
FCEC *Quarterly*

Volume 8 Issue 3

Farmers Cooperative of El Campo

October 2011

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Manager's Report

The dry hot weather has surely worn on all of us, including our cattle and crops. We saw grain yields all over the board, but most of us were surprised where the yields actually ended up, given the drought circumstances. Cotton was particularly surprising. We will gin about three-times what we predicted three or four months ago. This all just shows how far genetics have come in a very short period of time. The varieties we had 4 to 5 years ago would not have had the potential to even make a crop at all, given the circumstances. All this is not to say that we are excited about the yields this year. With input costs so extremely high, a good crop is necessary for producers to break even or show any profit. Adding insult to injury was the fact that while prices were good, some producers made little or no yields.

Our employees have worked hard to help producers maximize their production, while keeping input costs at a minimum. Our cotton scouting program was a great success where acres scouted by FCEC increased from a first year of 6000 acres to around 20,000 acres. These acres were treated as our own cotton, making recommendations based on sound economic thresholds. Those producers who took advantage of this program will receive a history of their fields scouted, products used and rates and costs associated with those acres.

Thanks to Winfield Solutions, our cooperative supplier of seed and crop protection products, we will be unleashing a new tool to help our producers make decisions on their farms. This new tool will be only available to Winfield Solutions' co-op customers. By the way, Winfield Solutions is owned by Land-O-Lakes, one of the largest cooperatives in the whole United States, and they pay back dividends from their profits to producers – unlike the other big corporate agricultural product suppliers. This has been a very exciting partnership that definitely keeps us competitive in seed and crop protection products, and offers great rewards for producers who purchase their inputs from FCEC. Many of our producers have qualified for neat gifts and even paid vacations and cruises just by patronizing FCEC – what a deal!

The ginning year has been a great surprise with estimated bales ginned to be around 80,000 bales. As of September 21st, we have ginned about 50,000 bales and have 1900 modules on the yard. We still have people picking, but the gin is gaining ground. Today we are estimating to be finished by October 22nd.

The Gin has run very well. So far, we have averaged about 950 bales per day with some days over 1,000 bales. Our average lint turnout from seed cotton brought in has been 40.31%, which is definitely a record. We are so proud of the dollars that we are adding back to our producers' bottom line by returning them more lint per pound of seed cotton. Average bale weight has been 486 pounds and average seed weight per bale has been 611 pounds. The average seed rebate after ginning has been \$19.94 per bale.

Since we finished grain harvest, we will be making our first grain handling rebates based on agronomy patronage in fertilizer, crop protection products and seed. Just another way your co-op can reward you for patronizing the Agronomy Department.

A lot of exciting things are going on to try to diversify your co-op and survive in this harsh economic environment. Your board and management are researching any possibilities that can benefit our members. Many of you have heard that we are talking to a neighboring cooperative about a possible merge. A proposed expansion of our El Campo retail store has also been discussed.



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Managers Report Continued...

Bear in mind that members will be informed on possible mergers or acquisitions, if anything materializes. Things like this require a membership meeting and vote, so rest assured you will be notified if this moves forward.

As always, we wish good health and welfare to all our members and friends. Hopefully we will soon get much

needed rain for deep moisture replenishment and winter pasture for our livestock.

Sincerely,

Jimmy Roppolo

PORT OF VICTORIA

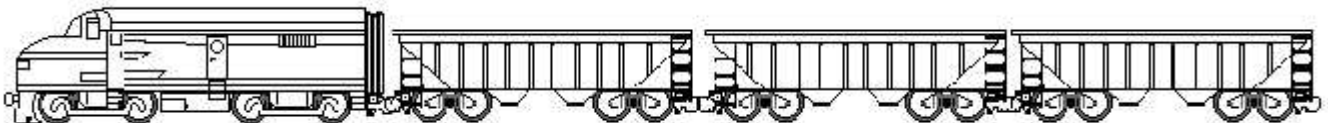
Joe Kelley – Facility Manager

The summer of 2011 is one that we would all like to forget. Extreme drought conditions, triple digit heat for multiple consecutive days and low yields devastated area producers, once again. Despite the adversity, the yields and quality from this summer's harvest were a little better than expected. Corn yields of 60 to 100 bushels per acre with relatively low Aflatoxin and high test weights were much better than growing conditions dictated. Obviously, many farmers did have yields that were much below 60 bushels per acre and high Aflatoxin; however, there were outlets for this corn. The grain sorghum that entered our facility here at the Port of Victoria was beautiful with high test weights and good quality. This sorghum should test out as a strong U.S. #2 or even #1.

