MGP INGREDIENTS INC

FORM 10-K
(Annual Report)

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	ATCHISON, KS 66002
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As Filed with the Securities and Exchange Commission on September 24, 1997

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13
of the Securities Exchange Act of 1934

For the Fiscal Year Ended June 30, 1997

MIDWEST GRAIN PRODUCTS, INC.

1300 Main Street
Box 130
Atchison, Kansas 66002
Telephone: (913) 367-1480

Incorporated in the State of Kansas

COMMISSION FILE NO. 0-17196

IRS No. 48-0531200

The Company has no securities registered pursuant to Section 12(b) of the Act. The only class of common stock outstanding consists of Common Stock having no par value, 9,700,172 shares of which were outstanding at June 30, 1997. The Common Stock is registered pursuant to Section 12(g) of the Act.

The aggregate market value of the Common Stock of the Company held by non-affiliates, based upon the last sales price of such stock on September 4, 1997, was $111,602,923.

The Company 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, and has been subject to such filing requirements for the past 90 days.

As indicated by the following check mark, disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K:
[X].

The following documents are incorporated herein by reference:

(1) Midwest Grain Products, Inc. 1997 Annual Report to Stockholders, pages 10 through 27 [incorporated into Part II and contained in Exhibit 10(c)].

(2) Midwest Grain Products, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on October 9, 1997, dated September 17, 1997 (incorporated into Part III).

MIDWEST GRAIN PRODUCTS, INC.

FORM 10-K

For the Fiscal Year Ended June 30, 1997

CONTENTS

		PAGE
PART I		
Item 1.	Business	4
	General Information	4
	Vital Wheat Gluten	5
	Premium Wheat Starch	7
	Alcohol Products	8
	Flour and Other Mill Products	10
	Transportation	11
	Raw Materials	11
	Energy	12
	Employees	12
	Regulation	12
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	14
PART II		
Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters	14
Item 6.	Selected Financial Data	14
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 8.	Financial Statements and Supplementary Data	15
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
PART III		
Item 10.	Directors and Executive Officers of the Registrant	15
Item 11.	Executive Compensation	17
Item 12.	Security Ownership of Certain Beneficial Owners and Management	17
Item 13.	Certain Relationships and Related Transactions	17
PART IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	18
SIGNATURES		20
FINANCIAL STATEMENT SCHEDULES		S-1
Report of Independent Public Accountants on Schedules		S-2
Schedule VIII.	Valuation and Qualifying Accounts	S-3

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

This report, including the portions of the Annual Report incorporated herein by reference, contains forward-looking statements. Such statements are typically identified by or are associated with such words such as "intend," "believe," "estimate," "expect," "anticipate" and similar expressions. Such statements reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. The 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 such assumptions or factors could produce significantly different results and impact stock values.

PART I

Item 1. Business.

General Information

Midwest Grain Products, Inc. (the Company) is a Kansas corporation headquartered in Atchison, Kansas. It is the successor to a business founded in 1941 by Cloud L. Cray, Sr.

The Company is a fully integrated producer of vital wheat gluten, premium wheat starch, and alcohol products. These grain products are processed at plants located in Atchison, Kansas, and Pekin, Illinois. Wheat is purchased directly from local and regional farms and grain elevators and milled into flour. The flour is processed with water to extract vital wheat gluten, a portion of which is further processed into specialty wheat proteins. The vital wheat gluten and most 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. The remaining slurry is mixed with corn or milo and water and then cooked, fermented and distilled into alcohol. The residue of the distilling operations is dried and sold as a high protein additive for animal feed. Carbon dioxide which is produced during the fermentation process is trapped and sold. As a result of these processing operations, the Company sells approximately 95% (by weight) of grain processed.

The table below shows the Company's sales from continuing operations by product group for each of the five years ended June 30, 1997, as well as such sales as a percent of total sales.

PROJECT GROUP SALES
Year Ended June 30,
(thousands of dollars)

	1997		1996		1995		1994		1993	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Vital Wheat Gluten.........	$ 39,968	17.8	$ 39,514	20.3	$ 49,957	27.7	$ 70,966	38.2	$ 54,156	33.1
Premium Wheat Starch.......	29,935	13.3	26,354	13.5	23,403	13.0	21,110	11.3	18,423	11.3
Alcohol Products:										
Food Grade Alcohol										
Beverage Alcohol......	43,118	19.2	39,465	20.3	32,573	18.1	29,536	15.9	27,142	16.6
Food Grade Industrial.	38,004	16.9	32,064	16.5	23,379	13.0	22,585	12.1	17,123	10.5
Fuel Grade Alcohol.......	34,992	15.6	25,347	13.0	28,120	15.6	19,273	10.4	24,468	15.0
Alcohol By-products......	34,553	15.4	28,449	14.6	19,583	10.9	18,146	9.8	19,288	11.8
Total Alcohol Products............	150,667	67.1	125,325	64.4	103,655	57.5	89,540	48.2	88,021	53.9
Flour and Other Mill Products................	4,163	1.8	3,445	1.8	3,327	1.8	4,352	2.3	2,826	1.7
Net Sales	$224,733	100.0	$194,638	100.0	$180,252	100.0	$185,968	100.0	$163,426	100.0

Results for 1997 improved over those of 1996. Sales increased by $30.1 million due primarily to increased alcohol production and increased sales of premium wheat starch. A small net profit of $131,000 was a sizable improvement over the prior year's net loss of $3.4 million. A greater improvement in net income was prevented in large part by the intensification of competitive pressures in the Company's vital wheat gluten market. Other adverse factors included higher than normal energy costs from late fall through late winter and a surge in competition in the food grade and fuel grade alcohol markets in the third quarter of 1997. Most importantly, the Company's positive earnings before interest, taxes, depreciation and amortization ("EBITDA") were $16.9 million for 1997 versus $10.8 million for 1996. The positive cash flows generated by the liquidation of alcohol inventories enabled the Company to reduce long term debt by $10 million during 1997 with an additional $5.0 million debt reduction in the first quarter of fiscal 1998. As a result, the Company's cash, working capital and amounts available under lines of credit amounted to $65.6 million at June 30, 1997 versus $55.7 million at June 30, 1996.

The bulk of the Company's sales are made under informal arrangements direct to large institutional food and beverage processors or distributors with respect to which the Company has longstanding relationships. Under these arrangements products are usually ordered, produced, sold and shipped within 30 days. As a consequence, the Company's backlog of orders at any time is usually less than 10 percent of annual sales.

Generally, the Company's sales are not seasonal except for variations affecting alcohol and gluten sales. Fuel alcohol sales increase during the period August through March due to requirements of the Clean Air Act which inhibit the sale of ethanol in certain areas of the country during May 1 through September 15 each year. Certain environmental regulations also favor greater use of ethanol during the winter months of the year. See "Alcohol Products - Fuel Grade Alcohol." Beverage alcohol sales tend to peak in the fall as distributors order stocks for the holiday season, while gluten sales tend to increase during the second half of the fiscal year as demand increases for hot dog buns, hamburger buns, and similar bakery products.

For further information, see the 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 11 through 15 of the Annual Report.

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 it desirable as an ingredient in many food products. It is the only commercially available high protein food additive which possesses vitality. The vitality of the Company's vital wheat gluten results from its elastic and cohesive characteristics when added to dough or otherwise reconstituted with water.

Vital wheat gluten is added by bakeries and food processors to baked goods such as wheat 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. It has been increasingly used in breads and pet foods. 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, and hot dog and hamburger buns to improve the hinge strength and cohesiveness of the product.

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. These specialty proteins include various hydrolyzed proteins, texturized proteins, gliadin, glutenin and a product which the Company refers to as "Pasta Power." Hydrolyzed proteins, unlike vital wheat gluten, are soluble in water and other liquids. This enables their use in food products such as high protein consumer beverages, calf milk and soy sauce and non-food applications such as hair sprays, shampoos and shower gels, body moisturizers, skin lotions and the like. Texturized wheat proteins consist of vital wheat gluten that is changed into a plastic substance and then extruded under heat and pressure. 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 and extenders. Prototypes of a product called "Gluten Resin" may be used as a commercial raw material for the production of pet foods and environmentally friendly degadeable products such as usable forks, spoons and knives. Gliadin and Glutenin are the two principal molecules that make up vital wheat gluten. The Company's patented process enables the separation of each for a variety of end uses. Glutenin, a large molecule responsible for the elastic character of vital wheat gluten, increases the strength of bread doughs, improves the freeze-thaw characteristics of frozen doughs 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 for use in hair sprays and to improve the texture of noodles and pastas.

Although a number of the specialty wheat proteins are beginning to be commercially marketed, others are still in the test marketing or development stage. Only a small fraction of the Company's 1997 vital wheat gluten sales reflect sales of specialty proteins. However, the Company's strategy is to focus attention on the marketing and development of these

products with the view to their becoming an increasingly larger portion of total gluten sales. The Company has employed the same strategy successfully through the gradual but steadily increasing development of value-added modified wheat starches for niche markets. Specialty wheat proteins are designed for sale in niche markets and generally compete with other ingredients having similar characteristics.

The Company produces vital wheat gluten from modernized facilities at the Atchison plant and new facilities at the Pekin plant. It is shipped throughout the continental United States in bulk and in 50 to 100 pound bags. Approximately 46% of fiscal 1997 gluten sales were made to a distributor for the bakery industry, the Ben C. Williams Bakery Services Company, which in turn distributes vital wheat gluten to independent bakeries. The remainder is sold directly to major food processors and bakeries such as Kellogg Co., Interstate Baking Company, Inc. and H. J. Heinz Co.

