



ARMSTRONG BANCROFT BUFFALO CENTER BURT NORTH BURT CYLINDER FENTON HALFA LAKOTA LEDYARD LONE ROCK MAPLE HILL RINGSTED SWEA CITY

“Committed to working and growing together for the future”



From the Desk of Larry Sterk



March 21, 2007

Introduction of Harvest BioFuels, LLC

Your Cooperative is pleased and excited to be a part of the Harvest BioFuels LLC plans to construct and operate multiple ethanol plants in North Central Iowa. Harvest

BioFuels is a Texas based company that has committed to doing business in North Central Iowa. It is a company that has owners with extensive and successful history of business experience and integrity, and the resources and knowledge to complete these major projects. They always put a lot of effort and research into selecting who they partner with in business. Through this discipline, Harvest BioFuels has contracted with superior companies to assist it in building these ethanol plants, including Vogelbusch, Austin Industrial, Fru-Con, and Petersen Manufacturing.

Harvest BioFuels plan to start construction of two plants in the spring and summer of 2007. These will be built at Garner and Galbraith. The next plant will be built in Gilmore City. Each of these plants will produce over 100 million gallons of ethanol and will require an excess of 40 million bushels of corn per plant. When all three plants are up and running Harvest BioFuels will need over 120 million bushels of corn annually. With production starting this spring, production of the first plant would be mid 2008.

StateLine Cooperative and management are looking forward to originating the corn for Harvest BioFuels. It will give SLC the opportunity to establish new relationships with cus-

tomers in the Gailbraith, Garner, and Gilmore City areas as well as provide additional marketing opportunities for current SLC customers.

We have been working with Harvest BioFuels for the last 6 months in putting together this partnership. We have been very impressed with the professionalism and integrity of Harvest BioFuels officials. As the construction and production of these plants begin to materialize we are convinced that you will find their commitment to the local communities environment to be a long term asset to the local economy.

SLC is already expanding our grain origination program to accommodate the corn demand of these ethanol plants. As construction starts and an effective startup date is set, we will actively pursue corn origination. In SLC's long term grain business plans, we know that additional storage will be needed. With the Harvest BioFuels relationship, this could change the urgency SLC will look at in adding additional storage.

We will continue to keep you informed and provide you further information as the construction of these plants progresses.

StateLine Lumberyard

As of March 16, 2007 the ownership and operation of the StateLine Lumberyard has been purchased by Midwest Building Materials Inc. owned by Royce Janssen. Your board and management has been studying the lumberyard business unit for some time and we feel that selling this business unit to a qualified buyer will be a transparent transition for customers of the lumberyard as well as the grain customers that South Burt serviced. The core focus of this change is the continued lumber service out of Burt and SLC's ability to continue the grain service. We have the lumberyard sale positioned to accomplish this focus. As we maneuver through this sale we want to keep any customers interruptions to a minimum. If we encounter any unexpected challenges, please bear with us as we make the adjustments to efficiently serve the customer.

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From the Desk continued from page 1

To squelch any rumors below are the key points of this sale.

- Royce Janssen purchased the business from StateLine.
- SLC will lease back to Royce the facilities needed to continue to operate the lumberyard.
- SLC will continue to provide grain storage to SLC customers at the Burt location.
- SLC will have market information available at the South Burt location.
- SLC will have the phone number customers call South Burt for grain information automatically rolled to be answered at North Burt.
- Outside of harvest grain deliveries, much of the grain delivered to South Burt has been done by the customer calling ahead to let us know they will be delivering grain to South Burt. So we do not infringe on the Midwest Building Materials Inc employees any more than necessary, we would ask that you continue to call us when you would like to deliver grain to South Burt. Obviously during harvest we would have an SLC employee in the office to handle the grain needs.
- SLC will continue to provide NH3 and NH3 services out of South Burt as it has in the past.
- Outside of the harvest time frame, SLC will have an employee in the MBMI office as needed. We do have arrangements with MBMI that when we have SLC customers that need service out of South Burt, we have access to the office and our office grain computers and equipment.
- The truck scale at South Burt will remain under total control of SLC and SLC will have total access to the scale and office when needed.
- It has been indicated that MBMI will handle some limited dog food/cat food/softener salt items at the South Burt location, but this is yet to be finalized.