As for the marketing of the crop, we are expecting that Mexico will enter the market and enter in a strong way earlier than last year. Last year, Mexico's domestic crop was sizable. However, this year Mexico's domestic crop has faced many of the same challenges that our Texas crop has faced. We are beginning to see some of the Mexican buyers begin to make inquiries on both corn and sorghum. As the futures weaken we would typically expect to see more activity in terms of purchases from Mexico, but the exchange rate is about 13 Pesos to 1 U.S. Dollar. This has slowed down the early momentum of the Mexican buyers. However, Mexico is short on grain, and no matter what the futures price or the exchange rate, Mexico will eventually have to enter the market. Since many of FCEC's Mexican and South Texas customers buy corn for feedlot operations, they have the ability to take advantage of FCEC's tiered pricing on Aflatoxin corn. This pricing structure is a strong selling point and enables FCEC to provide more value for corn destined to Mexico, by passing along discounts on corn that has higher levels of Aflatoxin to cattle feedlot end-users.

Since May of 2011 FCEC has been providing switching operations to Gaviola's crude oil division. During the timeframe of May through August, FCEC has provided switching services for approximately 800 railcars. 800 railcars equates to approximately 80,000 short tons of crude oil or the contents of about 3,200 semi truckloads of oil. The success of this engagement along with the Port of Victoria's desire to have a switching company at the Port of Victoria spurred FCEC to form Commodity Switching Company, Inc. (CSC). CSC will perform all of the switching activity here at the Port of Victoria. This relationship we hope will be a "win/win" for all involved, as it allows the Union Pacific Railroad (UPRR) to free up their resources. What used to take 4 hours for UPRR to switch, now only requires 30 minutes of UPRR time with CSC enabling them to do a "drop and pull" – basically, dropping off a string of cars and picking up the outbound string of cars. The other benefit is that it will let the Port of Victoria handle more railcars for companies located here at the port. The benefit for FCEC is that it demonstrates to the UPRR our desire to work with them and our ability and capability to move railcars on the port's track in a safe and efficient manner, which we hope will translate into a higher level of comfort with the UPRR when it comes time for CSC and FCEC to revisit the issue of originating 75 cars out of the Port of Victoria. The benefit to FCEC is that CSC will be its own profit center.

The activity here at the Port of Victoria increases every week, as activity in the Eagle Ford Shale ramps up as well. CRU Logistics is expected to be fully operational with their frac sand facility by late October. On any given day there are approximately 200 trucks coming into the port. This number is expected to double in the next few weeks, with continual growth after that as well.



GRAIN DIVISION

Lindsey Bowers – Grain Merchandising

Grain harvest has come and gone again. The year turned out better than expected, but still fairly disappointing. The elevator handled 1,183,725 bushels of corn (665 cars), 664,404 bushels of milo (372 cars) and 18,857 bushels of soybeans (11 cars). These numbers show that we handled only 46 percent of our elevator's capacity. The upside to this is that, with early recognition of the year ahead, we made the decision to hold grain from last year, and were able to capture significant basis appreciation on this grain.

The Corn Marketing Pool represented 474,781 bushels and the Milo Marketing Pool represented 436,362 bushels of the total grain we received. To date, we have made a \$2.00 per bushel progress payment on both corn and milo. At this point, we have puts covering the unsold grain and calls covering the sold grain. This position gives us great coverage for any move in the market. If you need projected proceeds from your remaining equity in the Marketing Pools for your lender to start next year's loan process, please contact Lindsey or Denny in the grain division, and they will be happy to help.

The marketing roller coaster continues! December 2011 traded as high as \$7.79 per bushel on August 29th and as

low as \$6.765 on September 19th. This is a price swing of \$1.025 in less than a month's time. Contributors to the overall recent downtrend have been the world economy, decreased export sales and Ukraine's increased production. Fundamentals are still supporting a stronger market outlook. The portion of the corn crop rated Good/Excellent dropped 2 percent to 51 percent. This now puts the crop ratings a total of 17 percent behind last year's ratings. The portion of the US crop that has been harvested totaled 10 percent for the first week of reporting. This is just behind the 5-year pace of 11 percent and slightly behind last year's total of 18 percent. The weather outlook should provide for a healthy amount of harvest activity in most areas over through the end of September.



The Obama Administration's deficit reduction plan released September 20, 2011 includes a \$3 billion per year reduction in government payments to farmers and another \$800 million or so per year cut in subsidized private crop insurance. With this being said, FCEC encourages our producers and landlords to become educated about bills being discussed, and the stance of candidates running for office.

