



June 8, 2012

Hearing Panel
Dairy Marketing Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: May 31-June 1, 2012 Class 4b Hearing -- Post Hearing Brief

Mr. Hearing Officer and Members of the Panel:

Dairy Institute appreciates the opportunity to submit the following post-hearing brief to respond to hearing panel questions and to amplify portions of our testimony presented in Sacramento on May 31st and June 1st, 2012. The paragraphs that follow build on the propositions that we put forth in our testimony.

Milk Production Costs By State

Panel members asked for more detail and clarification regarding the milk production cost data submitted. I have attached the data from the accounting firm of Genske, Mulder & Company, LLP (Attachment 1) as well as that of the firm, Frazer, LLP (Attachment 2). I have clarified that the data for the first three quarters of 2011 from Genske, Mulder & Company is an average of its clients by state, except in the cases where the data is identified as being in the top 25% (the 25% of its clients in the state with the lowest costs). The dairies included in Genske-Mulder report average greater than 1,600 milking cows for each state or region examined. Thus, the data presented for the Upper Midwest would not be representative of the region as a whole because the average herd size of commercial dairy farms in that region is considerably lower. Given the negative correlation between herd size and production cost for dairy farms (Attachment 3), we can reasonably conclude that the average cost of production in the Upper Midwest as a whole would be much greater than what is shown in the Genske-Mulder data.

For USDA's cost of production estimates, we have attached some of the background from USDA's website (Attachment 4) about how the data are collected for the reference years (the most recent being 2010). USDA cost of production data for various years can be found on its website:

<http://www.ers.usda.gov/Data/CostsAndReturns/TestPick.htm#milkproduction> .

From USDA's explanation regarding estimates of production cost in years other than the reference year, it appears that costs are updated via a formula using pricing indices. Cost of production accounts use detailed data on farm inputs and outputs, drawn from the USDA Agriculture Resources and Management System (ARMS) and external sources, to build estimates of total costs of production and gross returns. Based on this explanation, it

would appear that the USDA estimates do not account for changes in input mix and input substitutions that might be made by actual farm operators to lower their costs as input prices change. Thus, the estimates might overstate production costs increases when input costs rise, as in 2011. Some additional verification of this is found by comparing USDA cost data for California with CDFA data. According to CDFA, feed costs on California dairy farms were \$7.84 per cwt. in 2010 and \$10.10 per cwt. in 2011, a 29% increase. USDA cost estimates indicate that California feed costs were \$9.29 per cwt. in 2010 and \$17.73 per cwt. in 2011, a 91% increase.

CDFA data come from actual cost surveys of dairy farms for each year, and provide an accurate picture of annual costs. USDA surveys actual costs only in the reference year, and its 2011 data appear to have been estimated from input price changes. Therefore, interstate comparisons with USDA information are likely only valid when using reference year data. In light of the data and evidence, we continue to assert our belief that California is still a state with low costs of producing milk when compared to most other regions of the country. These cost differences have implications for milk pricing, in that lower cost milk-producing regions will tend to specialize in commodity dairy products and will tend to see lower local milk prices because of the high costs of transporting fluid milk.

The Adequacy Of Regulated Pricing Formulas Must Be Judged Over A Range Of Market Prices And Conditions.

We testified that the Class 4b formula should not be changed at this time. Current market conditions are one of more than adequate milk supplies, as evidenced by the need for artificial constraints on producers' output and the movement of milk and components out of state to find processing homes (Attachment 5). While some of these out-of-state milk movements might be to regular out-of-state customers, it seems likely to us, that most such shipments would cease if there were adequate local plant capacity and demand for milk within California. While some might like to avoid the "elephant in the room" that is the state's burgeoning milk supply or argue that it is not the Department's responsibility, it cannot be ignored. Given that we have run out of additional plant capacity in the state and that the costs of marketing milk supplies in excess of said capacity are borne by BOTH producers and processors as testimony at the hearing indicated, it cannot be argued that the requirements of Code Sections 62062(a) and 62062(b) are not being met. The current formulas have resulted in combined prices from all classes that insure a continuous supply of milk for all purposes. Had prices been inadequate to cover costs (on average), we would not have seen the milk supply continue to grow. Rather, it would have stagnated or declined like it did in Wisconsin and Texas in the 1990s or Washington during the 2000s, but such has not been the case in California.

It is easy to argue that the average dairy farmer is not getting a fair shake when we are at or near the bottom of a dairy commodity price cycle like we are at the present time. In these transitory periods, many producers experience temporary negative cash flow, but those who have competitive production costs will find themselves profitable over the long term. The state's end-product pricing formulas have the effect of transferring market signals very directly to producers. They bear the cost of low commodity prices at

the bottom of the price cycle, but receive most of the benefit (profit) at the top of the cycle as high commodity prices are transferred through the formula to milk prices. It seems that some in the producer community like to insinuate that there is an inherent conflict between processor profits and dairy farmer revenues. In the long run, however, the supposed conflict is nonsense. Only profitable cheese plants are sustainable, and the more profitable they are, the more money they have to invest in new products and markets that will boost both the demand for and profitability of producer milk.

The notion that the current formula “undervalues” milk is likewise nonsense. To argue that milk is undervalued from an economic perspective is to argue that under current conditions, the market price of producer milk would immediately rise if it were deregulated. Any sane reading of the current supply and demand conditions in California should confirm that this is not the case. In reality, there is nothing that prevents cheese plants from paying more than the regulated minimum price for milk. If the Class 4b formula were undervaluing milk, all cheesemakers would have to be paying large over-order premiums in order to insure that they would get the milk they need. While most cheese plants currently do pay some level of over-order premiums, there is no evidence that all plants are paying large premiums in excess of their supplier’s cost of servicing their account. Such premiums have at times been paid widely in other regions of the country when they were needed to bring forth an adequate supply of milk to meet local demand. California has not seen widespread premium charges to cheese plants at a level that would suggest that the regulated price (Class 4b) undervalues producer milk from an economic perspective, and economic soundness is the statutory basis on which pricing decisions are to be made.

Milk Diversions To Nonpool Plants In Federal Orders Are A Mechanism To Clear Distressed Or Surplus Milk That Does Not Exist In California.

We testified that the regulated Class 4b price in California needs to be a market-clearing price because of the practical impossibility of cheese plants being able to buy milk at below-minimum prices to clear the market. It is true that individual producers can elect, on a calendar year basis, Grade B status, and therefore, not be subject to minimum pricing, but it is clear that this is not a viable method for handling surplus or distressed milk. Seldom are market conditions known with certainty for a year in advance. It is also unlikely that individual dairymen would sign up to be Grade B so that they could receive a lower price when milk is in surplus. The Grade B election by producers is therefore not a viable method for clearing distressed or surplus milk.

We noted that plants under federal order pricing, such as those in the Midwest, have the ability to “step out” of the regulated system in order to clear the market. Evidence of these transactions was reported in *Dairy Market News* and was included in the testimony of Kraft Foods witness Mike McCully at the hearing. While formal de-pooling is probably a more cumbersome way to handle distressed milk, it could nonetheless be utilized in federal orders when there are ongoing issues of surplus milk availability, as noted by Hilmar Cheese witness David Ahlem in his testimony. We reiterate here a key point from our testimony regarding these transactions: *The relevant point is not whether or not the federal pool is made whole by the co-ops when diversions to nonpool cheese*

plants occur, or whether the average price paid for depooled milk is higher or lower than the regulated price. The relevant point is that in the federal orders, there are mechanisms whereby excess milk supplies may clear to cheese plants at less than regulated minimum prices. Because the federal order price is not strictly binding on cheese plants that buy milk in federal order areas, and because California has no similar flexibility, California prices must be set at levels that clear the market, which for a variety of reasons, not the least of which is the state's producers' propensity to oversupply the market with milk, will be lower than federal order prices.

Orderly Marketing Requires That The Markets Clear

In our testimony we stated that minimum prices must be set at levels that clear the market. The statutory basis for our assertion is found in Code Sections 61802(e) and 61802(h), which state that it is the policy of the state to encourage and promote the intelligent production and orderly marketing of milk. In establishing prices, the Secretary is also directed to establish formulas that result in prices that are economically sound and to consider any relevant economic factors. When the market for producer milk does not clear locally (that is, within California), the stage is set for disorderly marketing and economic waste. These conditions have been seen in California in the past, and were seen this year. Some of the disorderly and wasteful practices that we have seen and/or continue to see include the following.

1. Movements of milk, distressed or otherwise, over long distances where a considerable portion of the milk's value is consumed by transportation costs because the local market does not have sufficient processing capacity.
2. Milk tanker trucks being used as "rolling storage" until they can be directed to destinations where there is capacity, often over long distance and at a great cost.
3. Milk being sold for very low value to calf ranches or not being marketed at all.
4. Milk moving among dairymen in order to stay under "base."
5. Milk offered to cheese plants in other states at prices that are lower than they would normally pay, which is then made into product that comes onto the market to compete with products produced in California.
6. Dairymen imploring plants to take milk at below order minimums in violation of the law.
7. Base plans being implemented on an emergency basis so that dairymen have little time to plan and adjust their production.

Testimony heard at the hearing indicates that the costs associated with these kinds of disorderly marketing are borne by BOTH producers and processors. Some may still argue that it is not the job of the Department to ensure that the market clears or that collective producer action through their cooperatives is sufficient to ensure orderly marketing. Despite these assurances, which have not been proven over the long run, **the Department has the statutory responsibility to concern itself with insuring orderly marketing and intelligent milk production and therefore, MUST concern itself with establishing policies that promote adequate capacity and market clearing within the state.** If dairymen can really impose orderly marketing on their own through their "managing" of the state's milk supply, they are really arguing that minimum pricing and

pooling are no longer needed, because the very purpose for which such regulations exist can be effected through private action.

The Requirements Of Code Section 62062 With Respect To The Manufacturing Classes Of Milk Will Be Met If Appropriate California Factors Are Considered.

Section 62062 of the California Food and Agricultural Code lists some of the principles to be employed by the Secretary in establishing prices and pricing formulas. With respect to milk for manufacturing purposes, the Secretary is instructed as follows:

If the director adopts methods or formulas in the plan for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products.

While it seems to have been inferred by producers at past hearings that this Section requires the Secretary to establish California milk prices that are equal to or that move in lockstep with Federal Order prices, there is no such requirement. Neither does the Code require that the pricing formula contain all potential manufactured products that plants could conceivably make in their operations. Rather, the Code requires that the “formulas be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products.”

