



# 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

For Timely News & Updates  
Check Our Web Site  
[www.cornlp.com](http://www.cornlp.com)

Volume 3 -- Issue 1  
May, 2008

## Inside CORNland

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



**QUARTERLY COMMENTS:** The new year is off to another exciting and eventful start at the **CORN, LP** plant, and it seems amazing that the 1st Quarter is now in the history books and we are one-third of the way into the 2nd Quarter's production at the time of this writing.

Elsewhere in his **CORN's Checkbook** article **CORN, LP Controller Jim Glawe** has provided some comments on the 1st Quarter's operations, plus there is a brief summary of some of the figures he has also listed.

There were a number of reasons why the results of this 1st Quarter did not shine as brightly as the stellar performance and production figures we have been accustomed to sharing with you in previous issues of **The CORN Connection**.

The main one of these is the reduced corn crush which, as we discussed in greater length with everyone who was able to attend the March 12th Annual Meeting, is actually the consequences of the plant performing so exceptionally well in the months leading up to January 1, 2008 when this 1st Quarter started.

With the plant operating at a record-setting level and in excess of 55 million gallons during the 11 months prior to January, it became necessary to "**Pull The Reins**" back on productivity and slow output so that we could stay in harmony with the air permit 12 month rolling average of 55 million gallons.

As was reported to you in a previous issue of **The CORN Connection**, and has also been noted elsewhere in this issue, we have submitted a request for and fully anticipate receiving a production increase in the permit that will allow **CORN, LP** to increase annual volumes.

The **CORN, LP Staff** has experienced a rocky start in previous 1st Quarter results, but certainly each time they have faced more than their share of challenges in any given period they have shown the resilience, dedication and determination to more than just rebound, as was evidenced from the 2nd, 3rd and 4th Quarters of 2007, during which we marveled at how one monthly and/or quarterly production and/or performance

record after another was shattered, only to be shattered again, and sometimes yet again as the year unfolded.

And while I clearly do not want to appear to be making light of the 1st Quarter results that are being reported to you in this issue, when this quarter is put into perspective with the 1st Quarter of 2007, which was both disappointing and frustrating on so many fronts, I feel the already proven potential of the **CORN, LP Team** to drive the plant to ever-increasing heights as the year progresses has set the standard of excellence to which they will once again respond.

Thus I am fully confident and thoroughly convinced that over the course of the weeks to come, the months that lie ahead and the remaining quarters yet to follow, their dedication and experience, plus their commitments to being the best and doing their best will carry **CORN, LP** forward on a wave of production that will culminate in another very strong and successful year to report to you next March.

**LOOKING AHEAD:** I sincerely believe that it would be extremely difficult for anyone associated with and informed about the renewable energy industry and marketplace not to feel tremendous excitement, enthusiasm and anticipation for the prospects and future of this industry as we look to the future.

The role of bio-fuels in the long term energy policy of this country, in our state and in our local communities, their position in the marketplace, their value and importance which have been the mainstay focus of ethanol production are all continuing to increase at a strong pace.

And while the future is indeed a bright and promising one as we consider this steadily expanding strength, it is perhaps even more exciting when we consider the immense potentials in

*Inside CORNland -- Continued On Page 4*

## Corn, LP Director Election Results

*At the March 12th Annual Meeting the investors of CORN, LP re-elected incumbent Directors Dr. John Gazaway and Max Nedved to serve three year terms on the CORN, LP Board of Directors.*

*At their re-organizational meeting the Directors elected Max Nedved to serve as Board President; Joe Horan as Vice-President; Clay Hansen as Secretary and Paul Rasmussen as Treasurer until the conclusion of next year's Annual Meeting.*



## CORN's Checkbook

By  
**Jim Glawe**  
CORN, LP Controller



This 1st Quarter of our new year started off to be an exciting one, with a significant number of activities underway.

In January we had our year-ending audit for the fiscal year that ended on December 31st, after which we immediately readied and mailed out the K-1s.

Once that task was completed, we mailed out distribution checks in February, which was followed up by the Annual Meeting that was held on March 12th.