The Company's vital wheat gluten processing operations are believed to produce a quality of vital wheat gluten and specialty wheat proteins that are equal to or better than that of any others on the market. The Company's location in the center of the United States grain belt, its production capacity and years of operating experience, enable it to provide a consistently high level of service to customers.

Competition-Vital Wheat Gluten. The Company's principal competitors in the U.S. vital wheat gluten market consist of three other domestic producers and a number of producers in Europe, Australia and other parts of the world. During the year ended December 31, 1996, European Union ("E.U.") wheat gluten shipped to the United States rose approximately 40% above shipments in 1995, and nearly 162% above shipments in 1993.

Competition in the vital wheat gluten industry is based primarily upon price. Since the increasing surge of large volumes of E.U. wheat gluten into the U.S., prices have been primarily affected by excess E.U. capacity and subsidies and other protective measures ("Subsidies") provided to E.U. exporters by their host governments and low U.S. tariffs. Although a determination has yet to be made, the Company and the Wheat Gluten Industry Council of the United States (the "Council") believe those Subsidies to be in violation of international trade agreements. Previously, U.S. Gluten prices were primarily affected by U.S. grain and U.S. energy costs and, to a lesser extent, by foreign subsidies. Due to the Subsidies, it has become increasingly difficult for the Company to compete with the surge of E.U. wheat gluten since the artificially low prices charged for those E.U. Subsidized imports have been less than the Company's cost of production. As a result of this imbalance in the U.S. wheat gluten market the Company's strategy has been to limit its production of wheat gluten to amounts necessary to produce wheat starch and other wheat co-products and to support actions by the Council to stem the tide of E.U. Subsidized wheat gluten through legal proceedings described below.

As mentioned above, the extraordinary increase in E.U. gluten imports into the U.S. is due to high E. U. Subsidies, high E. U. import tariffs, and low U.S. import tariffs on wheat products. These incentives have encouraged E.U. producers to make sizable increases in E.U. wheat starch and wheat gluten production capacity and to continue the development of even greater capacities. The Council expects a massive expansion of E.U. capacity over the next three years with a majority of the excess wheat gluten production being targeted for shipment to the U.S.

The Council, which is principally supported by the Company and another domestic wheat gluten producer, has engaged in a number of initiatives to combat this surge in Subsidized E.U. wheat gluten. The first initiative resulted in the July 22, 1996, ratification by the United States and the E.U. of an agreement (the "Grains Agreement") that requires the E. U. and the United States to engage in consultations designed to reach "a mutually acceptable solution." Although some consultations were initiated under the Grains Agreement, a lack of progress led the Council to the filing of a Petition in January 1997, with the United State Trade Representative (the "USTR") under Section 301 of the Trade Act of 1974 (the Section 301 Petition"). The Section 301 Petition alleges that the various E.U. Subsidies which promote the E.U. production and sale of wheat gluten into the U.S. constitute Subsidies that violate the 1994 General Agreement on Tariffs and Trade (GATT) and the Agreement on Subsidies and Countervailing Measures. The petition requests that the USTR take action to eliminate the effects of the alleged violations. The USTR initiated an investigation under Section 301 after its receipt of the Petition. However, in April, 1997, the USTR terminated the investigation when the E.U. indicated that it intended to pursue meaningful consultations with the U.S. under the Grains Agreement. Following a round of unsatisfactory discussions, the Council initiated a second proceeding on September 22, 1997, with the International Trade Commission

of the United States (the "ITC," a commission appointed by the President) under section 201 of the Trade Act of 1974 (the "Section 201 Proceeding").

Under Section 201, the President is authorized to take action to protect a U.S. industry if the ITC "determines ....that an article is being imported into the U.S. in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing an article like or directly competitive with the imported article." The Section 201 petition filed by the Council alleges serious injury to the U.S. wheat gluten industry from the increasing volume of Subsidized imports. It asks for, among other things, the establishment of a four-year quota on a country-by-country basis on all imports into the U.S. of wheat gluten, allocated on a yearly basis, based on the average market share percentage for the years 1990-1992. Under
Section 201, the ITC is required to complete an investigation and hearings and make a recommendation to the President by March 23, 1998. The President is then required to act within 60 days after receipt of the ITC recommendation.

Although the Company is hopeful that the actions of the Council will ultimately result in the creation of a more level playing field, no assurance can be given as to when or if any relief will be granted. Due to the intensity of these competitive conditions the Company has limited its production of gluten to those amounts necessary for the production of other wheat products. In addition, the Company has intensified its efforts to develop additional modified vital wheat gluten products that may be marketed in niches that will be less affected by foreign competition.

The Company's sales of vital wheat gluten during 1997 were approximately even with sales in fiscal 1996 as the Company continued to minimize gluten production in the face of greatly increased competition from European Union producers. Although the average cost of wheat for the year declined during 1997, wheat costs remained high compared to historical norms. Prior to the end of fiscal 1995 the Company was able to adjust the selling price of its wheat gluten to take into account such high grain prices. However, due to the excessive subsidized foreign imports that have been shipped into the U.S. from the E.U. since then, the Company has been unable to adjust those prices to effectively offset production costs.

During fiscal 1995 the Company substantially completed the construction of new wheat gluten production facilities at the Pekin, Illinois plant. The expansion increased the Company's total gluten capacity by approximately 40%. That project, together with other gluten expansion projects that were completed at the Atchison facilities during 1993 and 1994, approximately doubled the gluten capacity that was available at June 30, 1991. However, as mentioned above, due to the unusually high gluten imports from Europe, the Company does not expect to immediately use the increased capacity.

Premium 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 since its integrated processing facilities are able to process the remaining slurry 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.

An increasing portion of the Company's premium wheat starch is also chemically altered during processing to produce certain unique modified wheat starches designed for special applications.

The Company's premium 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, eclairs, 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's specialty starches are also sold for a number of industrial and non-food applications, which include uses in the manufacture of adhesives, paper coatings and carbonless paper.

The Company's premium wheat starch is sold nationwide to food processors, such as International Multi-Foods Corp., Pillsbury Company and Keebler Company, to distributors, and for export to countries such as Japan, Mexico and Malaysia which do not have wheat-based economies.

The Company believes that it is the largest producer of premium wheat starch in the United States. Although wheat starch enjoys a relatively small portion of the total United States starch market, the market is one which is continuing to grow. Growth in the wheat starch market reflects a growing appreciation for the unique characteristics of wheat starch which 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 modified wheat starches and continues to explore the development of additional starch products with the view to increasing sales of value added modified starches.

Premium wheat starch competes primarily with corn starch, which dominates the United States market. Competition is based upon price, name, color and differing granular and chemical characteristics which affect the food product in which it is used. Premium wheat starch prices usually enjoy a price premium over corn starches and low grade wheat starches. Wheat starch price fluctuations generally track the fluctuations in the corn starch market, except in the case of modified wheat starches. The wheat starch market also usually permits pricing consistent with costs which affect the industry in general, including increased grain costs. The Company's strategy is to market its premium wheat starches in special market niches where the unique characteristics of premium wheat starch or one of the Company's modified wheat starches are better suited to a customer's requirements for a specific use.

Starch sales increased during fiscal 1996 by approximately $3.6 million, due primarily to continued solid demand and higher volumes permitted by increased starch production capacity.

During the first quarter of fiscal 1996, the Company completed the construction of a new starch production facility at the Pekin plant. Previously that Plant was equipped only to produce gluten, alcohol and alcohol by-products. The expansion has increased total starch production capacity by 70%.

Alcohol Products

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

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

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, such as James B. Beam Distilling Co., Florida Distillers Co, and Barton Brands, which further process the alcohol for sale to consumers under numerous labels.

The Company believes that in terms of fiscal 1997 net sales, it is one of the two 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. During 1997, competition in beverage markets increased significantly as producers of fuel grade alcohol began to convert fuel grade production into food grade production. 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.

Food Grade 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, such as 7-Up Company and Reckitt & Colman, a producer of Lysol brand products, and Avon Products, Inc., 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.

Food grade industrial and beverage alcohol sales increased by approximately $9.6 million during 1997 and $15.6 million during fiscal 1996 due primarily to volume increases from increased capacities and the Company's strategy to shift its alcohol production into food grade alcohol products during periods of rising grain prices and flat prices for fuel grade alcohol. However, prices for food grade alcohol began to be negatively impacted during the third quarter of fiscal 1997 due to competition from the start-up of significantly increased food grade production capacities throughout the industry. The increased industry-wide capacity for food grade alcohol is due to a large scale conversion of fuel grade distillation equipment into food grade production because of an over supply of fuel grade capacity that was constructed in the early 1990s in anticipation of the implementation of clean air act regulations mandating ethanol use that were were subsequently reversed by court order. Although the demand for the Company's food grade alcohol has grown steadily since the third quarter of 1997, the Company expects that increased industry capacity will result in increased price competition for food grade alcohol.

Fuel Grade Alcohol

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

Although ethanol can be blended directly with gasoline as an oxygenate to enable it to reduce toxic air emissions, it also increases the volatility of gasoline or its tendency to evaporate and release volatile organic compounds ("VOC's"). This latter characteristic has precluded it from meeting certain clean air act requirements for gasoline that pertain to nine of the smoggiest U.S. metropolitan areas during the summer months (May 1 through September 15). As a consequence, the demand for ethanol increases during the period from August through March of each fiscal year as gasoline blenders acquire stocks for blending with gasoline to be marketed in the period September 16 through April 30.