There will probably be more issues that we need to cover as we go through this transition. We do understand that this is a change but we do feel this change will provide Burt a viable long term lumberyard business and still allowing SLC to utilize the storage facilities for customers in that area. If you have any questions or comments please feel free to stop in the main office in Burt across the street from the post office.

SLC Board Planning Retreat

As your board and management team work to continue to position SLC in this changing environment, we know that change is not new. In January of 2007 your board

and management spent three days studying different aspects of your cooperative to determine how best to position it for the future. There are a number of key areas that the board has directed SLC Management to focus on in the next 1-4 years.

One area is the feed department. The feed department is a key department for servicing our customer's livestock needs and general customers grain marketing needs as a result of grain being processed through the feed mill. This plays a key role in assisting SLC in posting a corn bid that is competitive with the end user market. As we look to the future, livestock will remain a key element in the consumption of corn and your cooperative is committed to the livestock and feed industry to serve livestock and grain producers.

Another area the board studied how SLC should position itself with the tremendous ethanol expansion. The board has directed management to evaluate the role of SLC in the ethanol environment and develop prudent options for board consideration. Positioning SLC with ethanol has been an ongoing study for the past few years. We do have a viable and exciting partnership with Harvest BioFuels to move SLC into the corn origination position directly to possibly 3 or 4, 120 million gallon ethanol plants owned by one investment group. This partnership will allow SLC to use its assets and expanded territory to serve customers of a larger geographical area.

The future needs of SLC grain and agronomy infrastructure will need to be expanded. As the demand for corn continues to grow and the need to deliver the entire years corn deliveries to these feed mills and ethanol plants spaced out over 12 months, the need for quality, longer term storage will increase. As corn acres increase to meet the feed and ethanol demand, fertilizer usage, particularly nitrogen, will go up. We are now studying the most effective way to increase the storage capacity of grain and agronomy products to serve members.

In light of the changes that are occurring in and around SLC we are continuing to update the financial positioning of the balance sheet of your cooperative. Equity revolvment, price effectiveness, retaining and attracting quality people, and quality equipment and facilities are the priorities listed by your board. To achieve an acceptable level of achievement in these areas, SLC will continue to look for ways to improve efficiencies and expand our service area to generate capitol to meet these expanding needs.

We appreciate the opportunity to serve you. Thank you for your business and we sincerely look forward to serving you in the future.

StateLine Cooperative Remains Financially Strong

Rick McLouth, Chief Financial Officer

SLC is committed to being a viable long-term business so that we can continue to provide you the goods and services you need to be successful in your business, as well as to provide marketing opportunities for your grain. A critical element of this viability is the need to make a profit. This allows us to continue to invest in facilities and equipment to be competitive, as well as putting money back in your pockets through patronage payments and revolving equity. Since 1997, SLC's profits have enabled us to pay back nearly \$4 million to you our member/owners, as well as to purchase and maintain assets which will serve you in the future.

Another element of our long-term viability is the support of our business partners - from our members to our suppliers of goods, services and funds. A good example is CoBank, who provides your cooperative with a line of credit for seasonal borrowings. With the run up in grain prices since last fall, SLC has had to borrow 3 times more than normal to finance grain purchases and for margin requirements. This has allowed us to buy your grain, when you wanted to sell it, and at a price that worked for your farm operation, without any interruption. That is a situation that you can take for granted, but is only possible for a financially strong cooperative with solid membership support.

SLC is committed to being here for you now – and in the future – and is dedicated to maintaining the financial health to do so.