In what has been an exceptionally harsh winter, we felt fortunate Mother Nature granted us favorable weather for the Annual Meeting, and it seemed to have a positive impact on attendance. We appreciate the good turn out and participation.

The 1st Quarter ended March 31st, and at this time I want to provide you with a brief review of some of the financials.

Although sales for the 1st Quarter did not match those of the record-setting 4th quarter of 2007, being off by approximately \$4.4 million from the \$27.4 million we recorded as we wrapped up 2007's business, they are in fact up by nearly \$5.0 million when compared to the 1st Quarter sales of last year.

The reason for the differences in sales totals can be traced to production volumes, since during the 4th quarter of 2007 we produced some 14.4 million gallons of ethanol which, as I mentioned previously, was a record-setting volume for **CORN, LP**.

The 1st Quarter's production volume this year dropped to 11.8 million gallons, or 2.6 million gallons less.

No, the plant was not experiencing any problems or difficulties to start the 1st Quarter of 2008, as it was when we began the year in 2007.

In fact, the plant has been operating at such a high level and production has been so good that we were edging up very closely to the maximum production capacity allowed within the specifications of our air permit for any 12-consecutive month period, and therefore had to slow production down and thus reduce volumes to stay within these specified guidelines.

A year ago, as I am sure many of you will recall, we started out struggling with a series of delays as the plant was shut down 28 total days, or nearly a full one-third of the quarter, to address design challenges.

As a result of those shutdowns, production for the 1st Quarter of 2007 was limited to 9.45 million gallons, therefore during the remainder of the year we were able to "Push Plant Productivity" beyond what would normally be quarterly volumes without the risk of exceeding the 12 month specifications of our Air Quality Permit.

As **CORN, LP Plant Manager Andy Miller** reported to you in his *Coach's CORNer* article in the previous edition of *The CORN Connection*, we have submitted a request to have our air permit extended to a 62 million gallon capacity level, but as he notes in this month's *Coach's CORNer* report, we had not as yet received any word on this request as we went to press.

Getting back to the 1st Quarter financials, our cost of goods

purchased was, as you can see in the summarized results, up some \$1.5 million compared to 4th Quarter costs.

While a portion of this increase can indeed be attributed to the higher cost of corn, it's not precisely a direct correlation between the two, so an explanation is in order.

**CORN, LP** has had its corn position for the bushels being consumed in production at this time previously locked in on the Chicago Board of Trade, indeed those positions have been locked in for many months.

However, FASB 133 requires us to list the value of these positions on our balance sheet and report gains or losses regardless of the time period covered by these positions.

Therefore, any gain that is realized on corn for 2008, or even for 2009, has to be recognized.

To illustrate how this affects cost of goods, after accounting for the value of these derivatives, our net corn cost for the 1st Quarter of 2008 was \$3.35 per bushel. Obviously, this would be considered an outstanding cost factor for a 3-month period during which the average market price for corn was over \$5.00.

But when we compare this apparently attractive 1st Quarter 2008 corn cost with our corn cost for the 4th Quarter of 2007, which was \$2.40 as a result of the positions we held on those volumes, you can quickly see that with corn being our number one item of expense, listing the values of our positions as required by FASB 133 can create some significant swings in the cost of goods from one quarter to the next.

Also having an impact on the quarterly results are the many fixed costs we experience each month and each quarter that remain the same, regardless of the volumes being produced.

Such things as depreciation, lease expense and insurance are all virtually the same each and every month, and where we can really start to notice the role of efficiency in production is when we produce more gallons and thus can spread these fixed expenses out over greater volumes.

Other operating expenses for the 1st Quarter amounted to \$1.3 million, which is down \$7,000 from the previous quarter and which, notably, marks the 5th consecutive quarter in which we have experienced a decrease in operating expenses.

The 1st Quarter's EBITA was \$3,058,998, and our net income for the quarter reached \$148,000. While that latter figure is not the kind of stellar income number we've been accustomed to, keep in mind a year ago we posted a loss of \$102,000 at the end of the 1st Quarter and went on to a net income of nearly \$12.7 million, with a 40.5% return on investment.

