

# Bi-ENERGY ALERT

Volume 4, Issue 3  
November, 2008

## From the President's Desk

By Robert Ferguson, President



Greetings and Happy Holidays,

What a change several months can make in the economics of our country, our own business, and personally. 2008 has got to be one of the most volatile years in history. Trends and charts in almost every sector of the economy are virtually worthless in predicting future direction of the ethanol industry or the economy in general. I would hope that our next administration will work diligently to find common ground in the legislature and work to provide some

type of stability to the economy of our country.

On a positive note, we have completed the financial statements for the current fiscal year, which just closed on October 31, and those financials have just been forwarded to our external auditors for review and audit. However, we will not be able to disclose actual earnings until the audited financials are finalized, reviewed by the Audit Committee, and filed with the Securities and Exchange Commission. We expect to file them by the filing due date of January 29, 2009. Considering the negative climate of the ethanol markets and corn pricing associated with the summer months, I want to thank the employees and the Risk Management Committee who have worked with due diligence and perseverance on our margins. Luke Schneider will have more information on the financial side of the company in his section of the newsletter.

All projects that I reported on at the annual meeting, including the acceleration lane improvements on Trunk Hwy 60 and additional hard surfacing in critical areas of the plant to enhance site cleanup and maintain permit requirements, have been completed. We are rehabbing a storage building on the site for our parts inventory warehouse to provide a controlled environment for our motors and other sensitive parts.

Over the next three months, CFO Systems will provide contractual CFO services for HLBE to replace Jim Gerber, who elected to return to his private accounting practice. Brett Frevert, managing director of CFO Systems, will be taking on the role of Interim CFO. His role will not only be to fill the needs and requirements of the CFO, but to also provide education and training to Luke Schneider and our accounting staff to assume that role internally in the future. Brett has over 22 years experience in accounting, also serving as a controller and CFO in other ag-related industries. We welcome Brett on board and want to thank Jim Gerber for his invaluable assistance over the last 21 months.

From a staffing standpoint, our company is now fully staffed and has retained an excellent work force with the assistance of our Human Resources Coordinator. We expect that this will allow for more effective use of our personnel and more flexibility for scheduling in the various departments. I want to thank our workforce and Carol for their effort on HLBE's behalf for the positive year.

From the management perspective, our hope is that the ethanol industry will return to positive ground. The negative bias towards this industry does not seem truly American spirited; after all, ethanol never promised to be the answer to the whole dependence on foreign oil issue, but was a grassroots effort to provide a piece of the energy puzzle. Profitability should, in some sense, go hand in hand with this effort. I cannot find fault with people and industry that want to invest in their

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## Board of Governors

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## Financial Forum



**By Luke Schneider, Lead Accountant**

First of all, I would like to start by introducing myself. I am an accountant on the HLBE finance team. I grew up on a farm near Westbrook, MN. I received my

Bachelor's degree at Southwest Minnesota State University with a major in Accounting. Prior to joining the HLBE team I worked for two accounting firms where I gained experience in audit and tax.

My wife, Brittany, and I have two children. Our daughter, Thea, will soon turn 2 and our son, Krew, is 3 months old. We recently moved to Slayton, MN. In my free time I enjoy golfing and spending time with my wife and kids.

The fiscal year end, October 31, has now come and gone. With that, questions have resurfaced regarding the K-1's and member distributions. We will once again attempt to have K-1's issued by February 15, 2009 to accommodate our farmer investors. As mentioned in our last newsletter, HLBE will need to complete our year end October 31 audit, December 31 tax information and meet bank loan covenants before distributions can be considered. Also, please keep in mind that SEC regulations prevent us from disclosing any financial information to members and others before it is made public through SEC filing. Shown below is selected financial data from our statement of operations for the 3<sup>rd</sup> quarter of fiscal year 2008 and 2007. You can also view our consolidated balance sheets as of October 31, 2007 and 2006, and the related consolidated statements of income, members' equity, and cash flows for each of the years in the three year period ended October 31, 2007 in our most recently filed Form 10. All of our SEC filings are available on our website, as well as at [www.sec.gov](http://www.sec.gov).

