UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended June 30, 2004

OR

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

For the transition period from to

Commission file number 000-17196

MGP Ingredients, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Kansas (State or Other Jurisdiction of Incorporation or Organization)	**48-0531200** (I.R.S. Employer Identification No.)
1300 Main Street, Box 130, Atchison, Kansas (Address of Principal Executive Offices)	**66002** (Zip Code)
Registrant's telephone number, including area code	**(913) 367-1480**

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

Title of Each Class	Name of Each Exchange on Which Registered
NONE	

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

Common Stock, no par value
(Title of Class)

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

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

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

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on December 31, 2003, was $81,499,950.

The number of shares of the registrant's common stock outstanding as of September 1, 2004 was 15,938,030.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

(1) Portions of the MGP Ingredients, Inc. 2004 Annual Report to Stockholders, pages 19 through 44 thereof, are incorporated by reference into Part II and contained in Exhibit 13.

(2) Portions of the MGP Ingredients, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on October 14, 2004 are incorporated by reference into Part III of this report to the extent set forth herein.

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

FORWARD LOOKING STATEMENTS

This report, including the portions of the Annual Report incorporated herein by reference, contains forward-looking statements as well as historical information. Forward-looking statements are usually identified by or are associated with such words such as "intend," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "could" and similar expressions. They reflect management's current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. The forward-looking statements are based on many assumptions and factors, including those relating to grain prices, gasoline prices, energy costs, product pricing, competitive environment and related market conditions, operating efficiencies, access to capital and actions of governments and insurers. Any changes in the assumptions or factors could produce materially different results than those predicted and could impact stock values.

PART I

Item 1. Business.

General Information

MGP Ingredients, Inc. (the "Company") is a Kansas corporation headquartered in Atchison, Kansas. It was incorporated in 1957 and is the successor to a business founded in 1941 by Cloud L. Cray, Sr.

The Company is a fully integrated producer of certain ingredients and distillery products and has two reportable segments, ingredients and distillery products. Ingredients consist of specialty ingredients, consisting primarily of specialty wheat starches and specialty wheat proteins, commodity ingredients, including commodity wheat starches and vital wheat gluten, and mill feeds. Distillery products consist of food-grade alcohol, including beverage alcohol and industrial alcohol, fuel alcohol, commonly known as ethanol, and distillers grain and carbon dioxide, which are by-products of the Company's distillery operations.

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

On September 13, 2002, an explosion at the Company's Atchison plant caused significant damage to the Company's distillery operations at that location. Damage to the distillery was major, affecting operations throughout fiscal 2003 and in the first and second quarters of fiscal 2004. As a result of the explosion, the Company was unable to produce finished alcohol at its Atchison plant from the date of the incident until late in the second quarter of fiscal 2004. However, after December, 2002, the Company was able to produce unfinished alcohol at the Atchison location, most of which was shipped to the Pekin, Illinois, facility for further processing. The Company generally was able

to meet the needs of its regular customers through its Illinois facility and supplemental third-party purchases, although its spot market sales were affected. Because the Company's ingredient and alcohol production processes are integrated, the distillery slowdown in Atchison also temporarily affected the Company's ability to produce the base proteins and starches which are used in the production of specialty ingredients at this location. For a time, the Company altered its operations to use its Illinois facility to produce base proteins and starches, which were then shipped to the Atchison facility as raw material for producing specialty ingredients. As a result, while production costs increased, the Company was able to limit the effects of the distillery explosion on its ability to supply specialty products to customers. The adverse impact of the distillery slowdown on the Company's operations has been substantially reduced by business interruption insurance. The distillery rebuilding process was completed late in the second quarter of fiscal 2004, with the actual start-up of the new equipment occurring in early December, 2003, approximately one month sooner than expected.

Available Information

The Company makes available through its web site (www.mgpingredients.com) under "Investors – Investor Relations", free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after it electronically files or furnishes such material with the Securities and Exchange Commission.

Financial Information about Segments

Note 14 of the Company's Notes to Consolidated Financial Statements, which is incorporated herein by reference, includes information about sales, depreciation, income before income taxes and identifiable assets for the last three fiscal years by reportable segment.

Product Sales

The following table shows the Company's sales from continuing operations by each class of similar products during the past five fiscal years ended June 30, 2004, as well as such sales as a percent of total sales.

PRODUCT GROUP SALES

	Year Ended June 30,									
	2004		2003		2002		2001		2000	
	(thousands of dollars)									
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Ingredients:										
Specialty Ingredients	$ 85,258	31.5	$ 41,735	21.7	$ 37,396	17.4	$ 32,918	14.4	$ 31,615	13.6
Commodity Ingredients	13,749	5.1	14,698	7.6	27,478	12.8	44,751	19.5	68,483	29.6
Mill Feed and Other Mill Products	3,704	1.3	782	0.4	1,358	0.7	2,034	0.9	2,759	1.2
Total Ingredients	102,711	37.9	57,215	29.7	66,232	30.9	79,703	34.8	102,857	44.4
Distillery Products:										
Food-grade Alcohol	40,898	15.1	35,885	18.7	34,402	16.0	42,320	18.4	43,864	18.9
Fuel-grade Alcohol	97,924	36.2	74,615	38.8	86,385	40.3	83,686	36.5	62,066	26.7
Distillery By-products	29,140	10.8	24,657	12.8	27,509	12.8	23,532	10.1	23,093	10.0
Total Distillery Products	167,962	62.1	135,157	70.3	148,296	69.1	149,538	65.2	129,023	55.6
Net Sales	$ 270,673	100.0	$ 192,372	100.0	$ 214,528	100.0	$ 229,241	100.0	$ 231,880	100.0

The Company's results for fiscal 2004 improved from the prior fiscal year. Net income was $9.5 million compared to $5.2 million in fiscal 2003. The increase was due primarily to a significant increase in unit sales of specialty ingredients. Sales of distillery products in 2004 also increased over fiscal 2003, when the Company's distillery operations were affected by the distillery explosion that occurred at the Atchison facility in September, 2002.

Approximately 99% of the Company's ingredient sales and 100% of its distillery sales are made directly or through distributors to manufacturers and processors of finished goods. Sales to customers are usually evidenced by short-term agreements that are cancelable within 30 days and under which products are usually ordered, produced, sold and shipped within 60 days. However, the Company has entered into a longer term supply contract with one customer relating to certain of its specialty ingredients which extends for a term of several years and will consider similar long-term contracts with other customers if market conditions warrant doing so. In addition, depending on market conditions, varying amounts of the Company's fuel alcohol are sold under longer term contracts. During fiscal 2004, two fuel alcohol customers, BP Products North America, Inc. and Martin Oil Marketing, Ltd., accounted for approximately 39.9% of the Company's distillery sales and 24.7% of the Company's consolidated revenues.

Seasonality

The Company's sales in fiscal 2004 and 2003 have not been seasonal except for variations affecting beverage alcohol. Food-grade alcohol sales tend to peak in the fall as beverage alcohol distributors order stocks for the holiday season. In prior years, fuel alcohol sales historically would increase during the period August through March due to requirements of the Clean Air Act which inhibited the sale of ethanol in certain areas of the country during May 1 through September 15 each year. Certain environmental regulations also favor greater use of ethanol during the winter months of the year. However, seasonal fluctuations have diminished, as both the supply and demand of ethanol have increased and the price of ethanol has remained in a range that has incentivized blenders to

utilize the federal excise tax credit available for blended gasoline. In prior years, vital wheat gluten sales tended to increase to a minor extent during the second half of the fiscal year, as demand increases for hot dog and hamburger buns and similar bakery products; however, this was not the case in fiscal 2003 or 2004 because of the Company's decision to reduce production of vital wheat gluten. See "*Ingredients – Commodity Ingredients – Vital Wheat Gluten.*"

Business Strategy

The Company's strategy in recent years has been to focus on the development and marketing of specialty protein and starch products for use in unique market niches. As a result of the expiration in June, 2001 of an import quota on foreign wheat gluten, the Company has intensified its efforts to focus on developing markets for its specialty wheat proteins and starch products. As described herein, during fiscal 2002 the Company received approximately $17.3 million under a new government program designed to assist manufacturers of wheat gluten in their transition from the historical vital wheat gluten business to new markets and received an additional $8.3 million in fiscal 2003. See *"Ingredients - Commodity Ingredients - Vital Wheat Gluten."* These funds were used for research, marketing, promotional and capital costs related to

specialty wheat protein and starch products to help accelerate the Company's growth in these markets.

To meet increased customer demand for its specialty starches with high fiber content, the Company has begun to develop additional starch capabilities through outsourcing. In the fourth quarter of fiscal 2004, the Company began marketing a new potato-based resistant starch, Fibersym™ 80 ST, for use in reduced carbohydrate food applications. Under terms of an agreement with Penford Corporation, the ingredient is being produced for the Company by Penford, using patented processes licensed exclusively to the Company. Further, on July 13, 2004, the Company entered into a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch called Fibersym™ HA that is derived from high amylose corn. See *"Specialty Ingredients – Specialty Starches"*.

For further information, see the "*Consolidated Financial Statements*" and related *"Notes to Consolidated Financial Statements"* of the Company and "*Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations*" which appear at pages 20 through 44 of the Annual Report.

Ingredients

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

During fiscal 2004, sales of ingredients increased by 80% from the prior year. This was primarily due to a 105% increase in sales of specialty ingredients which overwhelmingly offset a 6% decline in combined sales of commodity vital wheat gluten and starch. The greatest increase occurred in sales of specialty protein and starch ingredients sold to manufacturers of food products. The decrease in commodity ingredients resulted from the Company's decision to reduce vital wheat gluten sales due to pricing pressures from subsidized European Union producers and to place increased emphasis on the production and marketing of specialty proteins.

As noted above, the Company's overall strategy is to focus on the development and marketing of specialty wheat protein and starch products for use in unique market niches, and such products are accounting for an increasing share of the Company's total ingredient sales. During fiscal 2004, specialty ingredient sales increased by nearly 105%, to approximately 83% of total ingredient sales. That share is expected to continue to increase due to two factors: (i) increased capacity to produce these products and increased marketing efforts, resulting in greater customer recognition and the ability to meet anticipated rising demand, and (ii) continuing decline in vital wheat gluten sales resulting from an increase in supplies and pricing pressures from European Union producers.

Specialty Ingredients

Specialty Wheat Proteins. In recent years, the Company began the development of a number of specialty wheat proteins for food and non-food applications. Specialty wheat proteins are derived from vital wheat gluten through a variety of proprietary processes which change the molecular structure of vital wheat gluten. Food application wheat proteins include gliadin, glutenin, products in the Wheatex®, FP™ and Arise® series and Pasta

Power ™. Non-food applications include wheat proteins designed for use primarily in cosmetics and personal care products and biodegradable wheat protein that can be molded to form a variety of biodegradable plastic-like objects. The Company's specialty wheat proteins generally compete with other ingredients and modified proteins having similar characteristics, primarily soy proteins and other wheat proteins, with competition being based on factors such as functionality, price and, in the case of food applications, flavor. Although a number of the specialty wheat proteins have been launched, additional products are in the test marketing or development stage.

Food Applications

- ***Gliadin and Glutenin*** are the two principal components that make up vital wheat gluten. The Company's patented process enables the separation of glutenin and gliadin for a variety of end uses without the use of alcohol, which has been the traditional method of separating the two. Glutenin, a large molecule responsible for the elastic character of vital wheat gluten, increases the strength of bread dough, improves the freeze-thaw characteristics of frozen dough and may be used as a functional protein source in beef jerky-type products, as well as in meat extension. Gliadin, the smaller of the two molecules, is soluble in water and other liquids, including alcohol, and is responsible for the viscous properties of wheat gluten. Those characteristics make it ideal to improve the texture of noodles and pastas. Gliadin is also used in a number of cosmetics and personal care products as described below under *"Non-Food Applications."*

- ***Wheatex® Series*** consists of texturized wheat proteins made from vital wheat gluten by changing it into a pliable substance through special processing. The resulting solid food product can be further enhanced with flavoring and coloring and reconstituted with water. Texturized wheat proteins are used for meat, poultry and fish substitutes, extenders and binders. Wheatex® mimics the textural characteristics and appearance of meat, fish and poultry products. It is available in a variety of sizes and colors and can be easily formed into patties, links or virtually any other shape the customer requires. Because of its neutral taste, Wheatex® will not alter flavors that are added to the product. It also has excellent water-binding capacities for the retention of natural meat juices. Wheatex® is presently being sold for applications in vegetarian and extended meat products.

- ***FP™ Series.*** The FP™ series of products consists of specialty wheat proteins, each tailored for use in a variety of food applications. These include proteins that can be used to form barriers to fat and moisture penetration to enhance the crispness and improve batter adhesion in fried products, effectively bond other ingredients in vegetarian patties and extended meat products, increase the softness and pliability of flour tortillas, and fortify nutritional drinks.

- ***Arise® Series***. The Arise® series of products consists of specialty wheat proteins that increase the freshness and shelf life of frozen, refrigerated and fresh dough products after they are baked. Certain ingredients in this series are also sold for use in the manufacture of high protein, lower net carbohydrate products.

- ***Pasta Power*** ™ is a specialty wheat protein that is a cost-effective replacement for whole eggs and egg whites and enhances the strength, texture, quality and functionality of fresh, frozen and flavored pasta products. The added strength enables the canning of pasta and its treatment with spices without significant deterioration of the noodle or other pasta products as in the case of canned spaghetti and similar products.

Non-Food Applications

- ***Cosmetics and Personal Care Products.*** Specialty wheat proteins include proteins that have been hydrolyzed or otherwise altered to become soluble in water and other liquids. This enables their use in food as well as non-food cosmetic applications such as hair sprays, shampoos, skin lotions and similar products. These include Foam Pro®, a hydrolyzed wheat protein that has been developed as a foam booster to naturally enhance detergent systems such as shampoos, liquid hand soaps and bath and shower gels; Aqua Pro® II WAA, a solution of amino acids produced from natural wheat proteins that helps provide excellent moisturizing and film forming properties in both hair and skin systems; Aqua Pro® 11 WP, an additive for shampoo; Aqua Pro® QWL, which enhances the functionality of hair

conditioners; and Omni-Smooth™, which is a natural skin tightening agent used in anti-wrinkle treatments.

- ***Polytriticum™ Protein and Starch Resins.*** Polytriticum™ 200 and Polytriticum™ 2000 are the Company's environmentally friendly bio-based gluten/starch resins that can be molded to produce a variety of formed objects. Polytriticum™ 200 may be used as a commercial raw material for the production of pet treats and chews, and the Company holds a U.S. Patent (No. 5665152) expiring in 2016 relating to the methods of grain protein based solid articles that it uses in the production of such products. Polytriticum 2000™ has been developed for use in disposable eating utensils, golf tees, food and feed containers and similar type vessels.

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

Since October, 2001, the Company has expended $21.0 million to strengthen the production and sales capabilities of certain of its specialty wheat proteins. The first project, completed in early fiscal 2003, involved installation of additional processing and drying equipment at the Company's Atchison facility for the production of ingredients for bakery, pasta and noodle, and related food markets, both domestic and foreign. The cost of this project was offset by funds provided through the U.S. Department of Agriculture Commodity Credit Corporation program referred to above. During fiscal 2003, the Company started an expansion of its Kansas City facility to better accommodate current and long-term growth initiatives for its Polytriticum™ line of wheat protein and starch based bio-resins and its Wheatex® line of textured wheat proteins for use in grain-based foods as well as meat analog and meat extension applications. In March 2004, the Company completed two separate expansion projects at its facility in Kansas City, Kansas. The combined cost of these projects amounted to approximately $5.5 million, a portion of which was offset by funds from the Commodity Credit Corporation program referred to above. The Company announced an additional expansion project to increase Wheatex® production capacity at the Kansas City plant on February 4, 2004 and expects this project to be completed by September, 2004 at an estimated cost of $4.5 million. The Company's Board of Directors approved another $5.5 million in capital improvement projects for the Kansas City facility in June, 2004. These projects are designed to expand production and packaging capabilities for pet and natural bio-based products and are scheduled for completion by April, 2005.

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

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

In 2003, the Company licensed, on an exclusive basis, certain patented technology from The Kansas State University Research Foundation relating to United States Patent 5,855,946, which describes and claims processes for making food-grade starches resistant to alpha-amylase digestion, as well as products and uses for the resistant starches. The license relates to products derived from plant-based starches and is a royalty-bearing, worldwide license whose term, subject to termination for material, uncured breaches or bankruptcy, extends until the patent rights expire in 2017. Royalties generally are based on net sales. The patent rights relate to the referenced U.S. patent and any corresponding foreign patent application, which has been filed in Australia. Under the license, the Company can make, have made, use, import, offer for sale, and sell licensed products within the scope of a claim of the patent rights or which are sold for a use with the scope of the patent rights and may, with approval of the licensor, grant similar rights to sublicensees. These resistant starches have found popularity with manufacturers of baked and related goods. Although the scope and duration of market interest in such products in not entirely certain at this point, the Company's business has benefited from the popularity of these starches.

As a result of significant demand for its Fibersym™ 70 resistant wheat starch for use in fiber enhancement and net carbohydrate reduction in foods, sales of the Company's specialty starches increased dramatically since the prior year. To meet increased customer demand, in the fourth quarter of fiscal 2004 the Company began marketing a new potato-based resistant starch, Fibersym™ 80 ST, for use in reduced carbohydrate food applications. The ingredient is being produced for the Company by Penford Corporation, using the patented processes referred to above, licensed exclusively to the Company.

