# 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 March 31, 2010.**

**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** | **48-0531200** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **100 Commercial Street, Atchison Kansas** | **66002** |
| (Address of principal executive offices) | (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a "smaller reporting company, See definition of "large accelerated filer", "accelerated filer and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One)

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller Reporting Company ☒ |

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Common stock, no par value
16,673,075 shares outstanding
as of March 31, 2010

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**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as “intend,” “plan”, “believe,” “estimate,” “expect,” “anticipate,” “hopeful,” “should,” “may,” “will”, “could”, “encouraged”, “opportunities”, “potential” and/or the negatives of these terms or variations of them or similar terminology. They reflect management’s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) our ability to manage our cash flows, (ii) the ability to ramp up production and effectively operate the Illinois Corn Processing, LLC (“ICP”) joint venture, (iii) our ability to maintain compliance with all applicable loan agreement covenants, (iv) the availability and cost of grain and fluctuations in energy costs, (v) an increase in interest rates, (vi) disruptions in operations at our Atchison facility, (vii) competitive environment and related market conditions, (viii) our ability to realize operating efficiencies, (ix) the effectiveness of our hedging programs, (x) and actions of governments. For further information on these and other risks and uncertainties that may affect our business, see *Item 1A. Risk Factors* of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 and Item 1A. *Risk Factors* in Part II of this Quarterly Report.

**METHOD OF PRESENTATION**

All amounts in this quarterly report, except for share, per share, and per bushel amounts, are shown in thousands.

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**MGP INGREDIENTS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**
**Dollars in thousands, except per-share amounts**

| | Quarter Ended | | Year-to-Date Ended | |
|---|---|---|---|---|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 |
| **Net sales** | **$ 46,716** | $ 54,562 | **$ 138,472** | $ 226,824 |
| Cost of sales | **41,749** | 54,471 | **115,158** | 267,068 |
| **Gross profit (loss)** | **4,967** | 91 | **23,314** | (40,244) |
| Selling, general and administrative expenses | **5,075** | 5,067 | **14,675** | 16,919 |
| Other operating costs | **521** | 2,076 | **1,773** | 2,076 |
| Impairment of long lived assets | **—** | — | **—** | 8,931 |
| Severance and early retirement costs | **—** | — | **—** | 3,288 |
| Loss on joint venture formation | **—** | — | **3,047** | — |
| Gain on sale of assets | **—** | — | **(700)** | — |
| Other restructuring costs | **—** | — | **—** | 5,241 |
| **Income (loss) from operations** | **(629)** | (7,052) | **4,519** | (76,699) |
| Other income, net | **1** | 21 | **24** | 95 |
| Interest expense | **(280)** | (705) | **(1,606)** | (2,230) |
| Joint venture operations | **(1,541)** | (45) | **(1,439)** | (79) |
| **Income (loss) before income taxes** | **(2,449)** | (7,781) | **1,498** | (78,913) |
| Provision (benefit) for income taxes | **(195)** | (1,533) | **(4,764)** | (12,706) |
| **Net income (loss)** | **(2,254)** | (6,248) | **6,262** | (66,207) |
| Other comprehensive income (loss), net of tax: | **(4)** | (9) | **(1)** | (2,186) |
| **Comprehensive income (loss)** | **$ (2,258)** | $ (6,257) | **$ 6,261** | $ (68,393) |
| **Per Share Data** | | | | |
| Total basic earnings (loss) per common share | **$ (0.14)** | $ (0.38) | **$ 0.38** | $ (3.99) |
| Total diluted earnings (loss) per common share | **$ (0.14)** | $ (0.38) | **$ 0.37** | $ (3.99) |

See accompanying notes to the unaudited condensed consolidated financial statements

**MGP INGREDIENTS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Dollars in Thousands)**
**(Unaudited)**

| | March 31, 2010 | June 30, 2009 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | **$ 822** | $ 178 |
| Restricted cash | **810** | 203 |
| Receivables (less allowance for doubtful accounts): | | |
| March 31, 2010 - $209 and June 30, 2009 - $388 | **20,535** | 18,403 |
| Inventory | **15,386** | 20,400 |
| Prepaid expense | **2,904** | 980 |
| Deposits | **1,835** | 980 |
| Deferred income taxes | **639** | 1,218 |
| Refundable income taxes | **543** | 6,045 |
| Assets held for sale | **—** | 32,380 |
| **Total current assets** | **43,474** | 80,787 |
| Property and equipment, at cost | **163,899** | 163,345 |
| Less accumulated depreciation | **(106,211)** | (100,036) |
| **Property and equipment, net** | **57,688** | 63,309 |
| Investment in joint ventures | **14,393** | 238 |
| Other assets | **969** | 798 |
| **Total assets** | **$ 116,524** | $ 145,132 |
| Current Liabilities | | |
| Current maturities of long-term debt | **$ 696** | $ 3,147 |
| Liabilities related to assets held for sale | **—** | 2,725 |
| Revolving credit facility | **4,081** | 17,833 |
| Accounts payable | **10,765** | 19,864 |
| Accounts payable to affiliate, net | **3,676** | — |
| Accrued expenses | **6,457** | 5,976 |
| **Total current liabilities** | **25,675** | 49,545 |
| Long-term debt | **2,253** | 9,632 |
| Deferred credit | **5,596** | 6,190 |
| Accrued retirement benefits | **9,234** | 8,799 |
| Other non-current liabilities | **2,688** | 5,864 |
| Non-current deferred income taxes | **639** | 1,218 |
| **Total liabilities** | **46,085** | 81,248 |
| Stockholders' Equity | | |
| Capital stock | | |
| Preferred, 5% non-cumulative; $10 par value; authorized 1,000 shares; issued and outstanding 437 shares | **4** | 4 |
| Common stock | | |
| No par value; authorized 40,000,000 shares; issued 19,530,344 shares | **6,715** | 6,715 |
| Additional paid-in capital | **11,626** | 11,572 |
| Retained earnings | **68,953** | 62,690 |
| Accumulated other comprehensive income (loss) | **(2,313)** | (2,311) |
| Treasury stock, at cost | | |
| Common; March 31, 2010 – 2,857,269 shares and June 30, 2009 – 2,931,759 shares | **(14,546)** | (14,786) |
| **Total stockholders' equity** | **70,439** | 63,884 |
| **Total liabilities and stockholders' equity** | **$ 116,524** | $ 145,132 |

See accompanying notes to the unaudited condensed consolidated financial statements

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**MGP INGREDIENTS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Dollars in Thousands)**
**(Unaudited)**

| | Year-to-Date Ended March 31, 2010 | Year-to-Date Ended March 31, 2009 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) | **$ 6,262** | $ (66,207) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | **6,538** | 9,713 |
| Gain on sale of assets | **(700)** | (264) |
| Loss on joint venture formation | **3,047** | — |
| Loss on impairment of assets | **—** | 8,931 |
| Deferred income taxes | **—** | (7,210) |
| Joint venture operations loss | **1,439** | 79 |
| Changes in working capital items: | | |
| Restricted cash | **(607)** | (1,441) |
| Receivables | **(2,132)** | 13,031 |
| Inventory | **1,904** | 41,063 |
| Prepaid expenses | **(1,924)** | (1,376) |
| Accounts payable | **2,562** | (786) |
| Accounts payable to affiliate, net | **3,676** | — |
| Accrued expenses | **792** | 141 |
| Accrued natural gas derivative | **—** | 3,946 |
| Deferred credit | **(594)** | (643) |
| Income taxes payable / refundable | **5,501** | 2,315 |
| Accrual for retirement benefits and other non-current liabilities | **(2,741)** | 2,686 |
| Gains previously deferred in other comprehensive income | **—** | (2,149) |
| Other | **(748)** | (417) |
| **Net cash provided by operating activities** | **22,176** | 1,412 |
| Cash flows from investing activities | | |
| Additions to property and equipment | **(199)** | (2,057) |
| Investment in/advances to joint ventures | **(1,213)** | — |
| Proceeds from sale of interest in joint ventures | **13,951** | — |
| Proceeds from disposition of property and equipment | **4,163** | 694 |
| **Net cash provided by (used in) investing activities** | **16,702** | (1,363) |
| Cash flows from financing activities | | |
| Purchase of treasury stock | **—** | (34) |
| Proceeds from stock plans | **—** | 12 |
| Exercise of stock options | **221** | — |
| Loan fees incurred with borrowings | **(229)** | — |
| Tax effect of restricted stock awarded | **—** | (40) |
| Proceeds from long-term debt | **2,032** | 2,150 |
| Principal payments on long-term debt | **(26,201)** | (2,810) |
| Proceeds from revolving line of credit | **153,916** | 98,940 |
| Principal payments on revolving line of credit | **(167,973)** | (97,764) |
| **Net cash provided by (used in) financing activities** | **(38,234)** | 454 |
| Increase in cash and cash equivalents | **644** | 503 |
| Cash and cash equivalents, beginning of year | **178** | — |
| Cash and cash equivalents, end of period | **$ 822** | $ 503 |

See accompanying notes to the unaudited condensed consolidated financial statements

**MGP INGREDIENTS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollars in thousands, unless otherwise noted)**

**Note 1. Accounting Policies and Basis of Presentation.**

Basis of Presentation

The accompanying condensed consolidated financial statements of MGP Ingredients, Inc. and its subsidiaries ("MGPI" or the "Company") reflect all adjustments (consisting only of normal adjustments) which, in the opinion of the Company's management, are necessary to fairly present the financial position, results of operations and cash flows of the Company. These unaudited condensed consolidated financial statements as of and for the period ended March 31, 2010 should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-K Annual Report for the fiscal year ended June 30, 2009 filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

*Use of Estimates*

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

*Impairment*

The Company tests its long-lived assets for impairment whenever events or conditions and circumstances indicate a carrying amount of an asset may not be recoverable. No events or conditions occurred during the quarterly period ended March 31, 2010 that required the Company to perform a test of its long-lived assets for impairment.

During the first three quarters of fiscal 2009, declines in overall equity values, including the common stock value, and changes in the Company's operations triggered impairment evaluations, which required considerable management judgment. The testing and analysis identified certain impaired assets (see Note 11 *Fiscal Year* 2009 *Restructuring Costs and Loss on Impairment of Assets*).

*Out-of-Period Adjustments*

During the second quarter of fiscal 2010, management performed a detailed analysis of the accounts payable balance. This analysis indicated certain transactions recorded in the prior fiscal year had been either duplicated or otherwise erroneously recorded. After analysis, the Company determined certain recorded amounts were not owed and adjusted the accounts payable balance in the second quarter to correct this situation.

The impact of the correcting adjustment increased reported pretax income for the year-to-date period ended March 31, 2010 by approximately $1,351. Cost of sales was favorably impacted by $733, and the results of joint venture operations was improved by $618. Management does not believe the impact of this out of period adjustment materially impacts the fair presentation of the Company's operating results or financial condition for the periods impacted.

*Recently Issued Accounting Pronouncements*

*Accounting Standards Codification* — In June 2009, the Financial Accounting Standards Board ("FASB") issued a standard that established the FASB Accounting Standards Codification (the "ASC"), which effectively amended the hierarchy of U.S. generally accepted accounting principles ("GAAP") and established only two levels of GAAP, authoritative and nonauthoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the ASC became nonauthoritative. The ASC was intended to provide access to the authoritative guidance related to a particular topic in one place. New guidance issued subsequent to June 30, 2009 will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We adopted and applied the provisions of the ASC for our first fiscal quarter ended September 30, 2009, and have eliminated references to pre-ASC accounting standards throughout our consolidated financial statements. Our adoption of the ASC did not have a material impact on our consolidated financial statements.

*Consolidation of Variable Interest Entities* — In June 2009, the FASB issued new guidance on the consolidation of variable interest entities ("VIE") in response to concerns about the application of certain key provisions of pre-existing guidance, including those regarding the transparency of the involvement with a VIE. Specifically, this new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, this new guidance requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. This new guidance is effective for fiscal years beginning after November 15, 2009. We plan to adopt the new guidance on July 1, 2010 and do not expect adoption to have a material impact on our consolidated financial statements.

*Transfers of Financial Assets* — In June 2009, the FASB issued new guidance on accounting for transfers of financial assets which eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance is effective for fiscal years beginning after November 15, 2009. We plan to adopt the new guidance on July 1, 2010 and do not expect adoption to have a material impact on our consolidated financial statements.

**Note 2. Indebtedness.**

The Company paid $6,267 to Central Illinois Light Company ("CILCO") on November 20, 2009. This payment satisfied all of the Company's obligations to CILCO under a promissory note dated August 14, 2009. The Company has secured a release of the related mortgage previously held by CILCO on the alcohol production facility in Pekin, Illinois held by CILCO.

The Company paid $2,811 to Exchange National Bank ("Exchange") on November 20, 2009. This payment satisfied all of the Company's obligations to Exchange under a promissory note dated April 15, 2009. The Company has secured releases of the mortgages held by Exchange on the Pekin plant and on the Company headquarters leasehold interest.

On November 20, 2009, the Company's other lenders holding liens on the Pekin plant property, Wells Fargo Bank, National Association, and the Cloud L. Cray, Jr. Trust, also released their liens on the Pekin plant property in connection with the consummation of the formation of the joint venture (See Note 3. *Formation of Joint Venture*).

On December 21, 2009, the Company paid $2,102 to the Cray Trust in full payment of all amounts remaining due on its note to the Cray Trust and obtained release of the related lien on the Atchison plant.

On December 21, 2009, the Company paid $450 to Union Pacific Corporation ("UPC") in full payment of its note to UPC.

On January 27, 2010, the Company paid $2,147 to GE Capital Public Finance in full satisfaction of its September 24, 2004 promissory note to GE Capital and obtained release of the related lien on the equipment at the Kansas City plant.

On February 2, 2010, the Company paid $1,137 to Commerce Bank, N.A ("Commerce") in full payment of its 5.45% secured promissory note to Commerce and obtained release of the related lien on its aircraft.

On February 15, 2010, the Company granted Wells Fargo Bank, National Association, a leasehold mortgage relating to its executive office building and technical center in Atchison and pledged the related industrial revenue bonds issued by the City of Atchison and held by the Company as additional security for its obligations under its revolving credit facility.

On February 24 and 25, 2010, the Company made payments to the Union State Bank - Bank of Atchison ("Bank") satisfying all outstanding obligations under its note dated March 31, 2009 to the Bank and obtained release of a related mortgage on its Onaga plant and former flour mill. The aggregate amount paid was $1,546.

*Line of Credit*

The amount of borrowings which the Company may make under the credit agreement is subject to borrowing base limitations. As of March 31, 2010, the outstanding borrowings under this facility were $4,081, and $20,454 was available for additional borrowings. The borrowing base is the lesser of the maximum line amount or an amount based on specified percentages of eligible accounts receivable and inventories less specified reserves. The lender has discretion under the Credit Agreement to change the manner in which the borrowing base is determined, such as altering the advance rates applicable to accounts receivable and inventory or changing reserve amounts.

**Note 3. Formation of Joint Venture.**

MGPI completed a series of related transactions on November 20, 2009 pursuant to which MGPI contributed its Pekin plant and certain maintenance and repair materials to a newly-formed company, Illinois Corn Processing, LLC ("ICP"), and then sold 50% of the membership interest in ICP to Illinois Corn Processing Holdings, LLC ("ICPH"), an affiliate of SEACOR Energy Inc., for proceeds of $15,000, less closing costs of $1,049. Another affiliate of SEACOR Energy Inc., provided funding to ICP through two loans secured by all the assets of ICP, including the Plant, but which are non-recourse to MGPI. ICP reactivated distillery operations at the Pekin facility during the third quarter of fiscal 2010. MGPI markets food grade alcohol products manufactured by ICP, and SEACOR Energy Inc. markets fuel ethanol products manufactured by ICP. In connection with these transactions, MGPI entered into the following agreements:

1) Contribution Agreement**.** MGPI and ICP entered into a Contribution Agreement dated November 20, 2009 pursuant to which MGPI contributed the Pekin plant to ICP at an agreed value of $30,000, consisting of land and fixed assets valued at $29,063 and materials and supply inventory valued at $937.

2) LLC Interest Purchase Agreement. MGPI and ICPH entered into an LLC Interest Purchase Agreement dated November 20, 2009 (the "IPA") pursuant to which ICPH acquired 50% of the membership interest in ICP for a purchase price of $15,000. The IPA also provides ICPH with the option to purchase up to an additional 20% of the membership interest in ICP at any time between the second and fifth anniversary of the closing date for a fixed price. The LLC Agreement contains additional buy-sell provisions.

3) LLC Agreement. MGPI and ICPH entered into a Limited Liability Company Agreement dated November 20, 2009 (the "LLC Agreement"). Pursuant to the LLC Agreement, MGPI and ICPH each have 50% of the voting and equity interests in ICP. Day to day management of ICP is retained by the members. The LLC Agreement also provides for the creation of an advisory board consisting of three advisors appointed by MGPI and three advisors appointed by ICPH. ICP's limited liability company agreement gives either member certain rights to shut down the plant if it operates at a loss. Such rights are conditional in certain instances but absolute if losses aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500.

4) Marketing Agreements. MGPI and ICP entered into a Marketing Agreement dated November 20, 2009, pursuant to which ICP will manufacture and supply food-grade alcohol products for MGPI and MGPI will purchase, market and sell such products for a marketing fee. The Marketing Agreement provides that MGPI will share margin realized from the sale of the products under the agreement with ICP. The Marketing Agreement has an initial term of one year but automatically renews for one year terms thereafter, subject to specified exceptions. SEACOR Energy Inc. has entered into a similar agreement with ICP with respect to the marketing of ethanol. The parties have suspended the margin sharing arrangements under their marketing agreements with ICP during the startup of operations at the Pekin plant so that ICP may retain more margin during such period.

The LLC Agreement permits MGPI to pledge its interest in ICP to secure MGPI's obligations under its credit facility with Wells Fargo Bank, National Association, and MGPI has done so as of November 20, 2009.

The Contribution Agreement and the LLC Interest Purchase Agreement require MGPI to indemnify ICP and ICPH from and against any damages or liabilities arising from a breach of MGPI's representations and warranties in the Contribution Agreement and the IPA and also with respect to certain environmental damages or liabilities related to the recommencement of production at the Pekin plant or to operations at the Pekin plant prior to the closing. The amount of damages, with the exception of taxes and environmental matters, is limited to a maximum of $30 million.

MGPI recognized a pre-tax charge of $3,047 in the second quarter of the current fiscal year related to the completion of these transactions that has been included in MGPI's Condensed Consolidated Statements of Cash Flows as "Loss on joint venture formation". The charge consists of $1,998 to adjust the book value of the Pekin plant balance sheet assets contributed to the joint venture to the implied value and $1,049 for professional fees associated with the transaction.

On January 29, 2010, ICP purchased a boiler for approximately $5,000. MGPI and ICPH each contributed $1,000 to acquire this asset and will fund the balance of the purchase price equally over the next two years. ICP began production at the Pekin facility during the third quarter of fiscal 2010.

**Note 4. Sale of Facilities.**

On August 21, 2009, the Company sold its Kansas City, Kansas, facility for proceeds of $3,585, less closing costs, with potential additional payments based on the buyer's income from sales of the Company's existing products to the Company's existing customers over the next three years ending July 31, 2012 with the final potential amount payable November 1, 2010. The sale included all equipment used for the production and packaging of pet-related products, which principally include extruded plant-based resins and finished pet treats. The Company retained ownership of equipment that is used for the production of our Wheatex® textured wheat proteins, which are sold for use in meat extension and vegetarian product applications. This equipment is located in a separate section of the facility that has been leased to the Company for a period of three years ending August 20, 2012 and is operated by a subsidiary of the buyer under a toll manufacturing arrangement. In connection with the sale of the Kansas City, Kansas facility, liabilities related to these assets held for sale as of June 30, 2009, totaling $2,725, were paid with the sale proceeds.

On December 23, 2009, the Company sold certain assets from its flour mill facility in Atchison, Kansas for proceeds of $500. A gain of $500 was recorded for this sale. In addition, the Company recognized a gain of $200 during the first quarter of the current fiscal year for sales of certain other assets. The gains have been included in the Company's Condensed Consolidated Statements of Cash Flows as "Gain on sale of assets".

