As Filed with the Securities and Exchange Commission on September 28, 1998

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, 1998

MIDWEST GRAIN PRODUCTS, INC.

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

Incorporated in the State of Kansas

COMMISSION FILE NO. 0-17196

IRS No. 48-0531200

The Company has no securities registered pursuant to Section 12(b) of the Act. The only class of common stock outstanding consists of Common Stock having no par value, 9,700,172 shares of which were outstanding at June 30, 1998. 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 August 20, 1998, was $91,616,272.

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. 1998 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 8, 1998, dated September 17, 1998 (incorporated into Part III).

FORM 10-K

For the Fiscal Year Ended June 30, 1998

CONTENTS

	PAGE
PART I	
Item 1. Business	4
General Information	4
Vital Wheat Gluten	5
Premium Wheat Starch	8
Alcohol Products	9
Flour and Other Mill Products	11
Transportation	11
Raw Materials	11
Energy	12
Employees	13
Regulation	13
Item 2. Properties	13
Item 3. Legal Proceedings	14
Item 4. Submission of Matters to a Vote of Security Holders	14
PART II	
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters	15
Item 6. Selected Financial Data	15
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 8. Financial Statements and Supplementary Data	15
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
PART III	
Item 10. Directors and Executive Officers of the Registrant	16
Item 11. Executive Compensation	18
Item 12. Security Ownership of Certain Beneficial Owners and Management	18
Item 13. Certain Relationships and Related Transactions	18
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	19
SIGNATURES	21
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, contain 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 vital wheat gluten, premium wheat starch, and alcohol products. These grain products are processed at plants located in Atchison, Kansas, and Pekin, Illinois. Wheat is purchased directly from local and regional farms and grain elevators and milled into flour. The flour is processed with water to extract vital wheat gluten, a portion of which is further processed into specialty wheat proteins. The vital wheat gluten and most protein products are dried into powder and sold in packaged or bulk form. The starch slurry which results after the extraction of the gluten and wheat proteins is further processed to extract premium wheat starch which is also dried into powder and sold in packaged or bulk form. The remaining slurry is mixed with corn or milo and water and then cooked, fermented and distilled into alcohol. The residue of the distilling operations is dried and sold as a high protein additive for animal feed. Carbon dioxide which is produced during the fermentation process is trapped and sold. As a result of these processing operations, the Company sells approximately 95% (by weight) of grain processed.

The table below shows the Company's sales from continuing operations by product group for each of the five years ended June 30, 1998, as well as such sales as a percent of total sales. .

<TABLE>

PRODUCT GROUP SALES

	Year Ended June 30,									
<S>	<C>		<C>		<C>		<C>		<C>	
	1998		1997		1996		1995		1994	
	(thousands of dollars)									
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Vital Wheat Gluten.........	$ 42,489	19.0	$ 39,968	17.8	$ 39,514	20.3	$ 49,957	27.7	$ 70.966	38.2
Premium Wheat Starch.......	27,791	12.4	29,935	13.3	26,354	13.5	23,403	13.0	21,110	11.3
Alcohol Products:										
Food Grade Alcohol										
Beverage Alcohol......	35,934	16.1	43,118	19.2	39,465	20.3	32,573	18.1	29,536	15.9
Food Grade Industrial.	27,487	12.3	38,004	16.9	32,064	16.5	23,379	13.0	22,585	12.1
Fuel Grade Alcohol.......	51,277	23.0	34,992	15.6	25,347	13.0	28,120	15.6	19,273	10.4
Alcohol By-products......	33,259	14.9	34,553	15.4	28,449	14.6	19,583	10.9	18,146	9.8
Total Alcohol Products............	147,957	66.3	150,667	67.1	125,325	64.4	103,655	57.5	89,540	48.2
Flour and Other Mill Products................	5,017	2.3	4,163	1.8	3,445	1.8	3,237	1.8	4,352	2.3
Net Sales	$223,254	100.0	$224,733	100.0	$194,638	100.0	$180,252	100.0	$185,968	100.0

</TABLE>

The Company's net loss of $2.2 million in fiscal 1998 represented a substantial decrease from the prior year's net income of $131,000. The 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 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 a positive outcome in initiatives taken to have a quota imposed on imports of subsidized foreign gluten. With the imposition of an annual quota on foreign gluten imports for a three-year period beginning June 1, 1998, the Company expects a return to more positive results for fiscal 1999.

The bulk of the Company's sales are made under informal arrangements direct to large institutional food and beverage processors or distributors with respect to which the Company has longstanding relationships. Sales to these customers are typically evidenced by short term agreements that are cancelable within 30 days and under which products are usually ordered, produced, sold and shipped within 30 days. As a consequence, the Company's backlog of orders at any time is usually less than 10 percent of annual sales. None of the Company's customers accounted

for more than ten percent of the Company's consolidated revenues during fiscal 1998, except for a distributor of vital wheat gluten that makes purchases under orders that are cancelable within thirty days.

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 during the second half of the fiscal year as demand increases for hot dog buns, hamburger buns, and similar bakery products. During the next three years the Company may experience significant increases in wheat gluten sales during the second half of each fiscal year. This may be anticipated due to the effects of annual quotas on the import of wheat gluten into the United States if importers continue to ship gluten into the US at rates in excess of an annualized rate for the annual quota. The annual quota became effective June 1, 1998, and applies to each of the next three years ending on each May 31. 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.

Vital Wheat Gluten

Vital wheat gluten is a free-flowing light tan powder which contains approximately 75% to 80% protein. Its vitality, water absorption and retention and film-forming properties make it desirable as an ingredient in many food products. It is the only commercially available high protein food additive which possesses vitality. The vitality of the Company's vital wheat gluten results from its elastic and cohesive characteristics when added to dough or otherwise reconstituted with water.

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

In recent years the Company began the development of a number of Specialty Wheat Proteins for food and non-food applications. Specialty Wheat Proteins are derived from vital wheat gluten through a variety of proprietary processes which change the molecular structure of vital wheat gluten. These specialty proteins include various hydrolyzed proteins, texturized proteins, gliadin, glutenin and a product used to enhance pasta called "Pasta Power."

- Hydrolyzed proteins, unlike vital wheat gluten, are soluble in water and other liquids. This enables their use in food products such as high protein consumer beverages, calf milk and soy sauce and non-food applications such as hair sprays, shampoos and shower gels, body moisturizers, skin lotions and the like.
- Texturized wheat proteins consist of vital wheat gluten that is changed into a 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 and extenders.

- Gliadin and Glutenin are the two principal molecules that make up vital wheat gluten. The Company's patented process enables the separation of each for a variety of end uses. Glutenin, a large molecule responsible for the elastic character of vital wheat gluten, increases the strength of

bread doughs, improves the freeze-thaw characteristics of frozen doughs and may be used as a functional protein source in beef jerky-type products, as well as in meat extension. Gliadin, the smaller of the two molecules is soluble in water and other liquids, including alcohol and is responsible for the viscous properties of wheat gluten. Those characteristics make it ideal for use in hair sprays and to improve the

texture of noodles and pastas.

- Polytriticum 200 and Polytriticum 2000 are the Company's environmentally friendly biodegradable gluten resins that can be molded to produce a variety of plastic-like objects. Polytriticum 200 may be used as a commercial raw material for the production of pet foods and biodegradable landscaping materials and Polytriticum 2000 is contemplated 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. Only a small fraction of the Company's 1997 and 1998 vital wheat gluten sales reflect sales of specialty proteins. However, the Company's strategy is to focus on the marketing and development of these products with the view to their becoming an increasingly larger portion of total gluten sales. The Company has employed the same strategy successfully through the gradual but steadily increasing development of value-added modified wheat starches for niche markets. Specialty wheat proteins are designed for sale in niche markets and generally compete with other ingredients having similar characteristics.

