

LIFELINE

IDEAS AND INFORMATION HELPING FARMERS PRODUCE AND MARKET PROFITABLY

Intelligent Marketing Decisions *in a constantly changing environment*



Heartland Spotlight:
MICHAEL M. REAGAN
Bergan Paulsen

How is Your Business?

A Very Straightforward Question

Grain Engulfment

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HEARTLAND CO-OP

DECEMBER 2011

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LIFELINE

IDEAS AND INFORMATION HELPING FARMERS PRODUCE AND MARKET PROFITABLY

Noteworthy Harvest Seasons



LARRY PETERSEN
 CEO/General Manager

Although we have a small amount of unharvested crop still remaining in the field, in general the 2011 harvest has been completed. This marks the second year of excellent harvest conditions that allowed for a rapid dry down of the crop and weather conditions that were conducive to an uninterrupted harvest. These past two harvest seasons were particularly noteworthy since they followed two years with challenging high moisture crops and weather conditions that hindered harvest.

In spite of the fact that our area experienced hot and dry weather conditions this summer, by most accounts our yields were better than expected. The soybean receipts were almost equal to last year's harvest but down about 700 thousand bushels from early harvest predictions. Overall with likely corn planting increases, our take on corn was approximately 2 million bushels more than anticipated and greater than 10 million bushels over last year. Compared to the last 5 years of history, we had 11 locations that experienced their largest soybean receipts at harvest while 6 locations took in the most corn during that time.

Similar to last year, we experienced another year of low moisture content of the grain delivered to our locations. The average moisture level on soybeans was 10% which was even less than the past year's 10.6%. This reduction in moisture along with increased field loss largely accounts for the difference in harvest take this year. Corn moisture averaged 15.7% for the season compared to the previous year

at 14.5% moisture. Because of the lowered corn moisture levels, the total revenues for drying will fall short of budget and normal expectations again this year.

The quality of this year's corn crop was exceptionally good. An obvious factor determining quality is test weight. This year's corn crop had an estimated average test weight of 59 lbs. per bushel which is similar to last year and significantly above the 54.7 lbs. experienced two years ago. Not only is this desirable for end usages of the crop, but for Heartland this excellent quality corn crop is conducive to better handling and storability.

This second year of below expected results have many people reconsidering the long term corn yield trend line. Before the past two year results, it was expected yield trend line was on a newly formed escalating line. Decisions on grain storage and handling needs were based on these new lines. Although we need to pause and consider these new facts, a change in direction does not seem to be warranted.

As a side note, this year's early harvest has allowed for an additional amount of field work to be accomplished. With the current conditions it could be expected that we will experience a record amount of fertilizer application this fall. We always feel very good about the fact that when we are able to apply an above normal amount of fertilizer during the fall, it takes a large amount of pressure off the spring season.

Although the season was favorable in getting harvest completed in a good time, it doesn't necessarily mean that Heartland's employee team had an easy season. A special thank you to all the Heartland employees for all of the extra hours and efforts exhibited this fall season.

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Intelligent Marketing Decisions

HARVEST IS WINDING DOWN AND THAT'S AN EXCELLENT TIME TO REFLECT ON THE MARKETING YEAR. Commodity prices have come down from their highs but we are still at respectable levels. Since January the corn market has been 1.40 higher and almost \$1 lower than what is offered today. Soybeans are setting on lows for the year and we have been almost \$3 higher this past summer. We have endured numerous reports including planted acreage, supply demand, grains stocks and usage to name a few.

Determining price is not an event but a journey. Farmers, processors, exporters and feedlot operators are constantly reacting to changes in the market place in order to maximize their profit opportunities. We have all struggled to make intelligent marketing decisions in a constantly changing environment. This coming year will be no different. The European monetary crisis and the MF Global bankruptcy has caused funds and traders to reassess their risk appetite. As with 9-11-01, the attitude of the market can change quickly.

We are growing crops to sell and market. When a profitable price is offered, it is imperative that it be protected in some fashion. Heartland Co-op offers many tools to help you in meeting your marketing goals and

protecting profitable prices. Cash, basis, hedge-to-arrive and value added are just some of the tools offered to assist your grain marketing efforts.

This fall we have seen a very strong basis compared to normal. Hedge-to-arrive contracts allowed growers to add substantial value to their production. This is a valuable service provided to members in a period of extreme volatility.

