December 25, 2008

Merry Christmas to our landlords from the Kastens Farm!

As we enter the season of celebrating the birth of our Lord and Saviour, Jesus Christ, I hope this letter finds you in good health and high spirits. As the troubles of everyday life often overwhelm us, especially in these volatile times, we can always find solace in knowing that our worth is not derived by the things we have gained or lost but rather from the precious death of Christ on the cross for our sins. There are many in the world today that would benefit from hearing these words and even those in the agricultural sector have not been immune to the economic upheaval of the past year. In fact, 2008 proved to be one of the craziest and most volatile years in history for American agriculture. We saw the price of wheat go from over $12/bushel in the spring to around $4/bushel in the fall. Corn, grain sorghum (milo), and soybeans all had similar roller coaster rides in 2008. Farm inputs (fertilizer and diesel) also had an up and down year as they closely followed the economy in general and the price of oil specifically. Grain marketing has proven to be a tremendous challenge this year for all farmers. Perhaps we all got spoiled by the stable, high prices of grains from 2007 through this fall. The impacts of exceptionally high fertilizer and diesel prices were easily overcome with the high grain prices we had become accustomed too. Everything has changed now and planning for 2009 has become muddied by the uncertainty of the overall economy and how this uncertainty will impact both our input costs as well as grain prices.

The past two years have provided a much needed economic "shot in the arm" for all of rural America as our local businesses are so intertwined with the local agricultural economy. This is probably more apparent out here on the High Plains of America where we had been saddled with many years of crop losses through the past decade. Farmers and ranchers were able to upgrade equipment and make needed repairs while downtown businesses experienced an uptick in business that allowed them to do the same. Overall, the biggest impact has been a newfound positive and enthusiastic mood among almost everyone in the local community. These are important characteristics for a small, rural community to possess as we continually try to entice our young people to return to the area as well as bring in new folks that are looking for a slower-paced way of life that is often difficult to find in more urban parts of America.

We were again blessed in 2008 with crop yields above our expectations. Following one of our best production years (2007), 2008 did not disappoint even though our weather was often less than ideal. Our year again started with a very snowy winter, as we recorded 45 inches of snow. This led to pretty rough travel conditions for about 30 days, but it also allowed us to have our second white Christmas in a row – always preferred to our more normal brown one. On the farm we will end the 2008 year with over 24 inches of total moisture, which is about 3 inches above normal. Overall, the weather year was highlighted by a couple of major events. On May 23rd we received 5.44 inches of rain on the farm and from 5-7 inches of rain across the area. There was water everywhere and this truly would have been a disaster in the old days when conventional tillage was prominent, as this volume of water would have drowned out wheat, broken terraces, created gullies in the fields, eroded valuable topsoil from fields, and would have washed out the newly planted corn crop. With notill management, none of this happened and in fact the fields were able to soak up this volume of water for use in crop production. The second major event was a long duration event where we received 7 inches of rain for the months of September and October. Normally, we expect to get only half this much moisture during this time

period. Although this created some messes for wheat seeding and fall harvest, the moisture will surely benefit us in the 2009 growing season. It's always nice to start a new year with ample soil moisture.

The big rain at the end of May helped our 2008 wheat crop to finish in record setting fashion. Our summer fallow wheat averaged 70.33 bu/ac. The continuous wheat planted into wheat stubble averaged 35.96 bu/ac, while the re-cropped wheat planted into just-harvested corn stalks averaged 24.77 bu/ac. New to our farm this year was irrigated wheat, which averaged 83.00 bu/ac. The longer notill history (100% notill with zero tillage) we build on a field, the higher producing it becomes. We had over 350 acres in two fields that averaged over 80 bu/ac, while a third field that includes 153 acres averaged a little more than 78 bu/ac. With cooler than average temperatures this summer, wheat harvest did not really begin in the area until after July 4th. Normally, most of the area has harvest completed by this date.

Our 2008 summer weather was all over the place for growing fall crops. The whole area experienced a cooler than average summer, which led to a very late maturation of all crops and a very long and late harvest. In fact, some of our milo varieties never received enough heat units prior to the first killing frost to completely finish, and consequently yields for these varieties suffered. This was our second cooler than average summer in a row and our third out of the past five years (so much for global warming). Rainfall patterns varied wildly across the area, with around 25 inches of rain being received in Atwood during the growing season. South of Atwood there were areas that received up to 30 inches of rain during the active growing season. North of Atwood was quite a different story, as this area received only around 16 inches of rain through the end of August. West of Atwood it seemed like it was feast or famine, as some areas had ample growing season moisture while other areas fell well below enough moisture to even get the corn and milo through the vegetative growth stage.

