



Welcome to the
87th ANNUAL STOCKHOLDERS
MEETING

Tuesday, March 27, 2007

10:00 am



Welcome

BOB FENTON

President/CEO

HFB Board of Directors



Dorance Amos, *Chairman, Dist 4*

Paul Koeman, *Vice Chairman, Dist 1*

Jerry Kramer, *Executive Comm., At-Large Director*

Harvey Leep, *Dist 3*

Bryan Kleinheksel, *Dist 1*

Dan Wedeven, *Dist 1*

Garry Dreyer, *Dist 2*

HFB Managers



Wade Blowers – *Chief Operating Officer*

Harvey Elgersma – *Chief Financial Officer*

Scott Parker – *Hamilton Agronomy South*

Jeff Layman – *Hamilton Agronomy North*

Sharon Fracalossi – *Hamilton Eggs*

Pam Schut – *Hamilton Energy South*

Kevin Kobbins – *Hamilton Energy North*

Gary Brinks – *Hamilton Feed*

Bob Nienhuis – *West Michigan Mills*

Ron Jones – *Selections by Hamilton Lumber*



Invocation

Kirk Vander Molen

Love, INC



Chairman of the Board
DORANCE AMOS

Board's Perspective:

**We have addressed the
highly urgent situations.**

Board's Perspective:

We still have significant opportunity to improve our execution on the strategic approach to our five core businesses.



Board's Discussion on Each Core Business:

Question #1:

Does this fit our agricultural mission?

Question #2:

Is this unit meeting its targets?

Question #3:

What future direction does management need from the Board in order to succeed?

Core #1: Feed Manufacturing



Agricultural core? Yes

Meeting its targets? Yes

Future direction to management:

- Value the concentration of customers by emphasizing proactive communication.
- Increase dairy market share.
- Analyze impact of bio fuel demands.
- Analyze transload facility.
- Investigate SW Michigan and NW Indiana feed markets.

Core #2: Egg Marketing

Agricultural core? Yes

Meeting its targets? Yes

Future direction to management:

- **Expand marketing effort to increase overall customer count and margin.**
- **Analyze value-added egg niches.**
- **Formalize producer relationships.**
 - **Producer concentration is a risk for producers and for the Cooperative.**

Core #3: Agronomy



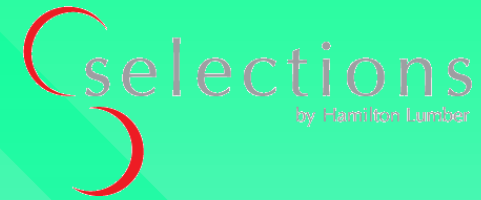
Agricultural core? Yes

Meeting its targets? No

Future direction to management:

- Challenging market needs motivated people.
- Expand specialty and seed segments.
- More accountability on EBITDA projections -
 - Cull low performers.
 - Seek alliances with peers and partners.
 - Net profit positive in 2008.

Core #4: Selections



Agricultural core? No, but supports it

Meeting its targets? No

Future direction to management:

- Complete brand image update in Hamilton.
- Lead with truss direct sales as basis for growth.
- More accountability for EBITDA projections -
 - Tough environment – build market share.
 - Be proactive on expense control.
 - Prove showroom model drives growth.

Core #5: Energy



Agricultural core? No, but supports it

Meeting its targets? Yes

Future direction to management:

- **Growth business - it has the highest return.**
 - **Move net customer growth up 750/year.**
 - **Seek acquisitions that support the model.**
- **Lower delivery cost 10% through technology.**
- **North EBITDA per gallon needs to move to industry average for publicly held companies.**

Board's Perspective:

If we execute correctly, we will have five core businesses that serve our stockholders and generate a reasonable profit.