**Note 5. Earnings Per Share.**

Basic earnings per share data is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Potentially dilutive instruments are stock options and unvested restricted stock awards.

| | Quarter Ended | | Year-to-Date | |
|---|---|---|---|---|
| **Weighted average shares:** | **March 31, 2010** | **March 31, 2009** | **March 31, 2010** | **March 31, 2009** |
| Basic and Diluted Shares: | **16,673,075** | 16,598,582 | **16,649,073** | 16,580,969 |
| Additional weighted average shares attributable to: | | | | |
| Stock options: | **—(1)** | —(1) | **8,106** | —(1) |
| Unvested restricted stock awards: | **—(1)** | —(1) | **346,483** | —(1) |
| Potentially Diluted Shares | **16,673,075** | 16,598,582 | **17,003,662** | 16,580,969 |

(1) The stock options and the restricted stock awards were not dilutive due to the loss experienced in this period.

**Note 6. Commitments.**

The Company purchases its corn requirements for its Atchison plant through a single elevator company. If the Company fails to purchase at least 13 million bushels each 12 months, it must pay the elevator company $0.03 per bushel for each bushel less than 13 million purchased. The elevator company may terminate if the Company fails to purchase the specified minimums, in which case the Company would be obligated to pay the elevator company $260 plus the costs incurred by the elevator company in contracting with a different customer for the delivery of corn. Based on purchased bushels to date, the Company is currently compliant with the above requirements.

Beginning in the quarter ended December 31, 2008, the Company entered into a supply contract for flour with ConAgra Mills ("ConAgra") whereby they are supplying our wheat flour requirements for use in the production of protein and starch ingredients. As a result, the Company no longer purchases wheat directly. The initial term of the agreement, as amended, expires October 23, 2015.

**Note 7. Derivative Instruments and Fair Value Measurements.**

***Derivative Instruments.*** In connection with the purchase of raw materials, principally flour, corn and natural gas, for anticipated operating requirements, the Company enters into readily marketable exchange-traded derivative instruments in the form of commodity futures and option contracts consistent with our established risk management policies.

Certain commodities the Company uses in its production process are exposed to market price risks due to volatility in the prices for those commodities. Currently, the Company uses derivative instruments to reduce the risk. Periodically, the Company manages its exposure through a combination of long-term contracts with suppliers and exchange traded commodity futures and option contracts. Derivative instruments are recorded as either assets or liabilities and are measured at fair market value with any changes in fair value being marked to market as a component of cost of sales in the Condensed Consolidated Statements of Income. Since these derivatives are not accounted for as hedges, fluctuations in the related commodity prices could have a material impact on earnings in any given period. The Company recorded both a realized and unrealized loss of $590 for the quarter ended March 31, 2010 which is included in cost of goods sold.

***Fair Value Measurements.*** The Company applies the provisions of the Fair Value Measurement and Disclosures Topic of the FASB ASC for our financial and non-financial assets and liabilities which the Company has recognized or disclosed at fair value on a recurring basis. The Fair Value Measurement and Disclosures Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Topic also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

- Level 1—quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.
- Level 2—observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3—unobservable inputs for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2010 and June 30, 2009.

| | Classified | Fair Value Measurements | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **March 31, 2010** | | | | | |
| **Assets** | | | | | |
| Corn Derivatives | Inventory | $ 507 | $ 507 | $ — | $ — |
| **June 30, 2009** | | | | | |
| **Liabilities** | | | | | |
| Corn Derivatives | Inventory | $ 268 | $ 268 | $ — | $ — |

**Note 8. Contingencies.**

The Company is a party to various legal proceedings which are of an ordinary, routine nature and incidental to its operations. Management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or operations of the Company.

**Note 9. Operating Segments.**

The Company's operations are classified into three reportable segments: ingredient solutions, distillery products and other. Ingredient solutions consist of specialty starches and proteins, commodity starch and commodity vital wheat gluten. Mill by-products, consisting primarily of mill feeds or "midds," have also been included in this segment but have been discontinued with the shutdown of our wheat flour milling operations at the Atchison, Kansas plant in the second quarter of fiscal 2009. The distillery products segment consists of food grade alcohol, along with fuel grade alcohol, commonly known as ethanol, and distillers feed, which are co-products of our distillery operations. The other products segment comprises plant-based polymers and composites manufactured through the further processing of certain of our proteins and starches and wood particles. For the quarter and year-to-date period ended March 31, 2010, revenues from products in the other segment represent less than 2.0 percent of the Company's consolidated revenues. As noted in Note 11, during the second quarter of fiscal 2009 the Company closed the flour mill at the Atchison facility and ceased protein and starch production operations at its Pekin, Illinois plant. Other than the production of fuel alcohol as a co-product of high quality alcohol, the Company ceased production of fuel alcohol in the third quarter of fiscal 2009. As discussed in Note 3 *Formation of Joint Venture*, during the third quarter of fiscal 2010, ICP began to manufacture and supply food-grade alcohol products for us, and we began to purchase, market and sell such products.

The operating profit for each segment is based on net sales less identifiable operating expenses directly attributable to each segment. Indirect selling, general and administrative as well as interest expense, investment income and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate, consistent with the measurements used to evaluate segment performance internally. Receivables, inventories and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

| (in thousands) | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 | Year-to-Date Ended March 31, 2010 | Year-to-Date Ended March 31, 2009 |
|---|---|---|---|---|
| Sales to Customers | | | | |
| Ingredient solutions | **$ 14,115** | $ 16,266 | **$ 44,298** | $ 64,618 |
| Distillery products | **31,999** | 37,263 | **92,326** | 158,378 |
| Other | **602** | 1,033 | **1,848** | 3,828 |
| Total | **46,716** | 54,562 | **138,472** | 226,824 |
| Depreciation and amortization | | | | |
| Ingredient solutions | **572** | 665 | **1,732** | 2,358 |
| Distillery products | **1,086** | 1,783 | **3,277** | 5,986 |
| Other | **61** | 62 | **184** | 184 |
| Corporate | **421** | 377 | **1,345** | 1,185 |
| Total | **2,140** | 2,887 | **6,538** | 9,713 |
| Income (Loss) before Income Taxes | | | | |
| Ingredient solutions | **2,183** | 1,415 | **7,240** | (8,128) |
| Distillery products | **1,975** | 41 | **12,815** | (28,282) |
| Other | **29** | (162) | **124** | 74 |
| Corporate | **(6,115)** | (6,969) | **(14,561)** | (17,564) |
| Impairment of long lived assets | **—** | — | **—** | (8,931) |
| Severance and early retirement costs | **—** | — | **—** | (3,288) |
| Loss on joint venture formation | **—** | — | **(3,047)** | — |
| Gain on sale of assets | **—** | — | **700** | — |
| Other restructuring costs | **(521)** | — | **(1,773)** | (5,241) |
| Unrealized loss on natural gas contract | **—** | (2,106) | **—** | (7,553) |
| Total | **$ (2,449)** | $ (7,781) | **$ 1,498** | $ (78,913) |

For purposes of comparative analysis, the impairment of long lived assets, severance and early retirement costs, loss on joint venture formation, gain on sale of assets and other restructuring costs realized during the quarters and year-to-date periods ended March 31, 2010 and 2009 have been excluded from segments. Indirect selling, general and administrative, interest expense, investment income and other general miscellaneous expenses are excluded from segment operations and classified as Corporate.

| | March 31, 2010 | June 30, 2009 |
|---|---|---|
| Identifiable Assets | | |
| Ingredient solutions | **$ 33,612** | $ 36,204 |
| Distillery products | **49,619** | 56,535 |
| Other | **1,983** | 1,873 |
| Assets held for sale | **—** | 32,380 |
| Corporate | **31,310** | 18,140 |
| Total | **$ 116,524** | $ 145,132 |

**Note 10. Pension and Post Retirement Benefit Obligations.**

**Post Retirement Benefits.** The Company and its subsidiaries provide certain post-retirement health care and life benefits to all employees. The liability for such benefits is unfunded. The Company uses a June 30 measurement date for the plan.

The components of the Net Periodic Benefit Cost for the quarter and year-to-date periods ended March 31, 2010 and March 31, 2009, respectively, are as follows:

| | Quarter Ended | | Year-to-Date Ended | |
|---|---|---|---|---|
| **(in thousands)** | **March 31, 2010** | **March 31, 2009** | **March 31, 2010** | **March 31, 2009** |
| Service cost | **$ 62** | $ 75 | **$ 186** | $ 225 |
| Interest cost | **135** | 124 | **405** | 372 |
| Prior service cost | **(9)** | (9) | **(27)** | (27) |
| (Gain) loss | **17** | 5 | **51** | 15 |
| Total post-retirement benefit cost | **$ 205** | $ 195 | **$ 615** | $ 585 |

The Company previously disclosed in its financial statements for the year ended June 30, 2009, amounts expected to be paid to plan participants. There have been no revisions to these estimates and there have been no changes in the estimate of total employer contributions expected to be made for the fiscal year ended June 30, 2010.

Total employer contributions for the quarter and year-to-date periods ended March 31, 2010 were $70 and $104, respectively.

**Pension Benefits.** The Company and its subsidiaries provide defined retirement benefits to certain employees covered under collective bargaining agreements. Under the collective bargaining agreements, the Company's pension funding contributions are a function of the wages paid and are determined as a percentage of wages paid. The funding is divided between the defined benefit plan and a 401(k) plan. It has been management's policy to fund the defined benefit plan in accordance with the collective bargaining agreement. The collective bargaining agreements allow the plan's trustees to change the pension plan to allow benefits to match funding, including reductions in benefits. The Company uses a June 30 measurement date for the plan.

The components of the Net Periodic Benefit Cost for the quarter and year-to-date periods ended March 31, 2010 and March 31, 2009, respectively, are as follows:

| (in thousands) | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 | Year-to-Date Ended March 31, 2010 | Year-to-Date Ended March 31, 2009 |
|---|---|---|---|---|
| Service cost | **$ 152** | $ 141 | **$ 456** | $ 423 |
| Interest cost | **58** | 49 | **174** | 147 |
| Expected return on plan assets | **(42)** | (44) | **(126)** | (132) |
| Prior service cost | **6** | 6 | **18** | 18 |
| Recognition of net loss(gain) | **21** | 4 | **63** | 12 |
| Total pension benefit cost | **$ 195** | $ 156 | **$ 585** | $ 468 |

The Company has made employer contributions of $405 for the year-to-date period ended March 31, 2010, all of which were paid in the quarter ended September 30, 2009.

**Note 11. Fiscal Year 2009 Restructuring Costs and Loss on Impairment of Assets.**

In response to the losses incurred during fiscal 2009, actions were taken in the second quarter of fiscal year 2009 in an effort to return the Company to profitability. These actions included significant changes to operations in the Company's Atchison and Pekin facilities. As a result of these actions, restructuring costs and loss on impairment of assets for the year-to-date period ending March 31, 2009 were as follows:

| | Total |
|---|---|
| Impairment of long lived assets | $ 8,931 |
| Severance and early retirement costs | 3,288 |
| Other restructuring costs | 5,241 |
| Total | $ 17,460 |

On October 20, 2008 the Company announced that it had signed a non-binding letter of intent to acquire its flour requirements from a third party, was ceasing operations at its flour mill in Atchison, Kansas and was reducing its workforce. The Company's decision to close its flour mill was due to the fact that it could no longer produce flour for its own use at costs that were competitive with those of third party producers. As a result of this action, the Company performed an impairment analysis and recorded a $2,831 non-cash impairment charge related to the flour mill assets in the Condensed Consolidated Financial Statements.

On November 5, 2008, the Company announced plans to cease protein and starch production operations at its Pekin, Illinois plant, effective November 12, 2008. The majority of the Pekin facility's protein and starch production consisted of gluten and commodity starches. As a result of the shutdown, the Company performed an impairment analysis and recorded a $4,960 non-cash impairment charge related to the Pekin protein and starch assets.

As a result of the closure of the Company's flour mill and the protein and starch operations at its Pekin plant, the Company also incurred $3,288 in severance and early retirement costs. Activity related to the restructuring costs was as follows:

| (in thousands) | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 | Year-to-Date Ended March 31, 2010 | Year-to-Date Ended March 31, 2009 |
|---|---|---|---|---|
| Balance at beginning of period | **$ 1,284** | $ 2,776 | **$ 1,791** | $ 3,288 |
| Provisions for severance and early retirement costs | **186** | 74 | **186** | 74 |
| Payments and adjustments | **(169)** | (945) | **(676)** | (1,457) |
| Balance at end of period | **$ 1,301** | $ 1,905 | **$ 1,301** | $ 1,905 |

On January 29, 2009, the Company temporarily shut down its Pekin, Illinois plant. Management performed an impairment analysis of the equipment used in the production of personal care products and recorded a $329 non-cash impairment charge in the Condensed Consolidated Financial Statements.

At the end of the third quarter of fiscal 2008 the Company concluded that its pet business assets in the other segment and certain of its ingredient solutions segment assets in a mixed use facility in Kansas City, Kansas at which the Company's pet treat resins were made were impaired. At that time, the Company recorded a non-cash impairment charge of $8,100 in its Condensed Consolidated Financial Statements. For the period ended December 31, 2008, the Company performed another test for impairment of these assets as the result of an appraisal resulting in a further charge of $811.

Other restructuring costs of $5,241 in fiscal year 2009 included $2,925 related to lease termination costs as a result of the flour mill closure, with respect to rail cars which it formerly used to transport flour and whose leases expire through 2013. The Company recognized this expense because it no longer utilized these cars in its business. Expected payments accrued reflect the net present value of the remaining obligation net of units which were estimated to be returned to the lessor or assigned to others sooner than the lease termination date. The discount rate used was 6.4 percent and was based on the Company's borrowing costs at December 31, 2008. Other restructuring costs in fiscal 2009 also included a $2,185 net loss resulting from sales of excess wheat no longer needed for milling operations. Activity related to the restructuring costs was as follows:

| (in thousands) | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 | Year-to-Date Ended March 31, 2010 | Year-to-Date Ended March 31, 2009 |
|---|---|---|---|---|
| Balance at beginning of period | **$ 2,037** | $ 2,925 | **$ 2,380** | $ 5,241 |
| Provisions for other restructuring costs | **—** | — | **—** | — |
| Payments and adjustments | **(269)** | (249) | **(612)** | (2,565) |
| Balance at end of period | **$ 1,768** | $ 2,676 | **$ 1,768** | $ 2,676 |

**Note 12. Assets Held for Sale.**

During fiscal 2008, the Company committed to a plan to sell its mixed use facility in Kansas City, Kansas. As noted in Note 4. *Sale of Facilities*, the Company sold this facility on August 21, 2009.

During fiscal 2009, the Company temporarily discontinued distillery operations at its Pekin, Illinois facility. As noted in Note 3. *Formation of Joint Venture*, through a series of transactions the

Company entered into a joint venture and contributed the facility in Pekin to the newly formed company, ICP.

**Note 13. Investment in Joint Ventures.**

The Company's joint ventures that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Under the equity method of accounting, the joint venture company's accounts are not reflected within the Company's Condensed Consolidated Balance Sheets and Statements of Income; however, the Company's share of the earnings or losses of the joint venture companies are reflected in the caption "Joint venture operations" in the Condensed Consolidated Statements of Income. The Company's carrying value in equity method joint venture companies is reflected in the caption "Investment in Joint Ventures" in the Company's Condensed Consolidated Balance Sheets.

The Company's investments accounted for on the equity method of accounting consist of the following: (1) 50% interest in D.M. Ingredients, GmbH, which is engaged in production and tolling of a portion of the Wheatex® series of textured wheat proteins made from vital wheat gluten, and (2) 50% interest in ICP, which operates a distillery. The Company markets food grade alcohol products manufactured by ICP.

The combined results of operations and financial position of the Company's equity basis investments are summarized below:

| | Quarter Ended | | Year-to-date Ended | |
|---|---|---|---|---|
| | **March 31, 2010** | **March 31, 2009** | **March 31, 2010** | **March 31, 2009** |
| *Condensed income statement information:* | | | | |
| Net sales | **$ 12,429** | $ — | **$ 12,463** | $ — |
| Gross margin | **(1,397)** | — | **(1,363)** | — |
| Net loss | **(3,228)** | (90) | **(4,260)** | (158) |
| Joint venture operations * | **(1,541)** | (45) | **(1,439)** | (79) |
| | | | | |
| *Condensed balance sheet information:* | | | | |
| Current assets | **$ 16,548** | $ 264 | **$ 16,548** | $ 264 |
| Noncurrent assets | **32,482** | 283 | **32,482** | 283 |
| Total assets | **$ 49,030** | $ 547 | **$ 49,030** | $ 547 |
| | | | | |
| Current liabilities | **$ 9,358** | $ 27 | **$ 9,358** | $ 27 |
| Noncurrent liabilities | **11,054** | 3 | **11,054** | 3 |
| Equity | **28,618** | 517 | **28,618** | 517 |
| Total liabilities and equity | **$ 49,030** | $ 547 | **$ 49,030** | $ 547 |

* Note: Year-to-date information includes ($433) start-up costs of new joint venture and $618 reversal of over-accrued payables out of period, as discussed in Note 1.

**Note 14. Income Taxes.**

For the quarter ended March 31, 2010, we had an income tax benefit of $195 resulting in an effective rate of 8.0 percent. For the quarter ended March 31, 2009, our income tax benefit was $1,533 for an effective rate of 19.7 percent.

For the year-to-date period ended March 31, 2010, we had an income tax benefit of $4,764, resulting in an effective rate of 318.0 percent. For the year-to-date period ended March 31, 2009, our income tax benefit was $12,706 for an effective rate of 16.1 percent.

For the year-to-date period ended March 31, 2010, the effective rate differs from our statutory rate primarily due to changes in the federal and state valuation allowance and the benefit of a tax law change occurring during the second quarter. Under the Worker, Homeownership, and Business Assistance Act of 2009, which was enacted during the second quarter, we became eligible to carry back net operating losses generated in our fiscal year ended June 30, 2009 to our five preceding tax years, instead of the two years allowed under previous tax law. We filed a claim to carry an approximately $12,000 of additional net operating loss back. An income tax benefit of approximately $4,700 was recognized during the second quarter of fiscal 2010 related to this carryback claim. The cash refund associated with the carryback claim was received during January 2010.

The Internal Revenue Service has notified the Company that they will examine the 2009 tax year. Tax losses reported in this year were used in our carryback claim and the resulting refund of approximately $4,700 noted above.

Our valuation allowance as of March 31, 2010 is approximately $15,842. Management has determined that a valuation allowance was needed against federal and state deferred tax assets, consisting largely of net operating losses and credit carryforwards, that are not more likely than not of being realized.

Since the end of the fiscal year ended June 30, 2009, there has been no material change in our uncertain tax positions.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**
*(Dollars in thousands, except per-share amounts)*

**RESULTS OF OPERATIONS**

**GENERAL**

Reference is made to *Management's Discussion and Analysis of Financial Condition and Results of Operations—General,* incorporated by reference to Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 for certain general information about our principal products and costs.

Over the past several quarters we have made significant changes to our operations to improve profitability. We have refocused our business on the production of value-added ingredients and distillery products. We have realigned our production efforts and reduced excess inventories. With our temporary ceasing of production at our Pekin facility and its subsequent inclusion in a joint venture, we have produced reduced quantities of fuel grade alcohol as a co-product and, with the shutdown of our flour mill in Atchison in October 2008, we no longer sell mill feeds. Production of distillers feed has also decreased. As a result of these measures, revenues across all segments have declined from historic levels. However, compared to the same periods a year ago, we experienced an improvement in our profit performance, primarily due to our improved sales mix of value-added products, lower costs of raw materials and natural gas, and lower costs from restructuring as compared to the prior fiscal year.

As previously disclosed, in recent years market economics for ethanol have been volatile, and in the first quarter of last year we temporarily closed our Pekin plant. After exploring our strategic alternatives with respect to the plant, in November we completed a series of related transactions pursuant to which we contributed our Pekin plant to a newly-formed company, Illinois Corn Processing, LLC ("ICP"), and then sold 50% of the membership interest in ICP to Illinois Corn Processing Holdings LLC, ("ICPH"), an affiliate of SEACOR Energy Inc. ICP owns and operates the facility. We market beverage food grade alcohol products manufactured by ICP and SEACOR Energy Inc. markets fuel ethanol products manufactured by ICP.