The term “reasonable and sound economic relationship” gives the Secretary considerable latitude. However, when considered with the other Code Sections regarding pricing, the Secretary will not err with respect to this Section if she takes full consideration of the factors facing California producers, California processors and California consumers of manufactured products. **It is California market factors that should determine our state’s regulated minimum prices, not regulated prices in the Federal Orders.** Some of the relevant economic factors that pertain to cheesemakers are the costs of making product in California, the general costs of doing business in the state (Attachments 6 and 7), the cost of marketing product from California (including shipping costs), the products made (or not made) by California plants, and the ability (or inability) of California plants to recover revenue for their byproducts.

Thank you for the opportunity to submit this post-hearing brief.

Sincerely,

William A. Schiek
Economist

Average Costs of Production of Dairy Clients by State

Genske, Mulder and Company, LLP

For the Nine Months Ending September 30, 2011

Attachment 1

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AVERAGE OF OUR DAIRY CLIENTS
 AVERAGE INCOME AND EXPENSES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	SOUTH OF BAKERSFIELD CALIFORNIA				BAKERSFIELD TO FRESNO CALIFORNIA				NORTH OF FRESNO CALIFORNIA				TOTAL CALIFORNIA			
	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT
INCOME:																
Milk	\$5,441,663	\$18.89	\$2,758	97.1 %	\$8,296,098	\$18.85	\$3,223	97.0 %	\$8,112,231	\$18.88	\$3,172	96.0 %	\$7,941,297	\$18.87	\$3,148	96.5 %
Milk futures	0	0.00	0	0.0	(34,879)	(0.08)	(13)	(0.4)	(47,567)	(0.11)	(19)	(0.6)	(39,201)	(0.09)	(15)	(0.5)
Calves and heifers	15,808	0.06	8	0.3	57,765	0.13	22	0.7	60,750	0.14	24	0.7	55,847	0.13	22	0.7
Patronage dividend	107,736	0.37	54	1.9	117,644	0.27	46	1.4	73,159	0.17	29	0.9	90,994	0.22	36	1.1
Other	38,868	0.13	20	0.7	111,719	0.25	43	1.3	249,489	0.58	97	3.0	185,251	0.44	73	2.2
Total income	\$5,604,075	\$19.45	\$2,840	100.0 %	\$8,548,347	\$19.42	\$3,321	100.0 %	\$8,448,062	\$19.66	\$3,303	100.0 %	\$8,234,188	\$19.57	\$3,264	100.0 %
EXPENSES:																
Feed:																
Hay	\$1,743,882	\$6.05	\$884	31.1 %	\$2,039,485	\$4.63	\$792	23.9 %	\$2,143,298	\$4.99	\$838	25.4 %	\$2,073,961	\$4.93	\$822	25.2 %
Grain	2,060,526	7.15	1044	36.8	3,302,995	7.51	1283	38.6	2,952,436	6.87	1154	34.9	2,991,732	7.10	1186	36.3
Less cost of feeding heifers	(627,533)	(2.18)	(318)	(11.2)	(1,035,986)	(2.35)	(402)	(12.1)	(939,173)	(2.19)	(367)	(11.1)	(944,345)	(2.24)	(374)	(11.4)
Total feed	\$3,176,875	\$11.02	\$1,610	56.7 %	\$4,306,494	\$9.79	\$1,673	50.4 %	\$4,156,561	\$9.67	\$1,625	49.2 %	\$4,121,348	\$9.79	\$1,634	50.1 %
Herd replacement cost:																
Depreciation - dairy cows	\$325,493	\$1.13	\$165	5.8 %	\$403,828	\$0.92	\$157	4.7 %	\$429,119	\$1.00	\$168	5.1 %	\$411,678	\$0.98	\$163	5.0 %
Loss on sale of cows	23,421	0.08	12	0.4	163,671	0.37	64	1.9	155,807	0.36	61	1.8	146,917	0.35	58	1.8
Total herd replacement cost	\$348,914	\$1.21	\$177	6.2 %	\$567,499	\$1.29	\$221	6.6 %	\$584,926	\$1.36	\$229	6.9 %	\$558,595	\$1.33	\$221	6.8 %
Other operating expenses:																
Interest and rent	\$176,133	\$0.61	\$89	3.1 %	\$423,255	\$0.96	\$164	4.9 %	\$341,879	\$0.80	\$134	4.1 %	\$354,592	\$0.84	\$140	4.3 %
Equipment lease	0	0.00	0	0.0	2,238	0.01	1	0.0	1,857	0.00	1	0.0	1,823	0.00	1	0.0
Labor	518,245	1.80	263	9.3	521,372	1.18	203	6.1	543,117	1.26	212	6.4	533,706	1.27	211	6.5
Depreciation - other	120,863	0.42	61	2.2	175,785	0.40	68	2.0	225,933	0.53	88	2.7	200,081	0.48	79	2.4
Milk hauling	83,941	0.29	42	1.5	179,025	0.41	70	2.1	157,135	0.37	61	1.9	158,067	0.38	63	1.9
Industry assessments	59,776	0.21	30	1.1	85,108	0.19	33	1.0	81,878	0.19	32	1.0	81,032	0.19	32	1.0
Supplies	135,853	0.47	69	2.4	197,845	0.45	77	2.3	257,649	0.60	101	3.1	227,123	0.54	90	2.8
BST	0	0.00	0	0.0	54,363	0.12	21	0.6	29,055	0.07	11	0.3	34,964	0.08	14	0.4
Corral cleaning	34,529	0.12	18	0.6	5,636	0.01	2	0.1	7,577	0.02	3	0.1	9,273	0.02	4	0.1
Repairs and maintenance	160,296	0.56	81	2.9	221,699	0.50	86	2.6	260,497	0.61	102	3.1	238,851	0.57	95	2.9
Utilities	103,637	0.36	53	1.9	118,082	0.27	46	1.4	137,548	0.32	54	1.6	128,111	0.30	51	1.6
Taxes and licenses	69,307	0.24	35	1.2	76,706	0.17	30	0.9	94,509	0.22	37	1.1	86,383	0.21	34	1.1
Insurance	53,135	0.18	27	0.9	63,823	0.15	25	0.7	70,674	0.16	28	0.8	66,865	0.16	26	0.8
Fuel and oil	78,689	0.27	40	1.4	91,084	0.21	35	1.1	95,847	0.22	37	1.1	92,767	0.22	37	1.1
Legal and accounting	19,570	0.07	10	0.3	22,473	0.05	9	0.3	26,749	0.06	10	0.3	24,699	0.06	10	0.3
Employee benefits	32,207	0.11	16	0.6	32,107	0.07	12	0.4	58,303	0.14	23	0.7	47,302	0.11	19	0.6
Veterinary and breeding	141,415	0.49	72	2.5	98,967	0.23	38	1.2	109,087	0.25	43	1.3	108,525	0.26	43	1.3
Testing and trimming	31,325	0.11	16	0.6	36,004	0.08	14	0.4	32,077	0.08	13	0.4	33,321	0.08	13	0.4
Hauling livestock	10,816	0.04	5	0.2	10,630	0.02	4	0.1	7,778	0.02	3	0.1	8,992	0.02	4	0.1
Miscellaneous	108,313	0.38	55	1.9	5,651	0.01	2	0.1	9,419	0.02	4	0.1	16,762	0.04	7	0.2
Less cost of raising heifers	(222,750)	(0.77)	(113)	(4.0)	(255,989)	(0.58)	(99)	(3.0)	(183,043)	(0.43)	(72)	(2.2)	(210,811)	(0.50)	(84)	(2.6)
Total other operating expenses	\$1,715,300	\$5.96	\$869	30.6 %	\$2,185,864	\$4.91	\$841	25.3 %	\$ 2,365,525	\$6.51	\$925	28.0 %	\$2,242,428	\$6.33	\$989	27.2 %
Total expenses	\$5,241,089	\$18.19	\$2,656	93.5 %	\$7,039,857	\$15.99	\$2,735	82.3 %	\$ 7,107,012	\$16.54	\$2,779	84.1 %	\$6,922,371	\$16.45	\$2,744	84.1 %
NET INCOME	\$362,986	\$1.26	\$184	6.5 %	\$1,508,490	\$3.43	\$586	17.7 %	\$1,341,050	\$3.12	\$524	15.9 %	\$1,311,817	\$3.12	\$520	15.9 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	1,644	2,238	2,176	2,151
Average daily production per cow	64	72	72	72
Average butterfat test	3.81 %	3.66 %	3.65 %	3.66 %
Average solids-non-fat test	8.81 %	8.84 %	8.85 %	8.84 %
Herd turnover rate	29.06 %	37.56 %	39.17 %	37.93 %

**AVERAGE INCOME AND EXPENSES
FOR GENSKE, MULDER & CO. ARIZONA DAIRY CLIENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	AMOUNT	PER CWT	PER COW	PERCENT
INCOME:				
Milk	\$8,648,064	\$20.60	\$3,341	98.8 %
Milk futures	(10,942)	(0.03)	(4)	(0.1)
Calves and heifers	79,068	0.19	30	0.9
Patronage dividend	23,050	0.06	9	0.3
Other	12,119	0.03	5	0.1
Total income	\$8,751,359	\$20.85	\$3,381	100.0 %

EXPENSES:				
Feed:				
Hay and silage	\$2,183,258	\$5.20	\$843	24.9 %
Grain	3,182,413	7.58	1,229	36.4
Less cost of feeding heifers	(924,828)	(2.20)	(357)	(10.6)
Total feed	\$4,440,843	\$10.58	\$1,715	50.7 %

Herd replacement cost:				
Depreciation - dairy cows	\$419,033	\$1.00	\$162	4.8 %
Loss on sale of cows	198,676	0.47	77	2.3
Total herd replacement cost	\$617,709	\$1.47	\$239	7.1 %

