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Wrapping up an Eventful Year

BY ROGER MILLER, CEO

It's natural as we begin the new year to take a look back at the one just finished. As I reflect on some of the events that affected Premier, by far the biggest was the unification with Rising Farmers Grain Company. I felt very good about the process that led to the merger. I was proud of the directors from both companies, who were guided by a strong desire to protect their companies and assets while remaining determined to keep cooperatives strong in central Illinois. They know the value co-ops bring to their farming operation, and that cooperative spirit was evident throughout the negotiations.



I'm sure the Rising customers and employees have experienced a transition this fall, and I hope it has been a positive experience. I know from past experience that it takes about six months to a year to become really familiar with our computer system. All the Rising employees have done a great job handling the new systems we've thrown at them.

PRICE SURGE

The second significant feature of 2011 was the high price of grain and soybeans. We saw prices in spring and summer reach \$8 for corn and \$14 for soybeans. Those unprecedented price levels caused us to go back to CoBank, our source of capital, and increase our line of credit from \$70 million to \$200 million. The additional funds enabled us to continue purchasing grain and storing, selling, and shipping it in a timely manner.

Throughout the spring and summer, cash flow was a monthly topic at our board meetings. We worked through scenarios based on \$10 corn and \$20 beans in order to try to anticipate our future financial needs. While we knew that prices at that level would be good for you, we were happy the market didn't go there. The strain on the grain industry as a whole would have been tremendous.

BUILDING INFRASTRUCTURE

Another major focus in 2011 was the investment of approximately \$4 million in asset additions. The biggest project was the new leg and pit at Broadlands, but we also replaced a leg at the east elevator at Leverett and at pit 2 in Tolono, finished a bin at Bondville, and replaced conveyors at Dewey and Thomasboro

with larger, higher-capacity units. All of the work was completed prior to harvest.

Going forward, we'll continue to make facility improvements throughout the cooperative. At our November meeting, the board approved the installation of new scales at Dillsburg and the replacement of the office and scales at our Broadlands location. The latter was brought about by a fire that gutted that office on a Sunday morning during harvest. You can read the details in Tom Sinder's article on page 4. I want to mention how proud I was of the Broadlands staff for the speed and resourcefulness they showed in getting that location back up and running. We have a good group of employees, and this was just another instance where it showed.

Throughout the summer of 2012, we'll be improving upon what I already consider to be good-looking facilities. Our employees know that how facilities look on the exterior is a reflection of how they are managed on the inside. We'll be taking that to the next level, repairing and painting office buildings and installing flags and signs.

I'll conclude by thanking all of you who joined us for the annual meeting December 19, in Thomasboro. Kenneth Hieser, Patrick Feeny, and Maury Busboom were elected as directors, and will all serve three-year terms. For an overview of your cooperative's financial results, see Jim Deters's article on page 2. ○



Another Strong Performance for Premier Cooperative

BY JIM DETERS, CFO

As we did in last December's newsletter, we again publish our Consolidated Balance Sheet and Income Statement so that our members can rest assured that their cooperative is profitable, in sound financial condition, and very capable of meeting their needs.

EARNINGS REPORT

For the fiscal year ended July 31, 2011, the company generated pretax income of \$5.45 million on a consolidated basis, down from the previous year's \$9.95 million. While this was down from our tremendous inaugural year of 2010, it was still a very successful year considering the shorter crop and the high prices we paid to purchase that crop.

Because of the high prices, our members sold a large portion of their 2010 crop early, which meant that the company had to finance those purchases and shoulder the risk of getting a better return from the marketplace. Although we were able to improve the marketing income, it was not enough to offset the reduction in storage and net drying income.

The 2010 corn crop was also much drier than 2009, which produced record drying income for the industry. We went from record highs in drying income in 2010 to extreme lows in fiscal 2011.

That 2009 crop, while generating record income, also produced substantial challenges in maintaining quality for corn. The crop did not keep well and these quality issues carried over to fiscal 2011 and affected the bottom line.

Our experienced and dedicated operations employees did a marvelous job of handling the challenges put before them with that crop. Our marketing staff also did a wonderful job of marketing the crop to take advantage of arbitrage opportunities to enhance our margins.

STRONG FINANCIAL POSITION

Premier Cooperative has a very strong balance sheet, as you can see on page 3. Fiscal 2011 ended with Working Capital of \$25.6 million and a Net Worth of \$45.1 million. We are not highly leveraged. Our debt to equity ratio is around 31%.

The company is well-positioned and has the financing and capital structure in place to handle an extended period of high prices if that should continue.

