

# MGP INGREDIENTS INC

## FORM 10-K (Annual Report)

Filed 09/21/99 for the Period Ending 06/30/99

Address	1300 MAIN ST ATCHISON, KS 66002
Telephone	9133671480
CIK	0000835011
Symbol	MGPI
SIC Code	2040 - Grain Mill Products
Industry	Food Processing
Sector	Consumer/Non-Cyclical
Fiscal Year	06/30

# 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, 1999

## 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, 9,526,072 shares of which were outstanding at June 30, 1999. 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 highest sales price of such stock on July 27, 1999, was \$88,399,304.

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. 1999 Annual Report to Stockholders, pages 17 through 36 [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 13, 1999, dated September 16, 1999 (incorporated into Part III).

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CONTENTS

		PAGE
PART I		
Item 1.	Business.....	1
	General Information.....	1
	Wheat Gluten.....	2
	Premium Wheat Starch.....	5
	Alcohol Products.....	6
	Flour and Other Mill Products.....	8
	Transportation.....	9
	Raw Materials.....	9
	Energy.....	9
	Employees.....	10
	Regulation.....	10
Item 2.	Properties.....	10
Item 3.	Legal Proceedings.....	11
Item 4.	Submission of Matters to a Vote of Security Holders.....	11
PART II		
Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters.....	12
Item 6.	Selected Financial Data.....	12
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....	12
Item 8.	Financial Statements and Supplementary Data.....	12
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	12
PART III		
Item 10.	Directors and Executive Officers of the Registrant.....	13
Item 11.	Executive Compensation.....	15
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	15
Item 13.	Certain Relationships and Related Transactions.....	15
PART IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	16
SIGNATURES.....		18
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 as well as historical information. Forward-looking statements are usually identified by or are

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

**PART I**

**Item 1. Business.**

**General Information**

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 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. Vital wheat gluten and most wheat protein products are dried into powder and sold in packaged or bulk form. The starch slurry which results after the extraction of the gluten and wheat proteins is further processed to extract premium wheat starch which is also dried into powder and sold in packaged or bulk form. 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, 1999, as well as such sales as a percent of total sales.

PRODUCT GROUP SALES

	Year Ended June 30,									
	1999		1998		1997		1996		1995	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(thousands of dollars)									
Wheat Gluten.....	\$ 56,153	26.0	\$ 42,489	19.0	\$ 39,968	17.8	\$ 39,514	20.3	\$ 49,957	27.7
Premium Wheat Starch.....	27,173	12.6	27,791	12.4	29,935	13.3	26,354	13.5	23,403	13.0
Alcohol Products:										
Food Grade Alcohol										
Beverage Alcohol.....	30,373	14.1	35,934	16.1	43,118	19.2	39,465	20.3	32,573	18.1
Food Grade Industrial.	19,276	8.9	27,487	12.3	38,004	16.9	32,064	16.5	23,379	13.0
Fuel Grade Alcohol.....	54,639	25.3	51,277	23.0	34,992	15.6	25,347	13.0	28,120	15.6
Alcohol By-products.....	25,441	11.8	33,259	14.9	34,553	15.4	28,449	14.6	19,583	10.9
Total Alcohol Products.....	129,729	60.1	147,957	66.3	150,667	67.1	125,325	64.4	103,655	57.5
Flour and Other Mill Products.....	3,046	1.4	5,017	2.3	4,163	1.8	3,445	1.8	3,237	1.8
Net Sales .....	\$216,101	100.0	\$223,254	100.0	\$224,733	100.0	\$194,638	100.0	\$180,252	100.0

The Company's results for 1999 improved significantly over those for 1998. Net Income increased to \$1.3 million from a 1998 loss of \$2.2 million. At the same time earnings before income taxes, depreciation and amortization ("EBITDA") increased 46% from \$12.1 million in 1998 to \$17.7 million in 1999. The improvement resulted primarily from lower raw material costs for wheat, corn and milo and increased productivity in the Company's wheat gluten processing operations. Although profitability increased, it was negatively impacted by a continuation of low selling prices for alcohol products resulting from excess industry-wide alcohol production capacity. The 3.0% decline in the Company's total 1999 sales was also due to the lower selling prices for alcohol products.

The bulk of the Company's sales are made direct to large institutional food and beverage processors and distributors with respect to which the Company has longstanding relationships. Sales to these customers are usually evidenced by short term agreements that are cancelable within 30 days and under which products are usually ordered, produced, sold and shipped within 60 days. However, a substantial amount of the Company's fuel alcohol is sold

1

under longer term contracts, primarily to cover the needs of gasoline refiners during September through March of each year. Also, during the first part of fiscal 2000, the Company began to accept orders for future delivery of vital wheat gluten in response to increased demand resulting from the three-year quota on foreign wheat gluten imports. None of the Company's customers accounted for more than ten percent of the Company's consolidated revenues during fiscal 1999, except for a distributor of vital wheat gluten that accounted for approximately 12% of the Company's 1999 sales.

Historically, the Company's sales have not been seasonal except for variations affecting alcohol and gluten sales. Fuel alcohol sales usually increase during the period August through March due to requirements of the Clean Air Act which inhibit the sale of ethanol in certain areas of the country during May 1 through September 15 each year. Certain environmental regulations also favor greater use of ethanol during the winter months of the year. See "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 have tended to increase to a minor extent during the second half of the fiscal year as demand increases for hot dog and hamburger buns and similar bakery products. During the next two years the Company expects fluctuations in wheat gluten sales due to the effects of annual quotas on the import of wheat gluten into the United States. See "Vital Wheat Gluten - Competition."

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 18 through 24 of the Annual Report.

### **Wheat Gluten**

The Company's wheat gluten products consist of vital wheat gluten and specialty wheat proteins that are derived from vital wheat gluten. During fiscal 1999, vital wheat gluten accounted for approximately 95% of total wheat gluten sales and specialty wheat proteins accounted for the balance. In 1998, sales of specialty wheat proteins accounted for less than 1% of total wheat gluten sales.

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, hot dog and hamburger buns to improve the strength and cohesiveness of the product. For example, vital wheat gluten provides greater hinge strength for hot dog buns.

In recent years the Company began the development of a number of Specialty Wheat Proteins for food and non-food applications. Specialty Wheat Proteins are derived from vital wheat gluten through a variety of proprietary processes which change the molecular structure of vital wheat gluten. Food application wheat proteins include gliadin, glutenin, products in the Wheatex(TM) and FP(TM) series and Pasta Power (TM). Non-food applications include wheat proteins designed for use primarily in cosmetics and personal care products and in biodegradable gluten resins that can be molded to form a variety of biodegradable plastic-like objects.

## **Food Applications**

\* Gliadin and Glutenin are the two principal molecules that make up vital wheat gluten. The Company's patented process enables the separation of 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 to improve the texture of noodles and pastas. Gliadin is also used in a number of cosmetics and personal care products as described below under "Non-Food Applications."

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

\* FP(TM) Series. The Midsol FP(TM) series of products consist of specialty wheat proteins each tailored for use in a variety of food applications. WPI 2100(TM) is a soluble wheat protein isolate that is an effective substitute for egg whites, casein (a milk protein) and soy protein isolates and that can be used in cheeses, meats and nutritional beverages. Other FP(TM) series products include Midsol FP(TM) 5000 that can be used to form a barrier to fat and moisture penetration to enhance crispness and improve batter adhesion in fried products, Midsol FP(TM) 6000 and Midsol FP(TM) 600, which are excellent binders for vegetarian patties or meat extended products and Midsol FP(TM) 700, which is ideal for making nutritional drinks.

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

### **Non-Food Applications**

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

\* Biodegradable Gluten Resins. Polytriticum(TM) 200 and Polytriticum(TM) 2000 are the Company's environmentally friendly biodegradable gluten resins that can be molded to produce a variety of plastic-like objects. Polytriticum(TM) 200 may be used as a commercial raw material for the production of pet foods and biodegradable landscaping materials and Polytriticum(TM) 2000 has been developed for use in disposable eating utensils, golf tees, food and feed containers and similar type vessels.

