April 2005

Fueling America...

...Energizing Livestock

Quad County Corn Processors • Galva, Iowa • 712-282-4628

Annual Meeting

by Mike Jerke, General Manager
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By any measure, Quad County Corn Processors had a very successful 2004. Production of denatured ethanol was 25.7 million gallons, an increase of 5 million gallons over 2003. Golden Bran® sales increased both on volume and dollars per ton basis. Specifically, Golden Bran® 32 increased 8,000 ton, Golden Bran® Dry increased 6,000 ton and Golden Bran® Liquid increased nearly 19,000 ton over sales in 2003.

Our Golden Bran® trade name continues to distinguish itself as superior in quality and consistency to competing products. This is not something that happened overnight but has developed over time through attention to detail. I appreciate the efforts of our production and marketing team for their focus. Golden Bran® sales accounted for $5.7 million dollars of sales revenue.

Other numbers that bear mention include:

- Working capital just over $2.1 million
- Tangible net worth of 50.8 percent
- Earnings on a per share basis of $1,658
- Return on Assets of 18.6 percent
- Profit margin on sales of 40.8 percent

Complete financial data is documented in the 2004 annual audit report of the company. If you were not able to pick one up at the annual meeting, contact Kristi Brotherson (712-282-4628 or kristib@quad-county.com) and she will forward a copy to you.

Since the beginning of operations, because of our organizational structure and size, members of Quad County have received $3.8 million in federal tax credits and $2.2 million in state tax credits. While the state tax credit was able to be used on any income, the federal credits can only be used against passive income, such as the income generated by being an investor in Quad County. One should not forget that the federal tax credits can be rolled from one year to the next so that in the event they were not able to be utilized fully in a prior year, they can be in an upcoming year.

The credits do not go away until they are utilized or December 31, 2010, at which time they can be taken as a deduction. For those members who are affected by the Alternative Minimum Tax (AMT), because of language signed into law by President Bush this past year, 2004 is the last year that AMT will limit use of the federal credit. I encourage you to talk to your personal tax advisor about credits that you were unable to use in the past and the ability to put them to use now. By adding the recent cash distribution of $2,176,000 to the tax credits received, total benefits equal $8.2 million dollars. That works out to a 66.7 percent return on your investment.

As we move through 2005, there are several capital projects we hope to accomplish. A distillation overhaul is underway to replace our worn out rectifier and improve our energy efficiency as well. A new building will be constructed to house and handle our Golden Bran® 32 product. I also anticipate beginning construction of a regenerative thermal oxidizer to address air emissions related to the dryer.

Elsewhere in this newsletter please note the “Lamberty Report” by Ron Lamberty, vice president/market development for the American Coalition for Ethanol (ACE). For more information about ACE, including how to become a member, please visit their website at www.ethanol.org. We have reprinted, with permission, Ron’s article from the April 2005 issue of *Ethanol Today*. Ron does an outstanding job of illustrating the view of oil companies as it relates to ethanol. Consider Ron’s comments in the perspective of current record high gas prices and the lowest prices we have seen for ethanol in over a year. Indeed, current spot ethanol prices are a full $1.00 per gallon below the retail cost of gasoline most consumers are paying today.

We must continue to push for a robust Renewable Fuels Standard as part of any Energy Bill that is considered on the federal level. Additionally, it is imperative that we continue to educate consumers about the benefits of E85 and expand that market as a competitor rather than an additive to gasoline.

The Lamberty Report

by Ron Lamberty

"Basically, the refiners and oil companies who have griped about ethanol's 'subsidy' for years have now found a way to keep that subsidy for themselves. By limiting the choices that marketers can make, or making the ethanol choice more expensive, oil companies can limit the volume of ethanol sales."

Ron Lamberty
Vice President/Market Development
With a career spanning 20 years in the oil industry, Ron is a leading authority on ethanol marketing. He helps develop new demand centers for ethanol by providing unmatched expertise to petroleum marketers on ethanol logistics and marketing.