The Company produces vital wheat gluten from modernized facilities at the Atchison plant and new facilities at the Pekin plant. It is shipped throughout the continental United States in bulk and in 50 to 100 pound bags. Approximately 10.5% of the Company's total fiscal 1998 sales were made to a distributor for the bakery industry, the Ben C. Williams Bakery Services Company, which in turn distributes vital wheat gluten to independent bakeries. The remainder is sold directly to major food processors and bakeries such as Kellogg Co., Interstate Baking Company, Inc. and H. J. Heinz Co.

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

Competition-Vital Wheat Gluten. Historically, the Company's principal competitors in the U.S. vital wheat gluten market have consisted of a few other domestic producers and producers in the European Union (the "EU"), Australia and certain other regulated countries (the "Foreign Exporters"). Beginning in 1994, the E.U. has taken 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 by 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%.

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., prices have been primarily affected by excess E.U. capacity and subsidies and other protective measures ("Subsidies") provided to E.U. exporters by their host governments and low U.S. tariffs. Previously, U.S. Gluten prices were primarily affected by U.S. grain and U.S. energy costs and, to a lesser extent, by foreign subsidies. Due to the Subsidies, it became increasingly difficult for the Company to compete with the surge of E.U. wheat gluten since the artificially low prices charged for those E.U. Subsidized imports were less than the Company's cost of production. As a result of this

imbalance in the U.S. wheat gluten market the Company's strategy during fiscal 1997 and most of fiscal 1998 has been to limit its production of wheat gluten to amounts necessary to produce wheat starch and other wheat co-products and to support actions by the United States Wheat Gluten Industry Council (the "Wheat Gluten Council") to stem the tide of E.U. Subsidized wheat gluten through legal proceedings.

As mentioned above, the extraordinary increase in E.U. gluten imports into the U.S. is due to high E. U. Subsidies, high E. U. import tariffs, and low U.S. import tariffs on wheat products. These incentives have encouraged E.U. producers to expand wheat starch and wheat gluten production capacity and to continue the development of even greater capacities. During the fiscal year ending 1998, an estimated 150 million pounds of additional E.U. capacity were either completed or nearing completion and an estimated additional 20 million pounds of E.U. capacity have been announced to come on line during the next two years. 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 Council, which is principally supported by the Company and another domestic wheat gluten producer, has engaged in a number of initiatives to combat this surge in Subsidized E.U. wheat gluten. Initially the Wheat Gluten 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 (the "IT") 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 ITC 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 ITC 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 is 126.8 million pounds. Annual increases in that quota of six percent prevail in the second year and in the third year. The quotas for "goods entered, or withdrawn from warehouse for consumption, on or after June 1, 1998" in millions of pounds are:

"If entered during the period from June 1, 1998, through May 31, 1999, inclusive....:"

Australia..................................... 62.4 million pounds
European Community............................ 54.0 million pounds
Other Countries............................... 10.4 million pounds

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

Australia..................................... 66.1 million pounds
European Community............................ 57.3 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, during the first 123 days of the quota between June 1, 1998, and September 21, 1998, the E.U. had imported approximately 35.84 million pounds of wheat gluten or approximately 66.33% of the quota for the crop year ending May 31, 1999. If the shipments from the E.U. continue at that rate, the E.U. quota should be filled by November 16, 1998, thereby precluding further imports from the E.U. for the next 196 days of the crop year. If this occurs, the Company expects a sharp increase in demand for the Company's vital wheat gluten in the second half of fiscal 1999 and a possible reduction in demand during the first half of fiscal 2000. Based on these estimates, the Company has been increasing gluten production with the view to inventorying excess gluten during the first half of fiscal 1999 and liquidating those inventories during the second half of that year. This cycle should translate into increased gluten sales and other operating results during the second half of fiscal 1999 with the possibility of reduced gluten results during first six months of fiscal 2000.

During the next three 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 1998 increased slightly over gluten sales in fiscal 1997 as the Company began to increase production in anticipation of a favorable outcome in the Section 201 Proceeding. Although the average price of wheat for the year declined during 1997 and 1998, the continued flood of subsidized wheat gluten from the E.U. negatively impacted the Company's gluten results for the year and even into the beginning of fiscal 1999 as E.U. producers continued to import gluten at a rate well in excess of an annualized rate for the quota.

Premium Wheat Starch

Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. The Company produces a pure white premium wheat starch powder by extracting the starch from the starch slurry substantially free of all impurities and fibers and then by spray, flash or drum drying the starch. Premium wheat starch differs from low grade or B wheat starches which are extracted along with impurities and fibers and are used primarily as a binding agent for industrial applications such as the manufacture of charcoal

briquettes. The Company does not produce low grade or B starches since its integrated processing facilities are able to process the remaining slurry after the extraction of premium wheat starch into alcohol, animal feed and carbon dioxide. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

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

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

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

The Company believes that it is the largest producer of premium wheat starch in the United States. Although wheat starch enjoys a relatively small portion of the total United States starch market, the market is one which has

experienced substantial growth over the last ten 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 wheat starches and continues to explore the development of additional starch products with the view to increasing sales of value added modified starches.

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

Although Starch volumes increased during fiscal 1998, sales declined slightly due primarily to increased competition.

Alcohol Products

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

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

Food Grade Alcohol

Beverage Alcohol. Food grade beverage alcohol consists primarily of grain neutral spirits and gin. Grain neutral spirits is sold in bulk or processed into vodka and gin and sold in bulk quantities at various proof concentrations to bottlers and rectifiers, such as James B. Beam Distilling Co., Florida Distillers Co, and Barton Brands, which further process the alcohol for sale to consumers under numerous labels.

The Company believes that in terms of fiscal 1998 net sales, it is one of the two largest bulk sellers of grain neutral spirits, vodka and gin in the United States. The Company's principal competitors in the beverage alcohol market are Grain Processing Company of Muscatine, Iowa and Archer Daniels Midland of Decatur, Illinois. During 1997 and continuing into fiscal 1998 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, such as 7-Up Company

and Reckitt & Colman, a producer of Lysol brand products, and Avon Products, Inc., from both the Atchison and Pekin plants.

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

Food grade industrial and beverage alcohol sales declined by approximately $17.7 million during 1998 due primarily to decreased demand and increased food grade production capacity throughout the industry. Although the effects of declining sales were partially offset by significantly reduced grain prices, food grade results for 1998 contributed to the Company's 1998 loss. 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 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 1998 payments to the Company out of the fund totaled $379,000 for the ethanol produced by the Company at the Atchison plant during that year. A few other states offer ethanol blending incentives, which, in the aggregate, did not materially add to the Company's ethanol revenues during fiscal 1998.

The fuel grade alcohol market is dominated by Archer Daniels Midland. In recent years the Company and other competitors have significantly increased domestic fuel grade alcohol distillation capacity. During fiscal 1995 the Company more than tripled its fuel grade alcohol production capacity through the expansion of its distillery operations at the Pekin plant. As a consequence, it moved from a very small competitor in the fuel grade market to the smaller of a few other larger second tier ethanol producers. The Company competes with other producers of fuel grade alcohol on the basis of price and delivery service.