<b>Heron Lake BioEnergy, LLC and Subsidiary</b>		
For the Nine Months Ended July 31, 2008 and 2007		
Unaudited		
	<b>July 31, 2008</b>	<b>July 31, 2007</b>
Revenues	\$ 100,387,350	\$ 13,861,039
Cost of Goods Sold	77,946,713	13,772,537
Gross Profit	<b>22,440,637</b>	<b>88,502</b>
Operating Expenses	2,350,689	2,451,003
Operating Income (Loss)	<b>20,089,948</b>	<b>(2,362,501)</b>
Other Income (Expense)	(3,664,616)	(309,223)
Net Income (Loss)	<b>16,425,332</b>	<b>(2,671,724)</b>

The above selected statement of operations data was derived from the unaudited consolidated financial statements included in our Registration Statement on Form 10. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" within Item 2 of our Form 10 and the consolidated financial statements and the accompanying notes included elsewhere in the Registration Statement on Form 10. Among other things, those financial statements include more detailed information

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## Commodity Central



**By Tyronne Bialas, Risk Manager / Grain Procurement Manager**

In the last newsletter, I wrote that the ethanol industry had a big roller-coaster ride in 2008 with commodity prices.

Corn started in January at \$4.60 futures. It topped out in late June at \$7.60 and then dropped back to \$5.30 on 9/18/08. Little did I know the price changes weren't done at that point. In the last 2 months, another \$1.66 was lost on the nearby corn futures. Corn futures are now down to \$3.64.

This is a tremendous amount of volatility. Looking back to last January, the ethanol industry demand has remained very close to what was expected. The ethanol industry was expected to use 3.2 billion bushels of corn in 2007-2008 crop years, and to have (excess corn) carryout stocks of 1.438 billion on September 1<sup>st</sup>. The ethanol industry actually only ended up using 3.02 billion and that gave the US 1.624 billion bushels carryover on September 1<sup>st</sup>.

The country is coming off of a 12.0 billion bushel corn crop grown this summer, and the ethanol industry is expected to use about 3.7 billion bushels when it's all said and done next September 1<sup>st</sup>. (Ethanol marketers are saying there is currently 1.16 billion gallons, or about 12%, of idled capacity right now in the US ethanol industry, so it seems unlikely that the industry will reach the current figure of 4.0 billion bushels for ethanol demand.)

So why all this volatility, when our industry used fewer bushels than thought last year, and will use less than expected this next crop year? **INDEX FUNDS!** If people don't know by now, it was the index funds that drove the price of corn (and the price of energy for that matter) to the unprecedented levels they were this summer. In late June, the index funds had a long position of 450,000 contracts. They have sold off a tremendous amount since July, and that is a large part of the rapid price reduction as well. The traditional index funds have actually sold more contracts now and are in a short futures position, which is also a big factor why corn is back at \$3.64 futures.

During this whole time, the corn demand from the ethanol industry had seen modest growth, right in the midst of two HUGE corn crops....over 13.0 billion bushels in 2007, and over 12.0 billion bushels in 2008. These two big corn crops gave us a 1.6 billion bushel carryout this September 1<sup>st</sup>, and it is possible that there will be approximately 1.5 billion bushel carryout next year (when it's all said and done). The country was certainly not short corn last year and won't be again this year either. So I ask again, what caused the \$7.60 corn futures? It wasn't because of the ethanol industry.

A question that should be asked to the Grocery Manufacturer's Association is "Why haven't the prices of groceries

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## People's Voice



### By Carol Larson, Human Resources & Organizational Development

As previously mentioned, staffing has been the primary focus for the company over the last several months. Thanks goes out to the existing staff and shareholders who were patient throughout the recruiting process. This allowed us the time to hire qualified employees who are dedicated to HLBE and the industry. Now that we are fully staffed, we can focus our attention on the health plan renewal and identifying areas that will enhance our 2009 benefit package. In addition, we are preparing a multi-year organizational development plan that will provide employees the opportunities to expand their knowledge and skills and to ensure that we are a high performance organization.

HLBE continues to move forward with a look to the future and what that will bring for the employees, shareholders and our communities. I look forward to reporting our progress next year. Have a wonderful holiday!

(continued from "Financial Forum")

regarding the basis of presentation for the consolidated financial data.

The HLBE Board of Governors approved a new unit transfer policy on November 5, 2008 that permits transfers of units under certain circumstances. We will post the new unit transfer policy on our website, which will provide the guidelines for unit trading. Within this policy are a few items I will quickly bring to your attention. The first item I will highlight is the minimum unit requirement. The minimum number of units that may be sold or transferred is twenty five hundred (2,500) units and increments of five hundred (500) units thereafter. The second item to be highlighted is that there is no public market for the Company's units. Sales or transfers can be made through the Heron Lake BioEnergy bulletin board or privately without using the bulletin board. Regardless of which method is used, the HLBE board must approve all sales and transfers and there are limitations on transfers as described in the unit transfer policy. The final item I will highlight is the application fee. There will be an application fee of two hundred fifty dollars (\$250) for all transfers or sales.

