

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended December 31, 1995 - Commission File No. 0-17196

MIDWEST GRAIN PRODUCTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

KANSAS  
(State or Other Jurisdiction of  
Incorporation or Organization)

48-0531200  
IRS Employer  
Identification No.

1300 Main Street, Atchison, Kansas 66002  
(Address of Principal Executive Offices and Zip Code)

(913) 367-1480  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days.

YES     NO

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

Common stock, no par value  
9,765,172 shares outstanding  
as of February 1, 1996.

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Independent Accountants' Review Report

Baird, Kurtz &  
Dobson

Board of Directors and Stockholders  
Midwest Grain Products, Inc.  
Atchison, Kansas 66002

Certified  
Public

We have reviewed the condensed consolidated balance sheet of  
MIDWEST GRAIN PRODUCTS, INC. and subsidiaries as of December 31,  
1995, and the related condensed consolidated statements  
of income for the three month and six month periods ended

Accountants December 31, 1995 and 1994, and the related condensed consolidated statements of cash flows for the six month periods ended December 31, 1995 and 1994. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of June 30, 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and, in our report dated August 4, 1995, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 1995, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/Baird, Kurtz & Dobson

BAIRD, KURTZ & DOBSON

Kansas City, Missouri  
January 25, 1996

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

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

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

ASSETS

	December 31 1995	June 30, 1995
	----- (Unaudited)	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,011	\$ 460
Receivables	23,680	21,550
Notes receivable		919
Inventories	15,737	14,690
Prepaid expenses	871	560
Deferred income taxes	875	875
Income taxes receivable	1,808	2,338
	-----	-----
Total Current Assets	45,982	41,392
	-----	-----
PROPERTY AND EQUIPMENT, At cost		
	208,894	206,336
Less accumulated depreciation	78,000	71,424
	-----	-----
	130,894	134,912
	-----	-----
OTHER ASSETS		
	433	445

----- \$177,309 =====	----- \$176,749 =====
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See Accompanying Note to Condensed Consolidated  
Financial Statements

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(In Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1995 ----- (Unaudited)	June 30, 1995 -----
CURRENT LIABILITIES		
Accounts payable	\$ 10,465	\$ 7,807
Accrued expenses	4,398	6,630
	-----	-----
Total Current Liabilities	14,863	14,437
	-----	-----
LONG-TERM DEBT	40,933	38,908
	-----	-----
POST-RETIREMENT BENEFITS	5,740	5,449
	-----	-----
DEFERRED INCOME TAXES	5,327	5,327
	-----	-----
STOCKHOLDERS' EQUITY		
Capital stock		
Preferred, 5% noncumulative, \$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	101,242	103,424
	-----	-----
	110,446	112,628
	-----	-----
	\$177,309	\$176,749
	=====	=====

See Accompanying Note to Condensed Consolidated  
Financial Statements

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1995 AND 1994

(Unaudited)

	Three Months		Six Months	
	1995	1994	1995	1994
	(in thousands, except per share amounts)			
NET SALES	\$55,751	\$44,488	\$102,911	\$90,472
COST OF SALES	52,132	37,754	100,229	76,088
GROSS PROFIT	3,619	6,734	2,682	14,384
SELLING, GENERAL AND ADMINIS- TRATIVE EXPENSES	2,377	2,897	4,840	6,326
OTHER OPERATING INCOME	1,242	3,837	(2,158)	8,058
	54	9	53	13
INCOME (LOSS) FROM OPERATIONS	1,296	3,846	(2,105)	8,071
OTHER INCOME (LOSS)				
Interest	(797)	(15)	(1,492)	(15)
Other	(180)	(72)	(9)	335
INCOME (LOSS) BEFORE INCOME TAXES	319	3,759	(3,606)	8,391
PROVISION (CREDIT) FOR INCOME TAXES	124	1,522	(1,424)	3,398
NET INCOME (LOSS)	\$ 195	\$ 2,237	\$ (2,182)	\$ 4,993
EARNINGS (LOSS) PER COMMON SHARE	\$.02	\$.23	\$ (.22)	\$.51

See Accompanying Note to Condensed Consolidated  
Financial Statements

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MIDWEST GRAIN PRODUCTS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED DECEMBER 31, 1995 AND 1994

(Unaudited)

	1995	1994
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (2,182)	\$ 4,993
Items not requiring (providing) cash:		
Depreciation	6,677	3,527
Gain on sale of assets	(30)	(248)
Changes in:		
Accounts receivable	(2,130)	(1,999)
Inventories	(1,047)	(390)
Prepaid expenses and other assets	(299)	(167)
Disbursements in excess of demand deposit cash		3,553
Accounts payable	4,054	(163)
Accrued expenses	(720)	(1,809)
Income taxes payable	530	(2,001)
Net cash provided by operating activities	4,853	5,296
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(4,093)	(21,824)

