

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004.

or

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

For the transition period from _____ to _____

Commission File Number: 0-17196

MGP INGREDIENTS, INC.

(Exact name of registrant as specified in its charter)

KANSAS

(State or other jurisdiction of incorporation or organization)

48-0531200

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

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

66002
(Zip Code)

(913) 367-1480

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
 Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, no par value
15,981,030 shares outstanding
as of September 30, 2004

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

[Independent Accountants' Review Report](#)

[Condensed Consolidated Balance Sheets as of
September 30, 2004 and June 30, 2004](#)

[Condensed Consolidated Statements of Income for
the Three Months Ended September 30, 2004 and 2003](#)

[Condensed Consolidated Statements of Cash Flows for
the Three Months Ended September 30, 2004 and 2003](#)

[Notes to Condensed Consolidated Financial Statements](#)

Item 2. [Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

Item 3. [Quantitative and Qualitative Disclosures About Market Risk](#)

Item 4. [Controls and Procedures](#)

PART II. OTHER INFORMATION

Item 1. [Legal Proceedings](#)

Item 2. [Unregistered Sales of Equity Securities and Use of Proceeds.](#)

- [Item 3. Defaults upon Senior Securities](#)
- [Item 4. Submission of Matters to a Vote of Security Holders](#)
- [Item 5. Other Information](#)
- [Item 6. Exhibits](#)

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of MGP Ingredients, Inc. as of September 30, 2004 and the related condensed consolidated statements of income and cash flows for the three-month periods ended September 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of June 30, 2004 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated July 30, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Kansas City, Missouri
November 2, 2004

MGP Ingredients, Inc.

Condensed Consolidated Balance Sheets (in thousands)

Assets	September 30, 2004 (Unaudited)	June 30, 2004
Current Assets		
Cash and cash equivalents	\$ 4,771	\$ 6,488
Receivables, net of allowance of \$252 at September 30, 2004 and June 30, 2004	31,907	34,243
Inventories	39,172	32,775
Prepaid expenses	3,081	828
Deferred income taxes	2,090	2,090
Income taxes receivable	—	—
Total current assets	81,021	76,424
Property and Equipment, at cost	300,571	296,377
Less accumulated depreciation	190,464	187,280
Total property and equipment, net	110,107	109,097
Other		
Insurance receivable	1,425	1,425
Other assets	91	91
Total other assets	1,516	1,516
Total assets	\$ 192,644	\$ 187,037

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

Condensed Consolidated Balance Sheets (in thousands)

Liabilities and Stockholders' Equity	September 30, 2004 (Unaudited)	June 30, 2004
Current Liabilities		
Current maturities of long-term debt and note payable	\$ 10,382	\$ 3,201
Accounts payable	8,655	10,576
Accrued expenses	5,395	7,815
Deferred income	12,183	12,598
Income taxes payable	2,129	2,423
Total current liabilities	38,744	36,613
Long-term Debt	18,821	12,561
Post-Retirement Benefits	5,985	5,977
Deferred Income Taxes	12,777	13,677
Stockholders' Equity		
Capital stock		
Preferred, 5% cumulative, \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares	4	4
Common, no par; authorized 20,000,000 shares; issued 19,530,344 shares	6,715	6,715
Additional paid-in capital	5,239	5,005
Retained earnings	121,041	123,181
Accumulated other comprehensive loss -		
Cash flow hedges	(564)	(251)
	132,435	134,654
Treasury stock, at cost		
Common		
September 30, 2004 - 3,549,314 shares	(16,118)	
June 30, 2004 - 3,621,514 shares		(16,445)
	116,317	118,209
Total liabilities and stockholders' equity	\$ 192,644	\$ 187,037

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

MGP Ingredients, Inc.
**Condensed Consolidated Statements of Income
Three Months Ended September 30, 2004 and 2003
(Unaudited)**

	(in thousands)	
	2004	2003
Net sales	\$ 68,878	\$ 57,054
Cost of sales	63,804	55,367
Gross profit	5,074	1,687
Selling, general and administrative	4,882	3,698
	192	(2,011)
Other operating income	286	6,090
Operating income	478	4,079
Other income, net	309	281
Interest expense	(306)	(279)
Income before income taxes	481	4,081
Provision for income taxes	190	1,611
Net income	291	2,470
Other comprehensive loss	(313)	(30)
Comprehensive income (loss)	\$ (22)	\$ 2,440
Basic earnings per common share	\$ 0.02	\$ 0.16
Diluted earnings per common share	\$ 0.02	\$ 0.16
Dividends per common share	\$ 0.15	\$ 0.075

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

MGP Ingredients, Inc.

Condensed Consolidated Statements of Cash Flows
Three Months Ended September 30, 2004 and 2003
(Unaudited)

	(in thousands)	
	2004	2003
Operating Activities		
Net income	\$ 291	\$ 2,470
Items not requiring cash		
Depreciation	3,893	3,675
Gain on sale/conversion of property and equipment	(709)	
Deferred income taxes	(900)	(20)
Changes in		
Accounts receivable	2,336	(3,540)
Inventories	(6,710)	2,848
Insurance receivable	—	(756)
Accounts payable and accrued expenses	(6,029)	1,518
Deferred income	(415)	(428)
Income taxes (receivable) payable	(161)	1,632
Other	(2,245)	(1,094)
Net cash provided by (used in) operating activities	(10,649)	6,305
Investing Activities		
Additions to property and equipment	(5,646)	(8,974)
Proceeds from sale/conversion of equipment	709	—
Net cash used in investing activities	(4,937)	(8,974)
Financing Activities		
Purchase of treasury stock	—	(57)
Sales of treasury stock	428	—
Proceeds from issuance of long-term debt	9,700	
Net proceeds on line of credit	6,000	
Net payments on long-term debt	(2,259)	(2,506)
Net cash provided by (used in) financing activities	13,869	(2,563)
Decrease in Cash and Cash Equivalents	(1,717)	(5,052)
Cash and Cash Equivalents, Beginning of period	6,488	17,539
Cash and Cash Equivalents, End of period	\$ 4,771	\$ 12,487

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

MGP Ingredients, Inc.

Notes To Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of the Company's management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. The condensed consolidated balance sheet as of June 30, 2004 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-K Annual Report for 2004 filed with the Securities and Exchange Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Note 2. Earnings Per Share

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

The Company has a stock-based employee compensation plan, which it accounts for 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 all of the stock-based employee compensation under those plans.

	Three Months Ended September 30	
	2004	2003
	(in thousands except per share amounts)	
Net income, as reported	\$ 291	\$ 2,470
Plus: Stock-based employee compensation included in net income	66	—
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	156	143

Pro forma net income	\$ 200	\$ 2,327
Earnings per share		
Basic - as reported	\$ 0.02	\$ 0.16
Basic - pro forma	\$ 0.01	\$ 0.15
Diluted - as reported	\$ 0.02	\$ 0.16
Diluted - pro forma	\$ 0.01	\$ 0.15
Weighted average shares:		
Basic	15,932,913	15,332,404
Diluted	16,648,019	15,371,474

The September 30, 2003 earnings per share data presented has been adjusted to reflect the Company's 2-for-1 stock split that went into effect following the close of business on June 30, 2004.