With the margins we currently have locked in, I would anticipate we will once again have a very strong three-quarters to conclude this fiscal year, much as we did last year.

### CORN, LP Operation Highlights

January 1 Through March 31, 2008 (Un-Audited)

Sales	\$ 22,904,965
Cost Of Goods Sold	21,523,387
Gross Profit	1,381,579
Operating Expenses	1,313,303
Income From Operations	68,275
Other Income	79,725
Net Income	148,000
Net Income Per Unit	5
Return On Investment	0.47%



## Coach's CORNER

By

Andy Miller

CORN, LP Plant Manager

We have now had our scheduled semi-annual shutdown, which started on Sunday, March 30th at 4:00 in the afternoon, and I would like to report some of the results from that experience to you at this time.

Our initial plan was to have a 4 day shutdown and, after the maintenance, inspection, and testing, we were planning to start back up once again on Thursday, April 3rd.

Part of every shutdown we have is devoted to inspecting the combustor and boiler to ensure that these “un-inspectable” portions of “*The Heart Of The Plant*” are in good condition with normal wear.

Upon completion of the shutdown and the subsequent cooling inside the combustor and boiler, it was evident that we had a refractory failure.

Refractory is a concrete-like substance that is placed next to the metal shell of the combustor and boiler.

This concrete (and a layer of insulation) protects the metal from the 1,800 degree temperatures that we reach (the carbon steel used in the manufacture of this equipment loses its rigidity at approximately 850 degrees), plus they also prevent heat loss.

This refractory is held in place by a system of metal pins which emanate from the interior of the metal shell. The refractory is then sprayed on in layers and bonds to the metal pins.

During the course of this inspection, we found that a section of refractory measuring approximately 8' X 8' and 8" thick fell from the roof of the boiler at the point where the combustor transitions into the boiler, and the remaining portion of this section was dangerously close to falling as well.

The next section of refractory on the roof was also close to falling and it appeared, upon closer inspection, that the root cause of the failure was the expansion joint.

An expansion joint is a long “pillow” of high temperature insulation encapsulated by Inconel wire mesh, which is a metal which does not degrade until reaching above 1,800 degrees, and the expansion joint should fit tightly and be placed in a recessed area where there is low abrasion (from the ash).

All of this is necessary to prevent the degradation of the space left between where the end of the combustor and the beginning of the boiler meet.

There has to be a spot where the two independent structures can expand and contract without impingement.

If the combustor and the boiler were flange bolted together, and refractory were placed in between, the two different structures would try to grow with the heat and there would be a consequent failure of the skin, necessitating a shutdown with lengthy downtime.

If our failure had occurred during our run, we would have seen a glowing red hotspot, and we would have had a long period of downtime.

However, the refractory held in place during operation and

fell when the machinery was cooling.

The apparent chain of events was that the expansion joint degraded with the abrasion of the ash over time and allowed air flows and ash to get under the section of refractory.

The hangers' spot welds failed and the entire roof refractory section was then held in place by simple heat expansion, much like a puzzle piece is held in place by surrounding pieces.

When cooling commenced, the refractory sections cooled and the space created by contraction due to cooling allowed the refractory to fall.

From past experiences, a refractory contractor was already on standby in case something like this were to occur.

As a result of around the clock staffing and through some expediting for materials, the repairs were able to take place as quickly as was possible.

A new expansion joint was installed that incorporates a new design to allow for a tighter fit, plus a new system of top-of-the-line ceramic hangers improved the overall refractory roof connections to the metal and outer skin.

Our entire planned shutdown was completed on time, but our combustor and boiler refractory failure caused an additional week of down time.

During the unexpected portion, our maintenance and operations staff took the opportunity to check out additional pumps and equipment.

We also scheduled in a boiler inspector to perform the bi-annual internal inspection previously scheduled for this coming September in order to reduce the down time for the next semi-annual shutdown that will occur prior to the fall harvest season.

The maintenance crew did a great job, all of them working long hours on difficult jobs to get the work done.

