April 2006

Fueling America...

...Energizing Livestock

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

Quad County Corn Processors Annual Meeting

By Mike Jerke
mikej@quad-county.com

March 28, 2006 • Management Report

The following comments are from the General Manager's report delivered at the Annual Meeting.

I am pleased to report to you that Quad County Corn Processors is on solid financial ground. These are exciting times! Could anyone have predicted the events that would happen during 2005 to deliver the results we can talk about today? While 2005 was a good year, 2006 is shaping up to exceed, by a significant margin, 2005.

One year ago at our annual meeting, we discussed concerns about the lack of usage of our product by the petroleum industry and the impact that was having on price. For example, early in the spring of 2005, a major petroleum refiner from the southeast was reported to have told the industry, "We wouldn't use your product if you paid us." And given that ethanol was trading at -$.15 from Nymex unleaded, versus parity of 51 cents over (a reflection of the blender's credit for ethanol) in that time frame, the industry was certainly "paying" petroleum to use our product. Indeed, in the three months following our March 2005 annual meeting, ethanol rack prices were under $1.20 per gallon. On the year, our average net back was slightly higher than $1.40 per gallon. The impact of 20 cents less on our production could have meant $5.2 million less income.

But 2005 did not turn out that way.

2005 turned out to be the year the whole nation came to understand energy and its influence on our daily lives and pocket books. "Volatility" became the common term used to describe the frequent gut wrenching market movements.

2005 turned out to be the year hurricanes crippled that ability of the refiners, who were already short of capacity, to manufacture the amount of fuel demanded in the marketplace. The damage caused by the hurricanes caused ethanol demand to increase, supply to decrease, and prices rose accordingly.

2005 turned out to be the year American consumers became acclimated to paying $2.50 per gallon of gasoline.

2005 turned out to be the year the Energy Bill was passed. The Energy Bill signed by the President in August will undoubtedly be viewed as the single most important event for ethanol in the last year and possibly the history of our industry. It is important because it established a Renewable Fuel Standard (RFS) requiring renewable fuels (ethanol and biodiesel) to make up a minimum of 4 billion gallons of the nations' fuel supply in 2006 and increases until 2012 when renewables are to constitute at least 7.5 billion gallons of the fuel supply.

Consider the RFS in light of current production, which is pegged at just over 4 billion gallons and a total usage of liquid fuels nationally of 140 billion gallons. Ethanol is 3 percent of

(continued to page 2)

During 2006, Quad County Corn Processors added Golden Bran® storage just east of the process building as well as a new boiler room, on the far right in this photograph.

total fuel usage. Contrary to some media reporting, the Energy Bill did not eliminate MTBE (the only current competitor to ethanol). Petroleum companies were looking forward to sweeping product liability protection to be contained in the Energy Bill. This did not materialize. The exit from MTBE manufacturing is a business decision made by that industry.

2005 was a year of continuing unrest in the Middle East and other important oil producing areas such as Venezuela.

2005 was the year that Wall Street, and just about everyone else, fell in love with ethanol as a sure-fire investment.

And one month after 2005 closed out, the President acknowledged in the State of the Union address that the United States of America is "addicted to oil."

Through the years, the board of directors has consistently communicated their expectation that Quad County be managed to maximize return for the member-owners on a long-term basis. Accordingly, our capital expenditures, financial management, and risk management approach is held up to that expectation. Our capital expenditure plan, which we communicated in 2005, was for four significant items as follows; Distillation remodel, Golden Bran® storage, grain storage, and emissions control equipment. The expected cost was $2.43 million. Given the declining profit expectations early in 2005, the grain storage item was put on hold. As the year progressed, and profit projections began to realign with our budget, capital expenditure items were reviewed. Total expenditures for 2005 were $2.75 million. The items that were undertaken include: Distillation remodel, RTO (emissions equipment), Golden Bran® storage, Cooling Tower addition, water treatment system/ponds, blending skid, and the boiler project. Aside from regulatory items, projects are evaluated on terms of payback to the company. The benchmark for consideration has been, and will continue to be, payback the expenditure in 3 years or less. In 2006, we have several major projects planned, including: boiler project completion, RTO completion, Grain storage of 600,000 bushels to be fed by 25,000 bph equipment, potentially a dehydration addition, and the beginning of our road pavement plan. Capital Expenditures for 2006 are projected to be $5.7 million. In terms of financial management, thus far in 2006 Quad County distributed $2.72 million back to the members and prepaid an additional $1 million (or ~10%) of long term debt. Our debt retirement plan is to prepay an additional $500,000 at the end of each quarter in 2006 beginning in March ($2 million more for a total of $3 million this year). This plan will result in the retirement of all the long term debt in 2008 versus 2012 (an estimated savings of $2.6 million of interest). Our debt to equity ratio at the end of 2005 was .72 to 1. After two months of operation in 2006, it is .66 to 1. This compares to our debt to equity in 2002 of just over 2 to 1. At the end of the day this business remains a commodity based one. Accordingly, there will always be swings in profitability. To weather the difficult times, debt must be manageable.

<u>What about 2006?</u>

2006 will be a year of unprecedented prosperity in the ethanol industry generally and for Quad County specifically. Via the ethanol contracts we have on the books, and risk management for the corn and natural gas, we are projecting net income to be an order of magnitude 2 to 2½ times the net income of 2005. Should the year unfold the way it appears, cash distributions will be evaluated possibly as early as June.

2006 may be the year that we have to explain to our urban neighbors why ethanol blends are significantly more expensive than blends without ethanol. And of course that explanation will talk about the commodity nature of ethanol and the fact it will be more, or less, expensive because of economics (supply and demand). We will remind people that corn is a commodity, and cheap corn has little to do with the supply or demand of ethanol. It has much to do with the cost of manufacturing ethanol.

