

MnSp Looking Forward to Improved 2010

Being shareholders ourselves, your Board of Directors shares your concerns about our profitability. Unfortunately, the economic environment we operate in is largely out of our individual control, and we are not immune to recessionary pressures that have plagued all other industries. First of all, soybean supplies are scarce and we must bid up to secure supplies to run our plant. Reduced acreage, mediocre yields and strong exports to China have combined to create this shortage. For those of you still in production agriculture, the high prices and strong basis that you are enjoying come right out of our bottom line. Unfortunately, the strength in the soybean basis is not reflected in the soybean meal basis. The recession has eaten into the global demand for meat, so the demand for our soybean meal has dropped. Likewise, demand for soybean oil for both edible purposes and biodiesel has declined as well. All of these factors combine to result in miserable crushing margins.



In spite of this market situation, your management team has been proactive in minimizing our losses for the year. These efforts include:

- Cost control measures resulting in savings of over \$1 million, most of which will be recurring annual savings
- Emphasis on farmer origin soybean procurement
- Emphasis on the local truck meal market with higher relative returns
- Early contracting of biodiesel sales, which has resulted in biodiesel profitability through May

On May 23rd we suffered a fire in the liquid pumping equipment that spread to the base of a biodiesel tank and crude soybean oil tank. State and insurance company investigators have classified this fire as of undetermined origin, and the losses sustained are fully insured, less a manageable deductible. We carry both property insurance and business interruption insurance, and we are working with the

insurance carriers to determine the full extent of our claim. While we did lose 8 1/2 days production and we were restricted to 84% of planned crush due to the equipment outages, we should be very proud of how well our operations management mitigated any lost time and equipment. The piping contractor was on site Memorial Day, and temporary piping was completed in five days. An amazing accomplishment!

We look forward to an improved 2010 fiscal year. The soybean crop looks great, but we know we have a long way to go. The recession will still be with us, but export demand for US soybean meal and oil looks strong for the fall and into the winter. With the loss of the European market, biodiesel looks questionable, but the 5% Minnesota mandate will help. Rest assured that your Board and your management team is always working in your interest.

Jim Sallstrom
MnSP Board President

MNSP Board of Directors trading policy Jim Sallstrom

At the June Board of Directors meeting a motion was discussed and passed that will allow all MnSp members to be updated when Board members and designated employees buy or sell shares to be listed on the website under the stock info area and in the quarterly newsletter. Previously, whenever MnSp shares were traded the price and number of shares had been listed on the website in the stock info area. Transactions that involved shares being sold will continue to be listed on the website with no name attached, in addition any trades that involve Board members or designated staff will be identified in a separate paragraph in the same area with no name attached along with the shares sold and the share purchase price.

MnSP hopeful for first two quarters of new fiscal year

It is important to put some statistics on the economic issues that the US soybean industry has been facing this crop year and our fiscal year. Domestic demand for soybean meal



is off 8% according to USDA estimates. Soybean meal demand drives crush, because soybean meal must be shipped as produced. Thus, US soybean crush is off over 8%, and our volume is off proportionately. Unfortunately, crushers don't know the meal demand in advance, so in reality the industry crushes until meal surpluses weigh on the market and margins deteriorate. In reaction to unacceptable margins, plants cut back, but margins had to get very bad for that to happen. Unfortunately, oil demand is off more than meal demand. Even with the reduced industry crush, industry stocks of soybean oil have increased this year by nearly 30%. This economic scenario hurts us, and all crushers, in two ways. First, our underlying margin deteriorates below total cost. Second, 40% of our cost structure is essentially fixed, and cannot be reduced at lower

crush rates. So, costs go on and income drops.

I am very hopeful about the first three to six months of the new fiscal year. While I don't expect much increase in demand for domestic livestock feeding, export demand for the first quarter is exceptional. The crop failure in Argentina earlier this year leaves a vacuum in global meal supplies. US crushers are poised to fill that need. This will open up domestic markets to us. While we have spent most of this year below capacity, I expect to run above capacity from the time new crop beans become available through sometime this coming winter. Fall crushing margins are looking to be about 20 cents per bu. better than this year. Unfortunately, the outlook for biodiesel margins is not as bright. The loss of the European market due to the EU's prohibitive import duty imposed March 3rd has dramatically reduced the demand for soy biodiesel. It does not seem possible that biodiesel can be profitable next year, but our plant should continue to be a good alternative to marketing crude soybean oil and contribute positively to our overall bottom line.