Management's Analysis

BOB FENTON

President/CEO

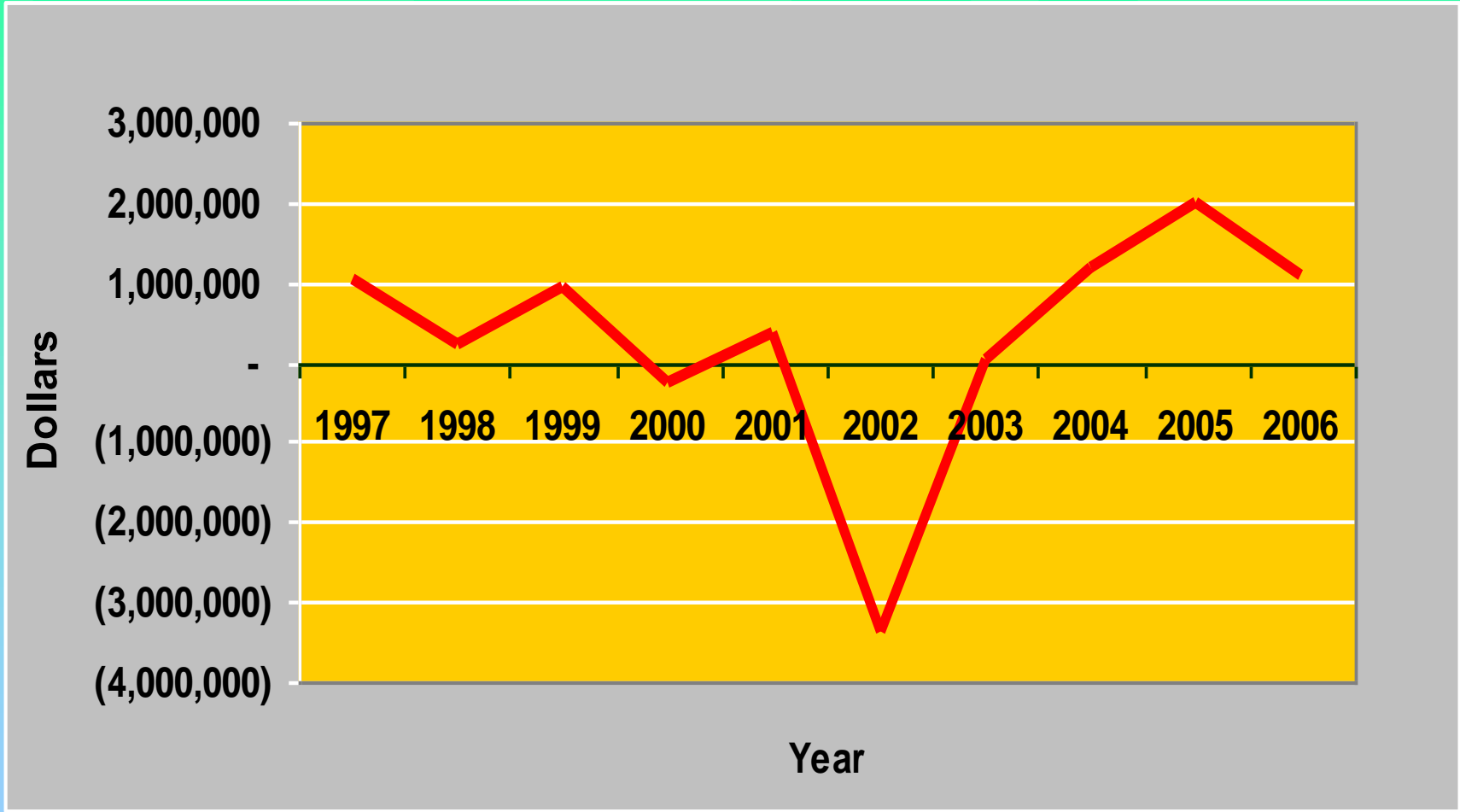
Goals of the Management Presentation

1. **Conduct an open and candid discussion regarding our performance.**
2. **Demonstrate that from a stockholder's perspective, the Cooperative has increased in value in 2006.**
3. **Identify how we are doing on our growth initiatives in profitability and customer numbers.**
4. **Answer any questions that stockholders have on 2006 performance.**
5. **Express confidence that we can continue to offer compelling value to the local customer base.**

