CHARLES H. MONTANGE
ATTORNEY AT LAW
426 NW 162ND STREET
SEATTLE, WASHINGTON 98177

(206) 546-1936
FAX: (206) 546-3739

13 June 2006
by Federal Express

Hon. Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: PYCO Industries, Inc. -- Revised Feeder Line Application -- South Plains Switching, F.D. 34890

Dear Mr. Secretary:

216760

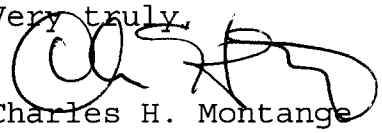
On behalf of PYCO Industries, Inc. ("PYCO"), enclosed please find an original and ten copies of a Revised Feeder Line Application (FLA) pursuant to 49 U.S.C. § 10907 with respect to lines of South Plains Switching, Ltd. (SAW) in Lubbock, Texas. Enclosed also find a check by PYCO Industries in the amount of $2600 for the filing fee in this proceeding. As indicated in the Revised Feeder Line Application, PYCO moves for this fee to be refunded to PYCO and for this Revised Application to be consolidated with the Feeder Line Application filed by PYCO in F.D. 34844 in the event PYCO's Appeal or Petition to Amend, filed in F.D. 34844, is granted.

The enclosed revised FLA incorporates the feeder line application in F.D. 34844, as permitted by 49 C.F.R. § 1151.2(b)(2). This revised FLA should be accepted as complete under 49 C.F.R. § 1151.2(b) with respect to the property described as Alternative Two, because the information set forth in Exhibits A and B of the Revised FLA satisfies all deficiencies found by the Director in his June 2 decision rejecting the FLA in F.D. 34844. PYCO nonetheless requests some discovery against SAW and BNSF Railway (Exhibits P and Q to the original FLA) and an ability to amend valuations after reasonable discovery. Please also note that, as before, PYCO requests issuance of a standard STB protective order (original FLA, Exhibit R).

As indicated in the FLA, I certify service of the entire FLA on the date of this letter. Service upon SAW and BNSF is by Federal Express, next business day delivery. All other persons or entities served are served by First Class (Priority) U.S. Mail (as provided by 49 C.F.R. § 1151.2(a).

Thank you for your assistance in this matter.

Very truly,



Charles H. Montange
counsel for PYCO Industries

Encls. (orig. and 10: Revised FLA)

cc. Gary McLaren, Esq. (w/encls) (for PYCO)
John Heffner, Esq. (w/encls) (for WTL)
All parties as indicated in cert. of service (w/encls.)

BEFORE THE
SURFACE TRANSPORTATION BOARD

216760

PYCO INDUSTRIES, INC. --	)	
FEEDER LINE DEVELOPMENT --	)	F.D. 34890
SOUTH PLAINS SWITCHING LTD.	)	(revision of F.D. 34844)

REVISED
FEEDER LINE APPLICATION

PYCO Industries, Inc. ("PYCO") makes the following revised feeder line application pursuant to 49 C.F.R. § 1151.2(b)(1).

I. Preliminary Statement

1. Feeder line application filed May 5. PYCO filed a feeder line application in F.D. 34844 on May 5, 2006, seeking to acquire all the lines of South Plains Switching, Ltd. (SAW) in south Lubbock, or, under Alternative Two, those lines east of the BNSF Railway mainline plus those lines and rights necessary to serve PYCO's Plant No. 1, located on the west side of the BNSF mainline. Two shippers (Attebury Grain and Farmers Cooperative Compress) in addition to PYCO would be served in the Alternative Two scenario.

2. Director decision of June 2. On June 2, the Director issued a decision dismissing PYCO's FLA. The Director found that it comported with statutory requirements in all particulars save two:

(a) The Director stated that PYCO had not shown financial responsibility for purposes of 49 U.S.C. § 10907(b)(1)(B). As

to financial responsibility, PYCO supplied a letter from CoBank[1] indicating that PYCO was good for at least $5 million.[2] PYCO offered to supply additional confidential information if this Board entered the requested protective order. FLA in F.D. 34844 p. 19. The Director ruled that PYCO must present additional information but declined to issue a protective order for that purpose.[3]

(b) The Director ruled that PYCO had failed to show that

---

[1] CoBank has $34 billion in assets, and works with agribusinesses such as cooperatives. See FLA in F.D. 34844, Exhibit E.

[2] FLA in F.D. 34844, Exhibit E is a letter from Co-Bank stating that "PYCO has the financial resources to devote as much as $5,000,000 towards rail acquisition and operation."

[3] In PYCO's original FLA at p. 19, PYCO indicated that it was prepared to submit the information set forth in Exhibit A pursuant to a protective order because PYCO regarded it as competitively sensitive. The Director in his decision declined to issue a protective order. This is contrary to this Board's decision in Keokuk Junction Railway Company -- Feeder Line Acquisition -- Line of Toledo, Peoria and Western Railway Corporation, F.D. 34335, served May 16, 2003. The Board there recognized that "[t]he unrestricted disclosure of confidential, proprietary, or commercially sensitive material can cause serious competitive injury" and issued a requested protective order before dismissing a feeder line application. So far as our review of precedent indicates, this is generally the case in OFA and FLA proceedings. E.g., San Pedro Railroad Operating Company LLC -- Abandonment Exemption -- in Cochise County, AZ, in the matter of an OFA, AB 1081X, served Feb. 17, 2006 (one of two decisions in AB 1081X served that date).

Because PYCO is rail dependent, needs to secure a reliable rail provider as soon as possible, and is faced with the failure of the Board to issue a requested protective order, PYCO is making available confidential, proprietary, or commercially sensitive material publicly available as part of this filing. PYCO nonetheless believes that this Board immediately should issue the protective order PYCO requested so that in the future confidential, proprietary and commercially sensitive material can be protected.

service was inadequate for a majority of shippers for purposes of 49 U.S.C. § 10907(c)(1)(B). Although PYCO demonstrated that service was inadequate for the shippers with the majority of carloadings on the line, and that the incumbent railroad used threats of economic retaliation and physical intimidation to silence shippers and potential shippers, the Director held that PYCO must show that a numeric majority of the total number of shippers (a) not only supported the FLA (b) but also publicly stated to STB that service as to each of them was inadequate. The Director in essence held that the only way to meet the requirement in § 10907(c)(1)(B) is to present a public poll. The Director found that only three shippers (one of whom was a prospective shipper) actually stated that SAW service was inadequate.

3. PYCO appeal on June 12. On June 12, 2006, PYCO filed an Appeal to the Board from the Director's decision, and a Petition to Allow Amendment of the feeder line application in F.D. 34844.

In PYCO's Appeal and Petition, PYCO argues that the Director erred in failing to issue a protective order and affording PYCO an opportunity to provide the confidential information set forth in Exhibit A pursuant to the protective order. PYCO contends the information supplied by PYCO was sufficient to show financial responsibility in the first instance and the Director's decision should be overruled on appeal. In any event, PYCO contends the Director erred in failing to issue a

protective order under which PYCO indicated it was prepared to provide further information.

PYCO also contends that the Director erred as to 49 U.S.C. § 10907(c)(1)(B). That statute requires PYCO to show that service was inadequate as to a majority of shippers on the line subject to the FLA. It does not require PYCO to show this by means of a public ballot from each shipper. Nothing in the legislative history indicates that Congress intended a poll of shippers, let alone a public one. Yet that is the effect of the Director's ruling. PYCO submitted sworn statements by multiple shippers that SAW threatened economic reprisals and engaged in physical intimidation. In such a climate, requiring a public poll jeopardizes property and person, and is the last kind of situation suitable for the statutory construction the Director seeks to impose. Indeed, America generally eschews public balloting exactly to prevent intimidation and economic reprisals, and here that is already occurring. In these circumstances, PYCO should be allowed to show that service is inadequate as to a majority of shippers on the line through any evidence showing inadequacy and unreliability, not just shipper "votes." PYCO also argues that the Director's narrow view of the statute is inconsistent with the legislative history and with the Board's declared policy to encourage feeder line applications. PYCO has unequivocally shown that SAW's tactics result in inadequate service for most traffic on the line, and that SAW engages in a pattern of threats and intimidation which

renders service unreliable and inadequate for every single shipper. In addition, PYCO argues that even if the Director's view were adopted, the deficiency which he finds as to Alternative Two (that the Attebury and Compress letters of support were not worded correctly) was readily cured by the two letters in Exhibit B. Rather than require PYCO to file an entirely new FLA, paying a second filing fee and starting the procedural clocks over again, PYCO argues that the Board should allow amendment of the existing FLA to "cure" the alleged deficiencies, accept the amended application as "complete" (at least as to Alternative Two), and allow the feeder line application to proceed. Accord, Keokuk Junction Railroad Co.--Feeder Line Acquisition, F.D. 34335, served May 9, 2003 (allowing amendment in lieu of dismissal).

4. PYCO's need for permanent relief from inadequate service by SAW. PYCO Industries is rail dependent, and currently receives rail service from an alternative service provider [West Texas & Lubbock Railroad (WTL)] pursuant to orders of this Board issued pursuant to 49 C.F.R. Part 1146 in PYCO Industries -- Alternative Rail Service, F.D. 34802. As PYCO has indicated in its recently filed motion to extend alternative rail service, SAW's pattern of conduct exhibits continued hostility toward PYCO, and a continued intent by SAW to take retaliatory action against PYCO for seeking relief from STB for inadequate service which PYCO was receiving from SAW.

Unfortunately, by statute (49 U.S.C. § 11123) relief under

49 C.F.R. Part 1146 can extend for no more than 270 days. This time period lapses on or about October 23, 2006. While historically relief pursuant to feeder line applications has taken substantial periods of time, the time deadlines in STB regulations in theory suggest relief can be afforded in as little as four to five months. In light of the Director's decision on June 2, it is now questionable that a proceeding under the feeder line statute can be completed before October 23, 2006. PYCO nonetheless continues to view a successful feeder line proceeding as the most likely means to ensure adequate service to it and to all other shippers currently served by SAW in south Lubbock. PYCO accordingly requests expeditious treatment of this revised FLA.