Purchase of short-term investments		14,531
Proceeds from sale of equipment	68	264
Payment received on note for sale of plant	919	343
	-----	-----
Net cash used in investing activities	(3,106)	(6,686)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	6,000	
Principal payments on long-term debt	(3,975)	
Dividends paid	(1,221)	(2,442)
	-----	-----
Net cash provided by (used in) financing activities	804	(2,442)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,551	(3,832)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	460	3,832
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,011	\$ 0
	=====	=====

See Accompanying Note to Condensed Consolidated  
Financial Statements

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MIDWEST GRAIN PRODUCTS, INC.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 1995

(Unaudited)

NOTE 1: GENERAL

In the opinion of management, the accompanying unaudited condensed financial statements contain all adjustments necessary to present fairly the Company's condensed consolidated financial position as of December 31, 1995, and the condensed consolidated results of its operations and its cash flows for the periods ended December 31, 1995 and 1994, and are of a normal recurring nature.

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MIDWEST GRAIN PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1995

RESULTS OF OPERATIONS

General

While the Company's earnings in the second quarter of fiscal 1996 decreased compared to the same period a year ago, they represent a substantial improvement over the current year's first quarter loss. The improvement was largely the result of an intense cash management program to reduce costs and improve cash flow, including reductions in management and administrative compensation and benefits; strategies to maximize operating results; and increased sales of premium wheat starch, alcohol products and alcohol by-products.

The decline in earnings compared to the prior year's second quarter was due primarily to unusually high raw material costs for grain in the face of lower selling prices for wheat gluten and low prices for fuel alcohol. Fuel alcohol prices remained flat due to increased capacities throughout the industry and lower gasoline prices. Wheat gluten prices not only failed to adjust to the rising grain costs, as is normally the case, but actually declined compared to a year ago due to significantly increased gluten imports from the European Union. Profits from their highly subsidized and protected wheat starch business have allowed European producers to dump their surpluses of gluten, a co-product, in the United States at prices below U.S. production costs. Low U.S. tariff rates on wheat gluten provide little deterrence to this practice, while high tariffs in Europe effectively prohibit non-European Union member countries from competing in the wheat gluten and wheat starch markets there. A measure that should help rectify this problem has been included in a grains agreement being negotiated between the U.S. and E.U. The agreement is expected to be fully ratified during the third quarter of fiscal 1996. It states that "If the market share of European Community origin wheat gluten exports into the United States increases in comparison to their average 1990-1992 market share, the European Commission and the United States government shall consult with a view to finding a mutually acceptable solution." Until the intensity of competitive conditions subside, pursuant to the grains agreement or otherwise, and wheat costs substantially decrease, the Company does not anticipate utilizing the 40% increase in gluten production capacity that was completed at its Pekin, Illinois plant in the latter part of the first quarter.

As a result of the Company's recent distillery expansion in Pekin, its unit sales of alcohol products in the second quarter rose significantly above the prior year's second quarter amount. Increases occurred in unit sales of both food grade alcohol, which is sold for beverage, industrial and commercial applications, and fuel grade alcohol, which is sold as an octane additive and oxygenate commonly known as ethanol. Demand in the food grade markets remains strong. Therefore, the Company plans to continue to maximize production in this category, as market prices for fuel grade alcohol remain depressed in spite of higher grain costs.

The Company's unit sales of wheat starch in the second quarter increased substantially above the prior year's second quarter. The increase resulted from

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MIDWEST GRAIN PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1995

higher volumes of unmodified, modified and specialty wheat starches, which was made possible by a 70% increase in the Company's total starch production capacity. Completion of the additional capacity occurred this past July in Pekin and greatly improves the Company's ability to meet current and future increases in demand for wheat starch.

While the Company expects higher raw material costs for grain and intense foreign competition to continue having a negative impact on results during much of fiscal 1996, it believes it is in an excellent position to realize significant growth with a return to more favorable market conditions and lower grain prices.

Sales

Net sales for the second quarter of fiscal 1996 increased by approximately \$11.3 million above sales in the second quarter of fiscal 1995. The increase was principally due to a higher sales of premium wheat starch, and significant

increases in sales of alcohol products and alcohol by-products, the latter consisting mainly of distillers feeds. The rise in wheat starch sales resulted from strengthened market demand and the Company's ability to meet this demand with its increased production capacity. A 56% increase in total alcohol sales resulted from strengthened demand for food grade beverage and industrial alcohol and higher sales of fuel grade alcohol. Sales of distillers feed climbed 54% compared to a year ago. These increases were partially offset by a 23% decrease in sales of wheat gluten due to intense competitive pressures from European gluten producers. Net sales for the first six months of fiscal 1996 increased by approximately \$12.4 million. The vast majority of this increase occurred in the second quarter for the reasons cited above.