Other operating expenses:				
Interest and rent	\$439,895	\$1.05	\$170	5.0 %
Equipment lease	1,389	0.00	1	0.0
Labor	562,805	1.34	217	6.4
Depreciation - other	175,976	0.42	68	2.0
Milk hauling	333,531	0.80	129	3.8
Industry assessments	147,883	0.35	57	1.7
Supplies	198,487	0.47	77	2.3
BST	0	0.00	0	0.0
Corral cleaning	7,869	0.02	3	0.1
Repairs and maintenance	192,122	0.46	74	2.2
Utilities	173,352	0.41	67	2.0
Taxes and licenses	62,012	0.15	24	0.7
Insurance	42,964	0.10	17	0.5
Fuel and oil	100,978	0.24	39	1.3
Legal and accounting	21,500	0.05	8	0.2
Employee benefits	12,313	0.03	5	0.1
Veterinary and breeding	72,755	0.17	28	0.8
Testing and trimming	24,562	0.06	9	0.3
Hauling livestock	7,485	0.02	3	0.1
Miscellaneous	999	0.00	0	0.0
Less cost of raising heifers	(262,212)	(0.62)	(101)	(3.0)
Total other expenses	\$2,316,665	\$5.52	\$895	26.5 %
Total expenses	\$7,375,217	\$17.57	\$2,849	84.3 %
NET INCOME	\$1,376,142	\$3.28	\$532	15.7 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	2,202
Average daily production per cow	70
Average butterfat test	3.71 %
Average protein test	3.18 %
Herd turnover rate	31.56 %

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AVERAGE OF OUR TEXAS DAIRY CLIENTS
 AVERAGE INCOME AND EXPENSES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	PAN HANDLE TEXAS				CENTRAL TEXAS				TOTAL TEXAS			
	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT
INCOME:												
Milk	\$14,599,372	\$20.71	\$3,326	98.4 %	\$4,277,921	\$21.58	\$3,225	98.0 %	\$9,595,032	\$20.89	\$3,304	98.3 %
Milk futures	(63,458)	(0.09)	(14)	(0.4)	5,172	0.03	4	0.1	(30,183)	(0.07)	(10)	(0.3)
Calves and heifers	106,812	0.15	24	0.7	32,062	0.16	24	0.7	70,570	0.15	24	0.7
Patronage dividend	53,629	0.08	12	0.4	15,007	0.07	11	0.3	34,903	0.08	12	0.4
Other	137,056	0.20	31	0.9	40,847	0.21	31	0.9	90,409	0.20	31	0.9
Total income	\$14,833,411	\$21.05	\$3,379	100.0 %	\$4,371,009	\$22.05	\$3,295	100.0 %	\$9,760,731	\$21.25	\$3,361	100.0 %
EXPENSES:												
Feed:												
Hay	\$3,101,267	\$4.40	\$707	20.9 %	\$1,082,282	\$5.46	\$816	24.8 %	\$2,122,365	\$4.62	\$731	21.7 %
Grain	4,799,373	6.81	1,094	32.4	1,638,179	8.26	1,235	37.5	3,266,673	7.11	1,125	33.5
Less cost of feeding heifers	(1,481,723)	(2.10)	(338)	(10.0)	(480,849)	(2.42)	(362)	(11.0)	(996,451)	(2.17)	(343)	(10.2)
Total feed	\$6,418,917	\$9.11	\$1,463	43.3 %	\$2,239,612	\$11.30	\$1,689	51.3 %	\$4,392,587	\$9.56	\$1,513	45.0 %
Herd replacement cost:												
Depreciation - dairy cows	\$697,428	\$0.99	\$159	4.7 %	\$237,956	\$1.20	\$179	5.4 %	\$474,653	\$1.03	\$163	4.9 %
Loss on sale of cows	439,212	0.62	100	3.0	47,873	0.24	36	1.1	249,472	0.54	86	2.6
Total herd replacement cost	\$1,136,640	\$1.61	\$259	7.7 %	\$285,829	\$1.44	\$215	6.5 %	\$724,125	\$1.57	\$249	7.5 %
Other operating expenses:												
Interest and rent	\$597,921	\$0.85	\$136	4.0 %	\$142,407	\$0.72	\$107	3.3 %	\$377,065	\$0.82	\$130	3.9 %
Equipment lease	2,725	0.00	1	0.0	0	0.00	0	0.0	1,404	0.00	0	0.0
Labor	969,769	1.37	221	6.5	267,002	1.35	201	6.1	629,034	1.37	217	6.4
Depreciation - other	492,429	0.70	112	3.3	176,492	0.89	133	4.0	339,248	0.74	117	3.5
Milk hauling	838,023	1.19	191	5.6	172,196	0.87	130	3.9	515,198	1.12	177	5.3
Industry assessments	166,064	0.24	38	1.1	41,020	0.21	31	0.9	105,437	0.23	36	1.1
Supplies	353,050	0.50	80	2.4	111,614	0.56	84	2.6	235,990	0.51	81	2.4
BST	46,747	0.07	11	0.3	0	0.00	0	0.0	24,082	0.05	8	0.2
Corral cleaning	9,317	0.01	2	0.1	5,931	0.03	4	0.1	7,675	0.02	3	0.1
Repairs and maintenance	378,858	0.54	86	2.6	107,540	0.54	81	2.5	247,310	0.54	85	2.5
Utilities	192,351	0.27	44	1.3	80,503	0.41	61	1.8	138,122	0.30	48	1.4
Taxes and licenses	119,221	0.17	27	0.8	44,276	0.22	33	1.0	82,884	0.18	29	0.8
Insurance	88,681	0.13	20	0.6	24,946	0.13	19	0.6	57,779	0.13	20	0.6
Fuel and oil	217,308	0.31	50	1.5	58,985	0.30	44	1.4	140,545	0.31	48	1.4
Legal and accounting	66,536	0.09	15	0.4	14,921	0.07	11	0.3	41,511	0.09	14	0.4
Employee benefits	23,277	0.03	5	0.2	5,970	0.03	5	0.1	14,886	0.03	5	0.2
Veterinary and breeding	265,753	0.38	61	1.8	65,656	0.33	50	1.5	168,736	0.37	58	1.7
Testing and trimming	55,862	0.08	13	0.4	16,244	0.08	12	0.4	36,653	0.08	13	0.4
Hauling livestock	9,421	0.01	2	0.1	6,034	0.03	5	0.1	7,779	0.02	3	0.1
Miscellaneous	14,416	0.02	3	0.1	3,782	0.02	3	0.1	9,260	0.02	3	0.1
Less cost of raising heifers	(340,427)	(0.48)	(78)	(2.3)	(102,405)	(0.52)	(77)	(2.3)	(225,023)	(0.49)	(77)	(2.3)
Total other operating expenses	\$4,567,302	\$6.48	\$1,040	30.8 %	\$1,243,114	\$6.27	\$937	28.4 %	\$2,955,575	\$6.44	\$1,018	30.2 %
Total expenses	\$12,122,859	\$17.20	\$2,762	81.8 %	\$3,768,555	\$19.01	\$2,841	86.2 %	\$8,072,287	\$17.57	\$2,780	82.7 %
NET INCOME	\$2,710,552	\$3.85	\$617	18.2 %	\$602,454	\$3.04	\$454	13.8 %	\$1,688,444	\$3.68	\$581	17.3 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	3,727	1,101	2,454
Average daily production per cow	69	66	69
Average butterfat test	3.66 %	3.69 %	3.67 %
Average protein test	3.07 %	3.12 %	3.08 %
Average somatic cell count	184,585	228,593	207,545
Herd turnover rate	35.81 %	31.75 %	34.95 %

**AVERAGE INCOME AND EXPENSES
FOR GENSKE, MULDER & CO. WASHINGTON DAIRY CLIENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	AMOUNT	PER CWT	PER COW	PERCENT
INCOME:				
Milk	\$13,132,312	\$20.32	\$3,676	97.7 %
Milk futures	(247,252)	(0.38)	(68)	(1.8)
Calves and heifers	179,344	0.28	50	1.3
Patronage dividend	365,576	0.56	102	2.7
Other	14,676	0.02	4	0.1
Total income	\$13,444,656	\$20.80	\$3,764	100.0 %

EXPENSES:				
Feed:				
Hay and silage	\$3,341,210	\$5.17	\$935	24.9 %
Grain	3,642,985	5.63	1,020	27.1
Less cost of feeding heifers	(1,547,386)	(2.39)	(433)	(11.5)
Total feed	\$5,436,809	\$8.41	\$1,522	40.5 %

Herd replacement cost:				
Depreciation - dairy cows	\$553,017	\$0.85	\$155	4.1 %
Loss on sale of cows	320,054	0.50	89	2.4
Total herd replacement cost	\$873,071	\$1.35	\$244	6.5 %

Other operating expenses:				
Interest and rent	\$412,108	\$0.64	\$115	3.1 %
Equipment lease	15,642	0.02	4	0.1
Labor	894,863	1.38	252	6.7
Depreciation - other	379,945	0.59	106	2.8
Milk hauling	442,113	0.68	124	3.3
Industry assessments	177,764	0.28	50	1.3
Supplies	376,763	0.58	105	2.8
BST	0	0.00	0	0.0
Corral cleaning	27,908	0.04	8	0.2
Repairs and maintenance	501,929	0.78	142	3.7
Utilities	160,123	0.25	45	1.2
Taxes and licenses	119,160	0.18	33	0.9
Insurance	83,810	0.13	23	0.6
Fuel and oil	226,075	0.35	63	1.7
Legal and accounting	56,843	0.09	16	0.4
Employee benefits	19,514	0.03	5	0.1
Veterinary and breeding	237,129	0.37	66	1.8
Testing and trimming	63,831	0.10	18	0.5
Hauling livestock	13,376	0.02	4	0.1
Miscellaneous	6,481	0.01	2	0.0
Less cost of raising heifers	(363,644)	(0.56)	(102)	(2.7)
Total other expenses	\$3,851,733	\$5.96	\$1,079	28.6 %
Total expenses	\$10,161,613	\$15.72	\$2,845	75.6 %
NET INCOME	\$3,283,043	\$5.08	\$919	24.4 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	3,091
Average daily production per cow	77
Average butterfat test	3.62 %
Average protein test	3.12 %
Herd turnover rate	38.28 %

**AVERAGE INCOME AND EXPENSES
FOR GENSKÉ, MULDER & CO. IDAHO DAIRY CLIENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	AMOUNT	PER CWT	PER COW	PERCENT
INCOME:				
Milk	\$7,150,683	\$19.14	\$3,125	98.9 %
Milk futures	(21,844)	(0.06)	(10)	(0.3)
Calves and heifers	20,179	0.05	9	0.3
Patronage dividend	79,550	0.21	35	1.1
Other	3,757	0.01	2	0.0
Total income	\$7,232,325	\$19.35	\$3,161	100.0 %

EXPENSES:				
Feed:				
Hay and silage	\$2,134,233	\$5.71	\$933	29.5 %
Grain	2,508,476	6.71	1,096	34.7
Less cost of feeding heifers	(855,186)	(2.29)	(374)	(11.8)
Total feed	\$3,787,523	\$10.13	\$1,655	52.4 %