7

Note 3. Long Term Debt

Secured Promissory Note -- On September 24, 2004 the Company borrowed \$9,794,500 from GE Capital Public Finance, Inc. The Company's obligations are evidenced by a promissory note, bear interest at 5.26% per annum and are payable in 83 consecutive monthly payments of \$183,777 and an 84th payment equal to the unpaid principal and interest, commencing November 1, 2004. The Company also entered a security agreement to secure the note. The security agreement grants a security interest in specified equipment located or to be located at the Company's KCIT facility. The Company has agreed to secure the note on or before March 31, 2005 by all the equipment at the KCIT facility, and will need to obtain waivers from one or more of its other lenders in order to do so.

Line of Credit - On September 17, 2004 the Company amended its line of credit to increase the borrowings permitted thereunder from \$10 million to \$15 million. As of September 30, there was \$6 million outstanding under the Company's line of credit. The line of credit expires on November 30, 2004. Borrowings under \$500,000 bear interest at the prime rate. Interest on borrowings in excess of \$500,000 is payable monthly at a rate equal to the greater of Commerce Bank's prime rate less 1%, or the Federal Funds Rate plus 1.5%. In addition, the Company pays a commitment fee equal to 0.25% per annum on the unused portion of the commitment. Principal is due upon the occurrence of an event of default or expiration of the line of credit, currently November 30, 2004. The Company intends to seek renewal of the line of credit.

The Line of Credit Agreement requires the Company to maintain certain financial ratios, including a minimum current ratio, minimum consolidated tangible net worth, debt to tangible net worth not to exceed certain limits, and a minimum fixed charge coverage ratio. In addition, the Company may not permit consolidated funded debt (generally, asset acquisition related debt plus capitalized lease obligations) to exceed certain limits. Other covenants are the same as those in Section 5 of the Note Agreement dated as of August 1, 1993 with the Principal Mutual Life Insurance Company and filed as Exhibit 4.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993, and include covenants which impose limitations on the amount of current debt, liens, restricted payments, investments, mergers and acquisitions, guaranties and transactions with affiliates.

8

Note 4. Insurance Recoveries

On September 13, 2002, the Company's Atchison, Kansas distillery was shut down as the result of an explosion at the distillery. As a result, business interruption insurance proceeds of \$5.7 million was recorded as other operating income for the three months ended September 30, 2003. As of September 30, 2004 and 2003, respectively, the Company had \$1.4 million and \$12 million receivable from the insurance company related to this matter.

During the three months ended September 30, 2004, the Company's Pekin, Illinois barge operation was damaged by an outside party. Net insurance proceeds resulted in a \$709,000 gain recognized during the three months ended September 30, 2004, and is included as a component of other income.

Note 5. Contingencies

There are various legal proceedings involving the Company and its subsidiaries. Except as noted below, management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or operations of the Company.

The Company is currently in negotiations with the United States Environmental Protection Agency (USEPA), the Illinois Attorney General's Office and the Illinois Environmental Protection Agency (IEPA) to settle enforcement proceedings related to emissions at the Pekin, Illinois location. The IEPA has requested a \$1.1 million penalty to resolve its complaint and the USEPA has proposed a federal penalty of \$172,000. The Company has made an offer to settle which includes a cash payment and the installation of certain additional equipment at the plant, but regards the IEPA penalty request as unwarranted under the circumstances and has rejected it. As of September 30, 2004, the Company had accrued \$300,000, which is included in other accrued liabilities, with respect to these matters. The amount of the ultimate settlement could differ materially in the near future.

Note 6. Operating Segments

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

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

9

	2004	2003
Sales to customer		
Ingredients	\$ 22,754	\$ 21,917
Distillery products	46,124	35,137
	<u>\$ 68,878</u>	<u>\$ 57,054</u>
Depreciation		
Ingredients	\$ 1,565	\$ 1,461
Distillery products	2,179	2,037
Corporate	149	177
	<u>\$ 3,893</u>	<u>\$ 3,675</u>
Income before income taxes		
Ingredients	\$ (115)	\$ 2,571
Distillery products	874	1,905
Corporate	(278)	(395)
	<u>\$ 481</u>	<u>\$ 4,081</u>
	September 30, 2004	June 30, 2004
Identifiable assets		
Ingredients	\$ 85,896	\$ 86,965
Distillery products	83,579	79,624
Corporate	23,169	20,448

Note 7. Pension and Post Retirement Benefit Obligations

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

10

The components of the Net Periodic Benefit Cost for the three months ended September 30, 2004 and 2003 are as follows:

	Three Months Ended September 30	
	2004	2003
Service cost	60	60
Interest cost	75	81
Prior service cost	(12)	(4)
(Gain) loss	(1)	—
Total postretirement benefit cost	<u>122</u>	<u>137</u>

The Company previously disclosed in its financial statements for the year ended June 30, 2004, amounts expected to be paid to plan participants. There have been no revisions to these estimates and there have no changes in the estimate of total employer contributions expected to be made for the fiscal year ended June 30, 2005.

Total employer contributions for the three months ended September 30, 2004 amounted to \$7,000.

On December 8, 2003, the Medicare Prescription Drug, Improvement Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

In accordance with FASB Staff Position 106-2, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes. Management believes that the provisions of the Act will not have any material effect on the Company's consolidated financial statements.

11

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

This section contains forward-looking statements as well as historical information. 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.

Results of Operations

Critical Accounting Policies

Reference is made to the *Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies* incorporated by reference to Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004 for accounting policies which are considered by management to be critical to an understanding of the Company's financial statements.

Segments and Segment Results

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 starch, and proteins, including commodity wheat gluten and specialty wheat 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 feed and carbon dioxide, which are by-products of the Company's distillery operations. Reference is made to *Management's Discussion and Analysis of Financial Condition and Results of Operations* incorporated by reference to Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2004 for further information about the Company's segments.

12

The following is a summary of revenues and pre-tax profits/(loss) allocated to each reportable operating segment for the three months ended September 30 in fiscal 2005 and fiscal 2004. (See Note 6 to Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's operating segments.)

(dollars in thousands)	Three Months Ended	
	September 30	
	2004	2003
Ingredients		
Net sales	\$ 22,754	\$ 21,917
Pre-tax income (loss)	(115)	2,571
Distillery Products		
Net sales	\$ 46,124	\$ 35,137
Pre-tax income	874	1,905

General. Sales in both segments as well as operating and selling, general and administrative costs were higher than in the first quarter of fiscal 2004 (three months ended September 30, 2003). However, ingredients sales were below the level reached in the fourth quarter of fiscal 2004 (three months ended June 30, 2004), principally due to reduced demand for Fibersym™ 70 resistant wheat starch for use in lower net carbohydrate and high fiber food products and, to a lesser extent, reduced demand for the Company's Arise® line of wheat protein isolate and its Wheatex® line of textured wheat proteins. Sales of Fibersym in the quarter ended September 30, 2004 were approximately 20% of sales experienced in the fourth quarter of fiscal 2004 and sales of Arise were approximately 54% of sales experienced in the fourth quarter. The increase in ingredients sales over the first quarter of fiscal 2004 resulted mainly from sales of specialty ingredients to manufacturers of food products and pet products. The increase in food products was primarily attributable to strengthened sales of the Company's Arise® line of wheat protein isolates, its Wheatex® line of textured wheat proteins and its resistant starches. In the non-food area, sales of the Company's Polytriticum™ lines of grain-based resins, which are used principally in the manufacture of pet chews, also rose 12% compared to the prior year's first quarter and 42% compared to the immediately preceding quarter ended June 30, 2004.