Fuel grade alcohol sales increased by 46.5 % during 1998 as demand for food grade alcohol declined and the utilization of the distillery capacity at the Pekin, Illinois plant increased. At the same time fuel alcohol prices decreased significantly due to declining gasoline prices and increased industry-wide capacity. Although grain costs also declined, a more pronounced drop in fuel grade alcohol prices negatively impacted the Company's fuel grade alcohol operations.

Alcohol By-Products

The bulk of fiscal 1997 sales of alcohol by-products consisted of distillers feeds. Distillers feeds are the residue of corn, milo and wheat from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. The Company competes with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers feeds and mill feeds.

The 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 were relatively flat during 1998 due to an increase in unit production of distillers feeds that was offset by reduced selling prices which resulted from lower grain costs.

Flour and Other Mill Products

The Company owns and operates a flour mill at the Atchison plant. The 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 380 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 two factors. First, 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 Company expects that the three-year quota on imports of wheat gluten will significantly 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. Second, fuel grade alcohol prices, which historically have tracked the cost of gasoline, do not usually adjust to rising grain costs.

Beginning in the first quarter of fiscal 1997, grain prices began to

return to more normal levels from the record high levels that prevailed during the privious fiscal year. By the end of fiscal 1997, the average market price of corn and milo had gone from $6.52 per bushel at the beginning of the year to $3.40 during June, 1997, while the average market price of wheat declined from $5.51 per bushel at the beginning of fiscal 1997 to $3.90 at the end of that year. During fiscal 1998 market prices for grain continued to decline to $3.17 per average bushel for corn and milo and to $3.06 for a bushel of wheat, as of June 30, 1998. Although a return to more normal grain prices continued to enabled positive cash flows in 1998, the fiscal 1998 surge in low priced Subsidized E.U. gluten, excess alcohol capacities and low gasoline prices continued to restrict the ability of the company to adjust the price of its gluten and fuel grade alcohol to compensate for grain and other production costs.

Historically the Company has not engaged in the purchase of commodity futures to hedge economic risks associated with fluctuating grain and grain products prices. However, due to the significantly increased volumes of grain and grain products that have resulted from the expansion of the Company's production facilities and the fact that the markets for an increasing portion of the Company's products are not adjusting to fluctuations in grain costs, the Company began during 1995 to make limited purchases of commodity futures, including wheat, corn and gasoline futures. Since then it has expanded those hedging activities through the purchase of commodity contracts. During fiscal 1998, the Company hedged approximately 23% of corn processed compared to 61% in 1997 and 37% of wheat processed compared to 16% in 1997. 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 1998, raw material costs included a net income of $243,000 on contracts settled during the year compared to a net loss of $1,877,000 for fiscal 1997. 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 transported by a wholly-owned subsidiary which owns a gas pipeline. The subsidiary procures the gas in the open market from various suppliers. The Atchison boilers may also be oil fired.

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

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

Employees

As of June 30, 1998, the Company had 421 employees, 285 of whom are covered by two collective bargaining agreements with one labor union. One agreement, that expires on August 31, 1999, covers 183 employees at the Atchison Plant. The other agreement, that expires in November, 2000, covers 94 employees at the Pekin plant. As of June 30, 1997, the Company had 411 employees.

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

Regulation

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

The Company is subject to extensive environmental regulation at the federal, state and local levels. The regulations include the regulation of water usage, waste water discharge, disposal of hazardous wastes and emissions of

volatile organic compounds, particulates and other substances into the air. Under these regulations the Company is required to obtain operating permits and to submit periodic reports to regulating agencies. During 1997 the Illinois Environmental Protection Agency commenced an action against the Company with respect to alleged noncompliance of the Pekin Plant with certain air quality regulations. This action is further described under "Item 3. Legal Proceedings." The Company has submitted an application to the Agency for construction of new pollution control equipment that is expected to bring emissions into compliance with all applicable regulations.

Item 2. Properties.

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

Location	Purpose	Plant Area (in sq. ft.)	Tract Area (in acres)
Atchison, Kansas	Principal executive offices, grain processing, warehousing, and research and quality control laboratories.	494,640	25
Pekin, Illinois	Grain processing, warehousing, and quality control laboratories.	462,926	49

Except as otherwise reflected under Item 1, the facilities mentioned above are generally in good operating condition, are currently in normal operation, are generally suitable and adequate for the business activity conducted therein, and have productive capacities sufficient to maintain prior levels of production. Except as otherwise reflected under Item 1, all of the plants, warehouses and office facilities are owned. Although none are subject to any major encumbrance, the Company has entered into loan agreements which contain covenants against the pledging of such facilities to others. The Company also owns transportation equipment and a gas pipeline described under Transportation and Energy.

Item 3. Legal Proceedings.

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

The Company has filed an Answer before the Board admitting that compliance tests have shown particulate emissions in excess of the limits set forth in the construction permits, but denying the remainder of the State's claims. Since the time operational problems were discovered with the dryers' pollution control equipment, the Company has been conferring and negotiating with the Agency on the issues involved in the Complaint. The Company has submitted an application to the Agency for construction of new pollution control equipment for the dryers, at an estimated cost of approximately $1.0 million. It is anticipated that the new equipment will bring emissions into compliance with all applicable limitations.

Proceedings under the Complaint are being held in abeyance by agreement of the parties pending completion of 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, 1998 which the Company believes to be material. Legal proceedings which are pending, including the proceeding with the Illinois Environmental Protection Agency described above, are believed by the Company to consist of matters normally incident to the business conducted by the Company and taken together do not appear material.

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

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

PART II

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

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

The following table below reflects the the high and low closing prices of the Common Stock for each quarter of fiscal 1998 and 1997. Cash dividends have not been paid since the end of 1995.

	Sales Price	
	High	Low
1998:		
Fourth Quarter..............................	$ 15.00	$ 12.00
Third Quarter..............................	15.75	12.00
Second Quarter..............................	14.63	11.88
First Quarter..............................	15.13	12.50
1997:		
Fourth Quarter..............................	$ 13.25	$ 10.50
Third Quarter..............................	16.75	11.13
Second Quarter..............................	19.50	13.63
First Quarter..............................	14.38	12.00

At June 30, 1998 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 pages18 through 24 of the Annual Report, copies of which pages are included in Exhibit 10(c) to this Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference to the consolidated financial statements and related notes on pages 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.	75	Chairman of the Board and Director
Laidacker M. Seaberg	52	President, Chief Executive Officer and Director
Sukh Bassi, Ph.D.	57	Vice President - Vital Wheat Gluten Marketing, Research and Development and Corporate Technical Director
Robert G. Booe	61	Vice President - Administration, Controller, Treasurer and Chief Financial Officer
Gerald Lasater	60	Vice President - Wheat Starch Marketing
Raymond L. Miller	64	Vice President - Purchasing and Energy and President of Midwest Grain Pipeline, Inc.
Marta L. Myers	38	Secretary

Randy M. Schrick	48	Vice President - Operations and Director
Robert L. Swaw	68	Vice President - Alcohol Marketing
Michael Braude	62	Director
F.D. "Fran" Jabara	73	Director
Tom MacLeod, Jr.	50	Director
Robert J. Reintjes	66	Director
Daryl R. Schaller, Ph.D.	54	Director
Eleanor B. Schwartz, D.B.A.	61	Director

Mr. Cray, Jr. has been a Director since 1957, and has served as Chairman of the Board since 1980. He served as Chief Executive Officer from 1980 to September, 1988, and has been an officer of the Company and its affiliates for more than thirty years.