Most of you are aware that we did experience a fire on May 23rd in the

liquid product load out machinery. This fire damaged or destroyed our load out system for crude oil and biodiesel and damaged two storage tanks. As a result, we were down for 8 1/2 days and since resuming operations have been reduced due to limitations of the temporary load out system that we hurriedly installed. I am very proud of the reaction of our employees. First of all, a number of them left their families on a holiday Saturday night to go to the Brewster fire station to assist in any way they could. Some returned from being out of town, even that very night. Secondly, to have this facility up and running just a little over a week after such a potentially catastrophic event was a major achievement. We are fully insured and have already begun working toward a claim resolution with our insurance carriers. We have even received a preliminary claim payment of \$1 million, which certainly will help our cash flow as we pay contractors and equipment suppliers for replacement work. We expect to be close to normal operations by late July, and fully functional by the end of September.

Richard Galloway,
General Manager

UPCOMING DATES:

Minnesota Soybean Processors will be holding Shareholder Update meetings at the following locations:

Redwood Falls Community Center	August 18th at 1:30 pm
Heron Lake Community Center	August 19th at 9:30 am
Rock Rapids IA Community Center	August 20th at 1:30 pm

Board Members and MSNP Staff will review the market conditions and year-to-date finances, as well as update all shareholders on repairs in progress from the May fire.

MNSP Field Plot Day

MNSP will sponsor a Plot visit day on Tuesday August 25th from 11:00 am to 3:00 pm. The plot is located just west of the plant along Hwy 60. Please join us to see the 22 varieties and companies, including 4 Low Lin varieties exhibited in this plot. Merchandisers will be on hand to discuss our new Low Lin program and the benefits to both the farmers and consumers; along with the Fall buying and delivery programs and our oil and protein premiums paid for delivery of high quality beans.

MINNESOTA SOYBEAN PROCESSORS
BALANCE SHEET (Unaudited)
MAY 31, 2009
ASSETS

Current Assets	
Cash & Cash Equivalents	\$ 32,011
Accounts Receivable	12,113,498
Inventories	28,847,403
Other Current Assets	8,496,922
Total Current Assets	<u>\$ 49,489,834</u>
Other Assets	
Net Property Plant & Equip	\$ 61,443,490
Investments	1,780,982
Net Financing Fees	47,892
Total Other Assets	<u>\$ 63,272,364</u>
TOTAL ASSETS	<u><u>\$ 112,762,198</u></u>

LIABILITIES

Current Liabilities	
Checks in Excess of Bank Balance	\$ 1,620,010
Accounts Payable	5,368,173
Note Payable - Seasonal	28,024,524
Current Maturities of LT Debt	4,483,258
Accrued Expenses	574,903
Total Current Liabilities	<u>\$ 40,070,868</u>
LT Debt less Current Maturities	<u>\$ 22,201,091</u>

STOCKHOLDERS' EQUITY

Class A Preferred Stock, nonvoting, \$.01 par value, 50,000,000 authorized 20,192,520 issued & outstanding	\$ 211,925
Class B Preferred Stock, nonvoting, \$.01 par value, 10,000,000 authorized 1,829,000 issued & outstanding	18,290
Common Stock, voting, \$.01 par value 5,000 shares authorized 2,393 issued & outstanding	24
Additional paid-in Capital	44,466,724
Patronage Dividends Allocated	12,258,040
Retained Earnings	(6,464,764)
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 50,490,239</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u><u>\$ 112,762,198</u></u>

MINNESOTA SOYBEAN PROCESSORS
STATEMENT OF OPERATIONS (Unaudited)
FOR THE NINE MONTHS ENDED MAY 31, 2009

Net Revenues	\$ 233,737,256
Cost of Revenues	235,167,890
Selling, General & Administrative	2,199,114
OPERATING LOSS	<u>\$ (3,629,748)</u>
OTHER INCOME (EXPENSE)	
Interest Expense	\$ (1,282,700)
Other Income	712,330
TOTAL OTHER INCOME (EXPENSE)	<u>\$ (570,370)</u>
NET LOSS	<u><u>\$ (4,200,118)</u></u>

MINNESOTA SOYBEAN PROCESSORS
STATEMENT OF CASH FLOW (Unaudited)
FOR THE NINE MONTHS ENDED MAY 31, 2009

NET INCOME	\$ (4,200,118)
Items not requiring Working Capital	
Depreciation & Amortization	4,729,503
Allowance for Doubtful Accounts	18,111
Net Decrease in Assets/Liabilities	(2,618,112)
NET CASH PROVIDED BY OPERATIONS	<u>\$ (2,070,616)</u>
CASH USED BY INVESTING	<u>\$ (1,665,026)</u>
Cash Provided (Used) by Financing	
Short-Term Financing	\$ 4,928,257
Long-Term Financing	(1,169,568)
Changes in Stockholders' Equity	6,780
CASH USED BY FINANCING	<u>\$ 3,765,469</u>
NET INCREASE IN CASH	<u>\$ 29,827</u>
CASH AT BEGINNING OF PERIOD	<u>\$ 2,184</u>
CASH AT END OF PERIOD	<u><u>\$ 32,011</u></u>