5. Non-waiver of appeal position. For these reasons, and without waiver of, or prejudice to, any of the arguments and issues presented by PYCO in its Appeal and Petition to Amend filed with the Board on June 12, PYCO makes the revised feeder line application set forth herein. Should the Appeal or Petition be granted, PYCO moves for return of the filing fee for this revised petition, and for consolidation of this revised petition with the original petition in F.D. 34844.

II. Incorporation by Reference

PYCO hereby incorporates its feeder line application and all other documents and pleadings which it filed in F.D. 34844 by reference, as provided in § 1151.2(b)(2).

III. Revision

PYCO hereby revises its application by inclusion of Exhibits A and B attached hereto. As revised, the FLA deficiencies found by the Director are cured, and the FLA by the terms of the Director's ruling is complete as to Alternative Two.

Exhibit A is comprised of two letters and an attachment establishing that PYCO has at least $69,000,000 in available credit and cash to purchase, rehabilitate and operate the SAW system.

Exhibit B is comprised of letters by Farmers Cooperative Compress and Attebury Grain confirming their view that service by the incumbent rail carrier has become inadequate and unreliable as to all, including them.

The first letter in Exhibit A, dated June 7, 2006, is from PYCO's Chief Financial Officer (CFO), Mr. Morton, indicating that PYCO maintains an operating line of credit with CoBank in the amount of fifty million dollars and a term loan revolver in the amount of twenty million dollars. PYCO's CFO states that PYCO currently has roughly fifty four million in available credit. In addition, he states that PYCO has secured a long term commitment of up to fifteen million dollars from CoBank for new capital expenditures. PYCO's CFO attaches PYCO's 2005 Annual Report showing PYCO's strong financial position. The second letter in Exhibit A is a letter from CoBank dated June 7, 2006, confirming that it has made "an existing loan commitment to PYCO for up to $15 million to meet capital

expenditure requirements, including expenditures related to the acquisition of the ... feeder line." PYCO thus has $54,000,000 plus $15,000,000, or $69,000,000 in available credit to purchase, rehabilitate and operate SAW's entire system in Lubbock.

PYCO regards the information in Exhibit A and as summarized above as confidential, proprietary and competitively sensitive. As indicated in our original FLA at p. 19, PYCO offered to submit this information under a protective order, which PYCO moved be entered in the form PYCO attached to its FLA. However, the Director declined to grant PYCO's request for entry of a protective order, thus refused to permit PYCO to submit the confidential information in a non-public fashion, and on this basis dismissed the OFA. This is contrary to applicable precedent. See note three supra.

Since PYCO's studies show that the system's operating revenues exceed its costs,[4] the necessary cash reserve for operation is essentially nil.[5] This is confirmed by PYCO's current alternative rail service provider (Mr. Ellis, for West Texas and Lubbock), which informs PYCO that a line of credit in the amount of $100,000 is sufficient for operational purposes in

---

[4] See, e.g., RL Banks Study, FLA F.>D. 34844, Exhibit C, Table 14 at p. 31 (shows positive cash flow after total variable operating costs for line as a whole); Table 7 at p. 17 (Alternative Two).

[5] Moreover, BNSF has confirmed to PYCO that BNSF reimburses the switching carrier within ten days (thirty days in case of errors) of service.

south Lubbock. (This also is competitively sensitive information.)[6]

As the Director noted in his decision, the purchase price estimate is $2,090,000 (NLV). The estimate for rehabilitation with heavy rail for necessary portions of the entire line is about $3,000,000 (see RL Banks Study, Exhibit C to FLA, table 23 at p. 46). The total cash needed for purchase, rehabilitation and (indefinite) operation of the entire SAW system is thus approximately $5,000,000. The amount for Alternative Two is considerably less: $2,153,000 (id., table 15, p. 35) for rehabilitation with heavy rail, plus $435,000 for purchase at NLV, or approximately $2,600,000.

Since PYCO has $69,000,000 available per the documents in Exhibit A, and since the total cash requirement for this feeder line application (either the entire SAW line or Alternative Two) is well under 10% of PYCO's available cash and credit, PYCO is financially responsible.

In the two letters in Exhibit B, Attebury and Compress basically have signed a letter which states that both companies are aware of incidents in which SAW management has "blown up" at shippers raising issues relating to SAW rail service, and has threatened retaliation. Both cite as examples the statements by Hi Plains Bag and Bagging and Floyd Trucking tendered by PYCO to

---

[6] In further confirmation that working capital needs for the line as a whole and for the Alternative Two scenario are in the $100,000 range, PYCO attaches as Exhibit D calculations from the RL Banks firm, based on FLA F.D. 34844 Exhibit C.

this Board. Both also noted that PYCO had been threatened by SAW and then sustained degraded service. "When a switching railroad takes these kinds of actions toward some of its shippers, it can no longer be regarded as reliable by any of its shippers because they may become the subject of similar retaliation or service degradation at any time." They indicate they no longer regard their own service as adequate or reliable. Thus all three shippers in the "Alternative Two" scenario indicate they regard SAW rail service as inadequate as to them.

PYCO further supplements its feeder line application by inclusion of Exhibit C. PYCO understands that Hanson Aggregates, a shipper of rocks on SAW, has completed or has substantially completed its use of that carrier and is no longer concerned with retaliation. Hanson has authorized PYCO to confirm that it too regards SAW service as inadequate. See Exhibit C.

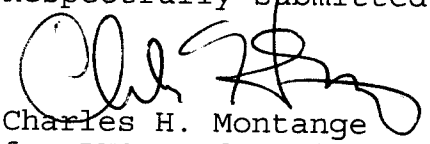
IV. Relief

Since the Revised Application is now complete as to Alternative Two, PYCO requests this Board to issue an immediate order to that effect, thus initiating the feeder line process at least as to Alternative Two. PYCO also reiterates the motions in its original FLA for entry of a protective order and for such authority, if authority is required, for the discovery appended to original FLA.

PYCO's preference remains to acquire the entirety of SAW's

system in south Lubbock, for the benefit of all shippers and potential shippers. However, PYCO is rail dependent, and must therefore press ahead with any available means allowed by the Board to afford relief.

Respectfully submitted,



Charles H. Montange
for PYCO Industries, Inc.
426 NW 162d St.
Seattle, WA 98177
(206) 546-1936
fax: -3739

Of counsel:
Gary McLaren, Esq.
Phillips & McLaren
3305 66th St., Suite 1A
Lubbock, TX 79413
(806) 788-0609
for PYCO Industries, Inc.

Exhibit A -- financial responsibility information
Exhibit B -- Attebury and Compress letters
Exhibit C -- Hanson Aggregate email
Exhibit D -- supplemental RL Banks calculations

Certificate of Service

I hereby certify service of the foregoing Appeal and Petition upon the following counsel of record by express service, next business day delivery, this 13th day of June 2006:

Thomas McFarland
208 South LaSalle Street, Suite 1890
Chicago, IL 60606-1112 (for SAW)

Michael Roper, Esq.
BNSF Law Dept.
2500 Lou Menk Drive, AOB 3d Floor
Fort Worth, TX 76102

and upon all other entities and individuals identified in the original FLA at pages 44-45 and

William Sippel, Esq.
Fletcher & Sippel
29 North Wacker Drive, Suite 920
Chicago, IL 60606-2832 (for US Rail Partners)

by U.S. Priority Mail on the same date.

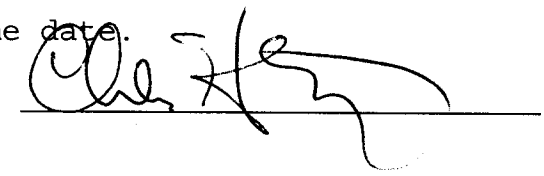


Exhibit A

PYCO

PYCO Industries, Inc.
Processors of Cottonseed Products

P.O. BOX 841
LUBBOCK, TX 79408-0841
TELEPHONE: (806) 747-3434
FAX: (806) 744-3221

P.O. BOX 1320
GREENWOOD, MS 38935-1320
TELEPHONE: (662) 453-4312
FAX: (662) 455-6607

June 7, 2006

Surface Transportation Board
Washington, D.C.

Re: PYCO Industries, Inc. (PYCO) – Feeder Line Acquisition –
South Plains Switching, Ltd. Co. (SAW)
Financial Responsibility

Dear Sir or Madam:

Pursuant to 49 CFR 1151.3(a)(3), we are providing information to demonstrate that PYCO is a financially responsible person, able to pay the higher of the net liquidation value or going concern value of SAW and to cover expenses associated with providing services over the line for at least the first three years following acquisition of the line.

Enclosed is our 2005 Annual Report that contains audited financial statements for our two most recently completed fiscal years. These statements reflect a strong financial position with steady earnings and cash flows sufficient to meet the needs described above without additional financing. To provide the liquidity needed to ensure that cash is available to meet its financial obligations as they come due, PYCO maintains an operating line of credit with CoBank, ACB (CoBank) in the amount of fifty million dollars and a term loan revolver in the amount of twenty million dollars to supplement working capital as needed. These debt instruments are more fully described in the notes to financial statements. As of today, PYCO has thirty-four million available on the short-term commitment and twenty million on the term revolver.

Irrespective of the need for additional financing, so as not to weaken our working capital position, PYCO has secured a long-term financing commitment from CoBank for up to fifteen million dollars in new capital expenditures. This commitment expires in March of 2007. The entire commitment is available today for financing the feeder line acquisition. Enclosed is a letter from CoBank that confirms the commitment.

Sincerely,

PYCO Industries, Inc.

Anthony C. Morton

Anthony C. Morton, CPA
Chief Financial Officer

Pursuant to 28 U.S.C. 1746, I declare and verify under penalty of perjury under the laws of the United States of America that the statements I make in the foregoing letter to the Surface Transportation Board dated June 7, 2006, are true and correct.

Executed on 06-12-2006.

Anthony C. Morton

Anthony C. Morton

CoBank
Rural America's Cooperative Bank

P.O. Box 5110
Denver, Colorado 80217
5500 South Quebec Street
Greenwood Village, Colorado 80111
Phone: (303) 740-4000
Fax: (303) 740-4002

June 7, 2006

Surface Transportation Board
Washington, D.C.