Mr. Seaberg, a Director since 1979, joined the Company in 1969 and has served as the President of the Company since 1980 and as Chief Executive Officer since September, 1988. He is the son-in-law of Mr. Cray, Jr.

Dr. Bassi has served as Vice President of Research and Development since 1985, Technical Director since 1989 and Vice President - Vital Wheat Gluten Marketing since 1992. From 1981 to 1992 he was Manager of the Vital Wheat Gluten Strategic Business Unit. He was previously a professor of biology at Benedictine College for ten years.

Mr. Booe has served as Vice President, Treasurer and Chief Financial Officer of the Company since 1988. He joined the Company in 1966 as its Treasurer and became the Controller and Treasurer in 1980. In 1992 he was assigned the additional task of Vice President - Administration.

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

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

Ms. Myers joined the Company in 1996. She has served as Secretary since October 1996. 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. Swaw joined the Company in 1989. He has served as Vice President-Alcohol Marketing since September 1, 1995. Previously he was sales manager of the Company's industrial alcohol division. Before joining the Company, Mr. Swaw was general manager for the bulk alcohol division of Sofecia, S.A. and general sales manager with Publicker Industries in Philadelphia.

Mr. Braude has been a Director since 1991 and is a member of the Audit 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 and 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 Nominating Committee. He is President of Jabara Ventures Group, a venture capital firm. From September 1949 to August 1989 he was a distinguished professor of business at Wichita State University, Wichita, Kansas. He is also a director of Commerce Bank, Wichita, Kansas and NPC International, Inc., an operator of numerous Pizza Hut and other quick service restaurants throughout the United States.

Mr. MacLeod, Jr. has been a Director since 1986 and is a member of the Audit and Human Resources Committees. He has been the President and Chief Operating Officer of Iams Company, a manufacturer of premium pet foods, since 1989. Previously, he was President and Chief Executive Officer of Kitchens of

Sara Lee, a division of Sara Lee Corporation, a food products company.

Mr. Reintjes has been a director since 1986, and is Chairman of the Nominating Committee and a member of the Audit Committee. 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 the Chancellor of the University of Missouri-Kansas City since May 1992, and was previously the Vice Chancellor for Academic Affairs. She is a Trustee of Midwest Research Institute and a director of each of the funds in The United Group of Mutual Funds, Target/The United Funds, Inc. and Waddell & Reed Funds, Inc.

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.	1998
Mr. MacLeod	1998	Mr. Reintjes	1998
Dr. Schaller	2000	Mr. Braude	2000
Dr. Schwartz	1999	Mr. Schrick	1999
		Mr. Seaberg	1999

Item 11. Executive Compensation.

Incorporated by reference to the information under "Executive Compensation" on pages 17 through 22 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 22 through 24 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, 1998 and 1997.
Consolidated Statements of Income - for the Three Years Ended June 30, 1998, 1997 and 1996.
Consolidated Statements of Stockholders' Equity for the Three Years Ended June 30, 1998, 1997 and 1996.
Consolidated Statements of Cash Flow - for the Three Years Ended June 30, 1998, 1997 and 1996. 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

Allother 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.
4(d)	Copy of Line of Credit Note Under Fourth Amended Line of Credit Loan Agreement.
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).

Exhibit No.	Description
10(a)	Summary of informal cash bonus plan (incorporated by reference to the summary contained in the Company's Proxy Statement dated September 17, 1998, 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. 1998 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, 1998, filed with theSecurities and Exchange Commission on September 15, 1998).
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, Kurtz & 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 as at June 30, 1998 and for the year then ended.

No reports on Form 8-K have been filed during the quarter ended June 30, 1998.

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 23rd day of September, 1998.

MIDWEST GRAIN PRODUCTS, INC.

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

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the

Registrant in the capacities indicated on the dates indicated.

Name	Title	Date
/s/ Laidacker M. Seaberg Laidacker M. Seaberg	President (Principal Executive Officer) and Director	September 23, 1998
/s/ Robert G. Booe Robert G. Booe	Vice President, Treasurer and Controller (Principal Financial and Accounting Officer)	September 23, 1998
/s/ Michael Braude Michael Braude	Director	September 23, 1998
/s/ Cloud L. Cray, Jr. Cloud L. Cray, Jr.	Director	September 23, 1998
/s/ F. D. Jabara F. D. "Fran" Jabara	Director	September 23, 1998
/s/ Tom MacLeod Tom MacLeod, Jr.	Director	September 23 , 1998
/s/ Robert J. Reintjes Robert J. Reintjes	Director	September 23, 1998
/s/ Randy M. Schrick Randy M. Schrick	Director	September 23, 1998
/s/ Daryl R. Schaller Daryl R. Schaller	Director	September 23, 1998
/s/ Eleanor B. Schwartz Eleanor B. Schwartz	Director	September 23, 1998

MIDWEST GRAIN PRODUCTS, INC.

Consolidated Financial Statement Schedules
(Form 10-K)

June 30, 1998, 1997 and 1996

(With Auditors' Report Thereon)

[LOGO]

Baird, Kurtz & Dobson
Certified Public Accountants
City Center Square, Suite 2700, 1100 Main, 816 221-6300
Kansas City, Missouri 64105 FAX 816 221-6380

http://www.bkd.com
Member of Moores Rowland International

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, 1998, we have also audited the following financial statement schedule. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits of the basic financial statements. The schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations and is not a required part of the consolidated financial statements.

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

S/BAIRD, KURTZ & DOBSON

Kansas City, Missouri
August 4, 1998 [LOGO]

MIDWEST GRAIN PRODUCTS, INC.

VIII. VALUATION AND QUALIFYING ACCOUNTS

	Balance, Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions Write-Offs	Balance, End of Period
	(In Thousands)				
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
Year Ended June 30, 1996 Allowance for doubtful accounts	$ 85	$214		$ 14	$285

EXHIBIT INDEX

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4(a)	Copy of Note Agreement dated as of August 1, 1993, providing for the issuance and sale of $25 million of 6.68% term notes ("Term Notes", incorporated by reference to Exhibit 4.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1993).
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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, 1998, filed with the Securities and Exchange Commission on September 15, 1998).
10(h)	Form of Stock Option with respect to stock options granted under the 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).

Exhibit No.	Description
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, Kurtz & 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 as at June 30, 1998 and for the year then ended.

Exhibit 4(d)

LINE OF CREDIT NOTE

$27,000,000 October 28, 1997

FOR VALUE RECEIVED, the undersigned, MIDWEST GRAIN PRODUCTS, INC., a Kansas corporation ("Borrower") hereby promises to pay to the order of Commerce Bank, N.A. ("Bank") at its offices in Kansas City, Missouri, the aggregate unpaid principal amount and accrued interest of all borrowings hereunder. The aggregate unpaid principal amount shall also become immediately due and payable, without demand or further action on the part of Bank upon the occurrence of an event of default as set forth in Section 4.1 of the Fourth Amended Line of Credit Loan Agreement, as amended, dated as of October 28, 1997 (the "Agreement").

Interest on this note shall be calculated on the actual number of days on the basis of a year of 360 days. If the outstanding balance is less than $500,000, the line of credit shall bear interest at a per annum rate equal to the Prime Rate. If the outstanding balance is $500,000 or greater, the line of credit shall bear interest at the greater of either (1) the Prime Rate, minus 1 %, or (2) the Federal Funds Rate plus 1.50%.