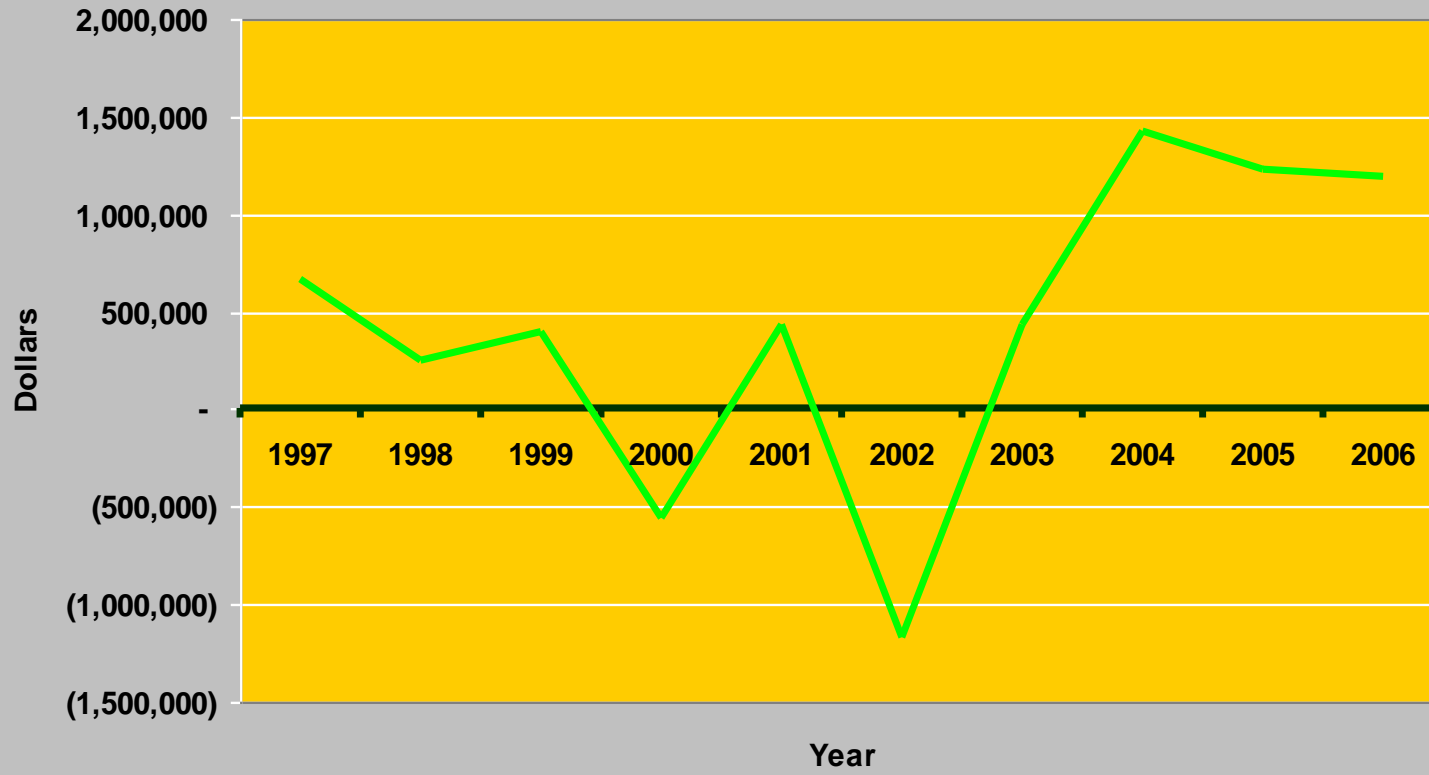
2006 Results

- **Revenues of \$93,743,575**
- **Earnings after tax of \$1,090,212**
- **Achieved strategic goals**
 - **Rebranded Lumber to Selections.**
 - **Marketed the former Chevy Service Center.**
 - **Consolidated Agronomy South to one location.**
 - **Transitioned the G&G Pork weaned pig network to local producers.**
 - **Invested capital to strengthen our core.**