At petroleum industry trade shows this spring, I have noticed that petroleum marketers are becoming increasingly frustrated with the oil companies that supply them. Now, that may sound like a leg being mad at an arm on the same body, but those groups are actually quite different from one another. Petroleum marketers are the people who sell gas to the public. Oil companies make gas and sell it to marketers. The primary reason for friction seems to be oil company consolidation and stricter rules for marketers who want to sell their products, leaving marketers with the classic "my way or the highway" decision. Increasingly, marketers are looking to the highway.

Marketers complain that minimum volumes are increasing along with the cost of maintaining the new brands' image, that the gap between the price of branded and unbranded fuels is widening, and that credit card fees are ridiculously high. More pertinent to the ethanol industry, many marketers complain that oil companies now prevent them from buying ethanol from the lowest cost supplier, and instead are forcing them to use "branded" ethanol blends at prices several cents higher than the product could be blended by the marketer. In some cases, oil companies are, in effect, adding a forty to fifty cent per gallon mark-up to ethanol – keeping the entire tax break for themselves.

Basically, the refiners and oil companies who have griped about ethanol's "subsidy" for years have now found a way to keep that subsidy for themselves. By limiting the choices that marketers can make, or making the ethanol choice more expensive, oil companies can limit ethanol sales. By limiting the volume of ethanol sales, they ensure more than adequate ethanol supply, reducing the prices they have to pay for the stuff.

Petroleum marketers, who used to earn a little more profit and pass on some of the tax break, are now left looking like they are overcharging for a product that should cost consumers less. In the end consumers pay more, petroleum marketers pay more, ethanol plants get less, and oil companies reap record profits.

It is encouraging to see that a larger number of marketers are looking to regional brands or their own "house" brand. If enough of them take that approach, perhaps they can use ethanol to turn the tables on the refiners – limiting the volume of gasoline they sell, creating an oversupply, and reducing the prices marketers and consumers pay for gas.

Meanwhile, politically, the same oil industry and their spokespeople have steadfastly refused even to consider a Renewable Fuels Standard (RFS) with an ethanol requirement more than five billion gallons. That would be understandable if the U.S. oil industry was keeping us well supplied with low-cost motor fuel from reliable sources, or if ethanol was hurting their volume and profits. Neither seems to be the case.

During the four years the RFS has been debated, total gasoline sales have risen 12 billion gallons, from 128 billion per year to 140 billion. The U.S. imported almost 14 billion gallons of gas last year – not crude oil used to make gasoline, but gasoline itself. Ironically, last year's imports of reformulated gasoline alone were 3.4 billion, almost identical to the amount of ethanol sold in the U.S.

Given those numbers, asking oil companies to buy as much motor fuel from American ethanol producers as they buy from outside the United States does not seem like an unreasonable request. In fact, given the oil industry's recent performance, it seems like a request is less reasonable than a requirement.

Writer's note to Ron Fagen: I don't care what the *Wall Street Journal* says; I think you have a fine moustache.

Tips for Feeding Golden Bran® Co-Products

By Rick Heaton, Galva Holstein Ag Beef Specialist Golden Bran® Co-Product Sales
rheaton@galvaholsteinag.com

The value of Golden Bran® co-products continues to grow! Quad County's increased ethanol production levels in 2004 allowed livestock producers to capture more tons of feed for their use. Quad County continues to manufacture high-quality, premium co-products in an effort to make livestock production more economical in 2005.

Feeding Golden Bran® co-products is easy if you keep in mind some of the following tips:

All Co-Products Are Not Alike. Review nutritional values of co-products in terms of dry matter, protein and minerals because these numbers can vary quite a bit from ethanol plant to ethanol plant. The color and consistency of co-products also help determine ultimate feed quality. Quad County's co-products are extremely reliable, and their light, golden color reflects a quality manufacturing process which is directly correlated to higher nutrient digestibility.

Understand How to Feed Co-Products. Ask questions about how co-products are made and always confirm moisture and nutrient information each month. Using Golden Bran® 32 is very different from using Golden Bran® Liquid. Variations in co-product rations can be easily modified, but only if you are aware of what's in the co-products. It is never a good idea to co-mingle products from different ethanol plants.

Check the "Fuel" Gauge. Remember to continually monitor co-product supplies so you don't run out in the middle of mixing a batch of feed. Livestock require constant rations at all times.

