	95,697.02	77,380.95	18,316.07	4,101,190.47	4,183,214.28
5/1/2004	10	95,357.83	77,380.95	17,976.88	4,023,809.52	4,104,285.71
6/1/2004	11	95,018.65	77,380.95	17,637.70	3,946,428.57	4,025,357.14
7/1/2004	12	94,679.46	77,380.95	17,298.51	3,869,047.62	3,946,428.57
8/1/2004	13	94,340.28	77,380.95	16,959.33	3,791,666.67	3,867,500.00
9/1/2004	14	94,001.09	77,380.95	16,620.14	3,714,285.72	3,788,571.43
10/1/2004	15	93,661.90	77,380.95	16,280.95	3,636,904.77	3,709,642.87
11/1/2004	16	93,322.72	77,380.95	15,941.77	3,559,523.82	3,630,714.30
12/1/2004	17	92,983.53	77,380.95	15,602.58	3,482,142.87	3,551,785.73
1/1/2005	18	92,644.34	77,380.95	15,263.39	3,404,761.92	3,472,857.16
2/1/2005	19	92,305.16	77,380.95	14,924.21	3,327,380.97	3,393,928.59
3/1/2005	20	91,965.97	77,380.95	14,585.02	3,250,000.02	3,315,000.02
4/1/2005	21	91,626.78	77,380.95	14,245.83	3,172,619.07	3,236,071.45
5/1/2005	22	91,287.60	77,380.95	13,906.65	3,095,238.12	3,157,142.88
6/1/2005	23	90,948.41	77,380.95	13,567.46	3,017,857.17	3,078,214.31
7/1/2005	24	90,609.22	77,380.95	13,228.27	2,940,476.22	2,999,285.74
8/1/2005	25	90,270.04	77,380.95	12,889.09	2,863,095.27	2,920,357.18
9/1/2005	26	89,930.85	77,380.95	12,549.90	2,785,714.32	2,841,428.61
10/1/2005	27	89,591.66	77,380.95	12,210.71	2,708,333.37	2,735,416.70
11/1/2005	28	89,252.48	77,380.95	11,871.53	2,630,952.42	2,657,261.94
12/1/2005	29	88,913.29	77,380.95	11,532.34	2,553,571.47	2,579,107.18
1/1/2006	30	88,574.10	77,380.95	11,193.15	2,476,190.52	2,500,952.43
2/1/2006	31	88,234.92	77,380.95	10,853.97	2,398,809.57	2,422,797.67
3/1/2006	32	87,895.73	77,380.95	10,514.78	2,321,428.62	2,344,642.91
4/1/2006	33	87,556.55	77,380.95	10,175.60	2,244,047.67	2,266,488.15
5/1/2006	34	87,217.36	77,380.95	9,836.41	2,166,666.72	2,188,333.39
6/1/2006	35	86,878.17	77,380.95	9,497.22	2,089,285.77	2,110,178.63
7/1/2006	36	86,538.99	77,380.95	9,158.04	2,011,904.82	2,032,023.87
8/1/2006	37	86,199.80	77,380.95	8,818.85	1,934,523.87	1,953,869.11
9/1/2006	38	85,860.61	77,380.95	8,479.66	1,857,142.92	1,875,714.35
10/1/2006	39	85,521.43	77,380.95	8,140.48	1,779,761.97	1,779,761.97
11/1/2006	40	85,182.24	77,380.95	7,801.29	1,702,381.02	1,702,381.02
12/1/2006	41	84,843.05	77,380.95	7,462.10	1,625,000.07	1,625,000.07
1/1/2007	42	84,503.87	77,380.95	7,122.92	1,547,619.12	1,547,619.12
2/1/2007	43	84,164.68	77,380.95	6,783.73	1,470,238.17	1,470,238.17
3/1/2007	44	83,825.49	77,380.95	6,444.54	1,392,857.22	1,392,857.22
4/1/2007	45	83,486.31	77,380.95	6,105.36	1,315,476.27	1,315,476.27
5/1/2007	46	83,147.12	77,380.95	5,766.17	1,238,095.32	1,238,095.32
6/1/2007	47	82,807.93	77,380.95	5,426.98	1,160,714.37	1,160,714.37
7/1/2007	48	82,468.75	77,380.95	5,087.80	1,083,333.42	1,083,333.42
8/1/2007	49	82,129.56	77,380.95	4,748.61	1,005,952.47	1,005,952.47
9/1/2007	50	81,790.37	77,380.95	4,409.42	928,571.52	928,571.52
10/1/2007	51	81,451.19	77,380.95	4,070.24	851,190.57	851,190.57
11/1/2007	52	81,112.00	77,380.95	3,731.05	773,809.62	773,809.62
12/1/2007	53	80,772.82	77,380.95	3,391.87	696,428.67	696,428.67
1/1/2008	54	80,433.63	77,380.95	3,052.68	619,047.72	619,047.72
2/1/2008	55	80,094.44	77,380.95	2,713.49	541,666.77	541,666.77
3/1/2008	56	79,755.26	77,380.95	2,374.31	464,285.82	464,285.82
4/1/2008	57	79,416.07	77,380.95	2,035.12	386,904.87	386,904.87
5/1/2008	58	79,076.88	77,380.95	1,695.93	309,523.92	309,523.92
6/1/2008	59	78,737.70	77,380.95	1,356.75	232,142.97	232,142.97
7/1/2008	60	78,398.51	77,380.95	1,017.56	154,762.02	154,762.02
8/1/2008	61	78,059.32	77,380.95	678.37	77,381.07	77,381.07
9/1/2008	62	<u>77,720.26</u>	<u>77,381.07</u>	<u>339.19</u>	0.00	0.00
		5,459,986.31	4,797,619.02	662,367.29		

* After payment of Lease Payment due on such date

SELECTED FINANCIAL INFORMATION

Years Ended June 30,	2003	2002	2001	2000	1999
<i>(in thousands, except per share amounts)</i>					
Income Statement Data:					
Net Sales	\$192,372	\$214,528	\$229,241	\$231,880	\$216,101
Cost of sales	202,112	193,325	212,058	210,978	200,622
Gross profit	(9,740)	21,203	17,183	20,902	15,479
Selling, general and administrative expenses	(13,617)	(14,689)	(13,545)	(12,109)	(11,908)
Other operating income (1)	17,403	4,865	1,326	39	136
Income (loss) from operations	(5,954)	11,379	4,964	8,832	3,707
Other income, net (2)	15,701	226	780	719	350
Interest expense	(1,226)	(1,237)	(1,347)	(1,469)	(1,959)
Income before income taxes	8,521	10,368	4,397	8,082	2,098
Provision for income taxes	3,367	4,109	1,737	3,192	828
Net income	5,154	6,259	2,660	4,890	1,270
Earnings per common share	\$ 0.65	\$ 0.77	\$ 0.32	\$ 0.54	\$ 0.13
Cash dividends per common share	0.15	0.15	0.10		
Weighted average common shares outstanding	7,932	8,086	8,397	9,122	9,609
Balance Sheet Data:					
Working capital	38,527	48,383	47,490	45,089	43,053
Total assets	173,130	166,218	174,450	155,779	157,370
Long-term debt, less current maturities	15,232	18,433	24,420	18,181	21,099
Stockholders' equity	105,218	104,678	100,544	102,378	105,445
Book value per share	13.69	12.95	12.29	11.93	11.07

- (1) Included in other operating income in 2003 is \$12.6 million related to business interruption insurance proceeds. Also included in other operating income is \$4.3 million, \$3.7 million and \$1.3 million in 2003, 2002 and 2001, respectively, for current operating expense reimbursement under the USDA grant (see Note 18 to Consolidated Financial Statements).
- (2) Included in other income, net in 2003 is \$15.4 million related to the gain recognized from property damage insurance proceeds in excess of the net book value of the property and equipment destroyed in the Company's distillery explosion.

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. Forward-looking statements are identified by or are associated with such words as "intend," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may" and "could" and similar expressions. 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. The forward-looking statements are based on many assumptions and factors, including those relating to grain prices, energy costs, product pricing, competitive environment and related market conditions, operating efficiencies, access to capital and actions of governments and insurers. Any changes in the assumptions or factors could produce materially different results than those predicted and could impact stock values.

Critical Accounting Policies

In preparing financial statements, management must make estimates and judgments that affect the carrying values of the Company's assets and liabilities as well as recognition of revenue and expenses. Management's estimates and judgments are based on the Company's historical experience and management's knowledge and understanding of current facts and circumstances. The policies discussed below are considered by management to be critical to an understanding of the Company's financial statements. The application of certain of these policies places significant demands on management's judgment, with financial reporting results relying on estimations about the effects of matters that are inherently uncertain. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment. There have been no significant changes in critical accounting policies in the past year.

USDA Grant: As discussed in Note 18 to the financial statements, the Company received a grant from the United States Department of Agriculture totaling approximately \$26 million over the two-year period June 1, 2001 to May 31, 2003. The funds were awarded for research, marketing, promotional and capital costs related to value-added wheat gluten and starch products. Funds applied to current operating costs are considered revenue as those costs are incurred. Funds applied to capital expenditures will be recognized in income over the periods during which applicable projects are depreciated. As a result, management has exercised judgment in applying grant proceeds to operating costs and capital expenditures in accordance with the terms of the grant.

Insurance Proceeds: As a result of the explosion at the Atchison, Kansas distillery, the Company has recorded insurance proceeds from the property damage incurred and the related business interruption that ensued. Such amounts are estimated to be recoverable under the policy terms. The proceeds from the business interruption insurance relate primarily to inefficiencies in production and additional shipping and handling costs resulting from the slowdown of the Atchison distillery operation. The Company and the insurer are in the process of determining the actual damages, and the ultimate insurance recovery could differ from the estimate that has been recorded. Additional costs, net of business interruption insurance recoveries, will be recognized in future periods as they are incurred. However, the amounts of such future costs cannot be estimated at this time.

Hedging Activities: The Company, from time to time, enters into exchange traded commodity contracts which are designated as hedges of specific volumes of commodities to be purchased and processed in future months. Additionally, the Company enters into exchange traded futures contracts related to certain sales of fuel grade alcohol to protect its selling price to the customer. These contracts are designated as and accounted for as cash-flow hedges. The changes in market value of such contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged items. Gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable income taxes, and recognized in cost of sales as part of product cost when the related products are sold. If it is determined that the hedge instruments used are no longer effective at offsetting changes in the price of the hedged item, then the changes in the market value of these contracts would be recognized in cost of sales at that time.