Interest will be payable monthly, in arrears, and at maturity, whether by acceleration or otherwise, beginning December 1, 1997, and on the first day of each month thereafter. Interest will be computed on the actual days outstanding based upon a year consisting of 360 days. If any interest payment on this note shall become due and payable on a day which is not a business day of Bank, payment shall be made on the next succeeding business day of Bank.

"Prime Rate" means the Prime Rate of interest established from time to time by Commerce Bank and designated as such for its internal convenience, and no representation is made that the Prime Rate is the best, the lowest or favored rate of interest. The rate of interest, if tied to the Prime Rate, shall change with and be effective on the date of each change in the Prime Rate.

"Federal Funds Rate" means the effective Federal Funds Rate as quoted by the Federal Reserve Bank of New York on a daily basis. The Federal Funds Rate is adjusted daily.

So long as the Agreement has not been terminated, Borrower may, from the date of this note through November 1, 1999 borrow, repay and reborrow sums, at any one time outstanding, not to exceed $27,000,000. All advances and repayments hereunder shall be endorsed on the reverse hereof (or an attached schedule) by the Bank or holder, and between the undersigned and Bank, such endorsements and the balances derived from such endorsements shall be conclusively presumed to reflect the amounts advanced and repaid hereunder and the then outstanding and unpaid balance of sums advanced or readvanced hereunder.

The undersigned hereby waives presentment, protest, demand and notice of dishonor or default.

This note is issued pursuant to the terms of the Agreement, to which Agreement, and any amendments thereto, reference is hereby made for a statement of the terms and conditions under which this borrowing was made, and is to be repaid.

MIDWEST GRAIN PRODUCTS, INC.

By: /s/ Ladd M. Seaberg

Title: President and CEO

By: /s/ Robert G. Booe

Title: Vice President and CFO

Exhibit 4(d)

LINE OF CREDIT NOTE

$27,000,000 October 28, 1997

FOR VALUE RECEIVED, the undersigned, MIDWEST GRAIN PRODUCTS, INC., a Kansas corporation ("Borrower") hereby promises to pay to the order of Commerce Bank, N.A. ("Bank") at its offices in Kansas City, Missouri, the aggregate unpaid principal amount and accrued interest of all borrowings hereunder. The aggregate unpaid principal amount shall also become immediately due and payable, without demand or further action on the part of Bank upon the occurrence of an event of default as set forth in Section 4.1 of the Fourth Amended Line of Credit Loan Agreement, as amended, dated as of October 28, 1997 (the "Agreement").

Interest on this note shall be calculated on the actual number of days on the basis of a year of 360 days. If the outstanding balance is less than $500,000, the line of credit shall bear interest at a per annum rate equal to the Prime Rate. If the outstanding balance is $500,000 or greater, the line of credit shall bear interest at the greater of either (1) the Prime Rate, minus 1 %, or (2) the Federal Funds Rate plus 1.50%.

Interest will be payable monthly, in arrears, and at maturity, whether by acceleration or otherwise, beginning December 1, 1997, and on the first day of each month thereafter. Interest will be computed on the actual days outstanding based upon a year consisting of 360 days. If any interest payment on this note shall become due and payable on a day which is not a business day of Bank, payment shall be made on the next succeeding business day of Bank.

"Prime Rate" means the Prime Rate of interest established from time to time by Commerce Bank and designated as such for its internal convenience, and no representation is made that the Prime Rate is the best, the lowest or favored rate of interest. The rate of interest, if tied to the Prime Rate, shall change with and be effective on the date of each change in the Prime Rate.

"Federal Funds Rate" means the effective Federal Funds Rate as quoted by the Federal Reserve Bank of New York on a daily basis. The Federal Funds Rate is adjusted daily.

So long as the Agreement has not been terminated, Borrower may, from the date of this note through November 1, 1999 borrow, repay and reborrow sums, at any one time outstanding, not to exceed $27,000,000. All advances and repayments hereunder shall be endorsed on the reverse hereof (or an attached schedule) by the Bank or holder, and between the undersigned and Bank, such endorsements and the balances derived from such endorsements shall be conclusively presumed to reflect the amounts advanced and repaid hereunder and the then outstanding and unpaid balance of sums advanced or readvanced hereunder.

The undersigned hereby waives presentment, protest, demand and notice of dishonor or default.

This note is issued pursuant to the terms of the Agreement, to which Agreement, and any amendments thereto, reference is hereby made for a statement of the terms and conditions under which this borrowing was made, and is to be repaid.

MIDWEST GRAIN PRODUCTS, INC.

By: /s/ Ladd M. Seaberg

Title: President and CEO

By: /s/ Robert G. Booe

Title: Vice President and CFO

Exhibit 10(c)

Selected Financial Information

	Years ended June 30				
	1998	1997	1996	1995	1994
(in thousand, except per share amounts)					
Income Statement Data:					
Net sales	$223,254	$224,733	$194,638	$180,252	$185,968
Cost of sales	214,453	213,733	190,173	159,149	148,320
Gross profit	8,801	11,000	4,465	21,103	37,648
Selling, general and administrative expenses	11,363	9,169	9,001	10,553	12,212
Other operating income (expense)	100	370	159	(107)	(669)
Income (loss) from operations	(2,462)	2,201	(4,377)	10,443	24,767
Other income (loss), net	658	618	1,309	(4,225)	924
Interest expense	(1,887)	$(2,604)	(2,556)	(606)	(127)
Income (loss) before income taxes	(3,691)	215	(5,624)	5,612	25,564
Provision (credit) for income taxes	(1,455)	84	(2,218)	2,273	9,713
Net Income (Loss)	$(2,236)	$131	$(3,406)	$3,339	$15,851
Earnings (Loss) Per Common Share	$(0.23)	$0.01	$(0.35)	$0.34	$1.62
Cash dividends per common share				$0.50	$0.50
Weighted average common shares outstanding	9,700	9,762	9,765	9,765	9,765
Balance Sheet Data:					
Working capital	$39,825	$36,580	$37,113	$26,955	$21,951
Total assets	161,978	165,330	172,785	176,749	168,146
Long-term debt, less current maturities	25,536	29,933	40,933	38,908	25,000
Stockholders' equity	106,325	108,561	109,222	112,628	114,173

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)	
	1998	1997	1996	Fiscal 1998 Over 1997	Fiscal 1997 Over 1996
Net sales	100.0%	100.0%	100.0%	(.7)%	15.5%
Cost of sales	96.1	95.1	97.7	.3	12.4
Gross profit	3.9	4.9	2.3	(20.0)	146.4
Selling, general and administrative expenses	5.1	4.1	4.6	23.9	1.9
Other operating income (loss)	.1	.2	.1	(73.0)	132.7
Income (loss) from operations	(1.1)	1.0	(2.2)	(211.9)	150.3
Other income (expense)	(.6)	(.9)	(.6)	61.6	59.2
Income before income taxes	(1.7)	.1	(2.8)	(1,616.7)	103.8
Provision (credit) for income taxes	(.7)	.04	(1.1)	(1,832.1)	103.8
Net income (loss)	(1.0)%	.06%	(1.7)%	(1,806.9)%	103.8%

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.

On June 1, the White House implemented a three-year quota on imports of foreign wheat gluten following a unanimous recommendation from the United States International Trade Commission (ITC). The White House additionally announced that international negotiations would be pursued to 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.

