

So why have forward contracts become such a big deal for Elevators?

There has been a trend in the cash grain markets to limit how far forward companies will contract grain. Policies vary by company, they range from those who are buying no more than 30 days out on one extreme to those that still post a bid for New Crop 2009 (like Ludlow Co-op) on the other.

So why have forward contracts become such a big deal for elevators? Basically it's because of how much money gets tied up in these contracts. As an example, if Ludlow Co-op bought 5,000 bushels of corn for New Crop 2008 delivery a year ago, June 18, 2007, at our closing bid of \$3.95 on that day, we would then have sold 1 contract (5,000 bushels) of December '08 futures on the Chicago Board of Trade against that purchase to hedge against a price decline. The closing price on that Dec'08 contract that day was about \$4.24.

When we sold that contract on the CBOT we would have had to send them money as an initial margin. This margin can vary, but currently it is \$1,500 per corn contract. The elevator has to wire transfer the funds for that initial margin the next day. This money is tied up until after delivery and until the corn is sold as cash and the futures are bought back. In this example the interest on that initial margin alone is about 2 ½ cents a bushel.

The big item, however, is the margin calls. Every time the Chicago Board of Trade price for December '08 futures closes higher from that \$4.24 price level we sold as a hedge we have to make up the difference. In this example, a year later the December '08 corn futures are at \$7.80, up \$3.56 a bushel. The elevator has been borrowing money to meet each of these margin calls because we don't have the actual corn to sell and ship until it is delivered.

So in this example, on this single 5,000 bushel purchase

we have the \$1,500 initial margin plus another \$17,800 (5,000 x \$3.56) for a total of \$19,300 tied up in the hedge so far. The offset against this is the corn purchased at a lower price. When it comes in we can sell and ship that corn and the cash purchase and the futures sale will offset each other – less the interest on the money borrowed to finance the hedge. And on a purchase way out forward in a market that rallies that interest cost adds up in a hurry.

As you plan your marketing, please remember that a **NEW MINIMUM STORAGE CHARGE** will be applied to any corn and soybeans remaining in storage as of September 1 of the next crop year. **Unpriced Delayed Price Contracts will have the NEW DELAYED PRICE CHARGES** applied against them effective September 1 of the next crop year on corn and soybeans.

LOOK AT YOUR LUDLOW COOP ACCOUNT ONLINE....

Ludlow Coop has producer information available on our web site (ludlowcoop.com).

Information available to you includes open contracts and grain you have in hold, storage, warehouse receipts, grain bank, etc.

You can also review your tickets by date range, farm, and commodity as well as display each ticket in detail.

Just go to our web site to register. For security reasons you will be contacted to give the last four digits of the social security number or federal identification number of the account you wish to access.

For more information contact Steve Wissink at the Ludlow Office 1-800-500-2676!



Ludlow Co-op ELEVATOR COMPANY CONTRACT NO. 44607
A Farmer Owned Cooperative Organized 1964 P.O. BOX 158 • LUDLOW, ILLINOIS 62446
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GRAIN PURCHASE CONTRACT

_____ (Hereinafter referred to as "Seller")
LUDLOW COOPERATIVE ELEVATOR CO.
Ludlow, Illinois 62446
(Hereinafter referred to as "Buyer")

For Our Prior Agreement We Confirm Purchase From You Today of:

QUANTITY: _____
COMMODITY/DESCRIPTION: _____
PRICE: _____
TERM (SHIPMENT): _____
DESTINATION: _____
REMARKS: _____

THIS CONTRACT IS SUBJECT TO THE FOLLOWING TERMS:

1. Seller warrants that all grain is clean, sound, and free of foreign matter.
2. Buyer will have good and valuable title to the grain, but not necessarily be bound by the title of the seller.
3. Any grain not in compliance with the foregoing warranties shall not be accepted by Buyer for any purpose for which such grain is sold, and the grain will pass to Buyer as is.
4. Seller warrants and agrees that Buyer may contract with other parties for the purchase and ownership shall remain in Seller. Seller understands and agrees that Buyer may contract with other parties for the purchase and ownership shall remain in Seller. Seller understands and agrees that Buyer may contract with other parties for the purchase and ownership shall remain in Seller.
5. This contract shall be binding upon the buyer, warehouse, administrators and standards of Sellers and the warehouse or storage of Buyer. Seller may not assign this contract.
6. Acceptance of any delivery by Buyer after breach of the terms and conditions of this contract by Seller shall not waive any rights or remedies accruing to Buyer as a result of such breach.
7. Subject to the trade rules of the National Grain and Feed Association.

IF THIS CONFIRMATION IS NOT IN EXACT ACCORDANCE WITH YOUR UNDERSTANDING OF THE SALE, FAILURE TO NOTIFY BUYER WITHIN 10 BUSINESS DAYS CONSTITUTES ACCEPTANCE.

By _____ (BUYER) PLEASE SIGN AND RETURN WHITE COPY SELLER

Ludlow Coop's purchase contract confirmations state the following:

IF THIS CONFIRMATION IS NOT IN EXACT ACCORDANCE WITH YOUR UNDERSTANDING OF THE SALE, FAILURE TO NOTIFY BUYER WITHIN 10 BUSINESS DAYS CONSTITUTES ACCEPTANCE.