Self-Insured Plan: Under its self-insurance plan, the Company accrues the estimated expense of health care and workers' compensation claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

Valuation of Long-Lived Assets: The Company reviews long-lived assets, mainly equipment, whenever events or circumstances indicate that usage may be limited and carrying values may not be recoverable. If events indicate the assets cannot be used as planned, the realization from alternative uses or disposal is compared to the carrying value. If an impairment loss is measured, this estimate is recognized. A significant change in the assumptions could result in a different determination of impairment loss and/or the amount of any impairment.

Other Significant Accounting Policies: Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies

- 14 -

require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. See Note 1 in the Company's Notes to Consolidated Financial Statements for other significant accounting policies.

Operations

The Company is a fully integrated producer of certain ingredients and distillery products and has two reportable segments, an ingredients segment and a distillery products segment. Products included within the ingredients segment consist of starches, including commodity wheat starch and specialty wheat 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. In its Annual Report on Form 10-K for the fiscal year ended June 30, 2002, the Company referred to its ingredients segment as its wheat-based products segment. Although substantially all of the Company's products are wheat-based products, it also sells small amounts of soy-based and other natural grain-based ingredients, including oat protein products, and includes these products in the same segment as its wheat-based products; therefore, the Company has redesignated its former wheat-based products segment as its ingredients segment.

The Company processes its products at plants located in Atchison, Kansas and Pekin, Illinois. The Company also operates a facility for the further processing of wheat proteins and starches in Kansas City, Kansas. The Company purchases wheat directly from local and regional farms

and grain elevators and mills it into flour and mill feeds. The flour is processed with water to extract vital wheat gluten, a portion of which is further processed into specialty wheat proteins. Vital wheat gluten and most wheat protein products are dried into powder and sold in packaged or bulk form. The starch slurry which results after the extraction of the gluten and wheat proteins is further processed to extract premium wheat starch, which is also dried into powder and sold in packaged or bulk form, either as commodity wheat starch or, after further processing, as modified or specialty wheat starch. The remaining slurry is mixed with mill feeds, corn or milo and water and then cooked, fermented and distilled into alcohol. The residue of the distilling operations is dried and sold as a high protein additive for animal feed. Carbon dioxide which is produced during the fermentation process is trapped and sold. Mill feeds not used in the distilling process are sold to feed manufacturers.

On September 13, 2002, an explosion at the Company's Atchison plant caused significant damage to the Company's distillery operations at that location. There were no fatalities and only a few minor injuries; however, damage to the distillery was major, affecting operations throughout fiscal 2003. Historically, the Atchison distillery has produced approximately one-third of the Company's total alcohol output, accounting for approximately 19 percent of its total fuel grade alcohol production and approximately 67 percent of its total food grade alcohol production during the fiscal year ended June 30, 2002. As a result of the explosion, the Company has been unable to produce finished alcohol at its Atchison plant. The Company has been able to produce unfinished alcohol at the Atchison location since December, 2002, most of which has been shipped to the Pekin, Illinois facility for further processing. The Company generally has been able to meet the needs of its regular customers through its Illinois facility and supplemental third-party purchases, although its spot market sales have been affected. Because the Company's ingredient and alcohol production processes are integrated, the distillery slowdown in Atchison has also affected MGPI's ability to produce the base proteins and starches which are used in the production of specialty ingredients at this location. For a time, the Company altered its operations to use its Illinois facility to produce base proteins and starches, which were then shipped to the Atchison facility as raw material for producing specialty ingredients. As a result, while production costs increased, the Company was able to limit the effects of the distillery explosion on its ability to supply specialty products to customers. The adverse impact of the distillery slowdown on the Company's operations has been substantially reduced by business interruption insurance.

The Company is proceeding with plans to resume full alcohol production in Atchison. The total distillery rebuilding process is expected to take until November or December of 2003 to complete. The Company believes insurance proceeds will be sufficient to substantially offset rebuilding costs. The gain resulting from insurance proceeds in excess of the net recorded costs of assets destroyed in the accident is expected to be approximately \$15.4 million (pre-tax), which amount was included as other non-operating income in fiscal 2003.

The following is a summary of revenues and pre-tax profits/ (loss) allocated to each reportable operating segment for the three fiscal years ended June 30. (See Note 14 in the Company's Notes to Consolidated Financial Statements for additional information regarding the Company's operating segments.)

	2003	(dollars in thousands) 2002	2001
Ingredients			
Net Sales	\$ 57,215	\$ 66,232	\$ 79,703
Pre-Tax Income	7,030	4,562	2,089
Distillery Products			
Net Sales	\$135,157	\$148,296	\$149,538
Pre-Tax Income	3,622	7,824	3,257

- 15 -

FISCAL 2003 COMPARED TO FISCAL 2002

General

The Company had net income of \$5,154,000 in fiscal 2003 compared to net income of \$6,259,000 in fiscal 2002. The decrease was largely due to higher prices for grain and higher energy costs resulting from increased prices for natural gas, principally in the last three quarters of the fiscal year.

The distillery explosion on September 13, 2002 resulted in reduced alcohol production and, combined with lower average selling prices for both food grade and fuel grade alcohol, caused total alcohol sales for the year to decline 9 percent compared to fiscal 2002. The Company additionally experienced a 14 percent decrease in ingredients sales due largely to a planned reduction in sales of commodity ingredients, which consist of vital wheat gluten and commodity wheat starch. Sales of the Company's specialty ingredients, primarily specialty wheat proteins and wheat starches, increased 12 percent compared to the prior year.

Insurance proceeds in excess of the net recorded costs of assets that were destroyed in the distillery explosion resulted in approximately \$15.4 million of non-operating income (\$9.3 million after the effects of income taxes).

Business interruption insurance to compensate for the effects of the explosion amounted to approximately \$12.6 million in fiscal 2003 and contributed to the Company's income from operations for the year. The Company additionally benefited from the receipt of approximately \$1.9 million (net of income taxes) from a United States Department of Agriculture program to provide cash incentives to ethanol producers, as

well as approximately \$3.0 million (net of taxes) in operating net income from a USDA Commodity Credit Corporation program to support the development of specialty wheat protein and wheat starch products. Details on both of these programs are provided below.

Ingredients. Total ingredient sales in fiscal 2003 decreased 14 percent compared to the prior year due mainly to a significant reduction in sales of commodity ingredients, which consist of vital wheat gluten and commodity wheat starch. In contrast, fiscal 2003 sales of specialty ingredients, consisting of specialty proteins and starches, increased by 12 percent above fiscal 2002 to nearly \$42 million and accounted for approximately 73 percent of the Company's total ingredient sales for the year.

The increase in specialty ingredients sales resulted from higher sales of specialty proteins, which more than offset softness in sales of specialty starches. The reduction in commodity wheat starch sales resulted from the Company's decision to emphasize specialty starch sales over commodity wheat starch sales. The reduction in vital wheat gluten sales occurred because the Company elected to curtail production due to pricing pressures from artificially low priced gluten imports from the European Union. Competitive pressures from the E.U. increased following the expiration of the three-year-long quota on wheat gluten imports in early June, 2001. Unless future conditions warrant otherwise, the Company plans to maintain a reduced presence in the more traditional wheat gluten market while continuing to expand the development and growth of specialty wheat proteins.

In June 2001, the White House approved a two-year program to support the development of specialty wheat gluten and wheat starches to assist wheat gluten producers in adjusting to import competition. This program was implemented in lieu of an extension to a three-year long gluten import quota that began in June, 1998. Administered by the U.S. Department of Agriculture's Commodity Credit Corporation, the program ended May 31, 2003. Under the program, the Company was awarded approximately \$26 million of the program total of \$40 million. On June 29, 2001, the Company received approximately \$17,280,000 for the first year of the program. The Company received the balance of the award for the second year of the program in July, 2002. The Company was required to submit quarterly reports to the Commodity Credit Corporation listing costs incurred and activities conducted to date and an annual performance report after each year of the program explaining its activities. The Commodity Credit Corporation is empowered to ask for a refund with interest of some or all of the funds allocated to the Company if it determines that the Company has not made significant progress in completing its stated activities. Based on its contacts with Commodity Credit Corporation personnel through the quarterly reporting process, the Company believes that it has made satisfactory progress.

The funds allocated under the Commodity Credit Corporation program were to pay for capital, research, marketing and promotional costs related to specialty wheat protein and wheat starch products. Funds received were recognized in income during the period in which they were expended for a permitted purpose. However, funds used for capital expenditure projects will be recognized in income over the periods during which those projects are depreciated. They are not intended to be used to reduce production- and marketing-related costs for commodity vital wheat gluten and wheat starches that could extend the U.S. industry's participation in these markets.

Approximately 32 percent of the Commodity Credit Corporation program's funds for the two years combined were applied toward research and marketing-related costs and, therefore, were reflected in earnings. The remaining 68 percent of the funds were earmarked for capital projects, and will be reflected in earnings over the next seven to ten years. These projects include an \$8.7 million expansion project that was completed at the Company's Atchison plant in November, 2002. This expansion involved the installation of additional processing and drying equipment for the production of ingredients for bakery, pasta and noodle and related food markets, both domestic

- 16 -

and foreign. As reported to the Commodity Credit Corporation, during fiscal 2002, approximately \$13.6 million (including funds for capital projects that began in fiscal 2002 and scheduled for completion in fiscal 2003) was earmarked (of which \$8.3 million was expended during the year) for capital projects and \$3.7 million was applied to research- and marketing-related costs. In fiscal 2003, approximately \$9.1 million was allocated for capital projects during the year, including carry-over funds from the prior year, and \$4.3 million for research and marketing related costs.

Distillery Products. Total sales of distillery products in fiscal 2003 were down 9 percent compared to the prior year. This was due to a 9 percent decline in unit sales resulting from reduced production caused by the distillery explosion at the Company's Atchison plant on September 13, 2002. Lower selling prices for food grade alcohol and fuel grade alcohol also contributed to this decrease.

The Company has been able to produce unfinished alcohol at its Atchison plant since December, 2002, most of which has been shipped to the Pekin, Illinois facility for further processing. The Company generally has been able to meet the needs of its regular customers through its Illinois facility and supplemental third-party purchases, although its spot market business has been affected.

The Company has participated in a program that was developed by the U.S. Department of Agriculture and initiated in December, 2000 to provide a cash incentive for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. The Company began receiving payments under this program in the third quarter of fiscal 2001. In fiscal 2003, the Company received payments totaling approximately \$3.1 million (pre-tax). The program extends through September, 2006, with funding determined annually. The Company's eligibility to participate in the program is determined from quarter to quarter.

Sales

Net sales in fiscal 2003 decreased by approximately \$22.2 million from net sales in fiscal 2002. This decrease resulted from a 9 percent

reduction in sales of distillery products and a 14 percent reduction in sales of ingredients.