Herd replacement cost:				
Depreciation - dairy cows	\$398,631	\$1.07	\$175	5.5 %
Loss on sale of cows	215,948	0.58	94	3.0
Total herd replacement cost	\$614,579	\$1.65	\$269	8.5 %

Other operating expenses:				
Interest and rent	\$363,742	\$0.97	\$159	5.0 %
Equipment lease	17,921	0.05	8	0.2
Labor	443,200	1.19	194	6.1
Depreciation - other	246,308	0.66	108	3.4
Milk hauling	117,647	0.31	51	1.6
Industry assessments	71,344	0.19	31	1.0
Supplies	250,648	0.67	109	3.5
BST	0	0.00	0	0.0
Corral cleaning	6,841	0.02	3	0.1
Repairs and maintenance	157,034	0.42	69	2.2
Utilities	88,188	0.24	38	1.2
Taxes and licenses	58,007	0.16	25	0.8
Insurance	35,177	0.09	15	0.5
Fuel and oil	84,118	0.23	37	1.2
Legal and accounting	19,646	0.05	9	0.3
Employee benefits	8,067	0.02	4	0.1
Veterinary and breeding	85,915	0.23	38	1.2
Testing and trimming	37,295	0.10	16	0.5
Hauling livestock	5,992	0.02	3	0.1
Miscellaneous	1,779	0.00	1	0.0
Less cost of raising heifers	(47,008)	(0.13)	(21)	(0.7)
Total other expenses	\$2,051,861	\$5.49	\$897	28.3 %
Total expenses	\$6,453,963	\$17.27	\$2,821	89.2 %
NET INCOME	\$778,362	\$2.08	\$340	10.8 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	1,923
Average daily production per cow	71
Average butterfat test	3.66 %
Average protein test	3.07 %
Herd turnover rate	34.68 %

**AVERAGE INCOME AND EXPENSES
FOR GENSKE, MULDER & CO. UPPER MIDWEST DAIRY CLIENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	AMOUNT	PER CWT	PER COW	PERCENT
INCOME:				
Milk	\$6,894,492	\$20.67	\$3,629	97.9 %
Milk futures	(149,492)	(0.45)	(79)	(2.1)
Calves and heifers	68,077	0.20	36	1.0
Patronage dividend	61,925	0.19	33	0.9
Other	166,644	0.50	88	2.3
Total income	\$7,041,646	\$21.11	\$3,707	100.0 %

EXPENSES:				
Feed:				
Hay, silage and farming	\$1,457,259	\$4.36	\$767	20.7 %
Grain	2,093,325	6.28	1,102	29.7
Less cost of feeding heifers	(725,641)	(2.17)	(382)	(10.3)
Total feed	\$2,824,943	\$8.47	\$1,487	40.1 %

Herd replacement cost:				
Depreciation - dairy cows	\$354,261	\$1.06	\$186	5.0 %
Loss on sale of cows	192,858	0.58	102	2.8
Total herd replacement cost	\$547,119	\$1.64	\$288	7.8 %

Other operating expenses:				
Interest and rent	\$320,422	\$0.96	\$169	4.6 %
Equipment lease	50,432	0.15	27	0.7
Labor	676,613	2.03	356	9.6
Depreciation - other	259,288	0.78	137	3.7
Milk hauling	81,127	0.24	43	1.2
Industry assessments	58,781	0.18	31	0.8
Supplies	285,609	0.86	150	4.1
BST	65,403	0.20	34	0.9
Corral cleaning	31,291	0.09	16	0.4
Repairs and maintenance	264,057	0.79	139	3.7
Utilities	136,630	0.41	72	1.9
Taxes and licenses	81,929	0.24	43	1.2
Insurance	61,724	0.18	33	0.9
Fuel and oil	129,681	0.39	68	1.8
Legal and accounting	29,923	0.09	16	0.4
Employee benefits	19,734	0.06	10	0.3
Veterinary and breeding	174,070	0.52	92	2.5
Testing and trimming	36,273	0.11	19	0.5
Hauling livestock	12,039	0.04	6	0.2
Miscellaneous	13,048	0.04	7	0.2
Less cost of raising heifers	(114,144)	(0.34)	(60)	(1.6)
Total other expenses	\$2,673,930	\$8.02	\$1,408	38.0 %
Total expenses	\$6,045,992	\$18.13	\$3,183	85.9 %
NET INCOME	\$995,654	\$2.98	\$524	14.1 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	1,649
Average daily production per cow	74
Average butterfat test	3.54 %
Average protein test	3.09 %
Herd turnover rate	45.45 %

**AVERAGE OF TOP 25%
FOR GENSKÉ, MULDER & CO. NEW MEXICO DAIRY CLIENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	AMOUNT	PER CWT	PER COW	PERCENT
INCOME:				
Milk	\$12,317,429	\$19.90	\$3,225	98.5 %
Milk futures	(128,272)	(0.21)	(33)	(1.0)
Calves and heifers	211,376	0.34	55	1.7
Patronage dividend	65,610	0.11	17	0.5
Other	41,484	0.07	11	0.3
Total income	\$12,507,627	\$20.21	\$3,275	100.0 %

EXPENSES:				
Feed:				
Hay and silage	\$3,378,632	\$5.46	\$885	27.0 %
Grain	3,710,620	6.00	971	29.7
Less cost of feeding heifers	(1,435,281)	(2.32)	(376)	(11.5)
Total feed	\$5,653,971	\$9.14	\$1,480	45.2 %

Herd replacement cost:				
Depreciation - dairy cows	\$615,210	\$0.99	\$161	4.9 %
Loss on sale of cows	74,737	0.12	20	0.6
Total herd replacement cost	\$689,947	\$1.11	\$181	5.5 %

Other operating expenses:				
Interest and rent	\$391,769	\$0.63	\$103	3.1 %
Equipment lease	19,201	0.03	5	0.1
Labor	856,857	1.38	224	6.9
Depreciation - other	282,434	0.46	74	2.3
Milk hauling	490,224	0.79	128	3.9
Industry assessments	125,860	0.20	33	1.0
Supplies	423,568	0.69	111	3.4
BST	0	0.00	0	0.0
Corral cleaning	23,762	0.04	6	0.2
Repairs and maintenance	299,561	0.48	79	2.4
Utilities	143,661	0.23	38	1.1
Taxes and licenses	106,876	0.17	28	0.9
Insurance	41,483	0.07	11	0.3
Fuel and oil	137,380	0.22	36	1.1
Legal and accounting	17,165	0.03	4	0.1
Employee benefits	19,665	0.03	5	0.2
Veterinary and breeding	175,901	0.29	46	1.4
Testing and trimming	36,164	0.06	9	0.3
Hauling livestock	6,568	0.01	2	0.1
Miscellaneous	4,571	0.01	1	0.0
Less cost of raising heifers	(313,952)	(0.51)	(82)	(2.5)
Total other expenses	\$3,288,718	\$5.31	\$861	26.3 %
Total expenses	\$9,632,636	\$15.56	\$2,522	77.0 %
NET INCOME	\$2,874,991	\$4.65	\$753	23.0 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	3,126
Average daily production per cow	73
Average butterfat test	3.59 %
Average protein test	3.03 %
Average somatic cell count	163,343
Herd turnover rate	29.76 %

GENSKE, MULDER & CO., LLP
 CERTIFIED PUBLIC ACCOUNTANTS
 Costa Mesa (949) 650-9580
 Ontario (909) 483-2100
 Salida (209) 523-3573

