



# The CORN Connection

## Central Iowa Renewable Energy's Mission Statement

To successfully add value to locally grown grains which will profit our investor owners and area grain and livestock producers while benefitting our local communities through economic growth.

The Corn Connection Is  
Published Quarterly By  
**CORN, LP**  
To Provide Information For  
Our Owners And Investors

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## Inside CORNland

By  
**Brad Davis**  
CORN, LP  
General Manager



Whew! The 2008 year has finally run its course, and I know that just seeing a year like it at last pass into the history books has to make all of us feel a little better and, despite the on-going challenges that lie before us, feel as though a new year will bring about some changes for the better as we move forward.

This is not to say that 2008 was a complete and total disaster, for there were indeed a number of good things, positive things that occurred, especially during the first half of the year.

However with so many challenges and obstacles coming at us from virtually every direction and in such rapid succession over the course of the second half of 2008, it certainly made it much more difficult to recall the good things and the bright spots.

Elsewhere in this issue of *The CORN Connection* we have included the *4th Quarter Financial Highlights for CORN, LP*, as well as the year to date summary of those highlights that will be included in the financial presentation that *will be given at the Annual Meeting of CORN, LP on March 11th*.

While I am certainly not completely satisfied with the final results for the 2008 fiscal year, I also have to declare that given the perspective of the kind of year it was for all of us, for all businesses in general and for the ethanol industry in particular, there is also a certain amount of satisfaction that bubbles to the surface in seeing how **CORN, LP** was still able to complete the year in the black, have a positive bottom line, and to indeed have a year that we can and should take some measure of pride in for the achievements, accomplishments and growth that were attained.

As I am sure all of you were aware, the comfortable margins that **CORN, LP** and other ethanol plants began the year with quickly and steadily began to dissipate as we moved into the 3rd quarter of 2008, and ultimately margins actually moved out of the black and into the red (negative) figures.

It was therefore even more unfortunate, and clearly the impact hurt even more as a result, that **CORN, LP** began 2008 by bumping up against the limits imposed on production by the

air permit that we were operating under at the time.

As I discussed in this column in the May, 2008, issue of *The CORN Connection*, the plant had been operating at a record setting level in excess of 55 million gallons annual production during the 11 months prior to January of 2008, thus it became necessary to "Pull The Reins" somewhat to slow output and thus remain within the 12-month rolling average as dictated by the air permit.

Thus at the precise time when margins were actually at the highest levels they would reach for the 2008 year, we were left no option but to curtail production somewhat, ending the quarter with 11.8 million gallons of ethanol produced or 2.6 million gallons less than had been produced the previous quarter when the plant enjoyed free rein to run.

Obviously, it would have been nice to have received the normal margins that were being earned at that time on the average level of production at which the plant had been producing during prior quarters, rather than having to leave the table and thus miss out as dessert was being served.

But it was not to be, and we can only grit our teeth and bear the consequences that resulted as 2008 margins ultimately turned sour over the final six months of operations.

At the same time, however, I am sure you can also appreciate the relief, satisfaction and joy that were generated as **CORN, LP** finally received an upgrade to the air permit, a process that we have been diligently working on and striving to reach for the past 2 years, as has been reported to you by *Plant Manager Andy Miller* in various articles of *The CORN Connection* while these

*Inside CORNland* -- Continued On Page 4



*The "Control Room" at the CORN, LP plant has a variety of screens linked to monitor the status of numerous systems throughout the plant.*



## CORN's Checkbook

By  
**Jim Glawe**  
CORN, LP Controller



The 2008 fiscal year of operations for **CORN, LP** has come to a close, and I am happy to report to you that **CORN, LP** ended up with a profitable year.

Although this year certainly did not have the \$11 million and \$12 million returns we've enjoyed each of the last two years, given the condition of the national and world economies, and considering that there were actually some ethanol plants that were filing for bankruptcy, I hope you will agree that just being profitable in these extremely challenging economic times is a positive thing.

Total sales for the 2008 fiscal year ending December 31 were \$115.9 million, which is up from the \$103.3 million total sales figure that was reported for 2007.