Although a number of the specialty wheat proteins are being marketed, others are still in the test marketing or development stage. Specialty wheat proteins are accounting for an increasing share of the Company's total wheat gluten sales. During fiscal 1999 that percentage grew from less than 1% to 5%. That share is expected to continue to increase in 2000 due to increased marketing and customer recognition of the advantages of these unique products. This is consistent with the Company's overall strategy to focus on the marketing and development of specialty wheat gluten and starch products for use in unique market niches. Specialty wheat proteins generally compete with other ingredients and modified proteins 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 12% of the Company's total fiscal 1999 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.

The Company's 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 primarily of three other domestic producers and producers in the European Union (the "E.U."), Australia and certain other regulated countries (the "Foreign Exporters"). Between June 30, 1994 and June 30, 1998, the E.U. took an increasingly large share of the U.S. gluten market. Imports of wheat gluten shipped into the United States from the E.U. during the crop year ended June 30, 1995, were approximately 51.9 million pounds. Those imports increased to 70.2 million pounds in the crop year ending June 30, 1996, to 91.1 million pounds in the crop year ending June 30, 1997, and to 97.5 million pounds in the crop year ending June 30, 1998, for an aggregate increase of 88%. Due to the imposition of import quotas beginning on June 1, 1998, U.S. Customs data shows that E.U. imports declined to 65.5 million pounds in fiscal 1999 and are expected to be limited to 45.8 million pounds for the year ending May 30, 2000 and 60.7 million pounds for the year ending May 30, 2001.

Competition in the vital wheat gluten industry is based primarily upon price. Since the increasing surge of large, subsidized volumes of E.U. wheat gluten into the U.S., vital wheat gluten prices have been primarily affected by (i) excess E.U. capacity, (ii) subsidies and other protective measures ("Subsidies") provided to E.U. exporters by their host governments, (iii) low U.S. tariffs and (iv) gluten import quotas. The Subsidies and low U.S. tariffs encouraged E.U. producers to expand wheat starch and wheat gluten production capacity and to continue the development of even greater capacities. Based on industry sources, during the years ending December 31, 1998 and 1999, an estimated 160 million pounds of additional E.U. capacity were completed and an estimated additional 60 million pounds of E.U. capacity have been forecasted to be completed by December 31, 2000. Until the imposition of quotas by the President of the United States effective June 1, 1998, it was expected that a majority of the excess wheat gluten production from these plants would be targeted for shipment to the U.S.

The Wheat Gluten Industry Council of the United States, which is principally supported by the Company and two other domestic wheat gluten producers, has engaged in a number of initiatives to combat this surge in Subsidized E.U. wheat gluten. Initially the Wheat Gluten Industry Council attempted to establish equal opportunity or a "level playing field" in the U.S. market through negotiations under a Grains Agreement between the E.U. and the

United States. A lack of meaningful discussions was followed by an action under Section 301 of the Trade Act of 1974. Following a further round of

unsatisfactory discussions in connection with that action, the Wheat Gluten Council initiated a second proceeding on September 19, 1997, with the International Trade Commission of the United States under section 201 of the Trade Act of 1974 (the "Section 201 Proceeding").

The Section 201 Proceeding met with success during the second half of fiscal 1998. On March 18, 1998, the International Trade Commission submitted to the President a unanimous affirmative determination that "imports of wheat gluten are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry." The International Trade Commission also recommended to the President that a quota be placed on imports of foreign wheat gluten. As a result of that finding and recommendation and pursuant to Section 203 of the Trade Act of 1974, the President issued Proclamation 7103, on May 30, 1998. The Proclamation imposes annual quantitative limitations for three years on imports of wheat gluten from the E. U. and other Foreign Exporters at an amount equal to the total average imports of wheat gluten shipped into the United States by the Foreign Exporters during the three crop years ended June 30, 1995. The aggregate quota for the first year was 126.8 million pounds. Annual increases in that quota of six percent prevail in the second year and in the third year. Due to violations of the quota by the E.U. during the first quota year, the President issued a proclamation on May 29, 1999, that reduced the E.U.'s second year quota by the amount of illegally shipped gluten in the first year and placed in effect other measures designed to preclude further violations. The quotas for "goods entered, or withdrawn from warehouse for consumption, on or after June 1, 1999" in millions of pounds are:

"If entered during the period from June 1, 1999, through May 31, 2000, inclusive....:"

Australia.....	66.1 million pounds
European Community.....	45.8 million pounds
Other Countries.....	11.0 million pounds

"If entered during the period from June 1, 2000, through May 31, 2001, inclusive....:"

Australia.....	70.1 million pounds
European Community.....	60.7 million pounds
Other Countries.....	11.7 million pounds

Based on information reported from the U.S. Customs Service, the E.U. had imported all of its quota for the year ended June 1, 2000, by the end of July, 1999. The Company believes that a portion of this E.U. gluten may be warehoused for sale throughout the quota year.

During the next two years and beyond the Company plans to intensify its focus on increasing the sales and production of specialty wheat proteins since those niche products are expected to be able to compete more effectively with increased foreign imports following the end of the annual quotas in 2001.

The Company's sales of vital wheat gluten during 1999 increased approximately 32% over gluten sales in fiscal 1998 as the Company increased production to respond to the market requirements resulting from the gluten import quotas. This increased production and relatively low grain prices enabled the Company's gluten operations to contribute to the Company's overall profitability for 1999.

## 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

5

B wheat starches which are extracted along with impurities B starches since its integrated processing facilities are able to process the remaining slurry after the extraction of 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 premium wheat starch into alcohol, animal feed and carbon dioxide. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

A substantial portion of the Company's premium wheat starch is also altered during processing to produce certain unique modified and specialty wheat starches designed for special applications in niche markets.

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 modified and 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 and distributors and for export, with the bulk of international sales going to Japan, Mexico and East Asian countries 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 has experienced substantial growth over the years. 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 and specialty wheat starches and continues to explore the development of additional starch products with the view to increasing sales of value added modified and specialty 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 and specialty 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 and specialty wheat starches are better suited to a customer's requirements for a specific use.

Starch sales and profitability for 1999 were relatively flat with those results for 1998, due primarily to a decline in unit sales in the first two quarters of fiscal 1999 that was recovered in the second half of the year in response to increased demand.

### **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

6

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, which further process the alcohol for sale to consumers under numerous labels.

The Company believes that in terms of fiscal 1999 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. Beginning in 1997 competition in beverage markets increased significantly as producers of fuel grade alcohol converted portions of 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 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 declined by approximately \$13.4 million during 1998 due primarily to continuing decreased demand, lower selling prices and increased food grade production capacity throughout the industry. Although the effects of declining sales were partially offset by reduced grain prices, food grade results for 1999 had a significant negative impact on the Company's 1999 profitability. 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 abundance 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 subsequently reversed by court order.

### **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 2007, gasoline that has been blended in qualifying proportions with ethanol provide sellers of the blend with certain

income tax credits and excise tax reductions that amount to up to \$0.54 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 1998 legislation was enacted that extended the credit through 2007, with the credit being reduced to \$0.51 per gallon beginning in 2005.

The Kansas Qualified Agricultural Ethyl Alcohol Producer Incentive Fund, which expires in 2001, provides incentives for sales of ethanol produced in Kansas to gasoline blenders. Fiscal 1999 payments to the Company out of the fund totaled \$365,000 for the ethanol produced by the Company at the Atchison plant during that year.

The fuel grade alcohol market is dominated by Archer Daniels Midland, with the Company's being 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.

Fuel grade alcohol sales increased by 6.5 % during 1999 as demand for food grade alcohol continued to decline. At the same time fuel alcohol prices continued to decrease due to continued excess industry-wide capacity. Although grain costs also remained low, the drop in fuel alcohol prices continued to negatively impact the Company's overall profitability.

### **Alcohol By-Products**

The bulk of fiscal 1999 sales of alcohol by-products consisted of distillers feeds. Distillers feeds are the residue of corn, milo and wheat from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. The Company competes with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers feeds and mill feeds.

The balance of alcohol by-products consists primarily of carbon dioxide. During the production of alcohol, the Company traps carbon dioxide gas that is emitted in the fermentation process. The gas is purchased and liquefied on site by 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.