Looking forward to 2012 marketing, we are faced with increased competition and a changed view as to commodity risk. Like it or not we are affected by the global financial crisis and too much debt around the world. People and countries

will be forced to live within their means and that evolves into reduced demand for our grain and livestock. The currency market will continue to have a large influence on the value of agricultural production.

It has never been more important to have the marketing tools available to manage your production and marketing. All of us at Heartland Co-op are thankful for the opportunity to serve you and look forward to assisting you with challenges of adding value to your farming operation and production in the New Year.

*“Life is the art of drawing sufficient conclusions from insufficient premises.”
– Samuel Butler*



DEAN OHRT
Eastern Grain
Origination Director



MONTE VAN WYK
Seed Sales Manager

NEXT YEAR'S CROP STARTS WITH SEED

IT'S THAT TIME OF YEAR, AGAIN. Yes, it's the holiday season, too, but I'm referring to planning next season's crop. Your Heartland seed team has been busy gathering data and studying test results to provide "top notch" assistance to help you select and position the very best seed varieties for each one of your fields.

Heartland has strong relationships with major seed suppliers such as Monsanto, Croplan, Stine, Mycogen, and Syngenta Seeds. We've worked throughout the past growing season attending seed plot days, doing in-field variety trials, and other discovery processes to determine the best variety match for each field situation. We are geared up to help you select and place specific varieties to maximize your yields and profits in crop year 2012.

As you are aware, we experienced some heat and drought stress during the critical period of pollination this past summer. Our

suppliers have expressed their concerns with providing adequate supplies of the very best hybrids. They are working to offset this supply concern with increased production in South America this winter. This will help immensely, assuming logistics can get the product positioned when you are ready to go to the field. If you haven't talked with your local agronomy specialist yet, we strongly encourage you to have this discussion and secure your seed for next season soon.

Our Precision Ag department is also prepared to provide variable rate seeding recommendation for those of you interesting in positioning seed, by production zones within your field. This is a major component in our efforts to help you produce and market profitably.

Thank you for your business this past year, and we look forward to providing a strong value package for you again in 2012.

How is Your Business?



GARY MOHR
Director of Feed

THIS SEEMS LIKE A VERY STRAIGHT FORWARD QUESTION that you have been asked dozens of times. And, you may very well have a ready answer as a livestock producer. The depth and quality of information you use to help you define that answer is extremely important.

Nearly every week I look at livestock projections and even make a few of my own.

These are commonly being called “crush” numbers in the industry – a prognostication on how much profit there might be in finishing livestock. When an industry person calculates those crush numbers we use some mythical farm, with mythical animals and not quite so mythical costs.

I used the label mythical rather than average because those of us who do not raise livestock on a farm do not even know what the average is for the industry. The livestock industry remains very diverse in nearly everything from semen to cellophane. Make no doubt that many aspects of the industry are more standardized than when my career began more than thirty years ago. However, the lesson I learned in genetics that “there is more diversity within a genetic line than there is between genetic lines” is still true today. And, that diversity applies to environments, nutrition, health status and management – both production and financial management.

A RECENT ARTICLE FROM THE RESPECTED ANALYST DR. STEVE MEYER encouraged swine producers to be cautious about expanding operations in “good times” just because they had unusual levels of profits. He noted that the incremental costs of expansion are not always repaid at a higher rate than the business you began with prior to the expansion. Dr. Meyer urged producers to know as much as possible about all of the production management and financial management factors that would impact an operation prior to and after any expansion. In a separate article, he laid out ten things which could derail the current market hog prices.

So, are Dr. Meyer and myself gloomy on the livestock and red meat industry? Speaking for myself, nothing is farther from my thinking. The point is that the success of the industry is no guarantee of the success of any individual operation. The strategy is to prepare yourself for a potentially bumpy or very bumpy ride (how do you spell volatility).

In a previous work life of mine we would recommend that producers plan for two negative surprises in their business year. We did not know what those would be, but we estimated them in the cash flow. If



they never materialize, so much the better. Too often agriculturalists, being primarily optimistic about nature, get caught up in the profit of today and do not manage the risk of an uncertain tomorrow.

THE “REMEDY” FOR MOST OF THIS IS EXCELLENT PRODUCTION AND FINANCIAL RECORDS which define cost of production on your farm which guide all of your decisions. We are currently in an economy heavily driven by the cost of energy. I was at a seminar a couple of weeks ago where we discussed calculating animal diets based on the calorie cost per pound of lean gain. This can be done today with the right input information and may be the way we look at production efficiency in the near future. A producer will only be able to use this technology if he or she has baseline data on costs today.