The increase in distillery products sales in the first quarter of fiscal 2005 resulted from strengthened unit sales and prices for both fuel grade and food grade alcohol, along with higher unit sales and prices for distillers feed, which is the principal by-product of the alcohol production process. In the prior year's first quarter, production and sales of the Company's distillery products were affected by the September, 2002 distillery explosion at the Atchison plant. By the end of fiscal 2004, production and unit sales of alcohol had returned to their pre-September, 2002 levels.

Business interruption insurance proceeds received by the Company as compensation for the effects of the September, 2002 distillery explosion amounted to approximately \$9.6 million in fiscal 2004 and were allocated to the Company's distillery products segment. Of that amount, approximately \$5.7 million was recognized in the first quarter of fiscal 2004. No such proceeds were received by the Company in the first quarter of fiscal 2005 and none are anticipated for the remainder of the fiscal year.

13

Ingredients. Total ingredient sales in the first quarter of fiscal 2005 increased by approximately \$837,000, or nearly 4 percent, compared to the prior year's first quarter. This was due to a \$3.2 million, or 19 percent, increase in sales of specialty ingredients, consisting primarily of specialty wheat proteins and wheat starches. The greatest increase in sales of specialty ingredients occurred in sales to manufacturers of food and pet industry products. Meanwhile, in line with the Company's strategy to place increased focus on specialty ingredients, sales of commodity ingredients were reduced by \$2.3 million, or 46 percent. The decrease in commodity ingredients resulted from the Company's decision to reduce vital wheat gluten sales and place increased emphasis on the production and marketing of specialty proteins. This decrease in gluten sales more than offset an increase in sales of commodity wheat starch compared to the prior year's first quarter sales. Sales of mill feeds and other mill products decreased by \$595,000, or 57 percent, as the result of isolated sales of flour to outside parties in the prior year's first quarter which did not occur in the current year.

Distillery Products. Total sales of the Company's distillery products rose by approximately \$10.9 million, or 31 percent, compared to the first quarter of fiscal 2004. This increase was due to an \$8.9 million, or 51 percent, increase in sales of fuel grade alcohol and a \$4.1 million, or 106 percent, increase in sales of food grade alcohol for industrial applications. Sales of food grade alcohol for beverage applications rose by \$150,000, or 3 percent, above beverage alcohol sales in the first quarter of fiscal 2004. Distillers feed sales increased by approximately \$2.1 million, or 34 percent, over the prior year due to higher prices and increased alcohol production. There were no sales of unfinished alcohol in the current period, in contrast to \$6.3 million in sales of unfinished alcohol during the first quarter of fiscal 2004 when production at the Atchison facility was affected by the September 13, 2002 explosion.

In the first quarter of fiscal 2005, the Company recorded the receipt of approximately \$363,000 pre-tax (\$220,000 net of income taxes) under a program that was implemented by the U.S. Department of Agriculture in December, 2000 to provide cash incentives for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. This compares with \$1,920,000 pre-tax (\$1,162,000 net of income taxes) received under the program during the prior year's first quarter. 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, and the Company expects that funds received under the program through the remaining three quarters of fiscal 2005 will be less than were received during the corresponding quarters of fiscal 2004.

Sales

Net sales in the first quarter of fiscal 2005 rose by approximately \$11.8 million, or 21 percent, above net sales in the first quarter of fiscal 2004. This increase resulted from the \$10.9 million increase in distillery products sales and the \$837,000 increase in ingredients sales referred to above. The rise in distillery products sales resulted mainly from higher unit sales and higher selling prices for fuel grade alcohol, food grade alcohol for industrial applications and distillers feed, and higher selling prices for food grade beverage alcohol. The increase in ingredients sales was mainly due to higher unit sales of the Company's Arise®, Wheatex® and Polytriticum™ lines of specialty wheat proteins and its Fibersym™ line of resistant starches.

14

Cost of Sales

The cost of sales in the first quarter of fiscal 2005 increased by approximately \$8.4 million, or approximately 15 percent, above the cost of sales in the prior fiscal year's first quarter. This principally was due to costs associated with increased sales of the Company's products compared to a year ago, higher raw material costs for grain and higher energy costs. The rise in grain costs was due to increased production needs as well as to higher average prices for grain compared to the first quarter of fiscal 2004. Although down from their fiscal 2004 fourth quarter levels, prices for wheat averaged approximately 15 percent higher and prices for corn averaged 13 percent higher in the first quarter of fiscal 2005 compared to the first quarter of fiscal 2004. Prices for corn have continued to decline more substantially since the end of the current year's first quarter, while wheat prices have remained essentially unchanged. The increased energy costs primarily resulted from higher natural gas prices, which were up nearly 22 percent compared to the first quarter of fiscal 2004 and 5 percent compared to the fourth quarter of fiscal 2004. Energy costs were also affected by higher energy usage due to increased production over the first quarter of fiscal 2004 when operations at the Atchison plant were affected by the September, 2002 distillery explosion. To reduce its exposure to additional increases in natural gas prices caused by heightened demand in the winter months, the Company has contracted at fixed prices 80 percent of its anticipated gas supply requirements through February, 2005.

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 the first quarter of fiscal 2005, the Company hedged approximately 54 percent of corn processed compared to no corn hedged in the first quarter of fiscal 2004. Of the wheat processed by the Company in the first quarter of fiscal 2005, no wheat was hedged compared to 43 percent hedged in the prior fiscal year's first quarter. The Company also uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. In the first quarter of fiscal 2005, raw material costs included a net hedging loss of \$515,000 compared to a net hedging loss of \$84,000 in the first quarter of fiscal 2004.

Selling, General and Administrative Costs

Selling, general and administrative expenses in the first quarter of fiscal 2005 were approximately \$1.2 million, or 32 percent, higher than selling, general and administrative expenses in the first quarter of fiscal 2004. The increase was mainly due to increased costs associated with incentives, salaries and benefits, research and development, professional and consultant fees and various factors related to increased marketing and sales activities.

15

Other Operating Income

The decrease in other operating income in the first quarter of fiscal 2005 was principally due to the recognition of approximately \$5.7 million less in business interruption insurance proceeds compared to the first quarter of fiscal 2004.

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 \$291,000 in the first quarter of fiscal 2005 compared to net income of \$2,470,000 in the first quarter of fiscal 2004.

16

Liquidity and Capital Resources

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

	September 30, 2004	June 30, 2004
	(Dollars in Thousands)	
Cash and cash equivalents	\$ 4,771	\$ 6,488
Working capital	42,277	39,811
Amounts available under lines of credit	11,500	12,500
Notes payable and long-term debt	29,203	15,762
Stockholders' equity	116,317	118,209

Cash Flow. Cash flow from operations decreased by approximately \$17 million during the first three months of fiscal 2005 compared to the first three months of fiscal 2004. This decrease resulted from a combination of factors. The Company experienced an increase in total inventories of approximately \$6.7 million in the first three months of fiscal 2005 compared to \$2.8 million in the first three months of fiscal 2004. The increase in inventories was principally due to increased grain inventories and commitments of approximately \$2.7 million and increased ingredients inventory of approximately \$2.4 million. The higher grain inventories consisted of wheat for producing higher levels of specialty proteins and starches than actually occurred during the first quarter, combined with commitments for corn to help satisfy future alcohol production needs. The increase in ingredients inventory resulted mainly from a build-up of commodity wheat protein for use in processing into specialty proteins, sales of which were less than anticipated in the quarter. Accounts payable and accrued expenses decreased by approximately \$6 million for the first three months of fiscal 2005 compared to a \$1.5 million increase in the first three months of fiscal 2004. This decrease in the current year's first quarter was mainly attributable to payments of \$3.5 million in incentive plans and retirement plans during the quarter and approximately \$2.0 million for reduction in accounts payable. The Company invested approximately \$5.6 million in property and equipment and had net cash provided from financing activities of \$13.9 million.