Sales of alcohol by-products during fiscal 1999 declined by 24% relative to 1998 sales, due primarily to lower selling prices that resulted from lower grain prices.

### **Flour and Other Mill Products**

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

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

## **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 389 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 have from time to time significant adverse effects on the results of the Company's operations. This is primarily due to a variety of factors. It has been difficult in recent years for the Company to compensate for increases in grain costs through adjustments in prices charged for the Company's vital wheat gluten due to the surge of Subsidized E.U. wheat gluten whose artificially low prices are not affected by such costs. Although the three-year quota on imports of wheat gluten is beginning to alleviate this condition, no assurance can be given that the effect will be uniform throughout each crop year covered by the quota or that the market will otherwise adjust. For example, violations of the quota by the E.U. during the first year of the quota significantly reduced the beneficial effects of the quota in 1999. Also, fuel grade alcohol prices, which historically have tracked the cost of gasoline, do not usually adjust to rising grain costs. Excess industry-wide alcohol capacities have also depressed alcohol selling prices below historically normal margins.

During fiscal 1999 Kansas City market prices for grain continued to decline. At June 30, 1999, the price per average bushel for corn and milo was \$2.02 and the price for a bushel of wheat was \$2.67. At June 30, 1998, corn and milo average market prices were \$2.40 and the average wheat price was \$3.05. Although a return to more normal grain prices contributed to the Company's positive earnings in 1999, excess industry-wide alcohol capacities continued to restrict the ability of the company to adjust the price of its alcohol to compensate for grain and other production costs.

The Company engages in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. During fiscal 1999, the Company hedged approximately 34% of corn processed compared to 23% in 1998 and 42% of wheat processed compared to 37% in 1998. The contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and related products are sold. For fiscal 1999, raw material costs included a net loss of approximately \$3.4 million on contracts settled during

the year compared to a net gain of \$243,000 for fiscal 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk" in the Annual Report.

## **Energy**

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

All of the natural gas demand for the Atchison plant is procured in the open market from various suppliers. Depending on existing market conditions, the Company has the ability to transport the gas through a gas pipeline owned by a wholly-owned subsidiary of the Company. The Atchison boilers may also be oil fired.

## 9

In 1995 the Company entered into a long-term arrangement with an Illinois utility to satisfy the energy needs of the Pekin, Illinois plant. Under the arrangement, the utility constructed a new gas fired electric and steam generating facility on ground leased from the Company. The utility sells steam and electricity to the Company, generally at fixed rates, using gas procured by the Company.

## **Employees**

As of June 30, 1999, the Company had 426 employees, 277 of whom are covered by two collective bargaining agreements with one labor union. One agreement, that expires on August 31, 2002, covers 181 employees at the Atchison Plant. The other agreement, that expires in November, 2000, covers 96 employees at the Pekin plant. As of June 30, 1998, the Company had 421 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

10

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 \$1.0 million. It is anticipated that the new equipment will bring emissions into compliance with all applicable limitations. The Company is currently engaged in supplementing its application with additional information that has been requested by the Agency.

Proceedings under the Complaint are being held in abeyance by agreement of the parties pending completion of a review by the State of the Company's application and 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, 1999 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 high and low closing prices of the Common Stock for each quarter of fiscal 1999 and 1998 Cash dividends have not been paid since the end of 1995.

	Sales Price	
	High	Low
	-----	-----
1999:		
First Quarter.....	\$ 14.63	\$ 10.00
Second Quarter.....	14.75	10.25
Third Quarter.....	14.63	10.00
Fourth Quarter.....	11.63	9.00
1998:		
First Quarter.....	\$ 15.13	\$ 12.50
Second Quarter.....	14.63	11.88
Third Quarter.....	15.75	12.00
Fourth Quarter.....	15.00	12.00

At June 30, 1999 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 17 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 18 through 24 of the Annual Report, copies of which pages are included in Exhibit 10(c) to this Report.

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

Incorporated by reference to the information under Managements Discussion and Analysis of Financial Condition and Results of Operations - Market Risk on pages 23 of the Annual Report, copies of which page is 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 25 through 36 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.	76	Chairman of the Board and Director
Laidacker M. Seaberg	53	President, Chief Executive Officer and Director
Sukh Bassi, Ph.D.	58	Vice President - Specialty Ingredients Marketing and Sales, and Research and Development
Robert G. Booe	62	Vice President - Finance and Administration, Controller, Treasurer and Chief Financial Officer
Gerald Lasater	61	Vice President - Export Marketing and Sales
Marta L. Myers	39	Secretary and Administrative Assistant to the President
Randy M. Schrick	49	Vice President - Operations and Director
Dennis E. Sprague	53	Vice President - Corporate Marketing and Sales
Michael Braude	63	Director
F.D. "Fran" Jabara	74	Director
Robert J. Reintjes	67	Director
Daryl R. Schaller, Ph.D.	55	Director
Eleanor B. Schwartz, D.B.A.	62	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, and Vice President - Specialty Ingredients Marketing and Sales since 1998. He previously served as Technical Director from 1989 to 1998 and Vice President - Vital Wheat Gluten Marketing from 1992 to 1998. From 1981 to 1992 he was Manager of the Vital Wheat Gluten Strategic Business Unit. He was previously a professor of biology at Benedictine College for ten years.

Mr. 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 - Export Marketing and Sales since 1998. Previously, he served as Vice President - Starch Marketing from 1992 to 1998. Prior to that he served as Vice President in charge of the Wheat Starch Strategic Business Unit.

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

Mr. 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. Sprague joined the Company in October 1998. Since then he has served as Vice President - Corporate Marketing and Sales. Previously he held a variety of management, sales and plant operations positions with Joseph E. Seagrams & Sons, Inc.

Mr. Braude has been a Director since 1991 and is a member of the Audit, Human Resources and Nominating Committees. 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 NPC International, Inc., an operator of numerous Pizza Hut and other quick service restaurants throughout the United States, 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 Audit Committee and a member of the Human Resources and Nominating Committees. 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. Reintjes has been a director since 1986, and is Chairman of the Nominating Committee and a member of the Human Resources and Audit 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. Schaller has been a director since October, 1997, and is Chairman of the Human Resources Committee and a member of the Audit Committee. He retired from Kellogg Co. in 1996 after 25 years of service. He served Kellogg as its Senior Vice President -- Scientific Affairs from 1994, and previously was Senior Vice President -- Research, Quality and Nutrition for Kellogg. He is also a director of Iams Company, a producer of pet foods, and of Cancer Research Foundation of America.

Dr. Schwartz has been a director since June 3, 1993. She is a member of the Audit and Human Resources Committees. She has been a professor of Business & Administration for the University of Missouri-Kansas City since 1999. She was Chancellor of the University of Missouri-Kansas City from May 1992 to February, 1999, the Interim Chancellor from September 1991 to May 1992, and was previously the Vice Chancellor for Academic Affairs. She is a Trustee of Midwest Research Institute and a director of each of the funds in The United Group of Mutual Funds, Target/The United Funds, Inc. and Waddell & Reed Funds, Inc. Dr. Schwartz plans to retire from the Board at the end of her current term, which expires at the time of the 1999 annual meeting of stockholders.

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. Jabara	2000	Mr. Cray, Jr.	2001
Dr. Schaller	2000	Mr. Reintjes	2001
Dr. Schwartz	1999	Mr. Braude	2000
		Mr. Schrick	1999
		Mr. Seaberg	1999

**Item 11. Executive Compensation.**

Incorporated by reference to the information under "Executive Compensation" on pages 6 through 10 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 11 and 12 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, 1999 and 1998.  
Consolidated Statements of Income - for the Three Years  
Ended June 30, 1999, 1998 and 1997.  
Consolidated Statements of Stockholders' Equity for the  
Three Years Ended June 30, 1999, 1998 and 1997.  
Consolidated Statements of Cash Flow - for the Three Years  
Ended June 30, 1999, 1998 and 1997.  
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 Fourth 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(c) to the Company's Report on Form 10-K for the year ended June 30, 1998).

Exhibit No. Description

4(d) Copy of Line of Credit Note Under Fourth Amended Line of Credit Loan Agreement (incorporated by reference to Exhibit 4(d) to the Company's Report on Form 10-K for the year ended June 30, 1998) .