RE: PYCO Industries, Inc.– Feeder Line Acquisition
South Plains Switching, Ltd. Co.
Financial Responsibility

Dear Sir or Madam:

The purpose of this letter is to confirm CoBank's existing loan commitment to PYCO Industries, Inc. for up to $15 million to meet capital expenditure requirements, including expenditures related to the acquisition of the aforementioned Feeder Line. In, addition we provide other credit facilities to meet ongoing working capital and term credit needs, including additional expenses associated with operating the feeder line.

Please contact me if you have questions or need additional information regarding credit facilities CoBank provides to its longstanding customer, PYCO Industries, Inc. My phone number is (303) 740-6585.

Regards,

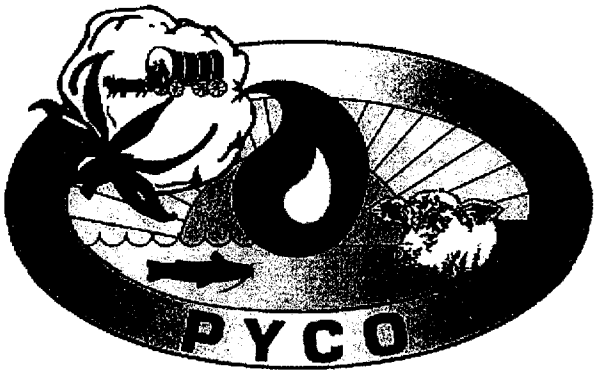
Jim Stutzman
Vice President
CoBank

c:

DEPTVLP/LOC/PYCO Industries.doc

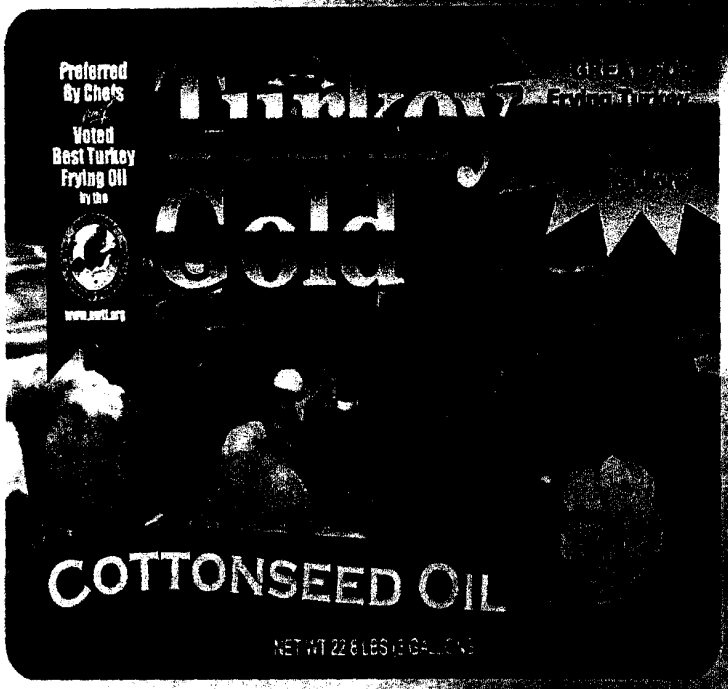
PYCO INDUSTRIES, INC.

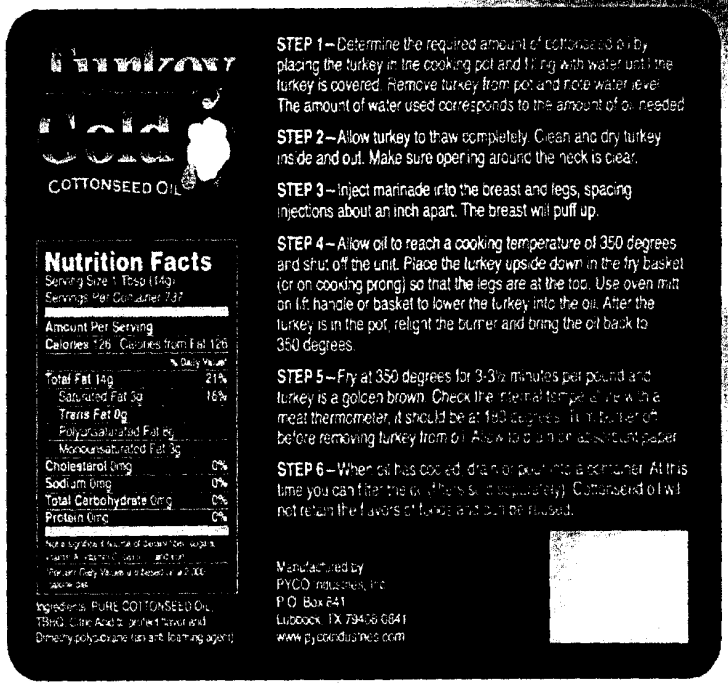
Lubbock, Texas



2005

ANNUAL REPORT





COTTONSEED OIL

Nutrition Facts

Serving Size 1 Tbsp (14g)
Servings Per Container 237

Amount Per Serving	
Calories 126 Calories from Fat 126	
	% Daily Value*
Total Fat 14g	21%
Saturated Fat 3g	16%
Trans Fat 0g	
Polyunsaturated Fat 6g	
Monounsaturated Fat 3g	
Cholesterol 0mg	0%
Sodium 0mg	0%
Total Carbohydrate 0mg	0%
Protein 0mg	0%

Ingredients: PURE COTTONSEED OIL
TBHQ, Citric Acid to protect freshness and Dimethyl polysiloxane an anti foaming agent

STEP 1 – Determine the required amount of cottonseed oil by placing the turkey in the cooking pot and filling with water until the turkey is covered. Remove turkey from pot and note water level. The amount of water used corresponds to the amount of oil needed.

STEP 2 – Allow turkey to thaw completely. Clean and dry turkey inside and out. Make sure opening around the neck is clear.

STEP 3 – Inject marinade into the breast and legs, spacing injections about an inch apart. The breast will puff up.

STEP 4 – Allow oil to reach a cooking temperature of 350 degrees and shut off the unit. Place the turkey upside down in the fry basket (or on cooking prong) so that the legs are at the top. Use oven mitt on lift handle or basket to lower the turkey into the oil. After the turkey is in the pot, relight the burner and bring the oil back to 350 degrees.

STEP 5 – Fry at 350 degrees for 3-3½ minutes per pound and turkey is a golden brown. Check the internal temperature with a meat thermometer, it should be at 180 degrees. Turn burner off before removing turkey from oil. Allow to drain and absorb juices.

STEP 6 – When oil has cooled, drain or pour into a container. At this time you can filter the oil (there's no need to). Cottonseed oil will not retain the flavors of turkey and is safe to reuse.

Manufactured by
PYCO Industries, Inc
P.O. Box 841
Lubbock, TX 79408-0841
www.pycoindustries.com

PYCO INDUSTRIES, INC. AND SUBSIDIARIES

Table of Contents

****

PRESIDENT'S/CHAIRMAN'S LETTER TO OUR MEMBERS

Thank you for your patronage and support of the oil mill this past year. Fiscal 2005 will be remembered as a year of many records and challenges for your Association. Primarily because of the record cotton crop in Texas, the Association shattered it previous record for seed receipts taking in a total of 1,245,385 tons of cottonseed. The record seed receipts led to numerous other records being set as well as providing significant challenges for the Association's management and staff. Just what do you do with 35% more cottonseed than you have ever marketed previously?

There are lots of answers to the above question but, primarily you sell, sell, sell, then go sell some more. Whole cottonseed sales were a record 373,682 tons while at the same time a new record for total tons crushed at 798,371 was set. These led to another broken record in which revenues surpassed 200 million dollars for the first time. All of this activity kept your Association's facilities and personnel very busy all year long.

The challenge of receiving, storing, conditioning, marketing and moving all that cottonseed was enormous by itself, but was made even tougher by the wet weather during last years harvest. Just as many of you ginned what seemed to be two seasons back to back, the oil mill's seed receiving season was twice as long as normal. Another result of weather was an overall decline in seed quality that lowered yields considerably. The biggest challenge of all however, was protecting the value of that large crop.

Just as the harvest in Texas was getting under way, the flood of cottonseed from gins drove whole cottonseed prices down while the price for soybean oil and meal on the Chicago Board of Trade began to fall. Management's challenge was how to hold the advance price to our gins, but ensure that the Association locked in some margin. With more unpriced contracts and products to sell than ever before, management used option contracts extending further into the future than ever before to provide a safety net in case product prices continued to fall. This assured that the Association would be profitable without lowering the advance price to members, but resulted in additional cost to the oil mill.

As you will recall, along with the new 50% contracts this year, we agreed to be more aggressive on the advance price to our members. This fact, the long seed receiving season with higher labor and energy cost, the cost incurred to protect our downside price risk, and the lower yields led to one record that was not broken, our net margins.

While our net margins were not a record, the total dollar amount paid to member gins when you add the advance, contract purchases and net margins together did set a new record totaling over 130 million dollars in one season. We believe that marketing the largest crop in our history at a price that made our member gins very competitive in the market place, keeping our members trucks dumped timely and returning a modest net margin would have to be considered a successful year.

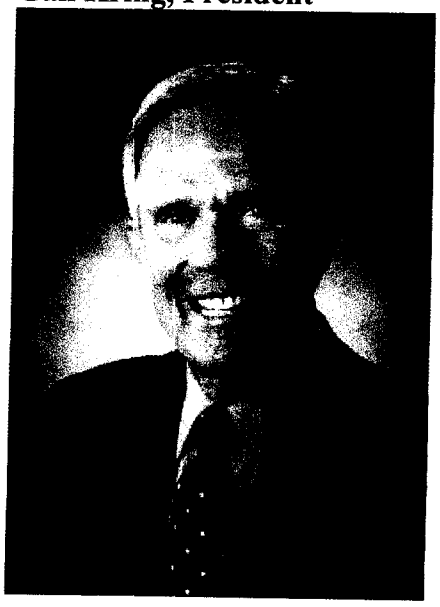
Building on that success, we are entering the new-year receiving another huge Texas crop. All three mills are already up and running smoothly providing the opportunity for a larger crush than last years record. With several new customers on board, we are in a better sold position at better values than last year at this time. In addition, prices on the Chicago Board of Trade appear to be more stable than last year and Management believes we are positioned to repeat last years performance with the opportunity of a better result on the bottom line.