Changes in selling prices of the Company's vital wheat gluten normally are due to fluctuations in grain costs and competition. Wheat starch prices traditionally track corn starch prices, with the exception of the Company's specialty modified starches. Fuel alcohol prices traditionally follow the movement of gasoline prices. Prices for food grade alcohol for beverage applications normally follow the movement of corn prices, while prices for food grade alcohol for industrial and commercial applications are normally consistent with prices for industrial alcohol derived from synthetic products such as petroleum. In the first and second quarters of fiscal 1996, grain costs increased to exceptionally high levels in the face of competition from foreign exporters of vital wheat gluten and a relatively flat market for fuel grade alcohol. The combination of these factors significantly restricted the ability of the Company to adjust the price of its gluten and fuel grade alcohol to compensate for the high grain costs in the first six months of fiscal 1996.

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MIDWEST GRAIN PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1995

Cost of Sales

The cost of sales in the second quarter of fiscal 1996 increased by approximately \$14.4 million above the costs of sales in the second quarter of fiscal 1995. The principal cause was a \$10.2 million increase in raw material costs for grain. Other manufacturing cost increases principally included higher operating costs associated with increased energy requirements and depreciation resulting from the Company's expanded production facilities at its Pekin, Illinois plant. These increases were partially offset by lower maintenance and repair costs, which returned to more normal levels following the completion of the expansion project in this year's first quarter.

The cost of sales for the first six months of fiscal 1996 increased by approximately \$24 million over cost of sales for the first six months of fiscal 1995. This was due largely to an increase of approximately \$20.8 million in raw material costs. Other factors included the increased operating costs as experienced in the second quarter partially offset by decreased repair and maintenance costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the second quarter of fiscal 1996 were down approximately \$520,000 compared to the same period the prior year. This principally was due to a decrease of almost \$457,000 resulting from reductions in compensation, and accruals for the Company's management and employee incentive programs. These and other reductions helped to more than offset increases which were incurred in a minor segment of the expense categories. Selling, general and administrative expenses for the first six months of fiscal 1996 decreased by approximately \$1.5 million, largely as the result of compensation and benefit reductions.

Other Expense

Interest expense increased substantially as the capital expansion at the Pekin plant came on line during the second half of fiscal 1995. Prior to that time, the interest incurred was primarily capitalized as a part of that expansion.

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

The general effects of inflation were minimal.

Net Income



As the result of the foregoing factors, the Company experienced net income of \$195,000 in the second quarter of fiscal 1996 compared to net income of \$2,237,000 in the second quarter of fiscal 1995. A first quarter net loss of \$2,377,000 more than offset the first quarter income, resulting in a net loss of \$2,182,000 for the first six months of fiscal 1996. For the first six months of fiscal 1995, the Company had net income of \$4,993,000.

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MIDWEST GRAIN PRODUCTS, INC.  
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1995

LIQUIDITY AND CAPITAL RESOURCES

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

	December 31, 1995	June 30, 1995
	-----	-----
	(in thousands)	
Cash and cash equivalents	\$ 3,011	\$ 460
Note payable and long-term debt	40,933	38,908
Working capital	31,119	26,955

The cost management program implemented by the Company at the end of the first quarter bore fruit during the second quarter, resulting in a positive cash flow. Cash provided by operations and increased borrowings on long-term debt improved working capital. Increased inventory requirements caused by a high level of fuel grade alcohol to be sold over the remaining winter months and the escalation of grain costs continued to impact cash flow. Due to the current downturn in operations and cash flow needs, dividends for the first and second quarters were suspended.

At December 31, 1995, the Company has only \$1.2 million to spend on capital improvement projects, primarily relating to improvements and replacements of existing equipment.

The Company had approximately \$18.6 million available under existing lines of credit at December 31, 1995.

Management believes the available lines of credit, combined with existing working capital and working capital to be generated from future operations, will allow the Company to complete its capital improvement projects and meet its expanded working capital needs.

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PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

4(a) Copy of Consent and Waiver Agreement between Principal Mutual Life Insurance Company and the Company dated as of January 20, 1996.

4(b) Copy of Consent and Waiver Agreement between Commerce Bank of Kansas City, N.A., and the company dated as of February 2, 1996.

- 11(a) Copy of Midwest Grain Products, Inc. Stock Incentive Plan of 1996.
- 11(b) Copy of Midwest Grain Products, Inc. 1996 Stock Option Plan for Outside Directors.
- (15) Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 2 hereof).
- (20) Report to Stockholders for the six months ended December 31, 1995 (without financial statements).
- (27) Financial Data Schedule for the six months ended December 31, 1995.

(b) Reports on Form 8-K

The Company has filed no reports on Form 8-K during the quarter ended December 31, 1995.