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).

16

10(a) Summary of informal cash bonus plan (incorporated by reference to the summary contained in the Company's Proxy Statement dated September 17, 1999, 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. 1999 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).

10(g) Copy of Midwest Grain Products, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated September 17, 1999, filed with the Securities and Exchange Commission on September 15, 1999).

10(h) Form of Stock Option with respect to stock options granted under the Midwest Grain Products, Inc. 1998 Stock Incentive Plan for Salaried Employees (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended June 30, 1996).

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

**23 Consent of Baird, Kurt & Dobson.**

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 at June 30, 1999 and for the year then ended.

No reports on Form 8-K have been filed during the quarter ended June 30, 1999.

## 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 17 th day of September, 1999.

### 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 -----
<i>/s/ Laidacker M. Seaberg</i> ----- Laidacker M. Seaberg	President (Principal Executive Officer) and Director	September 17, 1999
<i>/s/ Robert G. Booe</i> ----- Robert G. Booe	Vice President, Treasurer and Controller (Principal Financial and Accounting Officer)	September 17, 1999
<i>/s/ Michael Braude</i> ----- Michael Braude	Director	September 17, 1999
<i>/s/ Cloud L. Cray, Jr.</i> ----- Cloud L. Cray, Jr.	Director	September 17, 1999
<i>/s/ F. D. Jabara</i> ----- F. D. "Fran" Jabara	Director	September 17, 1999

/s/ Robert J. Reintjes ----- Robert J. Reintjes	Director	September 17, 1999
/s/ Randy M. Schrick ----- Randy M. Schrick	Director	September 17, 1999
/s/ Daryl R. Schaller ----- Daryl R. Schaller	Director	September 17, 1999
/s/ Eleanor B. Schwartz ----- Eleanor B. Schwartz	Director	September 17, 1999

**MIDWEST GRAIN PRODUCTS, INC.**

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

**June 30, 1999, 1998 and 1997**

(With Auditors' Report Thereon)

S-1

[LOGO]

Baird, Kurtz & Dobson  
City Center Square  
1100 Main Street, Suite 2700 816 221-6300 Kansas City, Missouri 64105-2112 FAX 816 221-6380 www.bkd.com

**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, 1999, 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  
July 30, 1999  
Member of Moores Rowland International*

*Solutions for Success*

MIDWEST GRAIN PRODUCTS, INC.  
VIII. VALUATION AND QUALIFYING ACCOUNTS

	Additions				
	Balance, Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions Write-Offs	Balance, End of Period
	(In Thousands)				
Year Ended June 30, 1999					
Allowance for doubtful accounts	\$285	\$1,037	--	\$1,037	\$285
	====	=====	=====	=====	====
Year Ended June 30, 1998					
Allowance for doubtful accounts	\$285	\$ 53	--	\$ 53	\$285
	====	=====	=====	=====	====
Year Ended June 30, 1997					
Allowance for doubtful accounts	\$285	\$ 49	--	\$ 49	\$285
	====	=====	=====	=====	====

## EXHIBIT INDEX

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22 Subsidiaries of the Company other than insignificant subsidiaries:

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

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27 Midwest Grain Products Financial Data Schedule at June 30, 1999 and for the year then ended.



## Selected Financial Information

	Years ended June 30				
	1999	1998	1997	1996	1995
(in thousands, except per share amounts)					
Income Statement Data:					
Net sales	\$216,101	\$223,254	\$224,733	\$194,638	\$180,252
Cost of sales	200,622	214,453	213,733	190,173	159,149
Gross profit	15,479	8,801	11,000	4,465	21,103
Selling, general and administrative expenses	11,908	11,363	9,169	9,001	10,553
Other operating income (expense)	136	100	370	159	(107)
Income (Loss) from operations	3,707	(2,462)	2,201	(4,377)	10,443
Other income (Loss), net	350	658	618	1,309	(4,225)
Interest expense	(1,959)	(1,887)	(2,604)	(2,556)	(606)
Income (Loss) before income taxes	2,098	(3,691)	215	(5,624)	5,612
Provision (Credit) for income taxes	828	(1,455)	84	(2,218)	2,273
Net income (loss)	\$ 1,270	\$ (2,236)	\$ 131	\$ (3,406)	\$ 3,339
Earnings (Loss) per common share	\$ 0.13	\$ (0.23)	\$ 0.01	\$ (0.35)	\$ 0.34
Cash dividends per common share					\$ 0.50
Weighted average common shares outstanding	9,609	9,700	9,762	9,765	9,765
Balance Sheet Data:					
Working capital	\$ 43,053	\$ 39,825	\$ 36,580	\$ 37,113	\$ 26,955
Total assets	157,370	161,978	165,330	172,785	176,749
Long-term debt, less current maturities	21,099	25,536	29,933	40,933	38,908
Stockholders' equity	105,445	106,325	108,561	109,222	112,628

## Selected Financial Information 17

## 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)	
	1999	1998	1997	Fiscal 1999 Over 1998	Fiscal 1998 Over 1997
Net sales	100.0%	100.0%	100.0%	(3.2)%	(.7)%
Cost of sales	92.8	96.1	95.10	(6.4)	.3
Gross profit	7.2	3.9	4.9	75.8	(20.0)
Selling, general and administrative expenses	5.4	5.1	4.1	4.8	23.9
Other operating income (loss)	0.1	.1	.2	36.0	(73.0)
Income (Loss) from operations	1.7	(1.1)	1.0	250.6	(211.9)
Other income (expense)	(0.7)	(.6)	(.9)	30.9	61.6
Income before income taxes	1.0	(1.7)	.1	156.8	(1,616.7)
Provision (Credit) for income taxes	0.4	(.7)	.04	156.9	(1,832.1)
Net income (loss)	0.6%	(1.0)%	.06%	156.8%	(1,806.9)%

### Fiscal 1999 Compared to Fiscal 1998

The Company's net income of \$1,270,000 in fiscal 1999 represented a significant improvement over the net loss of \$2,236,000 that was experienced in fiscal 1998. This improvement resulted primarily from lower raw material costs for wheat, corn and milo and increased productivity in the Company's wheat gluten processing operations. Reduced grain prices were due to high grain carryovers from abundant harvests during the spring, summer and early fall of 1998. Gluten production levels were raised partially in response to heightened market interest, but mainly in preparation to effectively satisfy future customer requirements resulting from an expected reduction in imports of subsidized and artificially priced wheat gluten from the European Union (E.U.).

A more sizeable earnings improvement was prevented by decreased selling prices for both food grade and fuel grade alcohol, and the adverse effects of the E.U.'s breach of quota restrictions on imported gluten.

On June 1, 1998, just one month prior to the start of the Company's 1999 fiscal year, the White House implemented a three-year annual quota on imports of foreign wheat gluten. This action was taken following a unanimous recommendation from the United States International Trade Commission (ITC). The White House additionally announced that international negotiations would be pursued to

18 Midwest Grain Products

address the underlying cause of the increase in imports of wheat gluten, particularly from the E.U., or to otherwise alleviate injury to the domestic industry. Profits from their highly subsidized and protected wheat starch business have allowed E.U. producers to unload huge surpluses of wheat gluten, a co-product, in the U.S. market at prices sometimes below U.S. production costs. In recent years, this has forced domestic producers to drastically under-utilize production capacities and relinquish significant market share.

Under the quota, imports of E.U. wheat gluten were limited to 54 million pounds for the year ending May 31, 1999. However, Department of Commerce data indicates that from June 1 through November 30, 1998, the E.U. exported approximately 24% more gluten to the U.S. than allowed for the full quota year ending May 31, 1999. The effects of the violations delayed the relief that the U.S. wheat gluten industry expected during the first year of the three-year quota.

In response to the E.U.'s breach of the first year quota, President Clinton signed a proclamation on May 29, 1999 that reduced the E.U.'s second year quota to 45 million pounds. That amount is approximately 12 million pounds less than was originally allocated to the second year. More significantly, based on Customs records, it represents nearly 23 million pounds less than the actual amount of gluten the E.U. delivered into the U.S. market during the initial 12-month quota period.