The decline in sales of ingredients was due to a reduction in sales of commodity ingredients, which primarily consist of vital wheat gluten and commodity wheat starch. Sales of vital wheat gluten dropped due to a significant reduction in unit sales. Commodity wheat starch sales also declined due to a reduction in unit sales, which more than offset a modest increase in selling prices. Sales of specialty ingredients, consisting primarily of specialty wheat proteins and starches, increased by 12 percent due to higher average selling prices and higher unit sales of specialty proteins. Unit sales of specialty starches, meanwhile, declined.

Distillery product sales in fiscal 2003 were lower than the prior year due mainly to reduced production caused by the September 13 distillery explosion. Reduced unit sales and lower average selling prices for fuel grade alcohol as well as food grade alcohol for beverage and industrial applications also contributed to this decline. Sales of distillers feeds, the principal by-product of the alcohol production process, were less than the prior year due to lower alcohol output.

Cost of Sales

The cost of sales in fiscal 2003 increased by approximately \$9 million above the cost of sales in the prior fiscal year. This principally was due to higher raw material costs for grain and higher energy costs. The increase in grain costs was caused by a 15 percent jump in average wheat prices and a 20 percent hike in average corn prices paid by the Company versus the prior year. The increased energy costs resulted from a 45 percent rise in natural gas prices compared to fiscal 2002.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company enters into commodity contracts to reduce or hedge the risk of future grain price increases. During fiscal 2003, the Company hedged approximately 45 percent of corn processed, compared to 48 percent in fiscal 2002. Of the wheat processed by the Company, 44 percent was hedged in fiscal 2003 compared to none in fiscal 2002. The Company also uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. In fiscal 2003, raw material costs included a net hedging gain of \$199,883 compared to a net hedging loss of \$1,798,705 in the prior fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in fiscal 2003 were approximately \$1.1 million lower than selling, general and administrative expenses in fiscal 2002. The decrease was due to various factors, including reductions in staff bonus incentives and a \$449,000 reduction in bad debt expense compared to the prior fiscal year. The decrease was partially offset by an increase in sales salaries and fees associated with outside professional and consulting services.

Other Operating Income

The increase in other operating income relates to the recognition of approximately \$12.6 million in business interruption insurance. There was a decline from the prior year in the pre-tax income recognized from the previously discussed U.S. Department of Agriculture Commodity Credit Corporation program for specialty wheat protein and wheat starch products.

Other Income

The increase in other income is due to the recognition of expected insurance proceeds in excess of the net recorded costs of assets that

- 17 -

were destroyed in a distillery explosion at the Company's Atchison plant in September, 2002.

Taxes and Inflation

The consolidated effective income tax rate is consistent for all periods. The general effects of inflation were minimal.

Net Income

As the result of the foregoing factors, the Company experienced net income of \$5,154,000 in fiscal 2003 compared to net income of \$6,259,000 in fiscal 2002.

FISCAL 2002 COMPARED TO FISCAL 2001

General

The Company had net income of \$6,259,000 in fiscal 2002 compared to net income of \$2,660,000 in fiscal 2001. This improvement was due to several factors, including funds allocated under a United States Department of Agriculture Commodity Credit Corporation program to support the development of value-added wheat protein and wheat starch products, as well as a Department of Agriculture cash incentive program for ethanol producers. Details of these programs are described elsewhere in this report. Another significant cause for the improvement was a reduction in energy costs resulting from an approximately 40 percent decrease in the average per unit price for natural gas compared to the same period in the prior year. Grain costs decreased because of lower average unit prices for corn and milo and reduced wheat purchases compared to the prior year.

Ingredients. Sales of ingredients, consisting primarily of specialty and commodity wheat proteins and starches, were lower than the prior year due to a planned reduction in sales of commodity wheat starch and vital wheat gluten, a protein that is used mainly as an ingredient in bread products. However, sales of specialty ingredients increased almost 14 percent over the prior year to nearly \$37 million for the year and accounted for approximately 56 percent of the Company's combined wheat-based product sales for the year.

The increase in specialty wheat protein and starch sales was due mainly to expanded marketing programs and heightened customer interest. The reduction in commodity wheat starch sales resulted from the Company's decision to emphasize specialty and modified starch sales over commodity wheat starch sales. The reduction in vital wheat gluten sales occurred because the Company elected to curtail production due to pricing pressures from artificially low priced gluten imports from the European Union. Competitive pressures from the E.U. increased following the expiration of the three-year-long quota on wheat gluten imports in early June, 2001.

In June, 2001, the White House approved a previously described two-year long program to support the development of value-added wheat gluten and wheat starches to assist wheat gluten producers adjust to import competition. Administered by the U.S. Department of Agriculture's Commodity Credit Corporation, this program was implemented in lieu of an extension to a three-year long gluten import quota that began in June, 1998. Under the program, the Company became eligible for approximately \$26 million of the program total of \$40 million. On June 29, 2001, the Company received approximately \$17,280,000 for the first year of the program.

Approximately 80 percent of the first year's allotment under the program was used for capital projects. The remaining 20 percent of the first year's funds were applied toward research and marketing-related costs and, therefore, were reflected in earnings. As reported to the Commodity Credit Corporation, during fiscal 2002, approximately \$13.6 million (including funds for capital projects that were initiated in fiscal 2002 and scheduled for completion in fiscal 2003) was applied to capital projects and \$3.7 million was applied to research- and marketing-related costs.

Distillery Products. Total sales of distillery products were approximately even with sales the prior year. Sales of fuel grade alcohol, commonly known as ethanol, increased as the result of higher unit sales during all four quarters of the year and higher selling prices during the first half of the year. This offset a reduction in sales of food grade alcohol caused by lower unit sales. Selling prices for food grade alcohol for both beverage and industrial applications, meanwhile, improved over the prior year. Selling prices for the Company's fuel grade alcohol decreased significantly in the second half of fiscal 2002, primarily due to increased ethanol supplies throughout the industry. The average price of fuel alcohol for the entire year was below the prior year's average.

The increased supplies of fuel alcohol in the marketplace occurred because certain producers added capacity and/or built inventories in anticipation of an expanded market for grain-based ethanol as a replacement for methyl tertiary butyl ether (MTBE) in California and elsewhere. However, the Governor of California delayed the state's ban on MTBE for a year, from January, 2003 to January, 2004, causing the surplus of fuel alcohol and the resulting softening in prices during the latter part of fiscal 2002.

The Company has participated in a previously described program that was developed by the U.S. Department of Agriculture and initiated in December, 2000 to provide a cash incentive for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. In fiscal 2002, the Company received payments under this program totaling approximately \$4.1 million (pre-tax).

In the final quarter of fiscal 2002, the Company completed the installation of a new distillery feed dryer and related equipment at its Pekin, Illinois plant. Installed at a cost of approximately \$7 million, the new dryer was designed to increase the plant's feed

processing capacity and improve alcohol production output and efficiencies at that location.

Sales

Net sales in fiscal 2002 decreased by approximately \$14.7 million below net sales in fiscal 2001. This decrease resulted mainly from an 18 percent reduction in sales of ingredients.

The decline in sales of ingredients, consisting of specialty and commodity wheat proteins and starches, was due to planned reductions in sales of commodity wheat starch and vital wheat gluten. Sales of vital wheat gluten also dropped due to reduced selling prices. Commodity wheat starch sales declined primarily due to a reduction in unit sales. However, sales of specialty wheat proteins and starches increased in the aggregate by nearly 14 percent over the prior year to more than \$37 million for the year and accounted for approximately 56 percent of the Company's ingredient sales for the year. This increase was due primarily to higher unit sales of specialty proteins, which offset a decrease in

unit sales of specialty starches.

Distillery product sales were approximately even with the prior year. Lower sales of food grade alcohol resulted from decreased unit sales in both the beverage and industrial markets, which offset higher selling prices in both markets. However, sales of fuel grade alcohol rose compared to fiscal 2001 as the result of higher unit sales in all four quarters of the year and higher selling prices in the first and second quarters. For fiscal 2002 as a whole, the average sales price of fuel alcohol was lower than in the prior year. Sales of distillers feed, the principal by-product of the alcohol production process, increased modestly as a result of increased unit sales.

Cost of Sales

The cost of sales in fiscal 2002 decreased by approximately \$19 million below the cost of sales in the prior fiscal year. This principally was due to a decrease in energy costs resulting from a decline in natural gas prices, and to a lesser extent, to a decline in raw material costs resulting from reduced average prices for corn and milo and lower wheat purchases compared to the prior year. In addition, the Company received approximately \$4.1 million in pre-tax income from the U.S. Department of Agriculture's cost incentive program for ethanol producers and approximately \$500,000 in pre-tax income from a similar program provided by the State of Kansas. The funds from these programs are not included in sales but reduce cost of sales and, therefore, are reflected in pre-tax income.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company enters into commodity contracts to reduce or hedge the risk of future grain price increases. During fiscal 2002, the Company hedged approximately 48 percent of corn processed, compared to 8 percent in fiscal 2001. Of the wheat processed by the Company in fiscal 2002, no wheat was hedged compared to 9 percent that was hedged in fiscal 2001. Additionally, the Company uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. In fiscal 2002, raw material costs included a net hedging loss of \$1.8 million compared to a net hedging loss of \$1.2 million in the prior fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in fiscal 2002 were approximately \$1.1 million, or 8.5 percent, higher than selling, general and administrative expenses in fiscal 2001. The increase was due largely to various factors, including higher research and development costs and higher marketing-related expenses. A bad debt expense of approximately \$310,000 in the first quarter of fiscal 2002 and a bad debt expense of approximately \$148,000 in the fourth quarter also contributed to the increase.

Other Operating Income

The increase in other operating income relates to the recognition of \$5 million of pre-tax income from the previously discussed U.S. Department of Agriculture Commodity Credit Corporation program for value-added wheat protein and wheat starch products.

Taxes and Inflation

The consolidated effective income tax rate is consistent for all periods. The general effects of inflation were minimal.

Net Income

As the result of the foregoing factors, the Company experienced net income of \$6,259,000 in fiscal 2002 compared to net income of \$2,660,000 in fiscal 2001.

- 19 -

Quarterly Financial Information

Generally, the Company's sales have not been seasonal except for variations affecting fuel grade alcohol, beverage alcohol and vital wheat gluten sales. In recent years, demand for fuel grade alcohol has tended to increase during the fall and winter to satisfy clean air standards during those periods. Historically, beverage alcohol sales tend to peak in the fall as distributors order stocks for the holiday season, while vital wheat gluten sales tend to increase during the second half of the fiscal year as demand increases for hot dog buns and similar bakery products. However, vital wheat gluten sales declined in fiscal 2003 due to the expiration of the annual quota on imports of foreign wheat gluten and the Company's decision to curtail the production of this product. The table below shows quarterly information for each of the years ended June 30, 2003 and 2002.