Production was up, but the overall gallons sold in 2008 were actually down from 2007, however the average sales price was up by 17 cents per gallon.

Sales of distillers' grains also contributed to the increase in total sales, with a net sales price that was \$33.00 per ton higher than last year.

Cost of goods sold for 2008 was \$110.8 million, which represents a 29% increase in costs from 2007. Within this number lies the reason our return on investment for 2008 is lower than what **CORN, LP** was able to return to you in 2007.

The volume of corn bushels ground did increase by 584,000 bushels from 2007 to 2008, but most of the increase in our costs was due to the average cost per bushel of corn rather than to the increase in bushel volumes.

For 2007 **CORN, LP's** average cost for the corn we used was \$3.12 per bushel. For 2008 the average cost for the corn the plant utilized was \$4.58 per bushel, and as the math shows, that is an increase of \$1.46 for every bushel of corn used in 2008 compared to the previous year.

The impact of this might have been even greater when you remember that we saw corn hit a high of \$7.62 on the Chicago Board of Trade this past summer.

However, as I reported to you in the previous issue of *The CORN Connection*, the sound strategies, positions and safeguards that the *Merchandising Team at CORN, LP* has implemented played a crucial role in helping to control our costs in what was a very

volatile, record setting corn market in 2008.

Total operating expenses were \$4.7 million in 2008, which is down from \$5.6 million in 2007. This decrease is largely due to the variable interest rate decreasing on our term loan.

Other income received in 2008 was \$375,000, and that is down from the \$622,000 other income category in 2007. This decrease can also be attributed to lower interest rates, and in this case it is due to the lower amount of interest that was earned on the restricted cash we keep on deposit as part of our loan agreement.

This gives us a net income of \$760,400, and a net income per unit of \$24.27. The return on investment was 2.43%.

Earnings before interest, taxes, depreciation & amortization (EBITDA) for 2008 were \$12.1 million.

On the production side, **CORN, LP** produced 52,349,000 gallons of ethanol in 2008, up from the 51,543,000 gallons that were produced in 2007.

In the 4th quarter alone we produced 15,105,000 gallons of ethanol which, as **CORN, LP Plant Manager Andy Miller** notes in his *Coach's CORNER* column on the next page, is an annualized rate of over 60 million gallons.

This rate of production for the 4th quarter of 2008 breaks the previous quarterly production record by 708,000 gallons.

By now you should have received a Schedule K-1 for filing your income taxes, as this year's K-1's were mailed out on February 9th.

This was only 2 weeks after the completion of our audit, so our tax accountants can be commended for putting these forms together for us to send out to you so quickly.

You may have noticed and wondered about the ordinary income in box 1 of your K-1 being quite a bit larger than last year, since last year we were more profitable.

The increase is the result of unrealized gains on corn and ethanol derivatives.

At the end of 2007 we had \$10 million in unrealized gains which we are required to report as income for book purposes. However, we can not include this in income for tax purposes until the derivatives are liquidated.

The derivative instruments were liquidated in 2008, thus our taxable income increased in 2008 and, in essence, we were able to defer the tax liability for one year.

If you have no other passive income to report other than your investment in Central Iowa Renewable Energy, LLC, the passive losses passed through to you in 2005 and 2006 will offset all of the income you are receiving this year, and you will have no tax liability.

As always, if you have any questions regarding your K-1, please feel free to give me a call to discuss them.

### CORN, LP Operation Highlights

October 1 Through December 31 And January 1 Through December 31, 2008 (Un-Audited)

|                        | 4th Quarter   | 2008 Year-To-Date |
|------------------------|---------------|-------------------|
| Sales                  | \$ 33,776,425 | \$ 115,953,359    |
| Cost Of Goods Sold     | 32,992,509    | 110,797,384       |
| Gross Profit           | 783,916       | 5,155,975         |
| Operating Expenses     | 1,106,512     | 4,770,644         |
| Income From Operations | (322,596)     | 385,331           |
| Other Income           | 70,949        | 375,070           |
| Net Income             | (251,648)     | 760,400           |
| Net Income Per Unit    | \$ (8)        | \$ 24             |
| Return On Investment   | -0.80%        | 2.43%             |



## Coach's CORNER

By

Andy Miller

CORN, LP Plant Manager

The fourth quarter has ended and we are well on our way into this new first quarter of the 2009 year, and at this time I am very happy to report the plant is operating at a production rate above 60,000,000 gallons per year!