Again, we want to thank you for your patronage and your confidence in PYCO. We truly believe your association is positioned to continue as the leader in cottonseed for many years to come.

Sincerely,

Gail Kring

Gail Kring, President

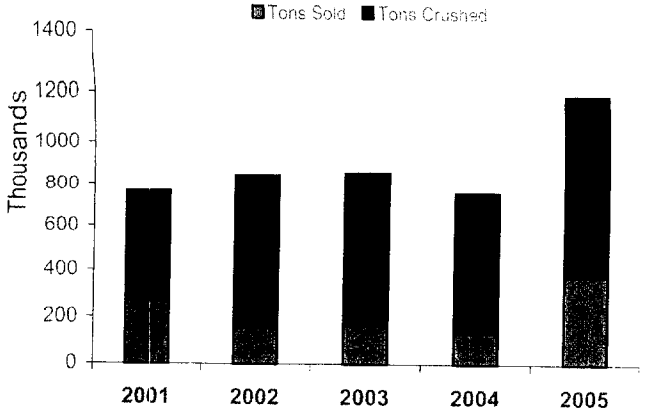


Keith Streety

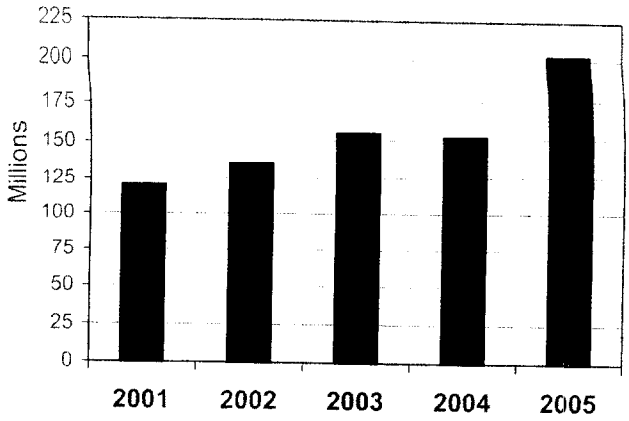
Keith Streety, Chairman of the Board

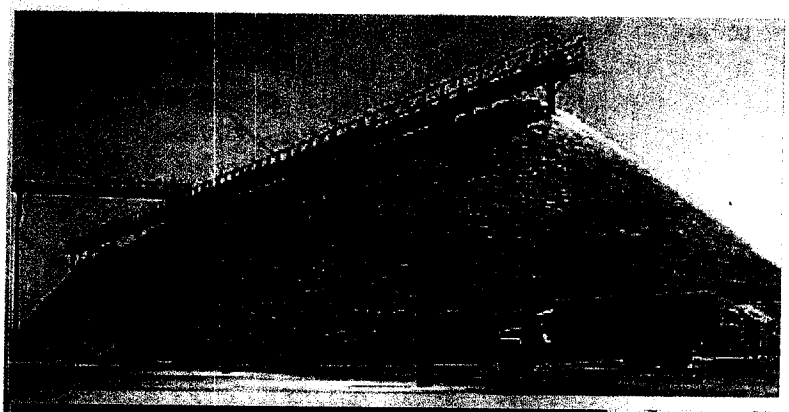
Five Year Summary of Selected Financial Data
(by fiscal year)

Volume of Cottonseed Marketed

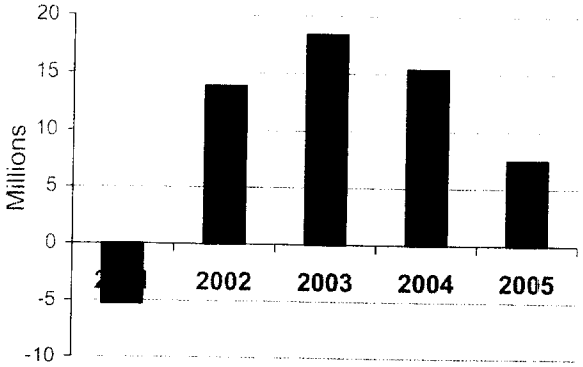


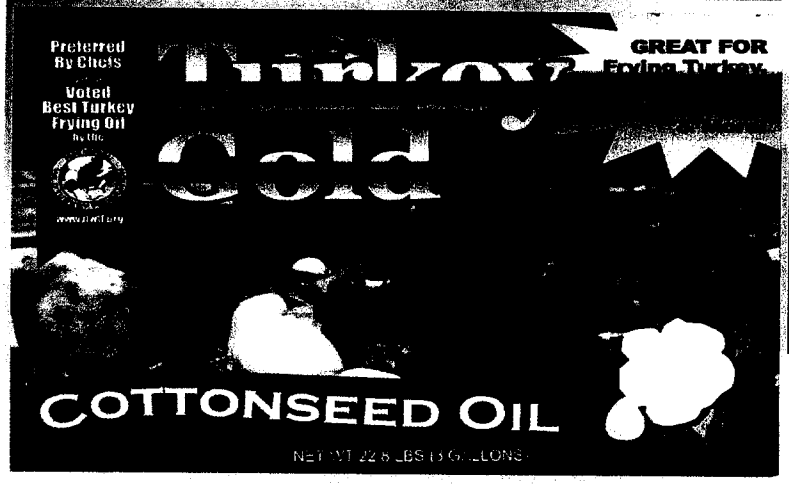
Net Sales



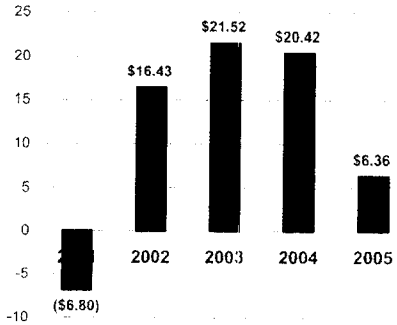


Net Margins

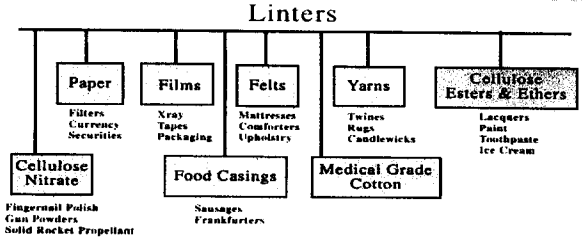




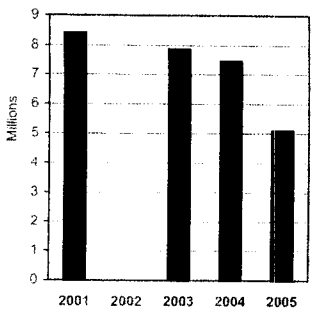
Net Margin Per Ton



Linters

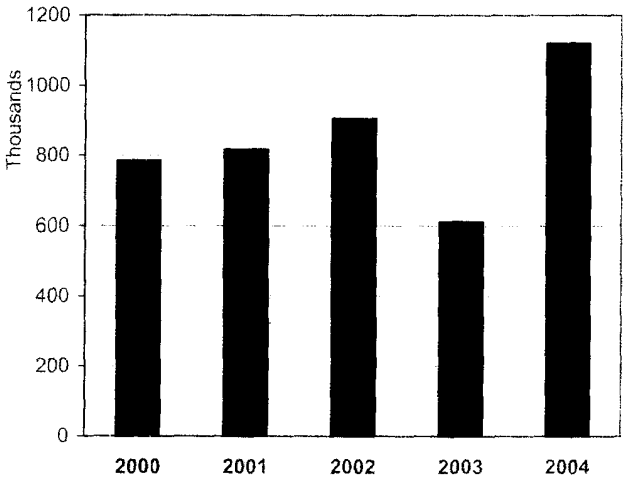


Total Equity Retirements Paid Out

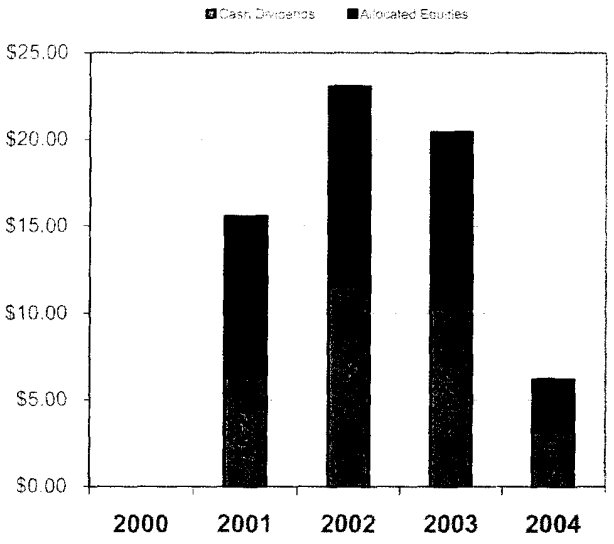


Five Year Summary of Member Operating Results
(by crop year)