The merger with Rising Farmers Grain Company was effective after the close of business on July 31, 2011. Rising's numbers are not included in Premier's July 31 balance sheet. When included at August 1, they add \$2.2 million in working capital and net worth in excess of \$4 million. This will further strengthen Premier's financial position.

Something of great value that is not measured and put on the balance sheet is the overwhelming body of knowledge, experience, and dedication that Premier has in its employees. We have in excess of 1,000 years of experience among our full-time and regular part-time employees who have been with us for more than five years. That is, as the commercial says... priceless. Also encouraging for the future is that we have 28 employees with less than five years with the company.

LOOKING AHEAD

It's another unusual year...as usual. The 2011 crop is in the bin and on its way to market. It was quite different than the last two crops. Overall, the yields in our trade area exceeded expectations. There were, however, wide variations in yield, moisture, and quality based on many factors, most involving Mother Nature and the timing of planting and harvesting.

We will see a return to more normal levels of drying income, but prices remain relatively high and much of the crop was forward priced. As such, we will again be required to own and finance the risk for a major portion of the crop and get a substantial return from the market as opposed to storage.

Maintaining quality will be less of a challenge, we think, but can't be sure and must remain diligent. We expect to be profitable for fiscal 2012, with the challenge of matching the fiscal 2011 bottom line. ○

New Scale Latest Dillsburg Project

BY JONATHON GRANT, DILLSBURG OUTSIDE SUPERINTENDENT

We've made a lot of improvements in Dillsburg over the past couple of years. Now we're putting in a new scale that will help us to utilize all the other upgrades more efficiently. We're scheduled to complete the installation by February, if not sooner.

The new scale will measure 12' x 70' replacing the old 10' x 60' scale. The bigger scale lets us handle today's larger trucks and equipment in one pass, and together with our other upgrades helps us dump faster, dry faster, and get our farmers in and out of here even faster. ○

Premier Cooperative, Inc. and Subsidiary
Consolidated Statement of Income
July 31, 2011

GRAIN SALES	\$385,838,459
COST OF GRAIN SALES	<u>371,241,601</u>
GROSS GRAIN MARGIN	14,596,858
MERCHANDISE SALES	49,195,970
COST OF MERCHANDISE SALES	<u>42,111,451</u>
GROSS MERCHANDISE MARGIN	7,084,519
TOTAL GROSS TRADING INCOME	21,681,377
OTHER OPERATING INCOME	<u>7,345,793</u>
TOTAL GROSS INCOME	29,027,170
OPERATING EXPENSES	22,914,780
OTHER INCOME	2,087,297
INTEREST EXPENSE	<u>2,749,462</u>
INCOME BEFORE INCOME TAXES	5,450,225
INCOME TAXES	<u>660,912</u>
NET INCOME BEFORE INCOME TO NONCONTROLLING INTEREST	4,789,313
INCOME TO NONCONTROLLING INTEREST	<u>311,914</u>
CONSOLIDATED NET INCOME	<u>\$4,477,399</u>

Premier Cooperative, Inc. and Subsidiary
Consolidated Balance Sheet
Year Ended July 31, 2011

ASSETS	
CASH	\$352,287
MARKETABLE SECURITIES	38,190
NET RECEIVABLES	55,277,114
INVENTORIES	54,541,570
PREPAID EXPENSES	3,438,418
DEFERRED INCOME TAXES	<u>215,211</u>
TOTAL CURRENT ASSETS	113,862,790
INVESTMENTS	4,577,983
NET PROPERTY, PLANT AND EQUIPMENT	34,660,140
OTHER NONCURRENT ASSETS	<u>133,128</u>
	39,371,251
TOTAL ASSETS	<u>153,234,041</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CHECKS DRAWN AGAINST AVAILABLE LINES OF CREDIT	2,313,577
NOTES PAYABLE - DUE WITHIN ONE YEAR	54,655,414
ACCOUNTS PAYABLE	29,034,719
OTHER PAYABLES	27,300
ACCRUED EXPENSES	<u>2,178,108</u>
TOTAL CURRENT LIABILITIES	88,209,118
LONG TERM NOTES PAYABLE	13,860,000
PROVISION FOR UNCERTAIN TAX POSITIONS	1,247,780
DEFERRED INCOME TAXES	<u>4,789,507</u>
TOTAL LIABILITIES	108,106,405
STOCKHOLDERS' EQUITY	
NON-CONTROLLING INTEREST	2,937,343
CAPITAL STOCK OUTSTANDING	274,575
ALLOCATED EQUITY	6,064,547
ACCUMULATED OTHER COMPREHENSIVE INCOME	1,356
RETAINED INCOME	<u>35,849,815</u>
TOTAL STOCKHOLDERS' EQUITY	45,127,636
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$153,234,041</u>

A Precision Approach to Seed Selection

BY RUSS DUKEMAN, SALES MANAGER, UNITED PRAIRIE LLC

With both commodity prices and input costs pushing historic limits, the process of selecting your most important input—the seed—is more important than ever. The old approach of, “Here are four really great numbers. They’ll fit anywhere,” just won’t cut it anymore. A really good number wins five out of 10 plots. What happened in the other five?