Obviously, therefore, things are running extremely well, very smoothly and efficiently, production is great, and that's only part of the good news I wish to share with you.

Other highlights at press time in early March that you may be interested in knowing include:

\* *The bushels from the corn pile* have created absolutely no issues with the operations.

\* *We have installed a new micro motion totalizer meter*, which has allowed our corn solids being sent to the fermentors to be maximized to increase ethanol yield.

\* *Operationally*, we have been able to optimize the plant's performance and have also had time to look at improving the efficiency of the entire operation.

Over the past couple of months we have spent a considerable amount of time working with the IT Department (the computer guys) of *Gold-Eagle Cooperative*, and as a result of our efforts many of our ideas have been transformed into reality on several fronts.

First of all, we have a computerized system for capturing the hourly data taken by each operator (operator logs), and now we have been able to set up this system to allow for data manipulation that will provide us with the identification of trends, averages, standard deviations and, ultimately, allow us to utilize statistical tools in order to better control the plant.

Secondly, we now have a computerized system for maintaining inventory of spare parts in our maintenance shop. This is a very critical tool for ensuring parts are on the shelf to perform timely cost-saving repairs.

Another very critical tool is the work order system.

Our entire workforce enters work orders for repairs that are needed in the plant, and the system allows for prioritization of the work orders, as well as acting as a "diary" to enable the operators to identify the status of a repair job.

For example, if parts have been ordered, the "comments section" will potentially have a "parts on order 2/27/09 and expected to be received on 3/1/09".

This lets the operators see that the job is in progress, as well as gives them a reference point from which to prepare for the re-commissioning of the equipment once repairs are made.

Finally, it creates a "paper trail" that we are able to utilize as proof that proper maintenance has been performed to conform to various regulatory requirements, such as the air permit.

We are very fortunate to have an IT Department that is both talented enough and which has the flexibility and capability to make our ideas become reality.

In the same vein, we have always utilized the *Gold-Eagle Cooperative's* electricians on an "as needed" basis, and just recently we came up with a very beneficial plan for *CORN, LP* to utilize these resources to help us.

For example, we have had many, many issues with the coal elevator leg safety systems, and in some cases repeated calls to the manufacturers have, unfortunately, not always solved our issues.

Within one day of calling the *Gold-Eagle Cooperative's* electricians, the problem had been identified and solved.

On another occasion, a serious capacitor issue in our motor control center was immediately acted upon by these same electricians, and a solution was identified.

We are looking forward to some additional orientation with these guys at our plant and increasing their familiarity with our operations, which we're sure will provide us with even greater benefits for the future.

I wanted to bring these items to your attention to highlight the fact that the synergies of working with the *Gold-Eagle Cooperative* don't end at corn supply.

The accounting staff, merchandisers, human resource staff, the shop guys and so many of the other people of *Gold-Eagle* are always ready to accommodate and help us to accomplish our jobs, which allows us to direct greater focus on cost reduction and optimization efforts which, especially in these times, are so vitally important in maintaining a viable business.

I guess I will go against the grain and say there are several "T's" in *TEAM*, since each one of these people who help in some way can honestly say, "I helped *CORN, LP* to be successful."

And to all of those people "We" at *CORN, LP* want to say Thank You and to let you know that we sincerely appreciate the help.

My final comment for this issue of *The CORN Connection* is to share with all of you something which I personally feel is *Some Really Great News*.

Several years ago, as you may or may not recall from previous comments I have made in my newsletter articles, we started working to obtain an air permit for the plant to operate under, and over the course of those years we have frequently met with the IDNR, EPA, consultants, designers, etc.

We have been completely audited "with a fine tooth comb" by the EPA and received *absolutely NO notices of violation* - a feat made possible with a lot of hard work, dedication and determination by all of the operators, but especially by *Jennifer Etheredge, CORN, LP Process Manager*.