Heartland’s Feed Division goal is to provide products and services to help produce and market livestock profitably. If we can assist you as a partner in helping you define cost at your farm then we are here to help.

Today's ongoing economic challenges prompted the enactment of a number of tax and investment incentives. Those incentives can have a considerable impact on the bottom line of many farming operations. For 2011, planning will be more important than ever

One of the most powerful tax incentives offered right now is the temporary increases in "Section 179 Expense Deduction" and "Bonus Depreciation." Section 179 Expense Deduction is available for both new and used equipment purchases. Bonus Depreciation is available for new equipment purchases only.

For those who are looking at high incomes in 2011, Section 179 Expense Deductions definitely offer some advantages in managing tax liabilities. Section 179 allows for immediate deduction of new and used equipment, rather than depreciating them over time. For the 2011 tax year, full deductibility limits for Section 179 are \$500,000, while Section 179 full deductibility limits for 2012 will reset to a lower limit of \$139,000.

To qualify for Bonus Depreciation, purchased assets must have a 20-year tax life or less. Bonus Depreciation items can include farm equipment and other investments such as field tile, fencing, buildings and machine sheds.

Iowa has adopted federal guidelines on Section 179 Expense Deductions but does not allow 100% bonus depreciation, so there is some complexity in deciding what's best between federal and Iowa taxes.

Farmers can also write off expenses of prepaid supplies such as feed, seed, and chemicals not used or consumed in the current tax year if they operate on a cash basis. Because it's possible to deduct them as of the date they are paid for, farmers can use prepays to limit tax liability.

There are three tests that need to be met to deduct prepays:

1. The payment has to be for an actual purchase for a fixed quantity and not just a deposit.
2. The pre-payment has to have a business purpose other than simply avoidance of tax (e.g.: to lock in a price or to assure a supply of that product in anticipation of shortage).
3. The pre-payment cannot result in material distortion of income — one out of three years of prepays can't be more than 50% of the farm expenses.

Other business activities can also impact taxes, such as land sales, purchases, or land exchanges. Sellers should always remember that they are subject

to capital gains. Land exchanges avoid capital gains exposure, but they have to be conducted through a third party — farmers cannot receive any money. Land exchanges also have to be for real property and have to close within 180 days.

From my point of view, the guiding principle when planning and making tax decisions should be that it's more important to look at the economic transactions first.

Ask questions. Does the decision meet the test of good business? Does the decision meet the best economic interests of the farming operation and its owners and partners? Does the marketing of grain to manage income timing unnecessarily subject you to price fluctuation?

Always capture the best margins when they are available. Always make the best business decision. Once those criteria are met, it's time to work with the tax incentives and implications. Then we can start mixing smart business strategy with smart tax strategy.