Capital Expenditures. During the thirteen weeks ended September 30, 2004, the Company made \$4.2 million in capital expenditures, including an extrusion and packaging system expansion in Kansas City and a feed dryer in Atchison. As of September 30, 2004, the Company's Board of Directors had approved \$21.6 million in expenditures with respect to improvements and replacements of existing equipment, of which \$14.5 million are expected to be made over the course of the next twelve months. As of September 30, 2004 the Company has contracts to acquire capital assets of approximately \$7.3 million. The amounts approved do not include approximately \$1.2 million additional that may be required to be expended in connection with environmental proceedings to which the Company is a party (see Item 3. *Legal Proceedings* of the Company's Annual Report of Form 10-K for the fiscal year ended June 30, 2004). The Company anticipates that it may require additional external financing for some of the capital expenditures, but has not determined the amount, type or source of such financing.

17

Stock Sales and Purchases. During the thirteen weeks ended September 30, 2004, the company's employees exercised options on 72,200 shares of common stock and the Company received proceeds of approximately \$428,000. As of September 30, 2004, the Board has authorized the purchase of approximately 1,614,000 shares of the Company's common stock. No purchases were made under this authorization during the quarter.

Contractual Obligations. During the thirteen weeks ended September 30, 2004, the Company incurred additional indebtedness to acquire capital equipment and for working capital purposes. As of September 30, 2004, the amount of notes payable and long term debt was \$29.2 million compared to \$15.7 million at June 30, 2004.

On September 17, 2004, the Company amended its primary line of credit agreement to increase the maximum amount available thereunder from \$10 million to \$15 million; As of September 30, 2004, there was \$6 million borrowed under the line. The current expiration date of this line of credit is November 30, 2004. The Company intends to seek renewal of the line of credit.

On September 24, 2004 the Company borrowed \$9,794,500 from GE Capital Public Finance, Inc. The Company's obligations are evidenced by a promissory note, bear interest at 5.26% per annum and are payable in 83 consecutive monthly payments of \$183,777 and an 84th payment equal to the unpaid principal and interest, commencing November 1, 2004. The note may be prepaid at any time in its entirety subject to the payment of a prepayment premium equal to 3% of the original principal amount if the note is prepaid prior to the first anniversary, declining to 1% if paid prior to the third anniversary and 0% thereafter. The note is secured by specified equipment located or to be located at the Company's KCIT facility in Kansas City, Kansas. The Company has agreed to secure the note on or before March 31, 2005 by all the equipment at the KCIT facility. Under the security agreement, the Company has agreed to indemnify the secured party against any claim arising in connection with the collateral.

Financial Covenants. In connection with the Company's 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) equal to the greater of (i) \$86 million or (ii) the sum of \$86 million plus 50% of consolidated net income since September 30, 2001, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge ratio (generally, the ratio of (x) the sum of (a) net income [adjusted to exclude gains or losses from the sale or other disposition of capital assets and other matters] plus (b) provision for taxes plus (c) fixed charges, to (y) fixed charges) for the period of the four consecutive fiscal quarters ended as of the measurement date of 1.5 to 1. In addition, the Company may not permit consolidated funded debt (generally, asset acquisition related debt plus capitalized lease obligations) to exceed 60% to total capitalization.

As of September 30, 2004, the Company believes it was in compliance with the financial and other covenants in its loan, capital lease and line-of-credit agreements, except that as of that date the Company was in technical default under its Note Agreement dated as of August 1, 1993 respecting its 6.68% Senior Notes due August 1, 2008 and its principal line of credit agreement because the scope of the security interest granted to GE Capital in connection with the loan incurred

18

on September 24 was too broad. Subsequent to September 30, the security agreement with GE Capital was amended to correct this defect. The Company agreed to provide GE Capital with additional collateral by March 31, 2005 and will need to obtain waivers from one or more of its other lenders in order to do so. If the Company does not obtain such waivers, it will need to refinance either its note to GE Capital or the obligations to one or more of its other lenders.

Lines of Credit. The Company's line of credit for \$15 million available for general corporate purposes, extends through November 2004. A smaller line of credit for \$2.5 million expired on October 31, 2004 and was also available for general corporate purposes. The smaller line of credit was not renewed.

Working Capital. Working capital has increased approximately \$2.5 million from June 30, 2004 to September 30, 2004. This is primarily due to the increase in inventories and decrease in accounts payable and accrued expenses at September 30, 2004 compared to June 30, 2004.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

The Company produces its products from wheat, corn and milo and, as such, is sensitive to changes in commodity prices. Grain futures and/or options are used as a hedge to protect against fluctuations in the market. The information regarding inventories and futures contracts at June 30, 2004, as presented in the annual report, is not significantly different from September 30, 2004.

Item 4. Controls and Procedures.

- (a) Evaluation of disclosure controls and procedures.

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

- (b) Changes in internal controls

There has been no change in the Company's internal control over financial reporting during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

19

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to Item 3. *Legal Proceedings* in the Company's Annual Report on Form 10-K for the year ended June 30, 2004 for information regarding certain legal proceedings to which the Company or its Illinois subsidiary are subject.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As shown in the following table, the Company did not repurchase any shares of stock during the three months ended September 30, 2004.

Period	Total Number Of Shares) or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) (that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31, 2004	0	—		
August 1 – August 31, 2004	0			
September 1 – September 30, 2004	0			1,613,716 (a)

- (a) On various dates, the Board of directors authorized the purchase of an aggregate of 6,000,000 shares of Common Stock of which 4,386,284 shares had been purchased as of September 30, 2004. This program was first announced on June 5, 1997. During the three months ended September 30, 2004, no shares were purchased under the program. The program has no expiration date.

Item 3. Defaults upon Senior Securities.

Reference is made to Part I, Item 2 of this report, *Liquidity and Financial Resources – Financial Covenants*, the second paragraph of which is incorporated herein by reference.

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

- (a) The annual meeting of stockholders of the Company was held on October 14, 2004.
- (b) At the annual meeting, the following persons were elected to the Board of Directors:

20

John R. Speirs was elected to the office of Group A Director for a term expiring in 2007 with 14,071,670 common share votes for his election and 466,791 votes withheld;

Cloud L. Cray, Jr. was elected to the office of Group B Director for a term expiring in 2007 with 405 preferred share votes for his election and zero votes withheld; and

John E. Byom was elected to the office of Group B Director for a term expiring in 2007 with 405 preferred share votes for his election and no votes withheld.

In addition, the terms of Michael R. Haverty, Linda E. Miller and Daryl R. Schaller, Ph.D. as Group A Directors continued after the annual meeting and the terms of Michael Braude, Randall M. Schrick and Laidacker M. Seaberg as Group B Directors continued after the annual meeting.