TOP 25% OF OUR DAIRY CLIENTS
 AVERAGE INCOME AND EXPENSES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	CALIFORNIA				IDAHO				WASHINGTON				TEXAS			
	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT	AMOUNT	PER CWT	PER COW	PER-CENT
INCOME:																
Milk	\$12,151,663	\$18.82	\$3,321	94.6 %	\$10,923,061	\$19.34	\$3,132	98.5 %	\$20,099,257	\$20.54	\$3,653	95.7 %	\$20,276,475	\$20.61	\$3,337	98.7 %
Milk futures	5,896	0.01	2	0.0	0	0.00	0	0.0	0	0.00	0	0.0	(132,965)	(0.13)	(22)	(0.6)
Calves and heifers	76,430	0.12	21	0.6	26,119	0.05	7	0.2	423,092	0.43	77	2.0	149,745	0.15	25	0.7
Patronage dividend	148,986	0.23	41	1.2	141,185	0.25	40	1.3	467,090	0.48	85	2.2	78,333	0.08	13	0.4
Other	466,865	0.72	128	3.6	3,363	0.01	1	0.0	13,176	0.01	2	0.1	167,206	0.17	27	0.8
Total income	\$12,849,840	\$19.90	\$3,513	100.0 %	\$11,093,728	\$19.65	\$3,180	100.0 %	\$21,002,615	\$21.46	\$3,617	100.0 %	\$20,538,794	\$20.88	\$3,380	100.0 %
EXPENSES:																
Feed:																
Hay, silage and farming	\$2,898,914	\$4.49	\$792	22.6 %	\$3,636,507	\$6.44	\$1,042	32.8 %	\$5,524,137	\$5.64	\$1,004	26.3 %	\$4,224,907	\$4.29	\$695	20.6 %
Grain	4,527,741	7.01	1,238	35.2	3,392,628	6.01	973	30.6	4,524,323	4.62	822	21.5	6,600,376	6.71	1,086	32.1
Less cost of feeding heifers	(1,411,928)	(2.19)	(386)	(11.0)	(1,527,785)	(2.71)	(438)	(13.8)	(2,511,341)	(2.56)	(456)	(11.9)	(2,099,303)	(2.13)	(345)	(10.2)
Total feed	\$6,014,727	\$9.31	\$1,644	46.8 %	\$5,501,350	\$9.74	\$1,577	49.6 %	\$7,537,119	\$7.70	\$1,370	35.9 %	\$8,725,980	\$8.87	\$1,436	42.5 %
Herd replacement cost:																
Depreciation - dairy cows	\$579,564	\$0.90	\$158	4.5 %	\$601,819	\$1.07	\$173	5.4 %	\$886,998	\$0.91	\$161	4.2 %	\$892,371	\$0.91	\$147	4.3 %
Loss on sale of cows	213,698	0.33	59	1.7	362,505	0.64	104	3.3	659,507	0.67	120	3.2	751,970	0.76	124	3.7
Total herd replacement cost	\$793,262	\$1.23	\$217	6.2 %	\$964,324	\$1.71	\$277	8.7 %	\$1,546,505	\$1.58	\$281	7.4 %	\$1,644,341	\$1.67	\$271	8.0 %
Other operating expenses:																
Interest and rent	\$485,589	\$0.75	\$133	3.8 %	\$595,446	\$1.05	\$171	5.4 %	\$473,325	\$0.48	\$86	2.2 %	\$829,613	\$0.84	\$136	4.0 %
Equipment lease	721	0.00	0	0.0	16,011	0.03	4	0.1	16,143	0.02	3	0.1	1,158	0.00	0	0.0
Labor	726,135	1.12	199	5.7	630,321	1.12	181	5.7	1,271,084	1.30	231	6.0	1,290,229	1.31	212	6.3
Depreciation - other	302,730	0.47	83	2.4	548,185	0.97	157	5.0	796,046	0.81	145	3.8	735,915	0.75	121	3.6
Milk hauling	226,054	0.35	62	1.8	171,018	0.30	49	1.5	628,607	0.64	114	3.0	995,606	1.01	164	4.8
Industry assessments	125,168	0.19	34	1.0	98,935	0.18	28	0.9	275,456	0.28	50	1.3	239,789	0.24	39	1.2
Supplies	352,318	0.55	96	2.7	404,953	0.72	116	3.7	527,312	0.54	96	2.5	520,631	0.53	86	2.5
BST	74,841	0.12	20	0.6	0	0.00	0	0.0	0	0.00	0	0.0	62,794	0.06	10	0.3
Corral cleaning	5,350	0.01	1	0.0	2,963	0.01	1	0.0	33,145	0.03	6	0.1	16,053	0.02	3	0.1
Repairs and maintenance	363,208	0.56	99	2.8	201,142	0.36	57	1.8	726,690	0.74	132	3.5	569,438	0.58	94	2.8
Utilities	168,007	0.26	46	1.3	125,610	0.22	36	1.1	228,091	0.23	41	1.1	247,599	0.25	41	1.2
Taxes and licenses	124,499	0.19	34	1.0	101,205	0.18	29	0.9	190,044	0.20	34	0.9	156,106	0.16	26	0.8
Insurance	95,851	0.15	26	0.7	52,484	0.09	15	0.5	64,443	0.07	12	0.3	112,147	0.12	18	0.5
Fuel and oil	133,820	0.21	37	1.0	55,020	0.10	16	0.5	394,802	0.40	72	1.9	330,878	0.34	54	1.6
Legal and accounting	22,884	0.04	6	0.2	23,224	0.04	7	0.2	119,603	0.12	22	0.6	121,731	0.12	20	0.6
Employee benefits	58,900	0.09	16	0.5	9,731	0.02	3	0.1	35,871	0.04	7	0.2	32,666	0.03	5	0.2
Veterinary and breeding	133,879	0.21	37	1.0	125,516	0.22	36	1.1	454,351	0.47	83	2.2	310,790	0.32	51	1.5
Testing and trimming	42,874	0.07	12	0.3	58,867	0.10	17	0.5	81,267	0.08	15	0.4	88,453	0.09	15	0.4
Hauling livestock	11,884	0.02	3	0.1	6,185	0.01	2	0.1	18,313	0.02	3	0.1	11,442	0.01	2	0.1
Miscellaneous	9,005	0.01	2	0.1	1,142	0.00	0	0.0	7,812	0.01	1	0.0	21,444	0.02	4	0.1
Less cost of raising heifers	(355,689)	(0.55)	(97)	(2.8)	0	0.00	0	0.0	(627,835)	(0.64)	(114)	(3.0)	(522,953)	(0.53)	(86)	(2.6)
Total other expenses	\$3,108,028	\$4.82	\$849	24.2 %	\$3,227,958	\$5.72	\$925	29.1 %	\$5,714,570	\$5.84	\$1,039	27.2 %	\$6,171,529	\$6.27	\$1,015	30.0 %
Total expenses	\$9,916,017	\$15.36	\$2,710	77.2 %	\$9,693,632	\$17.17	\$2,779	87.4 %	\$14,798,194	\$15.12	\$2,690	70.5 %	\$16,541,850	\$16.81	\$2,722	80.5 %
NET INCOME	\$2,933,823	\$4.54	\$803	22.8 %	\$1,400,096	\$2.48	\$401	12.6 %	\$6,204,421	\$6.34	\$1,127	29.5 %	\$3,996,944	\$4.07	\$658	19.5 %

AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	3,153	2,959	4,809	5,204
Average daily production per cow	75	70	75	69
Average butterfat test	3.67 %	3.65 %	3.69 %	3.66 %
Average solids-non-fat	8.82 %	-	-	-
Average protein test	-	3.05 %	3.15 %	3.09 %
Average somatic cell count	-	-	-	152,238
Herd turnover rate	37.12 %	34.77 %	34.30 %	38.35 %

Genske, Mulder and Company, LLC -- Dairy Client Averages by State for 2010

2010 Income and Expense	California	Upper Midwest	Idaho	Texas	Arizona	New Mexico	High Plains	Washington
INCOME								
milk	\$14.87	\$17.01	\$15.02	\$16.64	\$16.10	\$16.29	\$17.22	\$16.26
milk futures	\$0.00	\$0.06	(\$0.02)	\$0.02	(\$0.05)	\$0.00	(\$0.01)	(\$0.13)
calves & heifers	\$0.13	\$0.16	\$0.07	\$0.13	\$0.23	\$0.17	\$0.20	\$0.17
patronage dividend	\$0.18	\$0.12	\$0.11	\$0.17	\$0.28	\$0.17	\$0.11	\$0.37
other	\$0.21	\$0.43	\$0.05	\$0.15	\$0.11	\$0.06	\$0.18	\$0.05
total income	\$15.39	\$17.78	\$15.23	\$17.11	\$16.67	\$16.69	\$17.70	\$16.72
EXPENSES								
hay, silage and farming	\$4.20	\$4.00	\$5.13	\$4.18	\$4.01	\$4.68	\$4.51	\$4.37
grain	\$5.43	\$4.97	\$4.98	\$5.43	\$5.42	\$5.51	\$4.46	\$4.70
less cost of feeding heifers	(\$2.24)	(\$2.01)	(\$2.23)	(\$2.21)	(\$1.72)	(\$2.31)	(\$1.93)	(\$2.31)
total feed cost	\$7.39	\$6.96	\$7.88	\$7.40	\$7.71	\$7.88	\$7.04	\$6.76
Herd replacement costs								
depreciation on cows	\$0.99	\$1.17	\$0.91	\$1.11	\$1.08	\$1.02	\$0.96	\$0.84
loss on sale of cows	\$0.56	\$0.73	\$0.67	\$0.91	\$0.60	\$0.53	\$0.87	\$0.57
total replacement cost	\$1.55	\$1.90	\$1.58	\$2.02	\$1.68	\$1.55	\$1.83	\$1.41
Other expenses								
interest and rent	\$0.90	\$1.08	\$0.99	\$1.02	\$1.01	\$0.69	\$0.99	\$0.76
equipment lease	\$0.00	\$0.05	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02
labor	\$1.24	\$1.96	\$1.27	\$1.42	\$1.35	\$1.45	\$1.52	\$1.44
depreciation - other	\$0.51	\$0.82	\$0.70	\$0.79	\$0.49	\$0.45	\$0.67	\$0.44
milk hauling	\$0.33	\$0.18	\$0.38	\$0.99	\$0.69	\$0.84	\$1.40	\$0.60
industry assessments	\$0.25	\$0.18	\$0.22	\$0.30	\$0.46	\$0.26	\$0.30	\$0.38
supplies	\$0.57	\$0.86	\$0.65	\$0.56	\$0.56	\$0.69	\$0.69	\$0.71
BST	\$0.03	\$0.18	\$0.03	\$0.05	\$0.00	\$0.02	\$0.11	\$0.00
corral cleaning	\$0.06	\$0.12	\$0.03	\$0.02	\$0.11	\$0.06	\$0.07	\$0.06
repairs and maintenance	\$0.51	\$0.85	\$0.43	\$0.44	\$0.37	\$0.42	\$0.47	\$0.77
utilities	\$0.30	\$0.36	\$0.23	\$0.31	\$0.44	\$0.26	\$0.32	\$0.27
taxes & licenses	\$0.21	\$0.23	\$0.18	\$0.18	\$0.14	\$0.22	\$0.21	\$0.19
insurance	\$0.16	\$0.20	\$0.10	\$0.11	\$0.12	\$0.10	\$0.15	\$0.12
fuel and oil	\$0.17	\$0.32	\$0.21	\$0.26	\$0.18	\$0.23	\$0.25	\$0.28
legal and accounting	\$0.05	\$0.09	\$0.05	\$0.08	\$0.05	\$0.04	\$0.06	\$0.05
employee benefits	\$0.11	\$0.05	\$0.02	\$0.03	\$0.04	\$0.05	\$0.06	\$0.03
veterinary and breeding	\$0.24	\$0.45	\$0.29	\$0.38	\$0.15	\$0.30	\$0.31	\$0.36
testing and trimming	\$0.08	\$0.11	\$0.10	\$0.09	\$0.07	\$0.06	\$0.08	\$0.11
livestock hauling	\$0.02	\$0.03	\$0.02	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01
miscellaneous	\$0.03	\$0.04	\$0.01	\$0.02	\$0.01	\$0.01	\$0.03	\$0.01
less cost of raising heifers	(\$0.50)	(\$0.30)	(\$0.26)	(\$0.47)	(\$0.48)	(\$0.55)	(\$0.32)	(\$0.46)
total other expenses	\$5.27	\$7.86	\$5.68	\$6.61	\$5.78	\$5.62	\$7.39	\$6.15
Total expenses	\$14.21	\$16.72	\$15.14	\$16.03	\$15.17	\$15.05	\$16.26	\$14.32
TOTAL NET INCOME	\$1.18	\$1.06	\$0.09	\$1.08	\$1.50	\$1.64	\$1.44	\$2.40
income (loss) per cow	\$259	\$234	\$19	\$218	\$284	\$339	\$309	\$569
avg. no. milking cows	2,056	1,605	1,709	2,422	2,439	3,164	2,083	2,363
avg. milk/cow/day	70 lbs.	71 lbs.	71 lbs.	66 lbs.	62 lbs.	68 lbs.	70 lbs.	75 lbs.
avg. fat test	3.63%	3.68%	3.61%	3.66%	3.66%	3.62%	3.56%	3.62%
avg. protein (or SNF) test	8.86%	3.11%	3.08%	3.09%	3.17%	3.07%	3.08%	3.14%
herd turnover rate	39.70%	40.00%	36.60%	35.90%	25.70%	31.30%	33.40%	37.50%

Dairy Farm Operating Trends

December 31, 2011



To Our Valued Clients and Other Friends in the Dairy Industry

The following pages contain the Frazer, LLP's Dairy Farm Operating Trends for the year ended December 31, 2011.