By entering the joint venture arrangement with ICPH, we recovered a portion of our investment in the Pekin plant and enhanced our ability to supply our food grade alcohol customers with quality product. Although we retain some exposure to the volatility of the ethanol market through our investment in ICP, we have an opportunity to participate when the economics of that market are good, and we believe that the extent of our exposure to bad markets is significantly less than when we operated Pekin ourselves. Further, we have the ability, through the termination provisions in the limited liability company agreement, to limit our operating losses by causing ICP to shut down the plant if losses reach specified amounts.

For additional information regarding this transaction, see *Note 3. Formation of Joint Venture* included in Part I, Item 1, Financial Statements of this form 10-Q and incorporated herein by reference.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Reference is made to *Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies,* incorporated by reference to Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, for a discussion of our critical accounting policies and the use of certain judgments and estimates in the preparation of our financial statements.

**DEVELOPMENTS IN THE INGREDIENT SOLUTIONS SEGMENT**

In order to become more efficient and effective and to improve our results, we have refocused our business on the production and sale of value-added products. We believe the steps we have taken have enabled us to return to profitability in fiscal 2010 and be more competitive, while also allowing us to obtain financing that has enabled us to maintain operations.

By substantially exiting the commodity wheat gluten business and curtailing our commodity starch production, we have significantly reduced sales volumes of our lower margin protein and starch products. We continue to focus our manufacturing efforts on improving our consistency and capabilities for producing our higher-margin, specialty product lines. We are using an on-line Customer Relationship Management ("CRM") solution system that was implemented in fiscal 2009 to improve our ability to develop new sales of our product lines. Our commercialization functions are focused on increasing sales growth of our specialty products to the largest and most innovative producers of consumer packaged goods in the U.S.

**DEVELOPMENTS IN THE DISTILLERY PRODUCTS SEGMENT**

As previously mentioned in *Developments in the Ingredient Solutions Segment*, in order to become more efficient and effective and to improve our results, we have refocused our business on the production and marketing of value-added products. We significantly reduced production of fuel grade alcohol and temporarily shut down our Pekin plant on January 29, 2009. Consequently, food grade alcohol saw a decline in year-to-date production volume of 7.3 percent. However, the idling of Pekin had no effect on our food grade alcohol customers, as we are continuing to optimize food grade alcohol production capabilities at Atchison. Historically, we have produced a majority of all of our food grade alcohol at Atchison and a majority of all of our fuel grade alcohol at Pekin.

As previously mentioned in *Results of Operation — General,* one of the most important developments in the Distillery segment occurred in the second fiscal quarter, when we formed ICP and sold off a 50% ownership interest, as elsewhere described. ICP has allowed us to renew activity at the Pekin plant in a manner that utilizes the respective competencies of MGPI as a premier supplier of high quality food grade alcohol, and SEACOR Energy, Inc. as a leader in the energy and fuel markets. In addition to realizing $13.9 million, net of closing costs, of immediate value from a previously idle asset, the joint venture increases our available capacity of food grade alcohol.

ICP commenced production at the Pekin facility during the third quarter of fiscal 2010. The joint venture's efforts were hampered by winter weather in the first two months of the quarter, affecting the amount of alcohol available for delivery and sale. The plant became significantly more operational in March. As a result, it ended the quarter running closer to planned volumes.

During the quarter, operations at our Atchison facility were affected for approximately a week by an electrical supply disruption, which has since been corrected. This resulted in higher than normal fuel grade alcohol production until volumes could be restored.

On January 29, 2010, ICP purchased a boiler for approximately $5,000. The Company and ICPH each contributed $1,000 to acquire this asset and will fund the balance of the purchase price over the next two years.

**DEVELOPMENTS IN THE OTHER SEGMENT**

On August 21, 2009, we sold our Kansas City, Kansas, facility for $3,585, with potential additional payments based on the buyer's income from sales of our existing products to our existing customers over the next three years ending July 31, 2012. The sale included all equipment used for the production and packaging of pet-related products, which principally include extruded plant-based resins and finished pet treats. We retained ownership of equipment that is used for the production of our Wheatex® textured wheat proteins, which are sold for use in meat extension and vegetarian product applications. This equipment is located in a separate section of the facility that we have leased for a period of three years ending August 20, 2012 and which is operated by a subsidiary of the buyer under a toll manufacturing arrangement.

**SEGMENT RESULTS**

The following is a summary of revenues and pre-tax profits / (loss) allocated to each reportable operating segment for the quarterly and year-to-date periods ended March 31, 2010 and 2009. For additional information regarding our operating segments, see *Note 9. Operating Segments.* included under *Part 1, Item 1, Financial Statements* of this Form 10-Q and incorporated herein by reference.

| | Quarter Ended | | Year-to-Date Ended | |
|---|---|---|---|---|
| **(in thousands)** | **March 31, 2010** | **March 31, 2009** | **March 31, 2010** | **March 31, 2009** |
| **Ingredient solutions** | | | | |
| Net Sales | **$ 14,115** | $ 16,266 | **$ 44,298** | $ 64,618 |
| Pre-Tax Income (Loss) | **2,183** | 1,415 | **7,240** | (8,128) |
| **Distillery products** | | | | |
| Net Sales | **31,999** | 37,263 | **92,326** | 158,378 |
| Pre-Tax Income (Loss) | **1,975** | 41 | **12,815** | (28,282) |
| **Other** | | | | |
| Net Sales | **602** | 1,033 | **1,848** | 3,828 |
| Pre-Tax Income (Loss) | **(29)** | (162) | **125** | 74 |

**GENERAL**

Our consolidated earnings performance for the third quarter of fiscal 2010 improved compared to the same period in fiscal 2009 with a net loss of $2,254 on consolidated sales of $46,716 versus a net loss of $6,248 on consolidated sales of $54,562 during the same quarter of fiscal 2009. This decrease in net loss was primarily the result of significantly lower impairment, severance and restructuring costs than were recognized during fiscal 2009, significantly decreased cost of sales resulting primarily from lower grain costs as well as our improved sales mix of value-added products. Earnings in the ingredients solutions segment increased over the same period in fiscal 2009 primarily due to an improved sales mix of value-added proteins and starches, lower wheat and natural gas prices and temporary adjustments in the cost of raw materials. Earnings in our distillery products segment increased over the same period in fiscal 2009 due to our change in emphasis to value-added distillery products and a decrease in the average cost of natural gas. While improved, earnings were adversely affected by the short-term increase in fuel grade alcohol production resulting from an electrical supply disruption at our Atchison plant as well as start up costs at ICP. The decrease in sales and earnings in the other segment for quarter ended March 31, 2010 was mainly a result of exiting the business line for pet products.

Consolidated earnings for the year-to-date period ended March 31, 2010 increased significantly compared to the year-to-date period ended March 31, 2009 with net income of $6,262 on consolidated sales of $138,472 versus a loss of $66,207 on consolidated sales of $226,824 for the year-to-date period ended March 31, 2009. Earnings in the ingredients solutions segment increased over the same period in fiscal 2009 primarily due to an improved sales mix of value-added proteins and starches, lower wheat and natural gas prices and temporary adjustments in the cost of raw materials.  Earnings in our distillery products segment increased over the same period in fiscal 2009 due primarily to our change in emphasis to value-added distillery products. The decrease in sales and earnings in the other segment for the year-to-date period ended March 31, 2010 was mainly a result of exiting the business line for pet products.

**INGREDIENT SOLUTIONS**

Total ingredient solutions sales revenue for the quarter ended March 31, 2010 decreased by $2,151, or 13.2 percent, compared to the quarter ended March 31, 2009.  Revenues for commodity proteins and commodity starch decreased by $850 and $604, respectively, for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. Commodity proteins and starch products with lower margins were significantly reduced as a part of management's strategy to focus on higher-margin, value-added products. Revenues for specialty proteins for the quarter ended March 31, 2010 increased $202, or 3.9 percent, over the quarter ended March 31, 2009, as a result of higher unit sales.  Revenues for specialty starches decreased during the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009 by $510, or 11.8 percent, as a result of lower unit sales, and lower unit pricing.

While revenues for the ingredient solutions segment declined overall, margins improved during the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009 primarily as a result of improved sales mix by reducing our emphasis on unprofitable product lines along with lower flour costs attributable to lower wheat prices and, to a lesser extent, temporary price adjustments we received during the quarter.

Beginning in the quarter ended December 31, 2008, we entered into a supply contract for flour with ConAgra Mills whereby they supply wheat flour requirements for use in the production of protein and starch ingredients.  As a result, we no longer purchase wheat directly. However, the price we pay ConAgra for flour is a function of the per-bushel cost of wheat and, accordingly, wheat prices continue to directly impact the cost of raw materials for our ingredient solutions segment. The per pound cost of flour for the quarter ended March 31, 2010 decreased by 16.5 percent versus the quarter ended March 31, 2009.

Total ingredient solutions sales revenue for the year-to-date period ended March 31, 2010 decreased by $20,320, or 31.4 percent, compared to the year-to-date period ended March 31, 2009. Revenues for commodity proteins and commodity starch decreased by $12,148 and $2,056, respectively, for the year-to-date period ended March 31, 2010 compared to the year-to-date period ended March 31, 2009. Commodity proteins and starch products with lower margins were significantly reduced as a part of management's strategy to focus on higher-margin, value-added products. Revenues for specialty proteins for the year-to-date period ended March 31, 2010 increased $423, or 2.8 percent, over the year-to-date period ended March 31, 2009, as a result of improved pricing as well as higher unit sales.  Revenues for specialty starches decreased during the year-to-date period ended March 31, 2010 compared to the year-to-date period ended March 31, 2009 by $5,564, or 31.1 percent, as a result of lower unit sales, partially offset by increased unit pricing.

While revenues for the ingredient solutions segment declined overall, margins improved during the year-to-date period ended March 31, 2010 compared to the year-to-date period ended March 31, 2009 primarily as a result of improved sales mix by reducing our emphasis on unprofitable product lines along with lower flour costs. The per pound cost of flour for the year-to-date period ended March 31, 2010 decreased by 30.3 percent versus the quarter ended March 31, 2009.

**DISTILLERY PRODUCTS**

Total distillery products sales revenue for the quarter ended March 31, 2010 decreased $5,264, or 14.1 percent, compared to the quarter ended March 31, 2009. The majority of this decrease was attributable to the reduced production of fuel grade alcohol as a result of our decision to focus on food grade alcohol, which consistently has experienced more stable prices. Our third quarter sales revenue also was negatively impacted by severely cold weather in January and February 2010. The decrease in revenues related to fuel grade alcohol was $2,268, or 47.5 percent, compared to the quarter ended March 31, 2009. Food grade alcohol also saw a decline in revenues of $915, or 3.4%, from the quarter ended March 31, 2009, which was attributable to both decreased volume of 2.1 percent as well as a decline in per-unit pricing. The decrease in volume was attributable, in part, to an electrical supply disruption at our Atchison facility which lasted for approximately a week and resulted in lower than normal food grade alcohol production until volumes could be restored. Also contributing to this decrease in revenue was distillers feed revenue, which experienced a $2,210 reduction, or 42.3 percent, versus the quarter ended March 31, 2009. The decrease was due to the decrease in production of 16.4 percent compared to the quarter ended March 31, 2009, due to the change in operations at the Pekin facility at the end of January, 2009, and lower unit pricing. While revenues for distillery products declined for the quarter ended March 31, 2010 as compared to the same quarter a year ago, margins improved due to a significant reduction in sales of lower margin fuel grade alcohol, along with a significant reduction in natural gas prices. For the quarter ended March 31, 2010, the per-million cubic foot cost of natural gas averaged nearly 37.5 percent lower than the quarter ended March 31, 2009.

Total distillery products sales revenue for the year-to-date period ended March 31, 2010 decreased $66,052, or 41.7 percent, compared to the year-to-date period ended March 31, 2009. The majority of this decrease was attributable to the reduced production of fuel grade alcohol as a result of our decision to focus on food grade alcohol, which consistently has experienced more stable prices, and the closing of the Pekin facility. The decrease in revenues related to fuel grade alcohol was $41,220, or 88.9 percent, compared to the year-to-date period ended March 31, 2009. Food grade alcohol also saw a decline in revenues of $12,786, or 14.4 percent, over the year-to-date period ended March 31, 2009, which were attributable to both decreased volume of 7.3 percent as well as a decline in per-unit pricing. The decline in per-unit sales pricing mirrored a decrease in corn prices during the year-to-date period ended March 31, 2010. Also contributing to this decrease in revenue was distillers feed revenue, which experienced a $12,334 reduction, or 52.9 percent, compared to the year-to-date period ended March 31, 2009. The decrease was largely due to the decrease in production of 42.6 percent compared to the year-to-date period ended March 31, 2009, primarily due to the idling of the Pekin facility and, to a lesser extent, slightly lower unit pricing. While revenues for distillery products declined for the year-to-date period ended March 31, 2010 as compared to the same quarter a year ago, margins improved due to a significant reduction in sales of lower margin fuel grade alcohol, along with a significant reduction in corn and natural gas prices. For the year-to-date period ended March 31, 2010, the per-bushel cost of corn and the per-million cubic foot cost of natural gas averaged nearly 26.4 percent and 54.6 percent lower, respectively, than the year-to-date period ended March 31, 2009.

**OTHER PRODUCTS**

For the quarter and year-to-date periods ended March 31, 2010, revenues for other products, consisting primarily of pet products and plant-based biopolymers, decreased $430, or 41.7 percent, and $1,980, or 51.7 percent, respectively, compared to the quarter and year-to-date periods ended March 31, 2009. For the quarter ended March 31, 2010, these decreases were the result of reduced unit sales of our pet products partially offset by an approximately 99 percent increase in sales of our plant-based biopolymer products. Although the sales performance in this segment declined compared to the same quarter and year-to-date periods in the prior year, the gross margin in this segment as a percent of sales improved substantially due to a reduction of pet product sales and increased focus on improving cost efficiencies in our eco-friendly biopolymer area. The decline in other segment sales revenue was primarily the result of decreased unit sales of 100 and 93 percent for our pet products for the quarter and year-to-date periods ended March 31, 2010, respectively, compared to the same quarter and year-to-date period in the prior fiscal year. As described in Note 4. *Sale of Facilities*, we sold the assets related to our pet products during the first quarter of fiscal 2010.

**SALES**

Net sales for the quarter ended March 31, 2010 decreased $7,846, or 14.4 percent, compared to the quarter ended March 31, 2009, primarily as a result of our strategy to reduce sales of low and negative margin products across all operating segments. Our third quarter sales for this reporting period were negatively impacted by extremely cold weather in January and February 2010. This adverse weather reduced our ability to deliver goods to our customers. Decreased sales in the ingredient solutions segment were related to our exit from low margin commodity proteins and starch products. Lower unit pricing and lower unit sales for or specialty starches led the decreased sales in this segment. Sales in the distillery products segment as a whole decreased as a result of shifting the focus away from fuel grade alcohol to food grade alcohol. Revenues for food grade alcohol also declined as a result of lower unit pricing and lower unit sales. Revenues for distillers feed declined as a result of lower unit sales and lower unit pricing. Net sales for our other segment decreased as the result of a decline in unit sales of pet products, as a result of the sale of that business, which was partially offset by an increase in unit sales of biopolymer products.

Net sales for the year-to-date period ended March 31, 2010 decreased $88,352, or 39.0 percent, compared to year-to-date period ended March 31, 2009, primarily as a result of our strategy to reduce sales of low and negative margin products across all operating segments, the closing of the Pekin plant, and partially to the adverse weather experienced in January and February 2010 as noted above. Decreased sales in the ingredient solutions segment were related to our exit from low margin commodity proteins and starch products. While unit pricing increased from a year ago for specialty starches, lower unit sales of specialty starches also contributed to the decreased sales in this segment. However, the decrease in sales was partially offset by the increase in revenues for specialty proteins as a result of both improved unit sales and unit pricing. Sales in the distillery products segment as a whole decreased as a result of shifting the focus away from fuel grade alcohol to food grade alcohol. Revenues for food grade alcohol also declined as a result of lower unit pricing and decreased unit sales. Revenues for distiller’s feed declined primarily as a result of lower unit sales. Net sales for our other segment decreased as the result of a decline in unit sales of pet products, which was partially offset by an increase in unit sales of biopolymer products.

**COST OF SALES**

For the quarter ended March 31, 2010, cost of sales decreased $12,722, or 23.4 percent, compared to the comparable period the prior year. This decrease was primarily the result of the volume reduction associated with the closing of the Pekin facility, combined with reduced sales of higher cost, low margin commodity products and lower costs for raw material costs and other inputs used in the manufacturing process. The per-million cubic foot cost of natural gas averaged nearly 37.3 percent lower than the quarter ended March 31, 2009. The per pound cost of flour for the quarter ended March 31, 2010 decreased by 16.5 percent compared to the quarter ended March 31, 2009. For the quarter ended March 31, 2010, cost of sales was 89.4% of net sales, which generated a gross profit margin of 10.6%. For the quarter ended March 31, 2009, cost of sales was 99.8% of net sales, which generated a gross margin of 0.2%.

While the results for the quarter ended March 31, 2010 improved versus the comparable period of the prior fiscal year, the cost of sales were hurt by the incurrence of relatively higher cost alcohol sourced from ICP during its winter-time startup of operations, as well as, an electrical supply disruption in our Atchison facility in February.

For the year-to-date period ended March 31, 2010, cost of sales decreased $151,910, or 56.9 percent, compared to the comparable period the prior year. This decrease was primarily the result of a 2008 charge taken to settle natural gas commitments, the change in operations at the Pekin plant, and reduced grain and energy costs. The per-bushel cost of corn and the per-million cubic foot cost of natural gas averaged nearly 26.4 percent and 54.6 percent lower, respectively, than the year-to-date period ended March 31, 2009. The per pound cost of flour for the year-to-date period ended March 31, 2010 decreased by 30.3 percent compared to the year-to-date period ended March 31, 2009. For the year-to-date period March 31, 2010, cost of sales was 83.2% of net sales, which generated a gross profit margin of 16.8%. For the year-to-date period ended March 31, 2009, cost of sales was 117.7% of net sales, which generated a gross margin of negative 17.7%.

With the shutdown of protein and starch operations and the reduction and temporary idling of distillery operations at our Pekin plant, commitments for the purchase of natural gas through the remainder of the fiscal year 2009 under a single contract for our Pekin plant were in excess of projected consumption after adjusting for such reduced production. We recorded a charge of $5,447 to cost of sales for unrealized losses as of December 31, 2008 for projected settlements and continued to mark this obligation to market through June 30, 2009 as the settlements came due.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses for the quarter and year-to-date periods ended March 31, 2010 decreased $8, or 0.2 percent, and $2,244, or 13.3 percent, respectively, compared to the same periods ended March 31, 2009. These decreases were primarily due to the reduction in the Company's work-force which was a result of the restructuring along with other cost savings initiatives.

**OTHER OPERATING COSTS**

Other operating costs for the quarter and year-to-date periods ended March 31, 2010 decreased $1,555, or 74.9%, and $303, or 14.6%, respectively, compared to the same periods ended March 31, 2009. These costs primarily relate to additional ongoing charges for maintaining facilities no longer in production.

**IMPAIRMENT: LONG LIVED ASSETS**

In response to the losses incurred during the first quarter of fiscal 2009, we have taken actions since the end of the first quarter in an effort to return to profitability. These actions include significant changes to operations.

*Ingredient Solutions Segment.* On October 20, 2008 we announced that we had signed a non-binding letter of intent to fulfill our flour requirements from a third party, were ceasing operations at our flour mill in Atchison, Kansas and were reducing our workforce by approximately 44 persons. The workforce reduction consisted of a combination of temporary lay-offs and early retirement offers. On November 6, we announced that the anticipated supply contract for flour had been signed, and the layoffs became permanent. Our decision to close our flour mill was due to the fact that we could no longer produce flour for our own use at costs that are competitive with those of third party producers. As a result of this action, we performed an impairment analysis and recorded a $2,831 non-cash impairment charge in the Condensed Consolidated Statements in the second quarter of fiscal 2009 related to the flour mill assets.