In addition to reducing the E.U.'s second year quota amount, the President's proclamation also provides preventive measures for possible future quota violations. Imports in excess of the second year quota must be charged against the quota for the third year. Any excess imports must be placed in a bonded warehouse until June 1, 2001 or exported. Additionally, the Secretary of the Treasury is authorized to take any necessary action to ensure that the quota is not violated in the third year.

Although a level playing field failed to be established in fiscal 1999, the Company experienced some strengthening in demand for its wheat gluten and continued to realize gradual but steady growth in sales of its specialty wheat proteins.

With a continuation of low grain costs, improved conditions in the vital wheat gluten market, growth in the specialty wheat protein and wheat starch markets, a realization of stable energy costs and improved production efficiencies, the Company expects to strengthen its competitive abilities and improve profitability going forward.

Net sales in fiscal 1999 decreased by approximately \$7.2 million compared to net sales in fiscal 1998. The decrease was principally due to lower selling prices for the Company's alcohol products and was partially offset by higher unit sales of fuel grade alcohol and wheat gluten products, including specialty wheat proteins. Sales of wheat starch were down slightly compared to starch sales in fiscal 1998.

The increase in unit sales of the Company's fuel grade alcohol occurred as the Company shifted more of its alcohol production to this area due to decreased demand for food grade alcohol for beverage and industrial applications. However, the impact of the increased unit sales was softened by lower selling prices for fuel alcohol due to a surplus of that product. The decline in demand for food grade alcohol was caused mainly by the continuation of excess supplies throughout the industry. Sales of distillers feed, the principal by-product of

the alcohol production process, were down compared to the prior year due to a decline in the selling price. Unit sales of this product were approximately even with the amount sold the prior year.

The increase in wheat gluten sales occurred as the Company raised production levels in preparation for satisfying market requirements resulting from the expected realization of a fair competitive environment. Higher sales of specialty, value-added wheat gluten

### **Management's Discussion and Analysis 19**

products also contributed to the increase in total gluten sales.

Sales of wheat starch were affected by a decline in unit sales in the first two quarters of fiscal 1999. Selling prices for this product remained essentially unchanged compared to selling prices in fiscal 1998.

The cost of sales in fiscal 1999 decreased by approximately \$13.8 million compared to cost of sales in fiscal 1998. This occurred principally as the result of lower raw material costs for grain combined with reduced energy costs, lower maintenance and repair costs and decreased insurance costs.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company enters into commodity contracts to reduce or hedge the risk of future grain price increases. The contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and as related products are sold. For fiscal 1999, raw material costs included a net loss of \$3,470,000 on contracts settled during the year compared to a net gain of \$243,000 for fiscal 1998.

Selling, general and administrative expenses in fiscal 1999 increased by approximately \$545,000 above selling, general and administrative expenses in fiscal 1998. The increase resulted mainly from higher costs related to product research and marketing promotional activities to strengthen the Company's development and sales of value-added specialty products made from wheat, along with increased bad debt expense relating to one customer. These increases were partially offset by reductions in costs associated with industry-related fees, commissions and professional services and the Company's employee benefit plans.

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

As the result of the foregoing factors, the Company experienced net income of \$1,270,000 in fiscal 1999 compared to a net loss of \$2,236,000 in fiscal 1998.

### **Fiscal 1998 Compared to Fiscal 1997**

The Company's net loss of \$2,236,000 in fiscal 1998 represented a substantial decrease from the prior year's net income of \$131,000. This decline was mainly due to the effects of increased wheat gluten production in the face of adverse market conditions, together with a steady drop in selling prices for the Company's alcohol products.

Massive imports of artificially-priced gluten from the European Union (E.U.) continued to place severe competitive pressures on the Company throughout the year. The decision to raise production levels was made to prepare to meet increased customer demand based on expectations of government action to create a more fair and stable competitive environment in the U.S. wheat gluten market.

In addition, the Company intensified efforts to develop and market modified wheat gluten products in niches that would be less affected by foreign competition.

The Company's production of food grade alcohol for beverage and industrial applications declined in fiscal 1998 compared to the prior year due to a decline in demand. The production of fuel grade alcohol, on the other hand, increased compared to fiscal 1997 as the result of greater utilization of distillery capacity at the Company's Pekin, Illinois plant. Prices for all of the Company's alcohol products decreased compared to the prior year's levels. Due partially to the effects of lower costs for corn and milo, the principal raw materials used in the Company's alcohol production process, prices for food grade alcohol decreased. Seasonal factors and increased supplies of alcohol throughout the industry also contributed to this decline. The fall in fuel alcohol prices was caused principally by a downturn in gasoline prices. As the result of the rise in total

## 20 Midwest Grain Products

alcohol production, unit sales of distillers feed, the principal by-product of the distillation process, also grew compared to the prior year. However, prices for this product declined also, contributing to the Company's total earnings decrease.

Conditions in the Company's premium wheat starch market remained favorable in fiscal 1998, resulting in increased production. The largest percentage of this increase occurred in the production of non-modified wheat starch, which generally is sold at a lower value than the Company's modified and specialty varieties. As a result, the average per unit sales price for wheat starch during the year was down compared to the prior year. Lower raw material costs for wheat, however, partially offset the reduced selling price.

Net sales in fiscal 1998 were down approximately \$1.5 million compared to sales in fiscal 1997. The decrease resulted mainly from lower selling prices for all principal products.

The realization of higher fuel alcohol unit sales occurred from increased utilization of distillery capacity at the Company's Pekin, Illinois plant. This volume increase, however, was offset by a decline in selling prices, which tracked falling gasoline prices. Sales of food grade alcohol for beverage and industrial applications during the year were down compared to sales for the prior year. This was due to decreases in both unit sales and average prices. The lower prices reflected both a decline in demand and a reduction in raw material prices for corn and milo. Sales of distillers feed, a by-product of the alcohol production process, fell slightly as lower sales prices offset an increase in total units sold.

Wheat gluten sales were higher than sales in fiscal 1997 as the Company increased production in preparation for satisfying market requirements resulting from the expected realization of a fair competitive environment. A decrease in wheat gluten selling prices compared to the prior year, however, offset the increased volume. Sales of wheat starch decreased modestly compared to fiscal 1997, as higher unit sales were largely offset by lower selling prices. The reduced selling prices resulted principally from a higher proportion of wheat starches being sold for non-specialty, commodity-type applications.

The cost of sales in fiscal 1998 increased by approximately \$720,000 compared to the cost of sales in fiscal 1997. This occurred primarily as the result of higher raw material, energy, and maintenance and repair costs associated with increased production volumes.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, the Company enters into commodity contracts to reduce the risk of future grain price increases. These contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of contract costs when contract positions are settled and as related products are sold. For fiscal 1998, raw material costs included a net gain of \$243,000 on contracts settled during the year compared to a net loss of \$1,877,000 for fiscal 1997.

Selling, general and administrative expenses in fiscal 1998 increased by approximately \$2.2 million above selling, general and administrative expenses in fiscal 1997 due mainly to employee-related costs. The largest portion of those costs resulted from the termination of the Atchison plant union revised retirement plan to fund a newly established 401K plan for those same employees. The increase also resulted from the addition of research and marketing personnel, together with higher costs related to research and promotional activities to strengthen the Company's development and sales of value-added specialty products made from wheat.

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 a net loss of \$2,236,000 in fiscal 1998 compared to net income of \$131,000 in fiscal 1997.

## **Management's Discussion and Analysis 21**

## Quarterly Financial Information

Generally, the Company's sales have not been 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 Company may experience more significant fluctuations in quarterly sales during the next two years due to the annual quotas on gluten imports if exporters to the United States do not pro rate shipments throughout the year. The table below shows quarterly information for each of the years ended June 30, 1999 and 1998.