The data is compiled from dairy operations in Southern California, the San Joaquin Valley, Kern County, Arizona, Idaho, New Mexico, Panhandle, and the Pacific Northwest, which consists of Washington and Oregon operating collectively, with a combined milk production of over 7.4 billion pounds and more than 356,000 head of mature cows for the year ended December 31, 2011.

This report includes a comparison of the results in the regions listed above for the year ended December 31, 2011 both on a "per hundredweight of milk" basis and on a "per head" basis. Also included are selected financial ratios and other information for the year.

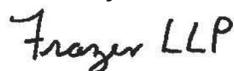
This publication is designed as a reference tool and a management aid for dairy farm managers and advisors. Frazer, LLP believes the information to be reliable, but is not responsible for errors in reported source information.

Our publication continues to be recognized as the top industry source for relevant dairy statistics. This report is provided to and widely utilized by dairy farmers, lending institutions, universities, colleges and other agribusiness industries.

We appreciate all of your past and present support and thank you for your continued reliance on Frazer, LLP. If you have any comments or questions, please contact our Agribusiness partners, Ralph Lizardo, Tim Gulling or Sharon A. Davis at our Brea office at (714) 990-1040 and David Bekedam, Mike Edwards or Bob Matlick at our Visalia office at (559) 732-4135.

For more information regarding our firm, our Agribusiness department and our publication, please visit our website at www.frazerllp.com.

Sincerely,



FRAZER, LLP

Certified Public Accountants and Consultants

May 2012

DAIRY FARM OPERATING TRENDS

TABLE OF CONTENTS

December 31, 2011

	PAGE
2011 Year in Review.....	1
Comparison by Area on a Per Head Basis	3
Comparison by Area on a Per Hundredweight of Milk Basis	5
Comparison by Area - Ratios	7
Southern California	9
San Joaquin Valley	17
Kern County.....	25
Arizona	33
Idaho	41
New Mexico	49
Panhandle.....	57
Pacific Northwest.....	65
Explanation of Income and Cost Factors	70
Our Firm and the Dairy Industry	71

Comparative Net Income (Loss) By Region:

Although 2011 milk prices were the highest in recent years, and reached their peaks last summer, skyrocketing input costs such as feed and fuel lowered bottom line profit margins in every milk production region. Milk components such as proteins and butterfat all trended higher in 2011.

Net income per head:	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Pacific Northwest
2011	\$ 6	\$ 346	\$ 627	\$ 421	\$ 408	\$ 364	\$ 644
2010	89	141	242	252	90	162	90
Change	\$ (83)	\$ 205	\$ 385	\$ 169	\$ 318	\$ 202	\$ 554

Comparative Feed Cost By Region:

The feed cost increases that began in the latter half of 2010 went on a dramatic upward trend in 2011 which have really only slightly slowed down. Increased pricing pressure from both international and domestic demand has rendered current profitable milk to feed cost ratios almost non-existent.

Feed cost per head:	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Pacific Northwest
2011	\$ 2,383	\$ 2,266	\$ 2,040	\$ 2,180	\$ 2,167	\$ 2,106	\$ 2,102
2010	1,599	1,649	1,602	1,594	1,671	1,555	1,775
Change	\$ 784	\$ 617	\$ 438	\$ 586	\$ 496	\$ 551	\$ 327

Comparative Production By Region:

Milk production increased in most regions for the 2nd straight year and continue on pace to increase during 2012. Milk production increased domestically by 1.8 percent during 2011, with average milk cow numbers also increasing in 2011. Mild weather conditions this past winter and increased culling of marginal cows are contributing to increased production in 2012. The strong increase in supply has caused the processors to start enforcing supply base limitations and charging penalties for over production in 2012.

Lbs. per milk cow per day:	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Pacific Northwest
2011	65.0	72.7	71.3	66.4	70.0	67.8	69.1
2010	67.8	71.6	68.2	66.4	68.9	65.3	68.6
Change	(2.8)	1.1	3.1	-	1.1	2.5	0.5

Herd Turnover Rate By Region:

Herd turnover rates increased in most regions in 2011 and continue to increase well into 2012. With beef prices increasing throughout 2011 and staying strong in 2012 and with the availability of relatively inexpensive replacement animals, it is causing sweeping out of marginal cows, herd turnover rates should continue to stay high.

	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Pacific Northwest
2011	34.5%	41.3%	34.4%	31.3%	37.3%	34.3%	33.2%
2010	35.8%	37.4%	34.4%	31.2%	34.3%	29.9%	34.0%
Change	-1.3%	3.9%	0.0%	0.1%	3.0%	4.4%	-0.8%

Average Cost of Replacement Per Head By Region:

The cost of replacements trended higher in 2011 and continues to do so in 2012 mainly due to feed and other input cost increases. Still the cost of replacements are below the most recent years' higher values which peaked in 2008.

	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Pacific Northwest
2011	\$ 1,507	\$ 1,378	\$ 1,495	\$ 1,486	\$ 1,271	\$ 1,643	\$ 1,345
2010	1,439	1,332	1,275	1,413	1,167	1,384	1,109
Change	\$ 68	\$ 46	\$ 220	\$ 73	\$ 104	\$ 259	\$ 236

CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

COMPARISON BY AREA
FOR THE YEAR ENDED DECEMBER 31, 2011
(BASED ON AVERAGE AMOUNTS PER HEAD)

	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your December 31, 2011 Amounts
Income:									
Milk sales	\$ 3,863	\$ 4,080	\$ 3,966	\$ 4,253	\$ 4,185	\$ 3,948	\$ 4,116	\$ 4,397	\$
Calves and other	96	68	38	54	44	60	51	119	
Total income	\$ 3,959	\$ 4,148	\$ 4,004	\$ 4,307	\$ 4,229	\$ 4,008	\$ 4,167	\$ 4,516	\$
Cost of operations:									
Feed:									
Grain	\$ 1,487	\$ 1,660	\$ 1,483	\$ 1,462	\$ 1,468	\$ 1,443	\$ 1,370	\$ 1,410	\$
Hay and other	896	606	557	718	699	663	650	692	
Total feed	\$ 2,383	\$ 2,266	\$ 2,040	\$ 2,180	\$ 2,167	\$ 2,106	\$ 2,020	\$ 2,102	\$
Labor, (including fringe costs)	\$ 352	\$ 315	\$ 272	\$ 343	\$ 361	\$ 319	\$ 354	\$ 368	\$
Herd replacement costs	\$ 316	\$ 259	\$ 259	\$ 265	\$ 226	\$ 222	\$ 269	\$ 291	\$
Other costs:									
Milk hauling	\$ 85	\$ 74	\$ 72	\$ 100	\$ 67	\$ 152	\$ 136	\$ 145	\$
State and association charges	32	43	39	53	45	77	50	60	
Veterinary, breeding, testing, etc.	93	98	60	95	73	80	86	122	
Supplies	101	109	97	134	203	108	118	104	
Repairs and maintenance	159	105	92	118	157	99	80	134	
Utilities	59	66	74	86	47	70	48	40	
Occupancy costs	119	122	104	124	91	83	126	185	
Depreciation - equipment	29	68	59	48	82	58	54	65	
Interest	97	132	103	175	118	110	101	110	
Miscellaneous	128	145	106	165	184	160	159	146	
Total other costs	\$ 902	\$ 962	\$ 806	\$ 1,098	\$ 1,067	\$ 997	\$ 958	\$ 1,111	\$
Total cost of operations	\$ 3,953	\$ 3,802	\$ 3,377	\$ 3,886	\$ 3,821	\$ 3,644	\$ 3,601	\$ 3,872	\$
Net income	\$ 6	\$ 346	\$ 627	\$ 421	\$ 408	\$ 364	\$ 566	\$ 644	\$

CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

COMPARISON BY AREA
FOR THE YEAR ENDED DECEMBER 31, 2011
(BASED ON AVERAGE AMOUNTS
PER HUNDREDWEIGHT OF MILK)

	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your December 31, 2011 Amounts
Income:									
Milk sales	\$ 18.85	\$ 18.68	\$ 19.02	\$ 20.74	\$ 18.88	\$ 19.89	\$ 20.57	\$ 20.58	\$
Calves and other	0.44	0.32	0.19	0.28	0.20	0.29	0.26	0.57	
Total income	\$ 19.29	\$ 19.00	\$ 19.21	\$ 21.02	\$ 19.08	\$ 20.18	\$ 20.83	\$ 21.15	\$
Cost of operations:									
Feed:									
Grain	\$ 7.26	\$ 7.60	\$ 7.11	\$ 7.13	\$ 6.62	\$ 7.27	\$ 6.85	\$ 6.60	\$
Hay and other	4.38	2.77	2.67	3.48	3.16	3.35	3.25	3.27	
Total feed	\$ 11.64	\$ 10.37	\$ 9.78	\$ 10.61	\$ 9.78	\$ 10.62	\$ 10.10	\$ 9.87	\$
Labor, (including fringe costs)	\$ 1.72	\$ 1.45	\$ 1.31	\$ 1.67	\$ 1.63	\$ 1.62	\$ 1.76	\$ 1.71	\$
Herd replacement costs	\$ 1.54	\$ 1.18	\$ 1.24	\$ 1.29	\$ 1.02	\$ 1.12	\$ 1.35	\$ 1.36	\$
Other costs:									
Milk hauling	\$ 0.41	\$ 0.34	\$ 0.34	\$ 0.49	\$ 0.30	\$ 0.77	\$ 0.68	\$ 0.68	\$
State and association charges	0.16	0.20	0.19	0.26	0.20	0.39	0.25	0.28	
Veterinary, breeding, testing, etc.	0.45	0.45	0.29	0.47	0.33	0.39	0.43	0.57	
Supplies	0.49	0.50	0.47	0.66	0.91	0.55	0.59	0.49	
Repairs and maintenance	0.78	0.48	0.44	0.58	0.70	0.50	0.40	0.63	
Utilities	0.29	0.30	0.35	0.42	0.21	0.35	0.24	0.19	
Occupancy costs	0.58	0.55	0.51	0.61	0.40	0.42	0.64	0.87	
Depreciation - equipment	0.14	0.31	0.28	0.23	0.37	0.29	0.27	0.31	
Interest	0.47	0.61	0.49	0.85	0.53	0.56	0.51	0.53	
Miscellaneous	0.62	0.65	0.50	0.82	0.82	0.81	0.80	0.67	
Total other costs	\$ 4.39	\$ 4.39	\$ 3.86	\$ 5.39	\$ 4.77	\$ 5.03	\$ 4.81	\$ 5.22	\$
Total cost of operations	\$ 19.29	\$ 17.39	\$ 16.19	\$ 18.96	\$ 17.20	\$ 18.39	\$ 18.02	\$ 18.16	\$
Net income	\$ -	\$ 1.61	\$ 3.02	\$ 2.06	\$ 1.88	\$ 1.79	\$ 2.81	\$ 2.99	\$