PATRONAGE DIVIDENDS AND BOOK CREDITS

By the time you receive this newsletter, any members who did business with FCEC for the fiscal year ending April 30th 2011, should have received the cash portion of their patronage dividend. The dividend was calculated as follows:

	Total Dividend	Cash Portion	Book Credit
Cotton Division – per bale	\$16.80	\$8.39	\$8.40
Grain Division – per cwt.	\$.0973	\$.0486	\$.0487
Agronomy Division – per dollar spent	\$.02625	\$.01311	\$.01313
Hardware Division – per dollar spent	\$.03074	\$.01536	\$.01538
Fuel Division – per dollar spent	\$.01169	\$.00584	\$.00585

If your total dividend was less than \$100, you were paid 100% in cash. The total cash dividend paid by FCEC was \$838,590, which amounted to 49.97% of your total dividend.

There will be no agronomy rebate available to redeem for this fiscal year, since a larger portion of the dividend was paid in cash initially. The change in cash dividend from the traditional 35% is due to FCEC being able to capitalize on the Domestic Production Activities Deduction (DPAD) offered by the Federal Government through the 2004 American Jobs Creation Act.

AGRONOMY DIVISION

Ryan Jung – Agronomy Manager

Despite the challenges we have learned many lessons from this season, which hopefully can help us make more informed decisions for next year. What, how and when to plant are all important factors to consider and we can help you make the best choices.

We would like to take this opportunity to congratulate all 26 winners in our Emerald Extras program. Growers were enrolled at the beginning of the year and qualified to win some great prizes, just by purchasing products that they normally use to acquire points. These points can be used towards vacations, cruises, fishing trips, electronics, computers and more, and all for just purchasing your crop inputs through FCEC! Don't miss out next year!

As we head into the fall, our agronomy department is ready for all of your winter grain and pasture needs, including wheat, oats, ryegrass and legumes. We can also help with your fertilizer applications to make sure your crop gets the best nutrition.

This season we saw a notable increase in the numbers of resistant weeds across all counties. This is becoming an issue in many fields particularly regarding pigweed and water-hemp. In your pre-season planning it is important to consider the use of pre-emerge herbicides in conjunction with over-the-top herbicides to have the best chance of combating resistant or stubborn weeds. We have several retailer programs which offer rebates for using a combination of chemicals, so come in and inquire about how we can work with you on this detrimental issue.

Insect pressure was also slightly lower this year compared to last year, but we still saw reasonable numbers of above

and below-ground insects. The various technologies are still important in your seed hybrid choices as they can significantly increase the yield and health of your crop.

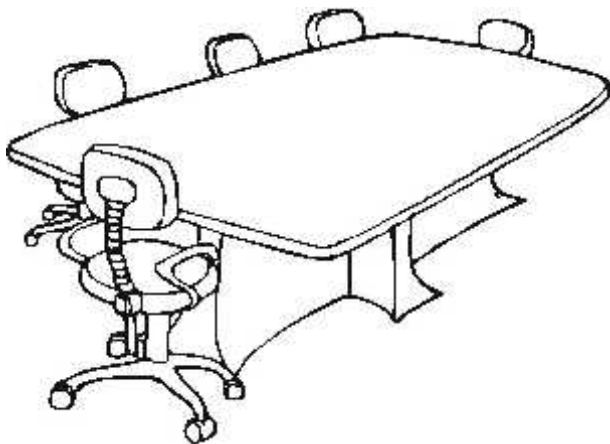
The FCEC Cotton Scouting program got off to a great start this year with the assistance of 3 interns who collaborated with our consultants in collecting data from the fields throughout the season. The producers in the program have the benefit of these records both for analysis of this season's management and as a resource to reflect on in coming seasons. We are excited to continue expanding this service to you, and we offer great bundling packages and discounts to those who sign up early. Ask one of us how we can help you achieve the most profit per acre!



Over the coming months we will be looking forward to planning and preparation for next season. We will be having our usual grower meetings with the various seed and chemical companies, so keep an eye out for those invitations in the mail. There are some exciting things happening with new technologies that are being developed to help you become more efficient and profitable.

We invite all of you to come in and talk with us regarding any issues, concerns or comments you have, and about any changes that we can help you make for next season to improve your operation. We have some exciting programs available which will help reward you for your business here at the FCEC. We can explain all of the options to you at any time.

We would like to thank all of you for your continued support and look forward to working with you in the future.