The cost of producing ethanol has historically exceeded the cost of producing gasoline and gasoline additives, such as MTBE, all of which are derived from fossil non-renewable fuels such as petroleum. Accordingly, to encourage the production of ethanol for use in gasoline, the Federal government and various states have enacted tax and other incentives designed to make ethanol competitive with gasoline and gasoline additives. Under the internal revenue code, and until the end of 2000, 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 $0.54 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 1997 an initiative was introduced in congress to effect an early termination of the Federal tax credit. Other initiatives

have been proposed to extend the credit to the end of 2007. The outcome of these legislative initiatives is uncertain. Therefore, no assurance can be given that Congress will continue the current subsidies or extend them beyond the present expiration date.

The Kansas Qualified Agricultural Ethyl Alcohol Producer Incentive Fund, which expires in 1999, provides incentives for sales of ethanol produced in Kansas to gasoline blenders. Fiscal 1997 payments to the Company out of the fund totaled $411,000 for the ethanol produced by the Company at the Atchison plant during that year. A few other states offer ethanol blending incentives, which, in the aggregate, did not materially add to the Company's ethanol revenues during fiscal 1997.

The fuel grade alcohol market is dominated by Archer Daniels Midland. In recent years the Company and other competitors have significantly increased domestic fuel grade alcohol distillation capacity. During fiscal 1995 the Company more than tripled its fuel grade alcohol production capacity through the expansion of its distillery operations at the Pekin plant. As a consequence, it moved from a very small competitor in the fuel grade market to 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. Although Fuel Alcohol prices have traditionally followed the movement of gasoline prices, the over-supply of fuel grade capacity resulted in declining fuel grade alcohol prices during 1997, generally consistent with declining grain prices.

During 1997 fuel alcohol prices continued to adjust downward in the face of rising gasoline prices, in part due to increased industry-wide capacity. Although grain costs also began to decline at the same time from the extraordinarily high levels encountered in 1996, the declining fuel prices and relatively high grain costs continued to negatively impact the Company's fuel grade alcohol operations and those of the entire ethanol industry. A number of producers have shut down plants, converted fuel grade production equipment to the production of food grade alcohol or otherwise curtailed ethanol production. The Company's response to these circumstances has been to shift as much of its alcohol production as possible into higher margin food grade alcohol products and to regulate fuel grade alcohol production to a rate that will maximize the efficiency of the Company's integrated grain processing operations and that will otherwise take advantage of opportunities in the marketplace. Beginning in the fourth quarter of 1997, fuel grade alcohol results began to stabilize somewhat as demand in the fuel grade markets began to increase and as grain prices continued to decline.

Alcohol By-Products

The bulk of fiscal 1997 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 $6.1 million increase in 1997 and $8.9 million increase in 1996 sales of Alcohol by-products is primarily due to the $32 million increase in alcohol sales made possible by the 1995 expansion of the distillery at the Pekin plant, which approximately doubled the capacity of the Company to produce distillers 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 two principal customers, one at the Atchison Plant and one 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.

Flour and Other Mill Products

The Company owns and operates a flour mill at the Atchison plant. A majority of the mill's output of flour is used internally for the production of vital wheat gluten and premium wheat starch. In 1993 the Company completed the first of a two-phase expansion of the mill. The second phase of the expansion was completed during the first quarter of fiscal 1995. The entire project increased the mill's total production capacity by approximately 80%.

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.

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 250 rail cars which may be dispatched on short notice. Shipment by barge is offered to customers through barge loading facilities on the Missouri and Illinois Rivers. The barge facility on the Illinois River is adjacent to the Pekin plant and owned by the Company. The facility on the Missouri River, which is not company-owned, is approximately one mile from the Atchison plant.

Raw Materials

The Company's principal raw material is grain, consisting of wheat which is processed into all of the Company's products and corn and milo which are processed into alcohol, animal feed and carbon dioxide. Grain is purchased directly from surrounding farms, primarily at harvest time, and throughout the year from grain elevators. 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 continue to have have significant adverse effects on the results of the Company's operations. This is primarily because it has become increasingly difficult in recent years for the Company to compensate for such variations through adjustments in prices charged for the Company's vital wheat gluten due to the surge of Subsidized E.U. wheat gluten whose artificially low prices are not affected by such costs. Fuel grade alcohol prices, which historically have tracked the cost of gasoline also do not usually adjust to rising grain costs.

Beginning in fiscal 1995 and continuing through fiscal 1996 and into fiscal 1997 wheat, corn and milo prices increased to unusually high levels in the face of intense Subsidized competition from E.U. exporters of vital wheat gluten and relatively flat to depressed markets for fuel grade ethanol. In fiscal 1996, the Company's corn and milo costs averaged 44% more per bushel than those costs in fiscal 1995, and wheat costs in fiscal 1996 averaged 32% more per bushel. While the Company used only 2.3 million more bushels of grain in fiscal 1996, its total combined cost for wheat, corn and milo for fiscal 1996 rose approximately $27 million above grain expenditures in the prior year. Beginning in the first quarter of 1997, grain prices began to return to more normal levels. By the end of 1997, the average cost of corn and milo had gone from $4.56 per bushel at the beginning of the year to $2.80 during June, 1997, while the average cost of wheat declined from $6.31 per bushel at the beginning of the year to $4.74 at the end of the year. Although a return to more normal but still relatively high grain prices has enabled improved operating results, low priced Subsidized E.U. gluten and excess alcohol capacities continue to restrict the ability of the company to adjust the price of its gluten and fuel grade alcohol to compensate for grain and other production costs. The Company is continuing to respond to these circumstances by shifting as much of its production as possible to starch, specialty wheat protein and alcohol production, by restricting the production of vital wheat gluten, and through a continued implementation of other cost-cutting measures.

Historically the Company has not engaged in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. However, due to the significantly increased volumes of grain and grain products that are expected as a result of the expansion of the Company's production facilities and the fact that the markets for an increasing portion of the Company's products are not adjusting to fluctuations in grain costs, the Company began during 1995 to make limited purchases of commodity futures, including wheat, corn and gasoline futures. It expanded those hedging activities in 1996 and 1997 and expects to continue them in the future. See Note 1 to Notes to consolidated financial statements at page 21 of 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.

All of the natural gas demand for the Atchison plant is transported by a wholly-owned subsidiary which owns a gas pipeline. The subsidiary procures the gas in the open market from various suppliers. The Atchison boilers may also be oil fired.

In the past, the Company's Pekin plant generated the bulk of its energy needs from coal and gas fired boilers. However, due to the expansion of the Pekin plant, the Company entered into a long-term arrangement in 1995 with an Illinois utility to satisfy the energy needs of the entire plant with a new gas fired plant. Under the arrangement, the utility constructed at the Pekin plant on ground leased from the Company a gas powered electric and steam generating facility. The utility sells to the Company steam and electricity, generally at fixed rates, using gas procured by the Company.

During 1997 the Company's results were negatively impacted by a significant but temporary increase in natural gas prices due to periods of extreme cold weather throughout much of the U.S. Natural gas prices have since returned to more normal levels.

Employees

As of June 30, 1997, the Company had 411 employees, 277 of whom are covered by three collective bargaining agreements with two labor unions. On August 31, 1996, the Company successfully negotiated a three-year contract covering 183 employees at the Atchison Plant. A four-year contract covering 94 employees at the Pekin plant was successfully negotiated on November 6, 1996. As of June 30, 1996, the Company had 385 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, 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. During 1997 the Illinois Environmental Protection Agency commenced an action against the Company with respect to alleged noncompliance of the Pekin Plant with certain air quality regulations. This action is further described under "Item 3. Legal Proceedings." The Company has submitted an application to the Agency for construction of new pollution control equipment that is expected to bring emissions into compliance with all applicable regulations.

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, warehousing, and research and quality control laboratories.	494,640	25
Pekin, Illinois	Grain processing, warehousing, and quality control laboratories.	462,926	49

Except as otherwise reflected under Item 1, 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. Except as otherwise reflected under Item 1, all of the plants, warehouses and office facilities are owned. Although none are subject to any major encumbrance, the Company has entered into loan agreements which contain covenants against the pledging of such facilities to others. The Company also owns transportation equipment and a gas pipeline described under Transportation and Energy.

Item 3. Legal Proceedings.

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

The Company has filed an Answer before the Board admitting that compliance tests have shown particulate emissions in excess of the limits set forth in the construction permits, but denying the remainder of the State's claims. Since the time operational problems were discovered with the dryers' pollution control equipment, the Company has been conferring and negotiating with the Agency on the issues involved in the Complaint. The Company has submitted an application to the Agency for construction of new pollution control equipment for the dryers, at an estimated cost of approximately $800,000. It is anticipated that the new equipment will 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 Company's compliance activities. Once compliance has been achieved, the Company anticipates negotiating a settlement of the remainder of the State's claims. Based on the circumstances and a preliminary review of decisions by the Board in air pollution matters, the Company does not believe that any such settlement will be material to the business or financial condition of the Company.

There are no other legal proceedings pending as of June 30, 1997 which the Company believes to be material. Legal proceedings which are pending, including the proceeding with the Illinois Environmental Protection Agency described above, are believed by the Company to consist of matters normally incident to the business conducted by the Company and taken together do not appear 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 fiscal year covered by this report.

PART II

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

The Common Stock of the Company has been traded on the NASDAQ National Market System under the symbol MWGP since November 1988.

The following table below reflects the the high and low closing prices of the Common Stock for each quarter of fiscal 1997 and 1996. Cash dividends have not been paid since the end of 1995.

	Sales Price	
	High	Low
1996:		
First Quarter	$ 19.50	$ 16.50
Second Quarter	17.00	10.75
Third Quarter	15.00	12.00
Fourth Quarter	13.50	11.38
1997:		
First Quarter	$ 14.38	$ 12.00
Second Quarter	19.50	13.63
Third Quarter	16.75	11.13
Fourth Quarter	13.25	10.50

At June 30, 1997 there were approximately 1,000 holders of record of the Company's Common Stock. It is believed that the Common Stock is held by more than 2,000 beneficial owners.