SUMMARY OF FINANCIAL STATISTICS

COMPARISON BY AREA FOR THE YEAR ENDED DECEMBER 31, 2011

	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your December 31, 2011 Results
1. Current Ratio	0.34 : 1	0.84 : 1	1.15 : 1	0.50 : 1	0.83 : 1	0.86 : 1	0.67 : 1	0.82 : 1	
2. Herd Line Debt Per Cow	\$ 915	\$ 953	\$ 1,124	\$ 1,074	\$ 657	\$ 774	\$ 875	\$ 737	\$
3. Total Debt Per Cow	\$ 2,098	\$ 3,047	\$ 3,225	\$ 3,370	\$ 2,568	\$ 2,273	\$ 2,355	\$ 2,229	\$
4. Debt to Equity Ratio	2.09 : 1	2.02 : 1	1.28 : 1	2.87 : 1	1.56 : 1	1.63 : 1	1.99 : 1	1.19 : 1	
5. Return on Total Assets	0.2%	5.0%	7.7%	6.6%	6.7%	6.8%	10.7%	11.1%	
6. Income per milking cow per month	\$ 0.24	\$ 59.07	\$ 82.44	\$ 42.84	\$ 56.87	\$ 49.14	\$ 53.28	\$ 74.13	\$

1. The current ratio represents current assets divided by current liabilities.
2. Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
3. Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
4. Debt to equity ratio represents total debt divided by total equity.
5. The return on total assets represents the net income divided by the total assets, stated at cost.
6. Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
SOUTHERN CALIFORNIA
(BASED ON AVERAGE AMOUNTS)

	PER HEAD			PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:								
Milk sales	\$ 3,863	\$ 3,271	\$ 2,423	\$ 18.85	\$ 15.68	\$ 12.42		
Calves and other	96	58	96	0.44	0.23	0.46		
Total income	\$ 3,959	\$ 3,329	\$ 2,519	\$ 19.29	\$ 15.91	\$ 12.88		
Cost of operations:								
Feed:								
Grain	\$ 1,487	\$ 1,117	\$ 1,028	\$ 7.26	\$ 5.36	\$ 5.28		
Hay and other	896	482	674	4.38	2.30	3.46		
Total feed	\$ 2,383	\$ 1,599	\$ 1,702	\$ 11.64	\$ 7.66	\$ 8.74		
Labor, (including fringe costs)	\$ 352	\$ 371	\$ 363	\$ 1.72	\$ 1.78	\$ 1.86		
Herd replacement costs	\$ 316	\$ 371	\$ 322	\$ 1.54	\$ 1.78	\$ 1.65		
Other costs:								
Milk hauling	\$ 85	\$ 88	\$ 79	\$ 0.41	\$ 0.42	\$ 0.41		
State and association charges	32	31	35	0.16	0.15	0.18		
Veterinary, breeding, testing, etc.	93	72	60	0.45	0.35	0.30		
Supplies	101	105	107	0.49	0.51	0.55		
Repairs and maintenance	159	126	114	0.78	0.61	0.59		
Utilities	59	63	63	0.29	0.30	0.32		
Occupancy costs	119	128	123	0.58	0.61	0.64		
Depreciation - equipment	29	40	38	0.14	0.19	0.19		
Interest	97	112	132	0.47	0.54	0.68		
Miscellaneous	128	134	140	0.62	0.65	0.70		
Total other costs	\$ 902	\$ 899	\$ 891	\$ 4.39	\$ 4.33	\$ 4.56		
Total cost of operations	\$ 3,953	\$ 3,240	\$ 3,278	\$ 19.29	\$ 15.55	\$ 16.81		
Net income (loss)	\$ 6	\$ 89	\$ (759)	\$ -	\$ 0.36	\$ (3.93)		

SUMMARY OF FINANCIAL STATISTICS

SOUTHERN CALIFORNIA

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.34 : 1	0.33 : 1	0.22 : 1
2. Herd Line Debt Per Cow	\$ 915	\$ 1,138	\$ 1,211
3. Total Debt Per Cow	\$ 2,098	\$ 2,082	\$ 2,622
4. Debt to Equity Ratio	2.09 : 1	1.09 : 1	2.00 : 1
5. Return on Total Assets	0.2%	1.9%	-15.5%
6. Income (loss) per milking cow per month	\$ 0.24	\$ 9.87	\$ (74.43)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
SOUTHERN CALIFORNIA
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	20,496	20,834	19,490
Daily pounds of milk, per milking cow	65.0	67.8	61.2
Butterfat test	3.49 %	3.44 %	3.42 %
Solids-non-fat test	8.78 %	8.78 %	8.72 %
Blend price per hundredweight	\$ 18.85	\$ 15.68	\$ 12.42
Milk receipts, per milking cow	\$ 3,863	\$ 3,884	\$ 2,778
HERD INFORMATION:			
Herd size - total	1,577	1,359	1,259
Percent of dry cows	13.6 %	15.8 %	12.8 %
Herd turnover rate	34.5 %	35.8 %	30.2 %
Composition of herd:			
Purchased cows	35 %	29 %	34 %
Self-raised cows	65 %	71 %	66 %
Cost of purchased cows	\$ 1,507	\$ 1,439	\$ 1,490
Beef price received	\$ 777	\$ 633	\$ 513
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	38.5 %	34.2 %	42.5 %
Hay and other	23.2 %	14.7 %	27.9 %
Totals	61.7 %	48.9 %	70.4 %

INCOME AND COST OF OPERATIONS

SOUTHERN CALIFORNIA

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

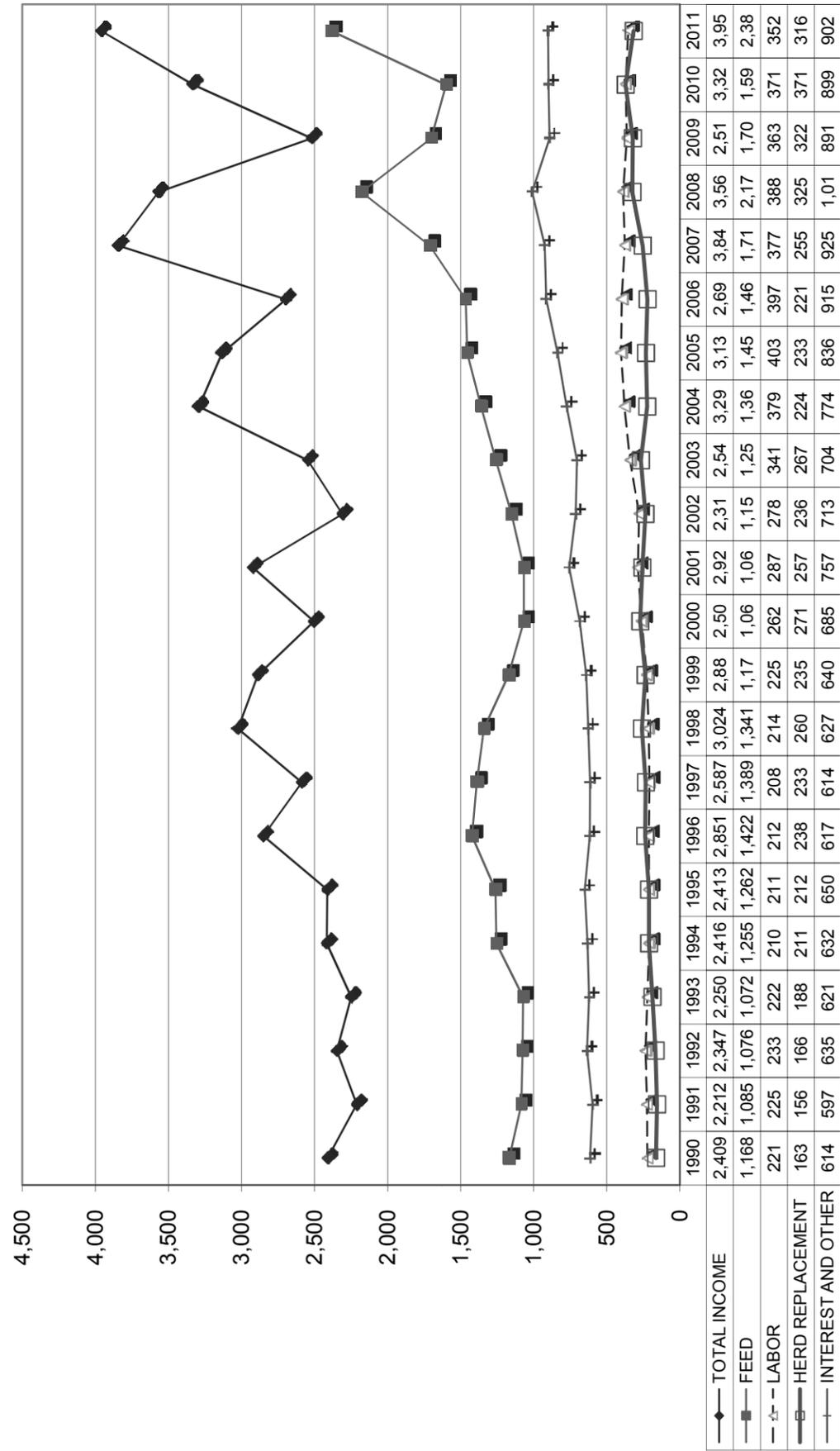
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 18.85	\$ 15.68	\$ 12.42
Calves and other	0.44	0.23	0.46
Total income	\$ 19.29	\$ 15.91	\$ 12.88
Total cost of operations:			
Feed	\$ 11.64	\$ 7.66	\$ 8.74
Labor	1.72	1.78	1.86
Herd replacement costs	1.54	1.78	1.65
Other costs	4.39	4.33	4.56
Total costs of operations	\$ 19.29	\$ 15.55	\$ 16.81
Net income (loss)	\$ -	\$ 0.36	\$ (3.93)
Cost of operations as a percentage of income	100.00%	97.74%	130.51%
Feed costs as a percentage of milk sales	61.75%	48.85%	70.37%
Net income (loss) per milking cow per month	\$ 0.24	\$ 9.87	\$ (74.43)
Cumulative net loss per cwt. from 2005 to 2011	\$ (2.79)		