On July 13, 2004, the Company entered into a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch called Fibersym™ HA that is derived from high amylose corn. Under this alliance, which has an initial term of five years, Cargill will manufacture Fibersym™ HA under the patent referred to above, licensed exclusively to the Company. The new starch will be marketed by both companies under the Fibersym™ brand name with all revenues from such sales recognized by the Company. The Company and Cargill will share profits from sales of the new product, which are expected to commence by the end of calendar 2004. In connection with the arrangement for the new corn product, the Company also granted Cargill an exclusive, royalty bearing sublicense to use the patented process for the life of the patent in the production of tapioca based starches for use in food products. The Company also agreed that if it determined to use the patented process to produce starches derived from other types of corn or to have a third party make product under the patent from other plant sources (other than wheat or potato), it would offer Cargill an opportunity to participate with it. The Company understands that Cargill plans to begin producing and marketing its tapioca based starch product under the sublicense from the Company by the end of calendar 2004. The arrangements between MGPI and Cargill are subject to termination if the products should be determined to be commercially unviable. As part of the transactions mentioned above, the Company licensed Cargill to use the technology disclosed and claimed in certain patent applications relating to uses for the patented resistant starch.

Since the beginning of fiscal 2004, the Company has spent $5.6 million to increase specialty wheat starch production capabilities at its Pekin and Atchison plants. This involved the installation of additional starch processing equipment at both plants.

The Company sells specialty wheat starches on a nationwide basis, primarily to food processors and distributors. The Company also sells its potato-based resistant starch to the same type of customers.

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

Both commodity and specialty wheat starches compete primarily with corn starch. Competition is based upon price, name, color and differing granular and chemical

characteristics which affect the food product in which it is used. Specialty wheat starches usually enjoy a price premium over corn starches and low grade wheat starches. Commodity wheat starch price fluctuations generally track the fluctuations in the corn starch market. The specialty wheat starch market usually permits pricing consistent with costs which affect the industry in general, including

increased grain costs. However, this was not the case during fiscal 2003, when increases in grain and fuel prices outpaced market price increases in the specialty wheat starch market.

Commodity Ingredients

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

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

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

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

Between June 30, 1994, and June 30, 1998, the European Union took an increasingly large share of the U.S. gluten market. As a result of the increasing surge of large, subsidized volumes of European Union wheat gluten into the U.S., vital wheat gluten prices have been primarily affected by (i) excess European Union capacity; (ii) high tariff barriers, subsidies and other protective measures ("Subsidies") provided to European Union exporters by their host governments; (iii) low U.S. tariffs; and (iv) gluten import quotas. The Subsidies and low U.S. tariffs encouraged European Union producers to expand wheat starch and wheat gluten production capacity and to continue the development of even greater capacities. On May 30, 1998, the Clinton administration imposed annual quantitative limitations for three years on imports of wheat gluten from the European Union and other Foreign Exporters at an amount equal to the total average imports of wheat gluten shipped into the United States by the Foreign Exporters during the three crop years ended June 30, 1995. In lieu of extending the quota when it expired in June, 2001, the Bush Administration announced a program to provide the wheat gluten industry up to $40 million over two years to help it complete its transition to competitiveness. Administered by the U.S. Department of Agriculture's Commodity Credit Corporation, the program ended on May 31, 2003. Under the program, the Company received approximately $26 million of the program total of $40 million. On June 29, 2001, the Company received approximately $17,280,000 for the first year of the program. The Company received the balance of the award for the second year of the program in July, 2002. The funds were awarded for use for capital, research, marketing and promotional costs related to value-added wheat protein and wheat starch products and were not intended to be used to reduce production and marketing related costs for commodity vital wheat gluten and wheat starches that could extend the U.S. industry's participation in those markets. The Company was required to submit quarterly reports to the Commodity Credit Corporation listing costs incurred and activities conducted and an annual performance report after each year of the program explaining its activities. The Company's final report under the program was filed for the program period ended May 31, 2003. The Commodity Credit Corporation was empowered to ask for a refund with interest of some or all of the funds allocated to the Company if it determined that the Company had not made significant progress in completing its stated activities. Based on its contacts with Commodity Credit Corporation personnel through the quarterly reporting process, the Company believes that it has made satisfactory progress and has met program requirements.

Since the imposition of the quota, the Company has focused its efforts on developing and increasing the production and sales of specialty wheat products. These are niche products that the Company expects will be able to compete more effectively with increased foreign imports. Although additional quota relief would have been helpful, the Commodity Credit program has supported the Company's strategy and has strengthened its efforts to move increasingly into the development, production and marketing of value-added wheat proteins and starches.

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

Mill Feed and Other Mill Products

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

In addition to flour, the wheat milling process generates mill feeds or "midds." Midds are sold to processors of animal feeds as a feed additive. Sales of mill feeds increased by 374% in 2004 as a result of increased wheat processing requirements to satisfy heightened demand for the Company's specialty wheat proteins and starches.

Distillery Products

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

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

During fiscal 2004, total sales of the company's distillery products rose by approximately 24% compared to fiscal 2003. This increase was due to a 31% increase in sales of fuel-grade alcohol and a 14% increase in sales of food-grade alcohol for beverage and industrial applications. Sales of distillers feed increased by 18%. The

improved results were in part due to increased production capabilities. A minimal amount of alcohol was produced at the Atchison distillery during the majority of the prior fiscal year after the September 13, 2002 explosion. The plant returned to operation in December, 2003.

On March 4, 2004, the Company's Board of Directors approved $9 million in capital expenditures to install new equipment for processing distillers feed at the Atchison distillery and $3 million for the installation of new distillation equipment at the Pekin plant. Both projects are expected to strengthen the Company's ability to realize additional improvements in alcohol production efficiencies, especially in regard to energy usage. The new equipment at the Atchison distillery will also include new, state-of-the-art emission control technology that will help the Company to comply with government environmental standards. Both projects are scheduled for completion by mid-2005.

Food-grade Alcohol

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

The Company believes that in terms of fiscal 2004 net sales, it is one of the three largest bulk sellers of grain neutral spirits, vodka and gin in the United States. The Company's principal competitors in the beverage alcohol market are Grain Processing Company of Muscatine, Iowa and Archer Daniels Midland of Decatur, Illinois. Competition is based primarily upon price and service, and in the case of gin, formulation. The Company believes that the centralized location of its Illinois and Kansas distilleries and the capacity of its dual production facilities combine to provide the Company with a customer service advantage within the industry.

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

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

Fuel-grade Alcohol

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

Since the adoption of 1990 Clean Air Act Amendments, which require the use of reformulated gasoline in certain high smog-ozone areas in the United States, the gasoline industry has relied primarily upon methyl tertiary butyl ether (MTBE) to reduce toxic emissions of air pollutants to meet the requirements of the Act and related EPA regulations. Ethanol has been used to a lesser extent. However, the EPA has concluded that the use of MTBE has created a "significant and unacceptable risk to drinking water and groundwater resources." Concerns have also been raised as to the effectiveness of MTBE versus the effectiveness of ethanol as a reducer of air pollutants.

Because of such concerns and state and federal policies promoting cleaner air and state and federal production incentives and tax programs, the ethanol industry has grown substantially in recent years. According to materials published by the Renewable Fuels Association ("RFA"), nineteen states have already taken or have begun to take action to restrict or ban the use of MTBE. These states include Arizona, California, Connecticut, Illinois, Michigan, New York, Ohio and Washington. Currently, the RFA expects ethanol use in 2004 to reach 950 million gallons in California, and 450 million gallons in New York and Connecticut. All three states banned MTBE at the end of 2003 in an effort to curtail further water contamination. Because of MTBE bans like those passed in New York, Connecticut and California, the use of gasoline blended with ethanol is becoming more widespread. As a result, ethanol production is increasing dramatically. In 2003, ethanol production reached 2.81 billion gallons, a 32% increase over 2002 production levels. RFA estimates that in 2004, 30% of all gasoline used in the United States will be blended with ethanol. The Company believes such expansion in ethanol production contributed to a two-year decline during fiscal 2002 and 2003 in average prices for fuel ethanol realized by the Company on its fuel ethanol sales. Currently, the RFA estimates that 2004 production levels will reach 3.3 billion gallons.

The cost of producing ethanol has historically exceeded the cost of producing gasoline and gasoline additives. Accordingly, to encourage the production of ethanol for use in gasoline, the Federal government and various states have enacted tax and other incentives designed to make ethanol competitive with gasoline and gasoline additives. Under the internal revenue code, and until the end of 2007, gasoline that has been blended in qualifying proportions with ethanol provide sellers of the blend with certain income tax credits and excise tax reductions that amount to up to $0.52 per gallon of ethanol that is mixed with the gasoline (the "Federal Tax Credit"). A mix of at least 10% ethanol by volume is required to receive the maximum credit. Although the Federal Tax Credit is not directly available to the Company, it allows the Company to sell its ethanol at prices competitive

with less expensive additives and gasoline. From time to time, legislation is proposed to eliminate, reduce or extend the tax benefits enjoyed by the ethanol industry and indirectly by producers of the grain that is converted into ethanol. During 1998, legislation was enacted that extended the credit through 2007, with the credit being reduced to $0.51 per gallon beginning in 2005. On May 11, 2004, the U.S. Senate passed a corporate tax bill (S. 1637) that includes an extension of the ethanol tax incentive through 2010. The bill is now awaiting approval from the United States House of Representatives.

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

In December, 2000, the U.S. Department of Agriculture initiated a program to provide a cash incentive for ethanol producers who increase their grain usage over comparable quarters in the prior year to raise fuel alcohol production. The Company presently satisfies the program's eligibility requirements and began receiving payments in the third quarter of fiscal 2001. It received payments of approximately $1.6 million in fiscal 2001, approximately $4.1 million in fiscal 2002, approximately $3.2 million in fiscal 2003, and approximately $4.0 million in fiscal 2004 under this program. The program extends through September 2006, with funding determined annually. The Company's eligibility to participate in the program is determined quarter to quarter.

According to information published by the Renewable Fuels Association, at the end of 2003 there were 72 ethanol production facilities in the United States and approximately 15 more then under construction. the majority of these facilities are located in the Midwestern corn producing states. The fuel-grade alcohol market is dominated by Archer Daniels Midland, with the Company being among the smaller of a few other larger second-tier ethanol producers. The Company competes with other

producers of fuel-grade alcohol on the basis of price and delivery service.

In the long-term, the Company believes the future for ethanol remains promising. This is partially based on the expectation that the U.S. Congress will pass a comprehensive energy bill that includes a provision for establishing a renewable fuels standard. Based on information published by the Renewable Fuels Association, the renewable fuels standard provision included in the bill could increase the use of ethanol to 5 billion gallons annually by 2012. However, there can be no assurance that the bill referred to will be enacted. Nor can there be any assurance, in light of the manner in which the industry is expanding, that ethanol prices will improve even if the bill becomes law. Further, decisions pending before the EPA could adversely affect the ethanol market. Although MTBE has been banned in California and many California refineries have incorporated ethanol into their blending process, that ban was preceded by an EPA decision in 2001 which denied the State of California's request for a waiver from the Clean Air Act oxygenated fuel requirement. However, on July 17, 2003, the United States Court of Appeals for the Ninth Circuit vacated the EPA's 2001 decision and subsequently remanded the matter to the EPA to reconsider California's request for waiver from the oxygenated requirement. If the EPA reverses its decision, the market for ethanol could be adversely affected.

Distillery By-Products

The bulk of fiscal 2004 sales of alcohol by-products consisted of distillers feeds. Distillers feeds are the residue of corn, milo and wheat from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. The Company competes with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers feeds and mill feeds.

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

Transportation

The Company's output is transported to customers by truck, rail and barge transportation equipment, most of which is provided by common carriers through arrangements made by the Company. The Company leases 366 rail cars which may be dispatched on short notice. Shipment by barge is offered to customers through barge loading facilities on the Missouri and Illinois Rivers. The barge facility on the Illinois River is adjacent to the Pekin plant and owned by the Company. The facility on the Missouri River, which is not company-owned, is approximately one mile from the Atchison plant.

Raw Materials

The Company's principal raw material is grain, consisting of wheat, which is processed into all of the products that the Company manufactures, and corn and milo, which are processed into alcohol, animal feed and carbon dioxide. Grain is purchased directly from surrounding farms, primarily at harvest time, and throughout the year from grain elevators. To assure supplies, the Company may enter into contracts to take future delivery within 30 days. These are fixed price contracts which are based on prices of future contracts and specify the amount, type and class of grain and the price. The Company can call for delivery at any time within thirty days of the contract. The Company does not have any long-term contracts with any raw materials suppliers. During fiscal year 2004, the Company purchased approximately 57% of its grain at spot market prices.

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

During fiscal 2004, market prices for grain increased. The average price paid by the Company per bushel for corn increased 6.2% in fiscal 2004 compared to fiscal 2003, while the average price for a bushel of wheat paid by the Company increased 6.0% over the same period.

The Company engages in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. During fiscal 2004, the Company hedged approximately 43% of corn processed, compared to 42% in 2003. Of the wheat processed by the Company, 33% was hedged in fiscal 2004, compared to 27% in fiscal 2003. The contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and related products are sold. For fiscal 2004, raw material costs included a net hedging gain of approximately $1.0 million on contracts settled during the year compared to a net hedging gain of $0.2 million for fiscal 2003. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk*" in the Annual Report.

Energy

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

The Company needs fuel to operate boilers that it uses to make steam heat. In Atchison, the Company can use either oil or natural gas and switch from one to the other when prices dictate. Natural gas for the Atchison plant is procured in the open market from various suppliers. The Company can purchase contracts for the delivery of gas in the future or can purchase future contracts on the exchange. Depending on existing market conditions, the Company has the ability to transport the gas through a gas pipeline owned by a wholly-owned subsidiary of the Company. In Pekin, the Company only uses natural gas, which it can either procure through Central Illinois Light Company or through other suppliers. The Company has a multi-year agreement with Central Illinois Light Company expiring no earlier than 2009 under which the utility will transport gas to the Company's plant on the

utility's pipeline. The Company may purchase gas from Central Illinois Light Company on a negotiated basis or on a fixed price basis for up to 24 months. In order to control energy costs, the Company has a risk management program whereby, at pre-determined prices, the Company will purchase a portion of its natural gas requirements for future delivery.

In 1995, the Company entered into a long-term arrangement with Central Illinois Light Company and its subsidiary, CILCORP Development Services Inc. (collectively "CILCO"), with respect to the Company's Pekin, Illinois plant. Under the arrangement, the Company has leased a portion of its plant facility to CILCO for a term ending in December 2009. CILCO constructed a new gas fired electric and steam generating facility on ground leased from the Company and agreed to provide steam heat to the Company's plant. If the Company fails to renew the lease for 19 years at the end of the lease term, it must pay CILCO the book value of the boiler plant and

cogeneration facility, which the Company estimates will be $10.6 million. Under a related steam heat service agreement, the Company has agreed to purchase its requirements for steam heat from CILCO until at least December 2009. Either party may terminate the service agreement at the end of the initial term or thereafter upon two years notice. Also, if gas prices have risen to a level such that operating a steam facility with alternative fuel would be more attractive and the payback period for a new facility would be five years or less, the Company may terminate the service agreement prior to the end of the initial term upon two years notice by making a specified payment to CILCO, currently approximately $1.2 million. The Company must make adjustable minimum monthly payments over the term of the service agreement, currently $124,000, with declining fixed charges for purchases in excess of minimum usage, and is responsible for fuel costs and certain other expenses. However, CILCO also uses the boilers to run electric generating units that it constructed on the leased site and pays the Company for a portion of the fuel costs that the Company incurs for the production of steam, based on savings realized by CILCO from electricity generated at the facility.

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

Employees

As of June 30, 2004, the Company had 500 employees, 279 of whom are covered by two collective bargaining agreements with one labor union. One agreement, which expires on August 31, 2005, covers 186 employees at the Atchison Plant. The other agreement, which expires on October 31, 2007, covers 93 employees at the Pekin plant. As of June 30, 2003, the Company had 443 employees.

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

Regulation

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

The Company is subject to extensive environmental regulation at the federal, state and local levels. The regulations include the regulation of water usage, waste water discharge, disposal of hazardous wastes and emissions of volatile organic compounds, nitrogen oxides, sulfur dioxides, particulates and other substances into the air. Under these regulations the Company is required to obtain operating permits and to submit periodic reports to regulating agencies. For the Atchison and Kansas City, Kansas plants, the air quality is regulated by both the U.S. Environmental Protection Agency ("USEPA") and the Division of Environment of the Kansas Department of Health and Environment (the "KDHE"). The KDHE regulates all air emissions. The Company also was required to obtain a Class I air operating permit from the KDHE and must obtain KDHE approval to make plant alterations that could modify the emission levels. The KDHE also regulates the discharge water quality at the Atchison plant. This includes process water, non-contact water and storm water. The Company monitors process water and non-contact

water discharge on a daily basis and submits monthly reports to the KDHE documenting the test results from these water discharges. The USEPA and KDHE also monitor hazardous waste disposal for the Atchison and Kansas City plants. The Company also is required to submit annual reports pursuant to the Kansas and Federal Emergency Planning Community Right-to-Know Acts. Local officials, such as the local emergency planning committees in the Atchison and Kansas City communities, also receive copies of these annual reports.

