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Harvest Biofuels continues plans for Iowa ethanol plants

In spite of delays, Harvest Biofuels is moving ahead with plans to build three ethanol plants in North Central Iowa. According to Larry Sterk, StateLine Cooperative General Manager, Harvest Biofuels construction delays are due to a very unique financing structure for the industry. "Harvest Biofuels is seeking long-term fixed income bonds from major institutional investors. This type of financing is superior to conventional financing because conventional financing has a shorter repayment period than the long term fixed bonds," he said.

The company expects to close in the fourth quarter of 2008 and will start moving dirt soon thereafter. "StateLine Cooperative is very excited to be a part of Harvest Biofuels plans and will be responsible to originate the corn for all three plants," Sterk adds. Annual corn usage per ethanol plant will be approximately 35 million bushels with a total annual requirement of all three plants well over 100 million bushels of corn.

StateLine awards \$4,000 in scholarships

StateLine Cooperative supports further education of area high school graduates through its annual scholarship award program. StateLine Cooperative congratulates eight high school graduates for being the recipients of a \$500 scholarship. "StateLine Cooperative has sponsored this program for many years, and this year offered two additional scholarships as a result of the growth of our cooperative trade area," said Larry Sterk, StateLine Cooperative General Manager. "We had many outstanding applicants and thank everybody that applied."

The award recipients include:

Ryan Goche, Burt Iowa, Algona High School, son of Jay and Sharon Goche;

Elliot Kinnander, Armstrong, Iowa, Armstrong/Ringsted, son of Arden Kinnander and Laurie Kinnander;

Caitlin McConnell, Armstrong, Iowa, Armstrong/Ringsted, daughter of Bob and Lisa McConnell;

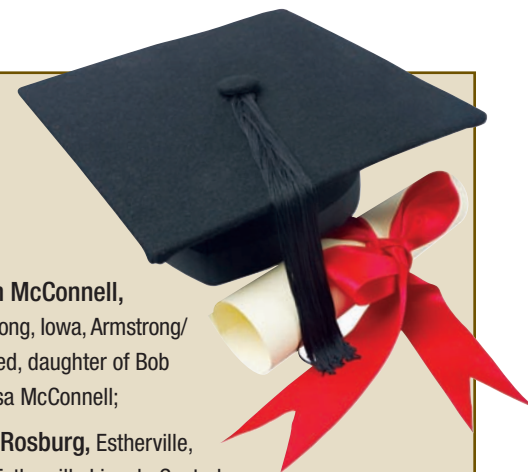
Brian Rosburg, Estherville, Iowa, Estherville Lincoln Central, son of Keith and Nancy Rosburg;

Ciara Warren, Fairmont, Minn., Fairmont High School, daughter of Dan Warren and Kristin Warren;

Grady Eichenberger, Lakota, Iowa, North Iowa High School, son of Lowell and Marilyn Eichenberger;

Mitchel Mastin, Lakota, Iowa, North Iowa High School, son of Kerry Mastin;

Sara Karels, Ledyard, Iowa, North Kossuth High School, daughter of Douglas and Pamela Karels.



Record prices, strong earnings, increased working capital — signs of the economic times

By Larry Sterk, StateLine Cooperative General Manager

In over 35 years of being involved in the cooperative system I am experiencing things today that at one time I would have said never will happen. Record prices for corn and beans, and plant food values that we've never experienced. At the end of eight months into this fiscal year your cooperative is ahead of last year's local earnings and close to budget.

In 2006, producers were getting around \$2.50 for corn and \$6.00 for beans. This past month that corn is worth \$6.75 and \$14.50 for soybeans.

In addition to increased commodity values, plant food values per ton have just gone off the chart, just like grain prices. With the increase costs of plant food we are being required to order and pay for fertilizer earlier than ever before. This is not new to you but what it has done is put increased demand on the working capital requirements of ag supply companies. This is true for StateLine as well as other agri-businesses in the area. You are fortunate that the SLC balance sheet is strong enough to renew our loan agreements with CoBank at almost five times the level

of just a couple of years ago. Our long-term debt is low enough that your cooperative has access to funding these higher capital requirements. You can be assured that your prepayments are protected and that when you work with the StateLine Cooperative personnel we have the ability to get your crop inputs when you need them.

Your deferred grain payments are also protected by SLC's strong balance sheet. A unique feature of your local cooperative is that you have directors, your neighbors, on the board and they get the financial information every month at board meetings.

Every year we have an annual meeting and some membership meetings that we share with you the profitability of your cooperative. These types of checks and balances help assure you that your investments, prepayments, and deferred payments are secure with StateLine Cooperative.

How many private ag supply companies are willing to share their balance sheet information and earnings? Not too many that I know of. You have a lot at stake, and I believe this is where your local cooperative can provide you with the benefits of financial security as we navigate through these exciting times. I am convinced that your local cooperative today can and will provide you more value to your operation than ever before.

The principles the cooperative was founded on are still alive and well. As the stakes continue to get higher you can rely on StateLine Cooperative board of directors and employees to keep your cooperative viable and be here to protect your investment and to serve you.