On November 5, we announced plans to significantly reduce production of commodity wheat proteins and starches by ceasing protein and starch production at our Pekin, Illinois plant, effective November 12, 2008. The majority of the Pekin facility's protein and starch production consisted of gluten and commodity starches. The action resulted in an additional work force reduction of approximately 80 persons, consisting of a combination of lay-offs and early retirement offers. As a result of the shutdown, we performed an impairment analysis and in the second quarter of fiscal 2009 recorded a $4,960 non-cash impairment charge in the Condensed Consolidated Statements related to the Pekin protein and starch assets.

In measuring for impairment of assets at our flour mill and our Pekin facility's protein and starch production facility, management assumed no sales or other disposition but instead adjusted net values of these assets to zero as no further cash flow related to these assets was anticipated.

*Distillery Segment.* In November of 2008, we also determined to curtail fuel alcohol production at Pekin to approximately 30 million gallons annually until market conditions became more favorable. Subsequent to December 31, 2008, we determined that we could further adjust our production process at Pekin in a way that permitted us to produce only minor quantities of fuel grade alcohol as a by-product of the production of food grade alcohol and determined to curtail as much as possible the production of fuel grade alcohol. We also determined to shut down food grade production at the plant for a temporary period. We performed an impairment analysis of our other long lived assets and determined no further impairment charges were necessary as a result of these activities.

*Other Segment.* As previously reported, at the end of the third quarter of fiscal 2008, we concluded that our pet business assets in the other segment and certain of our ingredient solutions segment assets in a mixed use facility in Kansas City, Kansas at which our pet treat resins are made were impaired. At that time, we recorded an impairment charge of $8,100, of which $4,700 related to assets allocated to the Company's other segment. During the second quarter of fiscal 2009, management performed another test for impairment of these assets as a result of an appraisal resulting in a further charge of $811. On August 21, 2009, we completed the sale of our Kansas City, Kansas facility for $3,585.

**SEVERANCE AND EARLY RETIREMENT COSTS**

In connection with the production changes described above, we also incurred $3,288 in severance related charges associated with early retirements and job eliminations during the second quarter of fiscal 2009. These charges have been presented in the Company's Consolidated Statements of Income as "Severance and early retirement costs."

**LOSS ON JOINT VENTURE FORMATION**

Loss on joint venture formation for the year-to-date period ended March 31, 2010 increased $3,047. The components include $1,998 to adjust the book value of the Pekin plant balance sheet assets contributed to the joint venture to the implied value and $1,049 for professional fees associated with the transactions.

**GAIN ON SALE OF ASSETS**

For the year-to-date period ended March 31, 2010, gain on sale of assets was $700. This increase was the result of a $600 gain recorded related to the sale of certain flour mill assets and a $100 gain on the sale of transport equipment.

**OTHER RESTRUCTURING COSTS**

In connection with the production changes described above in *Impairment: Long Lived Assets*, we also incurred a $2,185 net loss resulting from sales of excess wheat no longer needed for milling operations. The charge is net of approximately $1,109 in realized gains previously recorded in accumulated other comprehensive income. In addition, we recognized $2,925 in lease termination costs which we expect to incur with respect to railcars which we formerly used to transport flour and whose leases expire through 2013. We have recognized this expense because we no longer utilize these cars in our business. Expected payments accrued reflect the net present value of the remaining obligation net of units which are estimated to be returned to the lessor sooner than the lease termination date. We estimate that the remaining railcars will either be returned to the lessor or assigned to other third parties over the remaining term of the agreement.

**OTHER INCOME, NET**

Other income, net, decreased $20, or 95.2 percent, for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. For the year-to-date period ended March 31, 2010, other income, net, decreased $71, or 74.7 percent, compared to the year-to-date period ended March 31, 2009. These changes were principally attributable to changes in interest capitalized as well as to the effect of certain other non-recurring, non-operating revenue items.

**INTEREST EXPENSE**

Interest expense for the quarter and year-to-date periods ended March 31, 2010 decreased $425 and $624, respectively, compared to the same periods ended March 31, 2009. These decreases were the result of lower line of credit borrowings as compared to the same periods in the prior year. These decreases were partially offset by an increase in long-term debt compared to the same periods in the prior year.

**EQUITY IN LOSS OF JOINT VENTURES**

*D.M Ingredients, GmbH ("DMI")*

On July 17, 2007, we completed a transaction with Crespel and Dieters GmbH & Co. KG for the formation and financing of a joint venture, DMI, located in Ibbenburen, Germany. DMI's primary operation is the production and tolling of the Wheatex® series of textured wheat proteins made from vital wheat gluten for marketing by MGPI domestically and, through our partner and third parties, internationally. Currently, the joint venture is utilizing a third party toller in the Netherlands to produce the Wheatex® products. We own a 50 percent interest in DMI, and account for it using the equity method of accounting. During the quarter ended March 31, 2010, we invested an additional $213 in DMI. As of March 31, 2010, we had invested $571 in DMI since July 2007.

For the quarter ended March 31, 2010, DMI incurred a net loss of $84 related to costs incurred as part of the initial implementation of operations. No sales revenue was reported. As a 50 percent joint venture holder, our equity in this loss was $42.

For the year-to-date period ended March 31, 2010, DMI incurred a net loss of $250 related to costs incurred for the initial implementation of operations. Again, no sales revenue was reported. As a 50 percent joint venture holder, our portion of the loss was $125.

DMI's functional currency is the European Union Euro. Accordingly, changes in the holding value of the Company's investment in DMI resulting from changes in the exchange rate between the U.S. Dollar and the European Union Euro are recorded in other comprehensive income as a translation adjustment on unconsolidated foreign subsidiary net of deferred taxes.

*Illinois Corn Processing, LLC ("ICP")*

On November 20, 2009, the Company completed a series of transactions whereby the Company contributed its Pekin plant to a newly-formed company, ICP, and then sold 50% of the membership interest in ICP to Illinois Corn Processing Holdings, LLC ("ICPH"), an affiliate of SEACOR Energy Inc., for $15,000 cash. ICP reactivated distillery operations at the Pekin facility during the third quarter ended March 31, 2010. The Company markets food-grade alcohol products manufactured by ICP and SEACOR Energy Inc. markets ethanol products manufactured by ICP.

For the quarter ended March 31, 2010, ICP incurred a net loss of $3,144 primarily related to costs incurred as part of the start-up of operations and low initial volumes. As a 50 percent joint venture holder, our portion of the loss was $1,572.

For the period from November 20, 2009 to March 31, 2010, ICP incurred a net loss of $4,010 primarily related to costs incurred as part of the initial implementation of operations. As a 50 percent joint venture holder, our portion of the loss was $2,005. This loss was off-set by a non-recurring reversal of account payable balances related to a prior period totaling $618.

**NET INCOME (LOSS)**

As the result of the factors outlined above, we experienced a net loss of $2,254 and net income of $6,262 in the quarter and year-to-date periods, respectively, ended March 31, 2010, compared to a net loss of $6,248 and a net loss of $66,207 in the quarter and year-to-date periods ended March 31, 2009, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

**GENERAL**

Our principal uses of cash are for the cost of raw materials and energy used in our production processes, salaries, debt service obligations on our borrowings, and capital expenditures. Our principal sources of cash are revenues from the products we make and our revolving credit facility. We expect our sources of cash to be adequate to provide for the next twelve months.

On August 25, 2009, we were required to make a deposit of approximately $1,600 to our surety bond carrier. This deposit secured our obligations under surety bonds maintained to meet regulatory requirements for distillery operations. Funds for this deposit were borrowed under the terms of the Credit Agreement.

As a result of losses incurred during fiscal years 2009, we received a tax refund of approximately $5,500 during October 2009, which was used to pay down the $11,614 note to CILCO. During January 2010 we received an additional tax refund of approximately $4,700 resulting from changes in tax regulations that enabled us to carry back losses to periods previously unavailable. See Note 14. *Income Taxes* for further information.

As noted elsewhere herein, we have taken steps to focus our business on the production of value-added products, which have improved our operating performance. As a result of the measures that we have taken combined with lower raw material and natural gas costs, operating costs have been reduced and cash flows from operating activities have increased.

The following table is presented as a measure of our liquidity and financial condition:
(in thousands)

| | March 31, 2010 | June 30, 2009 |
|---|---|---|
| Cash and cash equivalents | **$ 822** | $ 178 |
| Working capital | **17,799** | 31,242 |
| Amounts available under line of credit | **20,454** | 4,190 |
| Credit facility, liabilities related to assets held for sale and long-term debt (including current maturities) | **7,030** | 33,337 |
| Stockholders' equity | **70,439** | 63,884 |

| | Year-to-Date Ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| Depreciation and amortization | **$ 6,538** | $ 9,713 |
| Capital expenditures | **(199)** | 2,057 |
| Cash flows from operations | **22,176** | 1,412 |

**CASH FLOW INFORMATION**

Summary cash flow information follows for the year-to-date periods ended March 31, 2010 and 2009, respectively: (Dollars in thousands)

| | Year-to-Date Ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| Cash flows provided by (used for): | | |
| Operating activities | **$ 22,176** | $ 1,412 |
| Investing activities | **16,702** | (1,363) |
| Financing activities | **(38,234)** | 454 |
| Increase (decrease) in cash and cash equivalents | **644** | 503 |
| Cash and cash equivalents at beginning of year | **178** | — |
| Cash and cash equivalents at end of year | **$ 822** | $ 503 |

During the year-to-date period ended March 31, 2010, our consolidated cash increased by $644 compared to an increase of $503 during the year-to-date ended March 31, 2009. Increased operating cash flow resulted from an improvement in income to net income of $6,262 from a net loss of $66,207. Cash outflows related to capital expenditures during the year-to-date period ended March 31, 2010 compared to the year-to-date period ended March 31, 2009 were reduced $1,858, while proceeds from the disposition of property and proceeds from the sale of an interest in ICP increased $16,420. During the year-to-date period ended March 31, 2010, payments on long-term debt and revolving credit facility exceeded borrowings as compared to the year-to-date period ended March 31, 2009, in which borrowings exceeded payments.

**Operating Cash Flows**. Summary operating cash flow information for the year-to-date periods ended March 31, 2010 and 2009, respectively, is as follows: (in thousands):

| | Year-to-Date Ended | |
|---|---|---|
| | **March 31, 2010** | **March 31, 2009** |
| Net income (loss) | **$ 6,262** | $ (66,207) |
| Depreciation and amortization | **6,538** | 9,713 |
| Gain on sale of assets | **(700)** | (264) |
| Loss on joint venture formation | **3,047** | — |
| Loss on impairment of assets | **—** | 8,931 |
| Deferred income taxes | **—** | (7,210) |
| Joint venture operations (gain) loss | **1,439** | 79 |
| Changes in working capital items: | | |
| Restricted cash | **(607)** | (1,441) |
| Receivables | **(2,132)** | 13,031 |
| Inventory | **1,904** | 41,063 |
| Prepaids | **(1,924)** | (1,376) |
| Accounts payable | **2,562** | (786) |
| Accounts payable to affiliates, net | **3,676** | — |
| Accrued expenses | **792** | 141 |
| Accrued natural gas derivative | **—** | 3,946 |
| Deferred credit | **(594)** | (643) |
| Income taxes payable/receivable | **5,501** | 2,315 |
| Accrual for retirement benefits and other non-current liabilities | **(2,741)** | 2,686 |
| Gains previously deferred in other comprehensive income | **—** | (2,149) |
| Other | **(748)** | (417) |
| **Net cash provided by operating activities** | **$ 22,176** | $ 1,412 |

Cash flow from operations for the year-to-date ended March 31, 2010 increased $20,764 to $22,176 from $1,412 for the year-to-date period ended March 31, 2009. This increase in operating cash flow was primarily related to the increase in earnings of $72,469 from a net loss of $66,207 for the year-to-date period ended March 31, 2009 to a net income of $6,262 for the year-to-date period ended March 31, 2010. This factor, which served to increase operating cash flow, was partially offset by a year-to-date period ended March 31, 2010 accounts receivable decrease of $15,163 to ($2,132) from $13,031 for the year-to-date period ended March 31, 2009; a year-to-date period ended March 31, 2010 inventory decrease of $39,159 to $1,904 from $41,063 for the year-to-date period ended March 31, 2009. Additionally, operating cash flow was impacted by the timing of cash disbursements resulting in an increase in accounts payable, accounts payable (net), and accrued expenses.

**Investing Cash Flows**. Net investing cash flow for the year-to-date period ended March 31, 2010 was $16,702 compared to $(1,363) for the year-to-date period ended March 31, 2009. This increase in investing cash flows was related to the proceeds from the sale of an interest in ICP of $13,951, net of closing cost, the proceeds from the sale of other property of $4,163, net of closing costs; the year-to-date period ended capital investments decrease of $1,858 to $199 from $2,057; offset by the $1,213 investment in/advances to joint ventures for the year-to-date period ended March 31, 2010.

**Financing Cash Flows**. Net financing cash flow for the year-to-date period ended March 31, 2010, was $(38,234) compared to $454 for the year-to-date period ended March 31, 2009 resulting in a net decrease in financing cash flow of $38,688. During the year-to-date period ended March 31, 2010, we had net payments of $14,057 under our operating line of credit compared to net draws of $1,176 for the year-to-date period ended March 31, 2009. Also contributing to the decrease during the year-to-date period ended March 31, 2010 were net payments on long term debt of $24,169 compared to $660 for the year-to-date period ended March 31, 2009.

**CAPITAL EXPENDITURES.**

In the year-to-date we have spent $199 in capital expenditures. For fiscal 2010, we have budgeted $4,000 in capital expenditures related to improvements in and replacements of existing plant and equipment. We are limited to annual capital expenditures of $4,500 by the revolving credit facility. As of March 31, 2010, we had contracts to acquire capital assets of approximately $780.

We recently learned that we will be required to install a new closed-loop, process cooling water system at our Atchison facility at an estimated cost of $6,000 to $8,000. See Part II, Item 1., *Legal Proceedings.* We will be seeking an amendment to our credit facility to permit this expenditure within the required time frame. We have no reason to believe our lender will not consent to such an amendment.

In Section 550 of the Homeland Security Appropriations Act of 2007 (P.L. 109-295) (Act), Congress gave the Department of Homeland Security ("DHS") regulatory authority over security at certain high-risk chemical facilities. Pursuant to its congressional mandate, on April 9, 2007, DHS promulgated the Chemical Facility Anti-Terrorism Standards ("CFATS"), 6 CFR Part 27. In the CFATS regulation, DHS requires all high-risk chemical and industrial facilities to complete security vulnerability assessments, develop site security plans and implement protective measures necessary to meet DHS-defined risk-based performance standards. DHS has provided notice that we operate a Tier 3 high risk facility. We have submitted our plan and are waiting DHS's response. We estimate any resultant costs to be insignificant.

**LINE OF CREDIT**

The amount of borrowings under the credit agreement is subject to borrowing base limitations. As of March 31, 2010, our outstanding borrowings under this facility were $4,081, and $20,454 was available for additional borrowings. The borrowing base is the lesser of the maximum line amount or an amount based on specified percentages of eligible accounts receivable and inventories less specified reserves. The lender has discretion under the Credit Agreement to change the manner in which the borrowing base is determined, such as altering the advance rates applicable to accounts receivable and inventory or changing reserve amounts.

**FINANCIAL COVENANTS**

Under the Credit Agreement, we must meet specified monthly and cumulative net income requirements (aggregating $3,500 for fiscal year 2010 and $1,000 for the first quarter of fiscal 2011). We are limited in the amount of capital expenditures we may make annually ($4,500) and must meet, at fiscal year end, a minimum debt service coverage ratio (a) the sum of (i) funds from operations (net income plus depreciation and amortization, plus or minus increases or decreases in deferred income taxes and LIFO reserves, plus other non-cash items) plus (ii) interest expense minus (iii) unfinanced capital expenditures minus (iv) dividends and distributions paid during the period, divided by (b) the sum of (i) current maturities of long term debt plus (ii) interest expense) of not less than 1.15 to 1.0. The lender has significant lending discretion under the Credit Agreement; it may modify our borrowing base and various components thereof in its reasonable discretion, thereby affecting the amount of credit available to us. The lender may terminate or accelerate our obligations under the Credit Agreement upon the occurrence of various events in addition to payment defaults and other breaches, including such matters as over advances arising from reductions in the borrowing base, certain changes in the Board, failure to pay taxes when due, defaults under other material debt, lease or other contracts and, for a period of one year after July 21, 2009, our CEO ceasing to be actively engaged in our day to day business activities, or thereafter if we fail to hire a successor acceptable to the lender within 90 days. We have maintained compliance with these covenants through March 31, 2010.

The Credit Agreement also includes provisions that limit or restrict our ability to:

- incur additional indebtedness;
- pay dividends to stockholders or purchase stock;
- make investments;
- dispose of assets;
- make capital expenditures;
- create liens on our assets; or merge or consolidate.

Loan covenants in ICP's loan agreements with its lenders restrict it from paying dividends to us except for distributions to pay taxes on our share of ICP income allocable to us.

**WORKING CAPITAL**

**COMPARISON TO JUNE 30, 2009**

Our working capital decreased $13,838 from June 30, 2009 to March 31, 2010. This decrease was primarily the result of a decrease in assets held for sale offset by a lower outstanding balance on our revolving credit facility as well as lower accrued expenses.

**COMPARISON TO MARCH 31, 2009**

During the twelve month period ended March 31, 2010, our working capital decreased $3,906. The twelve month decrease was primarily a result of a decrease assets held for sale of $31,571. This factor, which decreased our working capital, was partially offset by a reduction in the line of credit, accounts payable and liabilities related to assets held for sale of $20,095, $11,329 and $6,372, respectively.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We make our products primarily from flour and corn and, as such, are sensitive to changes in commodity prices. We use grain futures and/or options, which mark to market, as a hedge to protect margins on contracted alcohol sales. Fluctuations in the volume of hedging transactions are dictated by alcohol sales and are based on corn, natural gas and gasoline prices. The futures contracts that are used are exchange-traded contracts. We trade on the Kansas City and Chicago Boards of Trade and the New York Mercantile Board of Exchange. Historically, we have included the fair values of open contracts in inventories.

For inventory and open futures, the table below presents the carrying amount and fair value at March 31, 2010 and June 30, 2009. All amounts below are in thousands, except for strike price per bushel. We include the fair values of open contracts in inventories in our balance sheet.

| | At March 31, 2010 | | At June 30, 2009 | |
|---|---|---|---|---|
| As of December 31, | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Inventories | | | | |
| Corn | $ 1,014 | $ 931 | $ 1,108 | $ 1,030 |
| Flour | $ 110 | $ 104 | $ 108 | $ 109 |

| | Description and Expected Maturity* | Fair Value | Description and Expected Maturity* | Fair Value |
|---|---|---|---|---|
| Corn Futures | | | | |
| Contract Volumes (bushels) | | | 670 | |
| Weighted Average | | | | |
| Strike Price/Bushel | $ — | $ — | $ 3.9448 | $ 3.5450 |
| Contract Amount | $ — | $ — | $ 2,643 | $ 2,375 |

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

Except for our credit facility, our outstanding debt carries fixed interest rates. There was $4,081 in outstanding borrowings under our credit facility at March 31, 2010, which bore interest at a variable rate equal to daily three month LIBOR plus 5%, but not less than 5.5%. Increases in market interest rates would cause interest expense to increase and earnings before income taxes to decrease. The change in interest expense and earnings before income taxes would be dependent upon the weighted average outstanding borrowings during the reporting period following an increase in market interest rates. Based on outstanding borrowings at March 31, 2010, a 100 basis point increase over the non-default rates actually in effect at such date would increase our annual interest expense by $41.

## ITEM 4. CONTROLS AND PROCEDURES.

### (a) Evaluation of disclosure controls and procedures.

As of the end of the quarter ended March 31, 2010 our Chief Executive Officer and Chief Financial Officer have each reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have each concluded that our current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Changes in Internal Controls.**

There has been no change in the Company's internal control over financial reporting required by Exchange Act Rule 13a-15 that occurred during the fiscal quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect MGP Ingredients, Inc.'s internal control over financial reporting.