	Quarter Ending				Total
	Sept. 30	Dec. 31	March 31	June 30	
(in thousands, except per share amounts)					
Fiscal 1999					
Sales	\$51,938	\$53,917	\$56,958	\$53,288	\$216,101
Gross profit	4,429	6,074	3,315	1,661	15,479
Net income (loss)	666	1,430	232	(1,058)	1,270
Earnings (loss) per share	0.07	0.15	0.02	(0.11)	0.13
Fiscal 1998					
Sales	\$57,623	\$55,847	\$53,310	\$56,474	\$223,254
Gross profit	2,611	3,819	2,319	52	8,801
Net income (loss)	(235)	107	(438)	(1,670)	(2,236)
Earnings (loss) per share	(0.02)	0.01	(0.05)	(0.17)	(0.23)

## 22 Midwest Grain Products

## Market Risk

The Company produces its products from wheat, corn and milo and, as such, is sensitive to changes in commodity prices. Grain futures and/or options are used as a hedge to protect against fluctuations in the market. The table below provides information about the Company's inventory and futures contracts that are sensitive to changes in grain prices. For inventory, the table presents the carrying amount and fair value at June 30, 1999. For futures contracts, the table presents the notional amounts in bushels, the weighted average contract prices, and the total dollar contract amounts by expected maturity dates. Contract amounts are used to calculate the contractual payments and quantity of corn to be exchanged under the futures contracts.

	As of June 30, 1999	
(in thousands)	Carrying Amount	Fair Value
	-----	-----
<b>Inventories</b>		
Corn	\$ 979	\$ 979
Milo	580	646
Wheat	3,371	3,378
	=====	=====
	Expected Maturity	Fair Value
	-----	-----
<b>Contracts</b>		
Corn options (long)(calls)		
Contract volumes (bushels)	2.55 million	
Price per bushel	\$.15	
Contract amount	\$400,000	\$ 80,000
Corn options (short)(puts)		
Contract volumes (bushels)	2.55 million	
Price of option per bushel	\$0.08	
Contract amount	\$200,000	\$320,000
	=====	=====

## Management's Discussion and Analysis 23



## Liquidity and Capital Resources

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

(in thousands)	June 30,	
	1999	1998
Cash and cash equivalents	\$ 4,054	\$ 4,723
Working capital	43,053	39,825
Amounts available under lines of credit	33,000	30,000
Notes payable and long-term debt	23,532	28,896
Stockholders' equity	105,445	106,325
	=====	=====

During fiscal 1999, The Company generated a \$12.7 million positive cash flow from operations, which was used to reduce its debt, pay for capital additions and acquire treasury stock. Short-term liquidity continues to be impacted by the higher inventory requirements to meet anticipated customer needs for wheat gluten. As expected, the increased customer requirements result from the three-year import quota to create a more fair and stable competitive environment. The Company anticipates continuing to produce the higher volume levels of gluten into fiscal 2000.

Short-term liquidity was also impacted by open market purchases of 174,100 shares of the Company's common stock. These purchases were made to fund the Company's stock option plans and for other corporate purposes.

At June 30, 1999, the Company had \$9.3 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 strong earnings before interest, taxes, and depreciation. Management believes this strong financial position and available lines of credit will allow the Company to effectively supply the increased customer needs for vital wheat gluten as market demand increases due to the effects of the quotas on imports of foreign wheat gluten, as well as its other products.

### **Year 2000 Readiness Disclosure**

Since 1996, the Company has recognized the need to configure its operations so that they will not be adversely impacted by internal Year 2000 software failures. New hardware and software have been acquired and installed for the core financial applications. All core financial modules have been tested successfully, installed and are currently in use. The total costs incurred were approximately \$225,000.

The Company also has surveyed its plant operations to determine which electrical and other instrumentation equipment relies on date-sensitive software and hardware. For those applications which have been identified, the Company has modified and tested the equipment. The external cost to convert and test the identified processes was less than \$100,000.

The Company has also surveyed key vendors and customers regarding their abilities to achieve Year 2000 compliance. Results of the surveys indicated these companies are knowledgeable of Year 2000 issues and are in the process of complying or already have complied.

Although the Company believes that it is taking appropriate steps to address the Year 2000 readiness issue, there can be no assurance that its operations will not be negatively impacted in the year 2000. Additional actions that may be required in the year 2000 cannot presently be anticipated.

### **Forward-Looking Information**

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

## **Independent Accountants' 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, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999. 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, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

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

*Kansas City, Missouri*  
*July 30, 1999*

## CONSOLIDATED STATEMENTS OF INCOME

	Years ended June 30		
	1999	1998	1997
(in thousands, except per share amounts)			
Net sales	\$216,101	\$223,254	\$224,733
Cost of sales	200,622	214,453	213,733
Gross profit	15,479	8,801	11,000
Selling, general & administrative expenses	11,908	11,363	9,169
Other operating income	3,571	(2,562)	1,831
	136	100	370
Income (Loss) from operations	3,707	(2,462)	2,201
Other income, net	350	658	618
Interest expense	(1,959)	(1,887)	(2,604)
Income (Loss) before income taxes	2,098	(3,691)	215
Provision (Credit) for income taxes	828	(1,455)	84
Net income (loss)	\$ 1,270	\$ (2,236)	\$ 131
Earnings (Loss) per common share	\$ 0.13	\$ (0.23)	\$ 0.01

26 Midwest Grain Products

## CONSOLIDATED BALANCE SHEETS

(in thousands)	Years ended June 30	
	1999	1998
	-----	-----
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,054	\$ 4,723
Receivables (less allowance for doubtful accounts; 1999 and 1998--\$285)	26,656	26,369
Inventories	24,450	20,430
Prepaid expenses	1,174	753
Deferred income taxes	3,034	2,343
Income taxes receivable		1,334
Total Current Assets	-----	-----
	59,368	55,952
Property & equipment, at cost	224,381	218,590
Less accumulated depreciation	126,465	112,976
Property & equipment, net	-----	-----
	97,916	105,614
Other assets	86	412
Total Assets	-----	-----
	\$ 157,370	\$ 161,978
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable		\$ 1,000
Current maturities of long-term debt	\$ 2,433	2,360
Accounts payable	9,129	9,072
Accrued expenses	4,296	3,695
Income taxes payable	457	
Total Current Liabilities	-----	-----
	16,315	16,127
Long-term debt	21,099	25,536
Post-retirement benefits	6,312	6,520
Deferred income taxes	8,199	7,470
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; issued 9,765,172 shares	6,715	6,715
Additional paid-in capital	2,485	2,485
Retained earnings	99,183	97,913
	-----	-----
	108,387	107,117
Treasury stock, at cost		
Common; 1999--239,100 shares; 1998--65,000 shares	(2,942)	(792)
Total stockholders' equity	-----	-----
	105,445	106,325
Total liabilities and stockholders' equity	-----	-----
	\$ 157,370	\$ 161,978
	=====	=====

See Notes to Consolidated Financial Statements Financial Review 27

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years ended June 30					
	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
(in thousands)						
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
1998 net loss				(2,236)		(2,236)
Balance, June 30, 1998	4	6,715	2,485	97,913	(792)	106,325
Purchase of treasury stock					(2,150)	(2,150)
1999 net income				1,270		1,270
Balance, June 30, 1999	\$4	\$6,715	\$2,485	\$ 99,183	\$(2,942)	\$105,445

See Notes to Consolidated Financial Statements

28 Midwest Grain Products

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended June 30		
	1999	1998	1997
(in thousands)			
Cash Flows From Operating Activities			
Net income (loss)	\$ 1,270	\$ (2,236)	\$ 131
Items not requiring (providing) cash:			
Depreciation	13,604	13,892	14,041
Gain on sale of assets	(19)	(2)	(18)
Deferred income taxes	38	(172)	236
Changes in:			
Accounts receivable	(287)	(93)	(7,911)
Inventories	(4,020)	(5,430)	4,913
Accounts payable	38	847	1,578
Income taxes (receivable) payable	1,791	(1,107)	2,836
Other	298	(183)	618
Net cash provided by operating activities	12,713	5,516	16,424
Cash Flows From Investing Activities			
Additions to property & equipment	(6,054)	(4,765)	(3,491)
Proceeds from sale of equipment	31	4	105
Net cash used in investing activities	(6,023)	(4,761)	(3,386)
Cash Flows From Financing Activities			
Purchase of treasury stock	(1,995)		(792)
Principle payments on long-term debt	(5,364)	(2,037)	(10,000)
Net cash (used in) financing activities	(7,359)	(2,037)	(10,792)
Increase (Decrease) in Cash & Cash Equivalents	(669)	(1,282)	2,246
Cash & Cash Equivalents, Beginning of Year	4,723	6,005	3,759
Cash & Cash Equivalents, End of Year	\$ 4,054	\$ 4,723	\$ 6,005

See Notes to Consolidated Financial Statements

Financial Review 29

## 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 processing of wheat, corn and milo into a variety of products through an integrated production process. The process produces wheat gluten products, which include vital wheat gluten and 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 inter-company 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, 1999, Midwest Grain Products, Inc. had entered into contracts hedging future corn prices through the first quarter of fiscal 2000.