It has been over two years since I started with the Livestock Solutions Group at StateLine Cooperative. It has been a very exciting time following through on the strategic plan that was initiated in late 2004. During this time period StateLine Cooperative

has facilitated the construction of fifty-eight 2,400 head wean to finish swine buildings. When we began the program we had several key objectives that we wanted to achieve. Our primary focus was to provide a premium corn market for our local grain producers at our Lone Rock feed facility. We also wanted to provide the opportunity for off-farm employment through contractual labor in swine barns. In addition to these, there have been local investment opportunities through ownership in swine facilities. Area farmers have also been able to realize a savings by utilizing swine manure for crop nutrients. Overall, the program has been very successful in fulfilling these objectives. We are committed to the feed business of StateLine Cooperative's and look forward to offering more opportunities with this program in 2008.

Cherilyn Krichau
Marketing and Sales Manager

StateLine Cooperative's Purpose

To provide quality goods and service to help customers be successful in their enterprises. To that purpose, StateLine will use the highest degree of professionalism in directors, employees, facilities and equipment.

Main Office PO Box 67 Burt, IA 50522 888- 920- 3555 515- 924- 3555 515- 928- 3560 (fax)	Armstrong PO Box 286 Armstrong, IA 50514 888- 802- 3897 712- 868- 3150 712- 868- 3120 (fax) 712- 868- 3465 (fertilizer plant) 712- 868- 3281 (fertilizer fax)	Bancroft PO Box 397 Bancroft, IA 50517 800- 298- 4196 515- 885- 2642 515- 885- 2327 (fax)	Buffalo Center PO Box 348 Buffalo Center, IA 50424 800- 852- 4718 641- 562- 2404 641- 562- 2847 (fax) 641- 561- 2440 (fertilizer plant) 641- 561- 2850 (fertilizer fax)	North Burt Ag 1201 330th Street Burt, IA 50522 800- 292- 0240 515- 924- 3859 515- 924- 3893 (fax)
North Burt Grain 1203 330th Street Burt, Iowa 50522 800- 373- 8509 515- 924- 3266 515- 924- 3381 (fax)	South Burt PO Box 97 Burt, IA 50522 888-920-3241 515- 924- 3241 515- 924- 3239 (fax)	Fenton PO Box 110 Fenton, IA 50539 515- 889- 2251 800- 721- 2251 515- 889- 2252 (fax)	Swea City PO Box 160 Swea City, IA 50590 800- 574- 2178 515- 272- 4406 515- 272- 4381 (fax)	Lakota PO Box 43 Lakota, IA 50451 877- 886- 2461 515- 886- 2461 515- 886- 2045 (fax)
Ledyard PO Box 127 Ledyard, IA 50556 800- 646- 2135 515- 646- 2135 515- 646- 3035 (fax) 515- 646- 2650 (fertilizer plant)	Lone Rock PO Box 368 Lone Rock, IA 50559 800- 298- 4246 515- 925- 3590 515- 925- 3524 (fax)	Ringsted PO Box 128 Ringsted, IA 50578 800- 469- 0581 712- 866- 0581 712- 866- 0580 (fax)	Cylinder 3875 525th Ave. Cylinder, IA 50528 800-414-3335 712-424-3335 712-424-3313 (fax)	Halfa 5265 206th Street Armstrong, IA 50514 712- 866- 2671 712- 866- 2672 (fax)
E-mail addresses for employees and locations are available at: www. statelinecoop. com				Maple Hill 1746 500th Avenue Armstrong, IA 50514 800- 776- 8571 712- 362- 3545 712- 363- 3546 (fax)

StateLine Cooperative Grain News

We use historical market information when we talk about market trends or speculate on where a market is heading. So, are we following market trends or developing new history? Some of the information used in this article may be of little use by the time you receive this information. We are using our most current information as of March 15th and the USDA is releasing the Planting Intentions and Grain Stocks updates on Friday March 30th. You'll need to take the information reviewed here and then update it with the most recent information you have available to give you a historical perspective which may help you project crop prices for the upcoming growing seasons. March 15th was an important deadline for Crop Insurance; we hope you investigated your risk management opportunities with the use of Crop Insurance. We haven't ever seen the crop revenue opportunities that are available to us now. The integration of Crop Insurance and grain marketing could have been done at some very attractive levels this year.