Enter IntellaYield, our precision seed selection program. IntellaYield is a tool that takes into account more than 100 variables, such as the agronomic characteristics of each field, your management style, and the hybrid characteristics. We analyze all these variables on a field-by-field basis to match the best possible seed to that particular field.

The IntellaYield system gives you the best possibility of success on every field—not just some fields—and helps you make more money on every acre.

NEW FINANCE OPTION

We’re pleased to announce that we’ve recently invested in AgQuest, a unique finance company owned by local farm supply retailers across the U.S. As a result, we’re now able to offer our patrons a full financing package—operating loans, land purchases, equipment purchases, leasing, and more.

We’ve also added a full-time finance specialist, Rob O’Malley. Rob is from the Mansfield area, comes from a farm background, and has 13 years of experience in

the banking business. We’re happy to have him with us and excited about this new aspect of our business. To go along with our new financing programs, we’re also offering some incentives on seed, chemicals, and other inputs, as well as some prime -1 financing until next December on certain products. Talk to Rob, Ken, or me soon. ○

Welcome, Scott

Scott Carpenter has joined the Premier team in a key role as network administrator. Scott held a similar position in the military, where he served two tours of duty in Iraq. Scott is originally from the Ashmore area. He and his wife, Deidra, have two children and live near Arthur. ○



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Committed to Serving You

BY DAVE KIEFFER, NORTHWEST REGIONAL OPERATIONS MANAGER AND FUEL DIVISION MANAGER

As a company, we are making a renewed effort to expand our quality petroleum products and services to our trade area. We believe we can offer products and services that no one else can, like our Cenex® Total Protection Plan™ warranty. There's nothing like it in the industry.

To get the word out on everything we offer, we'll be setting up farmer meetings this winter. Cenex specialists on both fuel and lubricants will be on hand at the lunch meetings to describe their products and answer questions. We'll be sending out fliers and making calls when we have the date and time set.

STILL ROLLING

Yes, Truman Langley has cut back, but he's still wearing his cell phone and making deliveries.

He's on the road 2-3 days a week, working together with Steve Weber, our full-time driver, to service all of our customers. To order fuel or talk about fuel markets feel free to call Truman (217-781-2594), Steve (646-342-4325), or David (217-897-1111).

ENERGY OUTLOOK

Marketwise, we have not seen the seasonal increases that we usually do this time of year. For starters, the winter season has been relatively

mild. Thus, less demand for heating oil, but more importantly, the markets have been held down by the state of the world economy. Continue to watch the European Union be the driver in the fuel markets.

As spring approaches and as you're selling grain, consider contracting fuel at the same time to lock-in your costs. It's a good risk-management strategy. Talk to us if you have questions. We're here to serve. ○

Building Up, Burning Down

BY TOM SINDER, REGIONAL OPERATIONS MANAGER

It's been an interesting fall at Broadlands—kind of a “two steps forward, one step back” situation. But even that step back will be a good thing in the long run.

The forward steps were big, with our recent bin, pit, and leg addition paying huge dividends at harvest. One day when the harvest rush was at its peak, we dumped 40,000 bushels of beans at the same time we were receiving corn. We would not have been able to do that without the facility upgrades.

The step back was the fire that broke out on the morning of Sunday, October 16. A passerby saw smoke coming from our office and called the fire department. They got here in a hurry, but were unable to save the office. The insurance company has since declared it a total loss.

Our Broadlands crew went right to work. They took a portable storage shed we had on the property, moved it to the scale area, hooked up the scale and essential office equipment, and were back up and running by 11 a.m. on Monday morning.

A new office and scale setup has already been approved by the board. We do not have an exact location yet, but the scales will likely be moved to the back side of the current lot. The new scales will also be longer and wider than the old one, so we'll be able to weigh trucks in one pass. Ultimately, the fire will result in a more efficient location for our customers. That's the silver lining. ○