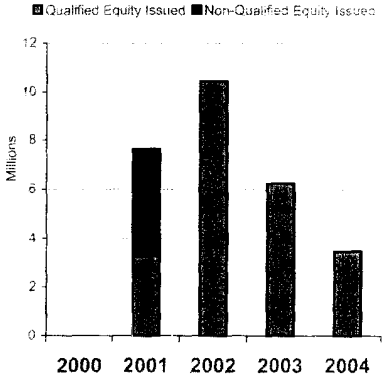
Member Tons Delivered

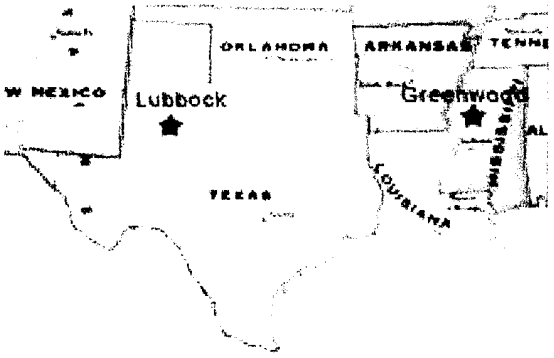


Total Patronage Allocations per Ton

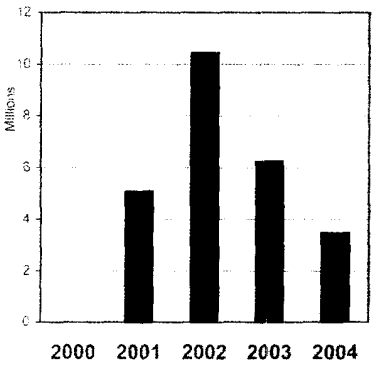


Allocated Equities



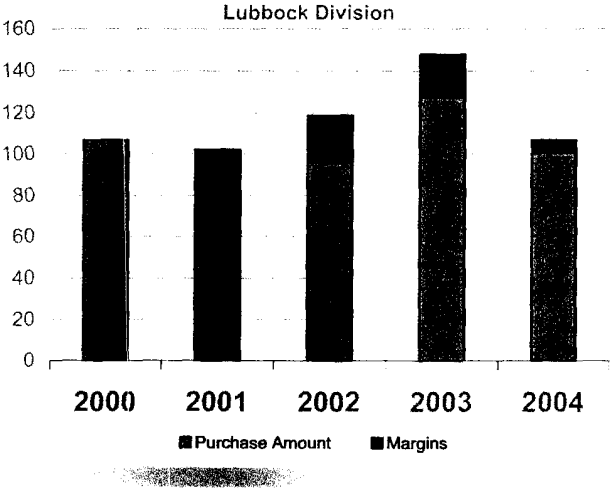


Cash Dividends

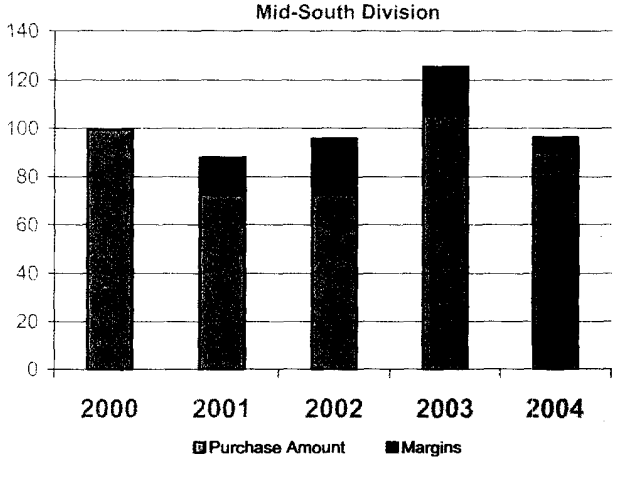


Crush Pool Results by Crop Year

Total Gin Margins (per Ton) Lubbock Division



Total Gin Margins (per Ton) Mid-South Division



PYCO INDUSTRIES, INC.

Financial Statements

SEPTEMBER 30, 2005 AND 2004

(With Auditors' Report Thereon)

D. WILLIAMS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 16289
Lubbock, TX 79490-6289
www.dwilliams.net

5219 City Bank Pkwy., Suite 214
(806) 785-5982
Fax (806) 785-9381

Board of Directors
PYCO Industries, Inc.
Lubbock, Texas

Independent Auditors' Report

We have audited the accompanying balance sheets of PYCO Industries, Inc. (the Association) as of September 30, 2005 and 2004, and the related statements of operations and margins, capital stock, equities and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PYCO Industries, Inc. at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

D. Williams & Co., P.C.

November 4, 2005

PYCO INDUSTRIES, INC.

Balance Sheets

September 30, 2005 and 2004

Assets

	2005	2004
Current assets:		
Cash & cash equivalents	$ 233,146	$ -
Trade accounts receivable, net of allowance for doubtful accounts of $247,132 and $214,621 in 2005 and 2004, respectively	14,853,721	13,134,935
Members' accounts receivable	1,030,546	589,457
Inventories	27,314,503	23,944,718
Commodities trading receivable, net	2,148,396	2,538,223
Prepaid expenses and other	263,404	567,801
	45,843,716	40,775,134
Property, plant and equipment:		
Buildings, machinery and equipment	120,728,432	118,620,457
Less: accumulated depreciation	60,841,653	54,833,426
	59,886,779	63,787,031
Land	3,027,812	3,027,812
Construction in progress	1,080,031	1,168,169
	63,994,622	67,983,012
Other Assets:		
Investments in cooperatives and others:		
CoBank, ACB	5,160,221	5,084,780
Others	125,548	118,268
	5,285,769	5,203,048
Goodwill	1,881,353	1,881,353
Other assets	859,994	803,983
	8,027,116	7,888,384
	$ 117,865,454	$ 116,646,530

The accompanying notes are an integral part of these financial statements.

Liabilities, Capital Stock and Equities

	2005	2004
Current liabilities:		
Accounts payable	$ 3,116,510	$ 3,247,575
Member deposits	4,922,068	5,288,922
Employee deposits	363,247	416,873
Accrued expenses and other	2,702,530	2,797,201
Accrued income taxes	97,890	673,695
CoBank Seasonal Loan	11,500,000	-
Current portion of long-term debt	3,000,000	3,000,000
Patronage dividends payable	3,473,332	7,258,922
	29,175,577	22,683,188
Long-term liabilities:		
Long-term debt, net of current maturities	26,050,000	29,050,000
Post-retirement benefits and other liabilities	2,503,224	2,755,888
Minimum pension liability	2,899,432	372,559
	31,452,656	32,178,447
	60,628,233	54,861,635
Capital stock and equities		
Common stock	8,900	11,100
Paid-in capital	107,600	107,600
Qualified Patrons' equities	59,834,475	61,670,147
Non-qualified Patrons' equities	4,371,109	4,371,109
Retained earnings (deficit)	(442,084)	(554,036)
Accumulated other comprehensive income (loss)	(4,254,937)	(1,035,035)
Undistributed margins (loss)	(2,387,842)	(2,785,990)
	57,237,221	61,784,895
	$ 117,865,454	$ 116,646,530

This Page is Intentionally Blank

PYCO INDUSTRIES, INC.

Statements of Operations and Margins

Years ended September 30, 2005 and 2004

	2005	2004
Sales	$ 202,424,810	$ 151,873,786
Less cost of sales	145,973,026	94,725,983
Gross margins	56,451,784	57,147,803
Less operating, selling and general administrative expenses	46,246,888	39,053,047
Operating margins	10,204,896	18,094,756
Other income (expense):		
Interest income	17,931	18,450
Net gain (loss) on sale of equipment and other assets	187,800	21,130
Interest expense	(3,774,299)	(2,396,732)
Other, net	928,760	305,553
	(2,639,808)	(2,051,599)
Margins before income taxes	7,565,088	16,043,157
Provision for income taxes	108,323	675,031
Net margins	$ 7,456,765	$ 15,368,126

The accompanying notes are an integral part of these financial statements.

PYCO INDUSTRIES, INC.

Statements of Capital Stock, Equities and Comprehensive Income

Years ended September 30, 2005 and 2004

	Comprehensive Income	Common Stock	Paid-in Capital
Balance at September 30, 2003	$ -	$ 11,700	$ 107,600
Conversion of non-member common stock to preferred equities		(600)	-
Equity retirement distributions		-	-
Member equity written-off in settlement of contract dispute		-	-
Provision for current year cash patronage dividends		-	-
Allocation of current year margins		-	-
Comprehensive Income:			
Net margins	15,368,126	-	-
Minimum pension liability adjustment	1,799,632	-	-
Deferred gain (loss) on hedging activities, net	2,283,052	-	-
Total comprehensive income	$ 19,450,810		
Balance at September 30, 2004		$ 11,100	$ 107,600
Conversion of non-member common stock to preferred equities		(2,400)	-
Preferred equity converted to common stock - new members		200	-
Equity retirement distributions		-	-
Member equity written-off in settlement of contract dispute		-	-
Provision for current year cash patronage dividends		-	-
Allocation of current year margins		-	-
Comprehensive Income:			
Net margins	7,456,765	-	-
Minimum pension liability adjustment	(2,617,876)	-	-
Deferred gain (loss) on hedging activities, net	(602,026)	-	-
Total comprehensive income	$ 4,236,863		
Balance at September 30, 2005		$ 8,900	$ 107,600

The accompanying notes are an integral part of these financial statements.

Qualified Patron's Equities	Non-qualified Patron's Equities	Retained earnings	Accumulated other comprehensive income (loss)	Undistributed margins	Total
$ 62,023,780	$ 4,371,109	$ (1,787,792)	$ (5,117,719)	$ (2,402,519)	$ 57,206,159
600	-	-	-	-	-
(7,448,153)	-	-	-	-	(7,448,153)
(165,000)	-	-	-	-	(165,000)
-	-	-	-	(7,258,922)	(7,258,922)
7,258,920	-	1,233,756	-	(8,492,675)	1
-	-	-	-	15,368,126	15,368,126
-	-	-	1,799,632	-	1,799,632
-	-	-	2,283,052	-	2,283,052
$ 61,670,147	$ 4,371,109	$ (554,036)	$ (1,035,035)	$ (2,785,990)	$ 61,784,895
2,400	-	-	-	-	-
(200)	-	-	-	-	-
(5,087,608)	-	-	-	-	(5,087,608)
(223,597)	-	-	-	-	(223,597)
-	-	-	-	(3,473,332)	(3,473,332)
3,473,333	-	111,952	-	(3,585,285)	-
-	-	-	-	7,456,765	7,456,765
-	-	-	(2,617,876)	-	(2,617,876)
-	-	-	(602,026)	-	(602,026)
$ 59,834,475	$ 4,371,109	$ (442,084)	$ (4,254,937)	$ (2,387,842)	$ 57,237,221

PYCO INDUSTRIES, INC.