Thank you for the opportunity to serve you, our members. It continues to amaze me how fast time goes. In another 60 days this fiscal year will be history and you will be preparing for harvest. It is only through your support that StateLine Cooperative is the company it is today. Your cooperative has good facilities, good people, and a solid customer base. We are in the people business, doing business with *Real People, Real Pride.*

*Committed to Working and Growing
Together for the Future"*

CASH AWARD FOR STATELINE MEMBERS WHO PLACE WELL AT COUNTY FAIR

In support of county fairs StateLine Cooperative donates to the county fairs of Emmet, Faribault, Kossuth, Martin, Palo Alto, and Winnebago counties in Iowa and Minnesota. In addition, StateLine Cooperative provides a cash award to ribbon-winning exhibitors who are members and children of SLC members: \$20 for blue ribbons and \$15 for all other ribbons earned at the county fairs for all projects they have submitted, not just livestock. Stop by any SLC location and fillout a claim form.

For the county fair livestock projects, StateLine Cooperative provides pre-approved no interest financing for StateLine Cooperative purchased feed fed to cattle and pig projects. Contact any StateLine Cooperative location for more county fair program details.

Historic Market Swings

By Dean Kohlmeyer, StateLines Cooperative, Grain Department Manager

What is the driving force for grain markets? Why are we seeing such high grain prices? Is it the low U.S. grain stocks or the increased amount of market speculation by the investment world?

We have set all time historical highs in many commodity markets in the last year. December 2008 Corn rallied over \$2.00 per bushel and November 2008 soybean futures rallied over \$4.00 per bushels in reaction to our June flooding.

USDA's June Ending Stocks estimated 2007-08 soybean ending stocks at 125 million bushels and 2008-09 ending stocks at 175 million bushels. There have only been four years with lower soybean ending stocks since 1970:

Lowest soybean Ending Stocks since 1970	
2003-04	112 Million
1972-73	60 Million
1996-97	132 Million
1971-72	73 Million

The USDA June Ending Corn Stocks were 1.433 billion bushels for 2007-08 and were 673 million bushels for 2008-09. We have only had three crop years with lower Ending Stocks or Carryover numbers since 1970:

Ending Stocks or Carryover numbers since 1970	
1995-96	Ending Stocks fell to 426 million bushels
1974-75	Stocks were at 361 million bushels
1973-74	Stocks fell in at 484 million bushels

Stocks to Use Ratios are very good barometers of the overall supply/demand picture, comparing the relationship between total supply and demand within a given crop year—the lower the number; the higher demand for the commodity.

Soybean Stocks to Use Ratios for 2007-08 were at 4.11% and were at 5.71% for 2008-09. Now compare the other low stock years mentioned above. 2003-04 had 4.44%, 1972-73 had 4.93%, 1996-97 had 5.41% and 1971-72 had 6.05% Stock to Use Ratios.

Corn Stocks to Use Ratios for 2007-08 were 11.06% and are at 5.38% for 2008-09. Now, let's compare to our low stocks years Stock to Use Ratios of 4.98% in 1995-96, 7.48% in 1974-75 and 8.21% in 1973-74.

So you can understand the person that says that our high prices reflect our lower U.S. carryover inventories. Lower inventories are caused by the combination of production not keeping up with the increasing demand. *(Continued on page 4.)*



Historic Market Swings

(Continued from page 3.)



Speculator influence on commodity markets

Now we will enter the abyss of deregulation and market speculation. The Commodity Futures Trading Commission has been busy since early spring talking with industry and lawmakers about the influence speculators have been having on commodity markets. We have seen fund or speculator money investments go from \$13 billion in 2003 to \$260 billion in March of 2008, based on regulatory filings. The market place opened to speculators such as pension funds and others in 1989 when “swap transactions” became unregulated. One part of the market place is the hedger that either produces or physically handles the crops they are trading on the Board of Trade. Examples of hedgers are farmers and cooperative elevators. The other parts of the market place are the speculators that consist of Index Funds and Non-Commercial Speculators. Index Funds normally maintain a long position which works as a hedge against inflation or the weak dollar. Non-Commercial Speculators are any entity that will trade a position anticipating a market gain from their transactions.

The net position numbers I am going to reference now are from the June 17th CFTC Commitment of Traders report for just Chicago Board of Trade futures positions in corn and soybeans on June 20th. Please remember that the speculators and commercial hedgers will also use commodity option contracts which would add to our totals. Record Open Interest for corn occurred on February 22, 2007 with 1,546,526 contracts. Corn Open Interest was 1,375,523 contracts or the market place was long 6.88 billion bushels. Now consider that our U.S. production of corn was estimated at 11.735 billion bushels and you can see that the Chicago Board of Trade has nearly 60% of this year’s anticipated production trading for gains or losses. We certainly have become a world trading center for commodities. The breakdown of corn’s Open Interest ownership was 44.6% Hedgers, 31.3% Index Funds and 24.1% for Non-Commercial Speculators. The breakdown for soybean’s Open Interest ownership was 38.3% hedgers, 35.5% Index Funds and 26.2% for Non-Commercial Speculators. Record Open Interest for soybeans happened on February 24, 2008 with 617,300 contracts or long over 3.09 billion bushels. This is a very large position when you consider that the USDA had our 2008-09 U.S. production pegged at 3.105 million on June 10th.

