



Quarterly Report to Shareholders

January 2007

The first quarter of the 2006-07 fiscal year started off on a positive note as Gelbvieh Profit Partners, Inc. harvested 201 heifers that were on feed at Champion Feeders in Hereford, TX. Gelbvieh Profit Partners had a 50% interest and these heifers had a pre-hedged profit of \$89.40. Throughout the fiscal quarter the feeder cattle market came under extreme pressure as the USDA revised the 2006 corn production estimate and dropped the 2006/07 carryout. Fortunately, Gelbvieh Profit Partners, Inc. was able to support some ranchers using Gelbvieh genetics as we purchased some additional feeder cattle.

Feeder Cattle Purchased: Currently we have an interest in 838 head of feeder cattle that represent various percentages of ownership in 5 different feed yards in Kansas, Nebraska, and Montana. Our ownership interests range from 25%-50%. These feeder cattle were bought through direct country trade or were purchased through an auction market. All the cattle are hedged, or marked on a grid. These cattle were hedged due to the prevailing thought that the upcoming 1st and 2nd quarter beef production was going to put significant downward pressure on the beef market. This was attributed to the summer time placements that were much larger than 2005. Also, all corn requirements for the cattle at Decatur County Feed Yard (DCFY) are 100% covered. The price range was from \$2.60- \$3.60; there will be some interest and storage fees for that corn not utilized until spring.



Slim Cook, Gelbvieh Profit Partners Operations Manager, looks over the 78 Gelbvieh steers purchased at the Monte Vista Colorado livestock market.

Current cattle on feed and our ownership share:

Beller Feedlot- Lindsey, Neb

57 Yearling heifers-Montana origin- 25% Ownership, hedged at 90.75 basis the February.

45 head were marked on 12/29 at \$1.47. Approximately 90.40 with a 61.5% yield.

Decatur County Feed Yard-25% Ownership

90 Steers-South Dakota origin-Breakeven at .97 with a .65 cost of gain.

48 Heifers-South Dakota origin-Breakeven at .9670 with a .67 cost of gain.

234 Steers-South Dakota origin-Breakeven at .9660 with a .65 cost of gain.

120 Heifers-South Dakota origin-Breakeven at .9650 with a .67 cost of gain.

Approximately 2/3 of the corn for these calves was purchased between \$2.60 and \$3.00 per bushel. The balance up around \$3.60.

78 Steers-Colorado origin-Financed, Breakeven of .88

All the corn needs for these cattle are tied up through spring.

North Platte Feeders-50% Ownership

80 Heifers-Montana origin- Breakeven at .86 with a .70 cost of gain.

South Central Feeders-50% Ownership

50 Steers-Colorado origin-Breakeven at \$87.75 with a .65 cost of gain.

26 Heifers-Colorado origin-Breakeven at \$84.20 with a .65 cost of gain.

1 load is marked on the Power Genetics grid for May delivery at .91

1 load is marked on the Power Genetics grid for June delivery at .88

T&C Feeders-50% Ownership

55 Heifers-Wyoming origin- Breakeven at \$.90 with a .65 cost of gain.

The above listed cattle are covered by 8 Live Cattle futures contracts.

Prior to the New Year's storm, fed cattle were trading at \$85.50 and the trade was predicting fed cattle to only trade in April around \$90, and that's if the cattle feeding sector stays current through the 1st quarter. Pre-storm forecasts estimated 1st quarter production to be up 4.1% over a year ago, and 2nd quarter production was estimated to be any where from 1.8% below a year ago to 2% above a year ago. Cattle Fax also estimated Feb marketing's to be 14% above a year ago. Hence the decision to put the hedges on.

The storm in southeast Colorado and southwest Kansas was a complete disaster. It also hit Decatur County Feed Yard hard with close to 1.5" of rain and upwards of 20" of snow. The mixed load at South Central had to endure ice, rather than 15-18" of snow and strong winds. So we're looking at more of a loss in performance. The 80 heifers at North Platte Feeders also endured significant



Part of the 80 head of Gelbvieh x Red Angus heifers on feed at North Platte Feeders

snow and blizzard conditions, however that feed yard has excellent drainage and is built on sand. Thus the impact of the storm and the loss on performance should not be as significant.