**PART II. OTHER INFORMATION**
*(Dollars in thousands, unless otherwise noted)*

**ITEM 1. LEGAL PROCEEDINGS.**

In 2006, the Company entered a Consent Agreement with the Kansas Department of Health and Environment (KDHE) which, among other matters, imposed a source-wide, rolling 12-month volatile organic compounds (VOC) emissions cap on the Company's Atchison facility. The Company anticipates that it will exceed this cap during the fourth quarter of fiscal 2010 and is negotiating a second amendment to the Consent Agreement with the KDHE. (a previously disclosed amendment addressed an earlier instance of noncompliance with the emission limit and related testing, monitoring and permitting violations and assessed a civil penalty of $66 against the Company). The Company anticipates that the second amendment will require it to complete a closed-loop, process cooling water system project, resulting in significant VOC reduction, in accordance with a scheduled timeline extending over an approximate seventeen month period. The estimated cost of the overall cooling tower replacement project is $6,000 to $8,000, only a portion of which is applicable to the VOC reduction. In addition, the Company will agree to a $5 per month penalty for any month that it exceeds the rolling 12-month cap, as well as a $1 per day penalty for each day it exceeds established completion dates for various stages of the project. The Company presently anticipates that it will continue to exceed the VOC cap through July, 2010 and incur $20 in cap excedence penalties.

**ITEM 1A . RISK FACTORS.**

ICP's limited liability company agreement gives the Company and its joint venture partner, Illinois Corn Processing Holdings LLC, ("ICPH") certain rights to shut down the Pekin plant if it operates at an EBITDA loss of $500 in any quarter. Such rights are conditional in certain instances but absolute if losses aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500. These provisions of the limited liability agreement were sought by the Company when it negotiated the limited liability company agreement, but were not drafted with start up of operations in mind. ICP has experienced losses in the last two quarters exceeding the quarterly threshold amount in each case. The Company anticipates that this start up period may extend until May, 2010 and that EBITDA losses aggregating $1,500 over the first three quarters of ICP's existence is a possibility in light of the cumulative losses incurred in the current and prior quarter. However, neither the Company nor, to its knowledge, ICPH presently intend to exercise termination rights during this start up period. However, if losses of the requisite magnitude continue, either the Company or ICPH may elect to exercise its rights to shut down the Pekin plant. In this event, the Company could be forced to purchase alcohol from third parties at unfavorable prices to satisfy contractual commitments to its customers. It also might incur impairment losses with respect to its remaining investment in the Pekin plant. In this regard, see the Item 1A. *RISK FACTORS — RISKS THAT AFFECT OUR BUSINESS AS A WHOLE — We have incurred impairment and restructuring losses and may suffer such future losses.*

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the quarter ended March 31, 2010 we made no repurchases of our stock.

**ITEM 5. OTHER INFORMATION**

On February 15, 2010, the Company granted Wells Fargo Bank, National Association, a leasehold mortgage relating to its executive office building and technical center in Atchison and pledged the related industrial revenue bonds issued by the City of Atchison and held by the Company as additional security for its obligations under its revolving credit facility.

During the third quarter, the Company and Seacorp Energy, Inc. determined to suspend their margin sharing arrangements under their marketing agreements with their joint venture, ICP, to permit ICP to retain more margin from the sale of products during the start up of operations at the Pekin plant.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 0-17196) |
| 3.2 | Bylaws of the Company (Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed October 27, 2009 (File Number 0-17196) |
| 4.1 | Credit and Security Agreement dated July 21, 2009 between the Company and Wells Fargo Bank, National Association and Revolving Note (Incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.1 | Patent and Trademark Security Agreement dated as of July 21, 2009 between the Company and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.1.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.2 | Assignment of Membership Interests dated as of July 21, 2009 between the Company and Wells Fargo Bank, National Association, relating to Firebird Acquisitions, LLC (Incorporated by reference to Exhibit 4.1.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |

| | |
|---|---|
| 4.1.3 | Stock Pledge Agreement dated as of July 21, 2009 between the Company and Wells Fargo Bank, National Association, relating to stock of Midwest Grain Pipeline, Inc. (Incorporated by reference to Exhibit 4.1.3 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.4 | Control Agreement and Assignment of Hedging Account among Wells Fargo Bank, National Association, the Company and ADM Investor Services, Inc. (Incorporated by reference to Exhibit 4.1.4 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.5 | Form of Mortgage relating to the Company's Onaga in favor of Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.1.6 below, which is being filed in the same form in Pottawatomie County, Kansas) |
| 4.1.6 | Amended and Restated Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated as of August 31, 2009 relating to the Company's Atchison facility in favor of Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 4.1.6 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.7 | Form of Mortgage relating to a tract of land owned by the Company in Wyandotte County, Kansas in favor of Wells Fargo Bank, national Association (Incorporated by reference to Exhibit 4.1.6 above, which is being filed in the same form in Wyandotte County, Kansas) |
| 4.1.8 | Consent and Release dated August 19, 2009 between Wells Fargo Bank, National Association and the Company (Incorporated by reference to Exhibit 4.1.9 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.1.9 | Consent and Release dated December 21, 2009, between Wells Fargo Bank, National Association and the Company (Incorporated by reference to Exhibit 4.1.9 of the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 2010). |
| 4.1.10 | Consent dated December 31, 2009 from Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.1.9 of the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 2010). |
| 4.1.11 | Assignment of Membership Interest to Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.1.9 of the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 2010). |
| *4.1.12 | Consent dated February 2, 2010 from Wells Fargo Bank, National Association. |

| | |
|---|---|
| *4.1.13 | Leasehold Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated February 15, 2010 to Wells Fargo Bank, National Association, relating to the Company's Executive Office Building & Technical Center in Atchison, Kansas. |
| *4.1.14 | Bond Pledge and Security Agreement dated February 15, 2010 by and among the Company, Commerce Bank, as Trustee and Wells Fargo Bank, National Association relating to City of Atchison, Kansas, $7,000,000 original principal amount of Taxable Industrial Revenue Bonds, Series 2006 (MGP Ingredients, Inc. Project). |
| 4.2.2 | Commercial Security Agreement from the Company to Union State Bank of Everest dated March 31, 2009 (Incorporated by reference to Exhibit 4.5.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.2.3 | Amendment to Commercial Security Agreement dated as of July 20, 2009 between the Company and Union State Bank of Everest (Incorporated by reference to Exhibit 4.5.3 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.3 | Promissory Note dated July 20,2009 from the Company to Union State Bank of Everest in the initial principal amount of $2,000,000 (Incorporated by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.3.1 | Commercial Security Agreement dated July 20, 2009 from the Company to Union State Bank of Everest of Everest relating to equipment at Atchison Plant and Onaga plant (Incorporated by reference to Exhibit 4.6.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.3.2 | Mortgage dated July 20, 2009 from the Company to Union State Bank of Everest relating to the Atchison plant (Incorporated by reference to Exhibit 4.6.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196).. |
| 4.4 | Intercreditor Agreement between Wells Fargo Bank, National Association and Union State Bank of Everest (Incorporated by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (File No. 0-17196). |
| 4.5 | Trust Indenture Dated as of December 28, 2006 relating to $7,000,000 Taxable Industrial Revenue Bonds Series 2006 (MGP Ingredients Project (Incorporated by Reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 2006 (file number 0-17196)) |

| | |
|---|---|
| 4.6 | Lease dated as of December 28, 2006 between the City of Atchison, as Issuer and MGP Ingredients, Inc., as tenant relating to $7,000,000 Taxable Industrial Revenue Bonds Series 2006 (MGP Ingredients Project (Incorporated by Reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 2006 (file number 0-17196)) |
| 4.7 | In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the Commission upon request. |
| *31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002. |
| *31.2 | Certification of Interim 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 Interim Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

**SIGNATURES**

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

MGP INGREDIENTS, INC.

| | | |
|---|---|---|
| Date: May 11, 2010 | By | /s/ Timothy W. Newkirk<br>Timothy W. Newkirk, President and Chief Executive Officer |
| Date: May 11, 2010 | By | /s/ Don Tracy<br>Don Tracy, Vice President and Chief Financial Officer |

**Exhibit 4.1.12**

**Wells Fargo Business Credit**
Sixth & Marquette
Minneapolis, Minnesota 55479
612-673-8500

February 2, 2010

**VIA U.S. MAIL & FACSIMILE (913) 360-5661**

MGP Ingredients, Inc.
100 Commercial Street
Atchison, KS 66002
Attention: Timothy W. Newkirk

Re: Certain loans made by Wells Fargo Bank, National Association ("**Lender**") to MGP Ingredients, Inc., a Kansas corporation ("**Borrower**"), pursuant to that certain Credit and Security Agreement dated July 21, 2009, by and between Borrower and Lender (as amended from time to time, the "**Credit Agreement**"). Terms not otherwise defined herein shall have the meanings given in the Credit Agreement

Dear Mr. Newkirk:

Borrower owes to certain General Electric entities (collectively, "**GE**") approximately $2,146,027.00 (the "**GE Indebtedness**"). Notwithstanding anything contained in the Credit Agreement to the contrary, Lender hereby consents to the complete prepayment of GE Indebtedness by Borrower, provided that (i) Borrower causes GE to promptly release and terminate the filings and interests set forth on Exhibit A attached hereto and each other security interest in the assets of Borrower held by GE, (ii) no Default or Event of Default has occurred and is continuing at the time of the pay-off and (iii) no Default or Event of Default will occur after giving effect to the pay-off. Effective upon the GE Indebtedness pay-off, Borrower and Lender agree that all references to indebtedness to or liens held by GE shall be deleted from Schedule 6.3 and Schedule 6.4 of the Credit Agreement. On or before February 28, 2010, Borrower shall provide evidence to Lender which is acceptable to Lender in its sole but reasonable discretion that GE has released and does not hold a lien in any assets of Borrower.

The Credit Agreement, among other things, prohibits the Borrower from making any contribution or investment in any Person or Affiliate. Borrower has requested that Lender consent to Borrower making a contribution of up to approximately $1,119,663.00 (the "**Firebird Contribution**") to Firebird Acquisitions, LLC, a Delaware limited liability company ("**Firebird**"), a Subsidiary of Borrower, for the purpose of repaying all obligations owed by Firebird to Commerce Bank. Notwithstanding the provisions of the Credit Agreement and the other Loan Documents, Lender hereby consents to Borrower making the Firebird Contribution subject to the following conditions, all of which shall be acceptable to Lender in its sole and absolute discretion and shall survive the initial Firebird Contribution:

(i) no Default or Event of Default has occurred and is continuing at the time of the Firebird Contribution;

(ii) no Default or Event of Default will occur after giving effect to the Firebird Contribution being made;

(iii) Firebird shall promptly pay the full amount of the Firebird Contribution to Commerce Bank and terminate all of it lending arrangements with Commerce Bank.

(iv) On or before February 28, 2010, Borrower shall provide evidence to Lender which is acceptable to Lender in its sole but reasonable discretion that Commerce Bank has released and does not hold a lien in any assets of Firebird.

Effective upon the Firebird Contribution, Borrower and Lender agree that all references to indebtedness to or liens held by Commerce Bank shall be deleted from Schedule 6.4 of the Credit Agreement. For Lender's consent hereunder, Borrower covenants and agrees that it shall not to permit Firebird to create, incur or suffer to exist any Lien upon or of any of Firebird's assets, whether now owned or hereafter acquired, to secure any indebtedness.

In the event you should have any questions or comments with respect to the matters set forth in this letter, please do not hesitate to contact me.

**WELLS FARGO BANK,**
**NATIONAL ASSOCIATION**

By: /s/ Becky A. Koehler
Becky A. Koehler, its Vice President

ACKNOWLEDGED AND AGREED:

**MGP INGREDIENTS, INC.**
a Kansas corporation

By: /s/ Timothy W. Newkirk
Name: Timothy W. Newkirk
Its: President & CEO

**<u>Exhibit A</u>**

**GE Releases**

| | | | | |
|---|---|---|---|---|
| **Kansas** | **4972881**<br>**5377585 (amends 4972881)**<br>**94659027 (amends 4972881)**<br>**94659043 (continues 4972881)** | **8/23/2001**<br>**10/18/2002**<br>**7/21/2006**<br>**7/21/2006** | **GE Capital Public Finance, Inc.** | **Mortgaged Property** |
| **Kansas** | **5885181**<br>**5904883 (amends 5885181)**<br>**97134547** | **10/4/2004**<br>**11/12/2004**<br>**6/1/2009** | **GE Capital Public Finance, Inc.** | **Specific Equipment** |
| **Kansas** | **6053326** | **10/4/2005** | **General Electric Capital Corporation** | **Specific Equipment** |

Recording Requested By,
And After Recording, Return To:

WELLS FARGO BANK,
NATIONAL ASSOCIATION
MAC N9312-040
109 South 7th Street, 4th Floor
Minneapolis, MN 55402
**Telecopier:** (612) 341-2472
**Attention:** Becky A. Koehler

THE TOTAL AMOUNT OF PRINCIPAL INDEBTEDNESS SECURED BY THIS MORTGAGE SHALL NOT EXCEED, AT ANY ONE TIME, THE SUM OF $15,000,000 AS TO THE PROPERTY LOCATED IN THE STATE OF KANSAS, INCLUDING WITHOUT LIMITATION THE COUNTIES OF ATCHISON, POTTAWATOMIE AND WYANDOTTE.

**LEASEHOLD MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING**

THIS LEASEHOLD MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (hereinafter called this "**Mortgage**"), made as of the 15th day of February, 2010, by and between MGP INGREDIENTS, INC., a Kansas corporation, with an address at 100 Commercial Street, Atchison, KS 66002 ("**Mortgagor**"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, with an address at MAC N9312-040, 109 South Seventh Street, 4th Floor, Minneapolis, MN 55402 (" **Mortgagee**").

WITNESSETH: That

WHEREAS, the City of Atchison, Kansas (the "**Issuer**") did issue its Taxable Industrial Revenue Bonds, Series 2006 (MGP Ingredients Project), on December 28, 2006, in an aggregate principal amount of $7,000,000 (the "**Bonds**"), the proceeds of which were used to pay the costs of acquiring, purchasing, constructing and equipping a project consisting of an office building and a technical center facility (the "**Project**") located in Atchison County, Kansas.

WHEREAS, pursuant to a Lease dated as of December 28, 2006, by and between the Issuer and the Mortgagor evidenced by a Notice of Lease filed with the Register of Deeds for Atchison County, Kansas on January 16, 2007 and recorded in Book 559 at Page 137 (collectively, the "**Lease**"), the Issuer has leased the Project, including the land described in Exhibit A attached hereto and incorporated by reference (the "**Premises**"), the Improvements, Fixtures, Personal Property (as said terms are defined below) to the Mortgagor in consideration for which the Issuer, pursuant to a Trust Indenture dated as of the issue date of the Bonds (the "**Indenture**") by and between the Issuer and Commerce Bank, N.A., a Trustee, has issued the Bonds.

WHEREAS, Pursuant to the provisions of a Credit and Security Agreement dated as of July 21, 2009 (as the same may from time to time be restated, modified, supplemented or otherwise amended, the "**Credit Agreement**") by and between Mortgagor and Mortgagee, Mortgagee has made certain loans to the Mortgagor, as evidenced by certain promissory notes (as the same may from time to time be extended, restated, modified, supplemented or otherwise amended, the "**Note**");

WHEREAS, this Mortgage is intended to secure repayment of the Note and performance of the obligations under the Note, the Credit Agreement and any other loan document between Mortgagor and Mortgagee (collectively, as the same may from time to time be restated, modified, supplemented or otherwise amended, the "**Loan Documents**"); and

NOW, THEREFORE, Mortgagor, in consideration of the premises, of the obligations to Mortgagor evidenced by the Note, the Credit Agreement and the other Loan Documents and of other legally sufficient consideration, the receipt whereof is hereby acknowledged, and in order to secure the payment of all obligations under the Loan Documents according to their tenor and effect, together with all other sums due hereunder or under any other instrument securing the Loan Documents, and to declare the terms and provisions upon and subject to which the Credit Agreement is to be secured and repaid, has executed and delivered this Mortgage.

GRANTING CLAUSE; OBLIGATIONS SECURED

The Grant. Mortgagor does hereby grant, bargain, sell, mortgage, warrant, convey, alien, remise, release, assign, transfer, grant a security interest in, set over, deliver and confirm unto Mortgagee, as applicable, upon the terms and conditions of this Mortgage, each and all of Mortgagor's right, title and interest in the following described real and personal property and also grants Mortgagee a security interest in the personal property described below:

1. All of Mortgagor's right, title and interest in the Project and the Premises, all tenements and hereditaments thereunto appertaining and all after acquired interests of every kind and nature therein, which is situated in the County of Atchison, State of Kansas, together with all buildings, structures, fixtures, appurtenances, and improvements thereon situate or which may hereafter be erected or placed thereon (the "**Improvements**"), all remainders and reversions in the Premises and all right, title and interest of Mortgagor in and to all streets, roads, boulevards, avenues or other public thoroughfares in front of and adjoining the Premises, including all easements, licenses and rights-of-way thereunto appurtenant, attached or belonging, and also all right, title and interest of Mortgagor in and to all strips and gores of land adjacent to the Premises; and

2. All heating, lighting, ventilating, cooling, refrigeration, water supply apparatus and fixtures, all water closets, basins, pipes, faucets, mantels, elevators, escalators, and snow and dirt removal equipment and all other apparatus, fixtures, machinery, equipment and all replacements thereof, now or hereafter located upon and used or furnished in connection with the letting or operation of the Premises, which are and shall be deemed to be a portion of the security for the indebtedness herein mentioned and covered by this Mortgage (the "**Fixtures**"); and

3. All equipment and other articles of personal property now or in the future constituting a part of the Premises, and all substitutions for changes in or replacements of the whole or any part thereof, but only to the extent that such substitutions, changes and replacements constitute a part of the Premises under the terms of the Lease (collectively, the "**Personal Property**"); and

4. All of Mortgagor's contract rights under the Lease, including, but not limited to the Mortgagor's right to purchase the Premises, Project, Improvements, and Personal Property located thereon, contained in the Lease; and

5. All rents, royalties, profits, revenues, income and other benefits of and from the property subject or required to be subject to the lien of this Mortgage, and all of the estate, right, title and interest of every nature whatsoever of Mortgagor in and to the same and every part and parcel thereof; and

6. All right, title and interest of Mortgagor in and to the following, including the right to receive the same, to-wit (to the extent not pledged to the Trustee):

6.1. All proceeds of insurance paid or payable as a result of damage to or destruction of the property described above; and

6.2. Any and all awards or payments, including interest thereon, which may be made with respect to the property described above as a result of: (i) the exercise of the right of eminent domain; (ii) the alteration of the grade of any streets or roads; and (iii) any other damage or injury to or decrease in the value of the property described above,

in each such instance to the extent of all amounts which may be secured by this Mortgage on the date of receipt of any such insurance proceeds, awards or payments by Mortgagee, and to the extent of reasonable counsel fees (to the extent now or hereafter permitted by law), costs and disbursements incurred by Mortgagee in connection with the collection of any such insurance proceeds, award or payment;

all of the same being hereinafter collectively called the "**Mortgaged Property**". Notwithstanding anything else in this Mortgage to the contrary, the Mortgaged Property shall not include any property related to the Project, whether real or personal and whether tangible or intangible, to the extent owned by the Issuer or the Trustee and leased to Mortgagor pursuant to the Lease, other than with respect to Mortgagor interest therein under the terms of the Lease.

TO HAVE AND TO HOLD all the above granted Mortgaged Property, whether now owned or hereafter acquired, unto Mortgagee and its successors and assigns.