2006 will indeed see high prices for ethanol. And high prices will do what they need to, they will decrease demand for the product and we will see where the market has to move in order to find equilibrium and rebuild demand (2007).

2006 will be the first year after the hurricanes of 2005. And volatility will rule the energy marketplace until the market fears are either realized or pacified.

2006 <u>will not</u> find stability in the Middle East.

2006 will see continued ethanol investor and development exuberance.

In 2007, some are projecting the industry may be over-producing for projected demand.

Quad County must continue our quest to be a low cost producer. In this regard, our goal is summed up in 3 words: efficiency, efficiency, efficiency. We must improve our consistency, increase our uptime percentage, lower our usage of natural gas, utilize more of the starch we buy, and continue to grow our corn storage and handling abilities. Those items will remain our focus as we look at capital projects and invest in research and development. Increased production will be inevitable on an incremental basis. It is not our goal, however, to expand to some arbitrary level of throughput.

If you would like to receive a copy of our audit, please call Kristi at (712) 282-4628.

Remember...

Quad County Corn Processors wants to buy your corn!

Contact Larry Johnson or Mike Jerke at 712-282-4628 for the latest prices and programs.

The Golden Bran® "Advantage"

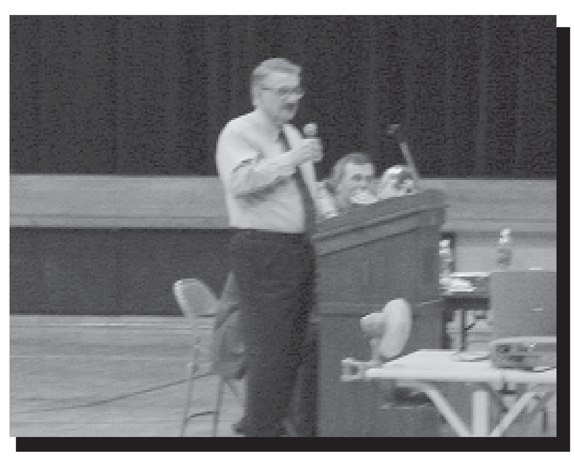
By Rick Heaton – rheaton@GalvaHolsteinAg.com

Northwest Iowa livestock producers are *proof positive* that there are distinct advantages to using Golden Bran® co-products versus competitor products. The chart below illustrates some of the key differences in wet co-products:

Golden Bran® 32 (Wet Distillers Grains)	Modified Wet Distillers (with Solubles)	**Golden Bran® … ADVANTAGE**
32% crude protein	26 - 28% crude protein	**No syrup is added** to dilute protein.
8% crude fat	11 - 13% crude fat	**Lower fat allows higher inclusion rates** without interfering with fiber digestion.
.6% phosphorus	.8 - 1.0% phosphorus	**Lower phosphorus levels** = Less phosphorus in manure = Reduced environmental concerns!
.5 - .6% sulfur	.7 - .9% sulfur	**Lower sulfur levels** result in fewer sudden death or sulfur-induced polio incidents.
32% dry matter	40 - 50% dry matter	**Consistent dry matter!** Price is adjusted to compensate for moisture on a delivered basis.

In addition to superior livestock performance, producers are also realizing higher profit levels! At this time, **customers who contracted Golden Bran® 32 last year are recognizing a $2 to $4 per ton savings versus current spot pricing**. Likewise, **customers who contracted Golden Bran® Liquid last fall are saving $1 to $3 per ton versus market prices**. Please keep this in mind when contracting later this year — planning ahead does make a difference!

John Turnquist of Turnquist Farms won the door prize at the Quad County Corn Processors Annual Meeting.



Bruce Edwards, CPA, presented the Quad County Corn Processors financial reports during the Annual Meeting.

IRFA Launches Newsletter for Renewable Fuels Advocates

The Iowa Renewable Fuels Association (IRFA) has launched a newsletter covering the latest developments in renewable fuels. This publication – The GREEN Team (Grassroots REnewable Energy Network) – is being offered as a *FREE* service for investors and employees of IRFA member biodiesel and ethanol refineries.

On a bi-weekly basis, subscribers will receive an electronic version of the GREEN Team containing such topics as:

- Investment opportunities in biodiesel and ethanol production facilities
- New E85 and biodiesel retail stations
- Renewable fuel station grand opening promotions
- Biodiesel and ethanol refinery grand openings
- New models of flexible fuel vehicles capable of running on E85
- Latest biodiesel warranty information
- Tax incentives for renewable fuels
- Latest developments in ethanol and biodiesel
- Industry statistics

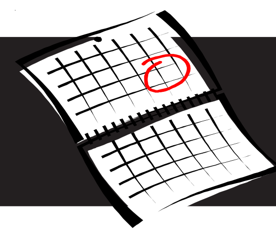
In addition, GREEN Team subscribers will receive invitations to special events, action alerts on renewable fuels legislation, and have an opportunity to participate in the IRFA's annual "Day on the Hill" to talk with legislators about important issues facing Iowa's fastest growing industry.

To subscribe to the GREEN Team, contact Lucy Norton, lnorton@IowaRFA.org, for a subscription form.

We are pleased to report that construction of the new Golden Bran® 32 storage area is complete, and load-out facilities are now operational at Quad County! The covered storage allows Quad County staff to load trucks faster and keep co-products fresher for your livestock.

If you have any feeding or mineral questions, feel free to contact Rick Heaton at 800-548-5336.

Remember to plan ahead...
Quad County will be shutting down during the week of May 8th to connect the new boilers and perform routine maintenance.



6059 159th Street
Galva, Iowa 51020

PRSRT STD
U.S. POSTAGE PAID
SIOUX CITY, IOWA
PERMIT NO. 138

PRINTED WITH SOY INK