Statements of Cash Flows

Years ended September 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Net margins	$ 7,456,765	$ 15,368,126
Adjustments to reconcile net margins to net cash provided by operating activities:		
Deferred gain (loss) from hedging activities, net	(602,026)	2,283,052
Depreciation	8,061,143	7,962,359
Net (gain) loss on sale of equipment and other assets	(187,800)	(21,130)
Non-cash patronage dividends received from other cooperatives	(200,648)	(209,870)
Other	(223,597)	(165,000)
Other assets (increase) decrease	(56,011)	(53,483)
Post-retirement benefits and other liabilities increase (decrease)	(343,666)	(216,304)
Reserve for disposal of Amory assets	-	403,364
Changes in current asset and liability items:		
Accounts receivable (increase) decrease	(1,770,048)	(6,620,002)
Inventories (increase) decrease	(3,369,785)	(6,207,411)
Prepaid expenses and other (increase) decrease	304,398	(506,147)
Accounts payable increase (decrease)	(131,065)	(1,881,995)
Accrued expenses and other increase (decrease)	(94,671)	(423,143)
Income taxes	(575,805)	647,955
Net cash provided by operations	$ 8,267,184	$ 10,360,371
Cash Flows from Investing Activities:		
Sale of equipment and other assets	$ 104,022	$ 31,154
Acquisition of property, plant and equipment	(3,988,976)	(2,196,426)
Retirement of investments in cooperatives and others	117,926	-
Net cash (used) by investing activities	$ (3,767,028)	$ (2,165,272)

The accompanying notes are an integral part of these financial statements.

	2005	2004
Cash Flows from Financing Activities:		
Net increase (decrease) in member deposits	$ (366,854)	$ (843,019)
Net increase (decrease) in employee deposits	(53,626)	(12,884)
Short-term borrowings-seasonal loan	61,500,000	32,650,000
Payments on short-term borrowings - seasonal loan	(50,000,000)	(32,650,000)
Short-term borrowings - term revolver	32,500,000	1,000,000
Payments on short-term borrowings - term revolver	(32,500,000)	(1,000,000)
Payments on long-term debt	(3,000,000)	(3,000,000)
Dividends paid	(7,258,922)	(9,429,007)
Equity retirement	(5,087,608)	(7,448,153)
Net cash (used) by financing activities	$ (4,267,010)	$ (20,733,063)
Net increase (decrease) in cash and cash equivalents	233,146	(12,537,964)
Cash and cash equivalents at beginning of year	-	12,537,964
Cash and cash equivalents at end of year	$ 233,146	$ -
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 3,709,888	$ 2,400,072
Income taxes, net of (refunds)	684,129	27,076
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Investing Activities:		
Reserve for disposal of Amory assets	$ -	$ 403,364
Trade-in Value of Equipment	205,995	-
	$ 205,995	$ 403,364
Financing Activities:		
Accrued cash patronage dividends	$ 3,473,332	$ 7,258,922
Minimum pension liability	$ 2,526,873	$ (2,091,749)
Accumulated other comprehensive income (loss)	(2,617,876)	1,799,632
	$ (91,003)	$ (292,117)
Member Equity Written-off in settlement of contract dispute	$ 223,597	$ 165,000

(1) Summary of Significant Accounting Policies

Organization

PYCO Industries, Inc. (the "Association") is a federated cooperative marketing association owned by member cotton gins. The Association's mission is to add value to the cottonseed produced by its members that can be returned to the gin through patronage dividends. The Association operates cottonseed-processing mills in Lubbock, Texas and Greenwood, Mississippi and cottonseed storage facilities at various locations in Mississippi and Arkansas. Cottonseed is purchased from member gins to be sold as livestock feed (mainly for dairy cattle) or processed at one of the Association's mills into cottonseed products. The major products produced are a high quality cooking or salad oil used primarily in the snack food and food service industries and cottonseed meal that is a primary feed ingredient in the livestock and catfish industries. By-products are cottonseed hulls that are an excellent form of fiber for beef and dairy cattle and cotton linters utilized in the manufacturing of mattresses, upholstery padding, high quality writing paper, and various other products.

The Association grants credit to customers, both domestic and foreign, from the sale of these products. The Association's customers are geographically dispersed and their ability to pay is largely contingent on their financial condition.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income consists of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. For the Association, such items consist primarily of changes in the deferred gains and losses resulting from new crop hedging activities, interest rate hedging activities and items related to the Association's pension plan, including the minimum pension liability.

Cash and cash equivalents

The Association considers all cash, interest-bearing deposit accounts, certificates of deposit and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Association deposits its cash with banks in amounts that from time to time exceed federally insured limits.

continued

Inventories

Finished product inventories and commodities on hand and held for sale are valued at net realizable value ("NRV".) Raw materials, supplies and other inventories are valued at the lower of cost (determined on a first-in, first-out basis) or market ("LCM".)

Derivative financial instruments

In the normal course of business, the Association executes sales contracts for future delivery of cottonseed or cottonseed products not yet acquired or produced. The Association utilizes commodity futures and option contracts to reduce the risks associated with market price fluctuations. These contracts are generally designated as cash flow hedges as they relate to specific volumes of products to be produced and sold in future periods. Historically, the change in the market value of these contracts has been highly effective at offsetting changes in price movements of the hedged items or raw materials required to produce them.

The Association also uses eurodollar futures to manage its exposure to interest rate risk under its debt agreements with variable rate options tied to the London Interbank Offered Rate ("LIBOR") as described in note 4. These contracts are designated as cash-flow hedges as they relate to specific amounts due during future interest periods. Generally, the change in the market value of these contracts is highly effective in offsetting changes in the interest due under the hedged agreements from varying interest rates.

Open commodity contracts and eurodollar futures contracts are marked-to-market and carried at their fair value in receivables or payables, net of cash in the associated margin account. Gains and losses from open and closed hedging transactions are deferred in other comprehensive income and recognized in results of operations when the finished goods are sold or during the related future interest period. Any gain or loss from transactions not designated as cash flow hedges as well as any material ineffective hedge amounts are included in results of operations.

The Association's policies prohibit it from trading in any derivative instrument for speculative purposes.

Property, plant and equipment and related depreciation

Property, plant and equipment are stated at cost, including capitalized interest when new assets are constructed. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments are capitalized and those for maintenance and repairs are charged to operations as incurred. Gains or losses on disposal of property, plant and equipment are included in results of operations.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

continued

During the year ended September 30, 2004, the Association closed the Amory, MS cottonseed receiving facility. The Association does not intend to operate this facility in the future and is making inquiries concerning efforts to sell the property. Accordingly, the Association has established a reserve for impairment of this asset and a loss of $403,364 has been charged to other income/(expense) in the statement of operations for the year ended September 30, 2004.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired through acquisitions. Prior to October 1, 2002, the Association amortized goodwill on a straight-line basis. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" issued in June 2001, the Association discontinued amortization of goodwill effective October 1, 2002.

Under SFAS No. 142, goodwill is reviewed for impairment on at least an annual basis. Impairment of goodwill under SFAS No. 142 occurs if the estimated fair value of the Association's net assets is less than their book value. Goodwill recorded on the Association's financial statements at September 30, 2005 and 2004 was not considered to be impaired on those dates.

Stock owned in other cooperatives

Stock owned in other cooperatives is carried at cost, including net allocated equities. This stock represents ownership in other cooperatives and can be converted to cash only at the discretion of the board of directors of the issuing cooperative. Amounts do not reflect unallocated losses, if any, from such cooperatives. Patronage allocations from other cooperatives are recorded in the year when notices of such allocations are received.

Capital stock and equities

Common stock has a par value of $100 per share and carries voting rights of one vote per member with a total of 300 authorized shares. At September 30, 2005 and 2004, 89 and 111 shares, respectively, were issued and outstanding.

Patrons' equities represent the unpaid portion of allocations to patrons. These equities are subordinate to all debts and do not pay dividends to the holders. Retirement is subject to the discretion of the board of directors. Qualified patrons' equities are taxable to the patron when allocated and deductible by the Association. The non-qualified patrons' equities are not taxable to the patron until retired and not deductible by the Association until paid.

Retained earnings represent nonmember income and losses from current and prior years, the retained member income and losses of prior years, and the unallocated portion of exempt prior years income from the liquidated foreign sales corporation.

Undistributed margins represent the unallocated portion of the current and prior year's net margins or losses and accumulated tax-timing differences.

continued

Allocation of earnings and income taxes

The Association is a nonexempt farmer cooperative operating under Section 1381 of the Internal Revenue Code. The bylaws of the Association require patronage earnings to be allocated on a patronage basis to member patrons only.

The Association is not liable for Federal income taxes on patronage earnings subject to the proper allocation of such earnings, issuance of qualified written notices, and the cash payment of at least 20% of patronage earnings to members on or before 8 1/2 months subsequent to year end. Patronage earnings are allocated on a Federal income tax basis. Nonmember/nonpatronage earnings are subject to Federal income tax and are retained by the Association. The Association has bylaw approval to pay income taxes on patronage earnings and issue nonqualified written notices for such amounts. These income taxes will be recoverable when the nonqualified written notices are redeemed.

Revenue Recognition

Sales are recorded upon shipment to the customer.

Recently Issued Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150 (SFAS No. 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". In November 2003, the FASB issued FASB Staff Position No. 150-3 (FSP FAS 150-3) "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150" that indefinitely defers the effective date of SFAS 150 as it might have applied to the Association. Monitoring developments in the standard setting process, Management now believes that cooperative equity will not have to be reviewed for possible classification as a liability.

In December 2003, the FASB revised and re-issued Statement of Financial Accounting Standards No. 132 (SFAS No. 132), "Employer's Disclosures about Pensions and Other Postretirement Benefits-an amendment of FASB Statements No. 87, 88 and 106." The new SFAS No. 132 retains the disclosures of the original statement that it replaces, but adds additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132 is generally effective for fiscal years ending after December 15, 2003. The Association adopted SFAS No. 132 effective with it fiscal year ending September 30, 2004.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (SFAS No. 153), "Exchange of Nonmonetary Assets." SFAS No. 153 requires that all exchanges of nonmonetary assets (trade-ins of equipment) be recorded at fair value. SFAS No. 153 is effective for fiscal years beginning after June 15, 2005, however earlier adoption is encouraged. The Association has adopted SFAS No. 153 effective with its fiscal year ending September 30, 2005.

continued

(2) Inventories

Inventories consisted of the following at September 30, 2005 and 2004.

