

MnSP President's Report

Board Wants to Preserve Share Value, Recommends a 'Yes' on Retain

As I contemplate what lies ahead, I find this an extremely difficult letter to write. As we discussed at the annual meeting, Minnesota Soybean Processors ("MnSP") had a very difficult year in 2005 with the unprofitability and



challenges facing the production of biodiesel. Although 2006 has improved, we continue to face many of the same challenges: slow production, narrow soybean margins, etc. All of this has caused us to violate our primary lender's loan covenants.

At the March 10, 2006, Board meeting, a motion was passed to suspend trading of MnSP Class A shares until the covenant violation is resolved. By doing this, the Board's goal is to preserve share value and maintain the integrity of the trading process. The Board intends to resume trading as soon as possible.

To address this situation, the Board held a special meeting on March 27, 2006. At that meeting, the Board voted to recommend a \$0.30 per share non-qualified unit retain to be taken to the membership for a vote.

Over the past several months and before making this recommendation, the Board has done a great deal of soul searching about where the future of our investment is headed. We recently mailed out information to each member about the upcoming vote on the unit retain on which the Board is recommending approval. If approved, approximately \$6.0 million in additional equity capital would be generated to satisfy the covenant violations which will increase above the current level at the end of May. Approval of the proposal would also give the Board more time to study the many options that we have discussed over the past 90 days.

Many of you have asked what is causing the problems. While I cannot address all of the issues here, I can say the two short bean crops as well as the suspension of the Minnesota biodiesel mandate late last year and early this year had a negative impact on our profitability. Regarding the mandate suspensions, we recognize that it was

necessary for the industry to first identify the problems and then fix them. However, this action cost us dearly in term of lost production, lower revenues, and oil contract extensions.

Here are many of the more common questions the Board has been hearing:

Does MnSP have value? Yes, the Board believes we do in the following ways:

- We have established a very good bean procurement plan.
- We have steadily increased the share of the meal truck market.
- We are well positioned to produce biodiesel or provide the necessary oil to new biodiesel plants being without an oil supply.
- We have a new plant that is both cost efficient and expandable.

How did MnSP get in this weaker financial position?

- Two short crops in southwest Minnesota;
- Buying and having a presence in the local marketplace;
- Biodiesel start-up costs;
- Slower than anticipated biodiesel production/ramp-up.

What options does MnSP have?

- Add equity (Unit Retain);
- Partner with another entity;
- Sell a portion or the entire operation.

Please be assured that the Board is reviewing all of these options and may make the appropriate decision(s) in the near future.

Each Board member takes their responsibility to represent the membership and preserve the members' investment very seriously. With that in mind, I personally ask you to support us by showing up at one of the three meetings mentioned elsewhere in this newsletter and vote in favor of the Unit Retain action.

Bruce Hill,
President, Minnesota Soybean Processors

National Biodiesel Conference Draws Record Crowd in San Diego

The National Biodiesel Board Biodiesel held its third annual conference and expo on Feb. 5 in San Diego, Cali. Once again a record crowd of over 2,400 attended the four-day event. The conference and the biodiesel industry continue to grow at a staggering rate. Many of the breakout sessions were standing room only. Breakout sessions included information on biodiesel production, marketing, and government programs. MnSP hosted a booth jointly with SDSP in the conference hall. MnSP management reported great interest from individuals looking to purchase SoyPure®, MnSP's pretreated soybean oil for use in biodiesel production. A highlight of the conference included an appearance by country music star Willie Nelson. MnSP is currently working to supply SoyPure® to a biodiesel manufacturer in San Antonio, Texas, who produces Willie Nelson's branded biodiesel "Bio-Willie."

300 Members, Guests Attend Annual Meeting in Heron Lake

Approximately 300 members and guests attended the fifth Annual Meeting of the Minnesota Soybean Processors on Saturday, March 11, in Heron Lake, Minn. Following a welcome from President Bruce Hill, MnSP's plant manager Steve Still introduced employees who were in attendance.

Business reports were given by CEO Rodney Christianson and Commercial Manager Tom Kersting.

New business included the election of Board Members. Re-elected to the Board were: Robert Kirchner from District 1; Hill, District 2; Bob Crowley, District 3; Steve Hansen, District 5; David Bunde, District 6, and Adam Schumacher, District 7. Peter Van Regenmorter of Inwood, Iowa was elected from District 4, replacing Larry VanMeeteren who chose not to run for re-election.



MnSP plant manager Steve Still addresses the crowd at the annual Meeting.

Following new business, results of the audit were presented by Ty Inglis of Eide Bailly and the audit was approved as presented.

After questions from the membership were answered, the meeting was adjourned.