Earnings After Tax

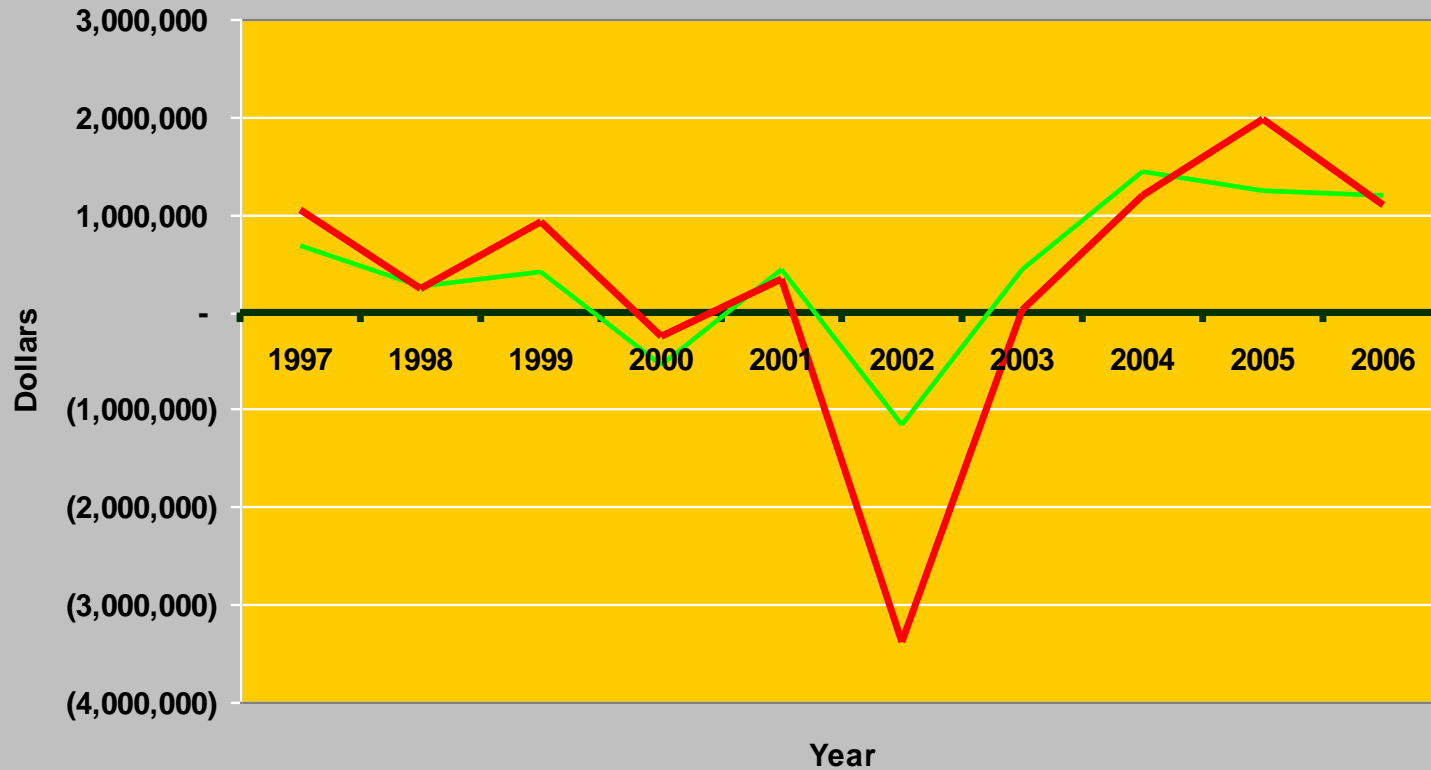


Operating Income





Gap to Net Profit from Continuing Operations (tax, swap, capital gain)