During the first year of implementation, the quota will restrict wheat gluten imports to 126 million pounds, a reduction of approximately 30% compared to the amount of gluten imported by the United States during the Company's 1998 fiscal year. In each of the two following years, imports will be allowed to increase by 6%. Within the quota, separate quotas for the E.U., Australia and all other non-excluded countries were assessed, "taking into account the disproportional growth and the impact of imports of wheat gluten from the European Union," according to the ITC's recommendation. Countries excluded from the quota are Canada, Mexico, Israel and the beneficiary countries of the Caribbean Basin Economic Recovery Act or the Andean Trade Preferences Act.

The quota is consistent with the type of remedy requested by the Company and the Wheat Gluten Industry Council (WGIC) of the U.S. That request was made in a petition that was filed by the WGIC on September 19, 1997 under Section 201 of the Trade Act of 1974. The petition was filed on the grounds that the U.S. wheat gluten industry has been seriously injured by the surge in low-priced wheat gluten imports from the E.U. 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 below U.S. production costs. This has forced domestic producers to drastically under-utilize production capacities and relinquish sizeable percentages of market share.

The Company expects the import quota to help establish a more level playing field in the U.S. wheat gluten market by offsetting lopsided trade advantages provided by the E.U. to E.U. producers. As a result, the Company began increasing gluten production levels, particularly in the second half of fiscal 1998, to effectively supply future customer needs. In addition, the Company has intensified efforts to develop and market modified wheat gluten products in niches that will 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 alcohol production, unit sales of distillers feed, the principal by-product of the distillation process, also grew compared to a year ago. 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.

With consistently lower grain costs, improved conditions in the wheat gluten market, 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 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 income 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 is 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.

Fiscal 1997 Compared to Fiscal 1996

The Company's net income of $131,000 in fiscal 1997 was a sizeable improvement over the prior year's net loss of $3,406,000. A greater improvement was prevented by the intensification of competitive pressures in the Company's vital wheat gluten market. Higher than normal energy costs from late fall through late winter, and a surge in competition in the food grade alcohol markets in the third quarter affected the

Company's alcohol production. In addition, while average prices for the Company's principal raw materials, namely wheat, corn and milo, were below the exceptionally high levels experienced in the prior fiscal year, they remained well above what traditionally have been considered normal price levels. The increased energy costs, which the Company began experiencing midway through the second quarter, resulted from a significant jump in natural gas prices due to periods of extreme cold weather throughout much of the U.S. During the latter part of the third quarter, those prices returned to more normal levels, allowing the Company to realize improved energy cost efficiencies.

Conditions in the wheat gluten market were adversely affected by increased

competition from the European Union (E.U.), whose exports of subsidized gluten to the United States continued at record levels. As a result, the Company was unable to adjust the selling price of its gluten enough to effectively offset production costs.

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

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

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

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

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

The cost of sales in fiscal 1997 increased by approximately $23.6 million above the cost of sales in fiscal 1996. This occurred partially as the result of a $16.7 million rise in raw material costs for grain, as more grain was required to satisfy increased production needs. In addition, the Company experienced a jump of approximately $4.7 million in

energy costs due principally to higher than normal prices for natural gas during the second and third quarters, and a rise of approximately $1.2 million in maintenance and repair costs. The remainder of the increase in the total cost of sales compared to fiscal 1996 was mainly attributable to costs associated with increased product sales, principally in the food grade alcohol area.

Selling, general and administrative expenses in fiscal 1997 were approximately even with selling, general and administrative expenses the prior year. This principally was the result of the continuation of an intense cash management program which was implemented in fiscal 1996 and included reductions in compensation as well as in costs for management and employee incentive programs.

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

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

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 following table shows quarterly information for each of the years ended June 30, 1998 and 1997.

	Quarter Ending				
	Sept. 30	Dec. 31	March 31	June 30	Total
(in thousands, except per share amounts)					
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	(.02)	.01	(.05)	(.17)	(.23)
Fiscal 1997					
Sales	$53,173	$55,249	$54,449	$61,862	$224,733
Gross profit	2,063	4,889	2,474	1,574	11,000
Net income (loss)	(346)	1,205	3	(731)	131
Earnings (loss) per share	(.04)	.12	.00	(.08)	.01

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, 1998. 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, 1998	
	Carrying Amount	Fair Value
(in thousands)		
Inventories		
Corn	$1,205	$1,222
Milo	579	613
Wheat	1,320	1,320
	Expected Maturity	Fair Value
Contracts		
Corn futures (long)		
Contract volumes (bushels)	3.6 million	
Price per bushel	$2.66	
Contract amount	$9.6 million	$9.3 million
Wheat options (long)		
Contract volumes (bushels)	2.0 million	
Price of option per bushel	$0.20	
Contract amount	$400,000	$320,000
Wheat options (short)		
Contract volumes (bushels)	2.0 million	
Price of option per bushel	$0.1375	
Contract amount	$275,000	$150,000

Liquidity and Capital Resources

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

(in thousands)	June 30 1998	1997
Cash and cash equivalents	$4,723	$6,005
Working capital	39,825	36,580
Amounts available under lines of credit	30,000	29,000
Notes payable and long-term debt	28,896	30,933
Stockholders' equity	106,325	108,561

During fiscal 1998, the Company generated a positive cash flow from operations, which was used to reduce its debt and partially pay for capital additions. Working capital also improved. Short-term liquidity has been impacted by higher inventory requirements to prepare to satisfy customer needs for wheat gluten resulting from an eventual reduction in import supplies. The Company anticipates even higher inventory levels during the first half of 1999 to meet customer needs.

At June 30, 1998, the Company had $4.4 million committed to improvements and replacements of existing equipment.

Since 1996, the Company has recognized the need to ensure its operations will not be adversely impacted by Year 2000 software failures. New hardware and software has been acquired and installed for the core financial applications. All core financial modules, except order entry, have been tested successfully. The order entry module is in final modification and testing. The total costs incurred to date approximate $200,000. Conversion to the new system is expected to be completed during fiscal 1999. The Company expects no additional significant costs to achieve Year 2000 compliance for these applications. Due to the stage of completion and testing of these applications, as well as the non-complexity of the systems, the Company fully anticipates being compliant far in advance of December 31, 1999.

The company also has surveryed 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 received bids to modify the equipment. In some cases, testing of certain equipment has already been completed. The cost to convert and test the identified processes is expected to be less than $100,000. The Company anticipates having the conversions completed and tested during fiscal 1999. Should these conversions not be completed on a timely basis, the Company would be able to produce all products except specialty and modified wheat glutens and starches.

The Company is also in the process of surveying key vendors and customers regarding their abilities to achieve the Year 2000 compliance. Initial results of the surveys indicate these companies are knowledgeable of Year 2000 issues and are in the process of complying or have already complied.

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 when foreign quotas are reached, as well as its other products.