Item 6. Selected Financial Data.

Incorporated by reference to the information under Selected Financial Information on page 10 of the Annual Report, a copy of which page is included in Exhibit 10(c) to this Report.

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

Incorporated by reference to the information under Managements Discussion and Analysis of Financial Condition and Results of Operations on pages 11 through 15 of the Annual Report, copies of which pages are included in Exhibit 10(c) to this Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference to the consolidated financial statements and related notes on pages 16 through 27 of the Annual Report, copies of which pages are included in Exhibit 10(c) to this Report.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The directors and executive officers of the Company are as follows:

Name	Age	Position
Cloud L. Cray, Jr.	74	Chairman of the Board and Director
Laidacker M. Seaberg	51	President, Chief Executive Officer and Director
Sukh Bassi, Ph.D.	56	Vice President - Vital Wheat Gluten Marketing, Research and Development and Corporate Technical Director
Robert G. Booe	60	Vice President - Administration, Controller, Treasurer and Chief Financial Officer
Gerald Lasater	59	Vice President - Wheat Starch Marketing
Raymond Miller	63	Vice President - Purchasing and Energy and President of Midwest Grain Pipeline, Inc.
Randy M. Schrick	47	Vice President - Operations and Director
Robert L. Swaw	67	Vice President - Alcohol Marketing
Michael Braude	61	Director
Richard J. Bruggen	71	Director
F.D. "Fran" Jabara	72	Director
Tom MacLeod, Jr.	49	Director
Robert J. Reintjes	65	Director
Eleanor B. Schwartz, D.B.A.	60	Director

Mr. Cray, Jr. has been a Director since 1957, and 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, a Director since 1979, 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 of Research and Development since 1985, Technical Director since 1989 and Vice President - Vital Wheat Gluten Marketing since 1992. 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. Booe has served as Vice President, Treasurer and Chief Financial Officer of the Company since 1988. He joined the Company in 1966 as its Treasurer and became the Controller and Treasurer in 1980. In 1992 he was assigned the additional task of Vice President - Administration.

Mr. Lasater joined the Company in 1962. He has served as Vice President - Starch Marketing since 1992. Previously he served as Vice President in charge of the Wheat Starch Strategic Business Unit.

Mr. Miller joined the Company in 1956. He has served as Vice President - Purchasing and Energy since 1992, President of Midwest Grain Pipeline, Inc. since 1987, and as Vice President of the Company since 1967.

Mr. Schrick, a Director since 1987, joined the Company in 1973. He has served as Vice President - Operations since 1992. 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. Swaw joined the Company in 1989. He has served as Vice President-Alcohol Marketing since September 1, 1995. Previously he was sales manager of the Company's industrial alcohol division. Before joining the Company, Mr. Swaw was general manager for the bulk alcohol division of Sofecia, S.A. and general sales manager with Publicker Industries in Philadelphia.

Mr. Bruggen has been a Director since 1976 and is a member of the Audit and Human Resources committees. He was Senior Vice President of Atchison Casting Corporation from 1991 until his retirement in 1992. Previously he was the General Manager of Rockwell International Plants at Atchison, Kansas and St. Joseph, Missouri. Mr. Bruggen plans to retire as a director at the 1997 Annual Meeting of Stockholders.

Mr. Braude has been a Director since 1991 and is Chairman of the the Audit Committee and a member of the Nominating Committee. He has been the President and Chief Executive Officer of the Kansas City Board of Trade, a commodity futures exchange, since 1984. Previously he was Executive Vice President of American Bank & Trust Company of Kansas City. Mr. Braude is a director of Country Club Bank, Kansas City, Missouri and National Futures Association, a member and immediate Past Chairman of the National Grain Trade Council and a trustee of the University of Missouri- Kansas City and of Midwest Research Institute

Mr. Jabara has been a director since October 6, 1995, and is Chairman of the Human Resources Committee and a member of the Audit Committee. He is President of Jabara Ventures Group, a venture capital firm. From September 1949 to August 1989 he was a distinguished professor of business at Wichita State University, Wichita, Kansas. He is also a director of Commerce Bank, Wichita, Kansas and NPC International, Inc., an operator of numerous Pizza Hut and other quick service restaurants throughout the United States.

Mr. MacLeod, Jr. has been a Director since 1986 and is a member of the Audit and Nominating Committees. He has been the President and Chief Operating Officer of Iams Company, a manufacturer of premium pet foods, since 1989. Previously, he was President and Chief Executive Officer of Kitchens of Sara Lee, a division of Sara Lee Corporation, a food products company.

Mr. Reintjes has been a Director since 1986, and is a member of the Audit and Human Resources Committees. He has served as President of Geo. P. Reintjes Co., Inc., of Kansas City, Missouri, for the past 23 years. The Geo. P. Reintjes Co., Inc. is engaged in the business of refractory construction. He is a director of Butler Manufacturing Company, a manufacturer of pre-engineered buildings, and Commerce Bank of Kansas City.

Dr. Schwartz has been a director since June 3, 1993. She is Chairman of the Nominating Committee and a member of the Audit Committee. She has been the Chancellor of the University of Missouri-Kansas City since May 1992,

and was previously the Vice Chancellor for Academic Affairs. She is a Trustee of Midwest Research Institute and a director of Country Club Bank and Transfinancial Holdings, Inc., the successor to American Carriers.

The Board of Directors is divided into two groups (Groups A and B) and three classes. Group A directors are elected by the holders of Common Stock and Group B directors are elected by the holders of Preferred Stock. One class of directors is elected at each annual meeting of stockholders for three-year terms. The present directors' terms of office expire as follows:

Group A Directors	Term Expires	Group B Directors	Term Expires
Mr. Bruggen	1997	Mr. Cray, Jr.	1998
Mr. MacLeod	1998	Mr. Reintjes	1998
Dr. Schwartz	1999	Mr. Braude	1997
		Mr. Jabara	1997
		Mr. Schrick	1999
		Mr. Seaberg	1999

Item 11. Executive Compensation.

Incorporated by reference to the information under "Executive Compensation" on pages 8 through 12 of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference to the information under "Principal Stockholders" beginning on page 13 of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

The following documents are filed as part of this report:

(a) Financial Statements:

Auditors' report on financial statements.
Consolidated balance sheets at June 30, 1997 and 1996. Consolidated statements of income - for the three years ended June 30, 1997, 1996 and 1995.
Consolidated statements of stockholders' equity for the three years ended June 30, 1997, 1996 and 1995.
Consolidated statements of cash flow - for the three years ended June 30, 1997, 1996 and 1995. Notes to consolidated financial statements.

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

(b) 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.

(c) Exhibits:

Exhibit No.	Description
3(a)	Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3(a) of the Company's Registration Statement No. 33-24398 on Form S-1).
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).
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).
4(c)	Copy of Second Amended Line of Credit Loan Agreement providing for the Issuance of a Line of Credit Note in the amount of $27,000,000 (incorporated by reference to Exhibit 4.(a) to the Company's Report on Form 10-Q for the quarter ended September 30, 1995).
4(d)	Copy of Line of Credit Note Under Second Amended Line of Credit Loan Agreement (incorporated by reference to Exhibit 4.(b) to the Company's Report on Form 10-Q for the quarter ended September 30, 1995).

9(a)	Copy of Cray Family Trust (Incorporated by reference to Exhibit 1 of Amendment No. 1 to Schedule 13D of Cloud L. Cray, Jr. dated November 17, 1995).
10(a)	Summary of informal cash bonus plan (incorporated by reference to the summary contained in the Company's Proxy Statement dated September 19, 1996, which is incorporated by reference into Part III of this Form 10-K).
10(b)	Executive Stock Bonus Plan as amended June 15, 1992 (incorporated by reference to Exhibit 10(b) to the Company's Form 10-K for the year ended June 30, 1992).
10(c)	Information contained in the Midwest Grain Products, Inc. 1997 Annual Report to Stockholders that is incorporated herein by reference.
10(d)	Copy of Midwest Grain Products, Inc. Stock Incentive Plan of 1996, as amended as of August 26, 1996 (incorporated by reference to Exhibit 10(d) to the Company's Form 10- K for the year ended June 30, 1996).
10(e)	Form of Stock Option with respect to stock options granted under the Midwest Grain Products, 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).
10(f)	Copy of Midwest Grain Products, Inc. 1996 Stock Option Plan for Outside Directors, as amended as of August 26, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended June 30, 1996).

22 Subsidiaries of the Company other than insignificant subsidiaries:

Subsidiary	State of Incorporation or Organization
Midwest Grain Pipeline, Inc.	Kansas
Midwest Grain Products of Illinois, Inc.	Illinois
Midwest Purchasing Company, Inc.	Illinois

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).

27 Midwest Grain Products Financial Data Schedule as at June 30, 1997 and for the year then ended.

No reports on Form 8-K have been filed during the quarter ended June 30, 1997.

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 22nd day of September, 1997.

MIDWEST GRAIN PRODUCTS, 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 Robert G. Booe 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 22, 1997
/s/ Robert G. Booe Robert G. Booe	Vice President, Treasurer and Controller (Principal Financial and Accounting Officer)	September 22, 1997
/s/ Michael Braude Michael Braude	Director	September 22, 1997
/s/ Richard J. Bruggen Richard J. Bruggen	Director	September 22, 1997
/s/ Cloud L. Cray, Jr. Cloud L. Cray, Jr.	Director	September 22, 1997

/s/ F. D. Jabara -------------------------- F. D. "Fran" Jabara	Director	September 22, 1997
/s/ Tom MacLeod -------------------------- Tom MacLeod, Jr.	Director	September 8, 1997
/s/ Robert J. Reintjes -------------------------- Robert J. Reintjes	Director	September 22, 1997
/s/ Randy M. Schrick -------------------------- Randy M. Schrick	Director	September 22, 1997
/s/ Eleanor B. Schwartz -------------------------- Eleanor B. Schwartz	Director	September 22, 1997

MIDWEST GRAIN PRODUCTS, INC.