SIGNATURES

Pursuant to the requirements 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.

MIDWEST GRAIN PRODUCTS, INC.

February 14, 1996

S/Ladd M. Seaberg

By \_\_\_\_\_

\_\_\_\_\_  
Date

Ladd M. Seaberg  
President and Chief Executive Officer

February 14, 1996

s/Robert G. Booe

By \_\_\_\_\_

\_\_\_\_\_  
Date

Robert G. Booe, Vice  
President and Chief Financial Officer

EXHIBIT 99

EXHIBIT INDEX

Exhibit Number	Description
4(a)	Copy of Consent and Waiver Agreement between Principal Mutual Life Insurance Company and the Company dated as of January 20, 1996.
4(b)	Copy of Consent and Waiver Agreement between Commerce Bank of Kansas City, N.A., and the company dated as of February 2, 1996.
11(a)	Copy of Midwest Grain Products, Inc. Stock Incentive Plan of 1996.
11(b)	Copy of Midwest Grain Products, Inc. 1996 Stock Option Plan for Outside Directors.
15	Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 2 hereof).
20	Report to Stockholders for the six months ended December 31, 1995 (without financial statements).



WAIVER AND CONSENT

Exhibit 4(b)

THIS WAIVER AND CONSENT ("Waiver") is granted as of February 2, 1996, by COMMERCE BANK, N.A. located in Kansas city, Missouri ("Bank") for the benefit of MIDWEST GRAIN PRODUCTS, INC. ("Company").

WHEREAS, pursuant to the Second Amended Line of Credit Loan Agreement dated as of September 18, 1995 by and between Bank and Company ("Loan Agreement"), Bank agreed to make advances to Company, subject to certain terms, conditions and limitations contained therein; and

WHEREAS, Company is in violation of certain covenant under the Loan Agreement, and Company has requested that Bank acknowledge its waiver of such covenant; and

WHEREAS, pursuant to the terms for Section 5.1 of the Loan Agreement for Fixed waive compliance with covenants by a writing executed by an officer of the Bank and the parties may consent in writing to a modification of the Loan Agreement.

NOW, THEREFORE, for valuable consideration, the Bank hereby agrees as follows;

1. Capitalized terms used herein and not defined herein, shall have the meanings ascribed to them in the Loan Agreement.

2. Bank hereby waives compliance with Section 3.1(e) of the Loan Agreement for the fiscal quarter of Company ended December 31, 1995.

3. Bank consents to the inclusion of depreciation net of major capital maintenance in the calculation of New Income Available for Fixed Charges for

(and only for) for the propose of computation of the fixed charges coverage ratio of section 3.1(e) of the Loan Agreement for each fiscal quarter of the Company during the period beginning January 1, 1996 and ending December 31, 1996.

4. This Waiver shall be strictly limited to the covenant set forth herein and shall not obligate Bank to grant any further waivers in the future unless otherwise specifically agreed to by the Bank.

5. This Waiver shall be governed by, and construed in accordance with, the laws of the State of Missouri.

IN WITNESS WHEREOF, Bank has executed this Waiver, and Company has executed its acknowledgment and agreement herewith, as of the date first above written.

COMMERCE BANK, N.A.  
s/Frederick Marsten

By: \_\_\_\_\_  
Title: V.P.

Acknowledged and Accepted:

MIDWEST GRAIN PRODUCTS, INC.

s/Robert G. Booe

By: \_\_\_\_\_  
Title: V.P. - CFO

WAIVER AND CONSENT

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1. Capitalized terms used herein and not defined herein, shall have the meanings ascribed to them in the Loan Agreement.

2. Bank hereby waives compliance with Section 3.1(e) of the Loan Agreement for the fiscal quarter of Company ended December 31, 1995.

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(and only for) for the propose of computation of the fixed charges coverage ratio of section 3.1(e) of the Loan Agreement for each fiscal quarter of the Company during the period beginning January 1, 1996 and ending December 31, 1996.

4. This Waiver shall be strictly limited to the covenant set forth herein and shall not obligate Bank to grant any further waivers in the future unless otherwise specifically agreed to by the Bank.

5. This Waiver shall be governed by, and construed in accordance with, the laws of the State of Missouri.

IN WITNESS WHEREOF, Bank has executed this Waiver, and Company has executed its acknowledgment and agreement herewith, as of the date first above written.

COMMERCE BANK, N.A.  
s/Frederick Marsten

By: \_\_\_\_\_  
Title: V.P.

Acknowledged and Accepted:

MIDWEST GRAIN PRODUCTS, INC.

s/Robert G. Booe

By: \_\_\_\_\_  
Title: V.P. - CFO



Exhibit 11(b)

MIDWEST GRAIN PRODUCTS, INC.