MnSP to Participate in 2006 VISTIVE™ Program

Minnesota Soybean Processors will be a participating processor of Monsanto's VISTIVE™ low-linolenic soybeans in 2006 and will market VISTIVE oil for use by the food industry. VISTIVE low-linolenic soybeans will reduce the need for partial hydrogenation of soybean oil, helping food companies reduce the presence of trans fatty acids (trans fats) in their products.

For the 2006 growing season, Minnesota Soybean Processors will be contracting with growers in southwestern Minnesota, northwestern Iowa and southeastern South Dakota for up to 50,000 acres of VISTIVE soybean production. Minnesota Soybean Processors will pay a premium to producers who grow VISTIVE soybeans under contract, then crush and sell the processed soybean oil to food companies.

VISTIVE soybeans, developed through conventional breeding, contain less than three percent linolenic acid as compared to the typical eight percent level found in traditional soybeans. The result is a more stable soybean oil, with less need for hydrogenation. Because soybeans with a lower linolenic acid level reduce the need for partial hydrogenation, their application in processed soybean oils will reduce the presence of trans fats in processed soybean oil.

The development of VISTIVE is significant because, beginning Jan. 1, 2006, all food products and dietary supplements bearing a nutritional facts panel that are regulated by the U.S. Food and Drug Administration and sold in the United States will be required to list trans fat content.

2006 Program Details: The contracting grower will receive a **\$0.40 premium** for each bushel of VISTIVE beans delivered to the plant in Brewster. These beans will be delivered on a *buyer's call* basis, meaning MnSP will call for delivery for these beans sometime after harvest. They must be kept separate from other beans! The 12 seed companies that carry a VISTIVE variety are: Asgrow®, Stine®, Prairie™ Brand Seed, Latham® Seed, Kruger™ Seed Company, CROPLAN Genetics®FS HiSOY®, LG®Seeds, Producers Hybrids®, Midwest Seed Genetics®, Crow's® and NC+®. Contact your dealer for specific variety information.

For contract details or more information contact us at 888-842-6677 or travis.antonson@mnssoy.com.

Pick Up Your Biodiesel in Brewster!

MnSP will have biodiesel available in smaller quantities to pick up at the plant in Brewster. Bring a tank or container to take it home and custom make your own biodiesel blend. This service is weather permitting and is subject to change without notice. For more information or biodiesel pricing call the plant at 888-842-6677.

MnSP Management Is Monitoring

DDGS' Impact on Soybean Meal Sales

Soybean meal has become a staple in feed rations for Minnesota Soybean Processors' customers, local and international alike, who use the meal primarily for hog, chicken, and some cattle diets. As with any product, soybean meal has a number of competitors in the market of feed supplements. Distillers Dried Grains with Solubles (DDGS) and the related high protein variety are beginning to gain wider acceptance among nutritionists, particularly in the Midwest. Although MnSP is monitoring the emergence and potential competition DDGS could create, at this time DDGS do not pose a major risk to soybean meal sales. New forms of DDGS boast protein levels near that of soybean meal, but a lack of essential amino acids will continue to limit their use in many feed rations. Historically the higher price for soybean meal has not limited its use in animal diets and some studies report the rate of gain per dollar spent out-performs most other protein supplements.

DDGS are emerging as a viable economic and nutritional replacement for soybean meal in cattle rations. The primary reason for this is the difference in percentage of bypass protein supplied by DDGS (40%-50%) versus soybean meal (20%). Where distillers grains are cheap, like in the Midwest, this discrepancy is leading farmers away from soybean meal; however, nearer to the coasts freight costs dilute the economic advantage of using distillers. DDGS are gaining less favor with hog and poultry producers due to its deficiency in some key amino acids (although many are exploring the option and some are experimenting with it). Although a new version of DDGS touts 50% protein, some distributors were reluctant to provide nutrient analysis of the product still this summer due to the inconsistency of their results. Many feel that even the high protein DDGS will still require amino acid supplements to replace what would be lost in hog and poultry rations without soybean meal.

The local market for soybean meal will be tested in the near future by conventional and high protein DDGS. Although locally DDGS make economic sense in some rations, the cost of shipping makes them a less viable feed ingredient outside the Midwest. The low cost of DDGS makes them a more economical alternative for most cattle rations. However a deficiency of key amino acids, chiefly lysine, critically limits DDGS in their ability to replace soybean meal in hog and poultry diets. For

Stock Trading Suspended

The trading of all MnSP stocks was suspended by the Board of Directors during the regular meeting held in March. With the Unit Retains vote scheduled in the near future, Board Members felt it would not be fair to buyers and sellers to continue trading while the vote was pending. As in the past, *stock transfers* between related parties will be reviewed and acted upon by the Board of Directors on a case-by-case basis.

these reasons DDGS do not pose a major risk to soybean meal sales at the present time. MnSP will continue to monitor the role this and other emerging feed ingredients play in the soybean meal market.