Operating Income as a Return on Assets





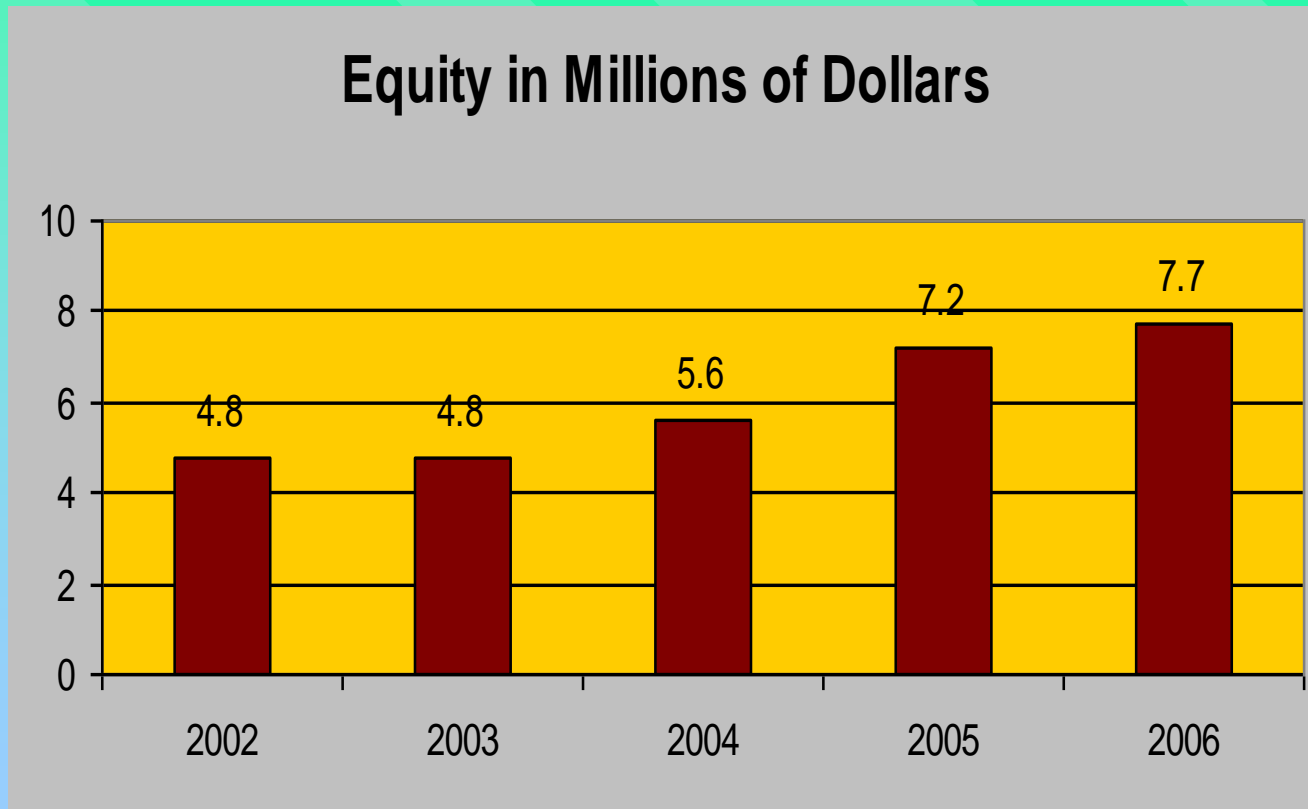
Return on Equity



2006 Financial Results



- **Total Equity Value increased 8.7% in 2006.**





Increasing income from operations will drive equity growth and revolvment.

Increasing Income from Operations

- Needs organic top line growth.
- Accelerated by prudent acquisitions.
- Requires disciplined expense control.

Organic Growth



<u>Division</u>	<u>Account Growth</u>	<u>Market Share</u>
Energy South	614	22%
Energy North	264	7%
Selections	53	3%
Agronomy South	24	10%
Feed	12	60%
Agronomy North	0	35%
Eggs	0	1%

Prudent Acquisitions

- **Strategic in nature.**
- **Priced fairly.**
- **In complimentary markets to our core.**

Prudent Acquisitions



Strategic because it is in the heart of our market.

- **Core business related.**
- **Priced similarly to the cost of adding 2,000 customers organically.**
- **Added only 3 employees.**
- **Incrementally improves the earnings in 2007.**

Disciplined Expense Control

- **Operating and Administrative up \$63,832.**
- **+ .35% versus 2005.**
- **Labor investment was the largest increase.**
- **Overall, we are overcoming inflationary effect in the economy.**





HARVEY ELGERSMA

Chief Financial Officer

Statement of Operations



	<u>2006</u>	<u>% to</u> <u>Sales</u>	<u>2005</u>	<u>% to</u> <u>Sales</u>
Sales	\$ 93,743,575	100.0%	\$ 94,981,539	100.0%
Cost of Sales	<u>77,282,375</u>	<u>82.3%</u>	<u>78,576,538</u>	<u>82.7%</u>
Gross Margin	16,461,200	17.7%	16,405,001	17.3%
Service and other revenue	<u>3,658,748</u>	<u>3.9%</u>	<u>3,494,938</u>	<u>3.6%</u>
Gross Profit	20,119,948	21.5%	19,899,939	21.0%
Operating and administrative expenses	<u>17,931,035</u>	<u>19.1%</u>	<u>17,867,203</u>	<u>18.8%</u>
Income from operations	2,188,913	2.3%	2,032,736	2.1%
Interest expense	<u>998,788</u>	<u>1.1%</u>	<u>806,490</u>	<u>0.8%</u>
Income before other revenue (expenses)	1,190,125	1.3%	1,226,246	1.3%