1996 STOCK OPTION PLAN  
FOR OUTSIDE DIRECTORS

MIDWEST GRAIN PRODUCTS, INC.

1996 STOCK OPTION PLAN  
FOR OUTSIDE DIRECTORS

Section 1. Name; Purposes; Definitions.

The name of this plan is the Midwest Grain Products, Inc. 1996 Stock Option Plan for Outside Directors (the "Plan").

The purposes of the Plan are to promote the long-term success of the Company by enhancing the long-term mutuality of interests between the non-employee directors of the Company and the stockholders of the Company and by providing incentives that will enhance the Company's ability to attract highly qualified persons to serve as directors of the Company.

For purposes of this Plan, the following terms shall be defined as set forth below:

- (a) "Board" means the Board of Directors of the Company.
- (b) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.
- (c) "Committee" means the Human Resources Committee of the Board, or any other committee the Board may subsequently appoint to administer the Plan pursuant to Section 2.
- (d) "Company" shall mean Midwest Grain Products, Inc., a corporation organized under the laws of the State of Kansas (or any successor corporation).
- (e) "Effective Date" shall mean the date the plan is approved by the stockholders of the Company.
- (f) "Fair Market Value" of a share of Common Stock on the date as of which fair market value is to be determined shall be: (a) if the Common Stock is reported on the NASDAQ National Market System of the National Association of Securities Dealers, Inc., the last reported sales price of a share of Common Stock as reported by NASDAQ; or (b) if the Common Stock is listed on an established securities exchange or exchanges, the highest reported closing price of a share of Common Stock on such exchange or exchanges.
- (g) "Mature Stock" shall mean Stock which was obtained through the exercise of an option under this Plan or any other plan of the Company, which is delivered to the Company in order to exercise an Option and which has been held continuously by an Optionee for six months or more.
- (h) "Nonqualified Stock Option" means any Stock Option that by its terms is designated as not being an "incentive stock option" within the meaning Section 422 of the Code.
- (i) "Optionee" means the recipient of a Stock Option.

(j) "Stock" means the Company's presently authorized Common Stock, par value \$1.00 per share, except as this definition may be modified pursuant to Section 3 hereunder.

(k) "Stock Option" means any nonqualified option to purchase shares of Stock granted pursuant to Section 5.

#### Section 2. Administration.

The Plan shall be administered by a Committee of not less than two Directors, who shall be appointed by the Board and who shall serve at the pleasure of the Board. Until otherwise specified by the Board, the Plan shall be administered by the Human Resources Committee of the Board. If at any time no Committee shall be in office, then the functions of the Committee shall be exercised by the Board.

#### Section 3. Stock Subject to Plan.

(a) The total number of shares of Stock reserved and available for issuance under the Plan shall be 90,000. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) In the event of any merger, reorganization, consolidation, recapitalization, Stock dividend, or other change in corporate structure affecting the Stock, a substitution or adjustment shall be made in (i) the aggregate number of shares reserved for issuance under the Plan, (ii) the number of options to be granted automatically each year to non-employee directors of the Company, (iii) the limits on the number of options that may be granted to each non-employee director under the plan and (iv) the number and option price of shares subject to outstanding Stock Options granted under the Plan as may be determined by the Board, provided that the number of shares subject to any award shall always be a whole number.

(c) If any shares of Common Stock subject to a Stock Option shall not be issued or transferred or shall cease to be issuable or transferable under such Stock Option, such shares shall no longer be charged against the limitation provided for in paragraph (a) of this Section 3 and may again be made subject to Stock Options; and, only the net additional shares issued upon the exercise of a stock option through the delivery or withholding of shares of Common Stock in payment of the exercise price or withholding taxes shall be counted against the number of shares which are authorized for issuance under Section 3(a).

#### Section 4. Eligibility.

Each non-employee member of the Board shall receive Nonqualified Stock Options in accordance with the provisions of Section 5.

#### Section 5. Stock Options.

(a) On the first business day after the 1996 Annual Meeting of Stockholders of the Company, and on the first business day after each annual stockholders' meeting of the Company thereafter during the term of the Plan,

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each non-employee member of the Board shall be granted a Nonqualified Stock Option to purchase 1,000 shares of Stock.

(b) Stock Options granted under the Plan shall be subject to the following terms and conditions:

(1) The exercise price per share of Stock purchasable under such Stock Options shall be 100% of the Fair Market Value of the Stock on the date of grant.

(2) Each Stock Option shall be exercisable on the 184th day following the date of grant by written notice to the Company of the election to exercise and of the number of shares elected to be purchased in such form as the Committee has prescribed or approved, together with payment in full of the purchase price in cash, personal check, wire transfer, certified or cashier's check, or delivery of Stock certificates for Mature Stock or other Stock which was not obtained through the exercise of a stock option, endorsed in blank or accompanied by executed stock powers with signatures guaranteed by a national bank or trust company or a member of a national securities exchange.