<i>Quarter Ending</i>	Sept. 30	Dec. 31	March 31	June 30	Total
<i>(dollars in thousands, except per share amounts)</i>					
Fiscal 2003					
Sales:	\$42,899	\$44,408	\$52,536	\$52,529	\$192,372
Gross profit	177	(2,495)	(2,966)	(4,456)	(9,740)
Net income (loss)	6,790 (1)	48	(312)	(1,372) (1)	5,154

Earnings (Loss) per share	0.84	0.01	(0.04)	(0.16)	0.65
Fiscal 2002					
Sales:	\$54,294	\$54,394	\$55,403	\$50,437	\$214,528
Gross profit	6,990	6,894	4,111	3,208	21,203
Net income (loss)	2,444	2,551	709	555	6,259
Earnings (Loss) per share	0.30	0.32	0.09	0.06	0.77

- (1) Reflects \$13.4 million (\$8.1 million net of income taxes) in the quarter ended September 30, 2002 and \$2.0 million (\$1.2 million net of income taxes) in the quarter ended June 30, 2003 related to the gain recognized from property damage insurance proceeds in excess of the net book value of the property and equipment destroyed in the Company's distillery explosion.

- 20 -

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, which are accounted for as cash flow hedges, are used as a hedge to protect against fluctuations in the market. Fluctuations in the volume of hedging transactions are dictated by alcohol sales and are based on corn and gasoline prices. The Company has a risk management committee, comprised of senior management members, that meets weekly to review futures contracts and positions. This group sets objectives and determines when futures positions should be held or terminated. A designated employee makes trades authorized by the risk management committee. The futures contracts that are used are exchange-traded contracts. The Company trades on the Kansas City and Chicago Boards of Trade and the New York Mercantile Board of Exchange. For inventory and open futures, the table below presents the carrying amount and fair value at June 30, 2003 and 2002. The Company includes the fair values of open contracts in inventories or other accrued liabilities in the balance sheet.

<i>As of June 30</i>	2003	Fair Value	2002	Fair Value
	Carrying Amount		Carrying Amount	
Inventories				
Corn	\$1,191,000	\$1,159,000	\$1,308,000	\$1,098,000
Milo	854,000	866,000	346,000	333,000
Wheat	3,913,000	3,714,000	2,576,000	2,496,000
			Expected Maturity*	Fair Value
Corn Futures (long)				
Contract Volumes (bushels)			6,300,000	
Weighted Average Price			\$2.32	
Contract Amount			\$15,181,000	\$15,780,000
		Expected Maturity*		Fair Value
Wheat Puts (short)				
Contract Volumes (bushels)	300,000			
Weighted Average Price	\$0.22			
Contract Amount	\$65,563	\$53,250		

* The latest expected maturity date occurs within one year from date indicated.

The Company also contractually sells a portion of its fuel grade alcohol at prices that fluctuate with gasoline futures. Gasoline futures are used as a hedge to protect against these fluctuations. The table below presents information about open futures contracts as of June 30, 2003 and 2002.

<i>As of June 30</i>	2003	Fair Value	2002	Fair Value
	Expected Maturity*		Expected Maturity*	
Gasoline Futures (short)				
Contract Volumes (gallons)	1,050,000		6,300,000	
Weighted Average Price	\$0.82		\$0.72	
Contract Amount	\$863,200	\$911,400	\$4,515,000	\$4,825,000

*The latest expected maturity date occurs within one year from date indicated.

The Company's outstanding long-term debt at June 30, 2003 carries fixed interest rates which limit its exposure to increases in market rates.

The Company's lines of credit provide for interest at variable rates. There were no borrowings on these lines at June 30, 2003.

- 21 -

Liquidity and Capital Resources

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

<i>June 30</i>	2003	2002
<i>(dollars in thousands)</i>		
Cash and cash equivalents	\$ 17,539	\$ 28,736
Working capital	38,527	48,383
Amounts available under lines of credit	12,500	10,000
Notes payable and long-term debt	18,433	21,634
Stockholders' equity	105,218	104,678

The Company experienced an \$8.5 million reduction of cash flow generated from operations during fiscal 2003 which primarily resulted from a combination of two factors. The explosion at the Atchison distillery plant resulted in a \$15.4 million estimated gain recognized on insurance recoveries that is recognized in pretax income but does not provide cash flow from operations. Such reduction was partially offset by the second year installment of the USDA grant received during the first quarter of fiscal 2003 totaling \$8.4 million. The first installment of this grant had been received prior to June 30, 2002. Other factors contributing to the change in operating cash flows include an increase in inventories of \$6.4 million, which was partially offset by changes in the Company's current and deferred tax position of \$5.7 million. Cash flow provided by operations combined with excess cash from last year was used for equipment additions, reductions in debt, dividends paid to stockholders and treasury stock purchases.

The Company made open market purchases of 405,550 shares of its common stock during the year. These purchases were made to fund the Company's stock option plans and for other corporate purposes. As of June 30, 2003, the Board has authorized the purchase of an additional 1,000,000 shares of the Company's common stock. During the period, 10,500 shares of the treasury stock were sold as employees exercised options under the Company's stock option plans.

At June 30, 2003, in addition to the replacement of the distillery in Atchison destroyed by the explosion, the Company had \$11.0 million committed to improvements and replacements of existing equipment. The rebuilding costs for the Atchison distillery is currently expected to exceed the remaining recorded insurance receivable by approximately \$900,000.

Contractual obligations at June 30, 2003 are as follows:

Year	Long-Term Debt (1)	Capital Leases (2)	Operating Leases	Energy Contract (3)	Total
2004	\$ 2,273	\$ 928	\$1,529	\$1,428	\$ 6,158
2005	2,273	928	1,137	1,428	5,766
2006	2,273	928	856	1,428	5,485
2007	2,273	928	619	1,428	5,248
2008	2,273	928	439	1,428	5,068
Thereafter	2,270	158	98	1,428	3,954
	\$13,635	\$4,798	\$4,678	\$8,568	\$31,679

(1) Long-term debt consists of unsecured senior notes payable in annual installments of principal of \$2,273,000 through 2008, with the final payment of \$2,270,000 due in 2009. Interest is payable semi-annually at 6.68 percent per annum. Upon optional prepayment or acceleration upon default, in addition to principal and accrued interest, the Company is required to pay the noteholders a "make whole amount," as defined, estimated at approximately \$1.5 million as of June 30, 2003.

(2) Amounts shown under capital lease arise under an industrial revenue bond lease relating to the Company's Kansas City, Kansas facility. The lease was modified in July, 2003 in connection with which certain tax-related covenants were eliminated. Monthly principal payments are \$77,381 through September, 2008. Interest is also payable monthly; after July 16, 2003, the interest rate will be 5.26 percent instead of 5.23 percent. The Company paid a \$48,000 modification fee in connection with the change. Upon optional prepayment or acceleration upon default prior to October 1, 2005, the amount due from the Company would also include a premium of 2 percent on the outstanding principal component of the remaining lease payments; on and after October 1, 2005, the premium is 1 percent.

- (3) Amounts shown under "Energy Contract" arise under a long-term arrangement with Central Illinois Light Company and its subsidiary, CILCORP Development Services Inc. (collectively "CILCO"). The Company has leased a portion of its Pekin, Illinois plant facility to CILCO for a term ending in December, 2009. CILCO constructed a new gas fired electric and steam generating facility on ground leased from the Company and agreed to provide steam heat to the Company's plant. If the Company fails to renew the lease for 19 years at the end of the lease term, it must pay CILCO the book value of the boiler plant and cogeneration facility, which the Company estimates will be \$10.6 million. Under a related steam heat service agreement, the Company has agreed, subject to limited termination procedures, to purchase its requirements for steam heat from CILCO until no earlier than December, 2009. Either party may terminate the service agreement at the end of the initial term or thereafter upon two years notice. The Company must make minimum monthly payments over the term of the service agreement which

- 22 -

adjust based on changes in the producer price index, and also is responsible for fuel costs and certain other expenses. Amounts shown in the above table are based on the minimum monthly payment in effect as of June 30, 2003.

In connection with the Company's long-term loan and capital lease agreements, it is 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) of \$84 million, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge coverage ratio (generally, the ratio of (i) 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 (ii) fixed charges) for the period of the four consecutive fiscal quarters ended as of the measurement date of 1.5 to 1. As of June 30, 2003, the Company believes it was in compliance with the financial and other covenants in its loan, capital lease and line-of-credit agreements, although there may be uncertainty as to the Company's compliance with the fixed charge coverage ratio covenants related to the treatment of gain resulting from the recognition of expected insurance proceeds. Although it has not discussed this matter with its lenders, because it is rebuilding its distillery the Company believes that the gain resulting from property damage should be treated as net income for purposes of calculating the fixed charge coverage ratio and not excluded from the calculation as gain from the sale or other disposition of assets. The Company expects that it will not be in compliance with its fixed charge coverage ratio covenants at the end of its next fiscal quarter, which ends September 30, 2003. The Company is evaluating its options, and likely will seek amendments to its existing agreements or new agreements with alternative lenders.

The Company's line of credit for \$10 million, available for general corporate purposes, extends through November, 2003. A smaller line of credit for \$2.5 million expired on August 30, 2003. The Company is in the process of seeking the renewal of its lines of credit.

While working capital declined approximately \$9.9 million during the year from the addition of property and equipment and the reduction on long-term debt, the Company has maintained its normally strong equity and working capital positions while continuing to generate strong cash flow from operations.

