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Tough Harvest Will Impact Premier in 2013

BY ROGER MILLER, CEO

Fiscal year ending July 31, 2012 marked the third anniversary of Premier Cooperative and the one year anniversary of Rising Farmers Grain joining Premier. In 2009, our company started with one of the largest and wettest harvests on record. From that point, the harvest yields have been lower each year, with 2012 delivering the lowest average yields since 1988. This will create significant challenges for fiscal year 2013.



Fiscal year end 2012 local pre-tax earnings are comprised of \$1.045 million from Premier Cooperative's grain and refined fuel operations, plus another \$820,000 from our 72% share of United Prairie's local income. Regional patronage income paid to Premier, and our share of United Prairie patronage, added another \$1.903 million in income, raising total income to \$3.768 million. Of this total income, Premier's fuel division contributed \$251,000. Due to these results, the company is able to distribute the following to its patrons:

- A patronage refund of 5.038¢ per gallon of fuel sold to our farmer fuel customers during the fiscal year, paid 50% cash and 50% allocated retained earnings.
- Premier's board has elected to "pass through" a 5¢-per-bushel deduction to its members for the Domestic Production Activities Deduction. The deduction is allocated to the members based upon the amount of grain (bushels) marketed through Premier for this period.
- A 3% dividend on First Preferred stock.

During the fiscal year 2012, your board of directors approved the replacement of the dryer at Fulls, a new wet leg and wet leg distributor with new spouting at Thomasboro, and the addition of a 545,000-bushel bin at Sidney. It is necessary for Premier to continue to upgrade facilities every year to keep up with your larger and faster harvesting equipment. Solid earnings make it possible for your company to complete projects like these each year and still maintain a strong balance sheet.

THE ROAD AHEAD

Fiscal year 2013 will be more of a challenge financially. The 2012 growing season for corn and soybeans has presented us with some significant challenges. A somewhat cool planting season—followed by drought conditions during much of the critical stage of plant development, then a cooler, wetter period during late summer (which aided soybean yields) and into fall (which prolonged the harvest period)—have resulted in about 60% of a normal corn crop and a 90% soybean crop.

The drought conditions also resulted in a considerable amount of aflatoxin in the corn. This has presented challenges to the handling and storage of the crop and will be a concern throughout the remainder of the marketing year. Many producers who have historically used farm storage for their crop decided to use the local elevator this year rather than risk the development of aflatoxin in their bins, meaning that after-harvest grain receipts will be significantly less.

The smaller crop size has limited our revenue potential and it is difficult to compensate for that reduction with cost cutting, as a high portion of our expenses are fixed. As a result, we are expecting a small loss in fiscal year 2013.

Your continued support enables the company to grow. Many difficult decisions were made by your board, and hard work by our employees makes this company successful. I want to thank all of you—our patrons, the board of directors, and the employees—for your support! ○



Push for Speed, Space Continues

BY ROGER MILLER, CEO

Facility improvement is an ongoing process at Premier Cooperative. At our last meeting, the board of directors approved capital expenditures at four locations. In Dewey, we'll be upgrading the switching yard, putting in new 115-pound rail and ties. We'll be doing the work in stages to accommodate scheduled grain trains. We're also replacing older loadout and fill conveyors to enhance speed and improve service.

In Fulls, a new 105-foot diameter, 735,000-bushel GSI tank will replace several older tanks. Every year, we exceed our storage capacity in Fulls by more than 1 million bushels of grain. Not only is it difficult to keep pace with area farmers, but we have to move all of that grain by truck to other locations during harvest. The new bin should improve service and cut truck transfers by at least half.

That, in turn, reduces the harvest pressure on Leverett and Thomasboro, the destinations for much of the transferred grain. We've started a non-GMO bean program in Leverett, which will take up the excess corn storage space we had there. Ultimately, the improvements in Fulls increase harvest efficiency at three locations.