We encourage you to develop a grain marketing plan that includes "offers" to price some of your grain if price levels hit your targets. You can give your offers to any StateLine location and we will watch the market for you and either contract the grain if the market reaches your target price or give you a call to remind you of your price goal. Any time you give us a firm offer (one that allows us to price the contract); we watch the markets in both the day and night sessions of the eCBOT. This nearly 24 hour service has allowed many producers to capture rallies in either the day session, 9:30 a.m. - 1:15 p.m. or the night session, 6:30 p.m. - 6:00 a.m. The market will remain volatile as we seem to be writing new history.

StateLine doesn't have an in-house fee based marketing program. What we do have is all the information you need to help you develop your own marketing plan, at no charge. We can show you what resources are available and what are some of the strengths and weaknesses of the fee-based plans. Our goal is to help you develop the marketing plan

that best fits your operation. Let us know what your marketing plan goals are and we'll try to show you resources available to you. Hopefully some of you were able to attend our March 20th Grain Marketing meeting with Troy Lust of FCStone for a review of all the grain marketing information. We are blessed here in Iowa to have firms such as FCStone and institutions such as Iowa State providing all of us with valuable tools for grain marketing.

Price volatility can be seen in our last three months, since before the January 12th Annual Crop Production numbers. January 10th lows for our 2007 CBOT corn contracts included May Corn (CK) @ \$3.625, July Corn (CN) @ \$3.695 and December Corn (CZ) @ \$3.545. January 11th lows included May Corn (CK) @ \$3.775, July Corn (CN) @ \$3.84 and December Corn (CZ) @ \$3.65. January 12th lows included May Corn (CK) @ \$4.075, July Corn (CN) @ \$4.145 and December Corn (CZ) @ \$3.88. February 22nd highs included May Corn (CK) @ \$4.4825, July Corn (CN) @ \$4.58 and December Corn (CZ) @ \$4.295. March 14th lows included May Corn (CK) @ \$3.965, July Corn (CN) @ \$4.075 and December Corn (CZ) @ \$3.93. All these numbers gave us a range of \$0.75 to \$0.89 on these Chicago Board of Trade contracts from January 10th lows to February 22nd highs.

Switching over to soybeans, January 10th lows for our 2007 CBOT contracts included May Soybeans (SK) @ \$6.715, July Soybeans (SN) @ \$6.85 and November Soybeans (SX) @ \$7.08. January 11th lows included May Soybeans (SK) @ \$6.82, July Soybeans (SN) @ \$6.95 and November Soybeans (SZ) @ \$7.16. January 12th lows included May Soybeans (SK) @ \$7.10, July Soybeans (SN) @ \$7.21 and November Soybeans (SX) @ \$7.45. February 22nd highs included May Soybeans (SK) @ \$8.075, July Soybeans (SN) @ \$8.22 and November Soybeans (SX) @ \$8.43. March 14th lows included May Soybeans (SK) @ \$7.46, July Soybeans (SN) @ \$7.62 and November Soybeans (SX) @ \$7.845. All these numbers gave us a range of \$1.35 to \$1.37 on these Chicago Board of Trade

contracts from January 10th lows to February 22nd highs.

What will happen to our markets five days after the March 30th USDA Prospective Plantings and Grain Stocks is known? History shows that we are pretty evenly split in the last 11 years. Corn markets have been down six out of eleven years for an average market decline of \$0.07 and higher five times with an average increase of \$0.124. Soybean markets have been higher six out of eleven years with an average increase of \$0.117 and down five years with an average decrease of \$0.152. This just tells us that the market does a fair job of keeping itself balanced. This year we are seeing the market doing a few more exercises to remain balanced. The USDA shows a history for estimating lower corn acres than the market estimates. Seventeen years of comparisons shows us that the USDA has been higher only three years on corn and eleven years on beans. The USDA is estimating that 4.6 million acres will leave the Conservation Reserve Program this year. Only 1.4 million acres are from major corn producing states.