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

During 1997, the IEPA commenced an action against the Company with respect to alleged noncompliance of the Pekin Plant with certain air quality regulations. In 2002, the USEPA began an enforcement initiative relating to air emissions standards, focusing on all ethanol producers in its Midwestern region. The Company has been in contact with the USEPA, the IEPA and the KDHE about both of its facilities. As a result of these proceedings, which are further described under *"Item 3. Legal Proceedings,"* the Company anticipates that it will be required to make capital expenditures of approximately $2.0 million at its Pekin facility and capital expenditures in excess of that amount at its Atchison facility to bring them into compliance with applicable standards. The Company expects that any settlements of these matters will provide for phased schedules to implement the modifications, which could extend for periods of months to a year or two depending on the modifications. Of the $25.8 million that the Company's Board of Directors has approved for improvements and replacements of existing equipment, approximately $0.8 million has been allocated to modifications at the Pekin facility. Depending on settlement terms, additional expenditures may be required.

Item 2. Properties.

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

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

The facilities mentioned above are generally in good operating condition, are currently in normal operation, are generally suitable and adequate for the business activity conducted therein and have productive capacities sufficient to maintain prior levels of production. The Atchison and Pekin facilities are owned, and the Kansas City facility is leased from the Unified Government of Wyandotte County, Kansas City, Kansas pursuant to an industrial revenue bond financing. The Company has entered into loan agreements which contain covenants that limit its ability to pledge its facilities to others. The Company also owns transportation equipment and a gas pipeline described under *"Business – Transportation"* and *"Energy."*

Item 3. Legal Proceedings.

Environmental Proceedings.

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

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

Proceedings under the Complaint are being held in abeyance by agreement of the parties pending completion of the air modeling and completion of the Company's compliance activities. The Company had anticipated negotiating a settlement of the remainder of the State's claims, including any penalties. However, the state has recently suggested that, based on its estimate of the economic benefit to the Company of not installing the new pollution control equipment sooner, it would require a fine of approximately $1.1 million to resolve the Complaint. The Company regards this proposal as unwarranted under the circumstances and has rejected it. Prospects for settlement of the Complaint are uncertain.

The U.S. Environmental Protection Agency ("USEPA"), Region V, is continuing its enforcement initiative focusing on all ethanol producers in its Midwestern region. Along with all other ethanol producers in the region, the Company's subsidiary, MGP Ingredients of Illinois, Inc. ("MGP-Illinois"), was contacted, and it attended a meeting with other ethanol producers where USEPA explained that it believed the ethanol producers had likely violated various provisions of the USEPA air emissions regulations in the past. USEPA explained that rather than initiate enforcement proceedings against individual companies, it would prefer to work with the companies and settle any outstanding issues in a cooperative fashion. Since the meeting, MGP Illinois has been in contact with the IEPA and USEPA regarding the USEPA air emissions enforcement initiative, and USEPA has issued an information request to MGP Illinois. Based on discussions, it appears MGP-Illinois may need to make certain modifications to its feed dryer emission controls (which are expected to be the same as the modifications that will be made to resolve the pending IEPA action), upgrade certain scrubbers and add emission controls to its fuel truck loading operations. In negotiations involving a draft Consent Decree to resolve any violations alleged in both the USEPA enforcement initiative and the IEPA Complaint, the USEPA has proposed that the Company pay a federal penalty of approximately $172,000 to resolve the USEPA enforcement initiative. At present, resolution of the USEPA enforcement initiative is linked to resolution of the IEPA Complaint and final resolution of both matters is therefore uncertain pending resolution of discussions with the IEPA.

Based on representations by the USEPA that ethanol producers who voluntarily contacted state or federal regulators to begin negotiations regarding installation of air pollution control technology would receive the benefit of "minimum fines", the Company has advised the Kansas Department of Health and Environment (the "KDHE") of its willingness to discuss the applicability of the enforcement initiative to the Company's Atchison facility. The Company has met with representatives of the USEPA and the Kansas Department of Health and Environment and provided the KDHE with its written response to the enforcement initiative. The parties continue to discuss the

applicability of the enforcement initiative to the Atchison facility, but the Company anticipates that it will be required to make modifications to its Atchison facility feed dryer, boiler, fermentation, fuel truck load-out, fugitive VOC and VOC and particulate emission controls. Investigations of several companies in Minnesota by the USEPA and the state of Minnesota resulted in settlement agreements in which each company agreed to install air pollution control technology and to pay a minimal fine, generally ranging from $10,000 to $50,000. Based on preliminary discussions with the KDHE, the Company anticipates the KDHE will seek a similar fine from the Company.

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

Other Matters.

MGP Ingredients, Inc. et. al. v. Manildra Milling Corporation, United States District Court for the District of Kansas (Case No. 04-2278-CM). The Company filed this case against Manildra on June 17, 2004, alleging infringement of United States Patent No. 5,855,946, which discloses and claims food-grade starches resistant to alpha-amylase degradation and methods of preparing the same. In bringing this action, the Company joined The Kansas State University Research Foundation, which owns the patent and has licensed it exclusively to the Company, involuntarily, as a plaintiff. The suit seeks injunctive relief, triple damages and attorneys' fees.

There are no other legal proceedings pending as of September 1, 2004 which the Company believes to be material.

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

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

Item 4A. Executive Officers of the Registrant.

Executive officers of the Company are as follows:

Name	Age	Position
Cloud L. Cray, Jr.	81	Chairman of the Board
Laidacker M. Seaberg	58	President, Chief Executive Officer
Sukh Bassi, Ph.D.	63	Vice President, New Products Innovation and Technology, and Chief Science Officer

Brian Cahill	50	Vice President, Finance and Administration and Chief Financial Officer
Cloduald "Ody" Maningat, Ph.D.	49	Vice President, Application Technology and Technical Services
Marta L. Myers	44	Corporate Secretary and Administrative Assistant to the President
Steven J. Pickman	51	Vice President, Corporate Communications and Marketing Services
David E. Rindom	49	Vice President, Human Resources

Randy M. Schrick	54	Vice President, Manufacturing and Engineering
William R. Thornton	52	Vice President, Quality Management
Michael J. Trautschold	56	Executive Vice President, Marketing and Sales

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

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

Dr. Bassi has served as Vice President - New Products, Innovations and Technology, since July 2002, and as Chief Science Officer since June, 2004. He was Vice President - Research and Development from 1985 until July 2002 and Vice President - Specialty Ingredients Marketing and Sales between 1998 and 2000. He also previously served as Technical Director from 1989 to 1998 and Vice President-Vital Wheat Gluten Marketing from 1992 to 1998. From 1981 to 1992 he was Manager of the Vital Wheat Gluten Strategic Business Unit. He was previously a professor of biology at Benedictine College for ten years.

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

Dr. Maningat joined the Company in 1986. He has served as Vice President of Application Technology and Technical Services since June 2002. Previously, he was Corporate Director of Research and Development and Technical Marketing from 1997 to 2002. He served as Corporate Director of Research and Development and Quality Control for the Company from 1993 to 1997.

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

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

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

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

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

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

PART II

Item 5. Market for Registrants Common Equity, Related Stockholders Matters and Issuer Repurchasers of Equity Securities.

The Common Stock of the Company has been traded on the NASDAQ National Market System since November 1988. The Company's trading symbol is MGPI.

The following table below reflects the high and low closing prices of the Common Stock for each quarter of fiscal 2003 and 2004. The Company paid a cash dividend of $.05 per share in November 2000, a dividend of $.075 per share in November 2001, a dividend of $.075 per share in November 2002, and a dividend of $.075 per share in November, 2003. Previously, cash dividends had not been paid since the end of 1995. Any future dividends will be paid at the discretion of the Board of Directors, which will consider various factors, including the Company's operating results and cash requirements, in making any decision respecting dividends.

	Sales Price*	
	High	**Low**
2003:		
First Quarter	$ 6.94	$ 3.56
Second Quarter	5.04	2.93
Third Quarter	5.21	2.98
Fourth Quarter	4.59	3.25

2004:		
First Quarter	$ 4.86	$ 3.88
Second Quarter	9.23	4.36
Third Quarter	13.60	7.33
Fourth Quarter	22.88	12.06

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* The above disclosed dividend information and stock prices give effect to the 2-for-1 stock split that took effect on June 30, 2004.

At June 30, 2004, there were approximately 825 holders of record of the Company's Common Stock. It is believed that the Common Stock is held by approximately 2,800 beneficial owners.

Item 6. Selected Financial Data.

Incorporated by reference to the information under "*Selected Financial Information*" on page 19 of the Annual Report, a copy of which page is included in Exhibit 13 to this Report.

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

Incorporated by reference to the information under "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" *"Liquidity and Capital Resources,"* and *"Off Balance Sheet Obligations"* on pages 20 through 27 and 30 through 31 of the Annual Report, copies of which pages are included in Exhibit 13 to this Report.

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

Incorporated by reference to the information under *"Market Risk"* on page 29 of the Annual Report, a copy of which page is included in Exhibit 13 to this Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference to the information under *"Quarterly Financial Information"* on page 28 of the Annual Report and to the consolidated financial statements and related notes on pages 32 through 44 of the Annual Report, copies of which pages are included in Exhibit 13 to this Report.

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

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the design and effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequately designed and operating effectively to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this Form 10-K Annual Report was being prepared.

Changes in internal controls

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

Item 9B. Other Information

As discussed under *"Management's Discussion and Analysis of Financial Condition and Results of Operations - "Operations"* and *"Off Balance Sheet Obligations"* at pages 22 and 31 of the Annual Report included in Exhibit 13 to this Report, on July 13, 2004 the Company entered a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch derived from high amylose corn. If the Company does not renew the arrangement with Cargill after its initial five year term or terminates the arrangement before the expiration of 18 months following certain force majeure events affecting Cargill, or if Cargill terminates the arrangement because of a breach by the Company of its obligations, the Company will be required to pay a portion (up to 50%) of the book value of capital expenditures made by Cargill to enable it to produce the product. This amount will not exceed $2.5 million without the consent of the Company. Upon the occurrence of any such event the Company also will be required to give Cargill a non-exclusive sublicense to use the patented process for the life of the patent in the production of high amylose corn-based starches for use in food products. The sublicense would be royalty bearing provided the Company was not itself then making the high amylose corn-based starch.

PART III

Item 10. Directors of the Registrant.

Incorporated by reference to the information under *"Election of Directors"* at pages 2 to 4, the information relating to the Audit Committee in the first paragraph of *"Certain Information Concerning The Board And Its Committees-General,"* and the second paragraph of *"Certain Information Concerning The Board And Its Committee - Audit Review Committee"* at pages 4 and 5 of the Proxy Statement, and *"Section 16(a) Beneficial Ownership Reporting Compliance"* at page 14 of the Proxy Statement.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy is filed as an exhibit to this report.

Item 11. Executive Compensation.

Incorporated by reference to the information in "*Certain Information Concerning The Board And Its Committees-Directors' Fees*," at page 6 of the Proxy Statement and under *"Executive Compensation — Summary Compensation Table"* at page 8 and *" —Option Exercises and Year-End Holdings"* at page 9 of the Proxy Statement.

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

Incorporated by reference to the information under *"Principal Stockholders"* on pages 12 and 13 of the Proxy Statement.

The following is a summary of securities authorized for issuance under equity compensation plans as of June 30, 2004:

	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)		**Weighted-average of exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (1) (c)**
Equity compensation plans approved by security holders	905,980	$	5.48	118,020
Equity compensation plans not approved by security holders	—		—	—
Total	905,980	$	5.48	118,020

(1) Of these securities, as of June 30, 2004, an aggregate of 26,020 shares may also be issued as performance or restricted stock awards under the terms of Stock Incentive Plan of 1996 and the 1998 Stock Incentive Plan for Salaried Employees.

Item 13. Certain Relationships and Related Transactions.

None.

Item 14. Principal Accountant Fees and Services.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

(1) Financial Statements:

Auditors' Report on Financial Statements.
Consolidated Balance Sheets at June 30, 2004, 2003 and 2002.
Consolidated Statements of Income - for the Three Years Ended June 30, 2004, 2003 and 2002.
Consolidated Statements of Stockholders' Equity for the Three Years Ended June 30, 2004, 2003 and 2002.
Consolidated Statements of Cash Flow - for the Three Years Ended June 30, 2004, 2003 and 2002.
Notes to Consolidated Financial Statements.

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

(2) Financial Statement Schedules:

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

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

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

Exhibits:

Exhibit No.	**Description**
3(a)(1)	Articles of Incorporation of the Company, as amended (Incorporated by reference to Exhibit 3 of the Company's Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 0-17196)).
3(b)	Bylaws of the Company (Incorporated by reference to Exhibit 3(b) of the Company's Registration Statement No. 33-24398 on Form S-1).
4(a)	Copy of Note Agreement dated as of August 1, 1993, providing for the issuance and sale of $25 million of 6.68% term notes ("Term Notes") (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).
4(b)	Copy of Term Notes dated August 27, 1993 (incorporated by reference to Exhibit 4.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).
4(c)	Copy of Ninth Amended Line of Credit Loan Agreement with Commerce Bank, N.A. providing for the Issuance of a Line of Credit Note in the amount of $10,000,000 (incorporated by reference to Exhibit 4(c) of the Company's Form 10-K report for the year ended June 30, 2003 (file number 0-17196).

4(d)	Copy of Line of Credit Note under Ninth Amended Line of Credit Loan Agreement (incorporated by reference to Exhibit 4(d) of the Company's Form 10-K report for the year ended June 30, 2003 (file number 0-17196).
4(e)	In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the Commission upon request.
9(a)	Copy of Cray Family Trust (incorporated by reference to Exhibit 1 of Amendment No. 1 to Schedule 13D of Cloud L. Cray, Jr. dated November 17, 1995).
*10(a)	Summary of informal cash bonus plan
10(b)	Copy of MGP Ingredients, Inc. Stock Incentive Plan of 1996, as amended as of August 26, 1996 (incorporated by reference to Exhibit A to the Company's Notice of Annual Meeting and Proxy Statement filed September 17, 1996).
10(c)	Copy of amendment to MGP Ingredients, Inc. Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(d)	Form of Stock Option with respect to stock options granted under the MGP Ingredients, Inc. Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, 1996 (file number 0-17196)).
10(e)	Copy of MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors, as amended as of August 26, 1996 (incorporated by reference to Exhibit B to the Company's Notice of Annual Meeting and Proxy Statement filed September 17, 1996).
10(f)	Copy of amendment to MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(g)	Copy of MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated September 17, 1998, filed with the Securities and Exchange Commission on September 15, 1998).
10(h)	Form of Stock Option with respect to stock options granted under the MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, l996 (file number 0-17196)).
10(i)	Copy of amendments to Options granted under MGP Ingredients, Inc. Stock Option Plans (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(j)	Form of Option Agreement for the grant of Options under the MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors, as amended (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).

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

10(q)	Form of Memorandum of Agreement Concerning Options approved on December 10, 2001 between the Company and certain members of senior management, including the following named executive officers: Ladd M. Seaberg, Randall M. Schrick and Dr. Sukh Bassi (incorporated by reference to Exhibit 10 to the Company's form 10-Q for the quarter ended December 31, 2001 (file number 0-17196)).
10(r)	Lease dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(s) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
10(s)	Steam Heat Service Agreement dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(t) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).

10(t)	Cogeneration Agreement dated December 16, 1993 among MGP Ingredients, Inc., Central Illinois Light Company and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(u) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
10(u)	Guidelines for Issuance of Fiscal 2004 Restricted Share Awards (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10(v)	Agreement with Ladd M. Seaberg as to Award of Restricted Shares Granted under the Stock Incentive Plan of 1996 and the 1998 Stock Incentive Plan for Salaried Employees (Similar agreements have been made with the following named executive officers as to the number of shares indicated following their respective names: Michael J. Trautschold–23,400 shares; Randy M. Schrick – 22,000 shares; Brian T. Cahill - 20,800 shares; Suhk Bassi, Ph.D. – 22,000 shares (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
*13	Information contained in the MGP Ingredients, Inc. 2004 Annual Report to Stockholders that is incorporated herein by reference.
*14	Code of Conduct.
22	Subsidiaries of the Company other than insignificant subsidiaries:

Subsidiary	State of Incorporation or Organization
Midwest Grain Pipeline, Inc.	Kansas
MGP Ingredients of Illinois, Inc.	Illinois
Kansas City Ingredient Technologies, Inc.	Kansas

*23	Consent of BKD, LLP.
25	Powers of Attorney executed by all officers and directors of the Company who have signed this report on Form 10-K (incorporated by reference to the signature pages of this report).
*31.1	CEO Certification pursuant to Rule 13a-14(a).
*31.2	CFO Certification pursuant to Rule 13a-14(a).
*32.1	CEO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350.
*32.2	CFO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350.

* Filed herewith

SIGNATURES

Pursuant to requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Atchison, State of Kansas, on this 9th day of September, 2004.

MGP INGREDIENTS, INC.