Although your sale was made to Ludlow Coop via telephone conversation or in person please be sure to sign and return the white (original copy of the confirmation) in the enclosed return envelope. We still need the signed white copy of all purchase contracts in our office.

Ludlow Coop Elevator Company Company Procedures

The employees at Ludlow Coop take pride in the services they provide! This brochure is to inform you of how your company operates, and the procedures. If you have any questions please do not hesitate to contact one of our facilities. Thanks for making Ludlow Coop the outstanding company it is today!

Our Ludlow Office mails patron grain statements every other month along with a grain brochure of company information. Below is an example of the information about the grain statement that is included in the brochure. During harvest grain statements are usually not mailed until drying is charged out. Drying bills are also included with the statement which is usually in November.

Enclosed with this brochure is your patron grain statement. The information on this statement pertains to your grain account as of 2:00 p.m. August 25, 2008. We are sending this information to you in order for you to double check your records to ours. The statement details your grain that is on open storage/delayed pricing/hold etc. Also included on the statement are the open contracts of grain you have sold through Ludlow Coop for future deliveries or to be applied to your bushels that are in the elevator already. The dates are shown by month and year for the delivery period of the contract in which the grain was sold. For example, if you have sold grain for 2008 harvest delivery the dates are shown as 10/1/08-11/30/08.

GRAIN IN THE ELEVATOR AND OPEN CONTRACTS.
When you look at your grain statements the bushels in storage or on delayed pricing are NOT reduced by any existing contracts for future delivery periods. We cannot apply grain sold for a future delivery period until the 1st day of that delivery period. For example, if you put 10,000.00 bushels in storage at harvest and have 5,000.00 bu sold for August your statement as of today will show 10,000.00 bushels storage and an open 5,000.00 bushel August contract.

We are asking that patrons please look over the statements and if you find any errors please contact our Buckley or Ludlow offices immediately! Please do not wait until a later date.

Thank you for your assistance,

Office Staff

Once again we would like to remind all of our patrons that we would appreciate it if you would inform us of any NEW accounts we need to set up for you prior to harvest! This would include any new or changed grain splits. We should have your grain splits set up the same as the FSA offices have them. We can also add your FSA farm numbers to your existing farm splits or



set up different 100% grain ID's with your farm numbers on them. Please call the Ludlow Office at 1-800-500-2676 or email tjohnson@ludlowcoop.com or jkprahl@ludlowcoop.com with your information!

Thank you in advance for your cooperation!!

**Are you farming new ground this year?
Have you hauled to Ludlow Coop recently?
Did your grain splits change?
If so we need to know prior to harvest!**

What is "end-of-day"? You might have called in for some information and been told that it would not be available for a few minutes because we were in "end-of-day". That brings the question to mind, what the heck does that mean?

End-of-day is part of our grain accounting program. During the "end-of-day routine" our grain accounting takes all the account activity from the previous day and finalizes it, puts it all in the appropriate category, and prints out all the necessary reports for us to track our activity and provide an audit trail of the day's activity. It's a very important part of the process and necessary from both a management and compliance standpoint.

So at around 2:00 pm each day, after the markets are closed, we close the books for the day's business activity and start the "end-of-day" part of the grain accounting program. While it is doing this we can't get into the program to check on tickets or contracts, write a check, amend a scale ticket, or stuff like this. The time we're locked out from these activities varies, depending on how busy we are - but is rarely longer than an hour.

We're sorry for any inconvenience this may cause and appreciate your patience.

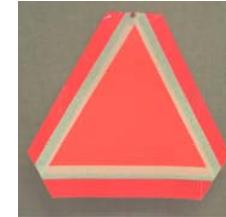
Notice of Security Interest

Ludlow Coop's policy on removing Lein holder names from patron's accounts, is that we must receive a release from the Lein holder either by fax or mail. We cannot take off an Lein without having something in writing from the Lein holder.



Harvest Safety

As harvest approaches with expectations of a big crop and the corresponding long hours, and new people helping both on the farm and at the elevator, comes a real concern for operating safely. This is a good opportunity to review dump pit safety. We have to rely on you to keep your vehicle's unloading systems in good working order. This allows us to continue to



open gates and doors for our customers at the dump pits. The popularity of a grain truck pulling a wagon creates the problem of having to put a Ludlow Co-op employee between the truck and wagon. **This necessitates making sure that you can see that the employee is clear and waiting for them to signal you before pulling forward.**

A few simple safety rules can help ensure a safe and productive harvest:

1. Shift your vehicle into neutral and set the parking brake.
2. Do not begin hoisting dump bed vehicles until instructed to do so.
3. If you have any problems with the mechanism that allows grain to flow out of your vehicle, inform the dump pit operator of the best method to operate this problem equipment. In an extreme case, if the problem presents a safety hazard, insurance considerations may prohibit our operation of this equipment.
4. **Do not proceed back to the scale until the dump pit operator signals you that it is OK to move!**

Thank you, by following these four simple rules, we will all be able to reduce the likelihood of a fatality of injury in or around the grain elevator dump this harvest season.