Director Election Results

*Congratulations are extended to four board directors, who were elected at the 29th Annual Meeting held in June: **Craig Dorotik, Jason Koudela, Michael Popp and Michael Watz.** They will serve a three-year term ending in 2014. Directors are eligible to run for re-election for one consecutive term. Remember, your directors are there to represent the entire membership. Please contact them if you feel a need is not being addressed.*

*We also extend our appreciation to outgoing directors **Anthony Dorotik, Cedric Popp, Gary Schoenfield and Gary Wendel** for their service on the board.*

SUPPLY DIVISION

Kurt Rodgers – Division Manager

This year's extensive drought has left ranchers in a predicament going into Fall and Winter. We encourage you to start thinking about planting winter pasture. When we finally get rain, ryegrass or oats can relieve some stress from your cow herd. Until we get some relief, Accuration 32-10 liquid supplement and hay is the most cost effective way to maintain body condition and performance throughout these adverse weather conditions. Accuration Range Liquid supports your bottom line potential with heavier calves and more calves to wean. If you run into the situation where you are out of hay, we do have a product called Accuration Forage Extender. This product allows you to feed developing calves, mature cows and bulls when you have little or no forage. Please come see us or give us a call if you have any questions, because depending on your situation, there are a variety of products to sustain your cow herd.

With everyone plowing this dry ground, there has been a lot of wear and tear on equipment. Due to the large volume of sales we are experiencing, we are doing our



best to keep replacement ag parts in stock. It has definitely been a Lehman year!

On a positive note, hunting season is finally here! Our Wildlife Management Expo at the beginning of September was a big success with over 400 people in attendance.

Brian "The Pigman" Quaca – the T.V. Star – was a hit with the crowd, and he was very enthusiastic about using the Quick Draw Hog and Deer Attractant Blocks. We have a new Premier Deer product called "Deer'licious" a powdered attractant formulated by the same deer expert of C'Mere Deer. Our junior bow and arrow sets are back in stock for the kids to practice hunting with dad. Don't forget to renew your hunting license and pick up a few dove decoys and ammo while you're here!

Next time you are in the store, check out our new expanded section of RV accessories on Aisle 16. Also, the propane supply section has been moved from Aisle 6 to Aisle 16 next to the RV accessories. Please ask one of the cashiers or managers if you need help finding a product.

COTTON DIVISION

Sally Andel – Cotton Merchandising
Theresa Strack – Cotton Warehouse Manager

It has been a difficult year for many of our cotton producers. However, some have been pleasantly surprised with their yields. With all the failed acres due to the drought, it has been a very hard year to plan. To date we have ginned 50,000 bales, and we are anticipating approximately 80,000 bales. The drought has provided great harvesting and ginning weather. Our gin is running very well. We anticipate ginning till about mid-October. At that time we will have IntelliGin reports and our variety recaps available.

The quality of the cotton that we have been ginning has varied; however, most are suffering from short staple, high micronaire and some low strength. This is normal for dry-weather cotton. Discounts on cotton have been around four cents on most farms. The yields have also varied. We have heard $\frac{3}{4}$ bale to almost 3 bales per acre.

Due to the drought, we have imposed a ban on traffic at the cotton module lot this year. We are taking extra precautions to protect your cotton. It would not take much to spark a fire; therefore we are asking that you do not travel in the module lot.

Despite the Texas drought, the USDA continues to show a sharp increase in production. Foreign production is expected to increase a sizable 10 million bales from last year. Farm average prices are expected to remain in the \$0.85 to \$1.05 per pound range.



The rise in cotton price was not based on realistic retail demand for the last year. Higher prices do increase production, decrease consumption, and weaken price, as it has historically done in the past. The longer high prices exist, the more consumption weakens. It is estimated that the price rally from August 2010 may point to fairly stable to weak consumption for this season and the next, which will push prices lower.

The warehouse shipped out the last 11,088 bales of Cargill cotton in August just in time to fill up with our own cotton. We handled a total of 44,350 bales for Cargill, which gave a nice boost of income for our warehouses. To date we have handled 27,675 bales of our new crop cotton. We are currently full and are shipping overflow to Gulf Compress.

We have 4050 bales on order and have shipped out 2,153 bales of new crop cotton. Orders have been slow coming in compared to last year but are starting to pick up a little. This is mainly due to the lower quality of our crop. Hopefully, we can ship out enough cotton to be able to bring more back in our own warehouses before we finish ginning.

As always we truly appreciate your business and look forward to serving you in the future!