## ARTICLE 1.

## OBLIGATIONS SECURED

1.1 Obligations Secured. Mortgagor makes this grant and assignment for the purpose of securing the following obligations (each, a "**Secured Obligation**" and collectively, the "**Secured Obligations**"):

(a) payment to Mortgagee of all sums at any time owing and performance of all other obligations arising under or in connection with the Note with interest as provided therein, executed by Mortgagor and payable to Mortgagee or its order, together with the payment and performance of any other indebtedness or obligations incurred in connection with the credit accommodation evidenced by the Note, whether or not specifically referenced therein; and

(b) payment and performance of all obligations of Mortgagor under this Mortgage, together with all advances, payments or other expenditures made by Mortgagee as or for the payment or performance of any such obligations of Mortgagor; and

(c) payment and performance of all obligations, if any, and the contracts under which they arise, which any rider attached to and recorded with this Mortgage recites are secured hereby; and

(d) payment to Mortgagee of all liability, whether liquidated or unliquidated, defined, contingent, conditional or of any other nature whatsoever, and performance of all other obligations, arising under any swap, derivative, foreign exchange or hedge transaction or arrangement (or other similar transaction or arrangement howsoever described or defined) at any time entered into with Mortgagee in connection with any Secured Obligation; and

(e) payment and performance of all obligations of Mortgagor under the Loan Documents, together with all advances, payments or other expenditures made by Mortgagee as or for the payment or performance of any such obligations of Mortgagor; and

(f) payment and performance of all future advances and other obligations that the then record owner of the Mortgaged Property may agree to pay and/or perform (whether as principal, surety or guarantor) for the benefit of Mortgagee, when any such advance or other obligation is evidenced by a writing which recites that it is secured by this Mortgage; and

(g) all modifications, extensions and renewals of any of the Secured Obligations (including without limitation, (i) modifications, extensions or renewals at a different rate of interest, or (ii) deferrals or accelerations of the required principal payment dates or interest payment dates or both, in whole or in part), however evidenced, whether or not any such modification, extension or renewal is evidenced by a new or additional promissory note or notes.

1.2 Obligations. The term "obligations" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, joint or several, including without limitation, all principal, interest, charges, including prepayment charges and late charges, and loan fees at any time accruing or assessed on any Secured Obligation.

1.3 Incorporation. All terms of the Secured Obligations are incorporated herein by this reference. All persons who may have or acquire an interest in the Mortgaged Property are hereby deemed to have notice of the terms of the Secured Obligations and to have notice, if provided therein, that: (a) the Note or any other Secured Obligation may permit borrowing, repayment and reborrowing; and (b) the rate of interest on one or more of the Secured Obligations may vary from time to time.

1.4 Future Advances. This Mortgage secures all future advances and obligations under the Secured Obligations up to the maximum principal sum of $15,000,000 pursuant to K.S.A. 58-2336 (the "**Maximum Sum**") for the Mortgaged Property located in the state of Kansas. The total amount of obligations and advances secured hereby may decrease or increase from time to time, provided that the amount of the lien shall not at any time exceed the Maximum Sum, all accrued interest thereon, and all amounts (other than principal) payable by any obligor under the Secured Obligations, including, without limitation, all taxes and insurance premiums paid or advanced by Mortgagee with respect to the Mortgaged Property, all costs of enforcing and foreclosing on the lien of this Mortgage, and all sums expended or incurred for the protection of the security interest hereby created in the Mortgaged Property, regardless whether the foregoing was advanced, paid, incurred or expended prior to the date hereof or at any future time or times.

## ARTICLE 2.

## PARTICULAR COVENANTS OF GRANTOR

Mortgagor covenants and agrees with Mortgagee as follows:

2.1. Payment of Credit Agreement and the Secured Obligations. That it will pay the Credit Agreement and the Secured Obligations in full as herein and in the Credit Agreement and the Loan Documents provided and will perform and keep all the covenants and agreements in this Mortgage, the Credit Agreement, the Loan Documents and in all other instruments securing payment of the Credit Agreement, Loan Documents and the Secured Obligations.

2.2. Title and Lien. That at the delivery hereof, it is in possession of the Mortgaged Property as tenant under the Lease hereinabove granted and is seized of a the leasehold estate created thereby, free and clear of all liens and encumbrances except for those encumbrances which are of public record, that it has full power to subject the same to the lien hereof and that it will warrant and defend the title to such leasehold estate forever against the claims and demands of all persons whomsoever.

2.3. That the lien created by this Mortgage is a first lien on the Mortgaged Property and that it will keep the same and the rights, privileges and appurtenances thereto free from all lien claims of every kind ranking on a parity with or having priority over this Mortgage and will protect and defend the title and possession thereof so that this Mortgage shall be and remain a first lien thereon until said debt be fully paid, or if foreclosure sale be had hereunder so that the purchaser at the said sale shall acquire good title in fee simple to the Mortgaged Property free and clear of all liens and encumbrances. Borrower represents, covenants, and warrants:

2.3.1. that the Lease is in full force and effect and has not been modified or amended in any manner whatsoever;

2.3.2. that there are no defaults under the Lease, and no event has occurred, that, with the giving of notice, the passage of time, or both, would constitute a default under the Lease;

2.3.3. that all rents, additional rents, and other sums due and payable under the Lease have been paid in full to the extent they were payable before the date of this Mortgage;

2.3.4. that neither Borrower nor the landlord under the Lease has commenced any action or given or received any notice for the purpose of terminating the Lease;

2.3.5. that the interest of the tenant under the Lease is vested in the Borrower;

2.3.6. the quiet and peaceful possession of Lender, subject to the rights of the Issuer as owner and and the Mortgagor as tenant under the Lease; and

2.3.7. that the Borrower will defend the leasehold estate created by the Lease for the entire remainder of the term set forth in the Lease, against all and every person or persons lawfully claiming, or who may claim the same or any part of the Lease, subject only tot he payment of the rents reserved in the Lease and to the performance and observance of all the terms, covenants, conditions and warranties of the Lease.

2.4. Lease. The Mortgaged Property includes a leasehold estate pursuant to the Lease under which Mortgagor is the lessee. In respect of the Lease, Mortgagor hereby covenants, warrants and agrees to and with Mortgagee that:

(a) In no event shall Mortgagor do or permit to be done, or omit to do or permit the omission of, any act or thing, the doing of or omission to do, which would impair the lien of this Mortgage or would constitute grounds for the termination of any such Lease, or, with the giving of notice or the passage of time or both, would entitle the landlord thereunder to declare a forfeiture thereof or a default thereunder, or to re-enter the property covered by such Lease;

(b) Mortgagor will not release, surrender or terminate the Lease without the prior written consent of Mortgagee, nor without similar consent will Mortgagor modify, amend or change in any manner any of the terms, provisions, covenants or agreements contained in the Lease, except for such amendments as do not materially reduce the rights or increase the obligations of Mortgagor under the Lease;

(c) There shall be no merger of any of the Lease or the estate created thereby or of any building, building service equipment or other improvements now or hereafter constituting a portion of the Mortgaged Property with the fee estate of the land and premises covered by such Lease, by reason of the fact that any of said Agreements or the interests and estates created thereby or any interest in such building, equipment or other improvement be held directly or indirectly by or for the account of any person or persons who shall hold the fee estate in that portion of the Mortgaged Property covered by such Lease or any portion thereof or any interest in such fee estate; nor shall there be a merger by reason of the fact that all or any part of the estates or any interests of Mortgagor under the Lease may be conveyed or mortgaged to a person who shall hold the fee estate in the Premises covered thereby or any portion thereof; and

(d) If Mortgagor (or a successor under the Lease) becomes the owner of the fee estate of the Premises covered thereby, this Mortgage shall, without further act or deed, be deemed to have spread to, shall cover and subject such fee estate to the lien and charge of this Mortgage.

2.5. Lease Obligations. Mortgagor covenants that, in addition to the payment of all rents, additional rent, impositions and other payments and charges required to be paid by Mortgagor under the pursuant to the provisions of the Lease, Mortgagor will:

(a) Diligently perform and observe all of the terms, covenants and conditions of the Lease required to be performed and observed by Mortgagor thereunder, to the end that all things shall be done which are necessary and appropriate to keep unimpaired Mortgagor’s rights under the Lease;

(b) Promptly notify Mortgagee in writing of any default by any lessor or other party under the Lease in the performance or observance of any of the terms, covenants or conditions on the part of such lessor or other party to be performed or observed thereunder;

(c) Promptly (i) advise Mortgagee in writing of the giving of any notice by any lessor, sublessor or any other party under the Lease to Mortgagor of any default by Mortgagor in the performance or observance of any of the terms, covenants or conditions contained in the Lease on the part of Mortgagor to be performed or observed, and (ii) deliver to Mortgagee a true copy of each such notice;

(d) At least sixty (60) days prior to the last day upon which Mortgagor may validly exercise any option to renew or extend the term of the Lease, give written notice to Mortgagee of Mortgagor’s intention to so exercise said option or not exercise all such renewal or extension options; it is expressly agreed that, in the event of Mortgagor’s failure to exercise any option to renew or extend the term of the Lease pursuant to the provisions hereof Mortgagee shall have, and is hereby granted, the irrevocable right to exercise any such option either in its own name and behalf or in the name and behalf of a designee or nominee of Mortgagee or in the name and behalf of Mortgagor, as Mortgagee in its sole discretion shall determine;

(e) Promptly notify Mortgagee in writing in the event of the initiation of any litigation or court proceedings with respect to the Lease, it being agreed that (i) Mortgagee shall have the right to enter such litigation or court proceedings to preserve its rights under this Mortgage at the expense of Mortgagor, and (ii) if, at the time such litigation or court proceedings shall be initiated, Mortgagor shall be in default in the performance or observance of any term, covenant, condition or other requirement hereof or of the Lease on the part of Mortgagor to be performed or observed, Mortgagee shall have and is hereby granted the sole and exclusive right to defend or prosecute, as appropriate, the rights, obligations or duties of Mortgagor therein, provided that nothing herein shall impose any duty upon Mortgagee to enter in any such litigation or court proceedings; and

(f) Within 30 days after written demand by Mortgagee, use its best abilities to obtain from the lessor, sublessor or any other party under the Lease and furnish to Mortgagor an estoppel certificate of such party in form and content reasonably required by Mortgagee.

2.6. Lease Default. Mortgagor further covenants that:

(a) Should Mortgagor fail to perform and observe all of such terms, covenants and conditions of the Lease without reliance upon notice or any period of grace, Mortgagee may (but shall be under no obligation to) take any action, without allowing for notice or the expiration of any period of grace, as Mortgagee may deem necessary or desirable to prevent or cure any default of Mortgagor under the Lease;

(b) Upon receipt by Mortgagee of any notice of default under the Lease by Mortgagor, Mortgagee shall be entitled to rely thereon following notification of Mortgagor of Mortgagee's receipt of such notice of default and take such action (even though Mortgagor denies or questions the existence of such default);

(c) Mortgagee shall have the right to enter all or any portion of the Premises at such times and in such manner as Mortgagee deems appropriate to prevent or to cure any such default; and

(d) All monies expended by Mortgagee to prevent or to cure any such default, together with interest thereon, shall be payable upon demand and shall be secured by the Mortgage.

2.7. Further Assurances. That it will, at its expense, do all such further acts and execute, acknowledge, deliver and record financing and continuation statements and all such further instruments as Mortgagee shall require to:

(a) continue, preserve and maintain this Mortgage as a valid and subsisting first and prior lien and security interest upon the Mortgaged Property enforceable in accordance with the terms and provisions of this Mortgage;

(b) preserve and maintain the rights created by any other instruments securing the payment of the Credit Agreement, Loan Documents and the Secured Obligations; and

(c) preserve and maintain the priority of this Mortgage and all such other instruments securing the payment of the Credit Agreement and the Loan Documents and the record notice thereof so that no rights or liens of others shall gain parity with or priority over this Mortgage and the other instruments securing the payment of the Credit Agreement, Loan Documents and the Secured Obligations.

2.8. Taxes, Assessments and Utilities. That it will forthwith pay all taxes, assessments, water and sewer charges and public charges, general and special, of every nature, now existing against the Mortgaged Property, the improvements thereon and appurtenances thereto, and pay before delinquent all taxes, assessments, water and sewer charges and public charges, general and special, of every nature hereafter levied or assessed thereon. In the event of the enactment after the date hereof of any Federal law or law of the State of Kansas deducting from the value of land for the purpose of taxation, any lien thereon, or changing in any way the laws now in force for the taxation of mortgages or debts secured by mortgages, or the manner of the collection of any such taxes, so as to materially or adversely affect this Mortgage or the debt secured hereby, then, in such case the whole of the unpaid principal sum secured by this Mortgage, together with the interest accrued thereon, shall, at the option of Mortgagee and without notice to any party, become immediately due and payable; provided, however, Mortgagee agrees that it will not exercise such option to so declare such indebtedness to be immediately due and payable if Mortgagor shall pay before the same shall be delinquent any tax, imposition or assessment imposed by any such law resulting in Mortgagee having to bear directly or indirectly the whole or any part of any tax, imposition or assessment imposed upon or with respect to the Mortgaged Property or this Mortgage or the lien created hereby. Mortgagor will pay (or cause to be paid) before delinquent all charges for gas, electricity, water, sewer or other public utility services furnished to the Mortgaged Property.

In the event Mortgagor shall fail to pay any of the foregoing before delinquent Mortgagee may (but shall not be obligated to) pay the same and any interest and penalties thereon and the sums so advanced with all costs and expenses thereof shall be secured hereby in accordance with the provisions of Section 2.14 below.

Insurance. The Mortgagor shall insure the Mortgaged Property as required by the Credit Agreement.

2.9. Environmental Representations and Warranties. Mortgagor represents and warrants, that, to the best of Mortgagor's knowledge, except as disclosed in or permitted by the Credit Agreement: (a) there are no Hazardous Substances (defined below) or underground storage tanks in, on, or under the Property, except those that are both (i) in compliance with Environmental Laws (defined below) and with permits issued pursuant thereto, if any, and (ii) fully disclosed to Mortgagee in writing; (b) there are no past or present Releases (defined below) of Hazardous Substances in violation of any Environmental Law or which would require Remediation (defined below) by a Governmental Authority in, on, under or from the Property except as described in the Environmental Report; (c) there is no past or present non-compliance with Environmental Laws, or with permits issued pursuant thereto, in connection with the Property; (d) Mortgagor does not know of, and has not received, any written or oral notice or other communication from any person or entity (including, but not limited to a governmental entity) relating to Hazardous Substances or Remediation thereof, of possible liability of any person or entity pursuant to any Environmental Law, other environmental conditions in connection with the Property, or any actual administrative or judicial proceedings in connection with any of the foregoing; and (e) Mortgagor has truthfully and fully provided to Mortgagee, in writing, any and all information relating to environmental conditions in, on, under or from the Property that is known to Mortgagor and that is contained in Mortgagor's files and records, including, but not limited to any reports relating to Hazardous Substances in, on, under or from the Property and/or to the environmental condition of the Property. "Environmental Law" means any present, future, federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Substances, relating to liability for or costs of Remediation or prevention of Releases of Hazardous Substances or relating to liability for or costs of other actual or threatened danger to human health or the environment. "Environmental Law" includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Substances Transportation Act; the Resource Conservation and Recovery Act (including, but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; and the River and Harbors Appropriation Act. "Environmental Law" also includes, but is not limited to, any present or future, federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law: conditioning transfer of property upon a negative declaration or other approval of a governmental authority of the environmental condition of the property; requiring notification or disclosure of Releases of Hazardous Substances or other environmental condition of the Property to any governmental authority or other person or entity, whether or not in connection with transfer of title to or interest in property. "Hazardous Substances" include but are not limited to any and all substances (whether solid, liquid or gas) (i) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future, Environmental Laws or (ii) that may have a negative impact on human health or the environment, including, but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives. "Release" of any Hazardous Substance includes, but is not limited to any release, deposit, discharge, emission, leaking, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing or other movement of Hazardous Substances. "Remediation" includes, but is not limited to any response, remedial removal, or corrective action, any activity to cleanup, detoxify, decontaminate, contain or otherwise remediate any Hazardous Substance, any actions to prevent, cure or mitigate any Release of any Hazardous Substance, any action to comply with any Environmental Laws or with any permits issued pursuant thereto, any inspection, investigation, study, monitoring, assessment, audit, sampling and testing, laboratory or other analysis, or evaluation relating to any Hazardous Substances or to anything referred to in this Article.

2.10. Environmental Covenants. Mortgagor covenants and agrees that so long as the Mortgagor owns, manages, is in possession of, or otherwise controls the operation of the Property: (a) all uses and operations on or of the Property, whether by Mortgagor or any other person or entity, shall be in compliance with all Environmental Laws and permits issued pursuant thereto; (b) there shall be no Releases of Hazardous Substances in, on, under or from the Property which are not promptly remediated; (c) there shall be no Hazardous Substances in, on, or under the Property, except those that are in compliance with all Environmental Laws and with permits issued pursuant thereto, if and to the extent required; (d) Mortgagor shall keep the Property free and clear of all liens and other encumbrances imposed pursuant to any Environmental Law, whether due to any act or omission of Mortgagor or any other person or entity (the "Environmental Liens"); (e) Mortgagor shall, at its sole cost and expense, fully and expeditiously cooperate in all activities pursuant to Section 2.11 below, including, but not limited to providing all relevant information and making knowledgeable persons available for interviews; (f) Mortgagor shall, at its sole cost and expense, perform any environmental site assessment or other investigation of environmental conditions in connection with the Property, pursuant to any reasonable written request of Mortgagee after Mortgagee has reason to believe this Section has been violated (including, but not limited to sampling, testing and analysis of soil, water, air, building materials and other materials and substances whether solid, liquid or gas), and share with Mortgagee the reports and other results thereof, and Mortgagee shall be entitled to rely on such reports and other results thereof; (g) Mortgagor shall, at its sole cost and expense, comply with all reasonable written requests of Mortgagee to (i) reasonably effectuate Remediation of any condition (including, but not limited to a Release of a Hazardous Substance) in, on, under or from the Property, (ii) comply with any Environmental Law, (iii) comply with any directive from any governmental authority, and (iv) take any other reasonable action necessary or appropriate for protection of human health or the environment; (h) Mortgagor shall not do or allow any tenant or other user of the Property to do any act that materially increases the dangers to human health or the environment, poses an unreasonable risk of harm to any person or entity (whether on or off the Property), impairs or may impair the value of the Property, is contrary to any requirement of any insurer, constitutes a public or private nuisance, constitutes waste, or violates any covenant, condition, agreement or easement applicable to the Property; and (i) Mortgagor shall immediately notify Mortgagee in writing promptly after it has become aware of (A) any presence or Releases or threatened Releases of Hazardous Substances in, on, under, from or migrating towards the Property which is required to be reported to a governmental authority under any Environmental Law, (B) any actual Environmental Lien affecting the Property, (C) any required Remediation of environmental conditions relating to the Property, and (D) any written or oral notice or other communication of which Mortgagor becomes aware from any source whatsoever (including, but not limited to a governmental entity) relating in any way to Hazardous Substances or Remediation thereof, possible liability of any person or entity pursuant to any Environmental Law, other environmental conditions in connection with the Property, or any actual or threatened administrative or judicial proceedings in connection with anything referred to in this Article.

2.11. Mortgagee's Rights. Mortgagee, its environmental consultant, and any other person or entity designated by Mortgagee, including, but not limited to any receiver and any representative of a governmental entity, shall have the right, but not the obligation, at intervals of not less than one year, or more frequently if the Mortgagee reasonably believes that a Hazardous Substance or other environmental condition violates or threatens to violate any Environmental Law, after notice to Mortgagor, to enter upon the Property at all reasonable times to assess any and all aspects of the environmental condition of the Property and its use, including, but not limited to conducting any environmental assessment or audit of the Property or portions thereof to confirm Mortgagor's compliance with the provisions of this Article, and Mortgagor shall cooperate in all reasonable ways with Mortgagee in connection with any such audit. Such audit shall be performed in a manner so as to minimize interference with the conduct of business at the Property. If such audit discloses that a violation of or a liability under any Environmental Law exists or if such audit was required or prescribed by law, regulation or governmental or quasi-governmental authority, Mortgagor shall pay all costs and expenses incurred in connection with such audit; otherwise, the costs and expenses of such audit shall, notwithstanding anything to the contrary set forth in this Section, be paid by Mortgagee.

2.12. Maintenance of Improvements. Mortgagor will:

(a) keep the Mortgaged Property in good order and repair, and will not commit or suffer waste thereon, nor remove, raze or demolish any of the improvements located on the Premises without the prior written consent of Mortgagee, nor do or permit to be done any act whereby the Mortgaged Property shall become less valuable;

(b) perform and comply with, and cause the Mortgaged Property to be maintained, used and operated in accordance with, any and all (i) present and future laws, ordinances, rules, regulations and requirements of every duly constituted governmental or quasi-governmental authority or agency having jurisdiction over Mortgagor or the Mortgaged Property or any part thereof.