	2005	2004
Cottonseed (LCM)	$ 16,778,107	$ 10,637,906
Cottonseed Oil (NRV)	7,323,405	5,873,527
Cottonseed Meal (NRV)	2,348,780	6,703,350
Cottonseed Hulls (NRV)	608,730	537,840
Cottonseed Linters (NRV)	157,682	100,594
Bale press and other supplies (LCM)	97,799	91,501
	$ 27,314,503	$ 23,944,718

(3) Buildings, Machinery and Equipment

Buildings, machinery and equipment consisted of the following at September 30, 2005 and 2004:

	Estimated Useful Lives	2005	2004
Processing facilities	5-40 years	$ 69,250,190	$ 68,861,100
Seed storage and handling	10-40 years	28,693,957	28,044,330
Product storage and handling	10-40 years	5,465,929	5,465,929
Utilities and maintenance Equipment	8-40 years	5,893,544	5,470,291
Office, lab, engineer and other	5-40 years	5,694,328	5,644,818
Mobile equipment	3-15 years	5,730,484	5,133,989
		$ 120,728,432	$ 118,620,457

There was no interest cost capitalized in fiscal year 2005 or 2004.

(4) Debt

The Association and CoBank, ACB ("CoBank") are parties to a Master Loan Agreement dated April 19, 2004 as amended on April 19, 2005 and July 13, 2005. This agreement amended and restated their prior agreement dated May 1, 2002 that was a restatement of the agreement dated March 18, 1996 and subsequently amended on September 21, 1999 and April 6, 2001.

continued

In connection with the master loan agreement, the Association received a term loan on October 1, 1999 in the original amount of $42,050,000. The term loan provides for monthly interest payments at rates prescribed by CoBank (5.34% at September 30, 2005) and for annual principal payments in the amount of $3,000,000 beginning December 31, 1999 with a final payment of all outstanding amounts due on December 31, 2012. At September 30, 2005 and 2004, the Association had $24,050,000 and $27,050,000, respectively outstanding under the term loan.

On October 1, 1999, pursuant to the master loan agreement, the Association received an additional term loan in the principal amount of $5,000,000. The term loan provides for monthly interest payments at rates prescribed by CoBank (4.4375% at September 30, 2005) and a final payment of all outstanding principal and interest amounts on October 1, 2008. At September 30, 2005 and 2004, the Association had $5,000,000 outstanding under this term loan.

Pursuant to a supplement to the master loan agreement, the Association has a revolving term loan commitment to borrow an aggregate amount not to exceed $20,000,000 at any one time. The purpose of the revolving term loan is to provide working capital to the Association and under the terms of the master loan agreement, the available amount of the commitment is considered to be working capital. The revolving term loan provides for monthly interest payments at CoBank's base rate (6.75% at September 30, 2005) or LIBOR plus 175 basis points or other quoted rate option offered by CoBank and elected by the Association.

Under the current supplement all outstanding principal and unpaid interest amounts are due on April 1, 2007. In addition, the revolving term loan provides for a commitment fee on the average daily unused portion of the revolving term loan at the rate of .375% that is payable quarterly. At September 30, 2005 and 2004, no amounts were outstanding under the revolving term loan.

At September 30, 2005, the contractual terms of repayment for amounts outstanding under the above term loans and the fiscal years in which those are required are as follows:

Year ending September 30	Amount
2006	$ 3,000,000
2007	3,000,000
2008	3,000,000
2009	8,000,000
2010	3,000,000
Thereafter	9,050,000
	$ 29,050,000

As of September 30, 2005 and 2004, the Association had available short-term operating loan commitments from CoBank in the amount of $50,000,000 and $30,000,000, respectively. The short-term commitment bears interest at weekly variable rates established by CoBank (5.32125% at September 30, 2005) or LIBOR plus 150 basis points or other quoted rate option offered by CoBank and elected by the Association. The current commitment expires on December 1, 2005. A commitment fee on the average daily unused portion at the rate of .25% is payable quarterly. At September 30, 2005 and 2004, the Association had $11,500,000 and $0, respectively outstanding under these short-term commitments.

continued

Substantially all of the Association's assets are pledged to CoBank as collateral under the terms of the master loan agreement. The agreement contains certain restrictive covenants regarding additional borrowings, minimum net worth (at least $48,000,000), minimum working capital (no less than $18,000,000), an annual debt service coverage ratio test and other covenants. Total borrowings under the revolving term loan and seasonal loan cannot exceed the borrowing base amount. The borrowing base is 85% of eligible receivables plus 65% of commodities inventory. As of September 30, 2005 and 2004, the Association was in compliance with all loan covenants.

(5) Post-Retirement Benefits

Pension Plan

The Association sponsors a defined benefit pension plan ("Plan") covering substantially all full-time employees who have completed one year of employment as of plan entrance dates on January 1st or July 1st.

The plan is a non-contributory plan, such that employees are not allowed to make contributions. Contributions are made by the Association for the sole benefit of plan participants with the objective of accumulating funds sufficient to meet its benefit obligations to employees upon their retirement. Benefits under the plan are based on an annual benefit formula using current and expected compensation and years of service.

The Association's actual cash and accrued contributions, deductible for Federal income tax purposes, for the years ended September 30, 2005 and 2004 were $900,000 and $700,000, respectively. The following tables show the change in benefit obligation, plan assets, funded status, and amounts recognized in the statements of financial position at September 30, 2005 and 2004 based upon current actuarial reports using a July 1 measurement date:

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 21,946,554	$ 21,136,703
Service cost	612,572	663,446
Interest cost	1,335,331	1,287,439
Actuarial (gain)/loss	3,415,305	21,486
Benefits paid	(1,162,670)	(1,162,520)
Benefit obligation at end of year	$ 26,147,092	$ 21,946,554
Change in Plan assets:		
Fair value of plan assets at beginning of year	$ 19,128,392	$ 16,643,083
Actual return on plan assets	1,253,557	2,516,812
Employer contributions	900,000	1,200,000
Benefits paid	(1,162,670)	(1,162,521)
Plan expenses	(74,265)	(68,982)
Fair value of plan assets at end of year	$ 20,045,014	$ 19,128,392

continued

	2005	2004
Funded status:	$ (6,102,078)	$ (2,818,162)
Unrecognized prior service cost	(674,635)	(772,403)
Unrecognized (gain) loss	8,829,062	5,551,911
Prepaid benefit cost	$ 2,052,349	$ 1,961,346
Amounts recognized in the statements of financial position consist of :		
Prepaid benefit cost	$ 2,052,349	$ 1,961,346
Accrued benefit liability	(4,951,781)	(2,333,905)
Prepaid pension cost (minimum pension liability)	(2,899,432)	(372,559)
Accumulated other comprehensive income	4,951,781	2,333,905
Net amount recognized	$ 2,052,349	$ 1,961,346

The accumulated benefit obligation was $22,944,446 and $19,500,951 at September 30, 2005 and 2004, respectively.

Net periodic pension cost for the years ended September 30, 2005 and 2004 consists of the following components:

	2005	2004
Service cost	$ 612,572	$ 663,446
Interest cost	1,335,331	1,287,439
Expected return on plan assets	(1,362,784)	(1,291,059)
Amortization of prior service cost	(92,413)	(92,413)
Amortization of (gain) / loss	316,291	340,470
Net periodic pension cost	$ 808,997	$ 907,883

Weighted-average assumptions used to determine benefit obligations as of September 30, 2005 and 2004 were:

	2005	2004
Discount rate	5.25%	6.25%
Rate of compensation increase	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit costs for the years ended September 30, 2005 and 2004 were:

	2005	2004
Discount rate	6.25%	6.25%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	5.00%	5.00%

The Association determines the long-term rate to use for expected return on plan assets by reviewing historical results, current economic trends and conditions along with discussion of these issues with the plan's investment managers and plan actuary.

The Associations pension plan weighted-average asset allocations at September 30, 2005 and 2004, by asset category are as follows:

Asset Category	2005	2004
Cash equivalents	5.8%	6.3%
US government agency securities	30.2%	34.4%
Municipal Bonds and Notes	3.6%	0.0%
Corporate Bonds and Preferred Stocks	0.9%	0.0%
Equity securities	59.5%	59.3%
	100.0%	100.0%

The Associations management maintains an investment policy statement to be followed by the plan's professional investment managers. This statement provides that plan assets may only be invested in high quality equity securities, fixed income securities and short-term cash investments that are traded in highly liquid established markets. The target allocation range specified in the policy statement is as follows:

	Equities	Fixed Income	Cash
Desired Allocation	60%	40%	0%
Maximum Allocation	70%	50%	30%
Minimum Allocation	50%	30%	0%

The Association expects to contribute approximately $1,250,000 to its pension plan in 2006.

Post-Retirement Benefits Other Than Pension

The Association sponsors a defined benefit post-retirement plan that covers retired employees of the Lubbock division who retired prior to April 1, 1995. The plan provides medical (supplemental Medicare) and life insurance benefits funded through insurance contracts and from the general assets of the Association. Benefits were available to those retirees who retired under the normal or early retirement provisions of the group life and health plan and are non-contributory by retirees. These benefits are not available to employees retiring on or after April 1, 1995.

The following table shows the status of the post-retirement benefit obligation in the Association's balance sheet at September 30, 2005 and 2004.

	2005	2004
Actuarial present value of post-retirement benefit obligation to retirees	$ 1,334,848	$ 1,632,480

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation at September 30, 2005 and 2004 was 5.25% and 6.25%, respectively. For measurement purposes, a 15% annual rate of increase in the cost of covered health care benefits are assumed.

The Association paid premiums and benefits totaling $146,963 and $143,957 during the years ended September 30, 2005 and 2004, respectively.

continued

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 years:

	Pension Benefits	Other Postretirement Benefits
2006	$ 1,265,337	$ 147,918
2007	1,257,342	162,741
2008	1,240,299	173,961
2009	1,215,447	180,415
2010	1,222,851	181,038
2011-2015	6,493,101	706,429
	$ 12,694,377	$ 1,552,502

(6) Income Taxes

A reconciliation of book to taxable income for the years ended September 30, 2005 and 2004 is as follows:

	2005	2004
Margins (loss) before income taxes	$ 7,565,088	$ 16,043,157
Add (deduct):		
Post-retirement benefits other than pensions	(224,353)	117,655
Claims reserve - medical plan	108,930	(106,299)
Patronage qualified notices	(6,946,664)	(14,517,842)
Allowance for doubtful accounts	32,511	34,259
Pension Plan	(91,003)	207,883
Reserve for disposal of assets, net of tax depreciation	(56,642)	321,443
Amortization of goodwill	(156,779)	(156,779)
Other, net	59,493	37,977
Taxable income	$ 290,581	$ 1,981,454

The provision for income taxes for the years ended September 30, 2005 and 2004 consist of the following:

	2005	2004
Federal income taxes	$ 96,729	$ 674,420
State income taxes, net	11,595	611
	$ 108,323	$ 675,031

continued

(7) Financial Instruments

The following methods and assumptions were used to estimate the fair values as of September 30, 2005 and 2004 of each class of financial instruments:

Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Investment in cooperatives and others

It is not practicable to estimate the fair value of investments in cooperatives and others. Investments in cooperatives can be converted to cash only at the discretion of the board of directors of the issuing cooperative. Investments in other consist of equity and patronage and a reasonable estimate of value could not be made.