TAX INCENTIVE BOOSTED

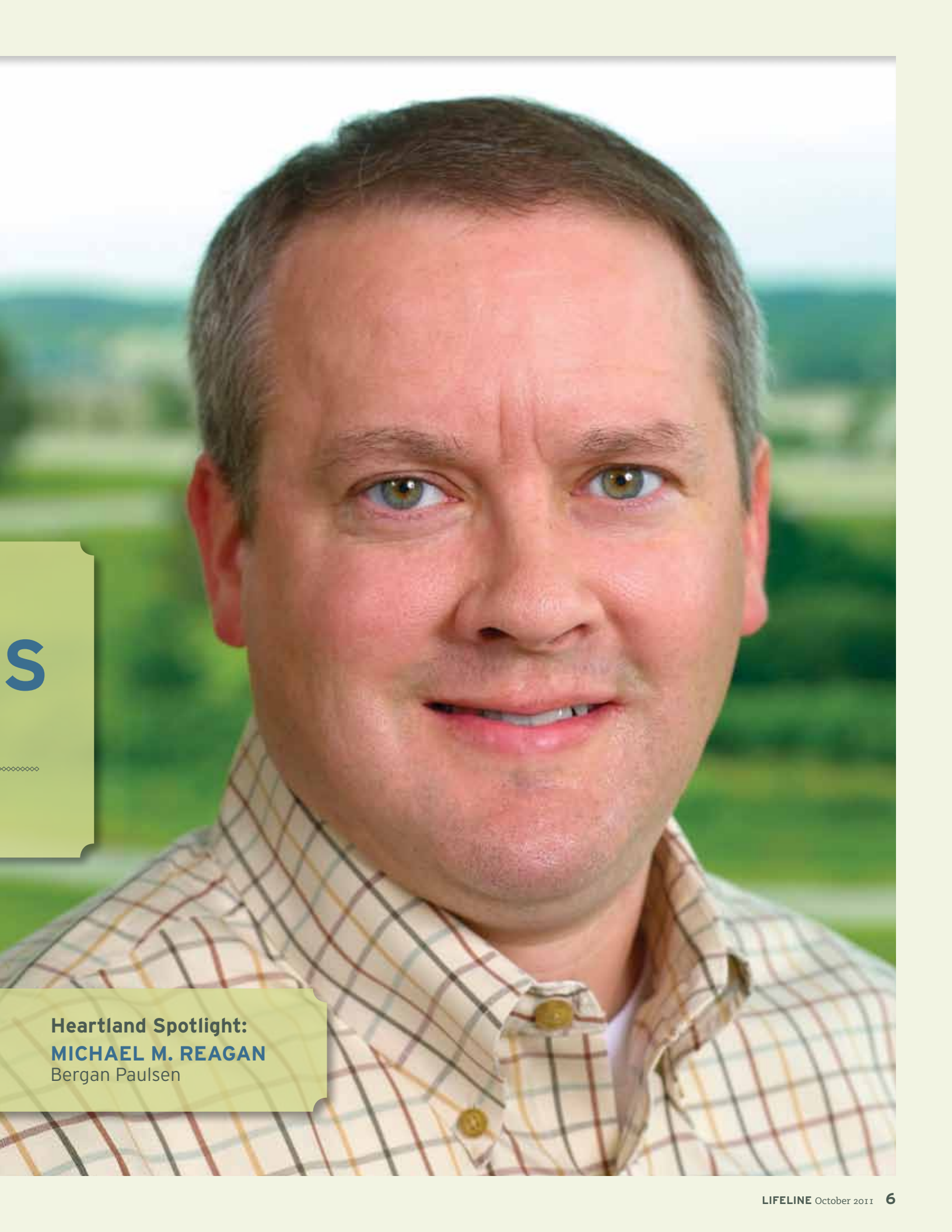
for 2011

Michael M. Regan works in Cedar Rapids, Iowa accounting firm Bergan Paulsen (Heartland Co-op's Auditors) as an Assurance Partner for Agribusiness. You can find more information at www.berganpaulsen.com or reach Mike at 319-294-8000.

Section 179 for 2011 at a glance (from www.section179.org)

- 2011 Deduction Limit - \$500,000 (up from \$250k previously). Good on new and used equipment, including new software.
- 2011 Limit on equipment purchases - \$2 Million Dollars (up from \$800k previously).
- "Bonus Depreciation" — 100% (taken after the \$500k deduction limit is reached). Note, bonus depreciation is only for new equipment.

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Heartland Spotlight:
MICHAEL M. REAGAN
Bergan Paulsen

GRAIN ENGULFMENT



MARC MELHUS
EVP of Operations

ON TUESDAY, SEPTEMBER 13TH A HEARTLAND EMPLOYEE NARROWLY ESCAPED WITH HIS LIFE when he became entrapped in a grain bin that was being emptied. The grain had stopped flowing and the employee went in the bin to get the flow of grain started again and became entrapped. After 4 hours of tense, emotional hard work, our employee became one of the lucky survivors of these types of accidents.

Although the outcome of this event was positive the odds were well against us that it would not turn out that way.

A HUGE THANK YOU TO THE QUICK ACTION BY FELLOW EMPLOYEES AND THE TIMELY RESPONSE FROM THE LOCAL FIRE DEPARTMENT WHICH HELPED TO SAVE THIS MAN'S LIFE.

Heartland has strived to provide our employees a comprehensive training program that encompasses not only the rescue of employees in this situation we also provide the training needed to avoid these situations. Even with all the training, this accident still occurred. As a manager I was elated that the rescue efforts worked just like they should have and we were able to save him. However, what is disappointing is the fact that several bad decisions were made for him to get in this situation.

Many of our employees are long term, hard working people who have the “can do” attitude. We appreciate that and in most cases it works in our favor. Sometimes though that “can do” attitude turns into a “can’t happen to me” mind set and unfortunately that’s when the accidents happen.

The entire industry is struggling with this same problem and some good ideas are starting to emerge as to what to do about it.

