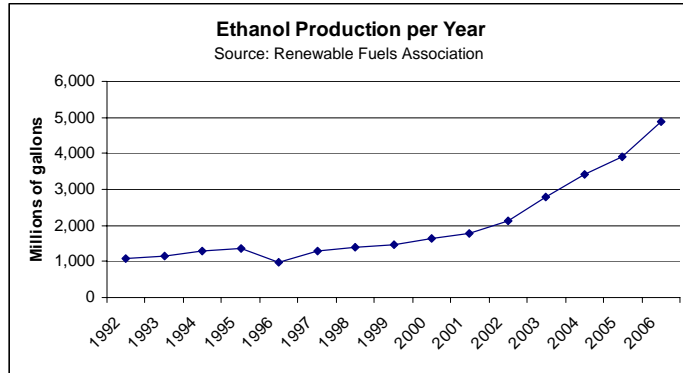


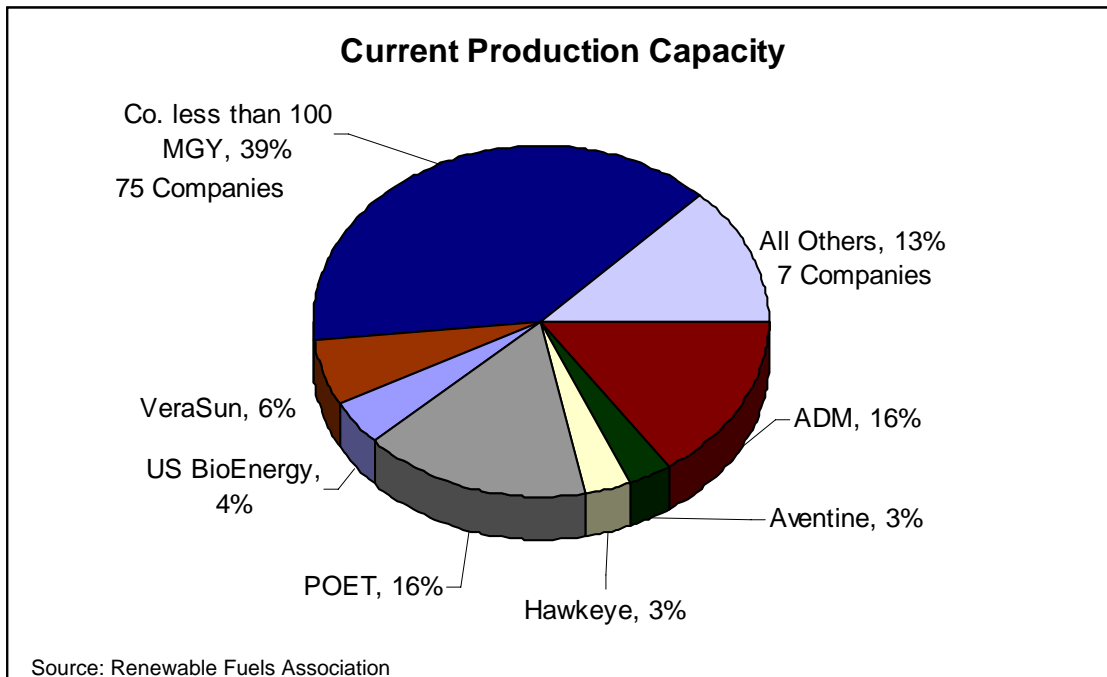
Recent Ethanol Industry Trends

The Energy Policy Act of 2005, which established the Renewable Fuels Standard, is a delight to most farmers as it has increased all commodity prices and helped bring profitability back to the family farm. The ethanol industry has exploded with production growing 25% from 2005 to 2006, and nearly five fold since 1992.