Five year price seasonals show us that corn will normally set highs in March, late May or early June and then fall with a partial rally sometime in July. July's rallies are usually less than the earlier highs obtained in March, May or June. Five year price seasonals for soybeans show a similar of two highs and then a decline. Soybeans like to make their first higher move in last half April and then will normally rally in June before declining.

Just let us know if you would like to have copies of these charts, we would be glad to give them to you.

Stocks-To-Use ratios have been good historical fundamental price barometers. U.S. Soybean Carryouts are at 22 year highs with a 19.5% Stock-To Use ratio equating to nearly 595 million bushels of soybeans being carried from our 2006 U.S. soybean production. The last time our U.S. Stocks-To-Use ratio was higher was in 1986-7. This means there is an over-supply of soybeans in the United States. Our lowest U.S. Soybean Stocks-To-Use ratios were seen in 1996-7 and in 2003-4 when estimates floated between 4-7%. Ending Stocks in days were 20

days in 96/97, 16 days in 03/04 and were 71 days in March 2007. This is why fundamentally U. S. soybeans are bearish if viewed separate from other markets. World Ending Soybean stocks are also at 26 year highs.

Stocks-To-Use ratios are bullish for corn. U.S. Corn Stocks-To-Use ratios are setting at 6.4% and the only time they have been lower was in the 1995-6 crop year, 5.0%. Ending Stock in Days in 1995-6 was at 18 days and we are floating around 23 days currently for U.S. Corn stocks. World Corn Stocks-To-Use ratios also tell us that we have never been lower than our present 12%. Once again, if you would like to have the charts for this information, ask and you will receive. Including all these charts in a newsletter would allow you as much paper as you would need to wallpaper your bathroom.

Speculators (Funds) also have a big influence in the grain markets. The increase in the number of contracts being traded electronically means that we may only receive weekly estimates of Funds' positions. As of March 9th Commodity Funds owned nearly 363,000 contracts of corn or they were long over 1.8 billion bushels. Since 1990 the record high was 387,380 contracts long on February 20, 2007 and short 114,265 contracts on February 8, 2005. When they decide to liquidate or sell their long position, the market will drop as there will be more sellers than buyers. One of the reasons beans have rallied despite their fundamental bearishness is the fact we are close to record high contract ownership by the Commodity Funds. Record high contract ownership was estimated at 107,690 contracts on February 6, 2007 with record lows recorded on February 8, 2005 at short 78,161 contracts. Take your contracts and multiply them by 5,000 to calculate your bushels. Some estimates have the net Soybean Fund long exceeding 130,000 contracts on March 14th. When the Funds are buying, the market goes up.

Dean Kohlmeyer
Grain Department Manager

StateLine Agronomy Thoughts

I'm certain that you all have heard the expression "The early bird gets the worm", frequently spoken to cajole one's children into getting out of bed in the morning, or more often used these days to justify an action taken by an investor with the hope that the marketplace will reward those who make an investment early in the life of a project.

This thinking is also what has driven many in the farming community to invest early on in the ethanol business, at a time when the conventional wisdom was contrary to that idea. In this case, these "early birds" appear to have been handsomely rewarded for their foresight and risk. It also has held true this year for those farmers who made the decision to speak early for their crop nutrient needs this past winter. While there is usually some cost increase in plant food from the time your cooperative typically begins purchasing fertilizer for the following spring season's use until now, the past several months have redefined the term "price volatility" in our fertilizer business. Nitrogen products such as UAN Solution and Urea have risen more than \$.18 per pound of nitrogen since much of this spring's projected usage was purchased last summer. NH₃ has seen a rise of over \$.08 per pound of nitrogen in the same time period. DAP costs to us have gone up well over \$140 per ton since last winter's fill period. Only potash, of the major nutri-

ents, has not "exploded" in price in the past 9 months, but you probably can recall without much thought the fall of 2003 when potash was priced over \$100 less than it is today.