Statement of Operations



	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
		%		%
Other revenue (expense)				
Market gain on swap agreements	30,000	0.0%	280,000	0.3%
Other revenue	<u>198,963</u>	<u>0.2%</u>	<u>106,584</u>	<u>0.1%</u>
Total other revenue (expense)	<u>228,963</u>	<u>0.2%</u>	<u>386,584</u>	<u>0.4%</u>
Income before income taxes	1,419,088	1.5%	1,612,830	1.6%
Provision for income taxes	<u>328,876</u>	<u>0.4%</u>	<u>(364,300)</u>	<u>-0.4%</u>
Net income	<u><u>1,090,212</u></u>	<u><u>1.2%</u></u>	<u><u>1,977,130</u></u>	<u><u>2.1%</u></u>



Consolidated Balance Sheet

ASSETS		2006	2005	2004
Current Assets				
Cash and Cash Equivalents		\$ 3,442,053	\$ 697,881	\$ 707,119
Receivables		7,836,147	7,176,171	5,618,870
Inventories		8,974,182	7,533,146	7,374,116
Deferred Income Taxes		459,900	449,700	156,700
Other Current Assets		473,531	650,296	210,763
Assets Held for Sale		<u>1,011,370</u>	<u>734,370</u>	<u>1,162,084</u>
Total Current Assets		<u>22,197,183</u>	<u>17,241,564</u>	<u>15,229,652</u>



Consolidated Balance Sheet

ASSETS	2009	2008	2007
Property and Equipment, net	<u>10,205,681</u>	<u>7,207,812</u>	<u>7,176,299</u>
Other Assets			
Investments	1,791,382	1,753,171	1,896,308
Notes Receivables	483,216	535,038	402,624
Deferred Income Taxes	111,300	435,000	363,700
Fair Value of Swap Agreements	110,000	80,000	
Other Assets	<u>383,335</u>	<u>-</u>	<u>-</u>
Total Other Assets	<u>2,879,233</u>	<u>2,803,209</u>	<u>2,662,632</u>
Total Assets	<u>\$ 35,282,097</u>	<u>\$ 27,252,585</u>	<u>\$ 25,068,583</u>



Consolidated Balance Sheet

LIABILITIES AND EQUITY		2006	2005	2004
Current Liabilities				
Accounts Payable		\$ 3,123,021	\$ 2,892,376	\$ 4,027,954
Grain Payables		1,860,672	1,259,423	1,239,817
Notes Payable		6,629,157	2,953,176	848,299
Current Maturities of Long-term Debt		1,125,000	725,000	700,000
Customer Deposits		4,085,906	3,052,739	2,725,733
Other Current Liabilities		<u>1,214,319</u>	<u>1,334,525</u>	<u>1,689,247</u>
Total Current Liabilities		18,038,075	12,217,239	11,231,050

Consolidated Balance Sheet

LIABILITIES AND EQUITY	2006	2005	2004
Long-term Debt	9,260,364	7,290,000	8,013,911
Long-term Pension Liability	260,000	560,000	
Fair Market Value of Swap Agreements	<u>-</u>	<u>-</u>	<u>200,000</u>
Total Liabilities	27,558,439	20,067,239	19,444,961
Shareholders' and Patrons' Equity	<u>7,723,658</u>	<u>7,185,346</u>	<u>5,623,622</u>
Total Liabilities and Equity	<u><u>\$ 35,282,097</u></u>	<u><u>\$ 27,252,585</u></u>	<u><u>\$ 25,068,583</u></u>

Statement of Changes in Financial Position



December 31,

	2006	2005
Cash flows from operating activities		
Net Income	\$ 1,090,212	\$ 1,977,130
Adjustments to derive cash flows		
Depreciation	1,416,423	1,332,480
Deferred Income Taxes	313,500	(364,300)
(Increase) decrease in fair value of swap agreements	(30,000)	(280,000)
Increase (decrease) in long-term pension liability	(300,000)	560,000
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivables	(696,533)	(1,557,301)
Decrease (increase) in inventories	(1,422,150)	(159,030)
Decrease (increase) in other current assets	209,240	(439,533)
Increase (decrease) in accounts payables	230,645	(1,135,578)
Increase (decrease) in grain payables	601,249	19,606
Increase (decrease) in customer deposits	1,033,167	327,006
Increase (decrease) in other liabilities	<u>(251,512)</u>	<u>(354,722)</u>
Net cash from (used in) operating activities	<u>2,194,241</u>	<u>(74,242)</u>