Finally, we're replacing a grain dryer at Broadlands and adding a new dryer in Jamaica. Both units have a capacity of 4,750 bushels per hour. In truth, we need a bigger unit at Jamaica, but both Broadlands and Jamaica are on the same natural gas pipeline, which will be at maximum capacity with the addition of these dryers. So, we are converting the existing 3,000-bushel dryer in Jamaica to propane, giving us the needed capacity. These were the only two locations where we had trouble keeping up with drying this past fall.

The speed with which our farmers are delivering grain at harvest makes it imperative that we continue to improve our facilities every year. We're committed to doing just that, and these 2013 projects are another step in that direction. ○

Strong Fall Sets the Stage for a Productive 2013

BY TIM HUGHES, MANAGER, UNITED PRAIRIE LLC

Great fall weather gave us a long run on ammonia application and allowed us to cover a lot of acres with dry fertilizer. With the dry conditions we've experienced, we had concerns going into the season that farmers would pull back on acres and rates, but that generally wasn't the case. New application acres also helped increase our fall volume.

Highlights for the new year include two major capacity expansion projects. We're just wrapping up a new chemical shed and office facility in Jamaica that will be fully operational this spring. We've also broken ground on a new chemical facility in Dewey. While that project won't be completely finished this spring, it will be functional and able to serve customers in time for planting season.

United Prairie has grown because of our commitment to personal service, and these capacity projects will enable us to further expand our ability to deliver superior products and service to more farmers in the Premier Cooperative trade area.



LOOKING AHEAD

Though 2012 was a challenging year for farmers in our area and questions about subsoil moisture remain, we've seen some positive changes in the weather pattern. Many of you are optimistic about the year ahead, and so are we.

Because of the volatility we've seen in our weather, we're seeing a great deal of interest in our IntellaYield program—particularly our fungicides and seed treatments. With strong commodity prices, it makes good economic sense to utilize tools that promote and protect the yield potential of your crop.

We look forward to working with you in 2013. ○



Premier Cooperative, Inc. and Subsidiary
Consolidated Statement of Income
July 31, 2012

GRAIN SALES	\$ 389,773,921
COST OF GRAIN SALES	<u>378,625,963</u>
GROSS GRAIN MARGIN	11,147,958
MERCHANDISE SALES	62,786,498
COST OF MERCHANDISE SALES	<u>54,160,871</u>
GROSS MERCHANDISE MARGIN	8,625,627
TOTAL GROSS TRADING INCOME	19,773,585
OTHER OPERATING INCOME	<u>10,397,187</u>
TOTAL GROSS INCOME	30,170,772
OPERATING EXPENSES	26,441,999
OTHER INCOME	2,485,779
INTEREST EXPENSE	<u>1,990,145</u>
INCOME BEFORE INCOME TAXES	4,224,407
INCOME TAXES	<u>1,264,553</u>
NET INCOME BEFORE INCOME TO NONCONTROLLING INTEREST	2,959,854
INCOME TO NONCONTROLLING INTEREST	<u>454,430</u>
CONSOLIDATED NET INCOME	<u>\$ 2,505,424</u>

Premier Cooperative, Inc. and Subsidiary
Consolidated Balance Sheet
Year Ended July 31, 2012