Consolidated Financial Statement Schedules
(Form 10-K)

June 30, 1997, 1996 and 1995

(With Auditors' Report Thereon)

[LOGO]

Baird, Kurtz & Dobson
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

ON FINANCIAL STATEMENT SCHEDULE

Board of Directors and Stockholders
Midwest Grain Products, Inc.
Atchison, Kansas

In connection with our audit of the consolidated financial statements of MIDWEST GRAIN PRODUCTS, INC. for each of the three years in the period ended June 30, 1997, 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/BAIRD, KURTZ & DOBSON

Kansas City, Missouri
August 8, 1997

City Center Square, Suite 2700, 1100 Main, 816 221-6300 Kansas City, Missouri 64105 FAX 816 221-6380

With Offices in: Arkansas, Colorado, Kansas, Kentucky, Missouri, Nebraska, Oklahoma
Member of Moores Rowland International

MIDWEST GRAIN PRODUCTS, INC.

VIII. VALUATION AND QUALIFYING ACCOUNTS

Additions

Balance, Charged to Charged Balance, Beginning Costs and to Other Deductions End of of Period Expenses Accounts Write-Offs Period

(In Thousands)

	Balance, Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions Write-Offs	Balance, End of Period
Year Ended June 30, 1997 Allowance for doubtful accounts	$285	$ 49		$49	$285
Year Ended June 30, 1996 Allowance for doubtful accounts	$85	$214		$14	$285
Year Ended June 30, 1995 Allowance for doubtful accounts	$ 25	$101		$ 41	$85

EXHIBIT INDEX

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Exhibit No.	Description
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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).
27	Midwest Grain Products Financial Data Schedule as at June 30, 1997 and for the year then ended.

Subsidiaries listed under Exhibit 22:

Subsidiary	State of Incorporation or Organization
Midwest Grain Pipeline, Inc.	Kansas
Midwest Grain Products of Illinois, Inc.	Illinois
Midwest Purchasing Company, Inc.	Illinois

Exhibit 10(c)

Selected Financial Information

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

	1997	1996	1995	1994	1993
Income Statement Data:					
Net sales	$224,733	$194,638	$180,252	$185,968	$163,426
Cost of sales	213,733	190,173	159,149	148,320	130,551
Gross profit	11,000	4,465	21,103	37,648	32,875
Selling, general & administrative expenses	9,169	9,001	10,553	12,212	10,677
Other operating income (expense)	370	159	(107)	(669)	(264)
Income (loss) from operations	2,201	(4,377)	10,443	24,767	21,934
Other income (loss), net	618	1,309	(4,225)	924	1,045
Interest expense	(2,604)	(2,556)	(606)	(127)	(71)
Income (loss) from continuing operations before income taxes	215	(5,624)	5,612	25,564	22,908
Provision (credit) for income taxes	84	(2,218)	2,273	9,713	8,278
Income (loss) from continuing operations	131	(3,406)	3,339	15,851	14,630
Discontinued operations					1,665
Cumulative effect of change in accounting principles-post-retirement benefit					(2,241)
Cumulative effect of change in accounting principles-income taxes					2,182
Net Income (Loss)	$ 131	$ (3,406)	$ 3,339	$ 15,851	$ 16,236
Earnings (Loss) per Common Share					
Continuing operations	.01	(.35)	.34	1.62	1.50
Discontinued operations					.17
Cumulative effect of changes in accounting principles					(.01)
	$ .01	$ (.35)	$ .34	$ 1.62	$ 1.66
Cash dividends per common share			.50	.50	.50
Weighted average common shares outstanding	9,762	9,765	9,765	9,765	9,765
Balance Sheet Data:					
Working capital	36,580	37,113	26,955	21,951	41,580
Total Assets	165,330	172,785	176,749	168,146	126,671
Long-term debt, less current maturities	29,933	40,933	38,908	25,000	
Stockholders' equity	$108,561	$109,222	$ 112,628	$ 114,173	$103,206

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations The following table sets forth items in the Company's consolidated statements of income expressed as percentages of net sales for the years indicated and the percentage change in the dollar amount of such items compared to the prior period:

	Percentage of Net Sales Years Ended June 30			Percentage Increase (Decrease)	
	1997	1996	1995	Fiscal 1997 Over 1996	Fiscal 1996 Over 1995
Net sales	100.0%	100.0%	100.0%	15.5%	8.0%
Cost of sales	95.1	97.7	88.3	12.4	19.5
Gross profit	4.9	2.3	11.7	146.4	(78.8)
Selling, general and administrative expenses	4.1	4.6	5.8	1.9	(14.7)
Other operating income (loss)	.2	.1	(.1)	132.7	248.6
Income from operations	1.0	(2.2)	5.8	150.3	(141.9)
Other income (expense)	(.9)	(.6)	(2.7)	59.2	(74.2)
Income from continuing operations before income taxes	.1	(2.8)	3.1	103.8	(200.2)
Provision for income taxes	.04	(1.1)	1.2	103.8	(197.6)
Income from continuing operations	.06	(1.7)%	1.9%	103.8%	(202.0)%

Fiscal 1997 Compared to Fiscal 1996

The Company's net income of $131,000 in fiscal 1997 was a sizeable improvement over the prior year's net loss of $3,406,000. A greater improvement was prevented by the intensification of competitive pressures in the Company's vital wheat gluten market. Higher than normal energy costs from late fall through late winter, and a surge in competition in the food grade alcohol markets in the third quarter affected the Company's alcohol production. In addition, while average prices for the Company's principal raw materials, namely wheat, corn and milo, were below the exceptionally high levels experienced in the prior fiscal year, they remained well above what traditionally have been considered normal price levels. The increased energy costs, which the Company began experiencing midway through the second quarter, resulted from a significant jump in natural gas prices due to periods of extreme cold weather throughout much of the U.S. During the latter part of the third quarter, those prices returned to more normal levels, allowing the Company to realize improved energy cost efficiencies.

Conditions in the wheat gluten market were adversely affected by increased competition from the European Union (E.U.), whose exports of cross-subsidized gluten to the United States continued at record levels. As a result, the Company was unable to adjust the selling price of its gluten enough to effectively offset production costs. Profits from their highly subsidized and protected wheat starch business have allowed European producers to dump surpluses of gluten, a co-product, at prices below U.S. production costs. Low U.S. tariff rates on wheat gluten offer little deterrence to this practice, while high tariffs in Europe effectively prohibit non-E.U. member countries from competing in the wheat gluten and starch markets there. Consultations

aimed at finding a bilateral solution to the gluten trade problem were renewed in June, 1997 between U.S. and E.U. officials. The framework for these discussions arose from a grains agreement that was ratified in July, 1996. However, because this process has failed to produce evidence that the E.U. is genuinely willing to negotiate an effective remedy, the U.S. Wheat Gluten Industry Council plans to request additional legal action. This action woud seek to bring stability back to the market and provide relief from artificially low E.U. prices. In the meantime, efforts by the Company to develop specialty wheat gluten products for niche markets continue to attract increased, but gradual interest

While conditions in the Company's alcohol markets generally remained healthy in fiscal 1997, prices for food grade and fuel grade alcohol declined through the year from their first quarter highs. This primarily was due to the effects of falling prices for corn and milo, the principal raw materials used in the Company's alcohol production process. A drop in beverage alcohol prices in the third quarter additionally was due to increased competition resulting from the start-up of new distillation capacities throughout the industry. Increased supplies of fuel grade alcohol caused a reduction in selling prices in that market as well during the third quarter. Demand for each type of alcohol produced by the Company increased in the fourth quarter, raising unit sales substantially and causing prices to stabilize somewhat. As the result of increased alcohol production in fiscal 1997, unit sales of distillers feed, the principal by-product of the distillation process, grew significantly in fiscal 1997 compared to fiscal 1996.

Demand for the Company's premium wheat starch was solid throughout fiscal 1997 and is expected to continue to result in increased utilization of capacity at Midwest Grain's Pekin, Illinois plant, where a new starch production facility was completed in the first quarter of fiscal 1996.

With a continued normalization of energy costs, consistently lower grain costs and improved production efficiencies, the Company expects to strengthen its competitive abilities in the alcohol and wheat starch markets going forward.

Net sales in fiscal 1997 were approximately $30.1 million higher than net sales in fiscal 1996. The increase principally resulted from increased unit sales of most of the Company's principal products. The lower sales in fiscal 1996 were partially caused by reduced production resulting from an extended maintenance and repair shutdown at the Company's Pekin, Illinois plant during the entire month of June.

Sales of all alcohol increased by aproximately 20% over fiscal 1996 mainly as the result of higher unit sales and higher prices for the Company's food grade industrial alcohol and fuel grade alcohol. Sales of distillers feed, the principal by-product of the alcohol process, rose by approximately 21%, due mainly to higher production and sales of alcohol and an improvement in the selling price compared to the prior year.

Sales of vital wheat gluten were approximately even with sales in fiscal 1996, as the Company continued to minimize gluten production in the face of greatly increased competition from European Union producers. Sales of the Company's premium wheat starch grew approximately 14% above sales in fiscal 1996 as the result of greater unit sales and a modest price improvement.