Forward-Looking Information

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

Independent Accountant's Report

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

We have audited the accompanying consolidated balance sheets of MIDWEST GRAIN PRODUCTS, INC. as of June 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998. 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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

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

Kansas City, Missouri
August 4, 1998

Consolidated Statements of Operations
Years Ended June 30, 1998, 1997 and 1996

(in thousands, except per share amounts)	1998	1997	1996
Net sales	$223,254	$224,733	$194,638
Cost of sales	214,453	213,733	190,173
Gross profit	8,801	11,000	4,465
Selling, general & administrative expenses	11,363	9,169	9,001
	(2,562)	1,831	(4,536)
Other operating income	100	370	159
Income (loss) from operations	(2,462)	2,201	(4,377)
Other income (loss), net	658	618	1,309
Interest expense	(1,887)	(2,604)	(2,556)
Income (loss) before income taxes	(3,691)	215	(5,624)
Provision (credit) for income taxes	(1,455)	84	(2,218)
Net income (loss)	$(2,236)	$131	$(3,406)
Earnings (loss) per common share	$(0.23)	$0.01	$(0.35)

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets
June 30, 1998 and 1997

(in thousands)	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	$4,723	$6,005

	1998	1997
Receivables (less allowance for doubtful accounts; 1998 and 1997-$285)	26,369	26,276
Inventories	20,430	15,000
Prepaid expenses	753	988
Deferred income taxes	2,343	1,688
Income taxes receivable	1,334	227
Total Current Assets	55,952	50,184
Property & equipment, at cost	218,590	213,813
Less accumulated depreciation	112,976	99,099
Property & equipment, net	105,614	114,714
Other assets	412	432
Total Assets	$161,978	$165,330
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$1,000	$1,000
Current maturities of long-term debt	2,360	
Accounts payable	9,072	8,196
Accrued expenses	3,695	4,408
Total Current Liabilities	16,127	13,604
Long-term debt	25,536	29,933
Post-retirement benefits	6,520	6,245
Deferred income taxes	7,470	6,987
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	97,913	100,149
	107,117	109,353
Treasury stock, at cost		
Common; 65,000 shares	(792)	(792)
Total stockholders' equity	106,325	108,561
Total liabilities and stockholders' equity	$161,978	$165,330

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Years Ended June 30, 1998, 1997 and 1996

(in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, June 30, 1995	$4	$6,715	$2,485	$103,424		$112,628
1996 net loss				(3,406)		(3,406)
Balance, June 30, 1996	4	6,715	2,485	100,018		109,222
Purchase of treasury stock					$(792)	(792)
1997 net income				131		131
Balance, June 30, 1997	4	6,715	2,485	100,149	(792)	108,561
1998 net loss				(2,236)		(2,236)
Balance, June 30, 1998	$4	$6,715	$2,485	$ 97,913	$(792)	$106,325

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows
Years Ended June 30, 1998, 1997 and 1996

(in thousands)	1998	1997	1996
Cash Flows From Operating Activities			
Net income (loss)	$(2,236)	$131	$(3,406)
Items not requiring (providing) cash:			
Depreciation	13,892	14,041	13,854
Gain on sale of assets	(2)	(18)	(41)
Deferred income taxes	(172)	236	611
Changes in:			
Accounts receivable	(93)	(7,911)	3,185
Inventories	(5,430)	4,913	(5,223)
Accounts payable	847	1,578	4
Income taxes (receivable) payable	(1,107)	2,836	(725)
Other	(183)	618	(1,238)
Net cash provided by operating activities	5,516	$16,424	7,021
Cash Flows From Investing Activities			
Additions to property & equipment	(4,765)	(3,491)	(5,516)
Proceeds from sale of equipment	4	105	71
Proceeds from notes receivable			919
Net cash used in investing activities	(4,761)	(3,386)	(4,526)
Cash Flows From Financing Activities			
Purchase of treasury stock		(792)	
Principle payments on long-term debt	(2,037	(10,000)	
Proceeds from issuance of long-term debt			2,025
Dividends paid			(1,221)
Net cash provided by (used in) financing activities	(2,037)	(10,792)	804
Increase (Decrease) in Cash & Cash Equivalents	(1,282)	2,246	3,299
Cash & Cash Equivalents, Beginning of Year	6,005	3,759	460
Cash & Cash Equivalents, End of Year	$4,723	$6,005	$3,759

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

Nature of Operations. The activities of Midwest Grain Products, Inc. and its subsidiaries consist of production of 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 intercompany balances and transactions have been eliminated in consolidation.

Inventories. Inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, Midwest Grain Products, Inc. enters into commodity contracts to reduce the risk of future grain price increases. These contracts, including those terminated early, are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of product cost when contract positions are settled and as related products are sold. If grain requirements

fall below anticipated needs and open contract levels, then gains and losses are recognized immediately for the excess open contract levels. At June 30, 1998, Midwest Grain Products, Inc. had entered into contracts hedging future wheat and corn prices through the second quarter of fiscal 1999.

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

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

The Company capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred each year was:

	Years Ended June 30,		
	1998	1997	1996
(in thousands)			
Interest costs capitalized			$ 364
Interest costs charged to expense	$1,887	$2,604	2,556
	$1,887	$2,604	$2,920

Earnings Per Common Share. Earnings per common share data is based upon the weighted average number of common shares totaling 9,700,172 at June 30, 1998, 9,761,967 at June 30, 1997 and 9,765,172 at June 30, 1996. The effect of employee stock options, which were the only potentially dilutive securities held by the Company, was anti-dilutive at June 30, 1998.

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.

Notes to Consolidated Financial Statements

Note 2: Inventories

Inventories consist of the following:

	June 30,	
	1998	1997
(in thousands)		
Whiskey, alcohol and spirits	$6,884	$4,017
Unprocessed grain	6,398	5,803
Operating supplies	3,554	3,105
Gluten	2,382	757
By-products and other	1,212	1,318
	$20,430	$15,000

Note 3: Property and Equipment

Property and equipment consists of the following:

	June 30,	
	1998	1997
(in thousands)		
Land, buildings and improvements	$17,411	$17,411
Transportation equipment	1,180	1,081
Machinery and equipment	196,903	193,923
Construction in progress	3,096	1,398
	218,590	213,813
Less accumulated depreciation	112,976	99,099
	$105,614	$114,714

Note 4: Accrued Expenses

Accrued expenses consist of the following:

(in thousands)	June 30, 1998	1997
Excise taxes	$ 239	$ 642
Employee benefit plans (Note 10)	973	768
Salaries and wages	784	963
Property taxes	525	593
Insurance	454	723
Interest	696	696
Other expenses	24	23
	$3,695	$4,408

Note 5: Long-Term Debt Long-term debt consists of the following:

(in thousands)	June 30, 1998	1997
Senior notes payable	$25,000	$25,000
Line of credit	2,000	4,000
Other	896	933
	27,896	29,933
Less current maturities	2,360	
Long-term portion	$25,536	$29,933

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

At June 30, 1998, the Company had a $27 million unsecured revolving line of credit expiring on November 1, 1999, with interest at 1% below prime on which there was $2.0 million and $4.0 million in borrowings at June 30, 1998 and 1997, respectively. All other terms remain the same. The Company had three additional lines of credit totaling $6.0 million expiring on dates through April 30, 1999, with interest rates varying from prime to 1% below prime on which there were $1.0 million in borrowings at both June 30, 1998 and 1997.

In connection with the above borrowings, the Company, among other covenants, is required to maintain certain financial ratios, including a current ratio of 1.5 to 1, minimum consolidated tangible net worth of $78 million and a debt service coverage ratio of 1.5 to 1.

The fair value of the senior notes payable, based upon the borrowing rate of 7.10% at June 30, 1998, was $24,700,000.