- 23 -

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying consolidated balance sheets of MGP Ingredients, Inc. (f.k.a. Midwest Grain Products, Inc.) as of June 30, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MGP Ingredients, Inc. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP
 Kansas City, Missouri
 August 1, 2003

- 24 -

CONSOLIDATED STATEMENTS OF INCOME

<i>Years ended June 30</i>	2003	2002	2001
<i>(in thousands, except per share amounts)</i>			
Net sales	\$192,372	\$214,528	\$229,241
Cost of sales	202,112	193,325	212,058
Gross profit (loss)	(9,740)	21,203	17,183
Selling, general & administrative expenses	(13,617)	(14,689)	(13,545)
Other operating income	17,403	4,865	1,326
Income (loss) from operations	(5,954)	11,379	4,964
Other income, net	15,701	226	780
Interest expense	(1,226)	(1,237)	(1,347)
Income before income taxes	8,521	10,368	4,397
Provision for income taxes	3,367	4,109	1,737
Net income	\$ 5,154	\$ 6,259	\$ 2,660
Earnings per common share	\$ 0.65	\$ 0.77	\$ 0.32
Other comprehensive income			
Net income	\$ 5,154	\$ 6,259	\$ 2,660
Other comprehensive income, net of tax:			
gain (loss) on cash flow hedge	(27)	(2,356)	(1,201)
reclassification adjustment for (gain) losses included in net income	(199)	2,517	1,216
Other comprehensive income (loss)	(226)	161	15
Comprehensive income	\$ 4,928	\$ 6,420	\$ 2,675

See Notes to Consolidated Financial Statements

- 25 -

CONSOLIDATED BALANCE SHEETS

<i>Years ended June 30</i>	2003	2002
<i>(in thousands, except per share amounts)</i>		

Assets

Current assets		
Cash and cash equivalents	\$ 17,539	\$ 28,736
Receivables (less allowance for doubtful accounts: 2003 and 2002--\$252)	20,466	24,071
Inventories	26,956	20,755
Prepaid expenses	1,578	550
Deferred income taxes		284
Refundable income taxes	3,086	585
Total current assets	69,625	74,981
Property and equipment, at cost	263,990	258,501
Less accumulated depreciation	172,186	167,486
Property and equipment, net	91,804	91,015
Insurance receivable	11,515	
Other assets	186	222
Total assets	\$173,130	\$166,218

Liabilities and Stockholders' Equity

Current liabilities		
Current maturities of long-term debt	\$ 3,201	\$ 3,201
Accounts payable	9,729	8,681
Accrued expenses	3,604	3,745
Deferred income taxes	241	
Deferred revenue	14,323	10,971
Total current liabilities	31,098	26,598
Long-term debt	15,232	18,433
Post retirement benefits	5,780	5,922
Deferred income taxes	15,802	10,587
Stockholders' equity		
Capital Stock		
Preferred, 5% non-cumulative; \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares	4	4
Common stock, no par value; authorized 20,000,000 shares; issued 9,765,172 shares	6,715	6,715
Additional paid-in capital	2,605	2,601
Retained earnings	114,861	110,916
Accumulated other comprehensive income (loss)--cash flow hedges	(50)	176
	124,135	120,412
Treasury stock, at cost		
Common; 2003--2,079,828 shares, 2002--1,684,778 shares	(18,917)	(15,734)
Total stockholders' equity	105,218	104,678
Total liabilities and stockholders' equity	\$173,130	\$166,218

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Capital Stock	Issued	Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Treasury
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<i>Years ended June 30</i>	Preferred	Stock	Capital	Earnings	Cash Flow Hedges	Shares	Total
<i>(in thousands)</i>							
Balance, June 30, 2000	\$4	\$6,715	\$2,485	\$104,073		\$(10,899)	\$102,378
Purchase of treasury stock						(3,654)	(3,654)
2001 net income				2,660			2,660
Dividends paid				(855)			(855)
Unrealized gain on cash flow hedge					15		15
Balance, June 30, 2001	4	6,715	2,485	105,878	15	(14,553)	100,544
Purchase of treasury stock						(1,628)	(1,628)
Stock options exercised			116			447	563
2002 net income				6,259			6,259
Dividends paid				(1,221)			(1,221)
Unrealized gain on cash flow hedge					161		161
Balance, June 30, 2002	4	6,715	2,601	110,916	176	(15,734)	104,678
Purchase of treasury stock						(3,193)	(3,193)
Stock options exercised			4			10	14
2003 net income				5,154			5,154
Dividends paid				(1,209)			(1,209)
Unrealized loss on cash flow hedge					(226)		(226)
Balance, June 30, 2003	\$4	\$6,715	\$2,605	\$114,861	\$ (50)	\$(18,917)	\$105,218

See Notes to Consolidated Financial Statements

- 27 -

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended June 30</i>	2003	2002	2001
Cash flows from operating activities			
Net income	\$ 5,154	\$ 6,259	\$ 2,660
Items not requiring (providing) cash:			
Depreciation	14,354	14,308	13,627
Loss on sale of assets	1,253	6	
Deferred income taxes	5,740	1,980	1,163
Gain on insurance recovery	(15,431)		
Changes in:			
Accounts receivable	3,605	2,038	4,163
Inventories	(6,427)	(2,364)	1,031
Accounts payable	353	(1,992)	226
Deferred revenue	3,352	(4,980)	15,951
Income taxes (receivable) payable	(2,501)	(286)	(1,251)
Other	(1,275)	636	(251)
Net cash provided by operating activities	8,177	15,599	37,325
Cash flows from investing activities			
Additions to property and equipment	(15,911)	(12,972)	(13,384)
Proceeds from disposition of equipment	4,126		55
Net cash used in investing activities	(11,785)	(12,972)	(13,329)
Cash flows from financing activities			
Purchase of treasury stock	(3,193)	(1,628)	(3,654)
Sale of treasury stock	14	563	
Principal payments on long-term debt	(3,201)	(3,047)	(2,273)
Proceeds from issuance of long-term debt		6,500	
Net proceeds on line of credit		(8,512)	8,512
Dividends paid	(1,209)	(1,221)	(855)

Net cash provided by (used in) financing activities	(7,589)	(7,345)	1,730
Increase (decrease) in cash and cash equivalents	(11,197)	(4,718)	25,726
Cash and cash equivalents, beginning of year	28,736	33,454	7,728
Cash and cash equivalents, end of year	\$17,539	\$28,736	\$33,454

See Notes to Consolidated Financial Statements

- 28 -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. The activities of MGP Ingredients, Inc. (formerly known as Midwest Grain Products, Inc.) and its subsidiaries consist of the processing of wheat, corn and milo into a variety of products through an integrated production process. The process produces wheat protein products, which include vital wheat gluten and specialty wheat proteins; premium wheat starch, which includes specialty and commodity wheat starch; alcohol products; and flour mill products. The Company sells its products on normal credit terms to customers in a variety of industries located primarily throughout the United States. The Company operates plants in Atchison, Kansas and Pekin, Illinois. The Company also operates a facility in Kansas City, Kansas for the further processing and extrusion of wheat proteins and starches. Midwest Grain Pipeline, Inc., a wholly owned subsidiary, supplies natural gas to the Company's Atchison plant.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation. The consolidated financial statements include the accounts of MGP Ingredients, Inc. and all subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Inventories and Derivatives. Inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, MGP Ingredients, Inc. enters into readily marketable exchange traded commodity futures contracts to reduce the risk of future grain price increases. Additionally, the Company enters into exchange-traded futures contracts for the sale of fuel grade alcohol to hedge the selling price to its customers. These contracts are designated as cash flow hedges of specific volumes of commodities to be purchased or sold. The changes in the market value of the Company's futures contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in the price movements of the hedged items and the amounts representing ineffectiveness is immaterial. The fair value of the open and closed hedging transactions is recorded in inventory or other accrued liabilities with the related gains and losses deferred in other comprehensive income, net of applicable income taxes. Gains and losses are recognized in the statement of income as the finished goods related to the hedged transactions are sold. If it is determined that the hedge instruments are no longer effective at offsetting changes in the price of the hedged item, then the changes in market value of these contracts would be recognized in cost of sales at that time. Gains and losses resulting from the hedged transactions will be recognized in the statement of income within the next year.

Accounts Receivable. Accounts receivable are stated at the amounts billed to customers plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Receivables are considered delinquent after 30 days and are written off based on individual credit evaluation and specific circumstances of the customer.

Property and Equipment. Depreciation is computed using both straight-line and accelerated methods over the following estimated useful lives:

Buildings and improvements	20-30 years
Transportation equipment	5-6 years
Machinery and equipment	10-12 years

The Company capitalizes interest costs associated with construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred for 2003 was:

	<i>(in thousands)</i>
Interest costs capitalized	\$ 452
Interest costs charged to expense	1,226
	\$1,678

Earnings Per Common Share. Earnings per common share data is based upon the weighted average number of common shares totaling 7,932,273 for 2003, 8,085,847 for 2002 and 8,397,308 for 2001. The effect of employee stock options, which were the only potentially dilutive securities held by the Company, were anti-dilutive in all three years.

Cash Equivalents. The Company considers all liquid investments with maturities of three months or less to be cash equivalents. At June 30, 2003, the Company's cash accounts on deposit with financial institutions exceeded federally insured limits by approximately \$9.2 million.

Income Taxes. Deferred tax liabilities and assets are recognized for the tax effect of the differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Revenue Recognition. Revenue from the sale of the Company's products is recognized as products are delivered to customers.

- 29 -

Income from various government incentive grant programs is recognized as it is earned. In the case of the ethanol incentive program, income is based on grain usage for fuel alcohol production measured in each quarter. In the case of the USDA grant, income is recognized as costs are incurred or, in connection with capital projects, as those projects are depreciated.

Advertising. Advertising costs are expensed as incurred. These costs totaled \$806,000, \$810,000 and \$527,000 for June 30, 2003, 2002 and 2001, respectively.

Research and Development. Research and development costs are expenses as incurred. These costs totaled approximately \$1.9 million, \$1.8 million and \$1.1 million for June 30, 2003, 2002 and 2001, respectively.

Stock Options. The Company has stock-based employee compensation plans, which are described more fully in Note 11. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, 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 stock-based employee compensation.

<i>Year Ended June 30,</i>	2003	2002	2001
<i>(in thousands, except per share amounts)</i>			
Net income, as reported	\$ 5,154	\$ 6,259	\$ 2,660
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(681)	(809)	(681)
Pro forma net income	\$ 4,473	\$ 5,450	\$ 1,979
Basic Earnings Per Share:			
As reported	\$ 0.65	\$ 0.77	\$ 0.32
Pro forma	\$ 0.56	\$ 0.67	\$ 0.24

**NOTE 2:
INSURANCE RECOVERIES**

On September 13, 2002, the Company's Atchison, Kansas distillery was shut down as the result of an explosion at the distillery. Related business interruption insurance proceeds of \$12.6 million were recorded as other operating income for the year ended June 30, 2003.

In addition, in 2003, the Company recorded a gain of approximately \$15.4 million resulting from the property damage caused by the explosion, of which \$11.5 million was recorded as an insurance receivable at June 30, 2003.

The Company and its insurer are in the process of determining the actual damages, and the ultimate insurance recovery could differ from the estimates recorded through June 30, 2003. Additional costs (net of insurance recoveries) will be recognized in future periods, as they are incurred. Amounts of such future costs (net of insurance recoveries) cannot be estimated at this time, but are expected primarily to relate to inefficiencies in production and additional shipping and handling costs resulting from the shut-down of the Atchison distillery operation.