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

POWER OF ATTORNEY

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

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

Name	Title	Date
/s/Laidacker M. Seaberg Laidacker M. Seaberg	President (Principal Executive Officer) and Director	September 9, 2004
/s/Brian Cahill Brian Cahill	Vice President and Treasurer (Principal Financial and Accounting Officer)	September 9, 2004
/s/Michael Braude Michael Braude	Director	September 9, 2004
/s/Cloud L. Cray, Jr. Cloud L. Cray, Jr.	Director	September 9, 2004
/s/Michael R. Haverty Michael R. Haverty	Director	September 9, 2004
/s/Linda E. Miller Linda E. Miller	Director	September 9, 2004
/s/Robert J. Reintjes Robert J. Reintjes	Director	September 9, 2004
/s/Randy M. Schrick Randy M. Schrick	Director	September 9, 2004
/s/Daryl R. Schaller Daryl R. Schaller	Director	September 9, 2004

/s/James A. Schlindwein James A. Schlindwein	Director	September 9, 2004

MGP INGREDIENTS, INC.

Consolidated Financial Statement Schedules
(Form 10-K)

June 30, 2004, 2003, and 2002
(With Auditors' Report Thereon)

BKD, LLP

Twelve Wyandotte Plaza
120 West 12th Street, Suite 1200
Kansas City, MO 64105-1936
816-221-6300 Fax: 816-221-6380

bkd.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE

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

In connection with our audit of the consolidated financial statements of MGP INGREDIENTS, INC. for each of the three years in the period ended June 30, 2004, we have also audited the following financial statement schedule. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits of the basic financial statements. The schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations and is not a required part of the consolidated financial statements.

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

/s/ **BKD, LLP**

Kansas City, Missouri
July 30, 2004

MGP INGREDIENTS, INC.

VIII. VALUATION AND QUALIFYING ACCOUNTS

	Balance, Beginning Of Period	Charged to Costs and Expenses	Charged to Other Accounts	Write-Offs	Balance, End of Period
		(In Thousands)			
Year Ended June 30, 2004 Allowance for doubtful accounts	$ 252	$ 12		$ 12	$ 252
Year Ended June 30, 2003 Allowance for doubtful accounts	252	24	—	24	252
Year Ended June 30, 2002 Allowance for doubtful accounts	252	473	—	473	252

EXHIBIT INDEX

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4(a)	Copy of Note Agreement dated as of August 1, 1993, providing for the issuance and sale of $25 million of 6.68% term notes ("Term Notes") (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).
4(b)	Copy of Term Notes dated August 27, 1993 (incorporated by reference to Exhibit 4.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993 (file number 0-17196)).
4(c)	Copy of Ninth Amended Line of Credit Loan Agreement with Commerce Bank, N.A. providing for the Issuance of a Line of Credit Note in the amount of $10,000,000 (incorporated by reference to Exhibit 4(c) of the Company's Form 10-K report for the year ended June 30, 2003 (file number 0-17196).
4(d)	Copy of Line of Credit Note under Ninth Amended Line of Credit Loan Agreement (incorporated by reference to Exhibit 4(d) of the Company's Form 10-K report for the year ended June 30, 2003 (file number 0-17196).
4(e)	In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the Commission upon request.
9(a)	Copy of Cray Family Trust (incorporated by reference to Exhibit 1 of Amendment No. 1 to Schedule 13D of Cloud L. Cray, Jr. dated November 17, 1995).
*10(a)	Summary of informal cash bonus plan .
10(b)	Copy of MGP Ingredients, Inc. Stock Incentive Plan of 1996, as amended as of August 26, 1996 (incorporated by reference to Exhibit A to the Company's Notice of Annual Meeting and Proxy Statement filed September 17, 1996).
10(c)	Copy of amendment to MGP Ingredients, Inc. Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(d)	Form of Stock Option with respect to stock options granted under the MGP Ingredients, Inc. Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, 1996 (file number 0-17196)).
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10(f)	Copy of amendment to MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(g)	Copy of MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated September 17, 1998, filed with the Securities and Exchange Commission on September 15, 1998).

10(h)	Form of Stock Option with respect to stock options granted under the MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, l996 (file number 0-17196)).
10(i)	Copy of amendments to Options granted under MGP Ingredients, Inc. Stock Option Plans (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(j)	Form of Option Agreement for the grant of Options under the MGP Ingredients, Inc. 1996 Stock Option Plan for Outside Directors, as amended (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(k)	Form of Amended Option Agreements for the grant of Options under the MGP Ingredients, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(l)	Form of Option Agreement for the grant of Options under the MGP Ingredients, Inc. Stock Incentive Plan of 1996, as amended (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended September 30, 1998 (file number 0-17196)).
10(m)	Form of Incentive Stock Option Agreement approved on December 7, 2000, for use thereafter under the Stock Incentive Plan of 1996 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
10(n)	Form of Incentive Stock Option Agreement approved on December 7, 2000 for use thereafter under the 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
10(o)	Form of Memorandum of Agreement Concerning Options approved on December 7, 2000 between the Company and certain members of senior management, including the following named executive officers: Ladd M. Seaberg, Randall M. Schrick and Dr. Sukh Bassi (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended December 31, 2000 (file number 0-17196)).
10(p)(1)	Lease Agreement dated as of August 1, 2001 among GE Capital Public Finance, Inc., The Unified Government of Wyandotte County/Kansas City, Kansas, and MGP Ingredients, Inc. (Incorporated by reference to Exhibit 10(q)(1) of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (file number 0-17196)).
10(p)(2)	Amendment No. 1 dated as of July 1, 2003, to Lease Agreement referred to in Item 10(q)(1) among General Electric Capital Corporation, as assignee and successor-in-interest to GE Capital Public Finance, Inc., The Unified Government of Wyandotte County/Kansas City, Kansas and MGP Ingredients, Inc. (Incorporated by reference to Exhibit 10(q)(2) of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (file number 0-17196)).
10(q)	Form of Memorandum of Agreement Concerning Options approved on December 10, 2001 between the Company and certain members of senior management, including the following named executive officers: Ladd M. Seaberg, Randall M. Schrick and Dr. Sukh Bassi (incorporated by reference to Exhibit 10 to the Company's form 10-Q for the quarter ended December 31, 2001 (file number 0-17196)).
10(r)	Lease dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(s) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
10(s)	Steam Heat Service Agreement dated December 16, 1993 between MGP Ingredients, Inc. and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(t) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).

10(t)	Cogeneration Agreement dated December 16, 1993 among MGP Ingredients, Inc., Central Illinois Light Company and Cilcorp Development Services Inc. (Incorporated by reference to Exhibit 10(u) to the Company's report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 0-17196)).
10(u)	Guidelines for Issuance of Fiscal 2004 Restricted Share Awards (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10(v)	Agreement with Ladd M. Seaberg as to Award of Restricted Shares Granted under the Stock Incentive Plan of 1996 and the 1998 Stock Incentive Plan for Salaried Employees (Similar agreements have been made with the following named executive officers as to the number of shares indicated following their respective names: Michael J. Trautschold – 23,400 shares; Randy M. Schrick – 22,000 shares; Brian T. Cahill - 20,800 shares; Suhk Bassi, Ph.D. – 22,000 shares (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
*13	Information contained in the MGP Ingredients, Inc. 2004 Annual Report to Stockholders that is incorporated herein by reference.
*14	Code of Conduct.
22	Subsidiaries of the Company other than insignificant subsidiaries:

Subsidiary	State of Incorporation or Organization
Midwest Grain Pipeline, Inc.	Kansas
MGP Ingredients of Illinois, Inc.	Illinois
Kansas City Ingredient Technologies, Inc.	Kansas

*23	Consent of BKD, LLP.
25	Powers of Attorney executed by all officers and directors of the Company who have signed this report on Form 10-K (incorporated by reference to the signature pages of this report).
*31.1	CEO Certification pursuant to Rule 13a-14(a).
*31.2	CFO Certification pursuant to Rule 13a-14(a).
*32.1	CEO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350.

*32.2	CFO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350.

*Filed herewith

Exhibit 10(a)

The Company has an informal cash bonus plan pursuant to which the Human Resources Committee authorizes a $50,000 bonus pool that may be paid at the discretion of the Chief Executive Officer to reward superior performance during the Fiscal Year by any employee of the Company other than the Chief Executive Officer.

SELECTED FINANCIAL INFORMATION

Years Ended June 30, (in thousands, except per share amounts)	2004	2003	2002	2001	2000
Income Statement Data:					
Net Sales	**$ 270,673**	$ 192,372	$ 214,528	$ 229,241	$ 231,880
Cost of sales	**245,766**	202,112	193,325	212,058	210,978
Gross profit	**24,907**	(9,740)	21,203	17,183	20,902
Selling, general and administrative expenses	**(20,339)**	(13,617)	(14,689)	(13,545)	(12,109)
Other operating income (expense)	**10,720**	17,403	4,865	(3)	39
Income (loss) from operations	**15,288**	(5,954)	11,379	3,635	8,832
Other income, net	**1,450**	15,701	226	2,109	719
Interest expense	**(1,088)**	(1,226)	(1,237)	(1,347)	(1,469)
Income before income taxes	**15,650**	8,521	10,368	4,397	8,082
Provision for income taxes	**6,182**	3,367	4,109	1,737	3,192
Net income	**9,468**	5,154	6,259	2,660	4,890
Earnings per common share (1)	**$ 0.61**	$ 0.33	$ 0.39	$ 0.16	$ 0.27
Cash dividends per common share (1)	**0.075**	0.075	0.075	0.05	
Weighted average common shares outstanding (1)	**15,473**	15,864	16,172	16,794	18,244
Balance Sheet Data:					
Working capital	**39,811**	38,527	48,383	47,490	45,089
Total assets	**187,037**	173,130	166,218	174,450	155,779
Long-term debt, less current maturities	**12,561**	15,232	18,433	24,420	18,181
Stockholders' equity	**118,209**	105,218	104,678	100,544	102,378
Book value per share (1)	**7.43**	6.81	6.48	6.15	5.97

(1) Earnings per share, cash dividends, weighted average common shares outstanding, and book value per share have been adjusted to reflect the Company's 2-for-1 stock split that went into effect following the close of business on June 30, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This section contains forward-looking statements as well as historical information. Forward-looking statements are identified by or are associated with such words as "intend," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may" and "could" and similar expressions. They reflect management's current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. The forward-looking statements are based on many assumptions and factors, including those relating to grain prices, energy costs, product pricing, competitive environment and related market conditions, operating efficiencies, access to capital and actions of governments. Any changes in the assumptions or factors could produce materially different results than those predicted and could impact stock values.

CRITICAL ACCOUNTING POLICIES

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

USDA Grant. As discussed in Note 18 to the financial statements, the Company received a grant from the United States Department of Agriculture Commodity Credit Corporation totaling approximately $25.6 million over the two-year period June 1, 2001 to May 31, 2003. The funds were awarded for research, marketing, promotional and capital costs related to value-added wheat gluten and starch products. Of the amount awarded, approximately $8.1 million was allocated to operating costs and $17.5 million was allocated to capital expenditures. Management has exercised judgment in applying grant proceeds to operating costs and capital expenditures in accordance with the terms of the grant. Funds applied to current operating costs were considered revenue as those costs were incurred during fiscal years 2002 and 2003. Funds applied to capital expenditures are being recognized in income over the periods during which applicable projects are depreciated. Funds applied to capital expenditures will be recognized in this manner over the next seven to eight years.

Hedging Activities. The Company, from time to time, enters into exchange traded commodity contracts which are designated as hedges of specific volumes of commodities to be purchased and processed in future months. Additionally, the Company enters into exchange traded futures contracts related to certain sales of fuel grade alcohol to protect its selling price to the customer. These contracts are designated as and accounted for as cash-flow hedges. The changes in market value of such contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged items. In accordance with Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable income taxes, and recognized in cost of sales as part of product costs when the related products are sold. If it is determined that the hedge instruments used are no longer effective at offsetting changes in the price of the hedged item, then the changes in the market value of these contracts would be recognized in cost of sales at that time.

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

Post Retirement Benefits. The Company and its subsidiaries provide certain post retirement health care and life insurance benefits to all active and retired employees. The Company follows FASB Statements No. 106 and 132 in determining the liability for post retirement benefits. Currently, the plans cover approximately 540 participants, both active and retired. The post retirement benefit plans are funded on a pay-as-you-go basis and there are no assets that have been segregated and restricted to provide for post retirement benefits. Claims are paid as they are submitted for both the medical and life insurance plans. There are varied levels of benefits provided to participants depending upon the date of retirement and the location in which the employee worked. The medical and life plans are available to employees who have attained the age of 62 and

rendered the required number of years of service ranging from five to ten years. All health benefit plans provide company-paid continuation of the active medical plan until age 65. At age 65, the Company either provides the retiree with Medicare Sup-

plement coverage until death or the Company pays a lump sum advance premium on behalf of the retiree to the MediGap carrier of the retiree's choice. The employee retirement date determines which level of benefits is provided.

The plan measurement and valuation date is May 31 of each year. Various assumptions are made by the Company in valuing the liabilities and benefits under the plan each year. The Company considers the rates of return on currently available, high-quality fixed income investments, using the annualized Moody's AA bond index. (Long term rates of return are not considered because the plan has no assets.) In Fiscal 2004, the accumulated post retirement benefit obligation (APBO) was less than expected due to the increase of 25 basis points in the discount rate (6.00% to 6.25%) and claims experience being better than anticipated. Assumptions regarding employee and retiree life expectancy are based upon the 1983 Group Mortality Table. The Company also considers the effects of expected long term trends in health care costs, which are based upon actual claims experience and other environmental and market factors impacting the cost of health care in the short and long term.

Other Significant Accounting Policies. Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. See Note 1 in the Company's Notes to Consolidated Financial Statements for other significant accounting policies.

OPERATIONS

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

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

(dollars in thousands)		2004		2003		2002
Ingredients						
Net Sales	**$**	**102,711**	$	57,215	$	66,232
Pre-Tax Income		**17,268**		7,030		4,562
Distillery Products						
Net Sales	**$**	**167,962**	$	135,157	$	148,296
Pre-Tax Income		**257**		3,622		7,824

Developments in the Ingredients Segment. In June 2001, the White House approved a two-year program to support the development of specialty wheat gluten and wheat starches to assist wheat gluten producers in adjusting to import competition. This program was implemented in lieu of an extension to a three-year long gluten import quota that began in June, 1998. Administered by the U.S. Department of Agriculture's Commodity Credit Corporation, the program ended May 31, 2003. Under the program, the Company was awarded approximately $26 million of the program total of $40 million. On June 29, 2001, the Company received approximately $17,280,000 for the first year of the program. The Company received the balance of the award for the second year of the program in July, 2002.

The funds allocated under the Commodity Credit Corporation program were to pay for capital, research, marketing and promotional costs related to specialty wheat protein and wheat starch products. Funds received were recognized in income during the period in which they were expended for a permitted purpose. However, funds used for capital expenditure projects will be recognized in income over the periods during which those projects are depreciated.

Approximately 32 percent of the Commodity Credit Corporation program's funds for the two years combined were applied toward research and marketing-related costs and, therefore, were reflected in earnings. The remaining 68 percent of the funds were earmarked for capital projects, and will be reflected in earnings over the next seven to eight years. As reported to the Commodity Credit Corporation, during fiscal 2002, approximately $13.6 million (including funds for capital projects that began in fiscal 2002 and completed in fiscal 2003) was earmarked (of which $8.2 million was expended during the year) for capital projects and $3.7 million was applied to research and marketing-related costs. In fiscal 2003, approximately $9.3 million was allocated for capital projects during the year, including carry-over funds from the prior year, and $4.4 million for research and marketing related costs.

Because the Company's ingredient and alcohol production processes are integrated, the distillery slowdown in Atchison caused by the explosion described in *Developments in the Distillery Segment* below temporarily affected the Company's ability to produce the base proteins and starches which are used in the production of specialty ingredients at this location. For a time, the Company altered its operations to use its Illinois facility to produce base proteins and

starches, which were then shipped to the Atchison facility as raw material for producing specialty ingredients. As a result, while production costs increased, the Company was able to limit the effects of the distillery explosion on its ability to supply specialty products to customers.

During fiscal 2004, the Company spent $5.6 million to increase specialty wheat starch production capabilities at its Pekin and Atchison plants. This involved the installation of additional starch processing equipment at both plants. Additionally, in March, 2004, two separate expansion projects amounting to $3.8 million and $1.7 million, respectively, were completed at the Company's facility in Kansas City, Kansas, where the Wheatex® and Polytriticum™ lines are produced. The Company announced an additional expansion project to increase Wheatex® production capacity at the Kansas City plant on February 4, 2004 and expects this project to be completed by September, 2004 at an estimated cost of $4.5 million. The Company's Board of Directors approved another $5.5 million in capital improvement projects for the Kansas City facility in June, 2004. These projects are designed to expand production and packaging capabilities for pet and natural bio-based products and are scheduled for completion by April, 2005.

The Company is involved in a number of patent-related activities. For at least the past five years, the Company has regularly been filing patent applications to protect a range of inventions made in its expanding research and development efforts, including inventions relating to applications for its products. In addition, in 2003, the Company licensed, on an exclusive basis, certain patented technology relating to United States Patent 5,855,946, which describes and claims processes for making food grade starches resistant to alpha-amylase digestion, as well as products and uses for the resistant starches. These starches have found popularity with manufacturers of baked and related goods, and the exclusive license should give the Company an advantage over competitors. While the scope and duration of market interest in such products is not entirely certain at this point, the Company's business continues to benefit from the popularity of these starches.