\* Property and Equipment. Depreciation is computed using both straight-line and accelerated methods over the following estimated useful lives: Buildings and improvements 20-30 years Transportation equipment 5-6 years Machinery and equipment 10-12 years.

\* Earnings Per Common Share. Earnings per common share data is based upon the weighted average number of common shares totaling 9,608,769 for 1999, 9,700,172 for 1998 and 9,761,967 for 1997. The effect of employee stock options, which were the only potentially dilutive securities held by the Company, was anti-dilutive each of the three years.

\* 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,	
(in thousands)	1999	1998
Alcohol	\$ 5,164	\$ 6,884
Unprocessed grain	6,914	6,398
Operating supplies	4,305	3,554
Gluten	6,710	2,382
By-products and other	1,357	1,212
	-----	-----
	\$ 24,450	\$ 20,430
	=====	=====

30 Midwest Grain Products

**Note 3: Property and Equipment**

Property and equipment consists of the following:

	June 30,	
(in thousands)	1999	1998
Land, buildings and improvements	\$ 17,794	\$ 17,411
Transportation equipment	1,152	1,180
Machinery and equipment	198,957	196,903
Construction in progress	6,478	3,096
	-----	-----
	224,381	218,590
Less accumulated depreciation	126,465	112,976
	-----	-----
	\$ 97,916	\$105,614
	=====	=====

**Note 4: Accrued Expenses**

Accrued expenses consist of the following:

	June 30,	
(in thousands)	1999	1998
Excise taxes	\$ 540	\$ 239
Employee benefit plans (Note 10)	1,466	973
Salaries and wages	870	784
Property taxes	541	525
Insurance	222	454
Interest	642	696
Other expenses	15	24
	-----	-----
	\$ 4,296	\$ 3,695
	=====	=====

**Note 5: Long-Term Debt**

Long-term debt consists of the following:

	June 30,	
	1999	1998
(in thousands)		
Senior notes payable	\$ 22,727	\$ 25,000
Line of credit	0	2,000
Other	805	896
	-----	-----
	23,532	27,896
Less current maturities	2,433	2,360
	-----	-----
Long-term portion	\$ 21,099	\$ 25,536
	=====	=====

The unsecured senior notes 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, 1999, the Company had a \$27 million unsecured revolving line of credit expiring on November 1, 2000, with interest at 1% below prime on which there were no borrowings at June 30, 1999 and \$2.0 million in borrowings at June 30, 1998. All other terms remain the same. The Company had three additional lines of credit totaling \$6.0 million expiring on dates through April 29, 2000, with interest rates varying from prime to 1% below prime on which there were no borrowings at June 30, 1999 and \$1.0 million in borrowings at June 30, 1998.

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 3.0 to 1.

The fair value of the senior notes payable debt, based upon the borrowing rate of 7.62% at June 30, 1999, was \$22,100,000.

Aggregate annual maturities of long-term debt at June 30, 1999 are as follows:

(in thousands)	
2000	\$ 2,433
2001	2,418
2002	2,273
2003	2,273
2004	2,273
Thereafter	11,862
	-----
	\$23,532
	=====

**Note 6: Income Taxes**

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

	Years Ended June 30,		
	1999	1998	1997
(in thousands)			
Income taxes currently payable (receivable)	\$790	\$(1,627)	\$(152)
Income taxes deferred	38	172	236
	\$828	\$(1,455)	\$ 84
	=====	=====	=====

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

	June 30,	
	1999	1998
(in thousands)		
Deferred tax assets:		
Accrued employee benefits	\$ 141	\$ 101
Post-retirement liability	2,462	2,543
Insurance accruals	551	578
Federal operating loss carryforwards	657	828
State operating loss carryforwards	1,001	826
Alternative minimum tax	2,294	1,644
Other	753	504
	7,859	7,024
Deferred tax liabilities:		
Accumulated depreciation	(12,737)	(11,823)
Deferred gain on involuntary conversion	(287)	(328)
	\$(13,024)	\$(12,151)
Net deferred tax liability	\$ (5,165)	\$ (5,127)
	=====	=====

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

	June 30,	
	1999	1998
(in thousands)		
Deferred tax asset--current	\$ 3,034	\$ 2,343
Deferred tax liability--long-term	(8,199)	(7,470)
Net deferred tax liability	\$(5,165)	\$(5,127)
	=====	=====

No valuation allowance has been recorded at June 30, 1999 or 1998.

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,		
	1999	1998	1997
(in thousands)			
"Expected" provision (credit) at federal statutory rate (34%)	\$714	\$(1,255)	\$73
Increases (decreases) resulting from:			
Effect of state income taxes	78	(195)	9
Other	36	(5)	2
	----	-----	---
Provision (credit) for income taxes	\$828	\$(1,455)	\$84
	====	=====	===

### 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.

32 Midwest Grain Products

**Note 8: Other Operating Income (Expense)**

Other operating income (expense) consists of the following:

	Years Ended June 30,		
	1999	1998	1997
	-----	-----	-----
(in thousands)			
Truck operations	\$108	\$ (95)	\$342
Warehousing and storage operations	(10)	6	(13)
Miscellaneous	38	(11)	41
	-----	-----	-----
	\$136	\$100	\$370
	=====	=====	=====

**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.

**Note 10: Employee Benefit Plans**

**Pension Plan.** Prior to June 30, 1998, the Company had a noncontributory defined benefit pension plan covering union employees. The plan provided benefits based on the participants' years of service.

During 1998, the Company terminated the plan and transferred the assets into a newly formed 401(k) profit sharing plan. The pension cost for 1998, including the cost of termination, amounted to \$694,000.

Pension cost for 1997 included the following components:

	Year Ended June 30, 1997
	-----
(in thousands)	
Service cost-benefits earned during year	\$ 43
Interest cost on projected benefit obligation	158
Actual investment income earned on plan assets	(358)
Amortization of transition liability and difference between actual and expected return on plan assets	219
	-----
Pension cost	\$ 62
	=====

Employee Stock Ownership Plans. The Company and its subsidiaries have employee stock ownership plans covering all employees after certain eligibility requirements are met. Contributions to the plans totaled \$947,000, \$785,000 and \$726,000 for the years ended June 30, 1999, 1998 and 1997, respectively. Contributions are made in the form of cash and/or additional shares of common stock.

401(k) Profit Sharing Plans. During 1998, the Company and its subsidiaries formed 401(k) profit sharing plans covering all employees after certain eligibility requirements are met. Contributions for 1999 and 1998 totaled \$215,000 for each year.

### **Notes to Consolidated Financial Statements 33**

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, 1999 and 1998 was as follows:

	June 30,	
	1999	1998
	-----	-----
(in thousands)		
Accumulated post-retirement benefit obligation:		
Retirees	\$3,720	\$3,561
Active plan participants	2,473	1,891
Unfunded accumulated obligation	6,193	5,452
Unrecognized actuarial gain	119	1,068
	-----	-----
Accrued post-retirement benefit cost	\$6,312	\$6,520
	=====	=====

Net post-retirement benefit cost included the following components:

	June 30,		
	1999	1998	1997
	-----	-----	-----
(in thousands)			
Service cost	\$110	\$101	\$100
Interest cost	323	346	353
(Gain) loss amortization	(27)	(34)	(23)
	-----	-----	-----
	\$406	\$413	\$430
	=====	=====	=====

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 9.25% (compared to 9.5% assumed for 1998) reducing to 7.75% over seven years and 6.0% over 14 years. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by \$410,000 at June 30, 1999, and the service and interest cost by \$50,000 for the year then ended.