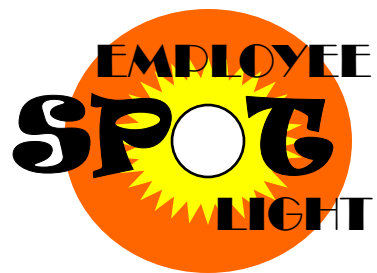
If you have any questions, please call me at 507.793.0077 or email me at [lukes@heronlakebioenergy.com](mailto:lukes@heronlakebioenergy.com).

(continued from "Commodity Central")

come back down?" Corn is now cheaper than it has been **IN THE PAST 22 MONTHS**, and crude oil hasn't been this cheap **SINCE MAY 2005!**

For more information and facts, please go to the ACE website: <http://www.ethanol.org/index.php?id=75&parentid=25> In particular, visit the following report: [USDA, DOE Release Results of Investigation into Ethanol's Impact on the Food and Fuel Markets \(6-12-08\)](#)

For ethanol, prices have fallen just as fast as corn, if not faster. Our HLBE Risk/Grain Committee still meets a minimum of twice a month to go over opportunities and discuss strategies we can use to do the best job we can at returning a positive investment to members.



### Brodie McKeown, Plant Manager

Hello. It is very exciting coming onboard at HLBE to fill the plant manager's position. I look forward to working with an excellent group of employees, at a plant that is second to none. It is with those thoughts in mind that we will continue to push plant efficiencies and look to be ground breakers in the Bio Fuels industry. In my role as plant manager, I try to facilitate the needs of each department and foster communication and team work plant-wide. With winter approaching, we have wrapped up most of our concrete projects and continue to perform preventative maintenance on the equipment in anticipation of the cold. Through the hard work of everyone, the facility has overcome some minor mechanical issues and we look forward to steady production throughout the winter.

I am originally from Heron Lake and reside on an acreage north of town with my wife Danielle and two dogs. In my spare time, I enjoy racing at local dirt tracks, snowmobiling, camping and hunting. My background includes a degree in process plant technology and an internship at, and tours of, many ethanol and process plant facilities. I have also worked at a soybean crush plant and managed Bio-diesel and refinery production.

The team here at Heron Lake BioEnergy is coming off a great first year, and I look forward to doing everything I can to continue that trend and improve upon it. Thank you for your time, and I hope you all have a happy and safe holiday season!

(continued from "From The President's Desk")

future along with the energy future of this country.

I hope that as we enter this holiday period of Thanksgiving and Christmas, we all remember our blessings for the year and hope that more stable times appear in 2009. Thanks to you, our many investors and producers and employees, we are what we are today. I personally want to thank all of you for your support of HLBE in 2008. We will report on the date of the annual meeting in our February newsletter. Happy Holidays!



### Corn Receiving Hours

Monday - Friday  
7:30 a.m. – 4:00 p.m.

### By-Product Loading

Monday - Friday  
7:30 a.m. – 4:00 p.m.  
(Tentative Schedule)



## “Integrating Energy & Environment”

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### **OFFICE HOURS**

**8:00 a.m. to 4:00 p.m.**

**We're on the web:**

**[www.heronlakebioenergy.com](http://www.heronlakebioenergy.com)**

As families prepare to gather for their annual holiday dinner, the American Coalition for Ethanol (ACE) cautioned that despite Consumer Price Index data indicating lower prices for virtually all consumer items, families will be paying more for their annual dinner than they did last year because food processing companies have held food prices artificially high. A review of a typical holiday dinner grocery list shows that the items needed to feed a family of 10 this year will cost 12% more than just one year ago - \$48.13 in 2008 compared to \$42.46 last year.

“When corn was nearly \$8 per bushel this summer, food manufacturers began an expensive and dishonest PR campaign to convince Americans that food prices were high due to the demand for corn-based ethanol. Now that corn prices are below \$4 per bushel, and we’re grinding even more corn for ethanol than earlier this year, these same food companies are proving that food prices are high because they want them to be high. Their intellectually bankrupt tactics might make for nifty profits this holiday season, but let there be no question these profits are being turned on the backs of working families who can ill afford it,” said Brian Jennings, Executive Vice President of ACE.

“Energy and commodity prices have collapsed by more than 50%, yet food processors led by the Grocery Manufacturers Association have held food prices high. The fact that food manufacturers will insist on raising prices even though gas and commodity prices are down and families are struggling to put their usual dinner of thanks on the table is outrageous,” Jennings added. For more information, visit [www.ethanol.org](http://www.ethanol.org).

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