NOTE 3: INVENTORIES

Inventories consist of the following:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Alcohol	\$ 4,604	\$ 2,816
Unprocessed grain	9,529	7,861
Operating supplies	5,099	4,747
Wheat based ingredients	6,744	4,989
By-products and other	980	342
	\$ 26,956	\$ 20,755

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Land, buildings and improvements	\$ 25,459	\$ 22,422
Transportation equipment	1,296	1,183
Machinery and equipment	228,975	223,475
Construction in progress	8,260	11,421
	263,990	258,501
Less accumulated depreciation	172,186	167,486
	\$ 91,804	\$ 91,015

NOTE 5: ACCRUED EXPENSES

Accrued expenses consist of the following:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Excise taxes	\$ 118	\$ 82
Employee benefit plans (Note 10)	1,429	1,543
Salaries and wages	785	727
Property taxes	829	805
Insurance	--	5
Interest	380	443
Other expenses	63	140

\$ 3,604

\$ 3,745

- 30 -

**NOTE 6:
LONG-TERM DEBT**

Long-term debt consists of the following:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Senior notes payable	\$ 13,635	\$ 15,908
Industrial revenue bond	4,798	5,726
	18,433	21,634
Less current maturities	3,201	3,201
Long-term portion	\$ 15,232	\$ 18,433

The unsecured senior notes are payable in annual installments of \$2,273,000 from 2004 through 2008 with the final principal payment of \$2,270,000 due in 2009. Interest is payable semiannually at 6.68 percent per annum.

Industrial development revenue bonds were issued by The Unified Government of Wyandotte County, Kansas City, Kansas; principal payments to bondholder of \$77,381 plus interest at 5.23 percent (5.26 percent effective August, 2003) are due monthly. The bonds are secured by a security interest in the project as defined in the lease agreement.

At June 30, 2003, the Company had a \$10 million unsecured revolving line of credit expiring on November 30, 2003 on which there were no borrowings at June 30, 2003. Borrowings under \$500,000 bear interest at the prime rate. Borrowings in excess of \$500,000 bear interest at the greater of 1 percent below prime or the federal funds rate plus 1.5 percent.

In connection with the above borrowings, the Company, among other covenants, is required to maintain certain financial ratios, including a current ratio of 1.5 to 1, minimum consolidated tangible net worth of \$84 million, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge coverage ratio of 1.5 to 1.

At June 30, 2003, the Company also had a \$2.5 million unsecured revolving line of credit expiring on August 30, 2003. The line bears interest at 0.5 percent below prime. There were no borrowings on the line at June 30, 2003.

Aggregate annual maturities of long-term debt at June 30, 2003 are as follows:

<i>(in thousands)</i>		
2004		\$ 3,201
2005		3,201
2006		3,201
2007		3,201
2008		3,201
Thereafter		2,428
		\$ 18,433

**NOTE 7:
INCOME TAXES**

The provision (credit) for income taxes is comprised of the following:

<i>Years Ended June 30,</i>	2003	2002	2001
<i>(in thousands)</i>			

Income taxes currently payable (receivable)	\$ (2,373)	\$ 2,242	\$ 574
Income taxes deferred	5,740	1,867	1,163
	\$ 3,367	\$ 4,109	\$ 1,737

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets are as follows:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Deferred tax assets:		
Accrued employee benefits	\$ 158	\$ 148
Post-retirement liability	2,254	2,309
Insurance accruals	--	163
State operating loss carryforwards	617	302
Alternative minimum tax	1,222	956
Other	418	370
	4,669	4,248
Deferred tax liabilities:		
Accumulated depreciation	(12,984)	(13,223)
Deferred gain on involuntary conversion	(5,935)	(235)
Deferred income from federal grant	(1,348)	(827)
Futures contracts	(30)	(113)
Other	(415)	(153)
	(20,712)	(14,551)
Net deferred tax liability	\$ (16,043)	\$ (10,303)

The above net deferred tax liability is presented on the consolidated balance sheets as follows:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Deferred tax liability--current	\$ (241)	\$ 284
Deferred tax liability--long-term	(15,802)	(10,587)
Net deferred tax liability	\$ (16,043)	\$ (10,303)

No valuation allowance has been recorded at June 30, 2003 or 2002.

A reconciliation of the provision for income taxes at the normal statutory federal rate to the provision (credit) included in the accompanying consolidated statements of operations is shown below:

<i>Years Ended June 30,</i>	2003	2002	2001
<i>(in thousands)</i>			
"Expected" provision (credit)			
at federal statutory rate (34%)	\$2,897	\$3,525	\$1,495
Increases (decreases) resulting from:	605	442	139
Effect of state income taxes			
Other	(135)	142	103
Provision (credit) for income taxes	\$3,367	\$4,109	\$1,737

**NOTE 8:
CAPITAL STOCK**

The Common Stock is entitled to elect four out of the nine members of the Board of Directors, while the Preferred Stock is entitled to elect the remaining five directors. Holders of Common Stock are not entitled to vote with respect to a merger, dissolution, lease, exchange or sale of substantially all of the Company's assets, or on an amendment to the Articles of Incorporation, unless such action would increase or decrease the authorized shares or par value of the Common or Preferred Stock, or change the powers, preferences or special rights of the Common or Preferred Stock so as to affect the holders of Common Stock adversely.

**NOTE 9:
OTHER OPERATING INCOME (EXPENSE)**

Other operating income (expense) consists of the following:

<i>Years Ended June 30,</i>	2003	2002	2001
<i>(in thousands)</i>			
CCC value added program	\$ 4,967	\$ 4,981	\$ 1,329
Business interruption insurance	12,590		
Truck operations	(178)	(146)	(79)
Warehousing and storage operations	(30)	(25)	(10)
Miscellaneous	54	55	86
	\$17,403	\$ 4,865	\$ 1,326

**NOTE 10:
ENERGY COMMITMENT**

During fiscal 1994, the Company negotiated a 15-year agreement to purchase steam heat and electricity from a utility for its Illinois operations. Steam heat is being purchased for a minimum monthly charge of \$119,000, with a declining fixed charge for purchases in excess of the minimum usage. In connection with the agreement, the Company leased land to the utility company for 15 years so it could construct a co-generation plant at the Company's Illinois facility. The Company has also agreed to reimburse the utility for the net book value of the plant if the lease is not renewed for an additional 19 years at the end of the initial lease term. The estimated net book value of the plant would be \$10.6 million at June 30, 2009. Electricity purchases will occur at fixed rates through December 31, 2006.

**NOTE 11:
EMPLOYEE BENEFIT PLANS**

Employee Stock Ownership Plans. The Company and its subsidiaries have employee stock ownership plans covering all eligible employees after certain requirements are met. Contributions to the plans totaled \$341,000, \$426,000 and \$409,000 for the years ended June 30, 2003, 2002 and 2001, respectively. Contributions are made in the form of cash and/or additional shares of common stock.

401(k) Profit Sharing Plans. During 1998, the Company and its subsidiaries formed 401(k) profit sharing plans covering all employees after certain eligibility requirements are met. Contributions to the plans totaled \$778,000, \$789,000 and \$740,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

Post-Retirement Benefit Plan. The Company and its subsidiaries provide certain post-retirement health care and life insurance benefits to all employees. The liability for such benefits is unfunded.

The status of the Company's plans at June 30, 2003 and 2002 was as follows:

<i>June 30,</i>	2003	2002
<i>(in thousands)</i>		
Accumulated post-retirement benefit obligations:		
Retirees	\$2,263	\$2,640
Active plan participants	3,370	3,302
Unfunded accumulated obligation	5,633	5,942

Unrecognized actuarial gain (loss)	147	(20)
Accrued post-retirement benefit cost	\$5,780	\$5,922

Net post-retirement benefit cost included the following components:

<i>June 30,</i>	2003	2002	2001
<i>(in thousands)</i>			
Service cost	\$ 233	\$ 212	\$ 177
Interest cost	393	389	407
(Gain) loss amortization	(16)	(15)	(16)
	\$ 610	\$ 586	\$ 568

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.25 percent (compared to 8.50 percent assumed for 2002) reducing to 7.25 percent over four years and 6.0 percent over 10 years. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by \$432,000 at June 30, 2003, and the service and interest cost by \$63,000 for the year then ended.

At June 30, 2003, a weighted average discount rate of 6.00 percent (compared to 7.50 percent assumed at June 30, 2002) was used in determining the accumulated benefit obligation.

Stock Options. The Company has three stock option plans, the Stock Incentive Plan of 1996 (“The 1996 Plan”), the Stock Option Plan for Outside Directors (“The Directors Plan”), and the 1998 Stock Incentive Plan for Salaried Employees (“The Salaried Plan”). These Plans permit the issuance of stock awards, stock options and stock appreciation rights to salaried employees and outside directors of the Company.

- 32 -

Under the 1996 Plan, the Company may grant incentives for up to 600,000 shares of the Company’s common stock to key employees. The term of each award is determined by the committee of the Board of Directors charged with administering the 1996 Plan. Under the terms of the 1996 Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. At June 30, 2003, the Company had outstanding incentive stock options to purchase 486,500 shares. At June 30, 2003, all such options were exercisable except for 116,750, which will become exercisable at various dates over the next four years. The options have ten-year terms and have exercise prices equal to fair market value on the date of grant.

Under the Directors Plan, each non-employee or “outside” director of the Company receives on the day after each annual meeting of stockholders an option to purchase 1,000 shares of the Company’s common stock at a price equal to the fair market value of the Company’s common stock on such date. Options become exercisable on the 184th day following the date of grant and expire not later than ten years after the date of grant. Subject to certain adjustments, a total of 90,000 shares are reserved for annual grants under the Plan. At June 30, 2003, the Company had outstanding options to purchase 36,000 shares, all of which were exercisable as of June 30, 2003.

Under the Salaried Plan, the Company may grant stock incentives for up to 300,000 shares of the Company’s common stock to full-time salaried employees. The Salaried Plan provides that the amount, recipients, timing and terms of each award be determined by the Committee of the Board of Directors charged with administering the Salaried Plan. Under the terms of the Salaried Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. At June 30, 2003, the Company had outstanding incentive stock options on 227,050 shares. At June 30, 2003, all such options were exercisable except for 33,220, which will become exercisable at various dates through January, 2006. They have ten-year terms and have exercise prices equal to fair market value on the date of grant.