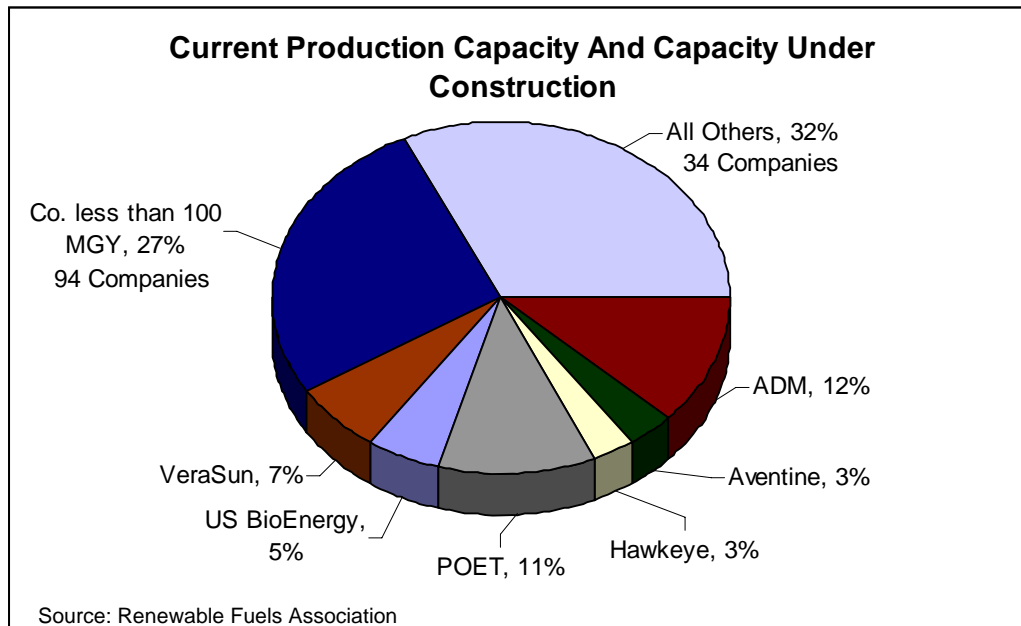
Most of the expansion occurred at the farmer owned co-operatives and limited liability corporations levels. As the topic became better known, a few public companies were formed to produce ethanol. Currently, the industry is extremely fragmented with 88 companies having production capacity of approximately 6.9 billion gallons a year (BGY), with no company having over 16% market share. 75 of those companies have current production capacity of less than 100 million gallons per year (MGY), and combined have approximately 39% of all ethanol capacity.



Currently, there appears to be six companies with large capacity and a strong construction pipeline. These companies are Archer Daniels Midland (ADM), POET (fka. Broin), VeraSun Energy, US BioEnergy, Aventine Renewable Energy, and Hawkeye Renewables.



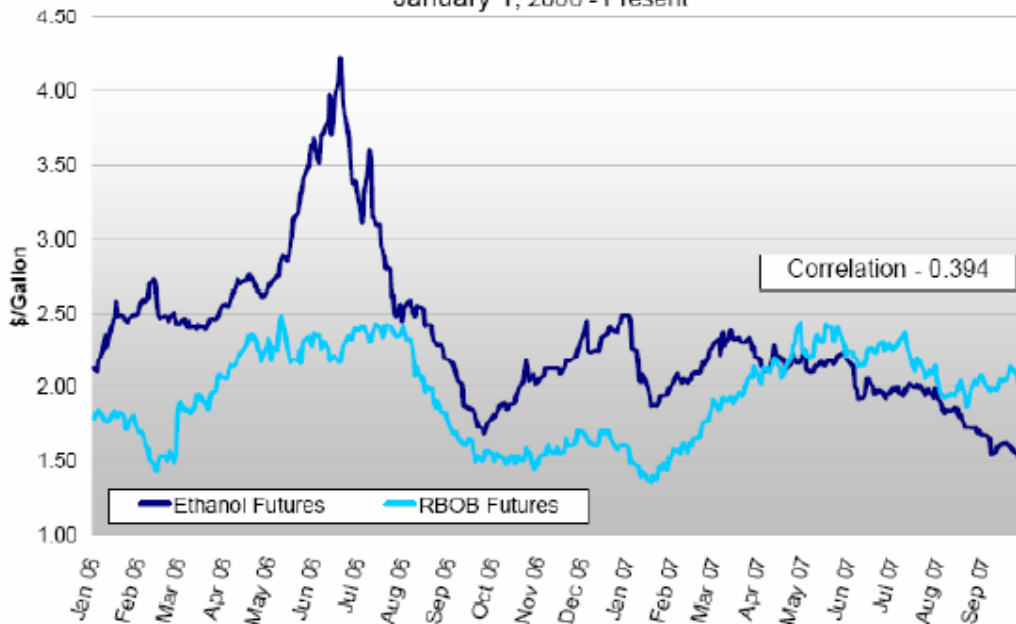
In the short run, the ethanol industry will become more fragmented, as there are 45 new ethanol companies with plants in construction. Additionally, 18 ethanol companies are currently expanding operations. This capacity under construction will make the ethanol market more fragmented, with 134 companies producing 16.3 BGY.



As transportation and storage problems plague the ethanol industry, E85 has yet to be considered as a viable replacement for regular gasoline. Ethanol has had difficulty positioning itself as more than just a replacement for MTBE. Due to environmental issues, MTBE use is banned or partially banned in 25 states, which have approximately 54% of all gasoline consumption. If E10 blend was mandated in all 25 states, the resulting ethanol demand would be approximately 8.1 BGY, or approximately 17% more than current capacity. There are however replacements for MTBE other than ethanol, such as the chemical compounds ETBE, TBA, and TAME. Most oil refineries own facilities, which produce these chemicals cheaply, so oil refineries have little incentive to buy ethanol and replace their own products unless required by law.