Member and employee deposit liabilities

The carrying amount approximates fair value because these amounts are due on demand.

Long-term debt

The carrying amount of the Association's long-term debt approximates fair value because the loans reprice at market rates frequently.

(8) Commitments and Contingencies

At September 30, 2005, litigation has been threatened against the Association by a nut roasting company that claims their warehouse caught fire as the result of spontaneous combustion of rags soaked in cottonseed oil. In October 2005, the Association was added as a defendant to an existing lawsuit brought by the owner of the building occupied by the nut roasting company. Management, after consultation with counsel, intends to vigorously defend the Association's position that cottonseed oil does not spontaneously combust and could not have been the cause of the fire. The Association is fully insured for this claim and would not sustain any material loss in the event of an adverse outcome.

Management is not aware of any other claim, suit, or complaint and believes that neither the above claim nor any unasserted claim is material and in the aggregate will not have a material adverse affect on the Association's results of operations or financial position.

PYCO Industries, Inc.

Processors of Cottonseed Products

Corporate Office:
P.O. BOX 841
LUBBOCK, TX 79408-0841
TELEPHONE: (806) 747-3434
FAX: (806) 744-3221

Mid-South Office:
P.O. BOX 1320
GREENWOOD, MS 38935-1320
TELEPHONE: (662) 453-4312
FAX: (662) 455-6607

September 30, 2005

Board of Directors

Keith Streety	Chairman
William L. (Bill) Kennedy	Vice-Chairman
Frank B. Brooks	Director
Glen Campbell	Director
Brad Crump	Director
Winston P. (Sonny) Foster	Director
Burt Heinrich	Director
Tommy Horsford	Director
W. Tom Robertson	Director
Leroy Wilde	Director

Officers and Management

Gail Kring	President & General Manager
Robert Lacy	Senior Vice President-Marketing
Anthony C. (Tony) Morton	Vice President-Finance
Ronnie Gilbert	Vice President-Oil Trading
Billy Breedlove	Mid-South Manager
John Stewart	Assistant Mid-South Manager

Exhibit B

FARMERS COOPERATIVE COMPRESS

P.O. Box 2877
Lubbock, Texas 79408-2877
Phone: 806/763-9431
FAX: 806/763-3251

June 9, 2006

Hon. Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20036

Re: PYCO Industries-Feeder Line Application
STB Finance Dockett 34844

Mr. Williams:

Farmers Cooperative Compress (FCC) is a shipper of cotton bales that are marketed all over the world. We are concerned about the problems that PYCO is having with SAW. FCC is aware of incidents in which SAW management has blown up at shippers who seek to raise issues with their service, and has threatened retaliation. PYCO Industries included a statement by the manager of Hi Plains Bag and Bagging to that effect in its feeder line application. In another statement, the manager of Floyd Trucking discussed how he finally gave up on obtaining service from SAW. More recently, SAW management threatened PYCO and so degraded service to PYCO that PYCO sought and obtained alternative rail service. When a switching railroad takes these kinds of actions toward some of its shippers, it can no longer be regarded as reliable by any of its shippers because they may become the subject of similar retaliation or service degradation at any time. Thus service by SAW has become inadequate and unreliable for our merchant customers and company.

Sincerely,

Ron Harkey
President

Attebury Grain, LLC

P.O. BOX 2707 - AMARILLO, TEXAS 79105
Capacity Over 150,000,000 Bushels
Telephone: (806) 335-1639
Fax: (806) 335-1165

June 9, 2006

Honorable Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D. C. 20423

RE: PYCO Feeder Line Application, STB Finance Docket 34844

This letter is in reference to the above-mentioned Docket. Attebury Grain, LLC is aware of incidents in which SAW management has blown up at shippers who sought to raise issues with their service, and SAW has threatened retaliation. PYCO Industries included a statement by the manager of Hi Plains Bag and Bagging to that effect in its feeder line application. In another statement, the manager of Floyd Trucking discussed how he finally gave up on obtaining service from SAW. More recently, SAW management threatened PYCO and so degraded service to PYCO that PYCO sought and obtained alternative rail service. When a switching railroad takes these kinds of actions toward some of its shippers, it can no longer be regarded as reliable by any of its shippers because they may become the subject of similar retaliation or service degradation at any time. On this basis, we feel that the service by SAW has become inadequate and unreliable for our purposes and our company.

Our Company, which uses rail service provided by SAW, supports PYCO's feeder line application.

Sincerely,

Lehmer Dunn

Lehmer Dunn
Vice President

Exhibit C

c.montange

From: "Hyer, Michael (Irving) NA" <Michael.Hyer@hanson.biz>
To: <c.montange@verizon.net>
Cc: "Dacus, Stan (Irving) NA" <Stan.Dacus@hanson.biz>
Sent: Monday, June 12, 2006 11:23 AM
Subject: PYCO Industries - Feeder Line Application, STB 3484

Mr. Montange,

This confirms our conversation that you are authorized to state in the above referenced Surface Transportation Board proceeding that Hanson Aggregates, Inc. ships constructions aggregates into Lubbock using South Plains Switching LLC rail service and believes that service is inadequate.

Please let me know if you have any questions in this regard.

Mike

Michael H. Hyer
Vice President and General Counsel
Hanson Building Materials America, Inc.
8505 Freeport Parkway, Suite 138
Irving, Texas 75063
Tel (469) 417-1300
Fax (469) 417-1487
michael.hyer@hansonamerica.com

Exhibit D

c.montange

From: "Tim Gannon" <tgannon@rlbadc.com>
To: <c.montange@verizon.net>
Cc: "Charlie Banks" <cbanks@rlbadc.com>
Sent: Monday, June 12, 2006 12:13 PM
Attach: Working Capital Computation.pdf
Subject: Working capital

Chuck:

Attached is working capital estimate. Let us know if you have any questions.

Tim Gannon
R.L. Banks & Associates, Inc.
Suite 1010
1717 K Street, NW
Washington, D.C. 20036-5331
V: 202.296.6700
F: 202.296.6700

The attached table, Computation of Estimated Working Capital Requirements, arrays estimates of working capital derived from amounts employed in the Verified Statement of Charles H. Banks in STB Finance Docket No. 34844 PYCO Industries, Inc., et al.–Feeder Line Application -- Lines of South Plains Switching, Ltd. Co. (hereinafter Banks VS). The working capital estimates were derived based upon the methodology prescribed by the STB on Schedule 245 of the Annual Report R-1 filed by Class I railroads with the STB.

Total operating expenses are those contained in the Banks VS, which were multiplied by a constant cost ratio (obtained from 2004 URCS results to correspond with the costs employed in the Banks VS) to arrive at total operating expenses. This was required since the Banks VS employed variable costs and the attached table computes working capital based on total costs (variable plus constant). Total operating expenses were then divided by 360 days, as specified in Schedule 245, to yield average daily expenditures.

Average daily expenses were multiplied by the days of working capital required to arrive at cash working capital required. Days of working capital required was assumed to be equal to the average of the days reported by individual Class I railroads to the STB on Schedule 245 of their respective 2004 R-1 reports. BNSF and CN were excluded from the computation since those carriers reported zero days in Schedule 245. This is a conservative assumption of the above described approach, resulting in slightly more working capital than might otherwise be required.

Computation of working capital includes a materials and supplies component. In the instant situation, this amount had to be estimated and was assumed equal to the ratio of materials and supplies to cash-related operating expenses. The ratio was computed based upon information contained in Schedule 245 of the same railroads' individual 2004 R-1 reports. Again, the weighted average of the ratios with respect to the individual carriers was used to arrive at the ratio of materials and supplies to total operating costs.

Application of the above-described approach resulted in estimated working capital of $100,663, $56,349 and $157,011 with respect to the Limited Customer, Remaining Customer and All Customer scenarios, respectively.

Computation of Estimated Working Capital Requirements

Line	Description	Source	Scenario: Limited Customer	Scenario: Remaining Customer	Scenario: All Customer
1.	Grand total variable operating cost	Tables 7, 13 and 14	$ 812,946	$ 455,126	$ 1,268,072
2.	Constant cost markup ratio	URCS		1.33455	
3.	Grand Total variable and constant operating cost	Line 1 * Line 2	$ 1,084,917	$ 607,388	$ 1,692,305
4.	Days	R-1, Schedule 245		360	
5.	Average daily expenditures	Line 3 / Line 4	$ 3,014	$ 1,687	$ 4,701
6.	Days of working capital required	R-1, Schedule 245		19	
7.	Cash working capital required	Line 5 * Line 6	$ 57,266	$ 32,053	$ 89,319
8.	Ratio of materials and supplies to total operating costs	R-1, Schedule 245		0.04	
9.	Materials and supplies	Line 3 * line 8	$ 43,397	$ 24,296	$ 67,692
10.	Total working capital	Line 7 + Line 8	$ 100,663	$ 56,349	$ 157,011

Notes:
Line 6, days of working capital, is the average of "average of the days of working capital required" reported by the Class I railroads on Line 21 of Schedule 245 of the in respective 2004 annual R-1 reports to the Surface Transportation Board. BNSF and CN were excluded from the computation since, in 2004, those carriers reported zero days in line 21 of Schedule 245.

Line 8, ratio of materials and supplies to total operating costs, was derived by dividing line 27 of Schedule 245, averaging materials and supplies held for common carrier purposes, by line 18 of Schedule 245, cash-related railway operating expenses, and the resulting ratios averaged.