(3) If an Optionee resigns or does not stand for election (prior to retirement from the Board of Directors upon reaching age 70) or is removed from his or her position as a Director or is not re-elected to his or her position as a Director, any unexercised portion of any Stock Option granted

to him or her under the terms of the Plan shall terminate ninety (90) days following the date of such resignation, removal or end of the term of such position. If an Optionee dies while a Director, any unexercised portion of any Stock Option granted to him or her under the terms of the Plan shall terminate one year from the date of death. If an Optionee does not stand for re-election due to retirement from the Board of Directors upon reaching age 70, any unexercised portion of any Stock Option granted to him or her under the terms of the Plan shall terminate three years from the date of the end of his or her term. It is understood, however, that such right to exercise any outstanding Options during any period following a terminating event shall only exist to the extent such Options were exercisable immediately preceding the terminating event.

(4) Each Stock Option shall cease to be exercisable on the date that is five years following the date of grant.

(5) The aggregate number of shares of Stock that may be granted to any non-employee member of the Board pursuant to the Plan may not exceed 10,000 shares.

(6) No Stock Options shall be transferable by the Optionee otherwise than by will or by the laws of decent and distribution, and as may otherwise be permitted by Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Act"), and all Stock Options shall be exercisable, during the Optionee's lifetime, only by the Optionee or in accordance with the terms of such transfer.

(7) Any withholding taxes required to be paid to the Company in connection with the exercise of any option shall be paid, at the election of the director, in cash or by the Company's withholding of shares of Common Stock issuable to the director under the stock option, or by any combination of the foregoing. To the extent that tax provisions are satisfied with shares of the

3

Company's Common Stock, such stock shall be valued at Fair Market Value on the appropriate transaction date.

(c) Each Optionee shall enter into a stock option agreement with the Company, which agreement shall set forth, among other things, the exercise price of the option, the term of the option and provisions regarding exercisability of the option granted thereunder, which provisions shall not be inconsistent with the terms set forth herein.

#### Section 6. Amendment and Termination.

The Board may amend, alter, modify or discontinue the Plan at any time, provided that the Board may not amend or alter the provisions of the Plan relating to the amount, price and timing of awards more than once every six months, other than to comply with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder; and provided, further that the Board may not amend the Plan without the approval of the stockholders if the amendment would: (A) materially increase the benefits accruing to Optionees; (B) materially increase the number of securities that may be issued under the Plan; or (C) materially modify the requirements as to eligibility for participation in the Plan. Notwithstanding the foregoing, stockholder approval shall be required only at such times and under such circumstances as would be required under Rule 16b-3 of the Act with respect to any material amendment to any employee benefit plan of the Company.

#### Section 7. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a recipient by the Company, nothing contained herein shall give any such recipient any rights that are greater than those of a general creditor of the Company.

#### Section 8. General Provisions.

(a) If necessary to effect compliance with applicable securities laws, each person purchasing shares pursuant to a Stock Option must represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof.

(b) All certificates for shares of Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and a legend or legends may be put on any such certificates to make appropriate reference to any required restriction on transfer.

(c) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally

applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any member of the Board any right to continued membership on such Board.

(d) No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall

4

be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect to any such action, determination or interpretation.

Section 9. Term of Plan.

No stock Option shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but awards theretofore granted may extend beyond that date.

#### CERTIFICATIONS

The undersigned Secretary of Midwest Grain Products, Inc., hereby certifies that the foregoing Plan was duly adopted by the Board of Directors at a regular meeting of the Board duly called, noticed, convened and held on January 5, 1996, in accordance with the Certificate of Incorporation, Bylaws and applicable laws of the State of Kansas.

Dated January 5, 1996.

s/Norma C. Ewbank

-----  
Norma C. Ewbank, Secretary

The undersigned Secretary of Midwest Grain Products, Inc., hereby certifies that the foregoing Plan was duly approved by the holders of a majority of the Common and Preferred Stock present or represented and entitled to vote at the Annual Meeting of Stockholders duly called, noticed, convened and held on October \_\_, 1996, in accordance with the Certificate of Incorporation, Bylaws and applicable laws of the State of Kansas.

Dated October , 1996.

-----  
Norma C. Ewbank, Secretary

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Exhibit 11(b)

MIDWEST GRAIN PRODUCTS, INC.

1996 STOCK OPTION PLAN  
FOR OUTSIDE DIRECTORS

MIDWEST GRAIN PRODUCTS, INC.

1996 STOCK OPTION PLAN  
FOR OUTSIDE DIRECTORS

Section 1. Name; Purposes; Definitions.

The name of this plan is the Midwest Grain Products, Inc. 1996 Stock Option Plan for Outside Directors (the "Plan").