To meet increased customer demand, the Company began marketing a new potato-based resistant starch, Fibersym™ 80 ST, in the fourth quarter of fiscal 2004 for use in reduced carbohydrate food applications. The ingredient is being produced for the Company by Penford Corporation using patented processes licensed exclusively to the Company. The agreement with Penford has an initial term of three years.

On July 13, 2004, the Company entered into a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch called Fibersym™ HA that is derived from high amylose corn. Under this alliance, which has an initial term of five years, Cargill will manufacture Fibersym™ HA under the patent referred to above licensed exclusively to the Company. The new starch will be marketed by both companies under the Fibersym™ brand name with all revenues from such sales recognized by MGP Ingredients. The Company and Cargill will share profits from sales of the new product, which are expected to commence by the end of calendar 2004. In connection with the arrangement for the new corn product, the Company also granted Cargill an exclusive, royalty-bearing sublicense to use the patented process for the life of the patent in the production and marketing of tapioca-based starches for use in food products. The Company also agreed that if it determined to use the patented process to produce starches derived from other types of corn or to have a third party make product under the patent from other plant sources (other than wheat or potato), it would offer Cargill an opportunity to participate with it. The Company understands that Cargill plans to begin producing and marketing its tapioca-based starch product under the sublicense from the Company by the end of calendar 2004. The arrangements between MGPI and Cargill are subject to termination if the products should be determined to be commercially unviable. As part of the transactions mentioned above, the Company licensed Cargill to use the technology disclosed and claimed in certain patent applications relating to uses for the patented resistant starch.

On June 17, 2004, the Company filed suit in the United States District Court for the District of Kansas against Manildra Milling Corporation alleging infringement of the patent related to food grade starches resistant to alpha-amylase digestion. Informal discussions with representatives of Manildra Milling have elicited from them allegations that they do not infringe certain dependent claims of the patent and further that the patent is unenforceable because of inequitable conduct in the procurement process. No proof beyond these bare allegations was offered by Manildra Milling, and the Company is not aware of any.

Developments in the Distillery Products Segment. On September 13, 2002, an explosion at the Company’s Atchison plant caused significant damage to the Company’s distillery operations at that location. Damage to the distillery was major, affecting operations throughout fiscal 2003 and in the first and second quarters of fiscal 2004. Historically, the Atchison distillery has produced approximately one-third of the Company’s total alcohol output, accounting for approximately 19% of its total fuel grade alcohol production and approximately 67% of its total food grade alcohol production during the fiscal year ended June 30, 2002. As a result of the explosion, the Company was unable to produce finished alcohol at its Atchison plant from the date of the incident until late in the second quarter of fiscal 2004. However, after December, 2002, the Company was able to produce unfinished alcohol at the Atchison location, most of which was shipped to the Pekin, Illinois facility for further processing. The Company generally was able to meet the

needs of its regular customers through its Illinois facility and supplemental third-party purchases, although its spot market sales were affected. The adverse impact of the distillery slowdown on the Company’s operations has been substantially reduced by business interruption insurance.

The distillery rebuilding process was completed late in the second quarter of fiscal 2004, with the actual start-up of the new equipment occurring in December, 2003, approximately one month sooner than expected. The Company believes insurance proceeds have been sufficient to substantially offset rebuilding costs. The gain resulting from insurance proceeds in excess of the net recorded costs of assets destroyed in the accident amounted to approximately $900,000 (pre-tax) in fiscal 2004, and approximately $15.4 million (pre-tax) in fiscal 2003. These amounts were included as other non-operating income in each of the two respective fiscal years.

The majority of the distillery’s capacity in fiscal 2004 was dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications. The remainder was dedicated to the production of fuel grade alcohol, commonly known as ethanol. The new state-of-the-art equipment that was installed during the reconstruction has resulted in improved alcohol production efficiencies at the Atchison plant.

On March 4, 2004, the Company’s Board of Directors approved $9 million in capital expenditures to install new equipment for processing distillers feed at the Atchison distillery and $3 million for the installation of new distillation equipment at the Pekin plant. Both projects are scheduled to be completed by mid-2005 and are expected to strengthen the Company’s ability to realize additional improvements in alcohol production efficiencies, especially in regard to energy usage. The new equipment at the Atchison distillery will also include new, state-of-the-art emission control technology that will enable the Company to comply with government environmental standards.

Method of Sales. Approximately 99% of the Company’s ingredient sales and 100% of its distillery sales are made directly or through distributors to manufacturers and processors of finished goods. Sales to customers are usually evidenced by short-term agreements that are cancelable within 30 days and under which products are usually ordered, produced, sold and shipped within 60 days. However, the Company has entered into a longer term supply contract with one customer relating to certain of its specialty ingredients which extends for a term of several years and will consider similar long-term contracts with other customers if market conditions warrant doing so. In addition, depending on market conditions, varying amounts of the Company’s fuel alcohol are sold under longer term contracts. The Company uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures.

Government Incentives. The Company benefits from tax and other incentives offered by the United States and various state governments to encourage the production of fuel alcohol. One of these involves a program that was implemented by the U.S. Department of Agriculture in December, 2000 to provide cash incentives for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. Since the third quarter of fiscal 2001 through fiscal 2004, the Company has satisfied the program’s eligibility requirements and has received payments accordingly. The program extends through September, 2006, with funding determined annually. The Company’s eligibility to participate in the program is determined from quarter to quarter. The Company also has benefited from a United States Department of Agriculture program in effect from June 1, 2001 to May 31, 2003 to support the development and production of value-added wheat proteins and starches. Current and prior period results reflect the recognition of revenue from this grant. See “Critical Accounting Policies-USDA Grant.”

Raw Materials and Energy. The Company’s principal raw material is grain, consisting of wheat, which is processed into all of the Company’s products, and corn and milo, which are processed into alcohol, animal feed and carbon dioxide. The cost of grain is subject to substantial fluctuations depending upon a number of factors which affect commodity prices in general, including crop conditions, weather, government programs and purchases by foreign governments. Such variations in grain prices have had and are expected to have from time to time significant adverse effects on the results of the Company’s operations. This is due to a number of factors, including that, for various reasons, prices for fuel grade alcohol and commodity wheat starches and gluten do not usually adjust to rising grain prices. The Company engages in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. Such contracts are accounted for as hedges and gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and related products are sold. The Company uses the same method for gasoline hedges.

Energy comprises a major cost of operations, and seasonal increases in natural gas and other utility costs can affect the Company’s profitability. Energy costs during Fiscal Years 2003 and 2004 were higher than the preceding fiscal year. However, energy costs in FY 2002 were lower than energy costs in FY 2001.

FISCAL 2004 COMPARED TO FISCAL 2003

GENERAL

The Company experienced net income of $9,468,000 in fiscal 2004 compared to net income of $5,154,000 in fiscal 2003. The improvement principally was due to a significant increase in unit sales of

specialty ingredients. This increase resulted mainly from sales to manufacturers of food products and pet products. Part of the increase in food products was attributable to heightened demand for the Company's Arise® line of wheat protein isolates and its Fibersym™70 resistant wheat starch for use in producing bakery and related products, including fiber-enhanced, lower net carbohydrate products. Demand for the Company's Wheatex® line of textured wheat proteins, which are used in various grain-based products as well as in meat analog and meat extension applications, also increased compared to the prior year. In the non-food area, sales of the Company's Polytriticum™ lines of grain-based resins, which are used principally in the manufacture of pet chews, also rose compared to the prior year.

Sales of the Company's distillery products in fiscal 2004 also increased compared to distillery products sales in fiscal 2003. This increase resulted from strengthened unit sales and prices for both fuel grade and food grade alcohol, along with slightly higher unit sales of distillers feed, which is the principal by-product of the alcohol production process. In the prior year, production and sales of the Company's distillery products were affected by the September, 2002 distillery explosion at the Atchison plant. By the end of fiscal 2004, production and unit sales of alcohol had returned to their pre-September, 2002 levels.

Business interruption insurance proceeds received by the Company as compensation for the effects of the September, 2002 distillery explosion amounted to approximately $9.6 million in fiscal 2004 compared to $12.6 million in fiscal 2003 and were allocated to the Company's distillery products segment.

Ingredients. Total ingredient sales for fiscal 2004 increased by $45.5 million, or 80 percent, compared to the prior year. This was due to a $43.5 million, or 105 percent, increase in sales of specialty ingredients, consisting primarily of specialty wheat proteins and wheat starches. The greatest increase in sales of specialty ingredients occurred in sales to manufacturers of food products. Meanwhile, in line with the Company's strategy to place increased focus on specialty ingredients, total sales of commodity ingredients, consisting of vital wheat gluten and commodity starch, were reduced by $949,000, or 6 percent. The decrease in commodity ingredients resulted from the Company's decision to reduce vital wheat gluten sales and place increased emphasis on the production and marketing of specialty proteins. This decrease in gluten sales more than offset an increase in sales of commodity wheat starch compared to the prior year. Sales of mill feeds and other mill products increased by $3 million, or 374 percent, as the result of increased wheat processing requirements to satisfy heightened demand for the Company's specialty wheat proteins and starches.

Distillery Products. Total sales of the company's distillery products rose by approximately $32.8 million, or 24 percent, compared to fiscal 2003. This increase was due to a $23.3 million, or 31 percent, increase in sales of fuel grade alcohol and a nearly $5 million, or 14 percent, increase in sales of food grade alcohol for industrial applications. Sales of food grade alcohol for beverage applications was approximately even with beverage alcohol sales in fiscal 2003. Distillers feed sales increased by approximately $4.5 million, or 18 percent, over the prior year due to increased alcohol production. A minimal amount of alcohol was produced at the Atchison distillery during the majority of the prior fiscal after the September 13, 2002 explosion.

In fiscal 2004, the Company recorded a payment of approximately $4 million pre-tax ($2.4 million net of income taxes) under a program that was implemented by the U.S. Department of Agriculture in December, 2000 to provide cash incentives for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. This compares with $3.2 million pre-tax ($1.9 million net of income taxes) received under the program during the prior year.

SALES

Net sales in fiscal 2004 rose by approximately $78 million, or 41 percent, above net sales in fiscal 2003. This increase resulted from the $45.5 million increase in ingredients sales and the $32.8 million increase in distillery products sales referred to above. The increase in ingredients sales was mainly due to higher unit sales of both specialty wheat proteins and starches. The rise in distillery products sales resulted mainly from higher unit sales of fuel grade alcohol, food grade alcohol for industrial applications and distillers feed, and higher selling prices for both fuel grade and food grade beverage alcohol. An increase in unit sales of unfinished alcohol, principally in the first and second quarters of fiscal 2004, was also a contributing factor.

COST OF SALES

The cost of sales in fiscal 2004 increased by approximately $44 million, or 22 percent, above the cost of sales in the prior fiscal year. This principally was due to costs associated with significantly increased sales of the Company's products, higher energy costs and higher raw material costs for grain, as well as increases in insurance premiums. The increased energy costs primarily resulted from a 21 percent increase in the average price of natural gas compared to the prior year and higher energy usage due to increased production over fiscal 2003 when operations at the Atchison plant were affected by the September, 2002 distillery explosion. The rise in grain costs was also due to increased production needs as well as to higher average prices for grain compared to fiscal 2003. Prices for wheat averaged approximately 6 percent higher while prices for corn averaged 6.2 percent higher in fiscal 2004 compared to fiscal 2003.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company

enters into commodity contracts to reduce or hedge the risk of future grain price increases. During fiscal 2004, the Company hedged approximately 43 percent of corn processed compared to 42 percent in fiscal 2003. Of the wheat processed by the Company in fiscal 2004, 33 percent was hedged compared to 27 percent hedged in the prior fiscal year. The Company also uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. In fiscal 2004, raw material costs included a net hedging gain of $1,019,703 compared to a net hedging gain of $199,883 in fiscal 2003.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses in fiscal 2004 were approximately $6.7 million, or 49 percent, higher than selling, general and administrative expenses in fiscal 2003. The increase was mainly due to accruals for employee benefit programs, costs associated with the implementation of the Company's Enterprise Resource Planning system, royalty fees related to patent licensing, professional fees, and various factors associated with strengthened sales and marketing activities, and research and development initiatives.

OTHER OPERATING INCOME

The decrease in other operating income in fiscal 2004 was partially due to the recognition of approximately $3 million less in business interruption insurance proceeds compared to fiscal 2003. Additionally, the Company recognized approximately $3.2 million less in income related to a grant provided by the United States Department of Agriculture Commodity Credit Corporation to support the development and production of value-added wheat proteins and starches. This program was in effect from June 1, 2001 to May 31, 2003. Details about this program are described in the Critical Accounting Policies and Operations sections of this report.

TAXES AND INFLATION

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

NET INCOME

As the result of the foregoing factors, the Company experienced net income of $9,468,000 in fiscal 2004 compared to net income of $5,154,000 fiscal 2003. The Company's net income in fiscal 2003 was principally due to approximately $15.4 million in non- operating income ($9.3 million after the effects of income taxes) resulting from the recognition of insurance proceeds in excess of the net recorded costs of assets that were destroyed in a distillery explosion at the Company's Atchison, Kansas plant on September 13, 2002.

FISCAL 2003 COMPARED TO FISCAL 2002

GENERAL

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

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

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

Business interruption insurance to compensate for the effects of the explosion amounted to approximately $12.6 million in fiscal 2003 and contributed to the Company's income from operations for the year. The Company additionally benefited from the receipt of approximately $1.9 million (net of income taxes) from a United States Department of Agriculture program to provide cash incentives to ethanol producers, as well as approximately $3.0 million (net of taxes) in operating net income from a USDA Commodity Credit Corporation program to support the development of specialty wheat protein and wheat starch products. Details on both of these programs are provided below.

Ingredients. Total ingredient sales in fiscal 2003 decreased by $9 million, or 14 percent, compared to the prior year due mainly to a significant reduction in sales of commodity ingredients, which consist of vital wheat gluten and commodity wheat starch. In contrast, fiscal 2003 sales of specialty ingredients, consisting of specialty proteins and starches, increased by $4.3 million, or 12 percent, above fiscal2002 to nearly $42 million and accounted for approximately 73 percent of the Company's total ingredient sales for the year.

The increase in specialty ingredients sales resulted from higher sales of specialty proteins, which more than offset softness in sales of specialty starches. The reduction in commodity wheat starch sales resulted from the Company's decision to emphasize specialty starch sales over commodity wheat starch sales. The reduction in vital wheat gluten sales occurred because the Com-

pany elected to curtail production due to pricing pressures from artificially low priced gluten imports from the European Union. Competitive pressures from the E.U. increased following the expiration of the three-year-long quota on wheat gluten imports in early June, 2001.

Distillery Products. Total sales of distillery products in fiscal 2003 were down $13.1 million, or 9 percent, compared to the prior year. This was due to a 9 percent decline in unit sales resulting from reduced production caused by the distillery explosion at the Company's Atchison plant on September 13, 2002. Lower selling prices for food grade alcohol and fuel grade alcohol also contributed to this decrease.

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

In fiscal 2003, the Company received payments totaling approximately $3.2 million pre-tax ($1.9 million net of income taxes), under a program that was developed by the U.S. Department of Agriculture and initiated in December, 2000 to provide a cash incentive for ethanol producers who increase their grain usage over comparable quarters to raise fuel alcohol production. In fiscal 2002, the Company received $4.1 million pre-tax ($2.5 million net of income taxes) from this program.

SALES

Net sales in fiscal 2003 decreased by approximately $22.2 million, or 10 percent, from net sales in fiscal 2002. This decrease resulted from a 9 percent reduction in sales of distillery products and a 14 percent reduction in sales of ingredients.

The decline in sales of ingredients was due to a strategically designed reduction in sales of commodity ingredients, which primarily consist of vital wheat gluten and commodity wheat starch. Sales of vital wheat gluten dropped due to a significant reduction in unit sales.

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

Distillery product sales in fiscal 2003 were lower than the prior year due mainly to reduced production caused by the September 13, 2002 distillery explosion. Reduced unit sales and lower average selling prices for fuel grade alcohol as well as food grade alcohol for beverage and industrial applications also contributed to this decline. Sales of distillers feeds, the principal by-product of the alcohol production process, were less than the prior year due to lower alcohol output.

COST OF SALES

The cost of sales in fiscal 2003 increased by approximately $9 million, or 5 percent, above the cost of sales in the prior fiscal year. This principally was due to higher raw material costs for grain and higher energy costs. The increase in grain costs was caused by a 15 percent jump in average wheat prices and a 20 percent hike in average corn prices paid by the Company versus the prior year. The increased energy costs resulted from a 45 percent rise in natural gas prices compared to fiscal 2002.

During fiscal 2003, the Company hedged approximately 44 percent of corn processed, compared to 48 percent in fiscal 2002. Of the wheat processed by the Company, 27 percent was hedged in fiscal 2003 compared to none in fiscal 2002. The Company also uses gasoline futures to hedge fuel alcohol sales made under contracts with price terms based on gasoline futures. In fiscal 2003, raw material costs included a net hedging gain of $199,883 compared to a net hedging loss of $1,798,705 in the prior fiscal year.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses in fiscal 2003 were approximately $1.1 million, or 7 percent, lower than selling, general and administrative expenses in fiscal 2002. The decrease was

due to various factors, including reductions in staff bonus incentives and a $449,000 reduction in bad debt expense compared to the prior fiscal year. The decrease was

partially offset by an increase in sales salaries and fees associated with outside professional and consulting services.