Heartland’s management is committed to taking the steps necessary to keep our employees safe. It will require a lot of hard work, a shift in thinking about how our employees do their jobs and the continual investment in the right kinds of equipment and facility improvements. Our primary goal when it comes to safety is to make sure that each employee can go home in the same condition they arrived in.



Spill Prevention, Control and Countermeasure (SPCC) Plans Extension and New Tools Available

In October the EPA announced that they would extend the time period for farmers to amend or implement the requirement of an SPCC plan for fuel and oil storage on the farm. That extension became effective November 7 and will extend the deadline to May 10, 2013.

The amendment does not remove the regulatory requirement for owners or operators of farms in operation before August 16, 2002, to maintain and continue implementing an SPCC Plan in accordance with the SPCC regulations then in effect. Such farms continue to be required to maintain plans during the interim until the applicable compliance date for amending and implementing the amended Plans. Finally, the amendment does not relieve farms from the liability of any oil spills that occur.

There is also now available a suite of online tools developed by the Asmark Institute in conjunction with the EPA to help producers and retail farm centers comply with the SPCC plan requirements. The tools are fairly simple and you can access MySPCC through the institute’s website www.asmark.org/mySPCC.

Location Manager Changes



PAT DAILY

Pat Daily assumed the responsibility as location manager of Heartland’s Elberon facility effective August 8th. Pat will continue to oversee the Belle Plaine operation as well.



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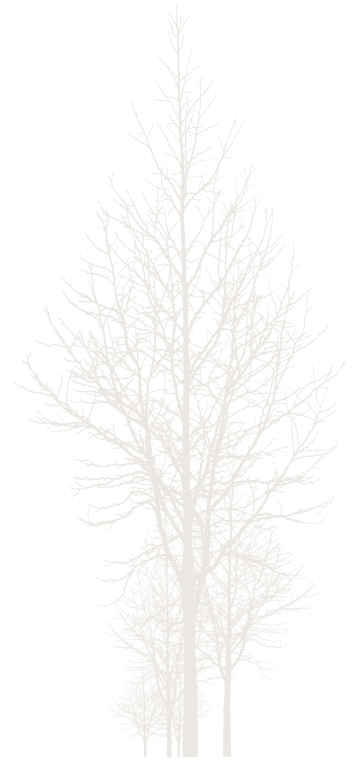
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STEVE MATHEWS

oversee both the Melbourne and Mingo locations.

Effective August 8th Steve Mathews assumed the responsibility as location manager of Heartland's Newton facility. Steve will continue to



DAVE TOMLINSON

Dave Tomlinson assumed the responsibility as location manager for Heartland's Minburn facility effective November 28th. Dave's most recent job was working as the location manager at Redfield.



LEE ERWIN

the lease area for Wells Fargo and was self employed as an Ag Recruiter.

Effective November 28th Lee Erwin assumed the responsibility as location manager of the Redfield location. Lee's most recent job was working in

Heartland Co-op

PETROLEUM NEWS



ADAM WISSINK
Petroleum Sales

PROPANE - SAFETY TIPS

Propane is a safe energy source when handled properly. Your propane system is like any other equipment, it must be checked periodically and parts upgraded to maintain a safe system. Everyone should have their propane system and appliances checked on a regular basis for you and your family's safety. If you would

like to have your propane system checked Heartland Co-op has a trained staff of propane technicians.

BELOW ARE ADDITIONAL PROPANE GAS SAFETY TIPS:

If You Smell a Leak

- **DO** get everyone out of the home and away from the area.
- **DO NOT** attempt to find the leak.
- **DO NOT** attempt to repair your appliance or light your pilot light.
- **DO NOT** turn on or off light switches inside the home.
- **DO NOT** use a telephone inside the home.
- **DO NOT** light matches anywhere inside or near the home.
- **DO** attempt to shut off the valves at the tank.
- **DO** call both your propane supplier and or the fire department for help from a telephone away from the home.

Gas/CO2 Detectors

- Gas/CO2 detectors are available as an extra measure to detect leaks.
- Gas detectors are only an aid and are not intended to reduce or eliminate proper safety procedures when a person smells the odor of gas, even when the alarm on the gas detector has not been activated.
- It is extremely important to follow manufacturers' instructions when installing a detector.
- When selecting a gas detector, you should choose only detectors that are listed with the Underwriters Laboratories (UL).

