

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, 1996 -  
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.

X 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, 1997.

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Baird, Kurtz & Dobson  
Certified Public Accountants

Independent Accountants' Review Report

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

We have reviewed the condensed consolidated balance sheet of MIDWEST GRAIN PRODUCTS, INC. and subsidiaries as of December 31, 1996, and the related condensed consolidated statements of income for the three month and six month periods ended December 31, 1996 and 1995, and the related condensed consolidated statements of cash flows for the six month periods ended December 31, 1996 and 1995. 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, 1996, 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 9, 1996, 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, 1996, 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 21, 1997

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

With Offices in: Arkansas, Colorado, Kansas, Kentucky, Missouri,  
Nebraska, Oklahoma

Member of Moores Rowland International

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

ASSETS

	December 31, 1996	June 30, 1996
	-----	-----
	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,998	\$ 3,759
Receivables	23,008	18,365
Inventories	24,148	19,913
Prepaid expenses	1,019	573
Deferred income taxes	1,531	1,531
Income taxes receivable		3,063
	-----	-----
Total Current Assets	51,704	47,204
	-----	-----
PROPERTY AND EQUIPMENT, At cost	210,964	210,304
Less accumulated depreciation	92,088	85,155
	-----	-----
	118,876	125,149
	-----	-----
OTHER ASSETS	432	432
	-----	-----
	\$171,012	\$172,785
	=====	=====

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, 1996	June 30, 1996
-----	-----

(Unaudited)

CURRENT LIABILITIES		
Accounts payable	\$ 9,726	\$ 6,416
Accrued expenses	3,740	3,675
Income taxes payable	796	
	-----	-----
Total Current Liabilities	14,262	10,091
	-----	-----
LONG-TERM DEBT	33,933	40,933
	-----	-----
POST-RETIREMENT BENEFITS	6,142	5,945
	-----	-----
DEFERRED INCOME TAXES	6,594	6,594
	-----	-----
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	100,877	100,018
	-----	-----
	110,081	109,222
	-----	-----
	\$171,012	\$172,785
	=====	=====

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, 1996  
AND 1995

(Unaudited)

	Three Months		Six Months	
	1996	1995	1996	1995
	-----	-----	-----	-----
NET SALES	\$55,249	\$55,751	108,422	\$102,911
COST OF SALES	50,360	52,132	101,470	100,229
	-----	-----	-----	-----
GROSS PROFIT	4,889	3,619	6,952	2,682
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,379	2,377	4,542	4,840
	-----	-----	-----	-----
	2,510	1,242	2,410	(2,158)
OTHER OPERATING INCOME	115	54	217	53
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	2,625	1,296	2,627	(2,105)
OTHER INCOME (LOSS)				
Interest	(679)	(797)	(1,404)	(1,492)
Other	46	(180)	194	(9)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	1,992	319	1,417	(3,606)
PROVISION (CREDIT) FOR				

INCOME TAXES	787	124	558	(1,424)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 1,205	\$ 195	\$ 859	\$ (2,182)
	=====	=====	=====	=====
EARNINGS (LOSS) PER COMMON SHARE	\$.12	\$.02	\$.09	\$ (.22)
	=====	=====	=====	=====

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, 1996 AND 1995  
(Unaudited)

	1996	1995
	-----	-----
(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 859	\$ (2,182)
Items not requiring (providing) cash:		
Depreciation	7,008	6,677
Gain on sale of assets	(6)	(30)
Changes in:		
Accounts receivable	(4,643)	(2,130)
Inventories	(4,235)	(1,047)
Prepaid expenses and other assets	(446)	(299)
Accounts payable	3,228	4,054
Accrued expenses	262	(720)
Income taxes payable	3,859	530
	-----	-----
Net cash provided by operating activities	5,886	4,853
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(706)	(4,093)
Proceeds from sale of equipment	59	68
Payment received on note for sale of plant		919
	-----	-----
Net cash used in investing activities	(647)	(3,106)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances on notes payable		6,000
Net principal payments on long-term debt	(7,000)	(3,975)
Dividends paid		(1,221)
	-----	-----
Net cash provided by (used in) financing activities	(7,000)	804
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,761)	2,551
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,759	460
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,998	\$ 3,011
	=====	=====

See Accompanying Note to Condensed Consolidated  
Financial Statements

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MIDWEST GRAIN PRODUCTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 1996

(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, 1996, and the condensed consolidated results of its operations and its cash flows for the periods ended December 31, 1996 and 1995, 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 ENDED DECEMBER 31, 1996

RESULTS OF OPERATIONS

General

- - - - -

The Company's net income of \$1,205,000 in the second quarter of fiscal 1997 represented a considerable increase above both the prior year's second quarter net income of \$195,000 and the current year's first quarter net loss of \$346,000. In addition, the Company's long-term debt was reduced by \$7 million as the result of cash flows generated from operations during the first half of the year. The improved second quarter earnings primarily resulted from a decrease in raw material costs for grain on a per bushel basis, together with strengthened demand for the Company's premium wheat starch, beverage alcohol and distillers' feed. The continuation of the Company's intense cash management program to reduce costs and enhance cash flow contributed to the improvement. The realization of a larger earnings increase was partially blocked by the carryover of a fractional amount of higher priced grain from the first quarter, and soaring energy costs in late November and all through December. Lower operational efficiencies were affected by both of these factors. The increased energy costs resulted from a significant jump in natural gas prices due to periods of extreme cold weather throughout much of the U.S. While natural gas prices have since come down, they remain at levels higher than were experienced during this time a year ago.