OTHER OPERATING INCOME

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

OTHER INCOME

The increase in other income is due to the recognition of expected insurance proceeds in excess of the net recorded costs of assets that were destroyed in a distillery explosion at the Company's Atchison plant in September, 2002.

TAXES AND INFLATION

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

NET INCOME

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

QUARTERLY FINANCIAL INFORMATION

The Company's sales have not been seasonal during fiscal years 2004 and 2003 except for variations affecting beverage alcohol sales. Beverage alcohol sales tend to peak in the fall as distributors order stocks for the holiday season. In previous years, demand for fuel grade alcohol tended to peak during the fall and winter to satisfy clean air standards during those periods. The table below shows quarterly information for each of the years ended June 30, 2004 and 2003.

Quarter Ending, (dollars in thousands, except per share amounts)	Sept. 30	Dec. 31	March 31	June 30	Total
Fiscal 2004					
Sales:	**$ 57,054**	**$ 59,409**	**$ 75,215**	**$ 78,995**	**$ 270,673**
Gross profit	**1,687**	**5,120**	**6,903**	**11,197**	**24,907**
Net income	**2,470**	**1,834**	**1,999**	**3,165(2)**	**9,468**
Earnings per share (3)	**0.16**	**0.12**	**0.13**	**0.20**	**0.61**
Fiscal 2003					
Sales:	$ 42,899	$ 44,408	$ 52,536	$ 52,529	$ 192,372
Gross profit	177	(2,495)	(2,966)	(4,456)	(9,740)
Net income (loss)	6,790(1)	48	(312)	(1,372)(1)	5,154
Earnings (Loss) per share (3)	0.42	0.01	(0.02)	(0.08)	0.33

(1) Reflects $13.4 million ($8.1 million net of income taxes) in the quarter ended September 30, 2002, $2.0 million ($1.2 million net of income taxes) in the quarter ended June 30, 2003 and $0.9 million ($0.5 million net of income taxes) in the quarter ended June 30, 2004 related to the gain recognized from property damage insurance proceeds in excess of the net book value of the property and equipment destroyed in the Company's distillery explosion.

(2) Reflects approximately $1.0 million ($0.6 million net of income taxes) change for year-end inventory adjustments.

(3) Earnings per share data adjusted to reflect the Company's 2-for-1 stock split that went into effect following the close of business on June 30, 2004.

MARKET RISK

The Company produces its products primarily from wheat, corn and milo and, as such, is sensitive to changes in commodity prices. Grain futures and/or options, which are accounted for as cash flow hedges, are used as a hedge to protect against fluctuations in the market. Fluctuations in the volume of hedging transactions are dictated by alcohol sales and are based on corn and gasoline prices. The Company has a risk management committee, comprised of senior management members, that meets weekly to review futures contracts and positions. This group sets objectives and determines when futures positions should be held or terminated. A designated employee makes trades authorized by the risk management committee. The futures contracts that are used are exchange-traded contracts. The Company trades on the Kansas City and Chicago Boards of Trade and the New York Mercantile Board of Exchange. For inventory and open futures, the table below presents the carrying amount and fair value at June 30, 2004 and 2003. The Company includes the fair values of open contracts in inventories or other accrued liabilities in the balance sheet.

As of June 30,	2004 Carrying Amount	2004 Fair Value	2003 Carrying Amount	2003 Fair Value
Inventories				
Corn	**$ 1,152,000**	**$ 1,154,000**	$ 1,191,000	$ 1,159,000
Milo	**730,000**	**771,000**	854,000	866,000
Wheat	**3,843,000**	**3,835,000**	3,913,000	3,714,000
	Expected Maturity*	**Fair Value**	**Expected Maturity***	**Fair Value**
Corn Options				
Contract Volumes (bushels)	**2,000,000**			
Weighted Average Strike Price/Bushel				
Long Calls	**$ 3.00**	**$ 127,500**		
Short Calls	**$ 3.50**	**$ (45,000)**		
Short Puts	**$ 2.70**	**$ (373,750)**		
Contract Amount	**$ 112,500**	**$ (291,250)**		

		Expected Maturity*		Fair Value
Wheat Options				
Contract Volumes (bushels)		300,000		
Weighted Average Strike Price/Bushel				
Short Puts	$	3.20		
Contract Amount	$	65,653	$	53,250

The Company also contractually sells a portion of its fuel grade alcohol at prices that fluctuate with gasoline futures. Gasoline futures are used as a hedge to protect against these fluctuations. The table below presents information about open futures contracts as of June 30, 2003. There were no open contracts as of June 30, 2004.

As of June 30,	2004	2003			
			Expected Maturity*		Fair Value
Gasoline Futures (short)					
Contract Volumes (gallons)			1,050,000		
Weighted Average Price		$	0.82		
Contract Amount		$	863,200	$	911,400

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

The Company's outstanding long-term debt at June 30, 2004 carries fixed interest rates which limit its exposure to increases in market rates. The Company's lines of credit provide for interest at variable rates. There were no borrowings on these lines at June 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

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

June 30, (Dollars in Thousands)		2004		2003
Cash and cash equivalents	**$**	**6,488**	$	17,539
Working capital		**39,811**		38,527
Amounts available under lines of credit		**12,500**		12,500
Notes payable and long-term debt		**15,762**		18,433
Stockholders' equity		**118,209**		105,218

Cash Flow. Cash flow from operations increased from $8,177,000 in fiscal 2003 to $10,970,000 in fiscal 2004, or by approximately $2,800,000. This increase resulted from a combination of factors, the most significant of which is the increase in volume from fiscal 2003 to fiscal 2004. Cash received related to revenue earned increased by approximately $60.9 million, which was offset by increases in payments to suppliers and employees aggregating approximately $43.5 million, of which approximately $5.3 million is reflected as an increase in wheat-based ingredients inventory, and an increase in payments for income taxes of approximately $3.3 million. Offsetting this $14.1 million difference, were principally two factors. In the first quarter of fiscal 2003, the Company received the second year installment of the USDA grant totaling $8.4 million. This was the final installment due under the USDA grant, and therefore no proceeds were received in fiscal 2004. Also, insurance proceeds related to business interruption insurance were approximately $3.0 million less in fiscal year 2004 than fiscal year 2003. Cash flow provided by operations combined with cash on hand at June 30, 2003 and receipt of insurance proceeds related to damage to the plant was used for equipment additions and reductions in debt.

Under its arrangement with Cargill for the production and marketing of high amylose corn based resistant starch, the Companywill be obligated to pay Cargill on a monthly basis for its cost of manufacturing product to be delivered to the Company. The Company also will pay Cargill 50% of its net profits from sales of the product. Because the Company will be obligated to pay Cargill for its costs of manufacture, the Company's cash flow may be affected to the extent sales revenues lag production billings.

Capital Expenditures. As of June 30, 2004, the Company's Board of Directors had approved $25.8 million in expenditures with respect to improvements and replacements of existing equipment, of which $18.4 million are expected to be made over the course of the next twelve months. As of June 30, 2004 the Company has contracts to acquire capital assets of approximately $6.1 million. The amounts approved do not include approximately $1.2 million additional that may be required to be expended in connection with environmental proceedings to which the Company is a party (see Note 17). The Company anticipates that it may require external financing for some of its capital expenditures, but other than a capital lease obligation for the acquisition and installation of its enterprise resource system, with the maximum amount to be financed totaling approximately $800,000, it has not determined the amount, type or source of such financing.

Stock Purchases. The Company made open market purchases of approximately 96,000 shares of its common stock during the year. These purchases were made to fund the Company's stock option plans and for other corporate purposes. As of June 30, 2004, the Board has authorized the purchase of approximately 1,626,000 additional shares of the Company's common stock. In addition, during 2004, employees exercised stock options on approximately 635,000 shares of common stock and the Company received proceeds totaling approximately $3.6 million.

Contractual Obligations. Contractual obligations at June 30, 2004 are as follows:

		2005		2006		2007		2008		2009		Thereafter		Total
Long-term Debt (1)	$	2,273	$	2,273	$	2,273	$	2,273	$	2,270	$	0	$	11,362
Capital Leases (2)		928		1,459		928		928		157		0		4,400
Operating Leases		1,556		1,400		998		636		260		82		4,932
Energy Contract (3)		1,428		1,428		1,428		1,428		1,428		714		7,854
Post Retirement Benefits		303		305		310		322		346		4,391		5,977
Open Purchase Commitments (4)		10,000												10,000
	$	16,488	$	6,865	$	5,937	$	5,587	$	4,461	$	5,187	$	44,525

(1) Long-term debt consists of unsecured senior notes payable in annual installments of principal of $2,273,000 through 2008, with the final payment of $2,270,000 due in 2009. Interest is payable semi-annually at 6.68 percent per annum. Upon optional prepayment or acceleration upon default, in addition to principal and accrued interest, the Company is required to pay the noteholders a "make whole amount," as defined, estimated at approximately $800,000 as of June 30, 2004.

(2) Amounts shown under capital lease arise principally under an industrial revenue bond lease relating to the Company's Kansas City, Kansas facility. The lease was modified in July 2003 in connection with which certain tax-related covenants were eliminated. Monthly principal payments are $77,381 through September 2008. Interest is also payable monthly at a rate of 5.23 percent per annum. Upon optional prepayment or acceleration upon default prior to October 1, 2005, the amount due from the Company would also include a premium of 2 percent on the outstanding principal component of the remaining lease payments; on and after October 1, 2005, the premium is 1 percent. The Company has also entered into a capital lease to fund the acquisition and installation of its new enterprise resources system (ERP). This lease provides for 36 monthly payments of $22,590 including interest at 4.6 percent through 2008. The Company anticipates that when the ERP system is complete, the maximum outstanding capital lease obligation will be $1.6 million, which will occur during the next year.

(3) Amounts shown under "Energy Contract" arise under a long-term arrangement with Central Illinois Light Company and its subsidiary, CILCORP Development Services Inc. (collectively "CILCO"). The Company has leased a portion of its Pekin, Illinois plant facility to CILCO for a term ending in December 2009. CILCO constructed a new gas fired electric and steam generating facility on ground leased from the Company and agreed to provide steam heat to the Company's plant. If the Company fails to renew the lease for 19 years at the end of the lease term, it must pay CILCO the book value of the boiler plant and cogeneration facility, which the Company estimates will be $10.6 million. Under a related steam heat service agreement, the Company has agreed, subject to limited termination procedures, to purchase its requirements for steam heat from CILCO until at least December, 2009. Either party may terminate the service agreement at the end of the initial term or thereafter upon two years notice. The Company must make minimum monthly payments over the term of the service agreement which adjust based on changes in the product price index, and also is responsible for fuel cost and certain other expenses. Amounts shown in the above table are based on the minimum monthly payment in effect as of June 30, 2004.

(4) Amounts shown under open purchase commitments consist of commitments to purchase grain to be used in the Company's operations during the first two months of fiscal 2005. The amount shown for 2005 also includes an obligation to purchase $6.2 million of product under an agreement with Penford Corporation discussed above. In addition, under the Company's arrangement with Penford Corporation , the Company may be required to compensate Penford for its unrecovered costs of acquiring and processing unrequired starch if the Company does not purchase forecasted amounts of product during a calendar year. The Company is unable to quantify its exposure, if any, under this arrangement with Penford.

Financial Covenants. In connection with the Company's long-term loan and capital lease agreements, it is required, among other covenants, to maintain certain financial ratios, including a current ratio (current assets to current liabilities) of 1.5 to 1, minimum consolidated tangible net worth (stockholders' equity less intangible assets) of $84 million, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge coverage ratio (generally, the ratio of (i) the sum of (a) net income [adjusted to exclude gains or losses from the sale or other disposition of capital assets and other matters] plus (b) provision for taxes plus (c) fixed charges, to (ii) fixed charges) for the period of the four consecutive fiscal quarters ended as of the measurement date of 1.5 to 1. As of June 30, 2004, the Company believes it was in compliance with the financial and other covenants in its loan, capital lease and line-of-credit agreements.

Lines of Credit. The Company's line of credit for $10 million, available for general corporate purposes, extends through November 2004. A smaller line of credit for $2.5 million expires on October 31, 2004 and is also available for general corporate purposes.

OFF BALANCE SHEET OBLIGATIONS

The Company's obligation to to pay CILCO $10.6 million if it does not renew its lease, referred to in note (3) of the Contractual Obligation table above, may be deemed an "off balance sheet" obligation. In addition, as discussed elsewhere herein under "Operations," the Company has entered a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch derived from high amylose corn. It is not known whether the product will prove commercially viable, and therefore the significance of the agreement with Cargill cannot be determined at this time. If the Company does not renew the arrangement after its initial five year term or terminates the arrangement before the expiration of 18 months following certain force majeure events affecting Cargill, or if Cargill terminates the arrangement because of a breach by the Company of its obligations, the Company will be required to pay a portion (up to 50%) of the book value of capital expenditures made by Cargill to enable it to produce the product. This amount will not exceed $2.5 million without the consent of the Company. Upon the occurrence of any such event the Company also will be required to give Cargill a non-exclusive sublicense to use the patented process for the life of the patent in the production of high amylose corn-based starches for use in food products. The sublicense would be royalty bearing provided the Company was not itself then making the high amylose corn-based starch.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of MGP Ingredients, Inc. as of June 30, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MGP Ingredients, Inc. as of June 30, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
July 30, 2004

CONSOLIDATED STATEMENTS OF INCOME

Years ended June 30, (in thousands, except per share amounts)	2004	2003	2002

Net sales	$ **270,673**	$ 192,372	$ 214,528
Cost of sales	**245,766**	202,112	193,325
Gross profit (loss)	**24,907**	(9,740)	21,203
Selling, general & administrative expenses	**(20,339)**	(13,617)	(14,689)
Other operating income	**10,720**	17,403	4,865
Income (loss) from operations	**15,288**	(5,954)	11,379
Other income, net	**1,450**	15,701	226
Interest expense	**(1,088)**	(1,226)	(1,237)
Income before income taxes	**15,650**	8,521	10,368
Provision for income taxes	**6,182**	3,367	4,109
Net income	$ **9,468**	$ 5,154	$ 6,259
Earnings per common share (1)			
Basic	$ **0.61**	$ 0.33	$ 0.39
Diluted	$ **0.59**	$ 0.33	$ 0.39
Other comprehensive income (loss)			
Net income	$ **9,468**	$ 5,154	$ 6,259
Other comprehensive income (loss), net of tax:			
gain (loss) on cash flow hedge	**819**	(27)	(2,356)
reclassification adjustment for (gain) losses included in net income	**(1,020)**	(199)	2,517
Other comprehensive income (loss)	**(201)**	(226)	161
Comprehensive income	$ **9,267**	$ 4,928	$ 6,420

See Notes to Consolidated Financial Statements

(1) Earnings per share has been adjusted to reflect the Company's 2-for-1 stock split that went into effect following the close of business on June 30, 2004.