Aggregate annual maturities of long-term debt at June 30, 1998 are as follows:

(in thousands)	
1999	$ 2,360
2000	4,433
2001	2,422
2002	2,273
2003	2,273
Thereafter	14,135
	$27,896

Note 6: Income Taxes

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

(in thousands)	Years Ended June 30, 1998	1997	1996

Income taxes currently payable (receivable)	$(1,627)	$(152)	$(2,829)
Income taxes deferred	172	236	611
	$(1,455)	$ 84	$(2,218)

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

	June 30, 1998	1997
(in thousands)		
Deferred tax assets:		
Accrued employee benefits	$ 101	$ 110
Post-retirement liability	2,543	2,436
Insurance accruals	578	831
Federal operating loss carryforwards	828	
State operating loss carryforwards	826	447
Alternative minimum tax	1,644	723
Other	504	383
	7,024	4,930
Deferred tax liabilities:		
Accumulated depreciation	(11,823)	(9,860)
Deferred gain on involuntary conversion	(328)	(369)
	$(12,151)	$(10,229)
Net deferred tax liability	$ (5,127)	$ (5,299)

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

	June 30, 1998	1997
(in thousands)		
Deferred tax asset-current	$ 2,343	$ 1,688
Deferred tax liability-long-term	(7,470)	(6,987)
Net deferred tax liability	$(5,127)	$(5,299)

No valuation allowance has been recorded at June 30, 1998 or 1997.

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, 1998	1997	1996
(in thousands)			
"Expected" provision(credit) at federal statutory rate (34%)	$(1,255)	$73	$(1,912)
Increases (decreases) resulting from:			
Effect of state income taxes	(195)	9	(236)
Other	(5)	2	(70)
Provision (credit) for income taxes	$(1,455)	$84	$(2,218)

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.

Notes to Consolidated Financial Statements

Note 8: Other Operating Income (Expense)

Other operating income (expense) consists of the following: :

	Years Ended June 30, 1998	1997	1996
(in thousands)			
Truck operations	$ (95)	$342	$136
Warehousing and storage operations	6	(13)	(32)
Miscellaneous	(11)	41	55
	$100	$370	$159

Note 9: Energy Commitment

During fiscal 1995, the Company negotiated a fifteen-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 and 1996 included the following components:

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

The funded status of the plan was as follows for June 30, 1997:
(in thousands)

Accumulated benefit obligation,including vested benefits of $2,141	$2,151
Plan assets at fair value	$2,349
Projected benefit obligation for participants' service rendered to date	2,151
Plan assets in excess of projected benefit obligation	198
Unrecognized gains	(333)
Unrecognized prior service cost	51
Unrecognized net obligation at July 1, 1987 being recognized over the participants' average remaining service period	88
Pension asset	$ 4

Plan assets were invested in cash equivalents, U.S. Government securities, corporate bonds, fixed income funds and common stocks.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5%. The expected long-term rate of return on the plan's assets was 8.0%.

Employee Stock Ownership Plans.

The Company and its subsidiaries have employee stock ownership plans covering all employees after certain eligibility requirements are met. Contributions to the plans totaled $785,000, $726,000 and $374,000 for the years ended June 30, 1998, 1997 and 1996, 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 1998 totaled $215,000.

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, 1998 and 1997 was as follows:

	June 30, 1998	June 30, 1997
(in thousands)		
Accumulated post-retirement benefit obligation:		
Retirees	$3,561	$3,395
Active plan participants	1,891	1,650
Unfunded accumulated obligation	5,452	5,045
Unrecognized actuarial gain	1,068	1,200
Accrued post-retirement benefit cost	$6,520	$6,245

Net post-retirement benefit cost included the following components:

	June 30, 1998	June 30, 1997
(in thousands)		
Service cost	$101	$100
Interest cost	346	353
(Gain) loss amortization	(34)	(23)
	$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 9.5% (compared to 9.75% assumed for 1997) reducing to 8.0% over seven years and 6.0% over 15 years. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by $350,000 at June 30, 1998, and the service and interest cost by $42,000 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 selected employees and outside directors of the Company. The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost been determined consistent with FASB Statement No. 123, the Company's 1998 and 1997 net income and earnings per share would have been reduced to the following pro forma amounts:

	1998	1997
Net Income (loss):		
As Reported	$(2,236)	$ 131
Pro Forma	$(2,575)	$(82)
Basis Earnings Per Share:		
As Reported	$ (.23)	$ .01
Pro Forma	$ (.26)	$(.01)
Diluted EPS:		
As Reported	$ (.23)	$ .01
Pro Forma	$ (.26)	$(.01)

Under the 1996 Plan, the Company may grant stock incentives for up to 450,000 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, 1998, the Company has granted options to purchase 256,000 shares that become exercisable in yearly increments through January, 2002. Options granted through June 30, 1998 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 five years after the date of grant. Subject to certain adjustments, a total of 90,000 shares are reserved for annual grants under the Plan. Through June 30, 1998, the Company had granted options to purchase 14,000 shares, all of which were exercisable as of June 30, 1998.

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 amounts, 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, stock 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, 1998, the Company has granted options to purchase 171,360 shares, which become exercisable in yearly increments through March, 2003. Options granted through June 30, 1998, 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, 1998 and 1997 and changes during the years then ended is presented below:

	1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, Beginning of Year	183,500	$14.68	90,000	$14.00
Granted	257,860	13.60	93,500	15.32
Exercised				
Outstanding,End of Year	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, 1998
1996	90,000	$14.00	2.5	48,500
Plan	86,500	$15.25	3.5	24,250
	79,500	$13.75	4.5	
Directors'	7,000	$16.25	3.25	7,000
Plan	7,000	$14.25	4.25	7,000
Salaried Plan	171,360	$13.50	4.67	
	441,360			86,750

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, 1998: Risk free interest rate of 5.50%; expected dividend yield of 0%; expected volatility of 33%.

Note 11: Operating Leases

The Company has several noncancellable operating leases for railcars which expire from July 1998 through November 2001. The leases generally require the Company to pay all service costs associated with the railcars. Rental payments

include minimum rentals plus contingent amounts based on mileage.

Future minimum lease payments at June 30, 1998 are as follows:

(in thousands)	
1999	$2,025
2000	881
2001	398
2002	263
2003	157
Future minimum lease payments	$3,724

Rental expense for all operating leases with terms longer than one month totaled $1,488,554, $1,438,466 and $1,546,000 for the years ended June 30, 1998, 1997 and 1996, respectively.

Minimum future rentals receivable under noncancellable operating subleases at June 30, 1998, were $187,560.

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 $454,000 is included in the accompanying 1998 financial statements. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

* During the years ended June 30, 1998, 1997 and 1996, the Company had sales to one customer accounting for approximately 10.5%, 8.2% and 10.7%, respectively of consolidated sales.

Note 13. Additional Cash Flows Information

	Years Ended June 30, 1998	1997	1996
(in thousands)			
Noncash Investing and Financing Activities:			
Purchase of property and equipment in accounts payable	$ 29	$ 211	$ 12
Additional Cash Payment Information:			
Interest paid (net of amount capitalized)	1,887	1,909	2,585
Income taxes paid (refunded)	(178)	(2,986)	2,105

Note 14: Contingencies

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

Exhibit 23

[BK&D Letterhead]

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 August 4, 1998, relating to the consolidated balance sheets of Midwest Grain Products, Inc. as of June 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998, which reports are incorporated by reference in the Annual Report on Form 10-K of Midwest Grain Products, Inc. for the fiscal year ended June 30, 1998. We also consent to the reference to our firm under the heading "Experts" in the Prospectus to the Registration Statement.

Baird, Kurtz & Dobson
BAIRD, KURTZ & DOBSON

Kansas City, Missouri
September 24, 1998

[Logo]

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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, 1998 AND CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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