Ethanol production for 2006 is estimated to be 6.4 billion gallons exceeding the 2005 Renewable Fuels Standard target of 4.7 billion gallons by 1.7 billion gallons, or 36%. This excess production is the reason why the prices for ethanol have been dropping since its high a year ago, and why it has now lost its premium per gallon to gasoline. Ethanol prices have decreased 40% from approximately \$2.50 on January 1, 2007 to approximately \$1.50 today. Ethanol in E85 blend is estimated to be 27% less efficient to power cars than its gasoline counterpart. Ethanol is currently selling at approximately a 25% discount to gasoline, indicating that ethanol is being priced in accordance with its fuel efficiency as a replacement for gasoline. This demonstrates the current oversupply of ethanol for E10 blending, and how ethanol will be priced in comparison to gasoline if there were no government mandates.

CBOT Ethanol Futures versus NYMEX RBOB Futures
January 1, 2006 - Present



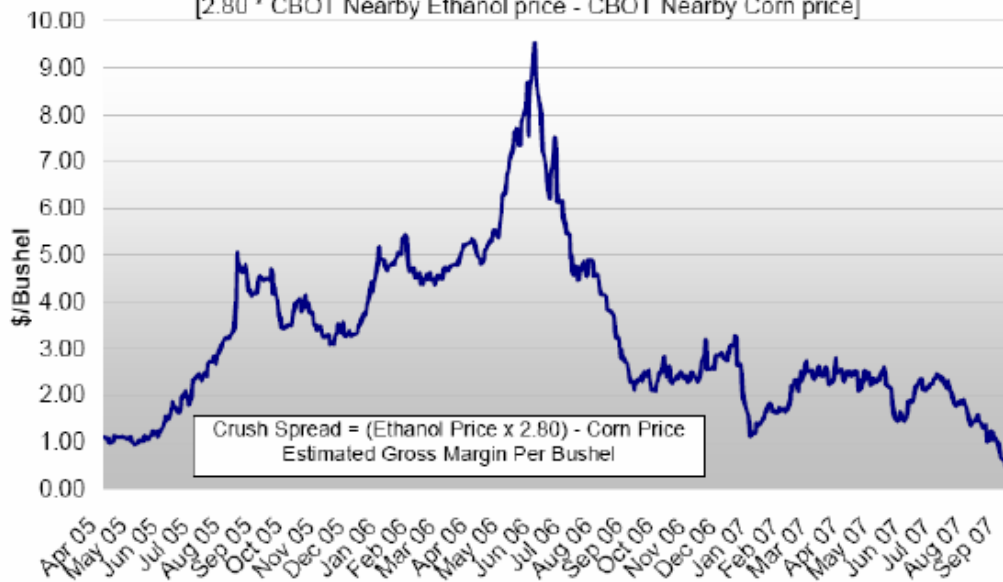
Source: CME Group

Ethanol producers are currently being squeezed from both a revenue and cost perspective. Not only have ethanol prices dropped in the past year, but corn and natural gas prices have increased approximately 40 percent and 25 percent respectively. The graph below shows the ethanol crush spread. The crush spread is the difference in price for a bushel of corn and the price of ethanol produced from one bushel of corn (estimated at 2.8 gallons per bushel). Please note that this graph only takes into consideration the price of corn and no other costs.

CBOT Ethanol Crush Spread

March 23, 2005 - present

[2.80 * CBOT Nearby Ethanol price - CBOT Nearby Corn price]



Source: CME Group



October 31, 2007

With crush spread dropping below a dollar a bushel, ethanol companies will have trouble covering other production and overhead costs (e.g. natural gas and labor) , which can be around \$1.40 to \$1.60 a bushel. Ethanol plants will have to rely more on their DDG and carbon dioxide sales to make up the shortfall. Selling, general, and administrative costs have always been a problem for small companies, as they normally are a greater percentage of revenue, than for their larger competitors. During times of shrinking margins, smaller companies historically have more difficulty with being able to cut costs or find additional resources to maintain operations. Consolidation may be necessary for the survival of smaller ethanol facilities.

Consolidation should give ethanol companies more negotiating power with their suppliers, transportation providers, and ethanol marketers. Consolidation should also allow the organization to cut back on corporate redundancies and inefficiencies, as well as be able to manage their production more efficiently. Although each cost savings is individually small, when combined they could equal sixteen to twenty cents a bushel, which could be the difference between profit and loss in this current market.

About AgriCapital

Founded in 1983, AgriCapital is an investment bank, which works exclusively in the agribusiness industry. AgriCapital combines industry experience and traditional investment banking skills and procedures to provide our clients with more value added services not available from other investment banks. AgriCapital services include: raising equity and debt capital; negotiating mergers, acquisitions, and divestitures; and corporate consulting. For more information, please contact us at the telephone number below or visit our website www.agricapital.com.

Sources:

While compiling this memorandum, AgriCapital used data provided by the United States Energy Information Administration, Renewable Fuels Association, CME Group, United States Environmental Protection Agency, United States Department of Agriculture to develop industry estimates and analysis.

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