The purposes of the Plan are to promote the long-term success of the Company by enhancing the long-term mutuality of interests between the non-employee directors of the Company and the stockholders of the Company and by providing incentives that will enhance the Company's ability to attract highly qualified persons to serve as directors of the Company.

For purposes of this Plan, the following terms shall be defined as set forth below:

- (a) "Board" means the Board of Directors of the Company.
- (b) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.
- (c) "Committee" means the Human Resources Committee of the Board, or any other committee the Board may subsequently appoint to administer the Plan pursuant to Section 2.
- (d) "Company" shall mean Midwest Grain Products, Inc., a corporation organized under the laws of the State of Kansas (or any successor corporation).
- (e) "Effective Date" shall mean the date the plan is approved by the stockholders of the Company.
- (f) "Fair Market Value" of a share of Common Stock on the date as of which fair market value is to be determined shall be: (a) if the Common Stock is reported on the NASDAQ National Market System of the National Association of Securities Dealers, Inc., the last reported sales price of a share of Common Stock as reported by NASDAQ; or (b) if the Common Stock is listed on an established securities exchange or exchanges, the highest reported closing price of a share of Common Stock on such exchange or exchanges.
- (g) "Mature Stock" shall mean Stock which was obtained through the exercise of an option under this Plan or any other plan of the Company, which is delivered to the Company in order to exercise an Option and which has been held continuously by an Optionee for six months or more.
- (h) "Nonqualified Stock Option" means any Stock Option that by its terms is designated as not being an "incentive stock option" within the meaning Section 422 of the Code.
- (i) "Optionee" means the recipient of a Stock Option.

(j) "Stock" means the Company's presently authorized Common Stock, par value \$1.00 per share, except as this definition may be modified pursuant to Section 3 hereunder.

(k) "Stock Option" means any nonqualified option to purchase shares of Stock granted pursuant to Section 5.

#### Section 2. Administration.

The Plan shall be administered by a Committee of not less than two Directors, who shall be appointed by the Board and who shall serve at the pleasure of the Board. Until otherwise specified by the Board, the Plan shall be administered by the Human Resources Committee of the Board. If at any time no Committee shall be in office, then the functions of the Committee shall be exercised by the Board.

#### Section 3. Stock Subject to Plan.

(a) The total number of shares of Stock reserved and available for issuance under the Plan shall be 90,000. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) In the event of any merger, reorganization, consolidation, recapitalization, Stock dividend, or other change in corporate structure affecting the Stock, a substitution or adjustment shall be made in (i) the aggregate number of shares reserved for issuance under the Plan, (ii) the number of options to be granted automatically each year to non-employee directors of the Company, (iii) the limits on the number of options that may be granted to each non-employee director under the plan and (iv) the number and option price of shares subject to outstanding Stock Options granted under the Plan as may be determined by the Board, provided that the number of shares subject to any award shall always be a whole number.

(c) If any shares of Common Stock subject to a Stock Option shall not be issued or transferred or shall cease to be issuable or transferable under such Stock Option, such shares shall no longer be charged against the limitation provided for in paragraph (a) of this Section 3 and may again be made subject to Stock Options; and, only the net additional shares issued upon the exercise of a stock option through the delivery or withholding of shares of Common Stock in payment of the exercise price or withholding taxes shall be counted against the number of shares which are authorized for issuance under Section 3(a).

#### Section 4. Eligibility.

Each non-employee member of the Board shall receive Nonqualified Stock Options in accordance with the provisions of Section 5.

#### Section 5. Stock Options.

(a) On the first business day after the 1996 Annual Meeting of Stockholders of the Company, and on the first business day after each annual stockholders' meeting of the Company thereafter during the term of the Plan,

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each non-employee member of the Board shall be granted a Nonqualified Stock Option to purchase 1,000 shares of Stock.

(b) Stock Options granted under the Plan shall be subject to the following terms and conditions:

(1) The exercise price per share of Stock purchasable under such Stock Options shall be 100% of the Fair Market Value of the Stock on the date of grant.

(2) Each Stock Option shall be exercisable on the 184th day following the date of grant by written notice to the Company of the election to exercise and of the number of shares elected to be purchased in such form as the Committee has prescribed or approved, together with payment in full of the purchase price in cash, personal check, wire transfer, certified or cashier's check, or delivery of Stock certificates for Mature Stock or other Stock which was not obtained through the exercise of a stock option, endorsed in blank or accompanied by executed stock powers with signatures guaranteed by a national bank or trust company or a member of a national securities exchange.