CONSOLIDATED BALANCE SHEETS

Years ended June 30, **(in thousands, except per share amounts)**	**2004**	**2003**
Assets		
Current assets		
Cash and cash equivalents	$ **6,488**	$ 17,539
Receivables (less allowance for doubtful accounts: 2004 and 2003—$252)	**34,243**	20,466
Inventories	**32,775**	26,956
Prepaid expenses	**828**	1,578
Deferred income taxes	**2,090**	
Refundable income taxes		3,086
Total current assets	**76,424**	69,625
Property and equipment, at cost	**296,377**	263,990
Less accumulated depreciation	**187,280**	172,186
Property and equipment, net	**109,097**	91,804
Insurance receivable	**1,425**	11,515
Other assets	**91**	186
Total assets	$ **187,037**	$ 173,130
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ **3,201**	$ 3,201
Accounts payable	**10,576**	9,729
Accrued expenses	**7,815**	3,604
Income taxes payable	**2,423**	
Deferred income taxes		241
Deferred revenue	**12,598**	14,323
Total current liabilities	**36,613**	31,098
Long-term debt	**12,561**	15,232
Post retirement benefits	**5,977**	5,780
Deferred income taxes	**13,677**	15,802
Stockholders' equity		
Capital Stock		
Preferred, 5% non-cumulative; $10 par value; authorized 1,000 shares; issued and outstanding 437 shares	**4**	4
Common stock, no par value; authorized 20,000,000 shares; issued 19,530,344 shares	**6,715**	6,715
Additional paid-in capital	**5,005**	2,605
Retained earnings	**123,181**	114,861
Accumulated other comprehensive loss—cash flow hedges	**(251)**	(50)
	134,654	124,135
Treasury stock, at cost		
Common; 2004—3,621,514 shares, 2003—4,159,656 shares	**(16,445)**	(18,917)
Total stockholders' equity	**118,209**	105,218
Total liabilities and stockholders' equity	$ **187,037**	$ 173,130

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended June 30, (in thousands)	Capital Stock Preferred	Issued Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, June 30, 2001	$ 4	$ 6,715	$ 2,485	$ 105,878	$ 15	$ (14,553)	$ 100,544
Purchase of treasury stock						(1,628)	(1,628)
Stock options exercised			116			447	563
2002 net income				6,259			6,259
Dividends paid				(1,221)			(1,221)
Unrealized gain on cash flow hedge					161		161
Balance, June 30, 2002	4	6,715	2,601	110,916	176	(15,734)	104,678
Purchase of treasury stock						(3,193)	(3,193)
Stock options exercised			4			10	14
2003 net income				5,154			5,154
Dividends paid				(1,209)			(1,209)
Unrealized loss on cash flow hedge					(226)		(226)
Balance, June 30, 2003	4	6,715	2,605	114,861	(50)	(18,917)	105,218
Purchase of treasury stock						**(446)**	**(446)**
Stock options exercised			**2,400**			**2,918**	**5,318**
2004 net income				**9,468**			**9,468**
Dividends paid				**(1,148)**			**(1,148)**
Unrealized loss on cash flow hedge					**(201)**		**(201)**
Balance, June 30, 2004	**$ 4**	**$ 6,715**	**$ 5,005**	**$ 123,181**	**$ (251)**	**$ (16,445)**	**$ 118,209**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,	2004	2003	2002
Cash flows from operating activities			
Net income	**$ 9,468**	$ 5,154	$ 6,259
Items not requiring (providing) cash:			
Depreciation	**15,197**	14,354	14,308
Loss on sale of assets	**4**	1,253	0
Deferred income taxes	**683**	5,740	1,980
Gain on insurance recovery	**(896)**	(15,431)	
Changes in:			
Accounts receivable	**(13,777)**	3,605	2,038
Inventories	**(6,020)**	(6,427)	(2,364)
Accounts payable	**4,894**	353	(1,992)
Deferred revenue	**(1,725)**	3,352	(4,980)
Income taxes (receivable) payable	**2,100**	(2,501)	(286)
Other	**1,042**	(1,275)	636
Net cash provided by operating activities	**10,970**	8,177	15,599
Cash flows from investing activities			
Additions to property and equipment	**(31,781)**	(15,911)	(12,972)
Proceeds from disposition of equipment	**11,013**	4,126	
Net cash used in investing activities	**(20,768)**	(11,785)	(12,972)
Cash flows from financing activities			
Purchase of treasury stock	**(446)**	(3,193)	(1,628)
Sale of treasury stock	**3,588**	14	563
Principal payments on long-term debt	**(3,247)**	(3,201)	(3,047)
Proceeds from issuance of long-term debt			6,500
Net proceeds on line of credit			(8,512)
Dividends paid	**(1,148)**	(1,209)	(1,221)
Net cash provided by (used in) financing activities	**(1,253)**	(7,589)	(7,345)
Increase (decrease) in cash and cash equivalents	**(11,051)**	(11,197)	(4,718)
Cash and cash equivalents, beginning of year	**17,539**	28,736	33,454
Cash and cash equivalents, end of year	**$ 6,488**	$ 17,539	$ 28,736

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 :

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. The activities of MGP Ingredients, Inc. and its subsidiaries consist primarily of the processing of wheat, corn and milo into a variety of products through an integrated production process. The Company is a fully integrated producer of specialty and commodity ingredients and distillery products. Specialty ingredients are principally comprised of specialty wheat proteins and wheat starches. Commodity ingredients consist primarily of vital wheat gluten and commodity wheat starch.

Distillery products include food grade alcohol and fuel grade alcohol. By-products include mill feeds and other mill products, distillers feed and carbon dioxide. The Company sells its products on normal credit terms to customers in a variety of industries located primarily throughout the United States. The Company operates plants in Atchison, Kansas and Pekin, Illinois. The Company also operates a facility in Kansas City, Kansas, for the further processing and extrusion of wheat proteins and starches. Midwest Grain Pipeline, Inc., a wholly owned subsidiary, supplies natural gas to the Company's Atchison plant.

The Company's ingredients are sold primarily as food additives to enhance the functionality, appearance, texture, taste and a variety of other characteristics of baked and processed foods. The Company's ingredients are also sold for use in personal care product applications and for use in the manufacture of pet treats and bio-based products.

MGPI's food grade alcohol is produced for beverage and industrial applications. The Company's beverage alcohol consists primarily of vodka and gin and is sold in bulk form. Fuel grade alcohol is sold as an octane additive and oxygenate that is commonly known as ethanol.

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

Principles of Consolidation. The consolidated financial statements include the accounts of MGP Ingredients, Inc., MGP Ingredients of Illinois, Inc., Kansas City Ingredient Technologies, Inc. and Midwest Grain Pipeline, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

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

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

The Company capitalizes interest costs associated with construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred for 2004 and 2003 was:

June 30, **(in thousands)**		**2004**		**2003**
Interest cost capitalized	**$**	**775**	$	452
Interest costs charged to expense		**1,088**		1,226
	$	**1,863**	$	1,678

Stock Split. On June 30, 2004 the Company effected a 2-for-1 split of its common stock. All share and per share amounts have been adjusted to give effect to the stock split.

Earnings Per Common Share. Earnings per common share data is based upon the weighted average number of common shares outstanding for each period.

Cash Equivalents. The Company considers all liquid investments with maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of overnight repurchase agreements with a bank.

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

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

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

Indemnification Agreements. The Company sells certain of its products under agreements that provide that the Company will indemnify the customers against certain claims by third parties. The Company records its obligations under these indemnification agreements based on their fair value.

Advertising. Advertising costs are expensed as incurred. These costs totaled $841,000, $806,000 and $810,000 for June 30, 2004, 2003 and 2002, respectively.

Research and Development. Research and development costs are expensed as incurred. These costs totaled approximately $2.4 million, $1.9 million and $1.8 million for June 30, 2004, 2003 and 2002, respectively.

Stock Options. The Company has stock-based employee compensation plans, which are described more fully in Note 11. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

Year Ended June 30,	**2004**	**2003**	**2002**

	2004	2003	2002
Net income, as reported	**$ 9,468**	$ 5,154	$ 6,259
Add: Stock-based compensation net of income taxes included in income	**273**		
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	**(792)**	(681)	(809)
Pro forma net income	**$ 8,949**	$ 4,473	$ 5,450
Weighted Average Common Shares Outstanding:			
Basic	**15,473,228**	15,864,546	16,171,694
Diluted	**15,967,756**	15,864,546	16,171,694
Basic Earnings Per Share:			
As reported	**$ 0.61**	$ 0.33	$ 0.39
Pro forma	**$ 0.58**	$ 0.28	$ 0.34
Dilutive Earnings Per Share:			
As reported	**$ 0.59**	$ 0.33	$ 0.39
Pro forma	**$ 0.56**	$ 0.28	$ 0.34

NOTE 2 :

INSURANCE RECOVERIES

On September 13, 2002, the Company's Atchison, Kansas distillery was shut down as the result of an explosion at the distillery. Related business interruption insurance proceeds of $9.6 million and $12.6 million were recorded as other operating income for the years ended June 30, 2004 and 2003. In addition, in 2004 and 2003, the Company recorded gains of approximately $0.9 million and $15.4 million, respectively, resulting from the property damage caused by the explosion. Included in the balance sheet are $1.4 million and $11.5 million related to this incident and recorded as insurance receivables at June 30, 2004 and 2003, respectively.

NOTE 3 :

INVENTORIES

Inventories consist of the following:

June 30, (in thousands)	**2004**	**2003**
Alcohol	**$ 4,130**	$ 4,604
Unprocessed grain	**9,643**	9,529
Operating supplies	**5,812**	5,099
Wheat-based ingredients	**12,080**	6,744
By-products and other	**1,110**	980
	$ 32,775	$ 26,956

NOTE 4 :

PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

June 30, (in thousands)	**2004**	**2003**
Land, buildings and improvements	**$ 25,735**	$ 25,459
Transportation equipment	**1,248**	1,296
Machinery and equipment	**249,892**	228,975
Construction in progress	**19,502**	8,260
	296,377	263,990
Less accumulated depreciation	**187,280**	172,186
	$ 109,097	$ 91,804

NOTE 5 :

ACCRUED EXPENSES

Accrued expenses consist of the following:

June 30, (in thousands)	**2004**	**2003**
Employee benefit plans (Note 11)	**$ 5,223**	$ 1,429
Salaries and wages	**999**	785
Property taxes	**819**	829
Interest	**316**	380
Other expenses	**458**	181
	$ 7,815	$ 3,604

NOTE 6 :

LONG-TERM DEBT

Long-term debt consists of the following:

June 30, (in thousands)	**2004**	**2003**
Senior notes payable	**$ 11,362**	$ 13,635

Industrial revenue bond	**3,869**	4,798
Capital lease obligation	**531**	
	15,762	18,433
Less current maturities	**3,201**	3,201
Long-term portion	**$ 12,561**	$ 15,232

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

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

In connection with the above borrowings, the Company, among other covenants, is required to maintain certain financial ratios, including a current ratio of 1.5 to 1, minimum consolidated tangible net worth of $84 million, debt to tangible net worth not to exceed 2.5 to 1, and a fixed charge coverage ratio of 1.5 to 1. The agreements also include a restriction on the aggregate amount of dividends that can be paid and treasury stock purchases. At June 30, 2004, there was approximately $23 million capacity available for those purposes under the terms of the agreements.

The Company is in the process of implementing an enterprise resource planning system financed under a capital lease. The system is not expected to be placed into service until the fourth quarter of fiscal year 2005. Once placed into service, the lease will require 36 monthly principal and interest payments of $22,590 with an interest rate of 4.6%. At June 30, 2004, the entire capital lease obligation has been reported as long-term.

At June 30, 2004, the Company had a $10 million unsecured revolving line of credit expiring on November 30, 2004, on which there were no borrowings at June 30, 2004. Borrowings under $500,000 bear interest at the prime rate. Borrowings in excess of $500,000 bear interest at the greater of 1% below prime or the federal funds rate plus 1.5%.

At June 30, 2004, the Company also had a $2.5 million unsecured revolving line of credit expiring on October 31, 2004. The line bears interest at 0.5% below prime. There were no borrowings on the line at June 30, 2004.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2004 are:

(in thousands)	**Long-term Debt (Exc. Leases)**	**Capital Lease Obligations**
2005	$ 3,201	
2006	3,201	$ 556
2007	3,201	
2008	3,201	
2009	2,427	
Thereafter		
	$ 15,231	$ 556
Less amount representing interest		25
Present value of future minimum lease payments		$ 531

NOTE 7 :

INCOME TAXES

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

Years Ended June 30, **(in thousands)**	**2004**	**2003**	**2002**
Income taxes			
currently payable (receivable)	**$ 5,499**	$ (2,373)	$ 2,242
Income taxes deferred	**683**	5,740	1,867
	$ 6,182	$ 3,367	$ 4,109

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

June 30, **(in thousands)**	**2004**	**2003**
Deferred tax assets:		
Post-retirement liability	**2,331**	2,254
Deferred income	**4,913**	
Stock based compensation	**1,906**	
State operating loss carryforwards		617
Alternative minimum tax		1,222
Other	**710**	576
	$ 9,860	4,669
Deferred tax liabilities:		
Accumulated depreciation	**$ (20,945)**	$ (18,919)
Deferred income		(1,348)
Other	**(502)**	(445)
	$ (21,447)	(20,712)
Net deferred tax liability	**$ (11,587)**	$ (16,043)

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

June 30, **(in thousands)**	**2004**	**2003**
Deferred tax asset (liability)—current	**$ 2,090**	$ (241)
Deferred tax liability—long-term	**(13,677)**	(15,802)

Net deferred tax liability	**$ (11,587)**	$ (16,043)	

No valuation allowance has been recorded at June 30, 2004 or 2003.

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

Years Ended June 30, **(in thousands)**	**2004**	**2003**	**2002**
"Expected" provision at federal statutory rate (34%)	**$ 5,321**	$ 2,897	$ 3,525
Increases (decreases) resulting from: Effect of state income taxes	**616**	605	442
Other	**245**	(135)	142
Provision for income taxes	**$ 6,182**	$ 3,367	$ 4,109

NOTE 8 :

CAPITAL STOCK

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

NOTE 9 :

OTHER OPERATING INCOME (EXPENSE)

Other operating income (expense) consists of the following:

Years Ended June 30, **(in thousands)**	**2004**	**2003**	**2002**
CCC value-added program	**$ 1,725**	$ 4,967	$ 4,981
Business interruption insurance	**9,619**	12,590	
Miscellaneous	**(624)**	(154)	(116)
	$ 10,720	$ 17,403	$ 4,865

NOTE 10 :

ENERGY COMMITMENT

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

NOTE 11 :

EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plans. The Company and its subsidiaries have employee stock ownership plans covering all eligible employees after certain requirements are met. Contributions to the plans totaled $581,000, $341,000 and $426,000 for the years ended June 30, 2004, 2003 and 2002, respectively. Contributions are made in the form of cash and/or additional shares of common stock.

401(k) Profit Sharing Plans. The Company and its subsidiaries formed 401(k) profit sharing plans covering all employees after certain eligibility requirements are met. Contributions to the plans totaled $1,088,000, $778,000 and $789,000 for the years ended June 30, 2004, 2003 and 2002, respectively.

Post-Retirement Benefit Plan. The Company and its subsidiaries provide certain post-retirement health care and life insurance benefits to all employees. The liability for such benefits is unfunded. The Company uses a May 31 measurement date for the plan.

The status of the Company's plans at June 30, 2004 and 2003 was as follows:

June 30, **(in thousands)**	**2004**	**2003**
Change in unfunded benefit obligation		
Beginning of year	**$ 5,556**	$ 5,437
Service cost	**240**	233
Interest cost	**323**	393
Actuarial (gain) loss	**(398)**	(211)
Benefits paid	**(211)**	(296)
End of year	**5,510**	5,556
Unrecognized actuarial gain (loss)	**467**	224
Accrued post-retirement benefit cost	**$ 5,977**	$ 5,780

At June 30, 2004, a weighted average discount rate of 6.25% (compared to 6.00% assumed at June 30, 2003) was used in determining the accumulated benefit obligation.

Weighted-average assumptions used to determine benefit cost:

June 30, **(in thousands)**	**2004**	**2003**	**2002**
Components of net			

periodic benefit cost:			
Service cost	**$ 240**	$ 233	$ 212
Interest cost	**323**	393	389
(Gain) loss amortization	**(15)**	(16)	(15)
Net periodic benefit cost	**$ 548**	$ 610	$ 586

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.00% (compared to 8.25% assumed for 2003) reducing to 7.25% over four years and 6.0% over 10 years. A one percentage point increase (decrease) in the assumed health care cost trend rate would have increased (decreased) the accumulated benefit obligation by $426,000 and ($371,000) respectively at June 30, 2004, and the service and interest cost would have changed by $58,000 and ($49,000) respectively for the year then ended.

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

In accordance with FASB Staff Position 106-1, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to change previously reported information.

As of June 30, 2004, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid to plan participants:

2005	$ 303
2006	305
2007	310
2008	312
2009	346
2010 - 2014	2,216
	$ 3,792

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

Under the 1996 Plan, the Company may grant incentives for up to 1,200,000 shares of the Company's common stock to key employees. The term of each award is determined by the committee of the Board of Directors charged with administering the 1996 Plan. Under the terms of the 1996 Plan, options granted may be either non-qualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. At June 30, 2004, the Company had outstanding incentive stock options to purchase 649,010 shares. At June 30, 2004, all such options were exercisable except for 32,302, which will become exercisable at various dates over the next two years. The options have ten-year terms and have exercise prices equal to fair market value on the date of grant. At June 30, 2004, 16,030 shares remained available for future awards under the 1996 Plan.

Under the Directors Plan, each non-employee or "outside" director of the Company receives on the day after each annual meeting of stockholders an option to purchase 2,000 shares of the Company's common stock at a price equal to the fair market value of the Company's common stock on such date. Options become exercisable on the 184th day following the date of grant and expire not later than ten years after the date of grant. Subject to certain adjustments, a total of 180,000 shares are reserved for annual grants under the Plan. At June 30, 2004, the Company had outstanding options to purchase 62,000 shares, all of which were exercisable as of June 30, 2004. At June 30, 2004, 92,000 shares remained available for future awards under the Directors Plan.

Under the Salaried Plan, the Company may grant stock incentives for up to 600,000 shares of the Company's common stock to full-time salaried employees. The Salaried Plan provides that the amount, recipients, timing and terms of each award be determined by the Committee of the Board of Directors charged with administering the Salaried Plan. Under the terms of the Salaried Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. At June 30, 2004, the Company had outstanding incentive stock options on 194,970 shares. At June 30, 2004, all such options were exercisable except for 14,165, which will become exercisable at

various dates through January 2006. They have ten-year terms and have exercise prices equal to fair market value on the date of grant. At June 30, 2004, 9,900 shares remained available for future awards under the Salaried Plan.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for the year ended June 30, 2004: Risk-free interest rate of 3.51%; expected dividend yield of 1.7%; expected volatility of 50%, expected life of ten years.

Restricted Stock. In December 2003, the Board of Directors approved a long-term incentive program for senior executives under which 230,000 shares of restricted common stock were awarded from shares available under the Company's Stock Incentive Plan of 1996 and its 1998 Stock Incentive Plan for Salaried Employees. Generally, the restricted stock will vest if the Company achieves specific financial objectives over a performance period ending June 30, 2006; if those objectives are not met, the restricted stock will vest on June 30, 2010. Accelerated or partial vesting may be permitted upon change of control or if employment is terminated as a result of death, disability, retirement or termination without cause. Compensation expense with respect to these awards is based on the market price of the stock on the date the Board approved the program which was $5.91 per share. Compensation expense related to this plan recognized in income during the year ended June 30, 2004 was approximately $452,000.