The cost of sales in fiscal 1997 increased by approximately $23.6 million above the cost of sales in fiscal 1996. This occurred partially as the result of a $16.7 million rise in raw material costs for grain, as more grain was required to satisfy increased production needs. In addition, the Company experienced a jump of approximately $4.7 million in energy costs due principally to higher than normal prices for natural gas during the second and third quarters, and a rise of approximately $1.2 million in maintenance and repair costs. The remainder of the increase in the total cost of sales compared to fiscal 1996 was mainly attributable to costs associated with increased product sales, principally in the food grade alcohol area.

Selling, general and administrative expenses in fiscal 1997 were approximately even with selling, general and administrative expenses the prior year. This principally was the result of the continuation

of an intense cash management program which was implemented in fiscal 1996 and included reductions in compensation as well as in costs for management and employee incentive programs.

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

As the result of the foregoing factors, the Company experienced net income of $131,000 in fiscal 1997 compared to a net loss of $3,406,000 in fiscal 1996.

Fiscal 1996 Compared to Fiscal 1995

The Company experienced a $3,406,000 net loss in fiscal 1996 compared to net income of $3,339,000 in fiscal 1995. The decline, which actually began in the third quarter of fiscal 1995, was due primarily to unusually high raw material costs for grain in the face of greatly increased competition from foreign exporters of vital wheat gluten and a relatively flat market for fuel grade alcohol. The combination of these factors significantly restricted the ability of the Company to adjust the price of its gluten and fuel alcohol to compensate for the increased grain costs. In response to these negative conditions, the Company implemented an intense cash management program to reduce costs and improve cash flow, including reductions in management and administrative compensation and benefits, and strategies to maximize operating results by maintaining a high degree of flexibility in targeting production levels and product sales mixes.

The upward surge in grain prices was driven by a worldwide shortage of grain supplies, and concerns about crop conditions during the 1996 season due principally to weather-related factors. As a result, the Company's corn and milo costs averaged 44% more per bushel in fiscal 1996 compared to the prior year. Wheat costs in fiscal 1996 averaged 32% more per bushel versus the average in fiscal 1995. While the Company used only 2.3 million more bushels of grain in fiscal 1996, its total combined cost for wheat, corn and milo for the year rose approximately $27 million above grain expenditures the prior year. The Company's ability to adjust grain procurement strategies regularly through a strengthened risk management program prevented this increase from being substantially higher.

Wheat gluten prices failed to adjust to the significant rise in wheat costs, while record amounts of gluten from the European Union (E.U.) poured into the United States.

Increased alcohol production in fiscal 1996 resulted from growth in unit sales of food grade alcohol, which is sold for beverage and industrial applications. This more than offset a decline in unit sales of fuel grade alcohol. A reduction in fuel alcohol sales was implemented by the Company due to depressed fuel alcohol prices and exceptionally high grain costs. Fuel alcohol prices remained flat due to increased capacities throughout the industry and low gasoline prices during a substantial portion of fiscal 1996. Due to the significant grain cost increases, combined with adverse market conditions for fuel alcohol and wheat gluten, operations at the Company's Pekin plant were halted for an extended maintenance shutdown during the last month of fiscal 1996. This resulted in reduced production of all of the Company's principal products during the fourth quarter.

Net sales in fiscal 1996 increased by approximately $14.4 million above sales in fiscal 1995. The increase was principally due to increased unit sales of food grade alcohol and alcohol by-products, the latter consisting mainly of distillers feeds, and higher sales of premium wheat starch. These increases were partially offset by a 21% decrease in sales of wheat gluten due to intense competitive pressures from European Union gluten producers.

A 15% increase in total alcohol sales resulted from strong demand for food grade beverage and industrial alcohol, mainly in the second and third quarters. Sales of distillers feed climbed 45% compared to the prior year as the result of increased alcohol production.

The Company's sales of wheat starch in fiscal 1996 continued the upward pattern experienced over the previous several years, rising noticeably

above fiscal 1995. The increase resulted from higher volumes of unmodified, modified and specialty wheat starches, which was made possible by a 70% increase in the Company's total starch production capacity. Completion of the additional capacity occurred during the first month of fiscal 1996, greatly improving the Company's ability to satisfy increased demand for wheat starch.

The cost of sales in fiscal 1996 increased by approximately $31.0 million above the cost of sales in fiscal 1995. The principal cause was a nearly $27.0 million increase in raw material costs for grain. Other manufacturing cost increases principally included a $5.2 million increase in depreciation and a $2.4 million rise in operating costs associated with increased energy requirements resulting from the Company's expanded production facilities at its Pekin, Illinois plant. These increases were partially offset by a $4.3 million decrease in maintenance and repair and costs, which returned to more normal levels following the completion of the expansion project in the first quarter of fiscal 1996.

Selling, general and administrative expenses in fiscal 1996 were down approximately $1.6 million compared to the prior year. This principally was due to a decrease of almost $1.2 million resulting from reductions in compensation, and in costs for the Company's management and employee incentive programs. These and other reductions helped to more than offset increases which were incurred in a minor segment of the expense categories.

The consolidated effective income tax rate was consistent for all periods.

Other income amounted to $1.3 million, compared to a loss of $4.2 in fiscal 1995, which was primarily due to the $5.0 million write-off of a coal-fired boiler at the Company's Pekin plant.

Interest expense increased as most of the new production facilities in Pekin came on line during fiscal 1995. Therefore, far less interest was capitalized as part of these projects.

As the result of the foregoing factors, the Company experienced a net loss of $3,406,000 in fiscal 1996 compared to net income of $3,339,000 in fiscal 1995.

Quarterly Financial Information

Generally, the Company's sales are not seasonal except for variations affecting fuel grade alcohol, beverage alcohol and gluten sales. In recent years, demand for fuel grade alcohol has tended to increase during the fall and winter to satisfy clean air standards during those periods. Beverage alcohol sales tend to peak in the fall as distributors order stocks for the holiday season, while gluten sales tend to increase during the second half of the fiscal year as demand increases for hot dog buns and similar bakery products. The following table shows quarterly information for each of the years ended June 30, 1997 and 1996. Note: sales for the period ended June 30, 1996 were significantly lower than sales for the same period in fiscal 1997 due principally to reduced production resulting from an extended maintenance and repair shutdown at the Company's Pekin, Illinois plant during the month of June, 1996.

	Quarter Ending				
	Sept. 30	Dec. 31	March 31	June 30	Total
	(in thousands except per share amounts)				
Fiscal 1997					
Sales	$53,173	$55,249	$54,449	$61,862	$224,733
Gross profit	2,063	4,889	2,474	1,574	11,000
Net income (loss)	(346)	1,205	3	(731)	131
Earnings(loss) per share	(.04)	.12	.00	(.08)	.01
Fiscal 1996					
Sales	$47,160	$55,751	$53,871	$37,856	$194,638
Gross profit	(937)	3,619	1,304	479	4,465
Net income (loss)	(2,377)	195	(410)	(814	(3,406)
Earnings (loss) per share	(.25)	.02	(.04)	(.08)	(.35)

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

	At June 30,	
	1997	1996
	(in thousands)	
Cash and cash equivalents	$ 6,005	$ 3,759
Working capital	36,580	37,113
Amounts available under lines of credit	29,000	18,600
Note payable and long-term debt	30,933	40,933
Stockholders' equity	$108,561	$109,222

The Company's positive cash flow generated from operations allowed it to reduce its debt by $10 million during fiscal 1997. Continued positive cash flow has allowed the Company to further reduce its debt by another $5.0 million since the end of the fiscal year. Additionally, the Company's Board of Directors authorized the purchase of up to 200,000 shares of its common stock to fund the Company's stock option plans and for other corporate purposes. Pursuant to that authority, 65,000 shares were purchased for $791,700 prior to the fiscal year end. The measures instituted in the previous fiscal year, including stringent cost reductions, suspension of quarterly cash dividends to stockholders and changes in production, purchasing and marketing strategies, remain in effect.

At June 30, 1997, the Company had $3.4 million committed to improvements and replacements of existing equipment.

The Company continues to maintain a strong working capital position and a low debt-to-equity ratio, while generating positive cash flows. Management believes this strong financial position and available lines of credit, combined with the strategies which continue to be implemented, position it to take advantage of a return to more favorable conditions.

Forward-Looking Information

Readers are cautioned that in addition to historical information contained herein, this Annual Report also includes forward-looking statements and information which are based on management's beliefs as well as on assumptions made by and information currently available to management. When used in this report, the words "anticipate," "intend'" "believe," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which could cause the Company's future results and stock values to differ materially from those expressed in such forward-looking statements.