Supplemental Disclosure of Cash Flow Information:

Cash Paid for Interest	\$ 1,255,962
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MnSP's net loss for the nine months ending May 31, 2009 was \$4.2 million compared to a calculated net profit of \$3.85 million for the same period ending May 31, 2008, a decrease of \$8 million. This decrease is mainly due to the tightness of the soybean supply causing an increase in the input costs as well as dismal demand for the soybean meal and soybean oil. Biodiesel is an area that has improved from last year, it has contributed \$2.1 million to the margin and partially offset the losses in the crushing operations. This is an improvement of over \$2.8 million. There has been a negative impact on the May 31, 2009 financials from the May 23rd fire, mainly in the Sales and Gross Margin area. Very little of the general expenses that will result have been incurred as of May 31.

This ninth month financial report contains forward-looking statements. We undertake no responsibilities to update any forward-looking statement. When used, the words "believe," "expect," "will," "can," "estimate," "anticipate," and similar words are intended to identify forward-looking statements. Readers should

not place undue reliance on forward-looking statements and recognize that the statements are not predictions of annual results which could and likely will differ from those in the forward-looking statements due to risks and uncertainties including those described in our annual, quarterly & current reports.



Minnesota Soybean Processors

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EPA, Congress, and Biodiesel Update

There has been a great amount of press lately regarding the EPA, Congress and biodiesel. Here's a quick update; there will be much more detailed information mailed to you shortly.

In 2007 Congress passed a law that requires 36 billion gallons of alternative fuels to be used according to a phase-in schedule. Included in that law was a specific requirement for 1 billion gallons of biodiesel (called the biodiesel carve-out) to be used by petroleum refiners starting January 1, 2009. The law also charged the EPA with drafting rules to implement the law.

EPA spent about 18 months drafting their rules, missed the

January 1 date of putting the law into effect but finally released its proposed rules on May 5, 2009 with a set of proposed rules that essentially prohibits the use of soy based biodiesel for meeting the carve-out provision.

Why? Essentially EPA bought into a dubious environmental theory called Indirect Land Use Change (ILUC) which in its essence says that if a U.S. farmer plants an acre of soybeans whose oil is used in biodiesel, somewhere in the world another farmer has to plant a new acre of soybeans to replace the 'lost' U.S. acre. Environmentalist state that replacement acre comes out of Brazilian Rain Forest, hence, there is no environmental benefit

to biodiesel made from soybeans and soy based biodiesel shouldn't be used.

While Minnesota Congressman Peterson worked to solve the ILUC fiasco with House legislation, the legislative process moves at glacial speed and there is no assurance the Senate will pass his language. Thus the biodiesel industry finds itself back at square one and will have to work with the EPA to try and solve the ILUC fiasco EPA has created. Watch your mailbox for further news on this critical issue to you and the biodiesel industry.

Ron Marr

Biodiesel Consultant

MnSP Board of Directors

DISTRICT 1	DISTRICT 2	DISTRICT 3	DISTRICT 4	DISTRICT 5	DISTRICT 6	DISTRICT 7
Robert Kirchner Brewster, MN 507-842-5592	Ron Obermoller Brewster, MN 507-842-5467	John Luepke Courtland, MN 507-359-2703	Galen Van Beek Inwood, IA 712-753-2286	Steven Hansen Clear Lake, SD 605-874-2313	David Bunde Stewartville, MN 507-533-4928	Paul Henning Okabena, MN 507-853-4669
Michael Zins Fulda, MN 507-425-2632	Bruce Hill Worthington, MN 507-842-5402	Don Louwagie Marshall, MN 507-532-6081	Keith Waltner Parker, SD 605-648-3224	Denis Slepikas Huron, SD 605-352-7684	Gary Dieterich Rudd, IA 641-395-2383	Darol Schmitz Brewster, MN 507-842-5413
Steffen Van Westen Reading, MN 507-478-4552	Steve Freking Heron Lake, MN 507-793-2660	Jim Sallstrom Winthrop, MN 507-647-2546	Peter Van Regenmorter Inwood, IA 712-753-2246	Edward Verhelst Huron, SD 605-352-5564	Eric Thorn Chatfield, MN 507-867-1427	Russell Derickson Lamberton, MN 507-842-6715