Deere Recognized by USB for Million-Gal. Effort

The manufacturer of the Midwest's familiar Green Machines received a coveted award at the American Soybean Association's award banquet in St. Louis March 6. Deere & Company was recognized with the United Soybean Board (USB) Outstanding Achievement Award for its biodiesel factory-fill program which took more than a million gallons of the fuel that contains soy oil.

A year ago John Deere announced its plans to use a 2% blend of biodiesel fuel (B2) as the preferred factory-fill in diesel-powered, self-propelled machines made in the United States. During its first year, John Deere's factory-fill program used more than one million gallons of biodiesel fuel. Don Borgman, responsible for Market Planning and Customer Integration at John Deere, spear-headed Deere's adoption of B2 as a factory fill.

Dr. Michael Cremer received the Excellence in International Marketing Award for his three decades of work in aquaculture. Dr. Cremer's aquaculture programs in China have helped grow the usage of soybean meal in aquafeeds from zero bushels in 1990 to more than 186 million bushels today. Recently, Dr. Cremer and his team of researchers developed the Ocean Cage Aquaculture Technology that will expand opportunities for soy-based feeds in ocean-based aquaculture.

"The soybean checkoff is fortunate to have the support of industry partners and individuals whose dedication has opened new markets for U.S. soybean farmers," says Curt Raasch, USB chairman and a soybean farmer from Odebolt, Iowa. "New uses like biodiesel and aquaculture equal increased demand for soybeans and as a farmer, that's something I can take heart in."

The USB Excellence Award is a rotating award that recognizes outstanding achievement in five categories: communications, domestic marketing, international marketing, new uses and production research. The Outstanding Achievement Award is an annual award recognizing overall excellence to the soybean industry and U.S. soybean farmers.

USB is made up of 64 farmer-directors who oversee the investments of the soybean checkoff on behalf of all U.S. soybean farmers. Checkoff funds are invested in the areas of animal utilization, industrial utilization, industry relations, market access and supply. As stipulated in the Soybean Promotion, Research and Customer Information Act, USDA's Agricultural Marketing Service has oversight responsibilities for USB and the soybean checkoff.



Minnesota Soybean Processors

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Special Meeting to Discuss Capital Investment

The Board of Directors has called a special member meeting to approve and authorize a direct additional capital investment into the cooperative as a unit retain, as prescribed by Section 10.01 of the Bylaws. Under this Bylaw, 60% of the votes cast by Class A Shareholders at a duly held meeting of the members called for that purpose must approve and authorize the Board to require such investment. Although Class B shareholders are invited to attend, it will be the Class A Shareholders who will vote on whether to assess themselves the unit retain.

The special member meeting will be conducted over three successive days at three separate locations. The purpose of the meeting is to provide the members information about the unit retain, what it means, and why it is being called. Time will be allowed for questions and answers

at each meeting, and representatives of management, the Board, legal and accounting will be available at all locations. *It is very important that shareholders attend the meeting at one of the locations. If Class A shareholders wish to cast a vote on the authorization of the unit retain, they must attend the meeting in person at one of the locations.* Members will be required to register and will be given additional written information materials, voting procedures and a ballot. The meeting will be recessed and reconvened at the first two locations and concluded and adjourned at the last meeting on Wednesday, April 26, 2006.

The special meeting will be held at the following locations and times. **Please note, it is very important that shareholders arrive early in order to register prior to the beginning of the meeting.**

Monday, April 24, 2006	Brewster, Minn.	American Legion Hall		7:00 p.m.
Tuesday, April 25, 2006	Morton, Minn. (Redwood Falls)	Jackpot Junction Casino	39375 Co. Hwy. 24	7:00 p.m.
Wednesday, April 26, 2006	Brookings, S.D.	Brookings County Resource Center Room D (East side of Swiftel Center)	826 32nd Ave.	7:00 p.m.

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	Bob Crowley Iona, MN 507-425-2021	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
LeRoy Kellenberger Beaver Creek, MN 507-673-2283	Bruce Hill Worthington, MN 507-842-5402	Don Louwagie Marshall, MN 507-532-6081	Keith Waltner Parker, SD 605-648-3224	Todd Stroschein Clear Lake, SD 605-876-3721	Gary Dieterich Rudd, IA 641-395-2383	Darol Schmitz Brewster, MN 507-842-5413
Steffen Van Westen Reading, MN 507-478-4552	Bill Fest Heron Lake, MN 507-793-2585	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	Adam Schumacher Heron Lake, MN 507-793-2588