A summary of the status of the Company’s three stock option plans at June 30, 2003, 2002 and 2001 and changes during the years then ended is presented below:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding Beginning of Year	805,560	\$11.54	793,820	\$11.65	729,360	\$12.30
Granted	56,000	7.16	128,680	12.39	133,460	9.33
Cancelled	(101,510)	13.61	(69,000)	15.25	(69,000)	14.00
Exercised	(10,500)	8.19	(47,940)	10.29		
Outstanding End of Year	749,550	\$10.98	805,560	\$11.54	793,820	\$11.65

These are comprised as follows:

	Shares	Exercise Price	Remaining Contractual Lives (Years)	Shares Exercisable at June 30, 2003
	69,000	13.75	4.50	69,000
	86,000	12.50	5.50	86,000
	74,000	8.00	6.50	55,500
	34,000	9.31	7.50	17,000
	64,500	9.31	8.00	32,250
	41,000	11.90	8.50	41,000
	69,000	12.89	9.00	69,000
	49,000	7.25	10.00	--
Directors' Plan	3,000	16.25	3.25	3,000
	4,000	14.25	4.25	4,000
	4,000	11.75	5.25	4,000
	5,000	9.00	6.25	5,000
	6,000	9.63	7.25	6,000
	7,000	11.15	8.25	7,000
	7,000	6.50	9.25	7,000
Salaried Plan	136,000	13.50	4.67	136,000
	59,900	8.00	6.50	44,925
	20,470	9.31	7.50	10,235
	10,680	11.90	8.50	2,670
	749,550			678,850

- 33 -

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for the year ended June 30, 2003: Risk-free interest rate of 3.51 percent; expected dividend yield of 0 percent; expected volatility of 50 percent, expected life of ten years.

**NOTE 12:
OPERATING LEASES**

The Company has several noncancellable operating leases for railcars and other equipment, which expire from November 2003 through December 2009. The leases generally require the Company to pay all service costs associated with the railcars. Rental payments include minimum rentals plus contingent amounts based on mileage.

Future minimum lease payments at June 30, 2003 are as follows:

(in thousands)

2004	\$ 1,529
2005	1,137
2006	856
2007	619
2008	439
Thereafter	98
Future minimum lease payments	\$ 4,678

Rental expense for all operating leases with terms longer than one month totaled \$1,685,000, \$1,880,543 and \$2,385,777 for the years ended June 30, 2003, 2002 and 2001, respectively.

**NOTE 13:
SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain significant

concentrations. Those matters include the following:

- A majority of the Company's labor force is covered by collective bargaining agreements. The agreement at the Pekin plant expires on October 31, 2003.
- Under its self-insurance plan, the Company accrues the estimated expense of health care claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. In addition, the company accrues amounts for post-retirement benefit obligations as discussed in Note 11. An accrual for such costs of \$6.1 million is included in the accompanying 2003 financial statements. Claims payments based on actual claims ultimately filed could differ materially from these estimates.
- During the each of the years ending June 30, 2003 and 2002, the Company had sales to two customers accounting for approximately 29 and 26 percent, respectively, of consolidated sales.
- The Company and its insurer are in the process of determining the actual damages from the September 2002 explosion (see Note 2), and the ultimate insurance recovery could differ from the estimates recorded through June 30, 2003. Additional costs (net of insurance recoveries) will be recognized in future periods, as they are incurred. Amounts of such future costs (net of insurance recoveries) cannot be estimated at this time, but are expected primarily to relate to inefficiencies in production and additional shipping and handling costs resulting from the shut-down of the Atchison distillery operation.

NOTE 14: OPERATING SEGMENTS

The Company's operations are classified into two reportable segments: ingredients and distillery products. Ingredients consist of specialty ingredients, including specialty wheat proteins and starches, commodity ingredients, including vital wheat gluten and commodity wheat starch and mill feeds. Distillery products consist of food grade alcohol, including beverage and industrial alcohol, fuel grade alcohol, and distillers feed and carbon dioxide, which are by-products of the Company's distillery operations.

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.

- 34 -

Segment Information

	2003	2002	2001
Sales to Customers			
Ingredients	\$ 57,215	\$ 66,398	\$ 81,215
Distillery products	135,157	148,130	148,026
	\$192,372	\$214,528	\$229,241
Depreciation			
Ingredients	\$ 5,141	\$ 5,002	\$ 4,620
Distillery products	8,390	8,286	8,076
Corporate	823	1,020	931
	\$ 14,354	\$ 14,308	\$ 13,627
Income before income taxes			
Ingredients	\$ 7,030	\$ 4,562	\$ 2,089
Distillery products	3,622	7,824	3,257
Corporate	(2,131)	(2,018)	(949)
	\$ 8,521	\$ 10,368	\$ 4,397
Identifiable Assets			
Ingredients	\$ 59,628	\$ 49,812	\$ 46,635
Distillery products	76,704	57,813	71,184

Corporate	36,798	58,593	56,631
	\$173,130	\$166,218	\$174,450

**NOTE 15:
FAIR VALUE OF FINANCIAL INVESTMENTS**

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

<i>June 30</i>	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$17,539	\$17,539	\$28,736	\$28,736
Accounts receivable	20,466	20,466	24,071	24,071
Insurance receivable	11,515			
Unrealized gains on futures contracts	32	32	598	598
Financial liabilities:				
Accounts payable	9,729	9,729	8,681	8,681
Long-term debt	18,433	19,420	21,634	22,374
Unrealized losses on futures contracts	114	114	310	310

**NOTE 16:
ADDITIONAL CASH FLOWS INFORMATION**

Years Ended June 30,	2003	2002	2001
<i>(in thousands)</i>			
Non-cash Investing and Financing Activities:			
Purchase of property and equipment in accounts payable	\$ 695	\$ 227	\$ 343
Additional Cash Payment Information:			
Interest paid	\$1,226	\$1,535	\$1,388
Income taxes paid (refunded)	--	2,500	\$1,825

**NOTE 17:
CONTINGENCIES**

There are various legal proceedings involving the Company and its subsidiaries. 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.

**NOTE 18:
USDA GRANT**

During the fourth quarter of fiscal 2001, the United States Department of Agriculture developed a grant program for the gluten industry in

place of a two-year extension of a wheat gluten import quota that took effect on June 1, 1998. Over the life of the program, which ended on May 31, 2003, the Company was eligible to receive nearly \$26 million of the program total of \$40 million. For the first year of the program, approximately \$17.3 million was allocated to the Company with the remaining \$8.3 million allocated in July 2002. The funds are to be used for research, marketing, promotional and capital costs related to value-added gluten and starch products. Funds allocated on the basis of current operating costs will be recognized in income as those costs are incurred. Funds allocated based on capital expenditures will be recognized in income as the capital projects are depreciated.

NOTE 19: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued several new accounting pronouncements that became effective in the fiscal year commencing July 1, 2003.

- 35 -

In October 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which applies to all long-lived assets, other than goodwill, and discontinued operations and develops one accounting model for long-lived assets that are to be disposed of by sale. The adoption of SFAS 144 did not have a material impact on the consolidated financial statements.

In October 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of this statement are effective prospectively for exit or disposal activities initiated after December 31, 2002 and did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123*. SFAS 148 provides alternative methods of transitions for entities that voluntarily change to the fair value method of accounting for stock-based employee compensation, and it also amends the disclosure provisions of SFAS 123 to require disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial reporting. The Company accounts for stock-based compensation in accordance with APB No. 25 and has adopted the disclosure provisions of SFAS 148 as provided in the new pronouncement.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 amends SFAS 133 to clarify the definition of a derivative and incorporate many of the implementation issues cleared as a result of the Derivatives Implementation Group process. This statement is effective for contracts entered into or modified after June 30, 2003, and should be applied prospectively after that date. The adoption of SFAS 149 is not expected to have a material effect on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement affects the classification, measurement and disclosure requirements of certain freestanding financial instruments, including mandatorily redeemable shares. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company for the first quarter of Fiscal 2004. The adoption of SFAS 150 is not expected to have a material effect on the consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued, and it requires the recognition of a liability at fair value by a guarantor at the inception of a guarantee. The initial recognition and measurement provisions of FIN 45 are effective on a prospective basis for all guarantees issued or modified after December 31, 2002. The Company has not issued or modified any material guarantees since December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). FIN 46 provides guidance with respect to the consolidation of certain variable entities ("VIEs") whereby a VIE must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among parties involved. The primary beneficiary is the one that absorbs a majority of the expected losses, residual returns, or both as a result of holding variable interests. FIN 46 also requires disclosures for both the primary beneficiary of a VIE and other parties with a significant variable interest in the entity. The provisions of FIN 46 apply immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. FIN 46 applies, in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In addition, FIN 46 requires certain transitional disclosures if an enterprise believes it is reasonably possible that it will determine it has a significant variable interest in a VIE upon the date of application. The Company has not obtained an interest in a new or existing VIE subsequent to January 31, 2003, and adoption of FIN 46 is not expected to have a material impact on the consolidated financial statements.

**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 Annual Report on Form 10-K of the Company for the fiscal year ended June 30,, 2003 (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: September 16, 2003

/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.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
MGP Ingredients, Inc.
Atchison, Kansas

We consent to the incorporation by reference in Registration Statement No. 333-51849 on Form S-8 and the related Prospectus dated May 5, 1998, of MGP Ingredients, Inc. of our report dated August 1, 2003, on our audit of the consolidated balance sheets of MGP Ingredients, Inc. as of June 30, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2003, which report is incorporated by reference in the Annual Report on Form 10-K of MGP Ingredients, Inc. for the fiscal year ended June 30, 2003, and of our report dated August 1, 2003, with regard to the financial statement schedule that is included in such Form 10-K for the year ended June 30, 2003. We also consent to the reference to our firm under the heading "Experts" in the Prospectus to the Registration Statement.

/s/ BKD, LLP

Kansas City, Missouri
August 21, 2003

**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 Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2003, (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: September 16, 2003

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

EXHIBIT 99.3

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K 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)) 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) 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
 - c) 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: September 16, 2003

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

EXHIBIT 99.4

CERTIFICATION

I, Brian 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-K 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)) 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) 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
 - c) 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: September 16, 2003

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

NINTH AMENDED LINE OF CREDIT LOAN AGREEMENT

THIS NINTH AMENDED LINE OF CREDIT LOAN AGREEMENT ("Agreement"), executed effective as of this 6th day of April, 2002, by and between MIDWEST GRAIN PRODUCTS, INC., a corporation organized under the laws of the state of Kansas and having its principal place of business in Atchison, Kansas ("Borrower"), and Commerce Bank, N.A., a national banking association, having its principal place of business in Kansas City, Missouri ("Bank").

WHEREAS, Borrower desires to establish a line of credit with Bank to provide financing of short term working capital ("Line of Credit");

WHEREAS, Bank desires to extend such Line of Credit upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained in this Agreement, the parties agree as follows:

ARTICLE I Line of Credit

Section 1.1. Line of Credit. Subject to the terms of this Agreement, Bank will lend Borrower, from time to time until the termination hereof, such sums as Borrower may request, in minimum increments of \$100,000, which shall not exceed in the aggregate principal amount at any one time outstanding the sum of Ten Million Dollars (\$10,000,000).

Section 1.2. Commitment Fee. Borrower shall pay a fee equal to ¼% per annum on the average unused portion of the Line of Credit. Such fee shall be computed and paid quarterly, in arrears.