Independent Accountant's Report

Board of Directors and Stockholders
Midwest Grain Products, Inc.
Atchison, Kansas

We have audited the accompanying consolidated balance sheets of MIDWEST GRAIN PRODUCTS, INC. as of June 30, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1997. 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 generally accepted auditing standards. 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 MIDWEST GRAIN PRODUCTS, INC. as of June 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

/s/ Baird, Kurtz & Dobson
BAIRD, KURTZ & DOBSON

Kansas City, Missouri
August 8, 1997

Consolidated Statements of Operations
Years Ended June 30, 1997, 1996 and 1995

	1997	1996	1995
	(in thousands, except per share amounts)		
Net Sales	$224,733	$194,638	$180,252
Cost of sales	213,733	190,173	159,149
Gross profit	11,000	4,465	21,103
Selling, general & administrative expenses	9,169	9,001	10,553
		(4,536)	10,550
Other operating income (expense)	370	159	(107)
Income (loss) from operations	2,201	(4,377)	10,443
Other income (loss), net	618	1,309	(4,225)
Interest expense	(2,604)	(2,556)	(606)
Income (loss) before income taxes	215	(5,624)	5,612
Provision (credit) for income taxes	84	(2,218)	2,273
Net income (loss)	$ 131	$ (3,406)	$ 3,339
Earnings (loss) per common share	$ .01	$ (.35)	$ .34

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets
June 30, 1997 and 1996

	1997	1996
Assets	(in thousands)	
Current Assets		
Cash and cash equivalents	$ 6,005	$ 3,759
Receivables (less allowance for doubtful accounts (1997 and 1996 - $285)	26,276	18,365
Inventories	15,000	19,913
Prepaid expenses	988	573
Deferred income taxes	1,688	1,531
Income taxes receivable	227	3,063
Total Current Assets	50,184	47,204
Property & equipment, at cost	213,813	210,304
Less accumulated depreciation	99,099	85,155
Property & equipment, net	114,714	125,149
Other assets	432	432
Total assets	$165,330	$172,785
Liabilities & Stockholders' Equity		
Current Liabilities		
Notes payable	$ 1,000	
Accounts payable	8,196	6,416
Accrued expenses	4,408	3,675
Total Current Liabilities	13,604	10,091
Long-term debt	29,933	40,933
Post-retirement benefits	6,245	5,945
Deferred income taxes	6,987	6,594
Stockholders' equity		
Capital stock		

Preferred, 5% non-cumulative, $10 par value; authorized 1,000 shares; issued and outstanding 437 shares 4 4 Common, no par; authorized 20,000,000 shares;

	1997	1996
issued 9,765,172	6,715	6,715
Additional paid-in capital	2,485	2,485
Retained earnings	100,149	100,018
	109,353	109,222
Treasury stock, at cost		
Common; 1997-65,000 shares	(792)	
Total stockholders' equity	108,561	109,222
Total liabilities and stockholders' equity	$165,330	$172,785

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity
Years Ended June 30, 1997, 1996 and 1995

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
			(in thousands)			
Balance, June 30, 1994	$4	$6,715	$2,485	$104,969		$114,173
1995 net income				3,339		3,339
Payment of cash dividends of $.50 per share				(4,884)		(4,884)
Balance, June 30, 1995	4	6,715	2,485	103,424		112,628
1996 net loss				(3,406)		(3,406)
Balance, June 30, 1996	4	6,715	2,485	100,018		109,222
Purchase of treasury stock					$(792)	(792)
1997 net income				131		131
Balance, June 30, 1997	$4	$6,715	$2,485	$100,149	$(792)	$108,561

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows
Years Ended June 30, 1997, 1996 and 1995

	1997	1996	1995
	(In Thousands)		
Cash Flows from Operating Activities			
Net income (loss)	$ 131	$(3,406)	$3,339
Items not requiring (providing) cash:			
Depreciation	14,041	13,854	8,681
(Gain) loss on sale of assets	(18)	(41)	4,696
Deferred income taxes	236	611	(628)
Changes in:			
Accounts receivable	(7,911)	3,185	(1,198)
Inventories	4,913	(5,223)	(1,461)
Accounts payable	1,578	4	1,780
Income taxes (receivable) payable	2,836	(725)	(3,570)
Other	618	(1,238)	(929)
Net cash provided by operating activities	16,424	7,021	10,710
Cash Flows From Investing Activities			
Additions to property & equipment	(3,491)	(5,516)	(38,870)
Proceeds from sale of equipment	105	71	615
Proceeds from notes receivable		919	645
Change in current & non-current investments, net			14,504
Net cash used in investing activities	(3,386)	(4,526)	(23,106)
Cash Flows From Financing Activities			
Purchase of treasury stock	(792)		
Principle payments on long-term debt	(10,000)		
Proceeds from issuance of long-term debt		2,025	13,908
Dividends paid		(1,221)	(4,884)
Net cash (used in) provided by financing activities	(10,792)	804	9,024
Increase (Decrease) in Cash & Cash Equivalents	2,246	3,299	(3,372)
Cash & Cash Equivalents, Beginning of Year	3,759	460	3,832
Cash & Cash Equivalents, End of Year	$ 6,005	$ 3,759	$ 460

See Notes to Consolidated Financial Statements

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations. The activities of Midwest Grain Products, Inc. and its subsidiaries consist of the production of vital wheat gluten, specialty wheat proteins, premium wheat starch, alcohol products and flour mill products. The Company sells its products on normal credit terms to customers in a variety of industries located primarily throughout the United States. Through its wholly-owned subsidiaries, the Company operates in Atchison, Kansas and Pekin, Illinois (Midwest Grain Products of Illinois, Inc.). Additionally, Midwest Grain Pipeline, Inc., another wholly-owned subsidiary, supplies natural gas to the Company's Atchison plant.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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 Midwest Grain Products, Inc. and all subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Inventories. 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, Midwest Grain Products, Inc. enters into commodity contracts to reduce the risk of future grain price increases. These contracts, including those terminated early, are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of product cost when contract positions are settled and as related products are sold. If grain requirements fall below anticipated needs and open contract levels, then gains and losses are recognized immediately for the excess open contract levels. At June 30, 1997, Midwest Grain Products, Inc. had entered into contracts hedging future corn prices through the first quarter of fiscal 1998.

Property and Equipment. Depreciation is computed using both straight-line and accelerated methods over the estimated useful lives of the assets. The Company capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred each year was:

	Years Ended June 30,		
	1997	1996	1995
	(in thousands)		
Interest costs capitalized		$ 364	$1,570
Interest costs charged to expense	$2,604	2,556	606
	$2,604	$2,920	$2,176

Earnings Per Common Share. Earnings per common share data is based upon the weighted average number of shares and common share equivalents, except when anti-dilutive, totaling 9,761,967 at June 30, 1997 and 9,765,172 at June 30, 1996 and 1995.

Cash Equivalents. The Company considers all liquid investments with maturities of three months or less to be cash equivalents.

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.

Note 2: Inventories

Inventories consist of the following:

	June 30,	
	1997	1996
	(in thousands)	
Whiskey, alcohol and spirits	$ 4,017	$ 9,830
Unprocessed grain	5,803	5,203
Operating Supplies	3,105	2,632
Gluten	757	1,208
By-products and other	1,318	1,040
	$15,000	$19,913

Note 3: Property and Equipment

Property and equipment consists of the following:

	June 30, 1997	June 30, 1996
	(in thousands)	
Land, buildings and improvements	$ 17,411	$ 17,411
Transportation equipment	1,081	1,166
Machinery equipment	193,923	186,154
Construction in progress	1,398	5,573
	213,813	210,304
Less accumulated depreciation	99,099	85,155
	$114,714	$125,149

Note 4: Accrued Expenses

Accrued expenses consist of the following:

	June 30, 1997	June 30, 1996
	(in thousands)	
Excise taxes	$ 642	$ 236
Employee benefit plans (Note 10)	768	374
Salaries and wages	963	770
Property taxes	593	519
Insurance	723	991
Interest	696	696
Other expenses	23	89
	$4,408	$3,675

Note 5: Long-Term Debt

Long-term debt consists of the following:

	June 30, 1997	June 30, 1996
	(in thousands)	
Senior notes payable	$25,000	$25,000
Line of credit	4,000	15,000
Other	933	933
Long-term portion	$29,933	$40,933

The unsecured senior notes payable are payable in annual installments of $2,273,000 from 1999 through 2008, with the final principal payment of $2,270,000 due in 2009. Interest is payable semiannually at 6.68% per annum for the fifteen-year term of the notes.

At June 30, 1997, the Company had a $27 million unsecured revolving line of credit expiring on October 1, 1998, with interest at 1% below prime on which there was $4.0 million in borrowings at June 30, 1997. All other terms remain the same. The Company had four additional lines of credit totaling $7.0 million expiring on dates through April 1, 1998, with interest rates varying from prime to 1% below prime on which there were $1.0 million in borrowings at June 30, 1997.

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 $78 million and debt service coverage ratio of 1.5 to 1.

The fair value of the senior notes payable debt, based upon a market rate of 7.35% at June 30, 1997 was $24,300,000.

Aggregate annual maturities of long-term debt at June 30, 1997 are as follows:

	(in thousands)
1998	$ 0
1999	7,119
2000	2,335
2001	2,298
2002	2,273
Thereafter	15,908
	$29,933

Note 6: Income Taxes

The provisions (credit) for income taxes are comprised of the following:

	Years Ended June 30,		
	1997	1996	1995
	(in thousands)		
Income taxes currently payable (receivable)	$(152)	$(2,829)	$2,901
Income taxes deferred	236	611	(628)
	$ 84	$(2,218)	$2,273

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

	June 30,	
	1997	1996
	(in thousands)	
Deferred tax assets:		
Accrued employee benefits	$ 110	$ 156
Post-retirement liability	2,436	2,378
Insurance accruals	831	1,002
State operating loss carryforwards	447	341
Alternative minimum tax	723	
Other	383	337
	4,930	4,214
Deferred tax liabilities:		
Accumulated depreciation	(9,860)	(8,857)
Deferred gain on involuntary conversion	(369)	(420)
	(10,229)	(9,277)
Net deferred tax liability	$ (5,299)	$(5,063)

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

	June 30,	
	1997	1996
	(in thousands)	
Deferred tax asset - current	$ 1,688	$ 1,531
Deferred tax liability - long-term	(6,987)	(6,594)
Net deferred tax liability	$(5,299)	$(5,063)

No valuation allowance has been recorded at June 30, 1997 or 1996.