Statement of Changes in Financial Position



	December 31,	
	2006	2005
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(5,445,462)	(1,573,193)
Retirements of property, plant and equipment (net)	206,038	209,200
Decrease in assets held for sale	281,299	427,714
Change in other assets	<u>13,611</u>	<u>10,723</u>
Net Cash from investing activities	<u>(4,944,514)</u>	<u>(925,556)</u>
Cash Flows from Financing Activities		
Net (payments) borrowing on notes payable	3,675,981	2,104,877
New long-term debt	3,224,721	-
Principal payments on long-term debt	(854,357)	(698,911)
Equity proceeds (redemptions), net	<u>(551,900)</u>	<u>(415,406)</u>
Net cash from (used by) financing activities	<u>5,494,445</u>	<u>990,560</u>
Net Change in Cash and Cash Equivalents	2,744,172	(9,238)
Beginning Cash	<u>697,881</u>	<u>707,119</u>
Ending Cash	<u>\$ 3,442,053</u>	<u>\$ 697,881</u>



Schedule of General and Administrative Expenses

		<u>2006</u>	<u>2005</u>
Wages and Benefits		1,100,688	1,132,041
Property Tax		28,732	16,803
General Insurance		20,400	22,563
Utilities		22,607	20,243
Communications		30,097	36,303
Repairs and maintenance		65,529	102,793
Supplies		80,256	87,023
Fuel & Oil Expense		7,953	8,105
Professional Services		235,011	211,043

Schedule of General and Administrative Expenses, cont.



		<u>2006</u>	<u>2005</u>
Rents & Leases		19,270	22,771
Computer Services		35,150	329,113
Advertising / Promotions		19,156	33,485
Employee Expenses		57,916	63,925
Miscellaneous		79,403	59,698
Depreciation		<u>122,030</u>	<u>97,857</u>
	subtotal	<u>1,924,198</u>	<u>2,243,766</u>
Bad Debt Expenses		30,320	18,934
Account Service Charges		<u>(163,518)</u>	<u>(92,700)</u>
	subtotal	<u>(133,198)</u>	<u>(73,766)</u>
	Total	<u>\$ 1,791,000</u>	<u>\$2,170,000</u>

Statement of Continuing Operations



Divisional Summary

	Revenues		Net income (loss) Before taxes	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Hamilton Feed	15,544,211	15,879,467	764,348	440,678
West MI Mills	26,057,604	26,996,927	757,718	349,542
Livestock	1,649,954	3,247,935	(12,317)	(99,073)
Hamilton Energy	8,084,859	7,078,336	482,488	301,813
Traverse City Energy	1,749,422	1,423,388	(166,119)	(229,347)
Agronomy South	7,429,558	7,828,360	(853,309)	(488,389)
Traverse City Agronomy	4,095,891	4,414,207	65,750	60,973

Statement of Continuing Operations



Divisional Summary

	Revenues		Net income (loss) Before taxes	
	2006	2005	2006	2005
Eggs	21,675,203	19,186,651	404,171	532,722
Selections	10,896,603	11,852,808	(446,417)	190,481
by Hamilton Lumber				
Hardware		343,596		(41,543)
Market gain on swap agreements			30,000	280,000
Other revenue and expense	<u>219,018</u>	<u>224,802</u>	<u>392,775</u>	<u>314,973</u>
Total	<u>97,402,323</u>	<u>98,476,477</u>	<u>1,419,088</u>	<u>1,612,830</u>

Divisional Summary – General & Admin



	2006	2005	2004
Feed	280,000	336,000	336,000
West MI Mills	280,000	336,000	336,000
Livestock	6,000	85,000	72,000
Hamilton Energy	265,000	276,000	247,000
Traverse City Energy	60,000	72,000	52,000
Agronomy South	200,000	336,000	302,000
Traverse City	120,000	168,000	151,000
Eggs	280,000	180,000	180,000
Lumber	300,000	360,000	360,000
Hardware	-	21,000	60,000
	<u>1,791,000</u>	<u>2,170,000</u>	<u>2,096,000</u>



2006 Patronage

		West MI Mills	Eggs	Hamilton Feed	Total
Patronage		178,065	202,087	113,459	493,611
Cash	60%	106,839	121,253	68,075	296,167
Equity	40%	71,226	80,834	45,384	197,444

1988 Redemption

- Another 25% of the 1988 certificates to be redeemed.
- The total redemption will be approximately \$104,000.