The operators performed extremely well. Many of the operators were paired with our maintenance staff to “stretch” the experience and allow for more ground to be covered.

Other operators cleaned bins, replaced bags in bag houses, cleaned ductwork, and did a variety of other tasks.

The plant looks very good everywhere we/you can see, and now that it's been so thoroughly inspected, it looks good internally as well.

On a final note, we performed some low cost/high potential work on the boiler steam drum feed water line in hopes that we could reduce carryover.

Unfortunately, it is apparent that this project did not succeed as we had hoped and we are forced to continue to look at additional ways to increase our efficiency via carryover reduction.

This attempt cost less than \$500.00, whereas the next viable alternative may well approach \$70,000.

We will continue to look at the system and attempt to find a cheaper, guaranteed alternative, however, those are sometimes hard to find.

I have to apologize for the extended downtime, but in the final analysis I also think our people got additional important tasks completed that will result in a benefit overall for the plant, and certainly the new portion of the refractory system will hopefully perform better due to the better design.

Finally, as we go to press the first week of May, we are still waiting on the response from the IDNR concerning our air permit extension which will allow additional production capacity, and hopefully this will be coming very soon.



Inside CORNland -- Continued From Page 1

other segments of ethanol production that are non-fuel related. Indeed, there is a growing sentiment within the industry which strongly suggests that as these other potential market-places begin to more completely fulfill the vast potential that awaits them, the production of ethanol as fuel will be just one of many streams of profitability that flows forth from plants such as CORN, LP, and perhaps will become even a secondary contributor among them.

*"What are these exciting new streams of potential?"* you may ask.

Well, we're all familiar with the most frequently talked about co-product of ethanol production, the DDGS that have always been a good source of economical animal nutrition for use by the livestock production segment of the economy.

As research continues to develop more and better uses of DDGS as a feed ingredient, its role as an alternative to other ingredients will continue to expand, as will its contribution as a profit stream for ethanol plants.

Additionally, with the constantly soaring cost for oil and the many other limitations that are piggybacked to crude oil supply issues, we are continuing to add to the economic incentives that make separation and extraction of oil from the DDGS an entirely new and perhaps soon to be equally valuable stream of profit potential for the future.

Another co-product of ethanol production is CO2, some-



*These photos show the new "top-of-the-line" ceramic hangers of the "roof" refractory repair that CORN, LP Plant Manager Andy Miller discusses in his article on page 3. The photo at left shows a close up of the metal bracket that is welded to the roof which the ceramic hanger is secured to, and the photo at right shows a series of these hangers in place.*

### CORN, LP Board Of Directors

Max Nedved, President	CORN, LLC
Joseph Horan, Vice-President	CORN, LLC
Clayton Hansen, Secretary	CORN, LLC
Paul Rasmussen, Treasurer	CORN, LLC
Dr. John Gazaway, Director	CORN, LLC
Dean Reichter, Director	CORN, LLC
Mark Wigans, Director	CORN, LLC
Mervin Krauss, Director	Gold-Eagle
Duane Vorrie, Director	Gold-Eagle
Dave Reinhart, Director	Fagen, Inc.
Ken Ulrich, Director	ICM, Inc.

thing all of you are familiar with in its most typical role as the carbonation source for beverages of all kinds.

But CO2 is also beginning to have an exciting and very promising new application in our constantly changing energy world that may or may not ultimately result in "carbon credits" and thus open up an entirely new source from which profit potentials may begin to flow.

While there may be some of you who may not fully appreciate my amusement in this potentially new arena of "carbon credits", I think you will understand why they do so when I tell you that in numerous respects they can be considered to be very similar to the famous (or infamous, depending upon your perspective) PIK Certificates that were for a few years the rage in agriculture.

And if indeed that ends up being a valid comparison, I can only say: *"Hang On For An Exciting Ride!"*



### CORN, LP

515 North Locust Street  
P.O. Box 280  
Goldfield, Iowa 50542

First Class Mail  
U.S. POSTAGE  
PAID  
Des Moines, IA  
Permit No. 2929

RETURN SERVICE REQUESTED