Know How Long to Store Golden Bran® 32. In the hot summer months, the shelf life of Golden Bran® 32 diminishes slightly. Use up older supplies first and consider stirring your pile for best results. Although Golden Bran® Liquid has a longer shelf life, consider agitating or recirculating every 14 days.

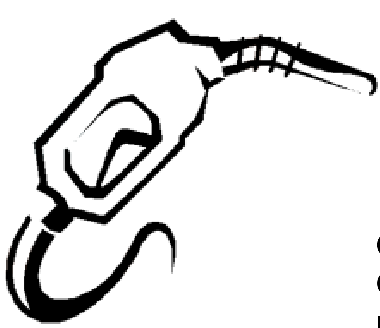
Mineral Supplementation IS Necessary. Even though Golden Bran® co-products are excellent protein and energy sources, there are a few minerals that should be supplemented such as calcium and salt. Minerals such as phosphorus, sulfur and potassium are not necessary since Golden Bran® co-products contain sufficient levels. When feeding a significant quantity of any co-products, please be sure to use a mineral or supplement formulated accordingly.

If you have any feeding questions, please give me a call today at 800-548-5336.

E85 85% Ethanol Day

Thursday, May 5, 2005
Galva Holstein Ag Fuel 24 Site
1583 Market Avenue, Galva

- Join us for the Grand Opening of Galva Holstein Ag's Fuel 24 site.
- Special Guest: ***Mark Pearson***, WHO Radio's Big Show Co-Host
- Lunch served by Galva Holstein Ag.
- E85 priced at 85 cents per gallon from 10 am to 2 pm.
- Area auto dealers will display E85 vehicles.
- You can check your vehicle's E85 compatibility.



Quad County Corn Processors is proud to supply the E85 being sold at Galva Holstein Ag's Fuel 24 site. This is one more way our on-going relationship adds value for Quad County's shareholders.

Is Iowa Committed to an Ethanol Industry?

The ethanol industry is an important part of Iowa's economic base. Today, the ethanol industry will receive $1.96 billion in annual product sales with an additional $596 million of potential product sales with proposed plants or plants that are under construction.

All of the corn and labor plus 44 percent of other expenses are purchased from Iowa residents and businesses.

$871 million annually on corn
$373 million on operating costs
$63.5 million for labor
$140.36 million for ingredients
$130.8 million for energy

Iowa's existing ethanol industry generates $363.6 million in economic activity to local communities and when all of the proposed plants are operational the industry will have a total impact of $481 million.

The ethanol industry adds jobs (over 4,200 indirect and direct jobs), contributes to the local communities, and makes a big economic impact in the state.

Ethanol plants are the only refineries being built in the U.S. The plants help extend the supply of gasoline while adding economic impact and jobs to rural economies.

Every 50 million gallon ethanol plant replaces the equivalent of 2.3 million barrels of imported oil each year.

Iowa is the leading ethanol producing state, with over **6,500** Iowa investors.

Gas prices have recently hit a record high, and according to FC Stone, demand for gas has increased 12 billion gallons in four years resulting in low gas supplies. <u>Ethanol-blended fuel is experiencing the biggest discount and is under-valued by $1.00 per gallon</u> (according to April 5, 2005, rack prices).

Consumers are not receiving the savings of ethanol-blended fuels. Iowans should be paying 6 to 11 cents LESS for every gallon of ethanol-blended fuel. A Fuel Quality Standard to include ethanol in every gallon would **not** increase the cost of gas to the consumer. The consumer could buy gas at around 10 cents less than unleaded fuel.

OUR LEGISLATORS NEED TO HEAR FROM YOU. Let them know they need to help Iowans reduce the need for foreign oil and support an Iowa industry. Iowa is the largest ethanol producing state. Show the industry the state supports them by implementing a Fuel Quality Standard in Iowa.

Iowa Renewable Fuels Association, 5505 NW 88th Street, #100, Johnston, IA 50131
Telephone 515-225-9242. Based on ISU Economic Impact Study, P.Gallagher, D. Otto, March 2004.

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