What makes this period of price increases different than those of the past primarily are the forces that are driving the increases. Most past periods of fertilizer price spikes have been driven either by large sudden increases in energy costs, and/or by shortages of supply. As a result, when energy costs have stabilized and then declined, or when the manufacturing plants get "caught up" with the marketplace needs, fertilizer prices have followed suit and declined as well. The exception to this has been potash, which has remained at present levels for 2 years, due mostly to the aggressive supply management practices of the producers, particularly Potash Corp. of Saskatchewan. The engine driving this round of price increases is demand; particularly that of the domestic US market. As corn prices approach \$4.00 per bushel, and with speculation of \$5.00 per bushel being seen in print and heard from all the "talking heads" of American production agriculture, those who are in the fertilizer business see their present and future fertilizer supplies becoming much more valuable than they were just last summer. In this way the fertilizer markets seem to behave much as the energy markets do; the price increases come in anticipation of



a shortage, well before any shortages actually occur.

Previously, during times when the North American fertilizer marketplace has experienced product shortages, the usually lower cost import market has responded to fill the need quite handily, and taken the tops off of most major price rallies that have occurred. This time, however, the world supply/demand is also quite demand heavy, which has resulted in the world price of UAN Solution and Urea in particular being higher than the North American domestic market, whose pricing was still coupled to the cost of the natural gas used to manufacture our spring nitrogen products. As a result, the price of domestic nitrogen products has "de-coupled" from the cost of natural gas. Any "re-coupling" in the short term can most likely occur only if the world market price of nitrogen falls (which does not look likely in the near future), or if domestic grain demand were to weaken to the

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point where much less imported fertilizer was needed and domestic fertilizer producers suddenly needed to compete more vigorously for sales.

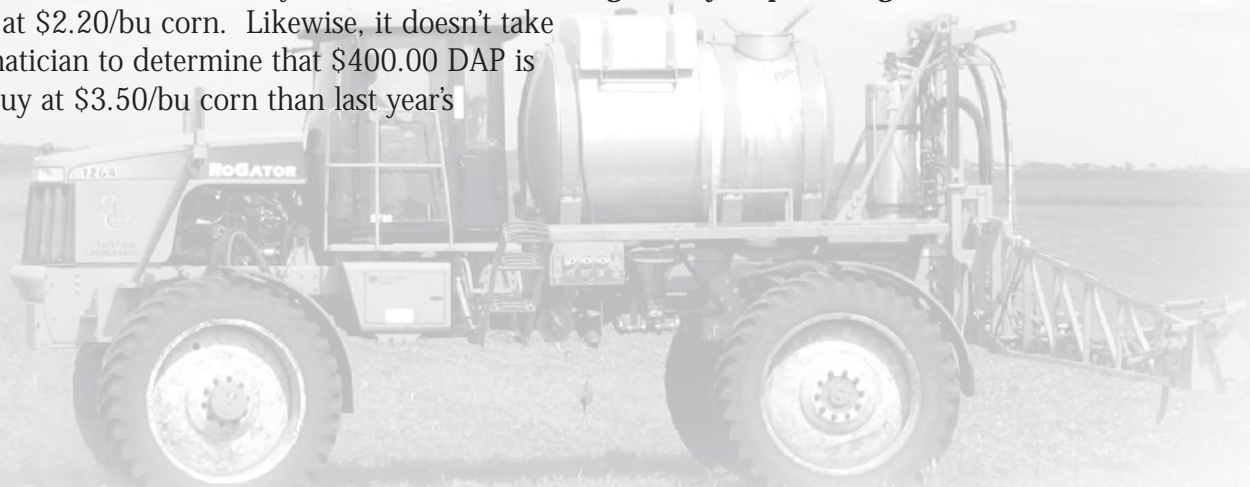
All of this leads me to think of another expression that may also apply at some point in this developing fertilizer scenario for your cooperative and our customer/ owners; "The second mouse gets the cheese". We as the Agronomy leaders of your local cooperatives typically have many years experience in this business, as do most of our customer/ owners. One likes to believe that the more experience we earn, the more wise we become, and the better decisions we will make as a result of all this experience. The changes that are occurring in our business these days are possibly, I believe, changing many of the basic assumptions of the fertilizer business; the "knowledge" that our experience has helped us to develop over our many years in this business. If we do not adapt our strategies of doing business to these changes, together we may be putting your cooperatives at risk. This year, we are experiencing a run-up in fertilizer prices of significant proportions. As a result, experience (as well as many of the above mentioned "talking heads") is telling many of our customers that they need to buy their fertilizer inputs earlier & earlier, rather than to follow their usual customs. Looking back, this year in general that was wise advice. Will it continue to be? Have you ever sold corn and then watched the market climb? How would you feel buying into a fertilizer market and watching it plummet? How do you want your cooperative to operate in this new environment, as the Early Bird, or the Mouse? How will you operate your farm?