A weighted average discount rate of 7.25% was used in determining the accumulated benefit obligation.

Stock Options. The Company has three stock option plans, the Stock Incentive Plan of 1996 ("The 1996 Plan"), the Stock Option Plan for Outside Directors ("The Directors Plan"), and the 1998 Stock Incentive Plan for Salaried Employees ("The Salaried Plan"). These Plans permit the issuance of stock awards, stock options and stock appreciation rights to salaried employees and outside directors of the Company. 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 1999 and 1998 net income and earnings per share would have been reduced to the following pro forma amounts:

	1999	1998	1997
	-----	-----	-----
Net Income (loss):			
As Reported	\$1,270	\$(2,236)	\$ 131
Pro Forma	\$ 697	\$(2,575)	\$ (82)
Basis Earnings Per Share:			
As Reported	\$ .13	\$ (.23)	\$ .01
Pro Forma	\$ .07	\$ (.26)	\$ (.01)
Diluted EPS:			
As Reported	\$ .13	\$ (.23)	\$ .01
Pro Forma	\$ .07	\$ (.26)	\$ (.01)

Under the 1996 Plan, the Company may grant incentives for up to 600,000 shares of the Company's common stock to key employees. The term of each award is determined by the committee of the Board of Directors charged with administering the 1996 Plan. Under the terms of the 1996 Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. Through June 30, 1999, the Company has granted incentive stock options to purchase 352,000 shares. The options become exercisable in yearly increments through January, 2003. They have ten-year terms and have exercise prices equal to fair market value on the date of grant.

Under the Directors Plan, each non-employee or "outside" director of the Company receives on the day after each annual meeting of stockholders an option to purchase 1,000 shares of the Company's common stock at a price equal to the fair market value of the Company's common stock on such date. Options become exercisable on the 184th day following the date of grant and expire not later than ten years after the date of grant. Subject to certain adjustments, a total of 90,000 shares are reserved for annual grants under the Plan. Through June 30, 1999, the Company has granted options to purchase 21,000 shares, all of which were exercisable as of June 30, 1999.

34 Midwest Grain Products



Under the Salaried Plan, the Company may grant stock incentives for up to 300,000 shares of the Company's common stock to full-time salaried employees. The Salaried Plan provides that the amount, recipients, timing and terms of each award be determined by the Committee of the Board of Directors charged with administering the Salaried Plan. Under the terms of the Salaried Plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair value on the date of the grant. Through June 30, 1999, the Company has granted incentive stock options on 171,360 shares. The options become exercisable in yearly increments through March, 2003. They have ten-year terms and have exercise prices equal to fair market value on the date of grant.

A summary of the status of the Company's three stock option plans at June 30, 1999, 1998 and 1997 and changes during the years then ended is presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, Beginning of Year	441,360	\$14.04	183,500	\$14.68	90,000	\$14.00
Granted	103,500	12.43	257,860	13.60	93,500	15.32
Exercised						
Outstanding, End of Year	544,860	\$13.74	441,360	\$14.04	183,500	\$14.68

These are comprised as follows:

	Shares	Exercise Price	Remaining Contractual Life (Years)	Shares Exercisable at June 30, 1999
1996 Plan	90,000	\$14.00	6.5	69,250
	86,500	\$15.25	7.5	45,000
	79,500	\$13.75	8.5	19,875
	96,500	\$12.50	9.5	
Directors' Plan	7,000	\$16.25	7.25	7,000
	7,000	\$14.25	8.25	7,000
	7,000	\$11.75	9.25	7,000
Salaried Plan	171,360	\$13.50	8.67	42,840
	544,860			197,965

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, 1999: Risk free interest rate of 5.81%; expected dividend yield of 0%; expected volatility of 47%; expected life of ten years.

### **Note 11: Operating Leases**

The Company has several noncancellable operating leases for railcars which expire from November 1999 through November 2003. 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, 1999 are as follows:

(in thousands)	
2000	\$2,263
2001	2,139
2002	1,146
2003	640
2004	147
	-----
Future minimum lease payments	\$6,335
	=====

Rental expense for all operating leases with terms longer than one month totaled \$3,305,235, \$1,488,554 and \$1,438,466 for the years ended June 30, 1999, 1998 and 1997, respectively.

### **Notes to Consolidated Financial Statements 35**

**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:

\* A majority 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 \$222,000 is included in the accompanying 1999 financial statements. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

**Note 13: Operating Information**

The Company is comprised of one segment: the processing and marketing of products derived from wheat, corn and milo through a single integrated production process. Product group sales for the years ended June 30, are summarized as follows:

	1999	1998	1997
	-----	-----	-----
(in thousands)			
Wheat gluten products	\$ 56,153	\$ 42,489	\$ 39,968
Premium wheat starch	27,173	27,791	29,935
Alcohol products	129,729	147,957	150,667
Flour and other mill products	3,046	5,017	4,163
	-----	-----	-----
	\$216,101	\$223,254	\$224,733
	=====	=====	=====

During the years ended June 30, 1999, 1998 and 1997, the Company had sales to one customer accounting for approximately 12.0%, 10.5% and 8.2%, respectively, of consolidated sales.

**Note 14: Additional Cash Flows Information**

	Years Ended June 30,		
	1999	1998	1997
	-----	-----	-----
(in thousands)			
Investing and Non-cash			
Financing Activities:			
Purchase of property and equipment in			
accounts payable	\$ 136	\$ 29	\$ 211
Purchase of treasury stock			
in accounts payable	\$ 155		
Additional Cash Payment Information:			
Interest paid (net of			
amount capitalized)	\$2,013	\$1,887	\$ 1,909
Income taxes paid			
(refunded)	\$(1,001)	\$ (178)	\$(2,986)
	=====	=====	=====

**Note 15: 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.

36 Midwest Grain Products

[LOGO]

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### **Exhibit 23**

#### **CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors  
Midwest Grain Products, Inc.

We consent to the incorporation by reference in Registration Statement No. 333-51849, on Form S-8 and the related Prospectus dated May 5, 1998, of Midwest Grain Products, Inc. of our report dated July 30, 1999, relating to the consolidated balance sheets of Midwest Grain Products, Inc. as of June 30, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999, which report is incorporated by reference in the Annual Report on Form 10-K of Midwest Grain Products, Inc. for the fiscal year ended June 30, 1999, and of our report dated July 30, 1999, with regard to the financial statement schedule that is included in such Form 10-K for the year ended June 30, 1999. We also consent to the reference to our firm under the heading "Experts" in the Prospectus to the Registration Statement.

*s/Baird, Kurtz & Dobson*  
*BAIRD, KURTZ & DOBSON*  
*Solutions for Success*

*Kansas City, Missouri*  
*September 17, 1999*  
*Member of Moores Rowland International*

## 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, 1999 AND CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1999, 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 1999
PERIOD START	JUL 1 1998
PERIOD END	JUN 30 1999
CASH	4,054
SECURITIES	0
RECEIVABLES	26,656 <sup>1</sup>
ALLOWANCES	285
INVENTORY	24,450
CURRENT ASSETS	59,368
PP&E	224,381
DEPRECIATION	126,465
TOTAL ASSETS	157,370
CURRENT LIABILITIES	16,315
BONDS	21,099
COMMON	6,715
PREFERRED MANDATORY	0
PREFERRED	4
OTHER SE	98,726 <sup>2</sup>
TOTAL LIABILITY AND EQUITY	157,370
SALES	216,101
TOTAL REVENUES	216,101
CGS	200,622
TOTAL COSTS	212,530 <sup>3</sup>
OTHER EXPENSES	136
LOSS PROVISION	0
INTEREST EXPENSE	(1,959)
INCOME PRETAX	2,098
INCOME TAX	(828)
INCOME CONTINUING	1,270
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,270
EPS BASIC	0.13
EPS DILUTED	0.13

<sup>1</sup> Reflects Receivables less Allowances.

<sup>2</sup> Reflects retained earnings and additional paid in capital less cost of Treasury Stock.

<sup>3</sup> Reflects cost of sales and selling, general & administrative expenses.

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