(3) If an Optionee resigns or does not stand for election (prior to retirement from the Board of Directors upon reaching age 70) or is removed from his or her position as a Director or is not re-elected to his or her position as a Director, any unexercised portion of any Stock Option granted



to him or her under the terms of the Plan shall terminate ninety (90) days following the date of such resignation, removal or end of the term of such position. If an Optionee dies while a Director, any unexercised portion of any Stock Option granted to him or her under the terms of the Plan shall terminate one year from the date of death. If an Optionee does not stand for re-election due to retirement from the Board of Directors upon reaching age 70, any unexercised portion of any Stock Option granted to him or her under the terms of the Plan shall terminate three years from the date of the end of his or her term. It is understood, however, that such right to exercise any outstanding Options during any period following a terminating event shall only exist to the extent such Options were exercisable immediately preceding the terminating event.

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(7) Any withholding taxes required to be paid to the Company in connection with the exercise of any option shall be paid, at the election of the director, in cash or by the Company's withholding of shares of Common Stock issuable to the director under the stock option, or by any combination of the foregoing. To the extent that tax provisions are satisfied with shares of the

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Company's Common Stock, such stock shall be valued at Fair Market Value on the appropriate transaction date.

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(c) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally

applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any member of the Board any right to continued membership on such Board.

(d) No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall

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be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect to any such action, determination or interpretation.

Section 9. Term of Plan.

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#### CERTIFICATIONS

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Dated January 5, 1996.

s/Norma C. Ewbank

-----  
Norma C. Ewbank, Secretary

The undersigned Secretary of Midwest Grain Products, Inc., hereby certifies that the foregoing Plan was duly approved by the holders of a majority of the Common and Preferred Stock present or represented and entitled to vote at the Annual Meeting of Stockholders duly called, noticed, convened and held on October \_\_, 1996, in accordance with the Certificate of Incorporation, Bylaws and applicable laws of the State of Kansas.

Dated October , 1996.

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Norma C. Ewbank, Secretary

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Letter to Stockholders  
February 9, 1996

Exhibit 20

Dear Stockholder:

I am pleased to report that while our earnings for the second quarter of fiscal 1996 were down from the same period a year ago, they represent a sizeable improvement compared to this year's first quarter loss.

Our net income for the second quarter was \$195,000, or \$0.02 per share on sales of \$55,751,000 versus net income of \$2,237,000, or \$0.23 per share on sales of \$44,488,000 for the prior year's second quarter.

For the first six months of fiscal 1996, we experienced a net loss of \$2,182,000, or \$0.22 per share on sales of \$102,911,000. For the first half of fiscal 1995, we had net income of \$4,993,000, or \$0.51 per share on sales of \$90,472,000.

The improvements we experienced since the first quarter were largely the result of an intense cash management program, and increased sales of premium wheat starch, alcohol products and alcohol by-products, which consist mainly of distillers feeds. I am encouraged by the direction we are taking. I am also encouraged by a proposed agreement between our government and the European Union (E.U.), which includes a measure to curb excess shipments of wheat gluten to the United States.

Final ratification of the agreement is expected to occur during the current quarter. It states that "If the market share of European Commission origin wheat gluten exports into the United States increases in comparison to their average 1990-92 market share, the European Commission and the United States government shall consult with a view to finding a mutually acceptable solution."

The continuing flood of gluten imports from Europe in the second quarter, however, together with exorbitantly high raw material costs for wheat, had a severe negative impact on our results compared to the same period a year ago.

Our average per bushel cost for wheat in the quarter was approximately 26% higher than the prior year's second quarter average. Wheat prices continue to hover well above levels that were in place a year ago due to a worldwide wheat shortage.

Prices for corn and milo also remain exceptionally high due to global shortages of these grains as well. Our costs in the second quarter averaged 54% more per bushel compared to the second quarter of fiscal 1995. This adversely affected alcohol production costs, especially in the fuel grade category.

While conditions in the fuel grade alcohol market remain flat, demand for our food grade alcohol for beverage and industrial applications continues to be strong. Demand for our premium wheat starches, both modified and unmodified, also remains strong due to their effectiveness in satisfying functional requirements in a growing variety of food products.

As we go forward, we will continue to focus on increasing the effectiveness of our cash management measures and on improving cost efficiencies in all marketing, production and administrative processes. As I stated in my last report to you on November 9, we are prepared to increase production and sales in all three of our principal product areas and to realize significant long-term growth when grain costs and selling prices return to more normal levels.

Sincerely,  
s/Ladd M. Seaberg  
Ladd M. Seaberg  
President and CEO

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EXHIBIT 27

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MIDWEST GRAIN PRODUCTS, INC. CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTHS ENDED DECEMBER 31, 1996, AND CONDENSED CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1995, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F3>Reflects Retained Earnings and Additional Paid In Capital.  
<F4>Reflects net sales plus Other Operating Income.  
<F5>Consists of Selling, General and Administrative Expenses.  
<F6>Total revenues includes "Other Income." Other Income reflects excess Other  
Income after deducting interest expense.  
</FN>

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