Competitive pressures in the wheat gluten market continued to grow throughout the second quarter due to the expanding presence of cross-subsidized gluten imports from the European Union (E.U.). As a result, the Company was unable to adjust the selling price of its gluten enough to effectively offset production costs. Previously announced consultations between the U.S. and E.U. to address this problem are still pending. As such, the Wheat Gluten Industry Council of the United States recently filed a Section 301 Petition requesting that the U.S. Trade Representative investigate subsidies and other measures which allow E.U.

gluten producers lopsided competitive advantages. If favorably acted on by the Trade Representative, the petition calls for an international panel of the World Trade Organization to examine the protectionist and predatory practices of the E.U. and could ultimately provide the U.S. with the right to implement retaliatory measures. The Wheat Gluten Council, of which the Company is a member, is prepared to seek additional legal action should a satisfactory remedy not materialize. In the meantime, efforts by the Company to develop specialty wheat gluten products for niche markets to continue to attract increased, but gradual interest.

Demand for the Company's premium wheat starch remains strong, and should continue to result in increased utilization of capacity at the Pekin plant, where a new starch production facility was completed in the first quarter of fiscal 1996. While conditions in the Company's alcohol markets generally remain healthy, prices for food grade alcohol for beverage and industrial applications have declined since the end of the second quarter due partially to seasonal factors, but mainly to the start up of new distillation capacities throughout the industry. Increased supplies of fuel grade alcohol have lowered selling prices in that market as well. With consistently lower grain costs and improved production efficiencies, the Company expects to strengthen its competitive abilities and remain profitable in the third quarter of fiscal 1997.

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MIDWEST GRAIN PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
THREE MONTHS ENDED DECEMBER 31, 1996

Sales

- -----

Net sales in the second quarter of fiscal 1997 were approximately \$502,000 lower than sales in the second quarter of fiscal 1996. The decrease principally resulted from lower sales of fuel grade alcohol products, due to a 43% drop in units sold. Fuel alcohol unit sales in the second quarter of fiscal 1996 included the depletion of a sizeable inventory which had been produced in the immediately preceding quarter. Sales of beverage alcohol increased a little more than 2% in this year's second quarter compared to the same period the prior year. The increase resulted from adjustments made to selling prices, as unit sales in this category were down slightly. Sales of food grade alcohol for industrial applications fell 11% due to a decline in production volume. Sales of distillers' feeds, a by-product of the alcohol production process, rose approximately 24% due to improved selling prices and a nearly 9% increase in units sold. Wheat gluten sales were up approximately 9% compared to the second quarter of fiscal 1996 as the result of a small increase in unit sales. However, selling prices for this product fell slightly in the face of extreme competitive pressures from the European Union. Sales of wheat starch increased 20% as the result of both higher volumes and selling prices. Net sales for the first six months of fiscal 1997 increased by approximately \$5,511,000 over sales for the first six months of fiscal 1996. The increase occurred in the first quarter as the result of higher sales of wheat starch, food grade industrial alcohol, fuel grade alcohol and alcohol by-products compared to the prior year's first quarter.

Cost of Sales

- -----

The cost of sales in the second quarter of fiscal 1997 decreased by approximately \$1.8 million compared to the cost of sales in the second quarter of fiscal 1996. This occurred primarily as the result of a \$4.4 million reduction in raw material costs for grain. These decreases were partially offset by an increase of approximately \$1.5 million in energy costs, due mainly to higher prices for natural gas, and an increase of slightly more than \$423,000 in maintenance and repair costs. The cost of sales for the first six months of fiscal 1997 increased by approximately \$1.2 million above the cost of sales in the first six months of fiscal 1996. Raw material cost decreases during the second quarter offset most of the \$5.0 million increase in these costs experienced in the first quarter. The increased energy costs for the six months were experienced entirely during the second quarter. These increases were partially offset by a decrease in maintenance and repair costs for the six month period amounting to approximately \$.8 million.

Selling, General and Administrative Expenses

- -----

Selling, general and administrative expenses in the second quarter of fiscal 1997 were approximately even with selling, general and administrative expenses in the second quarter of fiscal 1996. For the first six months of fiscal 1997, these costs decreased by approximately \$298,000 compared to the first six months of fiscal 1996. This decrease was spread through most expense categories as part of the Company's cash management program.

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

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Net Income  
- - - - -

As the result of the foregoing factors, the Company experienced net income of \$1,205,000 in the second quarter of fiscal 1997 compared to net income of \$195,000 in the second quarter of fiscal 1996. A first quarter net loss of \$346,000 partially offset the second quarter net income, resulting in net income of \$859,000 for the first six months of fiscal 1997. For the first six months of fiscal 1996, the Company had a net loss of \$2,182,000.