I could go on for several more paragraphs and even then I still couldn't even begin to explain all the work, frustration, and concerns that we have all experienced throughout this extended process that at times I'm sure stretched everyone's patience to the limit.

*BUT*, we didn't give up and, as of yesterday, we were issued our 250 ton per year permit, which will allow us to run the plant to its full capacity of approximately 60,000,000 gallons of undenatured ethanol per year!

To add a little more drama to the final outcome of this process, we were actually within a single day of having to shut the plant down to prevent us from overshooting the old construction permit limits, which only allowed us to produce at a rate of 52,250,000 gallons of undenatured ethanol per year.

And while it is indeed true we were 99% sure that we were going to be granted this permit, whenever one is dealing with the bureaucracy and having numerous hoops to pass through, hurdles to clear, and the avalanche of forms and paperwork to complete, there is always that realization that nothing is ever a



Inside CORNland -- Continued From Page 1

issues were on-going, and again this month as he announces the approval of our new air permit granting the plant increased production capability.

This will definitely play a crucial role as we move forward into the 2009 year with our plant and the entire industry still facing monumental challenges and struggles, along with those red (negative) ink margins I suggested earlier, since while there is no escaping the fact that margins will continue to be negative for a time as the entire ethanol industry seeks to regain strength in our ravaged national and global economy, the ability to increase the level of production as granted by the new air permit will reduce the intensity and depth of that red ink for us.

Furthermore, I am confident that there will also be a positive impact on the spirits and overall mood throughout the entire staff of people in CORN, LP's production and operations as they are at last given the added freedom and flexibility to allow the plant to produce and perform much more closely to its full potentials, rather than having to "Tighten The Reins" periodically to restrain the plant's performance.

In some ways I would liken the feelings this will create to how I feel, and I am sure how most of you probably feel as well, when you get a nice, warm sunny day and can at long last have a chance to take your car into the car wash to cleanse the grim, salt, mud and dirt it has accumulated from driving over soggy, sloppy winter roads for weeks.

Be honest now, I'm sure as soon as you pull out of the wash and onto the street, you push the peddle down and it truly feels that your car is running better, responding faster, and riding smoother just because it's clean. Right?

It always does to me too!

Make no mistake about it, these are indeed times when we need to look for issues to feel good about, and savor when we come across them, for every individual and every business has felt the impact of the economic meltdown and the financial struggles that we have experienced these past months, and the road to recovery from them will be a long and trying one with numerous bumps likely to occur along the way.

If the stories in the media and the economic realities of these difficult times have caused concerns for you about CORN, LP's fate and future in particular, and about that of the ethanol industry in general, then I can tell you that I too share

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those concerns, for there are no quick fixes or easy solutions.

Indeed, one would have to have their head buried in the sand and be completely oblivious to all that surrounds us not to have questions and concerns for what lies ahead of us.

Nevertheless, perhaps that is why as we share this information with you about CORN, LP's performance for the past fiscal year of 2008, and set the stage for its operations as we enter this final month of its first quarter in 2009, I do feel good about being able to assure you that CORN, LP is not "upside down" on it's commitments or positions, that we remain in good standing and have a solid working relationship with our lender, and that while we certainly expect and are therefore prepared as well as we can be for more months of negative margins to follow as this year unfolds, we are also cautiously confident in our business plans and strategies, and guardedly optimistic for the long term future of our operations and the ethanol industry's ultimate role in this country's renewable energy policies.

Having said that, I can also tell you that the difficult times are far from over, that I fully anticipate you will see additional media coverage of both ethanol and bio-fuel plant demises as we go forward, and that while this consolidation of our renewable energy industry is bound to be painful and difficult, it is also a necessity to support and sustain the overall health of this industry for the long term future.

### COACH'S CORNER -- Continued From Page 3

sure thing until all of the final signatures are attached and everything has been agreed to and approved by all of the powers that be.

Perhaps such adventures with the bureaucracy helps to explain why I make the alcohol in the day, and sometimes have to drink it in the evening!



### CORN, LP

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