(c) maintain and keep in full force and effect all licenses, permits and consents necessary or required by any such governmental authority or agency.

2.13. Protection of Mortgaged Property and Rights. Mortgagee shall have the right and power to institute and maintain or defend or intervene in such suits and proceedings as it may reasonably and in good faith deem necessary to:

(a) prevent any impairment of the Mortgaged Property by any acts which may be unlawful or constitute any violation of this Mortgage;

(b) enforce, defend, preserve or protect its interest (including the priority of the lien created hereby) in and to the Mortgaged Property and the income, royalties, revenue, rents, profits and other benefits arising therefrom and its rights and remedies under this Mortgage;

(c) restrain the enforcement of or compliance with any legislation or other governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would substantially impair the security hereunder or be substantially prejudicial to the interest of Mortgagee; and

(d) defend, preserve or protect its interests should Mortgagee become a party to any suit or proceeding by reason of this Mortgage.

All of Mortgagee's costs and expenses (including attorneys' fees to the extent permitted by law) incurred in any such actions shall be secured hereby and be paid by Mortgagor on demand as provided in Section 2.14 below.

2.14. Advances Secured. If Mortgagor shall fail to perform any of its obligations under this Article and if Mortgagee shall advance its funds for any of the purposes specified in such Sections or if Mortgagee shall advance sums for or in connection with any suit or proceeding referred to in of this Article, then the sums so advanced by Mortgagee, together with the costs and expenses of effecting the same, shall be payable on demand with interest from the date of payment. All sums advanced by Mortgagee under the provisions this Article and the costs and expenses thereof with interest from the date of the advance at the rate ten percent (10%) per annum shall be added to and become a part of the indebtedness of Mortgagor until paid and the repayment thereof shall be secured by this Mortgage with the same priority and in the same manner as the indebtedness evidenced by the Credit Agreement and the Loan Documents secured hereby.

2.15. Damage to Mortgaged Property. Subject to the prior rights of the City under the Lease, if all or any part of the Mortgaged Property shall be damaged by fire or other casualty, Mortgagor will promptly restore the Mortgaged Property to the equivalent of its original condition, regardless of whether or not there shall be any insurance proceeds therefor, except if Mortgagee, shall elect to apply the insurance proceeds to the payment of the Credit Agreement, the Loan Documents and any other indebtedness secured hereby, Mortgagor shall not be obligated to so restore the Mortgaged Property. If a part of the Mortgaged Property shall be physically damaged through condemnation, Mortgagor will promptly restore, repair or alter that portion of the Mortgaged Property remaining after such condemnation in a manner satisfactory to Mortgagee, except if Mortgagee shall elect to apply the condemnation proceeds to the payment of the Credit Agreement, the Loan Documents and any other indebtedness secured hereby, Mortgagor shall not be obligated to restore the Mortgaged Property.

2.16. Inspections. Mortgagee is hereby authorized to enter upon and inspect the Mortgaged Property at any time upon twenty-four (24) hours prior notice to any tenant during normal business hours during the life of this Mortgage and for such purposes is hereby granted an easement to enter upon and inspect the Mortgaged Property.

2.17. Replacements - Alterations. None of the improvements, fixtures, apparatus or equipment, except personal property, trade fixtures and other property owned by or leased to the tenant, now or hereafter owned or leased by Mortgagor and now or hereafter attached to or located upon and used or furnished in connection with the operation or letting of the Mortgaged Property or any part thereof shall be removed without the prior written consent of Mortgagee unless replaced with similar property of equal or greater value and no building now or hereafter on the Premises shall be materially structurally altered without the prior written consent of Mortgagee. The consent of Mortgagee shall not be unreasonably withheld, and Mortgagee shall be deemed to have consented to any proposed removal or material structural alteration unless it objects within ten (10) days following written notice thereof.

2.18. Demolition - Eminent Domain. Subject to the prior rights of the City under the Lease, if upon the actual or threatened waste, demolition or removal of any of the improvements now or hereafter on the Premises or the condemnation or other taking (including, without limiting the generality of the foregoing, changes of grades of streets) under the power of eminent domain of all or any part of the Mortgaged Property or upon any other damage or injury to or decrease in the value of the Mortgaged Property, the entire indebtedness secured hereby shall, at the option of Mortgagee, without notice, become immediately due and payable. Subject to the prior rights of the City under the Lease, if Mortgagor hereby assigns to Mortgagee as additional security for the debt secured hereby, all awards in any and all such proceedings, including all awards or payments for injury or damage to or decrease in the value of the Mortgaged Property, which may, at the option of Mortgagee, be applied on the indebtedness hereby secured after first deducting the costs and expenses of Mortgagee (including attorneys' fees to the extent permitted by law) incurred in such proceedings and any balance of such monies then remaining shall be paid to Mortgagor. Mortgagor will give notice of any such proceedings or event to Mortgagee and Mortgagee may intervene therein for the protection of its interest in the Mortgaged Property. Mortgagor will execute and deliver to Mortgagee from time to time such further instruments as may be requested by Mortgagee to confirm such assignment to Mortgagee of any such award or payment.

2.19. Rent Assignment. That the income, rents and profits and rental value of the Mortgaged Property and any and all present or future leases and rental and occupancy agreements are hereby pledged and assigned to Mortgagee as additional security for the payment of the indebtedness secured hereby; provided, however, until an Event of Default (as defined in the Credit Agreement), Mortgagor shall be suffered and permitted to use and enjoy the Mortgaged Property and to receive when due, but not more than one (1) month in advance, except upon written approval of Mortgagee, the income, rents and profits and rental value thereof.

In the event and during the continuance of an Event of Default, Mortgagee, at its option and without notice, shall have full power and authority to do and perform any one or more of the following, to-wit:

(a) to take possession of the Mortgaged Property and to operate and maintain the same with full power and authority to lease the whole or any part thereof and to collect the income, rents and profits therefrom;

(b) to institute and carry on all actions and proceedings deemed necessary for the recovery of possession or the protection of all or any portion of the Mortgaged Property and to institute and prosecute all actions and proceedings for the collection of income, rents and rental value then due and unpaid and thereafter to become due;

(c) to make repairs, improvements, alterations or additions deemed necessary;

(d) to pay the costs and expenses (including, to the extent not prohibited by law, attorneys' fees if one be employed) of any or all of the foregoing out of the income, rents and profits received, and to apply the balance toward the cost of discharging the obligations imposed upon Mortgagor by this Mortgage, the Credit Agreement or the Loan Documents secured hereby; and

(e) Mortgagee shall in addition be entitled to have a receiver appointed ex parte by a court of proper jurisdiction to perform any and all of the functions specified in subparagraphs (a), (b), (c) and (d), above.

The foregoing powers and authorities contained in subparagraphs (a) to (e), inclusive, shall be operative whether or not foreclosure proceedings have been initiated and shall remain in effect after sale and during redemption periods, if any. Upon or after an Event of Default, Mortgagee, in addition to the foregoing, at its option and without notice, shall have full right, power and authority to enter upon the Mortgaged Property and collect the income, rents and profits hereby assigned with or without taking possession thereof.

2.20. Leases Affecting Mortgaged Property. Mortgagor will comply with and observe its obligations as landlord under all leases affecting all or any part of the Mortgaged Property. Mortgagor will not amend, cancel, abridge, terminate, or otherwise modify any existing or future lease of the Mortgaged Property, or any part thereof, or enter into any new lease, sublease, renewals, or extension, or accept any prepayment of rent or installments of rent for more than one month in advance, without the prior written consent of Mortgagee, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, Mortgagor shall not be required to obtain the prior consent of Mortgagee to enter into any new lease provided that such new lease meets the following requirements: (1) The lease is on the current form lease used by Mortgagor for the Mortgaged Property as approved by Mortgagee; (2) The minimum annual rent per square foot of lease space under such new lease is not less than the minimum annual rent per square of leased space for the then existing lease of any portion of the Mortgaged Property with the lowest rental rate, and (3) Upon execution of the lease, a copy of the executed lease shall be delivered to Mortgagee. Notwithstanding the foregoing, Mortgagor shall have the right to make non-material changes to any lease of the Mortgaged Property without the prior written consent of Mortgagee. Mortgagor shall also have the right to renew or extend the term of any lease of the Mortgaged Property provided that the rental is equal to or greater than the rental during the expired lease term and the other terms of the lease remain materially the same as the terms in effect during the expired lease term. If requested by Mortgagee, Mortgagor will separately assign to Mortgagee, as additional security, any and all such leases whether now existing or hereafter created, including, without limitation, all rents, royalties, issues and profits of the Mortgaged Property from time to time accruing.

At the request of Mortgagee, Mortgagor will enter into appropriate agreements which will effect the subordination of this Mortgage to any present or future leases of all or any part of the Mortgaged Property.

2.21. No Further Assignments of Leases - Rents. Mortgagor will make no assignment of leases, income, rents, profits or rental value of the Mortgaged Property for any present or future debts or obligations other than those secured by this Mortgage.

2.22. Leases - Foreclosure. In the event of a default under this Mortgage, which default remains uncured after the expiration of any applicable cure period, Mortgagee, at Mortgagee's option, is authorized to foreclose this Mortgage subject to the rights of any tenants of the Mortgaged Property, and the failure to make any such tenants parties defendant to any such foreclosure proceeding and to foreclose their rights will not be, nor be asserted to be by Mortgagor, a defense to any proceedings instituted by Mortgagee to collect the sums secured hereby or any deficiency remaining unpaid after the foreclosure sale of the Mortgaged Property.

2.23. Maximum Interest. No provision of this Mortgage or any other instrument securing the Credit Agreement or the Loan Documents shall require the payment or permit the collection of interest in excess of the maximum amount permitted by law. If any excess of interest in such respect is herein, in the Credit Agreement, the Loan Documents or in such other instrument provided for, or shall be adjudicated to be so provided for herein, in the Credit Agreement, the Loan Documents or in such other instrument, neither Mortgagor nor its successors in title shall be obligated to pay such interest in excess of the maximum amount not prohibited by law and the right to demand the payment of any such excess shall be and hereby is waived. This provision shall control any other provision of the Credit Agreement, the Loan Documents, this Mortgage or such other instrument. If any such excess interest shall have been paid by Mortgagor, it shall automatically be treated as a permitted additional prepayment of principal, but no premium for such payment shall be charged to Mortgagor.

2.24. Security Agreement. This Mortgage in addition to being a first lien on the Mortgaged Property, is also a Security Agreement by and between Mortgagor, as debtor, and Mortgagee, as secured party, with respect to that portion of the Mortgaged Property which is subject to the Uniform Commercial Code, and this Mortgage creates and grants to Mortgagee a first lien and security interest in all such Mortgaged Property until the obligations hereunder, under the Credit Agreement, the Loan Documents and the other Loan Documents are paid and performed in full. Mortgagor hereby grants to Mortgagee a security interest in all such property as security for the payment and performance of said obligations. Upon the occurrence of any Event of Default, Mortgagee shall have all the rights and remedies of a secured party under the Uniform Commercial Code and any other applicable laws. This Mortgage will also constitute a Uniform Commercial Code financing statement for purposes of perfecting Mortgagee's interest in the Mortgaged Property.

2.25. Waiver of Redemption. In the event of a default by Mortgagor in the performance of the obligations imposed upon it by the terms of this Mortgage, the Credit Agreement, the Loan Documents secured hereby or any other instrument securing said Credit Agreement and the Credit Agreement, neither Mortgagor nor anyone claiming through or under it shall or will set up, claim or seek to take advantage of any stay, extension or redemption laws or redemption periods of grace periods (except as provided for herein) now or hereafter in force and affecting the Mortgaged Property in order to prevent or hinder enforcement, foreclosure, sale, confirmation of sale or conveyance of the Mortgaged Property upon foreclosure or the final and absolute putting in possession thereof immediately after any such sale of the purchaser or purchasers thereat, and Mortgagor, for itself and its successors in title, to the full extent that it may lawfully do so for itself and its successors in title, hereby waives the benefit of all such laws.

2.26. Transfer or Further Encumbrance of Mortgaged Property. If Mortgagor sells, assigns, conveys, transfers or otherwise alienates or further mortgages or encumbers the Mortgaged Property or any part thereof or interest therein, whether legal or equitable, and whether voluntarily or involuntarily (by foreclosure or otherwise) or by operation of law, without in each such instance obtaining the prior written consent of Mortgagee (which consent may be withheld for any reason), Mortgagee may, at its option, accelerate the maturity of the Credit Agreement and the Loan Documents secured hereby. For the purposes of this paragraph, the disposition or other transfer of stock (or any general partnership interest) in Mortgagor (if applicable), except by devise or descent, shall be deemed a transfer of an interest in the Mortgaged Property.

2.27. Fixture Filing. Certain of the Mortgaged Property is or will become "fixtures" (as that term is defined in the UCC) on the Mortgaged Property. Upon recording this Mortgage in the real property records, this Mortgage shall be effective as a financing statement filed as a fixture filing. In addition, a carbon, photographic or other reproduction of this Mortgage and/or any financing statement relating hereto shall be sufficient for filing and/or recording as a financing statement. The filing of any other financing statement relating to any personal property rights or interests described herein shall not be construed to diminish any right or priority hereunder.

## ARTICLE 3.

## DEFEASANCE - DEFAULTS

Mortgagor covenants and agrees as follows:

3.1. Defeasance. If the payments due under the Credit Agreement and the Loan Documents, and interest thereon be paid when due and the covenants and agreements in the Credit Agreement, the Loan Documents, this Mortgage and all other instruments securing the payment thereof be faithfully kept and performed, then these presents shall be null and void and the Mortgaged Property shall be released from the lien hereof at the cost of Mortgagor.

3.2. Defaults. Subject to any applicable notice or grace period provided herein (if any), if any one or more of the following defaults shall occur:

(a) if default shall be made in the payment of any obligations on or under the Credit Agreement, the Loan Documents or any payment required pursuant to Section 1.1 of this Mortgage, when and as the same shall become due and payable, or in any other payment on the Credit Agreement or the Loan Documents, when and as the same shall become due and payable, whether at maturity, by acceleration or as a part of any prepayment or otherwise, as in the Credit Agreement, the Loan Documents or this Mortgage provided; or

(b) if default shall be made in the due observance or performance of any covenant or agreement contained in this Mortgage; or

(c) if default shall be made in the due observance or performance of any covenant, condition or agreement of Mortgagor contained in any other instrument securing the Credit Agreement or the Loan Documents; or

(d) if a receiver, trustee or liquidation (or other similar official) of Mortgagor or any other Mortgagor or of the Mortgaged Property or any portion thereof, shall be appointed in any proceeding or by any federal or state officer or agency and shall not be discharged within sixty (60) days after such appointment or if Mortgagor or any other Mortgagor shall consent to such appointment; or

(e) if Mortgagor or any other Mortgagor shall file a petition in bankruptcy or for reorganization or for an arrangement pursuant to the Bankruptcy Act or any similar federal or state law, now or hereafter in effect, or shall make an assignment for the benefit of its creditors or shall admit in writing its inability to pay its debts generally as they become due, or shall be dissolved, or shall suspend payment of its obligations or shall take any action in furtherance of any of the foregoing; or if a petition or an answer shall be filed proposing the adjudication of Mortgagor or any other Mortgagor as a bankrupt or its reorganization or for arrangement under the Bankruptcy Act or any similar federal or state law, now or hereafter in effect, and (1) such party shall consent to the filing thereof, or (2) such petition or answer shall not be discharged or denied within sixty (60) days after the filing thereof; or

(f) if final judgment for the payment of money in excess of $50,000 shall be rendered against Mortgagor or any other Mortgagor and such party shall not discharge the same or provide for its discharge in accordance with its terms or procure a stay of execution thereon within the period following such final judgment and prior to the execution thereon, or such longer period during which execution on such judgment shall have been stayed, or appeal from such judgment or from the order, decree or process upon or pursuant to which such judgment shall have been granted, passed or entered and cause the execution thereof to be stayed during such appeal, and if on appeal such judgment, order, decree or process shall be affirmed and such party shall not discharge such judgment or provide for its discharge in accordance with its terms within sixty (60) days after the entry of the order or decree of affirmance; or

(g) if an "Event of Default" has occurred under the Credit Agreement (as defined therein) or the Loan Documents, including, without limitation, a default under the Loan Documents (as defined in the Credit Agreement); or

(h) if default shall be made in the due observance or performance of any covenant, condition or agreement executed by Mortgagor or Guarantor (as defined in the Credit Agreement) in favor of Mortgagee as contained in any other instrument, including, without limitation, the Credit Agreement (as defined in the Credit Agreement);

then, and in every such case, this Mortgage shall stay in force and during the continuance of any such default:

(i) Mortgagee may declare any and all amounts due under the Credit Agreement or the Loan Documents (if not then due and payable), to be due and payable immediately, and upon any such amounts due under the Credit Agreement or the Loan Documents shall become and be immediately due and payable, anything in the Credit Agreement, the Loan Documents or in this Mortgage to the contrary notwithstanding;

(ii) Mortgagee shall be entitled to foreclose this Mortgage as a mortgage and shall be entitled to a judgment for the sum due upon the Credit Agreement, the Loan Documents and any additional sums paid by virtue of this Mortgage, including all costs and expenses of enforcing the same and reasonable attorneys' fees, to the extent permitted by law, and shall be entitled to a decree for the sale of the Mortgaged Property in satisfaction of said judgment foreclosing all of the rights and equities of Mortgagor in and to the Mortgaged Property, as well as all persons claiming under them and at which sale appraisement of the Mortgaged Property is hereby expressly waived by Mortgagor;

(iii) Mortgagee shall continue to have the optional rights to exercise any or all other powers, rights and remedies given Mortgagee by this Mortgage, including, and not by way of limitation, the right to pay taxes, assessments, insurance and the cost of repairs and the like given to it by Article I above and the repayment of all such funds with interest thereon as hereinabove provided shall be secured by this Mortgage;

(iv) Mortgagee shall have all the rights and remedies of a secured party under the Uniform Commercial Code; and

(v) Mortgagee shall have, in addition to the foregoing, all rights and remedies given by law and equity, including the right to have a receiver appointed for the Mortgaged Property.

No remedy granted or conferred by this Mortgage is intended to be exclusive of any other remedy or remedies and each and every remedy shall be cumulative and shall be in addition to every remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission of Mortgagee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein and every right, power and remedy given by this Mortgage or now or hereafter existing at law or in equity or by statute may be exercised from time to time and as often as may be deemed expedient by Mortgagee.

**ARTICLE 4.**

**MISCELLANEOUS**

Mortgagor covenants and agrees as follows:

4.1 No Waiver of Provisions. No failure by Mortgagee to insist upon the strict performance of any covenant, agreement, term or condition of this Mortgage or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial payment on the Credit Agreement or the Loan Documents during the continuance of any such breach, shall constitute a waiver of any such breach or of such covenant, agreement, term or condition. No covenant, agreement, term or condition of this Mortgage to be performed or complied with by Mortgagor, and no breach thereof, shall be waived, altered or modified except by an instrument executed by Mortgagee. No waiver of any breach shall affect or alter this Mortgage, but each and every covenant, agreement, term and condition of this Mortgage shall continue in full force and effect with respect to any other then existing or subsequent breach hereof.

4.2 Extensions. That any extension of the time for payment of the indebtedness secured hereby, release of security or any modification of the instrument or instruments evidencing the indebtedness secured hereby, granted to any future owner of the Mortgaged Property or to any other party or entity liable in any capacity for such indebtedness, shall not relieve Mortgagor or any other such party or entity from liability to pay said indebtedness nor release Mortgagor or any such party or entity liable for such indebtedness with respect thereto and Mortgagor does hereby waive presentment and demand for payment, notice of nonpayment and notice of protest.

4.3 Powers not Exhausted. No right or power given to Mortgagee by this instrument shall be exhausted by the exercise thereof on one or more occasions, but the same shall be a continuing right or power during the entire term of this Mortgage and may be exercised from time to time in accordance with the provisions of this instrument.