A summary of the status of the Company's three stock option plans at June 30, 2004, 2003 and 2002 and changes during the years then ended is presented below:

	2004		**2003**		**2003**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding Beginning of Year	**1,499,100**	**5.49**	1,611,120	5.77	1,587,640	5.83
Granted	**14,000**	**4.38**	112,000	3.58	257,360	6.20
Cancelled	**(300)**	**4.00**	(203,020)	6.81	(138,000)	7.63
Exercised	**(606,820)**	**5.51**	(21,000)	4.10	(95,880)	5.15
Outstanding at end of year	**905,980**	**5.45**	1,499,100	5.49	1,611,120	5.77

These are comprised as follows:

Shares	**Exercise Price**	**Remaining Contractual Lives (Years)**	**Shares Exercisable at June 30. 2004**

The 1996 Plan	82,000	3.63	9.00	82,000
	125,000	6.45	8.00	125,000
	73,000	5.95	7.50	73,000
	109,000	4.66	7.00	81,750
	20,210	4.66	6.50	15,158
	62,000	4.00	5.50	62,000
	104,800	6.25	4.50	104,800
	73,000	6.88	3.50	73,000
Salaried Plan	13,580	5.95	7.50	6,790
	29,500	4.66	6.50	22,125
	60,630	4.00	5.50	60,630
	91,260	6.75	3.67	91,260
Directors' Plan	10,000	4.38	9.25	10,000
	10,000	3.25	8.25	10,000
	10,000	5.58	7.25	10,000
	8,000	4.82	6.25	8,000
	8,000	4.50	5.25	8,000
	6,000	5.88	4.25	6,000
	6,000	7.13	3.25	6,000
	4,000	8.13	2.25	4,000
	905,980			859,513

NOTE 12 :

OPERATING LEASES

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

Future minimum lease payments at June 30, 2004 are as follows:

(in thousands)		
2005	$	1,556
2006		1,400
2007		998
2008		636
2009		260
Thereafter		82
Future minimum lease payments	$	4,932

Rental expense for all operating leases with terms longer than one month totaled $1,830,000, $1,685,000 and $1,880,543 for the years ended June 30, 2004, 2003 and 2002, respectively.

NOTE 13 :

SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain significant concentrations. Those matters include the following:

- The Company accrues amounts for post-retirement benefit obligations as discussed in Note 11. An accrual for such costs of $5,977,000 is included in the accompanying 2004 financial statements. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

- During the each of the years ended June 30, 2004 and 2003, the Company had sales to two customers accounting for approximately 25% and 29%, respectively, of consolidated sales.

NOTE 14 :

OPERATING SEGMENTS

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

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

Segment Information

		2004		2003		2002
Sales to Customers						
Ingredients	**$**	**102,711**	$	57,215	$	66,398
Distillery products		**167,962**		135,157		148,130
	$	**270,673**	$	192,372	$	214,528
Depreciation						
Ingredients	**$**	**5,787**	$	5,141	$	5,002
Distillery products		**8,617**		8,390		8,286

Corporate	**793**	823	1,020
	$ 15,197	$ 14,354	$ 14,308
Income before Income Taxes			
Ingredients	**$ 17,268**	$ 7,030	$ 4,562
Distillery products	**257**	3,622	7,824
Corporate	**(1,875)**	(2,131)	(2,018)
	$ 15,650	$ 8,521	$ 10,368
Identifiable Assets			
Ingredients	**$ 86,965**	$ 59,628	$ 49,812
Distillery products	**79,624**	76,704	57,813
Corporate	**20,448**	36,798	58,593
	$ 187,037	$ 173,130	$ 166,218

NOTE 15 :

FAIR VALUE OF FINANCIAL INVESTMENTS

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

	2004		**2003**	
June 30,	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 6,488**	**$ 6,488**	$ 17,539	$ 17,539
Accounts receivable	**34,243**	**34,243**	20,466	20,466
Insurance receivable	**1,425**	**1,425**	11,515	11,515
Unrealized gains on hedging contracts	**258**	**258**	32	32
Financial liabilities:				
Accounts payable	**10,576**	**10,576**	9,729	9,729
Long-term debt	**15,762**	**16,203**	18,433	19,420
Unrealized losses on hedging contracts	**673**	**673**	114	114

NOTE 16 :

ADDITIONAL CASH FLOWS INFORMATION

Years Ended June 30, **(in thousands)**	**2004**	**2003**	**2001**
Non-cash Investing and Financing Activities:			
Purchase of property and equipment in accounts payable	**$ 164**	$ 695	$ 227
Capital lease obligation incurred for equipment	**576**		
Additional Cash Payment Information:			
Interest paid	**1,151**	1,226	1,535
Income taxes paid	**3,400**		2,500

NOTE 17 :

CONTINGENCIES

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

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

NOTE 18 :

USDA GRANT

During the fourth quarter of fiscal 2001, the United States Department of Agriculture developed a grant program for the gluten industry in place of a two-year extension of a wheat gluten import quota that took effect on June 1, 1998. Over the life of the program, which ended on May 31, 2003, the Company was eligible to receive nearly $26 million of the program total of $40 million. For the first year of the program, approximately $17.3 million was allocated to the Company with the remaining $8.3 million allocated in July 2002. The funds were used for research, marketing, promotional and capital costs related to value-added gluten and starch products. Funds allocated on the basis of current operating costs were recognized in income as those costs were incurred. Funds allocated based on capital expenditures will be recognized in income as the capital projects are depreciated.

NOTE 19 :

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued a new accounting pronouncement that became effective in the fiscal year commencing July 1, 2004.

In May 2004, FASB Staff Position 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” (“FSP 106-2”) was issued. FSP 106-2 amends and clarifies the accounting and disclosures regarding the effect of the federal subsidy provided by the Act. The provisions for this standard are effective for the first interim or annual period beginning after June 15, 2004. The Company has not yet determined the impact that this new pronouncement will have on the Company’s consolidated financial statements.

MGP INGREDIENTS, INC.
CODE OF CONDUCT

This Code of Conduct is applicable to all of our directors, designated officers (as defined below) and other officers and employees and provides a general statement of our expectations regarding ethical standards that such persons are expected to adhere to. As used herein, unless the context otherwise requires, "designated officers" means our chief executive officer, chief financial officer and chief accounting officer or controller or persons performing similar functions, "we", "our", "us" or the "Company" means MGP Ingredients, Inc. and "you" means a director, officer or employee of the Company, as appropriate.

Accurate and Timely Periodic Reports

We are committed to providing investors with full, fair, accurate, timely and understandable disclosure in the periodic reports that we are required to file and in other public communications that we make. We expect our designated officers and others responsible for such matters to:

- comply with generally accepted accounting principles at all times;
- maintain a system of internal accounting controls that will provide reasonable assurances to management that all transactions are properly recorded;
- maintain books and records that accurately and fairly reflect our transactions;
- prohibit the establishment of any undisclosed or unrecorded funds or assets;
- maintain a system of disclosure controls and procedures that will provide reasonable assurances to management that material information about us is made known to management, particularly during the periods in which our periodic reports are being prepared; and
- present information in our periodic reports and other public communications in a full, fair, accurate, timely, clear and understandable manner.

No one should engage in "off the record" transactions and each of you should report accurately and completely all financial transactions to the appropriate accounting department personnel.

Conflicts of Interest

You should avoid situations that may involve a conflict between your personal interests and the Company's interests. In general, conflicts of interest may arise when you have interests that may make it difficult to perform your work for us objectively and effectively. Examples of possible conflicts of interest are when you

- lend material assistance to our competitors;
- have a significant financial or other interest in, or seek personal loans or services from, a customer, supplier or competitor;
- conduct business on our behalf with your family members; or
- accept money, gifts of more than nominal value or other special accommodations from a supplier, customer or competitor.

In dealing with current or potential customers, suppliers, and competitors, you should act in the Company's best interests to the exclusion of personal advantage. If your outside interest or activities may be antagonistic with the interests of the Company, then you should either have the activity approved by a disinterested member of management or you should cease engaging in it. Any transaction in which a director or executive officer may have a conflict of interest must be approved by the Audit Committee of our Board of Directors.

Compliance with the Law

If we do not comply with the law, we will create problems for ourselves as well as those around us. Illegal actions damage reputations and erode the confidence and trust that others have placed in us. Accordingly, it is our policy that all laws be obeyed, however insignificant, and that this requirement must be placed ahead of our own personal interests and the Company's operating results. The following are generalized comments on certain areas of the law and written Company policies that you should be particularly reminded of because of the nature of the Company's business.

<u>Bribery</u>. Do not take or give a bribe. Under-the-table payments in cash are illegal. Bribes may also be disguised as unusual loans, lavish gifts, illegitimate finders' fees or commissions, unusual favors and the like. Bribery can result in the voiding of otherwise legitimate contracts and in the imposition of substantial criminal and civil penalties.

<u>Personal Use of Company Property</u>. Do not use Company property for your own personal interest unless that use has been properly authorized. Company property includes many things such as automobiles, long distance lines, confidential Company information, business opportunities that belong to the Company, and the like. A use is properly authorized only if it has been approved by one or more Company officers who have authority to grant such approval. Do not seek permission from someone whom you know does not have the authority to grant it. As a corollary, do not grant permission if you do not have authority to do so.

<u>Illegal Use of Confidential Information</u>. Treat all material public information about the Company as confidential. Do not be a "tipper" of confidential information. Confidential information is an item of Company property to be used only for the proper conduct of the Company's business. You should not use it or allow others to use it to promote outside interests. Inappropriate, intentional or inadvertent disclosures may harm the Company's business or other persons who trade in the Company's stock. Such private disclosures can damage customer relationships, give our competitors an edge, create personal anguish or result in illegal stock trading profits generated at the expense of the uninformed.

<u>Trading in the Company's Stock</u>. You should not engage in short sales or in trading the Company's stock on a short term basis.

You should not buy or sell the Company's stock if you possess material information about the Company that has not been released to the public. Information is material if there is a substantial likelihood that a reasonable investor would consider the information as either (i)

important in deciding whether to buy, sell or hold a security of an issuer or (ii) as changing the total mix of information in the marketplace about a security or its issuer. Examples includes earnings, merger negotiations, a significant sale or acquisition of assets, changes in dividend policy, a stock split or the offering of additional securities, etc. Generally, any information that could reasonably be expected to affect the price of our stock in your favor should be deemed material. The prohibition on insider trading also applies to stock of other companies if you learn of material non-public information about those other companies in the course of performing your duties for us. Using non-public information for personal financial benefit or tipping others who might use it to make an investment decision is both unethical and illegal.

You are encouraged to clear all trades in advance with the CFO.

Anti-trust laws; price fixing; bid rigging. Our activities are subject to the antitrust and competition laws of the United States and the various states and countries in which we do business. In general, those laws prohibit agreements or actions that may restrain trade or reduce competition. Examples of possible violations of these laws include agreements with competitors to fix or control prices, to boycott specified suppliers or to allocate products, territories or markets. Special care should be taken to ensure that any contact with representatives of our competitors, suppliers and others with whom we do business will not be viewed as a violation of any antitrust law. In an antitrust action, both you and the Company can be assessed three times the amount of the actual damages, and violations of the antitrust laws may also result in substantial fines and imprisonment.

Contacts with Public Officials. When dealing with public officials, avoid any activity which is or appears illegal or unethical. Giving gifts, including meals, entertainment, transportation and lodging, to government officials in the various branches of federal, as well as state and local, governments is restricted by law. You should obtain the CEO's approval before giving anything of value to a government official or employee. The foregoing does not apply to personal lawful political contributions.

In addition, the U.S. Foreign Corrupt practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. Illegal payments to government officials of any country are prohibited.

Alcohol and Drugs. Use of alcohol or drugs which may in any way affect performance on the job can have disastrous consequences on other personnel and on Company property. Personnel found to be under the influence of either while on the job will be subject to immediate dismissal.

Harassment or Mistreatment of Co-Workers. Let's treat our co-workers as we would want to be treated were we in their shoes. All employees should respect the rights and cultural differences of other individuals. It is our policy not to discriminate against any person because of age, race, color, sex, religion, disability, national origin, or other classes protected by applicable federal, state or local law. Harassment of any such type will not be tolerated. You should be particularly familiar with the Company's Harassment Policy and avoid situations that might give rise to harassment claims.

Improper Use of E-mail, Voice Mail, Internet and Other Information Systems. You should be familiar with the Company's extensive written policies covering these issues and

insure that your use of these systems (a) is efficient, succinct, well thought out and properly motivated, (b) is not for personal purposes except to the extent expressly permitted by the Company's written policies, (c) does not jeopardize the confidentiality of Company confidential information, (d) does not in any way permit or provide access to our systems by unauthorized persons, (e) does not violate the copyrights of licensors or owners of software used by the Company, and (f) does not infect the systems with a virus.

Unsafe Practices. Grain processing presents special opportunities for hazards to personal safety and the safety and health of our employees is very important. There are local, state and national laws which are designed to promote a safe workplace. Each employee has responsibility for maintaining a safe and healthy workplace for all employees by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Everyone should be on the lookout for potentially unsafe conditions and report them when they occur so that they may be promptly remedied.

Family, Friends, and Associates. Do not assist your family or others whom you associate with any activities that would directly or indirectly violate this policy.

Reporting Violations

We encourage all employees to report concerns, including possible violations of this Code of Conduct, so that they can be investigated and evaluated. Concerns may be presented in person or in writing to our Vice President of Human Resources. Concerns may be reported on a confidential and anonymous basis. Written concerns should be addressed to our Vice President of Human Resources at MGP Ingredients, Inc., 1300 Main, P.O. Box 130, Atchison, Kansas 66002-0130. All violations of this Code of Conduct will be reported to the Chief Executive Officer, who will cause an appropriate investigation of the violation to be made. Any concerns raised about financial accounting practices or the Company's system of internal accounting controls will also be reported to the Chairman of the Audit Committee of the Board of Directors, which will be responsible for overseeing the investigation and resolution of such concerns. Any such investigation will be conducted in a confidential manner to the fullest extent possible, consistent with the need to conduct an adequate investigation.

The Company will not discharge, demote, suspend, threaten, harass or in any manner discriminate against any employee in the terms and conditions of employment based upon any lawful actions of such employee with respect to good faith reporting of violation of the Code of Conduct or otherwise as specified in the Sarbanes-Oxley Act of 2002.

Discipline/Penalties

The policies reflected in this Code of Conduct are important to the Company. Violations will subject offenders to some manner of disciplinary action, when and as warranted. Discipline will not necessarily be progressive in nature, which means that the first violation will not necessarily begin with the least severe discipline and then move up one level for each subsequent violation. The appropriate discipline will be given considering the nature of the violation and the individual's history with the Company. Possible disciplinary measures may range from a warning to a discharge. In addition, referral of a matter may be made to appropriate government authorities.

Administration

The Audit Committee is responsible for setting the standards set forth in this Code of Conduct and may, in its discretion, update it from time to time. Any amendments affecting directors or executive officers will be publicly disclosed in accordance with the rules of the Securities and Exchange Commission. The Audit Committee also may determine to waive violations of this Code of Conduct, but any such waiver which constitutes a material departure from a provision of this Code of Conduct regarding a director or executive officer is also subject to full board approval and will be publicly disclosed in accordance with the rules of the Securities and Exchange Commission.

Questions

No code of conduct can replace the thoughtful behavior of an ethical employee or director or provide definitive answers to all questions. If you are in doubt about the best course of action to take in a particular situation, we encourage you to seek guidance from your supervisor, manager or other appropriate person.

Exhibit 23

BKD, LLP

Twelve Wyandotte Plaza
120 West 12th Street, Suite 1200
Kansas City, MO 64105-1936
816-221-6300 Fax: 816-221-6380

bkd.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We consent to the incorporation by reference in Registration Statement No. 333-51849 on Form S-8 and in the related Prospectuses, of MGP Ingredients, Inc. of our report dated July 30, 2004, on our audit of the consolidated balance sheets of MGP Ingredients, Inc. as of June 30, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2004, which report is incorporated by reference in the Annual Report on Form 10-K of MGP Ingredients, Inc. for the fiscal year ended June 30, 2004, and of our report dated July 30, 2004, with regard to the financial statement schedule that is included in such Form 10-K for the year ended June 30, 2004. We also consent to the reference to our firm under the heading "Experts" in the Prospectus to the Registration Statement.

/s/ BKD, LLP

Kansas City, Missouri
August 26, 2004

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of MGP Ingredients, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2004

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

Exhibit 31.2

CERTIFICATION

I, Brian Cahill, Vice President and Treasurer and Principal Financial and Accounting Officer of MGP Ingredients, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of MGP Ingredients, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2004

/s/ Brian Cahill

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

Exhibit 32.1

CERTIFICATION

OF

PERIODIC REPORT

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

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

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

Dated: September 9, 2004

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

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

Exhibit 32.2

CERTIFICATION

OF

PERIODIC REPORT

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

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

(2) the information contained in the Report fairly presents, in all material respects, the

financial condition and results of operations of the Company.

Dated: September 9, 2004

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

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