- (c) At the annual meeting, the following other actions were taken by stockholders:

The stockholders approved an amendment to the Company's Amended and Restated Articles of Incorporation increasing the number of authorized common shares from 20,000,000 to 40,000,000, with 14,071,670 common share votes and 405 preferred share votes in favor, 451,608 common share votes and zero preferred share votes opposed, and 298,725 common shares and zero preferred shares abstaining.

The stockholders approved the Company's Stock Incentive Plan of 2004, with 9,048,908 common share votes and 405 preferred share votes in favor, 1,189,980 common share votes and zero preferred share votes opposed, 690,015 common shares and zero preferred shares abstaining and 3,901,333 common share and zero preferred share broker non votes.

Item 5. Other Information

Reference is made to Part I, Item 2 of this report, *Liquidity and Financial Resources—Financial Covenants*, the second paragraph of which is incorporated herein by reference. The defect in the security agreement referred to therein caused an automatic acceleration of obligations under the line of credit. At September 30, there was \$6 million outstanding under the line of credit and \$9,089,000 of Senior Notes due 2008 outstanding. However, as indicated in Item 2, the security agreement has been amended to correct the defect. The Company has discussed the matter with its line of credit bank and believes the bank will not take action on this matter. The Company is in the process of seeking renewal of its line of credit from its line of credit bank.

21

Item 6. Exhibits

- *3.1 Amended and Restated Articles of Incorporation
- 3.2 Bylaws of the Company (Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1989 (File Number 0-17196)
- *4.1 Line of Credit Loan Agreement dated as of November 25th, 2003
- *4.2 First Amendment to Line of Credit Agreement and related First Amended and Restated Line of Credit Note
- * 4.3 Promissory Note dated September 24, 2004 and related Security Agreement dated as of September 24, 2004, as amended.
- 10 Stock Incentive Plan of 2004 (incorporated by reference to Exhibit 4.2 of Registrant's Form S-8 Registration Statement filed October 20, 2004 (File Number 333-119860)
- *15.1 Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 1 hereof).

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

* Filed herewith

22

SIGNATURES

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

MGP INGREDIENTS, INC.

Date: November 9, 2004

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

Date: November 9, 2004

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

23

AMENDED AND
RESTATED
ARTICLES OF INCORPORATION
OF
MIDWEST GRAIN PRODUCTS, INC.

(as amended)

(Restated For Filing Purposes in
Accordance with Rule 102(c) of Regulation S-T)

ARTICLE I

The Name of the Corporation is MGP Ingredients, Inc.*

ARTICLE II

The Location of its Principal Place of Business in this State is 1300 Main, Atchison, Atchison County, Kansas.

ARTICLE III

The Location of its Registered Office in this State is 1300 Main, Atchison, Atchison County.

ARTICLE IV

The Name and Address of its Resident Agent in this State is Cloud L. Cray, Jr., 1300 Main, Atchison, Atchison County.

ARTICLE V

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the Kansas Corporation Code.

ARTICLE VI

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Forty Million One Thousand (40,001,000)** shares consisting of:

* As amended effective October 10, 2002.

** As amended effective October 18, 2004

-
1. Forty Million (40,000,000)** shares of Common Stock having no par value; and
 2. One Thousand (1,000) shares of Preferred Stock having a par value of Ten Dollars (\$10.00) per share.

The relative rights, preferences, privileges and limitations of the shares of Common Stock and of the shares of Preferred Stock shall be as follows:

A. Holders of shares of Preferred Stock shall be entitled to receive, when and as declared, out of the net profits of the Corporation, dividends at the rate of five percent (5%) per annum on the par value of the Preferred Stock, payable as the Board of Directors may determine, provided that no such dividend shall be declared and paid on the Preferred Stock unless the Corporation has, within the twelve (12) calendar months immediately preceding the date of payment, paid dividends to the holders of Common Stock in the amount of at least ten cents (\$0.10) per share. Such dividends on the Preferred Stock shall not be cumulative, and the Preferred Stock shall not be entitled to participate in or to receive any profits or earnings, or any other distributions in the nature of a dividend, other than or in addition to such noncumulative five percent (5%) annual dividends.

B. In the event of any liquidation, dissolution or winding up (whether voluntary or involuntary) of the Corporation, the holders of Common Stock shall be entitled to receive liquidation payments of One Dollar (\$1.00) per share; the holders of Preferred Stock shall then be entitled to be paid in full the par value of their shares before any additional amount shall be paid to the holders of Common Stock; and after the payment to the holders of Preferred Stock of its par value, the remaining assets and funds of the Corporation shall be divided and paid to the holders of Common Stock according to their respective shares.

C. Any unissued shares of stock of any class may be issued from time to time by the Corporation in such manner, amounts and proportions and for such consideration as shall be determined from time to time by the Board of Directors and as may be permitted by law; provided, however, that no shares of Preferred Stock shall be issued without the vote or written consent of all of the holders of Preferred Stock then issued and outstanding.

D. The holders of shares of Common Stock, voting separately, shall have the right to elect Group A directors, and the holders of shares of Preferred Stock, voting separately, shall have the right to elect Group B directors; provided that, if no shares of Preferred Stock are issued or outstanding, the holders of

** As amended effective October 18, 2004

shares of Common Stock shall have the right to elect both Group A and Group B directors.

E. Only the holders of Preferred Stock shall be entitled to vote upon (and the holders of Common Stock shall not have any vote, either as a class or otherwise, with respect to) any action or proposal which requires the affirmative vote, consent or approval of the shareholders of this Corporation, and which will

authorize or direct the Corporation to do one or more of the following: Merge or consolidate with another Corporation; sell, lease or exchange all or substantially all of its property and assets; voluntarily dissolve; or amend the Articles of Incorporation of the Corporation; and any such action shall be validly authorized, and any such proposals shall be adopted, upon receiving the affirmative vote, consent or approval of the holders of a majority, or such greater percentage as may be required by law or by the provisions of these Articles of Incorporation, of the issued and outstanding shares of Preferred Stock; provided, however, that the holders of Common Stock shall be entitled to vote, as a class, upon any action or proposal heretofore described in this paragraph E if the result thereof would be to increase or decrease the aggregate number of authorized shares of Common Stock or Preferred Stock; increase or decrease the par value of the shares of Common Stock or Preferred Stock; or alter or change the powers, preferences or special rights of the shares of Common Stock or of the shares of Preferred Stock so as to affect the holders of Common Stock adversely. With respect to any action or proposal which requires the affirmative vote, consent or approval of the shareholders of this Corporation, other than (i) the election of directors; or (ii) an action or proposal which, under the preceding provisions of this Article VI, is to be authorized or adopted solely by a vote of the holders of the shares of Preferred Stock, the holders of shares of Common Stock and the holders of shares of Preferred Stock shall each vote separately, as a class, and no such action shall be valid, nor shall any such proposal be adopted, unless it receives the affirmative vote, consent or approval of the holders of a majority, or such greater percentage as may be required by law, of the shares of Common Stock and the shares of Preferred Stock. If no shares of Preferred Stock are issued and outstanding, the provisions of this paragraph E shall not apply, and all voting rights of the stockholders of the Corporation shall be exercised solely by the holders of shares of Common Stock.