Corn: Through the quarter Mar 07 corn rallied from a low of \$2.80 to a high of \$3.90, with the high being retested on the final trading day of 2006. The South Dakota cattle at DCFY, which were purchased prior to

the corn rally and subsequent feeder cattle collapse, and the steers from Colorado at DCFY, have all the corn needs through the spring purchased. Profit Partners did not have that option at North Platte Feeders or South Central Feeders. Conversely, the heifers at North Platte Feeders and the mixed load at South Central were purchased on a falling market that reflected the significant rally in corn.

The Funds: Keep in mind that the commodity index funds are expected to become much bigger players in all the commodity markets in 2007. For example, Goldman Sachs has said that they will increase their investment from \$70 billion to \$110 billion in their commodity index funds. All the grains and the Live Cattle futures will be a portion of these indexes. If this happens, then the only thing for sure is that the markets will see a substantial increase in volatility. Moves to the upside, or downside, will be much more pronounced.

Summary: We have bid on quite a few cattle in addition to the 838 head on feed. We've supported feeder cattle in Alabama, Colorado, Idaho, Kansas, Montana, Nebraska, South Dakota, Texas, and Missouri. Also, we have spoken with Ron Rowan at Beef Northwest in Oregon about partnering on some Gelbvieh influence feeder cattle this spring. Due to the preliminary work that Bryan Weech did last spring, Ron Rowan was aware of Gelbvieh Profit Partners and what we are trying to accomplish. We reiterated that we wanted to keep our ownership to 25-30% so we could spread our equity out over more cattle and he is still willing to partner with us when the spring run starts out west. We have a farmer feeder in northwest Iowa who is also interested in feeding cattle with Gelbvieh Profit Partners.

Though Gelbvieh Profit Partners has had a challenging start we are confident that we can still make this venture work. There will be markets that perform better than we expect and we will have markets that fail to meet our expectations. However, throughout the year if we can have enough cattle so that Profit Partners is marketing cattle on a steady basis then we have a solid chance of being successful as we can work on the average. As farmers and ranchers we

are aware of the challenges in agriculture, and cattle feeding is no different. There will always be the challenges of weather, feed costs, consumer demand, and all the other variables that create the dynamics of the market. However, we need to remember that every time Gelbvieh Profit Partners, Inc. buys a load of Gelbvieh influence feeder cattle we are increasing the return on investment for a bull customer who is using Gelbvieh genetics. This exposure is positive for the Gelbvieh breed and the Gelbvieh breeder.

C-Corporation Conversion: The conversion from an LLC to a C-Corp has been made effective October 1, 2006 for the current fiscal year. Your units in the LLC have been converted to shares and all shareholders have voting rights of one vote per share.

K-1 and Tax Reporting: Your tax documents will be sent in the very near future. Gelbvieh Profit Partners did operate as an LLC for the past fiscal year, therefore your tax reporting responsibilities will be similar to last year. The conversion to a C-Corp will greatly simplify this in the future, both at the company as well as at the shareholder end.

Equity Drive: You will be contacted in the near future about your interest in the second equity drive. Shares are priced at \$294.41. Your investment can be in round dollars, as we will issue fractions of shares.

Slim Cook
Operations Manager

Wayne Vanderwert
Chief Executive Officer

Flash – Profit Partners purchased 200 head of SmartCross, Gelbvieh and Angus crossbred, heifers on the January 11th **Superior Video** sale. These were Wyoming sourced cattle and will be fed at South Central Feeders. Profit Partners has a 25% equity position in these seven-weight cattle.

Profit Partners also took a 50% interest in 67 cattle purchased at the recent Special **Gelbvieh Feeder Cattle Sale in Creighton, Nebraska**. Those cattle will be fed at nearby Geranium LDG Cattle Co. (Gelbvieh breeder and farmer/feeder) with close access to the ethanol plant at Plainview, NE (see page 42 of Dec. '06 GW).

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