Section 1.3. Line of Credit Note. The Line of Credit shall be evidenced by the Line of Credit Note of even date herewith in form and substance acceptable to Bank (the "Line of Credit Note"). Each advance made thereunder, together with each repayment made by Borrower, shall be evidenced by a notation dated the date of the advance or repayment and recorded by Bank on the schedule attached to the Line of Credit Note, or in such other manner as determined by Bank. The aggregate unpaid principal amount of the Line of Credit Note set forth on the schedule or in such other records shall be conclusively presumed to reflect the amounts advanced and repaid, and the outstanding principal balance of the Line of Credit.

Section 1.4. Principal Payment. In the event of a default as defined in Section 4.1 or on November 30, 2003, the outstanding principal balance of the Line of Credit Note together with all accrued interest shall become immediately due and payable.

Section 1.5. Interest. If the outstanding principal balance is less than \$500,000, the Line of Credit shall bear interest at a per annum rate equal to the Prime Rate. If the outstanding principal balance is \$500,000 or greater, the Line of Credit shall bear interest at the greater of either (1) the Prime Rate, minus 1%, or (2) the Federal Funds Rate, plus 1.50%. Interest will be payable monthly, in arrears, and at maturity, whether by acceleration or otherwise. Interest will be computed on the actual days outstanding based upon a year consisting of 360 days.

"Prime Rate" means the Prime Rate of interest established from time to time by Bank and designated as such for its internal convenience, and no representation is made that the Prime Rate is the best, the lowest or a favored rate of interest. The rate of interest, if tied to the Prime Rate, shall change with and be effective on the date of each change in the Prime Rate.

"Federal Funds Rate" means the effective Federal Funds Rate as quoted by the Federal Reserve Bank of New York on a daily basis. The Federal Funds Rate is adjusted daily.

Section 1.6. Purpose. Borrower represents the purpose of the Line of Credit is to provide short term working capital.

Section 1.7. Disbursements. Bank will credit the proceeds of any borrowing hereunder to Borrower's deposit account maintained with Bank.

Section 1.8. Condition of Line of Credit. Any advance under the Line of Credit Note is subject to the condition precedent that no event of default described in Section 5.1 shall have occurred, and that the Line of Credit has not been terminated. Each request for a borrowing under the Line of Credit Note shall be deemed to constitute a representation by Borrower at the time of the request that no event of default as defined in Section 5.1 exists or is imminent and that the representations and warranties of Borrower contained in this Agreement are true in all material respects on or as of the date of borrowing.

ARTICLE II Warranties and Representations

Section 2.1. Good Standing. The Borrower is a corporation duly organized and in good standing, under the laws of the state of Kansas, and has the power to own its property and to carry on its business and is in good standing in each jurisdiction in which the character of the

properties owned by it or in which the transaction of its business makes such qualifications necessary.

Section 2.2. Authority. The Borrower has full power and authority to enter into this Agreement, to make the borrowing hereunder, and to execute and deliver the Line of Credit Note, all of which has been duly authorized by all proper and necessary corporate action. No consent or approval of stockholders is required as a condition to the validity of this Agreement or the Loan.

2

Section 2.3. Binding Agreement. This Agreement constitutes, and the Line of Credit Note when issued and delivered pursuant hereto, for value received, will constitute, the valid and legally binding obligation of the Borrower in accordance with all stated terms.

Section 2.4. Litigation. There are no proceedings pending, or, so far as the officers of the Borrower know threatened, which will materially adversely affect the financial condition or operations of the Borrower or any subsidiary.

Section 2.5. No Conflicting Agreements. There are no charter, bylaw, or preference stock provisions of the Borrower and no provision of any existing mortgage, indenture, contract or agreement binding on the Borrower or affecting its property, which would conflict with or in any way prevent the execution, delivery, or carrying out of the terms of this Agreement and of the Line of Credit Note.

Section 2.6. Taxes. The Borrower has filed all Federal, State and other tax and similar returns and has paid or provided for the payment of all taxes and assessments due thereunder including, without limitation, all withholding, FICA and franchise taxes.

Section 2.7. Financial Statements. There have been no material changes in the Borrower's financial statements dated December 30, 2001.

ARTICLE III Covenants

So long as this Agreement remains in effect or as long as there is any principal or interest due on the Line of Credit Note, Borrower agrees as follows:

Section 3.1. Comply with all Company Covenants as defined and contained in Section 5 of the Note Agreement dated as of August 1, 1993, between Borrower and the Principal Mutual Life Insurance Company (the "Principal Agreement") including, but not limited to, the following:

- (a) Current Ratio. Maintain a Current Ratio of not less than 1.50 to 1.00.
- (b) Consolidated Tangible Net Worth. Maintain Consolidated Tangible Net Worth at an amount not less than THE GREATER OF (i) \$86,000,000 or (ii) the sum of \$86,000,000 plus 50% of Consolidated Net Income for the period from and after September 30, 2001, to the date of determination thereof (considered as a single accounting period).
- (c) Funded Debt. Not permit Consolidated Funded Debt to exceed 60% of total capitalization.
- (d) Debt/Worth. Maintain a ratio of Debt to Tangible Net Worth of not more than 2.50 to 1.00.

3

- (e) Fixed Charges Coverage Ratio. Maintain at the end of each fiscal quarter a ratio of Net Income Available for Fixed Charges to Fixed Charges for the 4 consecutive quarters then ending of not less than 1.50 to 1.00.

The Company Covenants shall survive any amendment, modification or termination of the Principal Agreement.

Section 3.2. Taxes, etc. Promptly pay all taxes, assessments and other government charges (unless such payments are being contested in good faith).

Section 3.3. Insurance. Maintain insurance on all its properties in such amounts and against such hazards as is customary in Borrower's industry.

Section 3.4. Books and Records. Maintain its books and records and account for financial transactions in accordance with generally accepted accounting principles.

Section 3.5. Financial Reporting. Borrower shall furnish Bank with the following information:

- (a) Its annual audited financial statement within 90 days of its fiscal year-end, in a form and prepared by a certified public accounting firm acceptable to Bank;
- (b) Its quarterly financial statements within 45 days after the end of each quarter; and
- (c) Such other information as Bank may reasonably request from time to time.

Section 3.6. Notification. Notify Bank immediately if it becomes aware of the occurrence of any Event of Default (as defined under Section 5.1 hereof) or of any fact, condition, or event that, only with the giving of notice or passage of time or both, would become an Event of Default, or if it becomes aware of a material adverse change in the business prospects, financial condition (including, without limitation, proceedings in bankruptcy, insolvency, reorganization, or the appointment of a receiver or trustee), or results of operations of Company, or the failure of Company to observe any of its undertakings under this Agreement of any other note or agreement binding on Borrower including, but not limited to, the Principal Agreement.

ARTICLE IV Defaults

Section 4.1. Events of Default. The entire unpaid balance of the Loans shall become immediately due and payable without demand, presentment, notice or protest of any kind (all of which are expressly waived), upon the happening of any of the following events of default:

- (a) Nonpayment of any interest or any principal payment owing under the Loans whether at maturity or otherwise; or

4

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- (b) If any certificate, statement, representation, warranty or audit furnished by or on behalf of the Borrower in connection with this Agreement, including those contained herein, or as an inducement by Borrower to enter into, modify, extend, or renew this Agreement shall prove to be false in any material respect, or if Borrower shall have omitted the listing of a substantial contingent or unliquidated liability or claim against Borrower or, if on the date of execution of this Agreement there shall have been any materially adverse change in any of the facts disclosed by any such certificate, statement, representation, warranty or audit, which change shall not have been disclosed by Borrower to Bank at or prior to the time of execution; or
 - (c) If Borrower shall default in the due performance or observance of any covenant undertaken by it under this Agreement; or
 - (d) Default in the performance of the obligations of Borrower pursuant to any other note or agreement binding on Borrower including, but not limited to, the Principal Agreement; or
 - (e) Default in the performance of the obligations of Borrower pursuant to the industrial revenue bonds issued in the amount of \$6,500,000 on August 22, 2001 by the Unified Government of Wyandotte/Kansas City, Kansas; or
 - (f) Borrower shall be adjudicated a bankrupt, or make a general assignment for the benefit of its creditors, or there are instituted by or against Borrower any type of bankruptcy proceedings or any proceeding for the liquidation or the termination of Borrower's affairs, or the appointment of a receiver or trustee for Borrower or for any of Borrower's assets, or a properly filed petition for Borrower's reorganization under the Bankruptcy Code or otherwise is approved, or Borrower files a petition for arrangement under Chapter 11 of the Bankruptcy Code or any similar statute.
 - (g) Any judgment or judgments, writ or writs, warrant or warrants of attachment, or any similar process or processes shall be entered or filed against the Borrower or any Subsidiary or against any of their respective property or assets and remain unstayed and undischarged for a period of 60 days from the date of its entry.

Section 4.2. Remedies. If any event of default occurs, Bank may resort to any remedy existing at law or in equity for the collection of the Loans and enforcement of the covenants and provisions of this Agreement. Bank's resort to any remedy shall not prevent the concurrent or subsequent employment of any other remedy.

Section 4.3. Waiver. Any waiver of an event of default by Bank shall not extend to or affect any subsequent default. No failure or delay by Bank in exercising any right

5

hereunder shall operate as a waiver nor shall any single or partial exercise of any right preclude any other right hereunder.

ARTICLE V
Miscellaneous

Section 5.1. Amendments. This Agreement may be amended or modified in whole or in part at anytime, if in writing and signed by the parties. Bank may further consent in writing, or give written waiver to any covenant or event which might otherwise create a default.

Section 5.2. Delay, Waiver. No omission or delay on the part of Bank in exercising any right, power, or privilege hereunder shall impair or operate as a waiver thereof; nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. No waiver by Bank will be valid unless in writing and signed by Bank and then only to the extent specified therein. The rights and remedies herein expressly specified are cumulative and not exclusive of any rights or remedies which Bank would otherwise have.

Section 5.3. Bank. Whenever in this Agreement reference is made to the Bank, such term shall be deemed for the purpose of benefits, powers, and privileges hereunder to include any firm, person, or corporation who may be the holder from time to time of the Note issued hereunder or a participation therein.

Section 5.4. Governing Law. This Agreement and the Line of Credit Note shall be construed and interpreted in accordance with the laws of the State of Missouri.

Section 5.5. Statutory Notice. **ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT, INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT, ARE NOT ENFORCEABLE. TO PROTECT YOU (BORROWER) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US EXCEPT AS WE MAY LATER AGREE IN WRITING.**

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

MGP INGREDIENTS, INC.

By: /s/ Ladd M. Seaberg
Title: President and CEO

By: /s/ Robert G. Booe
Title: V.P. — CFO

COMMERCE BANK, N.A.

By: /s/ Frederick J. Marston
Title: V.P.