So where's the good news in all this? It's apparent to me that at \$285.00/ton 28% Solution is a better buy at \$3.50/bu corn than last year's \$220.00/ton 28% was at \$2.20/bu corn. Likewise, it doesn't take a mathematician to determine that \$400.00 DAP is a better buy at \$3.50/bu corn than last year's

\$335.00 DAP at \$2.20/bu corn. At what today's and future grain markets will likely give for your crop, I believe we need to recognize the value of each acre of production even more than we usually do. One of my early trainers in this business once told me "the best fertilizer in the world is a farmer's footprints in his fields". We need to be spending more time than ever using our training and production experience to help make the most profit on every acre in your operation. Ideas that we sometimes put off as "too expensive" or "too time consuming" to try may now make more sense to look at given the potential gains. Practices that on the surface have given yield responses the previously looked less than optimal might warrant a re-try, given today's economics. There has never been one "silver bullet" in crop production, but in the past years we at StateLine Agronomy have sure made a positive difference in many of the fields we work on with our customers. Please have a safe spring season, and let us help make a difference in your fields this summer; together we make one heck of a team!!

Again, thank you for allowing us to be your supplier of choice this and every season. We will work hard to continue to earn that opportunity. We understand that your cooperative is only successful when you, our owners are successful, and we again say a big THANK YOU for the faith you put in us, and for supporting that faith with your business. 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.

Chuck Peter
Agronomy Dept Manager



Senator Grassley visiting the North Burt Agronomy Plant on April 5, 2007

Senator Grassley has asked the StateLine Cooperative to provide facilities for him to address the public concerning the Agriculture Farm Bill. The Senator will be at the StateLine Cooperative North Burt Agronomy Plant on Thursday, April 5, 2007. He is scheduled to meet with citizens from 9:45 a.m. to 10:45 a.m. This meeting is open to the public and everyone is invited.

This is a unique opportunity for SLC customers, members, and interested citizens to speak directly to one of the most influential Senators about a topic that is very important to the agriculture community. The Agricultural Farm Bill is a key tool for producers financial success. ***Please plan to attend this meeting to show the Senator by your attendance the importance of this bill.*** The StateLine Cooperative is honored to host an event for the Senator to communicate with area producers. To make sure we have enough seating, it would help if you would call the North Burt Agronomy plant at 515-924-3859 and let Marilyn know if you are attending. If it works into your schedule for you attend and you did not notify anyone, please come anyway. StateLine Cooperative and the Senator would appreciate your attendance.



***“Committed to Working and Growing
Together for the Future”***

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