REFINED FUELS - WINTER FUEL BLENDING

With cold weather near it is especially important that you drain and remove all water and contaminants in your tank, clean pump screens, and change your tank filters. The water in the filter will freeze and plug the filter well before the fuel gels. If you experience this problem, check your filters before assuming the fuel has gelled. Changing filters is also important for your equipment as well. If you plan on blending fuel for use this winter, it is important that you pre-blend #1 fuel with the fuel you already have in your tank to the desired blend percentages before adding additional blended fuel.

Soy blended fuels do not have the same cold flow properties as non-blended fuels.

Soy blends containing more than 5% have a cold flow pour point of 6 degrees higher for every 10% of soy. For example a B20 blend will have a 12% higher CFPP than a straight #2 fuel.

The new ultra low sulfur diesel (ULSD) compared to low sulfur diesel (LS 500) has different cold flow properties. The cold filter plugging point (CFPP) of this diesel may take more #1 fuel to stop it from gelling. To properly blend fuel, the fuel and the additive must be above their cloud point. The cloud point of winter fuel is typically 6-12 degrees, so an easy rule of thumb is to be sure that the additive and the fuel are above their cloud point before blending.



Heartland Co-op Locations



Pictured: Maureen Cahill – Administrator, Ray Chartier – Resident, and Denny Myers – Dallas Center Location Manager

Land O' Lakes Donation to Spurgeon Manor

RAY CHARTIER'S LIFE IN DALLAS CENTER started at the young age of three when his parents moved to the community. For 45 years Ray worked at the Dallas Center Co-op, (now owned by Heartland Co-op). The last six years Ray has been a resident of Spurgeon Manor located in Dallas Center. He has been a pillar resident of the community along with many other members who have elected to stay in the community.

With the assistance of Land O' Lakes a total donation of \$5,000 was given to Spurgeon Manor for new construction and remodeling in order to assure that quality care continues to be available to the community into the future.



ALLAN AND BRENDA GRAHAM "With soybean yields approaching the high 60's into the 70's, we felt that we were lacking something to get us to the next level. This year we split applied our soybean fields with 1 gallon of CoRon and 48 ounces of ENC + MN Xtra. Where we did - we consistently saw a 10 bushel per acre yield increase. We never expected to see this big of a yield bump, but it made believers out of us. We will use this program on every acre of soybeans next year. We can't afford not to."

ALLEMAN 515-685-3541 866-613-0094	JEWELL 515-827-5431 800-728-0017	PICKERING 641-478-3296 800-542-7887
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BOONEVILLE 515-996-2295 800-244-8579	LINCOLN 641-473-2640 800-392-2667	RANDALL 515-328-2315 800-334-1182
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COLO 641-377-2253 800-397-9513	MALCOM 641-528-2535 800-273-4485	RUNNELLS 515-966-2349 800-245-6221
CONROY 319-662-4100 800-272-6422	MARENGO 319-642-5529	SLATER 515-685-3571 800-779-3571
DALLAS CENTER 515-992-3767 800-362-0305	MELBOURNE 641-482-3206	STANHOPE 515-826-3226 877-255-3506
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GRUNDY CENTER 319-824-5466 800-319-7775	NAPIER 515-292-2323	
HARTWICK 319-525-2311	NEWBURG 641-498-2553	
HOLLAND 319-824-6638 800-375-6638	NEWTON 641-792-5169 800-800-5169	
INDIANOLA 515-961-2505 800-992-2505	PANORA 641-755-2114 800-422-0914	

www.heartlandcoop.com

December Checklist

- Finalize hybrid selection
- Consider resistant weed escapes when developing your crop protection program
- Talk to sales agronomists about VR seeding & fertilizing by management zone
- Order Precision Ag equipment
- Process yield monitor results
- Prepay Fungicides & Nutritionals
- Consult with our grain marketing team as you develop your 2012 crop plans to establish your grain marketing plan at the same time



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2012 CROP INPUT FINANCING LOAN

Ultra low interest financing is available with Heartland Co-op for your 2012 crop input purchases.

Seed Prepay	0.00% <small>until 6/1/2012**</small>
Prepay Purchases	3.50% APR*
In-Season Purchases	5.50% APR*
Third Party Purchases	6.50% APR*

**Variable interest rate as of 11/11/2011*

***Qualifies for reduced cash discount. Balance can be rolled to 5.50% after 6/1/2012*



Contact your local Heartland Co-op salesman or call **NEAL TAPKEN** 515-974-4337