F. Each holder of Preferred and Common Stock shall be entitled to one (1) vote for each share of stock held by him, there shall be no right to cumulative voting in the election of directors, and all requirements of cumulative voting in force at the time of the organization of this corporation are hereby eliminated.

ARTICLE VII

The term for which this Corporation is to exist is perpetual.

A-3

ARTICLE VIII

The number of directors shall be nine (9) divided into three classes designated Class A, Class B and Class C, respectively. Classes A and B shall each be composed of one Group A director and two Group B directors. The third, Class C, shall be composed of two Group A directors and one Group B director. One class shall be elected to office at each annual meeting of the shareholders, and each term of office shall be for three years, with the terms of office of directors of the three classes existing immediately after the annual meeting for 1988 expiring as follows:

Class A at the 1989 annual meeting

Class B at the 1990 annual meeting, and

Class C at the 1991 annual meeting.

At each future annual meeting of the shareholders, the successors to the class of directors whose term expire at such meeting shall be elected to serve for terms of three years.

In the event of the death, resignation or removal from office of a director during his elected term of office, his successor shall be elected to serve only until the expiration of the term of his predecessor.

ARTICLE IX

No holder of the shares of Common or Preferred Stock of this Corporation shall be entitled as of right to subscribe for, purchase, or receive any part of any new or additional issue of stock of any class, whether now or thereafter authorized, or of any bonds, debentures, or other securities convertible into stock of any class, and all such additional shares of stocks, bonds, debentures, or other securities convertible into stock may be issued and disposed of by the Board of Directors to such person or persons and on such terms and for such consideration (so far as may be permitted by law) as the Board of Directors, in their absolute discretion, may deem advisable.

ARTICLE X

A director of this Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under the provisions of Kansas Statutes Annotated, Sec. 17-6424, and amendments thereto, or (iv) for any transaction from which the Director derived an improper personal benefit.

A-4

LINE OF CREDIT LOAN AGREEMENT

THIS LINE OF CREDIT LOAN AGREEMENT ("Agreement"), executed effective as of this 25th day of November, 2003, by and between M G P INGREDIENTS, 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 1/4% 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. Upon the occurrence of an Event of Default as defined in Section 4.1, or on November 30, 2004, the outstanding principal balance of the Line of Credit Note together with all accrued interest shall become immediately due and payable in full.

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 4.1 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 4.1 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 Line of Credit.

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, 2002.

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. Financial Covenants. 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.
- (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.

3

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

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 4.1 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 Line of Credit 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 Line of Credit whether at maturity or otherwise; or
- (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

4

- (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; or
- (g) Any judgment or judgments, writ or writs, or 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 Line of Credit 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 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 or 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 Line of Credit 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.**

BY SIGNING BELOW, YOU AND WE AGREE THAT THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN US.

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

M G P INGREDIENTS, INC.

By: /s/ Ladd Seaberg

Title President & CEO

By: /s/ Brian T. Cahill

Title: CFO

COMMERCE BANK, N.A.

By: _____

Title: _____

**FIRST AMENDMENT
TO
LINE OF CREDIT LOAN AGREEMENT**

THIS FIRST AMENDMENT TO LINE OF CREDIT LOAN AGREEMENT ("First Amendment") is made effective as of September 17, 2004, by and between M G P INGREDIENTS, INC. ("Company") and COMMERCE BANK, N.A. ("Bank").

WHEREAS, Company and Bank entered into that certain Line of Credit Loan Agreement dated November 25, 2003 ("Loan Agreement");

WHEREAS, Company desires to increase the maximum principal amount available under the Line of Credit based upon the terms contained in the Loan Agreement, as amended by this First Amendment.

NOW, THEREFORE, Company, and Bank agree as follows:

1. Terms used herein, which are defined in the Loan Agreement, shall have the meanings given to them in the Loan Agreement.

2. Section 1.1 of the Loan Agreement is hereby amended to read in its entirety as follows:

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 Fifteen Million Dollars (\$15,000,000).

3. The first sentence to Section 1.3 of the Loan Agreement is hereby amended to read in its entirety as follows:

The Line of Credit shall be evidenced by the First Amended and Restated Line of Credit Note in form and substance acceptable to Bank (the "Line of Credit Note").

4. Except to the extent specifically amended by this First Amendment, the Loan Agreement shall remain in full force and effect.

5. **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 MISUNDERSTANDINGS OR DISAPPOINTMENTS, 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 TO MODIFY IT.**

BY SIGNING BELOW, YOU AND WE AGREE THAT THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN US.

6. This First Amendment shall be governed by, and construed in accordance with, the laws of the State of Missouri.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their respective officers as of the date written above.

M G P INGREDIENTS, INC.

By: /s/ Brian T. Cahill

Title: CFO

By: Ladd M. Seaberg

Title: President & CEO

COMMERCE BANK, N.A.

By: _____

Title: _____

FIRST AMENDED AND RESTATED LINE OF CREDIT NOTE

\$15,000,000
Maximum Amount and Interest

September 17, 2004
Kansas City, Missouri

FOR VALUE RECEIVED, the undersigned, M G P 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, 2004. 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 Line of Credit Loan Agreement of even date herewith, as amended pursuant to that certain First Amendment to Line of Credit Loan Agreement dated September 17, 2004, by and between Borrower and Bank (as previously amended, the "Loan Agreement").

This First Amended and Restated Line of Credit Note shall bear interest at the per annum rates as set forth in the Loan Agreement. Accrued interest shall be paid on

the days provided therefore in the Loan 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 acceleration or otherwise), this First Amended and Restated Line of Credit Note shall bear interest at 3% in excess of the Prime Rate (as that term is defined in the Loan Agreement), and if not paid monthly, such interest shall be compounded monthly.

So long as the Loan Agreement has not been terminated, Borrower may, from the date of this First Amended and Restated Line of Credit Note until and including November 30, 2004, borrow, repay and reborrow sums, at any one time outstanding, not to exceed \$15,000,000. 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 First Amended and Restated Line of Credit Note or the Loan Agreement or affect the validity of any payment with respect thereto.

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

This First Amended and Restated Line of Credit Note is issued pursuant to the terms of the Loan Agreement, to which Loan 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.

3

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

M G P INGREDIENTS, INC.

By: /s/ Brian T. Cahill

Title: CFO

By: /s/ Ladd M. Seaberg

Title: President and CEO

4

PROMISSORY NOTE

September 24, 2004
(Date)

FOR VALUE RECEIVED, **MGP Ingredients, Inc.**, a corporation located at the address stated below ("Maker") promises, jointly and severally if more than one, to pay to the order of **GE Capital Public Finance, Inc.** or any subsequent holder hereof (each, a "Payee") at its office located at **16479 Dallas Parkway #300, Addison, TX 75001-2512** or at such other place as Payee or the holder hereof may designate, the principal sum of **Nine million seven hundred ninety-four thousand five hundred and no/100 Dollars (\$9,794,500.00)**, with interest on the unpaid principal balance, from the date hereof through and including the dates of payment, at a fixed, simple interest rate of Five and 26/100 percent (5.26%) per annum, to be paid in lawful money of the United States, in Eighty-four (84) consecutive monthly installments of principal and interest as follows:

<u>Periodic Installment</u>	<u>Amount</u>
83 @ \$	139,777.14

each ("Periodic Installment") and a final installment which shall be in the amount of the total outstanding principal and interest. The first Periodic Installment shall be due and payable on November 1, 2004 and the following Periodic Installments and the final installment shall be due and payable on the same day of each succeeding period (each, a "Payment Date"). All payments shall be applied first to interest and then to principal. The acceptance by Payee of any payment which is less than payment in full of all amounts due and owing at such time shall not constitute a waiver of Payee's right to receive payment in full at such time or at any prior or subsequent time. Interest shall be calculated on the basis of a 365 day year (366 day leap year). The payment of any Periodic Installment after its due date shall result in a corresponding decrease in the portion of the Periodic Installment credited to the remaining unpaid principal balance. The payment of any Periodic Installment prior to its due date shall result in a corresponding increase in the portion of the Periodic Installment credited to the remaining unpaid principal balance.