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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, 1996

LIQUIDITY AND CAPITAL RESOURCES

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

	December 31, 1996	June 30, 1996
	-----	-----
	(in thousands)	
Cash and cash equivalents	\$ 1,998	\$ 3,759
Working capital	37,442	37,113
Amounts available under lines of credit	26,000	18,600
Note payable and long-term debt	33,933	40,933
Stockholders' equity	110,081	109,222

The Company continues to generate positive cash flows, improve its working capital position and maintain a relatively low debt-to-equity ratio. The measures instituted a year ago, including stringent cost reductions, suspension of quarterly cash dividends to stockholders and changes in production, purchasing and marketing strategies, remain in effect. Improved operations



offset by increased level of inventories and receivables produce the cash flow necessary to reduce borrowings by \$7,000,000.

Although the Company has completed major capital improvement projects at both plants, management continues to evaluate its plants to maintain and improve operating efficiencies. At December 31, 1996, the Company had \$1.9 million committed to improvements and replacements of existing equipment.

Management believes that the strategies which continue to be implemented, together with the Company's strong working capital and available lines of credit, position it to take advantage of a return to more favorable conditions.

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PART II

OTHER INFORMATION

Item 6 . Exhibits and Reports on Form 8-K  
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(a) Exhibits

(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) Letter Report to Stockholders for the three months ended December 31, 1996.

(27) Financial data schedule

(b) Reports on Form 8-K

The Company has filed no reports on Form 8-K during the quarter ended December 31, 1996.

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 10, 1997 ----- Date	s/Ladd M. Seaberg By----- Ladd M. Seaberg President and Chief Executive Officer
February 10, 1997 ----- Date	s/Robert G. Booe By----- Robert G. Booe, Vice President and Chief Financial Officer



LETTER TO OUR STOCKHOLDERS

February 10, 1997

Dear Stockholder:

We have begun to turn the corner and move in a more positive direction as indicated by our earnings performance in the second quarter of fiscal 1997. In addition, we have reduced our long-term debt by \$7 million as the result of cash flows generated from operations during the first two quarters of the year.

Our second quarter net income of \$1,205,000, or \$0.12 per share was considerably higher than the net income of \$195,000, or \$0.02 per share that we experienced in the second quarter of fiscal 1996. Our sales in this year's second quarter amounted to \$55,249,000, down just slightly from the same period the prior year, when we had sales of \$55,751,000.

Due to a first quarter net loss of \$346,000, our net income for the first six months of fiscal 1997 totaled \$859,000, or \$0.09 per share on sales of \$108,422,000. For the first six months of fiscal 1996, we had a net loss of \$2,182,000, or \$0.22 per share on sales of \$102,911,000.

Our second quarter earnings improvement resulted primarily from a decline in grain prices compared to both the second quarter of fiscal 1996 and the first quarter of fiscal 1997, and strengthened demand for our premium wheat starch, beverage alcohol and distillers feed. The realization of an even greater improvement was partially prevented by a carryover of higher priced grain from the first quarter, and a dramatic rise in energy costs in the latter part of the second quarter due to greatly increased prices for natural gas. These factors contributed to a reduction in operational efficiencies. Since the end of the quarter, grain prices have continued to ease down toward more normal levels. Prices for natural gas have also tapered off, but remain above where they were at this time a year ago.

Demand for our vital wheat gluten continues to be suppressed by a heavy flow of gluten imports from the European Union (E.U.). In addition to seeking a negotiated solution to this problem, the Wheat Gluten Industry Council of the United States recently filed a Section 301 petition requesting that the U.S. Trade Representative investigate subsidies and other measures which allow E.U. gluten producers lopsided competitive advantages. The petition, if favorably acted on by the Trade Representative, calls for an international panel of the World Trade Organization to examine the protectionist and predatory practices of the E.U. and could ultimately provide the U.S. with the right to implement retaliatory measures. The Wheat Gluten Council is prepared to seek additional legal action should a satisfactory remedy not appear forthcoming. In the meantime, we are experiencing increased interest in our specialty wheat gluten products, which are being developed for value-added niche markets.

As I have previously reported, growth in the specialty gluten markets is expected to be gradual and, therefore, will not have a significant impact on our results in the near term. It was with this same understanding that we launched the development of our modified and specialty wheat starches several years ago. Today, these starches account for a sizeable portion of our total starch output.

While conditions in our alcohol markets generally remain healthy, prices for food grade alcohol for beverage and industrial applications have declined since the end of the second quarter due to a combination of seasonal factors and the start-up of new production capacities throughout the industry. Increased supplies of fuel grade alcohol have caused prices in that market to soften some as well. We are prepared to meet this new competition by strengthening our operational efficiencies as grain prices continue to reach more normal levels.

Sincerely,

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



<TABLE> <S> <C>

<ARTICLE> 5

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

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<CIK> 0000835011

<NAME> MIDWEST GRAIN PRODUCTS, INC.

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<FN>

<F1> Reflects retained earnings and additional paid in captial.

<F2> Reflects cost of sales and selling, general & administrative expenses.

</FN>

</TABLE>