You can look over the information and form your own opinions on what is responsible for the higher grain markets. Is it just speculators or has price rationing occurred because of low supplies? We do know that increased supplies will cause the markets to slow down and when the speculators decide to sell or liquidate their ownership, the markets will find a new lower ground. I don’t know how you can factor in the possibility of increased regulation that would limit the grain positions which are currently held by the market players. Looks like weather, supply, demand and politics will keep our markets moving for some time to come.

For more information contact Dean Kohlmeyer at 515-924-3555 ext. 12.

Risky business is sign of the times

By Chuck Peter, StateLine Cooperative Agronomy Department Manager

“It’s not just a job, it’s an adventure.” That may be the advertising slogan of the United States Army, but it also could be the lead line in any job position description relating to agriculture these days. What an adventure we are on as we collectively go about our business of helping to feed the world in 2008.

With all the change and uncertainty affecting our business and those of our member/owners, my hat is off to each one of you who continue to make a positive contribution to the cause in North Central Iowa and South Central Minnesota, and don’t go stark-raving loony in the process.

One thing that has been puzzling me for several months is that it has become fashionable for some individuals in our business to wave red flags and point in the direction of the local elevator when the subject of financial risk has come up, usually regarding the risk a farmer assumes when delivering delayed payment grain to his/her local elevator, or making prepayments for future delivery of supplies from the local elevator. These concerns are purportedly based on the increased amount of money it takes to finance higher value inventories of grain and supplies, as well as the costs to finance the margin calls generated by the need for the elevator to manage its risk by hedging their grain position.

I’m really touched that these individuals “worry” so much about your financial well being, particularly those “worriers” who operate businesses that compete with your local elevator.

Folks, your cooperative is the most transparent company and/or corporation that you will ever do business with. You own it, you or your neighbors are elected to sit on the board of directors, your local bankers frequently do their own farming business at your elevator, the cooperative’s financial books are open, they are audited annually, and you are invited to listen to and question the representative of the auditing firm that performed the audit at your local cooperative’s annual meeting.

When was the last time you were invited to look at the financial results of any organization that solicits your business other than your local cooperative? If you give them your prepay dollars for the “great deals” they offer, do you get to see their balance sheet, their statement of earnings, their audit opinion? Their expressions of “concern” regarding doing business with your local cooperative elevator are, to me, disingenuous at best.

Yes, there are significant risks in agribusiness these days. Yes, the recent run-up in grain and supplies prices has caused StateLine Cooperative to borrow more money and to make prudent



changes in our policies and in the ways we operate your cooperative.

Currently, one prominent “low cost” provider that serves the Midwest marketplace finds itself unable to honor commitments made to their customers, even for prepaid product. Your SLC Agronomy Department, is working very hard to manage your business in the most efficient manner possible while at the same time remaining very customer focused and competitive. You deserve and pay for our best efforts and value in these areas; we have to deliver that value. We never want to be in the position of not being able to deliver on the trust you place in us.

Again, thank you for allowing us to be your supplier of choice this and every season. Please remember that StateLine Cooperative Agronomy exists to help you improve the profitability of your farming operation. If we are not doing that job in a manner to meet your expectations, please let me know. As always, please don’t hesitate to contact your StateLine Sales Agronomist or myself with any questions or concerns you may have. I can be reached at 515-924-3859, cell phone 515-320-1466, or e-mail cpeter@statelinecoop.com.



This year, StateLine Cooperative's seed department "Bulked Up." SLC installed a two-bin Friesen bulk system along with a USCLP800 seed treater at the Ringsred location. With the growth of seed sales, we felt there was a need to turn to Tru Bulk.

In the last two crop seasons, SLC seed sales were about 65% bulk bags, and about 55% of those bulk bags were treated at one of our locations.

After installing the bulk treater system, SLC increased bulk sales to about 85%, and total sales have increased 50% this first year. We have also tripled our seed treatment sales, and that came with the help of our agronomy team members and our local seed dealers supporting the advantages of treated seed. To those dealers and customers that supported us so well, I say thank you. As each of you work to grow your business, we at StateLine Cooperative want to help support your needs and your growth.

Some advantages to having Tru bulk are: safer to handle than Bulk Bags or Bags, quicker delivery time to your field and more seed treating options.

We have many different options and programs to help set your operation up for bulk handling of your corn and soybean seed needs. At any time, if you have questions regarding your seed choices, feel free to contact me or your StateLine Cooperative agronomy team member. My email is: smulligan@statelinecoop.com

By Steve Mulligan, StateLine Cooperative Seed Sales Manager

"Bulked Up" in Seed