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

	Years Ended June 30,		
	1997	1996	1995
		(in thousands)	
"Expected" provision (credit) at federal statutory rate (34%)	$73	$(1,912)	$1,908
Increases (decreases) resulting from:			
effect of state income taxes	9	(236)	223
Other	2	(70)	142
Provision (credit) for income taxes	$84	$(2,218)	$2,273

Note 7: Capital Stock

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

Note 8: Other Operating Income (Expense)

Other operating income (expense) consists of the following:

	Years Ended June 30,		
	1997	1996	1995
	(in thousands)		
Truck operations	$342	$136	$(222)
Warehousing and storage operations	(13)	(32)	41
Miscellaneous	41	55	74
	$370	$159	$(107)

Note 9: Energy Commitment

During fiscal 1995, 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 $114,000, with a declining fixed charge for purchases in excess of the minimum usage. Electricity purchases will occur at fixed rates through May 31, 2002. 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. The estimated net book value of the plant would be $10.6 million at that date.

As a result of the above agreements, the Board approved the disposal of the coal boiler which previously supplied the majority of the Illinois plant's energy needs. The Company recorded the estimated effect of the disposal as a non-recurring other expense of approximately $5.0 million during the fiscal year ended June 30, 1995.

Note 10: Employee Benefit Plans

Pension Plan. The Company has a noncontributory defined benefit pension plan covering union employees. The plan provides benefits based on the participants' years of service. The Company only contributes amounts deductible for federal income tax purposes.

Pension costs included the following components:

	Years Ended June 30,		
	1997	1996	1995
	(in thousands)		
Service cost benefits earned during year	$ 43	$ 54	$ 58
Interest cost on projected benefit obligations	158	150	144
Actual investment income earned on plan assets	(358)	(257)	(233)
Amortization of transition liability and difference between actual and expected return on plan assets	219	133	121
Pension cost	$ 62	$ 80	$ 90

The funded status of the plan is as follows:

	June 30,	
	1997	1996
	(in thousands)	
Accumulated benefit obligations, including vested benefits of $2,141 and $2,183	$2,151	$2,191
Plan assets at fair value	$2,349	$2,071
Projected benefit obligations for participants' service rendered to date	2,151	2,191
Projected benefit obligations in excess of plan's assets	198	(120)
Unrecognized gains	(333)	(75)
Unrecognized prior service cost	51	57
Unrecognized net obligation at July 1, 1987 being recognized over the participants' average remaining service period	88	106
Adjustment required to recognize the minimum liability		(88)
Pension asset (liability)	$ 4	$ (120)

Plan assets are invested in cash equivalents, U.S. Government securities, corporate bonds, fixed income funds and common stocks. The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5%. The expected long-term rate of return on the plan's assets was 8.0%.

Employee Stock Ownership Plans. The Company and its subsidiaries have employee stock ownership plans covering all employees after certain eligibility requirements are met. Discretionary contributions to the plans totaled $726,000, $374,000 and $998,000 for the years ended June 30, 1997, 1996 and 1995, respectively. Contributions are made in the form of cash and/or additional shares of common stock.

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

The status of the Company's plans at June 30, 1997 and 1996 was as follows:

	June 30, 1997	June 30, 1996
	(in thousands)	
Accumulated post-retirement benefit obligations		
Retirees	$3,395	$3,360
Active plan participants	1,650	1,526
Unfunded accumulated obligation	5,045	4,886
Unrecognized actuarial gain (loss)	1,200	1,059
Accrued post retirement benefit cost	$6,245	$5,945

Net post-retirement benefit costs included the following components:

	June 30, 1997	June 30, 1996
	(in thousands)	
Service cost	$100	$159
Interest cost	353	424
(Gain) loss amortization	(23)	
	$430	$583

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 9.75% (compared to 10.0% assumed for 1996), reducing to 8.0% over eight years and 6.0% over 16 years. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by $300,000 at June 30, 1997, and the service and interest cost by $42,000 for the year then ended.

A weighted average discount rate of 8.0% was used in determining the accumulated benefit obligation.

Stock Options. The Company has two stock option plans, the Stock Incentive Plan of 1996 ("The 1996 Plan") and the Stock Option Plan for Outside Directors ("The Directors Plan"). These Plans permit the issuance of stock awards, options and stock appreciation rights to selected employees and outside directors of the Company. The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost been determined consistent with FASB Statement No. 123, the Company's 1997 net income and earnings per share would have been reduced to the following pro forma amounts:

Net Income (loss):	As Reported	$ 131
	Pro Forma	$ (82)
Primary Earnings per share:	As Reported	$ .01
	Pro Forma	$(.01)
Fully Diluted EPS:	As Reported	$ .01
	Pro Forma	$(.01)

Under the 1996 Plan, the Company may grant incentives for up to 450,000 shares of the Company's common stock to certain of the Company's management personnel. The term of each award shall be determined by the committee of the Board of Directors charged with administering the 1996 Plan. Under the terms of the 1996 Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the

grant. Through June 30, 1997, the Company has granted options on 176,500 shares becoming exercisable in yearly increments through January, 2001. Options granted through June 30, 1997 have exercise prices equal to fair market value on the date of grant.

Under the Director's Plan each non-employee or "outside" director of the Company receives on the day after each annual meeting of stockholders an option to purchase 1,000 shares of the Company's common stock at a price equal to the fair market value of the Company's common stock on such date. Options become exercisable on the 184th day following the date of grant and expire not later than five years after the date of grant. Subject to certain adjustments, a total of 90,000 shares are reserved for annual grants under the Plan, subject to certain adjustments. Through June 30, 1997, the Company had granted options on 7,000 shares, all of which became exercisable in April, 1997.

A summary of the status of the Company's two stock option plans at June 30, 1997 and 1996 and changes during the years then ended is presented below:

	Years Ended June 30, 1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(in thousands)			
Outstanding Beginning of Year	90,000	$14.00		
Granted	93,500	15.32	90,000	$14.00
Exercised				
Outstanding End of Year	183,500	$14.67	90,000	$14.00

As of June 30, 1997, 90,000 of the 183,500 options outstanding have an exercise price of $14 and a remaining contractual life of 3.5 years. Of these options, 27,750 are exercisable at June 30, 1997. Options outstanding of 86,500 have an exercise price of $15.25 and a remaining contractual life of 4.5 years. None of these options are exercisable at June 30, 1997. The remaining 7,000 shares have an exercise price of $16.25 and all are exercisable at June 30, 1997. These options must be exercised by October, 2001.

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, 1997: Risk free interest rate of 6.13%; expected dividend yield of 0%; expected volatility of 34%.

Note 11: Operating Leases

The Company has several noncancellable operating leases for railcars which expire from July, 1998 through November, 2001. 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, 1997 are as follows:

	(in thousands)
1998	$1,804
1999	1,566
2000	555
2001	93
2002	56
----	--
Future minimum lease payments	$4,074
	======

Rental expense for all operating leases with terms longer than one month totaled $1,438,466, $1,546,000 and $951,000 for the years ended June 30, 1997, 1996 and 1995, respectively.

Minimum future rentals receivable under non-cancellable operating subleases at June 30, 1997, were $155,500.

Note 12: 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:

Substantially all of the Company's labor force is covered by collective bargaining agreements which expire August 31, 1999 at the Atchison plant and on November 1, 2000 at the Pekin plant.

Under its self-insurance plan, the Company accrues the estimated expense of health care and workers' compensation claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. An accrual for such costs of $723,000 is included in the accompanying 1997 financial statements. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

During the years ended June 30, 1997, 1996 and 1995, the Company had sales to one customer accounting for approximately 8.2%, 10.7% and 10.7%, respectively of consolidated sales.

Note 13: Additional Cash Flows Information

	Years Ended June 30,		
	1997	1996	1995
	(in thousands)		
Noncash Investing and Financing Activities:			
Purchase of property and equipment in accounts payable	$ 211	$ 12	$1,407
Dividends declared			1,221
Additional Cash Payment Information			
Interest paid (net of amount capitalized	1,909	2,585	519
Income taxes paid (refunded)	$(2,986)	$(2,105)	$4,200

Note 14: Contingencies

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

ARTICLE 5

EXHIBIT 27 MIDWEST GRAIN PRODUCTS, INC. FINANCIAL DATA SCHEDULE THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MIDWEST GRAIN PRODUCTS, INC. CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED JUNE 30, 1997 AND CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000835011

NAME: MIDWEST GRAIN PRODUCTS, INC.

MULTIPLIER: 1,000

PERIOD TYPE: YEAR

FISCAL YEAR END: JUN 30 1997

PERIOD START: JUL 1 1996

PERIOD END: JUN 30 1997

CASH: 6,005

SECURITIES: 0

RECEIVABLES: 26,276 [1]

ALLOWANCES: 285

INVENTORY: 15,000

CURRENT ASSETS: 50,184

PP&E: 213,813

DEPRECIATION: 99,099

TOTAL ASSETS: 165,330

CURRENT LIABILITIES: 13,604

BONDS: 29,993

COMMON: 6,715

PREFERRED MANDATORY: 0

PREFERRED: 4

OTHER SE: 101,842 [2]

TOTAL LIABILITY AND EQUITY: 165,330

SALES: 224,733

TOTAL REVENUES: 224,733

CGS: 213,733

TOTAL COSTS: 222,902 [3]

OTHER EXPENSES: 370

LOSS PROVISION: 0

INTEREST EXPENSE: (2,604)

INCOME PRETAX: 215

INCOME TAX: 84

INCOME CONTINUING: 131

DISCONTINUED: 0

EXTRAORDINARY: 0

CHANGES: 0

NET INCOME: 131

EPS PRIMARY: .01

EPS DILUTED: .01

[1] Reflects Receivables less Allowances.

[2] Reflects retained earnings and additional paid in captial less cost of Treasury Stock.

[2] Reflects cost of sales and selling, general & administrative expenses.

End of Filing

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