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

The obligations of Maker pursuant to this Note may be secured by a security agreement, chattel mortgage, pledge agreement or like instrument (each of which is hereinafter called a "Security Agreement").

Time is of the essence hereof. If any installment or any other sum due under this Note or any Security Agreement is not received within ten (10) days after its due date, the Maker agrees to pay, in addition to the amount of each such installment or other sum, a late payment charge of five percent (5%) of the amount of said installment or other sum, but

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

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

Prior to the first annual anniversary date of this Note: Three percent (3%)

Thereafter and prior to the second annual anniversary date of this Note: Two percent (2%)

Thereafter and prior to the third annual anniversary date of this Note: One percent (1%)

and zero percent (0%) thereafter, plus all other sums due hereunder or under any Security Agreement.

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

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

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

law) and diligence in collecting this Note or enforcing any of the security hereof and agrees to pay (if permitted by law) all expenses incurred in collection, including Payee's actual attorneys' fees. Maker and each Obligor agrees that fees not in excess of twenty percent (20%) of the amount then due shall be deemed reasonable.

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

3

This Note and any Security Agreement constitute the entire agreement of the Maker and Payee with respect to the subject matter hereof and supercedes all prior understandings, agreements and representations, express or implied

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

Any provision in this Note or any Security Agreement which is in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name: Brian T. Cahill

Title: CFO

Federal Tax ID #:

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

(Witness)

(Print name)

(Address)

4

MASTER SECURITY AGREEMENT

dated as of September 24, 2004 ("Agreement")

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

1. CREATION OF SECURITY INTEREST.

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

2. REPRESENTATIONS, WARRANTIES AND COVENANTS OF DEBTOR.

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

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

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

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

5

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

(e) The entry into, and performance by, Debtor of the Debt Documents will not (i) violate any of the organizational documents of Debtor or any judgment,

order, law or regulation applicable to Debtor, or (ii) result in any breach of or constitute a default under any contract to which Debtor is a party, or result in the creation of any lien, claim or encumbrance on any of Debtor's property (except for liens in favor of Secured Party) pursuant to any indenture, mortgage, deed of trust, bank loan, credit agreement, or other agreement or instrument to which Debtor is a party,

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

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

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

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

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

(k) The Collateral is, and will remain, free and clear of all liens, claims and encumbrances of any kind whatsoever, except for (i) liens in favor of Secured Party, (ii) liens for taxes not yet due or for taxes being contested in good faith and which do not involve, in the judgment of Secured Party, any risk of the sale, forfeiture or loss of any of the Collateral, and (iii) inchoate materialmen's, mechanic's, repairmen's and similar liens arising by operation of law in the normal course of business for amounts which are not delinquent (all of such liens are called "**Permitted Liens**"); and

(l) Debtor is and will remain in full compliance with all laws and regulations applicable to it including, without limitation, (i) ensuring that no person who owns a controlling interest in or otherwise controls Debtor is or shall be (Y) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("**OFAC**"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (Z) a person designated under Section 1(b), (c) or (d) of Executive Order

6

No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders, and (ii) compliance with all applicable Bank Secrecy Act ("**BSA**") laws, regulations and government guidance on BSA compliance and on the prevention and detection of money laundering violations.

3. COLLATERAL.

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

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

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

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

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

7

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

4. INSURANCE.

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

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

5. REPORTS.

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

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

8

6. FURTHER ASSURANCES.

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

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

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

7. DEFAULT AND REMEDIES.

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

(i) Debtor breaches its obligation to pay within 10 days of when due any installment or other amount due or coming due under any of the Debt Documents;

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

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

9

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

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

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

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

(viii) Debtor or any guarantor or other obligor for any of the Indebtedness (collectively "Guarantor") dissolves, terminates its existence, becomes insolvent or ceases to do business as a going concern;

(ix) If Debtor or any Guarantor is a natural person, Debtor or any such Guarantor dies or becomes incompetent;

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

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

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

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

(xiv) Debtor defaults under any other material obligation for (A) borrowed money, (B) the deferred purchase price of property or (C) payments due under any lease agreement.

(b) If Debtor is in default, the Secured Party, at its option, may declare any or all of the Indebtedness to be immediately due and payable, without demand or notice to Debtor or any Guarantor. The accelerated obligations and liabilities shall bear interest

(both before and after any judgment) until paid in full at the lower of eighteen percent (18%) per annum or the maximum rate not prohibited by applicable law.

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

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

(e) Debtor agrees to pay all reasonable attorneys' fees and other costs incurred by Secured Party in connection with the enforcement, assertion, defense or preservation of Secured Party's rights and remedies under this Agreement, or if prohibited by law, such lesser sum as may be permitted. Debtor further agrees that such fees and costs shall constitute Indebtedness.

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

SECURED PARTY. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

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

8. MISCELLANEOUS.

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

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

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

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

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

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

(g) THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CONNECTICUT (WITHOUT REGARD TO THE CONFLICT OF LAWS

PRINCIPLES OF SUCH STATE), INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, REGARDLESS OF THE LOCATION OF THE COLLATERAL.

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

SECURED PARTY:

GE Capital Public Finance, Inc.

By: _____

Name: Dean DeBroux

Title: Sr. Risk Manager

DEBTOR:

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name: Brian T. Cahill

Title: CFO

13

COLLATERAL SCHEDULE NO. 001

THIS COLLATERAL SCHEDULE NO. 001 is annexed to and made a part of that certain Master Security Agreement dated as of September 24, 2004 between GE Capital Public Finance, Inc., together with its successors and assigns, if any, as Secured Party and MGP Ingredients, Inc. as Debtor and describes collateral in which Debtor has granted Secured Party a security interest in connection with the Indebtedness (as defined in the Security Agreement) including without limitation that certain Promissory Note dated September 24, 2004 in the original principal amount of \$9,794,500.00.

<u>Quantity</u>	<u>Manufacturer</u>	<u>Serial Number</u>	<u>Year/Model and Type of Equipment</u>
-----------------	---------------------	----------------------	---

All of Debtors now owned and hereafter acquired equipment including, but not limited to, the equipment more specifically described below, and including all additions, attachments, accessories and accessions thereto, and any and all substitutions, replacements or exchanges therefor, and all insurance and/or other proceeds thereof by and between Debtor and Secured Party whether now owned or hereafter acquired.