Questions & Answers





Leadership Awards



**Alexander Hamilton Award for Annual
Sales Performance**

Hamilton Energy

Pamala Schut



**G.J. Brower President's Award
(Most Profitable Location)**

West Michigan Mills

Bob Nienhuis



**Andrew Lohman Award
for Leadership**

Hamilton Energy

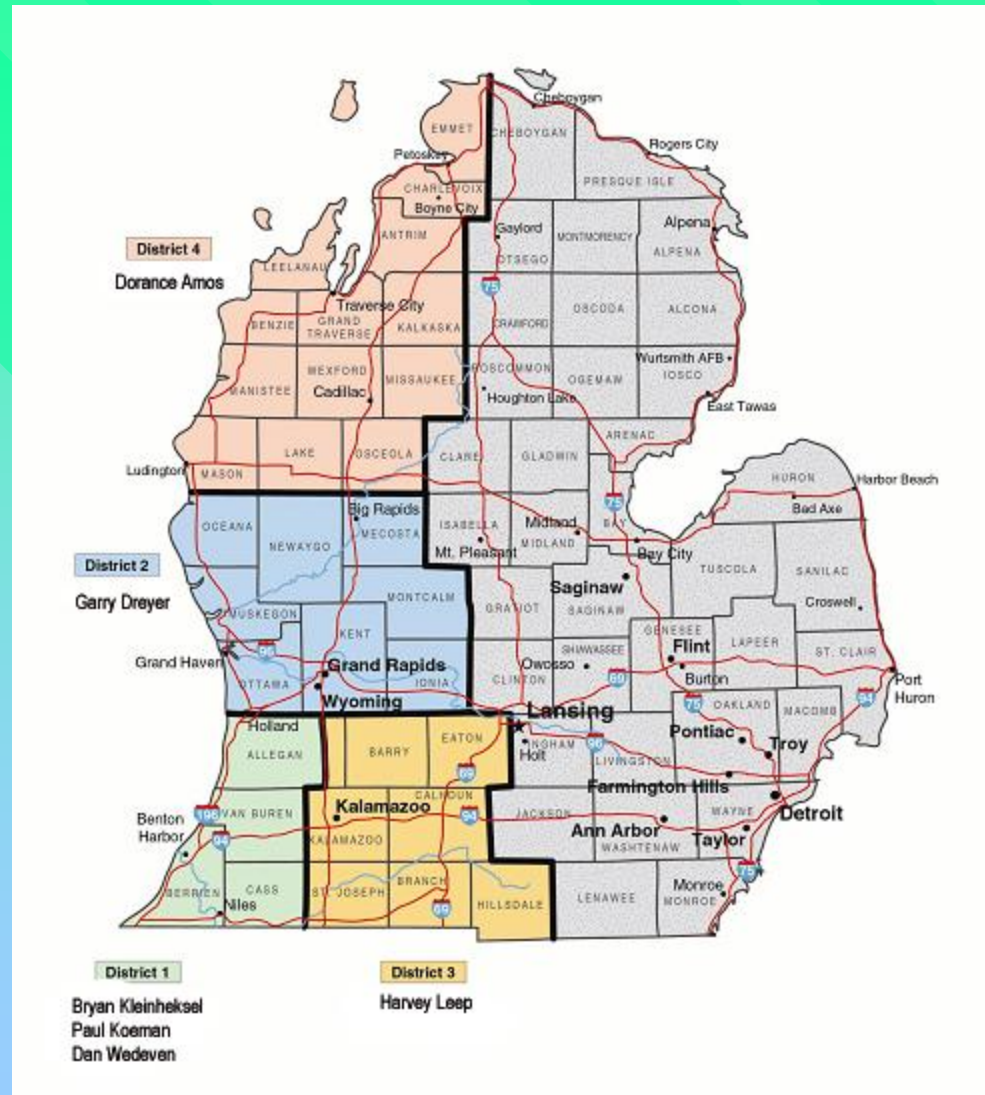
Pamala Schut



**HAMILTON
FARM BUREAU**

Board of Directors -

Representation by District



Board Elections

Vote for one candidate from District 1:

- Brian Geerlings**
- Bryan Kleinheksel**

Vote for one candidate from District 3:

- Harvey Leep – unopposed**
- _____



Other Business

Scholarship Recipients

- **Michael Scott Norman**
Grand Valley State University
Veterinary Technician
- **Lynn Renee De Young**
Michigan State University
Horse Management



Reading of the Minutes

March 14, 2006 – Today's Handout

March 27, 2007



**Thank you for your
Business!**



HAMILTON
FARM BUREAU

TM