Although our summer weather wasn't necessarily optimal for fall crop production throughout the area in which we farm, we still managed to have an above average corn harvest and an average milo harvest. This fall, our dryland corn planted into wheat stubble averaged 99.03 bu/ac while our continuous corn planted into last year's corn or milo stalks averaged 27.29 bu/ac. This year was our first year with significant irrigated acres, as we are now managing nine center pivot sprinklers. All but two of these pivots are limited irrigation and we were satisfied to have an average irrigated corn yield of 182.34 bu/ac. The dryland milo planted into wheat stubble averaged 86.55 bu/ac while the continuous milo averaged 61.51 bu/ac. Milo yields were off a little this year as some varieties never finished correctly due to lack of heat units and many acres went flat on the ground after some high wind events we had in early November. Whenever milo goes down, it is hard to get all of the grain into the combine and ultimately some remains on the ground. With less than average growing season rainfall for much of the area, we attribute the good yields in these areas to continuous notill management, a cooler than average growing season (lower evaporation), and improved plant genetics.

Again this year, the widespread adoption of notill management continues to be a real positive to the wildlife in the area. With ample plant cover, food, and protection, our pheasant, quail, deer, and turkey populations continue to thrive. Never have we seen so many hunters as we did this fall. This is fantastic, not only for those who like to hunt or enjoy viewing wild animals on a daily basis, but also for the local businesses that rely on the outside money that hunters bring to the community. Hopefully, the sagging economy will not diminish the impact that this type of tourism brings to rural America.

We are big believers in a zero tillage approach, not only because it is the most profitable way to farm in our semi-arid region, but also because of the many positive impacts it has on the natural environmental. From reducing soil erosion to improving soil health, notill farming is changing the picture of American agriculture, especially on the High Plains. We continue to learn more every year and spend a great deal of time attending conferences and workshops to hone our abilities to use this management style. For example, the 2008 winter wheat crop was the first crop where 100% of it was harvested using a stripper header as opposed to a traditional sickle based header. A stripper header "strips" the kernels of wheat from the head, leaving the full wheat stalk intact. This leaves a dense, tall residue cover on the soil over winter, which improves snow capture and storage, reduces evaporation through improved soil shading for the following crop, and which provides a near perfect seeding environment for the following corn or milo crop to get started in.

Precision agriculture is also changing the way we make decisions and conduct day to day operations. Guidance systems using GPS technology are now commonplace on tractors, sprayers, and combines, and provide accuracies down to the centimeter. Yield mapping is showing us how yields vary across fields, which then allows us to better diagnose field-specific problems as well as manage crop inputs differently across a field. This past year we purchased a new corn planter that was capable of changing seeding population and fertilizer rates on a one-acre basis while at the same time shutting off parts (sections) of the planter in areas that had already been planted and fertilized. There are tremendous cost savings using this technology as we no longer double apply any areas in the field; but more importantly it gives us the ability to treat each one acre section of a field as an individual field. We no longer use blanket, whole field fertilizer rates that lead to over fertilizing/seeding the less productive areas of a field while at the same time under fertilizing/seeding the most productive areas of a field. Although managing a sizeable farm at a one-acre level can sometimes seem like a daunting task, it is truly exciting to be able to do this in real-time knowing that at no other time in agricultural history have we been more precise in getting exactly what we want, where we want it in each field.

Every year there are new challenges and obstacles to overcome in agriculture and 2009 will be no different, with volatile grain prices and an uncertain American economy. In the 2007 Christmas letter we indicated that we had a significant farm expansion opportunity for the 2008 year. We saw the miles increase between fields as we began learning about new areas in the community. We still have some learning to do as things change quickly as one moves out of known areas into new areas, but we are excited to have these opportunities and confident that we will continue to learn and make the best of these opportunities.

The expansion of 2008 allowed us to bring another member into the Kastens team and we are excited to introduce Chuck Felzien as our newest employee. Chuck is no stranger to the area as he grew up in Cheyenne County and has spent many years working in the Atwood area. He was "baptized by fire" this year as we all had to burn the candle on both ends for about eight months to keep on top of things and he came through with flying colors. His positive and jovial personality, as well as his willingness to learn, makes him a great fit for our operation and he already feels like "one of the family" to us. Lester Yoos celebrated his 11th year with the Kastens Farm and continues to be a valuable asset to the operation while Dietrich Kastens has now been back on the farm for seven years. Gary and Terry moved back to the farm in 1973 and built a dairy operation to get their feet on the ground. Both have been heavily involved since (even though Terry spent 15 years in Manhattan, KS at Kansas State University, first as a student then as a professor) and have left the dairy days way in the past (thank goodness). We are all blessed to have the farm founders (Harry and Paula Kastens) still kicking and providing valuable insight

and perspective gained over a lifetime of involvement with agriculture. Harry turned 94 this year while Paula turned 92 and they celebrated their 70th wedding anniversary this fall. It is quite special for Dietrich that his children are growing up knowing their great-grandparents and hearing the stories of farming with horses, living through the depression, and living without the modern conveniences that we all take for granted (like electricity and indoor plumbing).

As always, it is difficult to put into words just how much we appreciate renting land from you folks. It is only because of you trusting us to look after your land that we are able to grow in both acres and people involved. As farming continues to technologically evolve and become more business like in all aspects, the most critical component is, and always will remain the personal relationships among the people involved. From farm employees to you folks who entrust us with the use of your valuable farmland, our desire is always to make everyone involved both happy and profitable. If there is ever anything you need to enhance your experience working with us, don't hesitate to ask.

Once again, have a most blessed holiday season!

Dietrich, Chuck, Gary, Lester and Terry