4.4 Covenants Run with Land. The covenants and agreements hereinabove contained shall run with the land and shall bind and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, but neither this

Section 4.4 nor Section 4.6 of this Article 4 shall be construed as constituting Mortgagee's consent to any assignment, conveyance or other transfer by Mortgagor of its interest in the Mortgaged Property.

4.5 Subrogation. Mortgagee, before a sale hereunder, and the purchaser at the sale hereunder, shall be subrogated to the lien of any prior encumbrance or vendor's lien, if any, on the Mortgaged Property paid out of the money secured by this Mortgage, whether or not such prior lien or encumbrance has been released of record.

4.6 Successors and Assigns, Etc. Whenever the singular or plural number, or masculine, feminine or neuter gender is used herein, it shall equally include the other, and every mention of Mortgagee or Mortgagor shall include the heirs, executors, legal representatives, administrators, successors and assigns of the party so designated. If more than one party or entity is designated as " Mortgagor" herein, each such party or entity shall be jointly and severally liable for the performance and observance of all the covenants, conditions and agreements of this Mortgage to be performed and observed by Mortgagor. The terms "Note", "Mortgage", "Credit Agreement" and "Loan Documents" shall include all amendments, modifications and supplements thereto.

4.7 Invalid Provisions to Affect No Others; Conflict. In case any one or more of the covenants, agreements, terms or provisions contained in this Mortgage, the Credit Agreement or the Loan Documents shall be invalid, illegal or unenforceable in any respect, the validity of the remaining covenants, agreements, terms or provisions contained herein and in the Credit Agreement and the Loan Documents shall be in no way affected, prejudiced, limited or impaired thereby. If there is any conflict between the terms and conditions contained herein and the terms and conditions contained in the Credit Agreement or the Loan Documents (including without limitation with respect to notice and cure periods and covenants related to casualty loss and condemnation), the terms and conditions in the Credit Agreement or the Loan Documents (as the case may be) shall govern and control.

4.8 Notice. All notices to be given pursuant to this Mortgage shall be sufficient if mailed postage prepaid, United States certified or registered mail, return receipt requested, to the above-described addresses of the parties hereto, or to such other addresses as a party may request in writing. Any notice given hereunder shall be deemed to have been received on the date such notice is deposited in the mail as aforesaid.

4.9 Headings. The headings of the subdivisions of this Mortgage are for convenience of reference only, are not to be considered a part hereof, and shall not limit or otherwise affect any of the terms hereof or the interpretation hereof.

4.10 Governing Law. This Mortgage will be construed and enforced according to and governed by the laws of the State of Kansas.

[*Signature Page Follows*]

IN WITNESS WHEREOF, Mortgagor has executed these presents as of the day and year first above written.

**Mortgagor:**

**MGP INGREDIENTS, INC.**
a Kansas corporation

By: /s/ Timothy W. Newkirk
Name: Timothy W. Newkirk
Its: President

Address

100 Commercial Street,
Atchison, KS 66002

STATE OF KANSAS )
) SS.
COUNTY OF ATCHISON )

The foregoing instrument was acknowledged before me this 15th day of February, 2010, by Timothy W. Newkirk, the President of MGP Ingredients, Inc., a Kansas corporation on behalf of said corporation.

/s/ Marta L. Myers
Printed Name:Marta :L. Myers
Notary Public in and for said County and State

My Commission Expires: 02/01/2014

[SEAL]

## EXHIBIT A

## LEGAL DESCRIPTION

**The land referred to herein is situated in the State of Kansas, County of Atchison, described as follows:**

Tract 1: Beginning at the Northeast corner of Lot Fourteen (14), Block Twenty (20); Thence North 90°00’00” East 90.16 feet along the South line of Commercial Street to a point 24.84 feet West of the Northeast corner of Lot One (1), in Block Twenty (20); Thence South 00°11’50” West 135.0 feet to a point 25.19 feet West of the Southeast corner of Lot Three (3) in Block Twenty (20); Thence South 90°00’00” West 189.81 feet to the Southwest corner of Lot Twelve (12) in said Block; Thence North 00°03’00” East 67.50 feet along the East line of Second Street to the North one-half of Lot Thirteen (13) in said Block; Thence North 90°00’00” East 100.0 feet along the North one-half of Lot Thirteen (13) to the East line of Lot Thirteen (13); Thence North 00°03’00” East 67.50 feet along the East line of the North one-half of Lot Thirteen (13) and all of Lot Fourteen (14) to the point of beginning, all lying in Block Twenty (20) in that part of the City of Atchison known and designated as “Old Atchison.”

Tract 2: The North One-half (N 1/2) of Lot Thirteen (13), and all of Lot Fourteen (14), in Block Twenty (20), in that part of the City of Atchison usually known and designated as “Old Atchison.”

Tract 3: Lots One (1), Two (2) and Three (3), in Block Nineteen (19), in that part of the City of Atchison usually known and designated as “Old Atchison.”

Atchison County, Kansas

**Echibit 4.1.14**

**BOND PLEDGE AND SECURITY AGREEMENT**

**by and among**

**MGP INGREDIENTS, INC.,**
a Kansas corporation,

**COMMERCE BANK, N.A., as trustee,**
**a national banking association**

**and**

**WELLS FARGO BANK, BANK NATIONAL ASSOCIATION,**
**a national banking association**

**relating to**

**$7,000,000**
**original principal amount of**
**City of Atchison, Kansas**
**Taxable Industrial Revenue Bonds**
**Series 2006**
**(MGP Ingredients Project)**

**Dated as of February 15, 2010**

**BOND PLEDGE AND SECURITY AGREEMENT**

**THIS BOND PLEDGE AND SECURITY AGREEMENT**, dated as of February 15, 2010 (hereinafter, as the same may from time to time be amended or supplemented, called this "**Bond Pledge and Security Agreement**"), made by and among **MGP INGREDIENTS, INC.,** a Kansas corporation (the "**Pledgor**"), **COMMERCE BANK, N.A.**, a national banking association (the "**Trustee**"), in its capacity as trustee under that certain Trust Indenture, dated as of December 28, 2006 (the "**Indenture**"), between the City of Atchison, Kansas (the "**Issuer**") and the Trustee, and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association (the "**Bank**"):

**WITNESSETH**:

**WHEREAS**, the Issuer, pursuant to the Indenture, has previously issued its Taxable Industrial Revenue Bonds, Series 2006 (MGP Ingredients Project) in the original aggregate principal amount of $7,000,000 (the "**Bonds**"); and

**WHEREAS**, the Pledgor has acquired all of the outstanding Bonds in the aggregate principal amount of $7,000,000 (the "**Pledged Bonds**"); and

**WHEREAS**, the Pledgor has executed and delivered that certain Credit and Security Agreement dated as of July 21, 2009 (as the same may from time to time be restated, modified, supplemented or otherwise amended, the "**Credit Agreement**"), between the Pledgor and the Bank; and

**WHEREAS**, it is a condition precedent to the extension of certain loan facilities under the Credit Agreement that the Pledgor and the Trustee will have executed and delivered this Bond Pledge and Security Agreement to the Bank;

**NOW, THEREFORE**, in consideration of the premises and in order to induce the Bank to extend certain loan facilities under the Credit Agreement and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

**Section 1.** **Defined Terms**. Unless otherwise defined herein, terms defined in the Credit Agreement will have such defined meanings when used herein.

**Section 2.** **Pledge**. The Pledgor hereby pledges, assigns, hypothecates, transfers and delivers to the Bank all of its right, title and interest to the Pledged Bonds and hereby grants to the Bank a first lien on, and security interest in, its right, title and interest in and to the Pledged Bonds, the interest thereon and all proceeds thereof, as collateral security for the prompt and complete payment of the Note (as defined in the Credit Agreement) and performance of the obligations under the Note, the Credit Agreement and any other loan document between the Borrower and the Bank (all the foregoing being hereinafter called the "**Obligations**").

**Section 3.** **Payments with Respect to the Pledged Bonds**. If, while this Bond Pledge and Security Agreement is in effect and after the occurrence of a Default or Event of Default, the Pledgor becomes entitled to receive or receives any payment in respect of the Pledged Bonds, the Pledgor agrees to accept the same as the Bank's agent and to hold the same in trust on behalf of the Bank and to deliver the same forthwith to the Bank. All sums of money so paid in respect of the Pledged Bonds which are received by the Pledgor and paid to the Bank will be credited against the Obligations.

**Section 4.** **Collateral**. All property at any time pledged with the Bank hereunder (whether described herein or not) and all income therefrom and proceeds thereof, are herein collectively sometimes called the "**Collateral**".

**Section 5.** **Rights of the Bank**. The Bank will not be liable for failure to collect or realize upon the Obligations or any collateral security or guarantee therefor, or any part thereof, or for any delay in so doing, nor will it be under any obligation to take any action whatsoever with regard thereto. If an Event of Default has occurred and is continuing, the Bank may thereafter, without notice, exercise all rights, privileges or options pertaining to any Pledged Bonds as if it were the absolute owner thereof, upon such terms and conditions as it may determine, all without liability except to account for property actually received by it, but the Bank will have no duty to exercise any of the aforesaid rights, privileges or options and will not be responsible for any failure to do so or delay in so doing. Notwithstanding any provision of this Bond Pledge and Security Agreement to the contrary, the rights of the Bank hereunder are subject in each and every respect to the terms and conditions of the Indenture, including, but not limited, any restrictions on the Bank's ability to sell or otherwise dispose of the Collateral.

**Section 6.** **Remedies**. In the event that any portion of the Obligations becomes due and payable and are not paid when due, the Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Pledgor or any other person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Bank's offices or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk, with the right of the Bank upon any such sale or sales, public or private, to purchase the whole or any part of said collateral so sold, free of any right or equity of redemption in the Pledgor, which right or equity is hereby expressly waived or released. The Bank will pay over the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any and all of the Collateral or in any way relating to the rights of the Bank hereunder, including reasonable attorney's fees and legal expenses, and the payment in whole or in part of the Obligations in such order as the Bank may elect, the Pledgor remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net proceeds and after the payment by the Bank of any other amount required by any provision of law, need the Bank account for the surplus, if any, to the Pledgor. The Pledgor agrees that the Bank will give at least five (5) calendar days notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. No notification need be given to the Pledgor if it has signed after default a statement renouncing or modifying any right to notification of sale or other intended disposition. In addition to the rights and remedies granted to it in this Bond Pledge and Security Agreement and in any other instrument or agreement securing evidencing or relating to any of the Obligations, the Bank will have all the rights and remedies of a secured party under the Uniform Commercial Code of the State of Kansas. The Pledgor further agrees to waive and agrees not to assert any rights or privileges which it may acquire under the Uniform Commercial Code and the Pledgor will be liable for the deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay all amounts to which the Bank is entitled, and the reasonable fees of any attorneys employed by the Bank to collect such deficiency.

**Section 7.** **Representations, Warranties and Covenants of the Pledgor**. The Pledgor represents and warrants that:

(a) on the date of this Bond Pledge and Security Agreement, it is the sole owner of all right, title or interest in and to the Pledged Bonds;

(b) it has full power, authority and legal right to pledge all of its right, title and interest in and to the Pledged Bonds pursuant to this Bond Pledge and Security Agreement;

(c) this Bond Pledge and Security Agreement has been duly authorized, executed and delivered by the Pledgor and constitutes a legal, valid and binding obligation of the Pledgor enforceable in accordance with its terms;

(d) no consent of any other party (including, without limitation, creditors of the Pledgor) and no consent, license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority, domestic or foreign, is required to be obtained by the Pledgor in connection with the execution, delivery or performance of this Bond Pledge and Security Agreement;

(e) the execution, delivery and performance of this Bond Pledge and Security Agreement will not materially violate any provision of any applicable law or regulation or of any order, judgment, writ, award or decree of any court, arbitrator or governmental authority, domestic or foreign, or of the articles of incorporation or other governing instruments of the Pledgor or of any securities issued by the Pledgor or of any deed of trust, mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Pledgor is a party or which purports to be binding upon the Pledgor or upon any of its assets and will not result in the creation or imposition of any lien, charge or encumbrance on or security interest in any of the assets of the Pledgor except as contemplated by this Bond Pledge and Security Agreement; and

(f) the pledge, assignment and delivery of the Pledged Bonds pursuant to this Bond Pledge and Security Agreement will create a valid first lien on and a first perfected security interest in, all right, title or interest of the Pledgor in or to the Pledged Bonds, and the proceeds thereof, subject to no prior pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of the Pledgor which would include the Pledged Bonds.

The Pledgor covenants and agrees that it will defend the Bank's right, title and security interest in and to the Pledged Bonds and the proceeds thereof against the claims and demands of all Persons whomsoever; and covenants and agrees that it will have like title to and the right to pledge any other property at any time hereafter pledged to the Bank as Collateral hereunder and will likewise defend the Bank's right thereto and security interest therein.

**Section 8. No Dispositions, etc**. Without the prior written consent of the Bank, the Pledgor agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, nor will they incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any of the Collateral, or any interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Bond Pledge and Security Agreement, other than in accordance with the Credit Agreement.

**Section 9. Sale of Collateral**.

(a) The Pledgor recognizes that the Bank may be unable to effect a public sale of any or all of the Pledged Bonds by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "**Securities Act**"), and applicable state securities laws, but may be compelled to resort to one or more private sales thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that such private sale will be deemed to have been made in a commercially reasonable manner. The Bank will be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so. In the event that the Bank elects to sell Pledged Bonds pursuant to the terms hereof and if permitted by the terms of the Indenture, the Bank shall notify the purchaser thereof that such Pledged Bonds are not then rated by any rating agency.

(b) The Pledgor further agrees to do or cause to be done all such other acts and things as may be necessary to make such sale or sales of any portion or all of the Pledged Bonds valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, except registration under the federal securities laws, all at the Pledgor's expense. The Pledgor further agrees that a breach of any of the covenants contained in this **Section 9** will cause irreparable injury to the Bank, that the Bank has no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained in this **Section 9** will be specifically enforceable against the Pledgor and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants, except for a defense that no Event of Default has occurred under the Credit Agreement. The Pledgor further acknowledges the impossibility of ascertaining the amount of damages which would be suffered by the Bank by reason of a breach of any of such covenants and, consequently, agrees that, if the Bank shall sue for damages for breach, it will pay, as liquidated damages and not as a penalty, an amount equal to the par value of the Pledged Bonds plus accrued interest, under the Credit Agreement on the date the Bank will demand compliance with this **Section 9**.

**Section 10.** **Further Assurances**. The Pledgor agrees that at any time and from time to time upon the written request of the Bank, the Pledgor will execute and deliver such further documents and do such further acts and things as the Bank may reasonably request in order to effect the purposes of this Bond Pledge and Security Agreement.

**Section 11.** **Severability**. Any provision of this Bond Pledge and Security Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

**Section 12.** **No Waiver, Cumulative Remedies**. The Bank will not, by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver will be valid unless in writing, signed by the Bank, and then only to the extent therein set forth. A waiver by the Bank of any right or remedy hereunder on any one occasion will not be construed as a bar to any right or remedy which the Bank would otherwise have on any future occasion. No failure to exercise nor any delay in exercising on the part of the Bank, any right, power or privilege hereunder, will operate as a waiver thereof; nor will any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

**Section 13.** **Binding Effect**. This Bond Pledge and Security Agreement and all obligations of the Pledgor hereunder will be binding upon the successors and assigns of the Pledgor, and will, together with the rights and remedies of the Bank hereunder, inure to the benefit of the Bank and its respective successors and assigns.

**Section 14.** **Waiver of Jury Trial**. **THE PARTIES HERETO WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS BOND PLEDGE AND SECURITY AGREEMENT. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY THE PARTIES HERETO AND EACH PARTY ACKNOWLEDGES THAT NEITHER BANK NOR**

**ANY PERSON ACTING ON BEHALF OF BANK HAS MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. THE PARTIES HERETO FURTHER ACKNOWLEDGE THAT THEY HAVE BEEN REPRESENTED IN THE SIGNING OF THIS BOND PLEDGE AND SECURITY AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF THEIR OWN FREE WILL, AND THAT THEY HAVE HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL. EACH PARTY FURTHER ACKNOWLEDGES THAT IT HAS READ AND UNDERSTANDS THE MEANING AND RAMIFICATIONS OF THIS WAIVER PROVISION.**

**Section 15.** **Amendments; Etc**. No amendment or waiver of any provision of this Bond Pledge and Security Agreement nor consent to any departure by the Pledgor herefrom shall in any event be effective unless the same will be in writing and signed by the Bank, and then such waiver or consent will be effective only in the specific instance and for the specific purpose for which given.

**Section 16.** **Addresses for Notices**. All notices and other communications provided for hereunder must be in writing and delivered as provided in the Credit Agreement.

**Section 17.** **Continuing Security Interest**. This Bond Pledge and Security Agreement will create a continuing security interest in the Pledged Bonds and will (a) remain in full force and effect until payment in full of the Obligations and the termination of the Bank's obligations to fund any loans or other credit facilities under the terms of the Credit Agreement, (b) be binding upon the Pledgor, the Pledgor's successors, transferees and assigns, and (c) inure, together with the rights and remedies of the Bank hereunder, to the benefit of the Bank and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), the Bank may assign or otherwise transfer its obligations under the Credit Agreement to any other person or entity, and such other person or entity will thereupon become vested with all the benefits in respect thereof granted to the Bank herein or otherwise. Upon the payment in full of the Obligations and the termination of the Bank's obligations to fund any loans or other credit facilities under the terms of the Credit Agreement, the Pledgor will be entitled to the return, upon Pledgor's request and at Pledgor's expense, of such of the Pledged Bonds as shall not have been sold or otherwise applied pursuant to the terms hereof or of the Indenture.

**Section 18.** **Governing Law; Terms**. This Bond Pledge and Security Agreement will be governed by and construed in accordance with the laws of the State of Kansas, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the security interest hereunder or remedies hereunder in respect of any particular Pledged Bonds are governed by the laws of another jurisdiction. Unless otherwise defined herein or in the Credit Agreement, terms used in Article 9 of the Uniform Commercial Code in the State of Kansas are used herein as therein defined. The descriptive headings of the various provisions are for convenience only and will not be deemed to limit or expand the intent of the Sections. The masculine gender will, where appropriate, be deemed to include the feminine and neuter and the singular the plural and vice versa. If there is any conflict between the terms and conditions contained herein and the terms and conditions contained in the Credit Agreement, the terms and conditions in the Credit Agreement shall govern and control.

**Section 19.** **Understanding of Transaction**. The Pledgor has received answers to all of Pledgor's questions and understand the structure of and reason for this transaction. The Pledgor has agreed to and wishes to pledge to the Bank and grant to the Bank a security interest in all of the Pledgor's right, title and interest in and to the Pledged Bonds because the Pledgor desires to consummate the transactions contemplated under the Credit Agreement which are conditioned upon such pledge.

(Remainder of this page intentionally left blank)

**IN WITNESS WHEREOF**, the parties hereto have caused this Bond Pledge and Security Agreement to be duly executed and delivered by its duly authorized representatives as of the day and year first above written.

**PLEDGOR**:

**MGP INGREDIENTS, INC.**
a Kansas corporation

By: /s/Timothy W. Newkirk
Name: Timothy W. Newkirk
Title: President

**TRUSTEE**:

**COMMERCE BANK, N.A.**, a national banking capacity, in its capacity as Trustee

By: /s/ Merry Evans

Name: Merry Evans

Title: Vice President

**BANK**:

**WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association

By: Becky Koehler
Name: /s/ Becky Koehler
Title: Vice President

**Exhibit 31.1**

**CERTIFICATION**

I, Timothy W. Newkirk, 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers 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: May 11, 2010

/s/ Timothy W. Newkirk
Timothy W. Newkirk
President and Principal Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Don Tracy, 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers 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: May 11. 2010

/s/ Don Tracy
Don Tracy
Chief Financial Officer Principal Financial Officer

**Exhibit 32.1**

**CERTIFICATION**

**OF**

**PERIODIC REPORT**

I, Timothy W. Newkirk, President of MGP Ingredients, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31. 2010 (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: May 11, 2010

/s/ Timothy W. Newkirk
Timothy W. Newkirk
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.]

**Exhibit 32.2**

**CERTIFICATION**

**OF**

**PERIODIC REPORT**

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

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2010 (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: May 11, 2010

/s/ Don Tracy
Don Tracy
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.]