CASH	\$ 1,584,349
MARKETABLE SECURITIES	42,708
RECEIVABLES (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS)	54,036,440
INVENTORIES	37,548,913
PREPAID EXPENSES	5,515,070
DEFERRED INCOME TAXES	<u>136,996</u>
TOTAL CURRENT ASSETS	98,864,476
INVESTMENTS	5,696,601
NET PROPERTY, PLANT AND EQUIPMENT	40,198,105
OTHER NONCURRENT ASSETS	<u>82,667</u>
	<u>45,977,373</u>
TOTAL ASSETS	<u>144,841,849</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CHECKS DRAWN AGAINST AVAILABLE LINES OF CREDIT	2,782,001
NOTES PAYABLE - DUE WITHIN ONE YEAR	21,600,757
ACCOUNTS PAYABLE	44,800,094
OTHER PAYABLES	26,596
ACCRUED EXPENSES	<u>2,179,472</u>
TOTAL CURRENT LIABILITIES	71,388,920
LONG TERM NOTES PAYABLE	13,115,000
PROVISION FOR UNCERTAIN TAX POSITIONS	1,537,547
DEFERRED INCOME TAXES	<u>6,928,459</u>
TOTAL LIABILITIES	92,969,926
STOCKHOLDERS' EQUITY	
NON-CONTROLLING INTEREST	3,235,816
CAPITAL STOCK OUTSTANDING	303,200
ALLOCATED EQUITY	6,739,070
EQUITY ACQUIRED IN MERGERS	3,256,369
ACCUMULATED OTHER COMPREHENSIVE INCOME	4,125
RETAINED INCOME	<u>38,333,343</u>
TOTAL STOCKHOLDERS' EQUITY	<u>51,871,923</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 144,841,849</u>

The New Faces of Fuel

BY DAVE KIEFFER, FUEL DIVISION MANAGER

The new year marks a big step forward for the Premier Cooperative fuel division, with the addition of three new employees and two delivery trucks.

Jay Warfel, one of our new Fuel and Lubricants Specialists, comes to us from Illini FS and has been active in the fuel industry for 39 years. Garrett Bruns (Fuel and Lubricants Specialist/Fuel Deliveryman) and Mike Lubben (Fuel Deliveryman) both worked for Meier Oil Company and both have been in the fuel business for 10 years.

Our staff expansion goes right along with our goal of providing improved energy service to more customers within the Premier Cooperative grain footprint. Their addition will help fill a void within our trade territory. We'll also have two new delivery trucks in service in time for the spring season.

I'm particularly excited about these new staff members because they all share a philosophy that centers on service. Our goal as a team is to make certain that every current and potential customer receives quality products and services as well as a competitive price.

All of our new energy employees grew up in our region and are well acquainted with the Premier trade area. There's a lot of potential within the grain footprint of Premier Cooperative and beyond, and these new additions make us better equipped to serve our current and future customers. ○



Jay Warfel



Garrett Bruns



Mike Lubben



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Adding Staff to Improve Service

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

I'm excited to introduce the new additions to our energy division staff. You can read more about them on page 3. Our energy division continues to expand as we work to serve those who live within our grain trade territory. We're also regularly receiving inquiries from those outside our territory looking for a new energy supplier. That growth created the need for committed energy salespeople, and our new staff members are going to be great assets to our customers and to our cooperative moving forward.



One note regarding Jay Warfel, one of our new Fuel and Lubricants Specialists: Due to an agreement with his former employer, Jay is unable to serve any of his previous customers for one year. I will be handling any inquiries from former customers, so please contact me directly at the Dewey office.

Energy education is a major part of our focus on customer service. With that in mind, we will be holding a number of customer meetings throughout

the area in the coming weeks. Some of these meetings will focus on helping customers see how our energy products can best be used to improve their bottom line. We'll also hold meetings to provide information on preparing and implementing SPCC plans as the April deadline approaches. We'll get information out as these meetings are scheduled.

We're here to help with all your energy needs, so please give us a call. ○

Thanks for Your Commitment

Best wishes in retirement to two long-term Premier employees, Kathy Meyer and Brenda Cheney. Kathy, who started with Grand Prairie in 1989, worked in Tolono and handled payments to our truckers. Brenda has been our grain settlement clerk in Jamaica since 2003. Both will be spending more time with their grandkids.

We also bid farewell to two directors—Mark Bialeschki and Richard Wilkin—at our annual meeting. Mark served as a director for 14 years, and Richard had served for a total of 42 years as a director with Ivesdale Cooperative, Grand Prairie Cooperative, and Premier Cooperative. He was the board president for 14 of those years. Both men received plaques in recognition of their outstanding service. ○