1	Wenger Mfg.		Heinz Packaging Line: Cooler model 43400307, s/n: 987010746; Enrober model 34001-000, s/n: 9551-10216; 2 - Mettler Toledo, 2158-022023-A, Vertex, SS Tread 4'x4', 5K capacity Floor Scales, s/n: 1118777-1BE & 11187791BE; 2-38-300123, forklift channel frames, SS; 2 - LTHA-0800-000, Lynx Terminals, Harsh enclosure s/n: 53381215BE & 5338122-5BE; 2-0961-0086 Mettler Toledo, I/O box, Nema 4, w/5 Opto Boards s/n: 5337934-5BE, 5337934-5BE; R & M A2D-SSQ-AAA pump unit; Bulk Tank #2
1	Other Food Processing		Resin Packaging Line: stoker feeder hopper, bucket elevator, 54ST16 style 3 filter s/n: 51203-001-1 & 2; #12 straight blade fan s/n: 51203-002-1 & 2
1	Other Food Processing		Bulk Liquid Tank w/ control upgrade
1	Wenger Mfg.		TX144B Extrusion Line model TX144/ SS#HC/NCN/KF6B/LH/U, s/n: 12281-1; three pass cooler, incline conveyors, chlorophyll feeder, 2-tubular screw conveyors; pick-up hopper assembly, Wenger three pass belt cooler, barrel hardware and dies, comitrol processor model 3660 s/n: CP-2662
1	Wenger Mfg.		TX-57 Cooking Extrusion, Line model TX57/SS4HC/ACS /DDC2/F3/BS3, s/n: 12283-1; jump conveyor, 4800 dryer/cooler, liquid injection system, barrel components
1	Fitzpatrick Company		Shredded Wheatex Line: Fitzpatrick comminuting machine model SPV-FASO20-SSB s/n: 4363, scales & control package, safeline powerphase plus metal detector s/n: 66463, Lantech Q300 packaging system s/n:

14

			QM016478
1	Fitzpatrick Company		Wheatex 16 grinding/packaging line: tech pak series 4400 bulk bag filling system, series 30APD automatic pallet dispensing system, safeline model ZPMFZ 175 gravity flow metal detector, tech pak series 54 TurboScrew Dual Auger Bulk Packaging System safeline model ZPMFZ 175 gravity flow metal detector; Fitzpatrick comminuting machine model SPV-FASO20-SSB, s/n: 4366; Great Western Mfg. In-line tru-balance stainless steel pressure sifter model 611-3, s/n: 4568, safeline powerphase plus metal detector gravity feed model GF200, s/n: 65930; 4600R1211 Aero seal closer, 4600R1212 Aero seal closer; Horizon bulk bag s/n: C03M0091011
1	Wenger Mfg.		TX144C Extrusion Line: raw material mixing & handling system, vacuum conveying system, Wenger TX-144 extrusion cooker s/n: 12360-3; 3 - liquid injection systems, Wenger Serives VI, 1200 dryer/cooler s/n: 123606; Fitzpatrick Comminuting machine model SPV-FASO20-SSB, s/n: 4369; Great Western Mfg. in-line tru-balance stainless steel pressure-sifter model 611-2 s/n: 4589
1	Other Food Processing		Co-extrusion/packaging line: forced air cooling chamber, servo controls & coordination
1	Other Food Processing		KM650-4300 Injection Moldeing compounder, material dosing

1	Crown	9A104312	40FCTT	Lift truck
2	Nissan Manuf Co.		PE50Y	Forklift: s/n: 9C0398, 900400

Equipment immediately listed above is located at: 16 Kansas Ave., Kansas City, Wyandotte County, KS 66105

SECURED PARTY:

GE Capital Public Finance, Inc.

By: _____

Name: Dean DeBroux

Title: Sr. Risk Manager

DEBTOR:

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name: Brian T. Cahill

Title: CFO
Date: 9-24-2004

15

**ADDENDUM NO. 001
TO MASTER SECURITY AGREEMENT
DATED AS OF SEPTEMBER 24, 2004**

THIS ADDENDUM ("Addendum") effective as of September 24, 2004, amends and supplements (i) the above referenced agreement (the "**Agreement**"), between **GE Capital Public Finance, Inc.** (together with its successors and assigns, if any, "**Secured Party**") and **MGP Ingredients, Inc.** ("**Debtor**") and (ii) Collateral Schedule No. 001 to the Agreement (the "**Schedule**") and is hereby incorporated into the Agreement and the Schedule, as applicable, as though fully set forth therein. Capitalized terms not otherwise defined herein or for which other definitional references are not provided herein, shall have the meanings set forth in the Agreement.

1. The Agreement is hereby amended as follows:

- (a) The word "and" that appears at the end of Section 2(k) of the Agreement is hereby deleted.
- (b) The text "." at the end of Section 2(l) of the Agreement is hereby deleted and the text "; and" is hereby inserted in lieu thereof.
- (c) The following text is hereby inserted immediately following Section 2(l) of the Agreement:
 - (m) On or before March 31, 2005, Debtor shall grant Secured Party a first priority perfected security interest in all of Debtor's equipment (as defined in the applicable Uniform Commercial Code), whether now owned or hereafter acquired that is at any time located at the facility commonly known at 16 Kansas Avenue, Wyandotte County, Kansas, 66105, pursuant to documents that are in form and substance satisfactory to Secured Party.
- (d) The words "any of its obligations under Section 2(m) or" are hereby inserted after the words "Debtor breaches" in Section 7(a)(iii).

2. The Schedule is hereby amended as follows:

- (a) The first paragraph after both of the preamble of the Schedule and the column headings and immediately before the description of the Heinz Packaging Line is hereby deleted.
- (b) The following text is hereby inserted in the Schedule immediately after the description of the Nissan Forklift and immediately before the paragraph describing the equipment location:

16

"together with all additions, attachments, accessories and accessions of all of the foregoing, and any and all substitutions, replacements or exchanges therefor, and all insurance and/or other proceeds thereof, in each case, whether now owned or hereafter acquired."

3. EXCEPT AS EXPRESSLY AMENDED HEREBY, THE AGREEMENT AND THE SCHEDULE SHALL REMAIN IN FULL FORCE AND EFFECT.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment by signature of their respective authorized representative set forth below as of the 5th day of November 2004.

SECURED PARTY:

General Electric Capital Corporation

By: /s/ Craig D. Moody

Name: CRAIG D. MOODY

Title: RISK ANALYST

DEBTOR:

MGP Ingredients, Inc.

By: /s/ Brian T. Cahill

Name:

Title: CFO

17

Accountants' Acknowledgement

We acknowledge the incorporation by reference in the Registration Statements on Form S-8 (Registration No. 333-119860 and 333-51849) of MGP Ingredients, Inc. (Company) of our report dated November 2, 2004, included with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered part of the Registration Statement prepared or certified by us within the meaning of Sections 7 and 11 of the Act.

/s/ **BKD, LLP**

Kansas City, Missouri
November 2, 2004

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 9, 2004

/s/ Laidacker M. Seaberg

Laidacker M. Seaberg
President and Principal Executive Officer

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 quarterly report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 9, 2004

/s/ Brian Cahill

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

CERTIFICATION
OF
PERIODIC REPORT

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

(1) the Quarterly Report on Form 10-Q of the Company for the Quarterly Period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Dated: November 9, 2004

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

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

CERTIFICATION
OF
PERIODIC REPORT

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

(1) the Quarterly Report on Form 10-Q of the Company for the Quarterly Period ended September 30, 2004, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Dated: November 9, 2004

/s/ Brian T. Cahill

Brian T. Cahill

Vice President and Chief Financial Officer

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