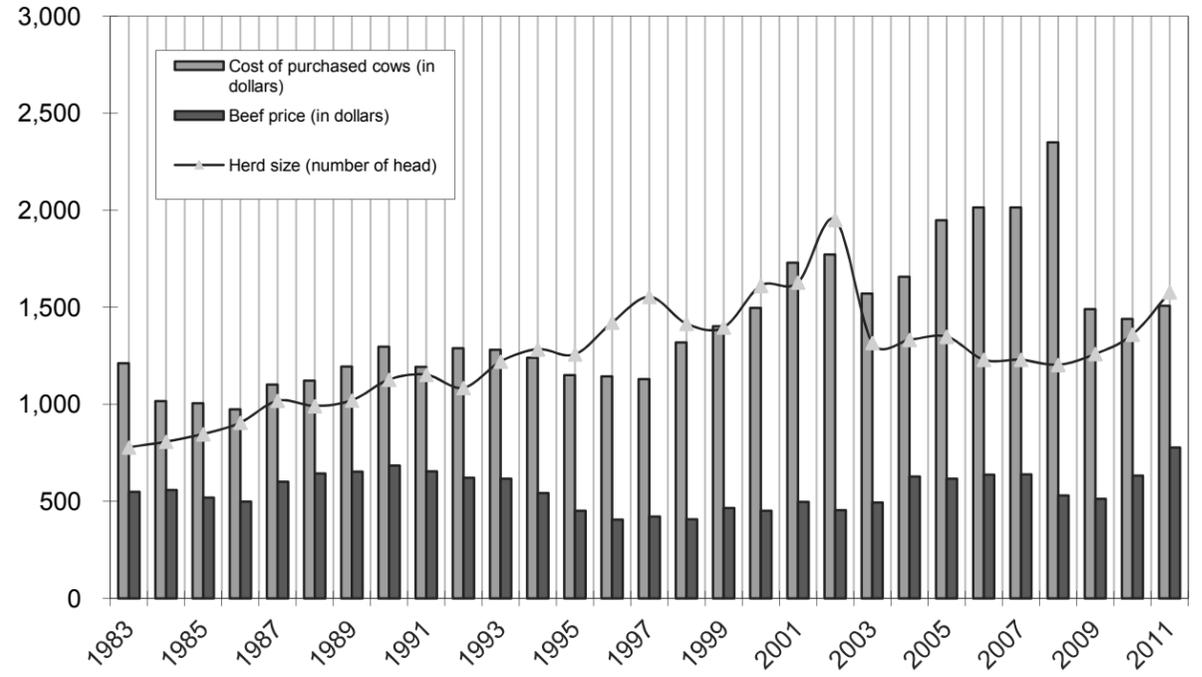
December 31, 2008 December 31, 2007 December 31, 2006 December 31, 2005

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Income:				
Milk Sales	\$ 17.22	\$ 18.46	\$ 12.25	\$ 14.75
Calves and other	0.28	0.23	0.48	0.42
Total income	\$ 17.50	\$ 18.69	\$ 12.73	\$ 15.17
Total cost of operations:				
Feed	\$ 10.69	\$ 8.31	\$ 6.90	\$ 7.05
Labor	1.90	1.83	1.86	1.95
Herd replacement costs	1.60	1.24	1.05	1.13
Other costs	4.95	4.51	4.30	4.04
Total costs of operations	\$ 19.14	\$ 15.89	\$ 14.11	\$ 14.17
Net income (loss)	\$ (1.64)	\$ 2.80	\$ (1.38)	\$ 1.00
Cost of operations as a percentage of income	109.37%	85.02%	110.84%	93.41%
Feed costs as a percentage of milk sales	62.08%	45.02%	56.33%	47.80%
Net income (loss) per milking cow per month	\$ (34.34)	\$ 53.99	\$ (33.82)	\$ 18.33
Cumulative net loss per cwt. from 2005 to 2011				

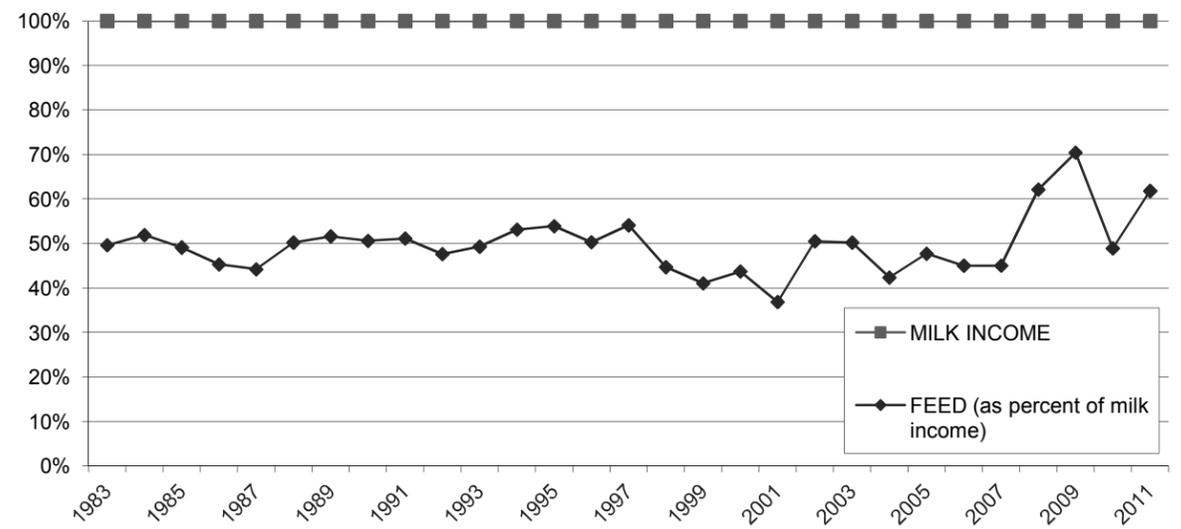
**LONG-TERM TREND - ON A "PER HEAD" BASIS
SOUTHERN CALIFORNIA
INCOME AND OPERATING COSTS
1990 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE, AND
HERD SIZE
SOUTHERN CALIFORNIA**



**FEED COST vs. MILK INCOME
SOUTHERN CALIFORNIA**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
SAN JOAQUIN VALLEY
(BASED ON AVERAGE AMOUNTS)

	PER HEAD			PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:								
Milk sales	\$ 4,080	\$ 3,311	\$ 2,534	\$ 18.68	\$ 14.94	\$ 11.71		
Calves and other	68	21	50	0.32	0.10	0.23		
Total income	\$ 4,148	\$ 3,332	\$ 2,584	\$ 19.00	\$ 15.04	\$ 11.94		
Cost of operations:								
Feed:								
Grain	\$ 1,660	\$ 1,262	\$ 1,267	\$ 7.60	\$ 5.70	\$ 5.86		
Hay and other	606	387	640	2.77	1.76	2.95		
Total feed	\$ 2,266	\$ 1,649	\$ 1,907	\$ 10.37	\$ 7.46	\$ 8.81		
Labor, (including fringe costs)	\$ 315	\$ 310	\$ 324	\$ 1.45	\$ 1.40	\$ 1.48		
Herd replacement costs	\$ 259	\$ 250	\$ 280	\$ 1.18	\$ 1.13	\$ 1.30		
Other costs:								
Milk hauling	\$ 74	\$ 73	\$ 71	\$ 0.34	\$ 0.33	\$ 0.33		
State and association charges	43	46	52	0.20	0.21	0.24		
Veterinary, breeding, testing, etc.	98	92	95	0.45	0.42	0.43		
Supplies	109	124	129	0.50	0.56	0.60		
Repairs and maintenance	105	97	97	0.48	0.44	0.45		
Utilities	66	75	82	0.30	0.34	0.38		
Occupancy costs	122	139	153	0.55	0.62	0.70		
Depreciation - equipment	68	61	69	0.31	0.27	0.32		
Interest	132	137	125	0.61	0.62	0.58		
Miscellaneous	145	138	162	0.65	0.61	0.75		
Total other costs	\$ 962	\$ 982	\$ 1,035	\$ 4.39	\$ 4.42	\$ 4.78		
Total cost of operations	\$ 3,802	\$ 3,191	\$ 3,546	\$ 17.39	\$ 14.41	\$ 16.37		
Net income (loss)	\$ 346	\$ 141	\$ (962)	\$ 1.61	\$ 0.63	\$ (4.43)		

See accompanying explanation of income and cost factors.

SUMMARY OF FINANCIAL STATISTICS

SAN JOAQUIN VALLEY

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.84 : 1	0.62 : 1	0.67 : 1
2. Herd Line Debt Per Cow	\$ 953	\$ 1,129	\$ 1,083
3. Total Debt Per Cow	\$ 3,047	\$ 2,724	\$ 2,767
4. Debt to Equity Ratio	2.02 : 1	2.10 : 1	2.30 : 1
5. Return on Total Assets	5.0%	2.4%	-16.5%
6. Income (loss) per milking cow per month	\$ 59.07	\$ 20.60	\$ (91.89)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
SAN JOAQUIN VALLEY
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	21,848	22,134	21,638
Daily pounds of milk, per milking cow	72.7	71.6	70.0
Butterfat test	3.64 %	3.58 %	3.57 %
Solids-non-fat test	8.82 %	8.73 %	8.71 %
Blend price per hundredweight	\$ 18.68	\$ 14.94	\$ 11.71
Milk receipts, per milking cow	\$ 4,080	\$ 3,910	\$ 2,992
HERD INFORMATION:			
Herd size - total	3,686	2,809	2,861
Percent of dry cows	17.6 %	15.3 %	15.3 %
Herd turnover rate	41.3 %	37.4 %	38.6 %
Composition of herd:			
Purchased cows	12 %	5 %	6 %
Self-raised cows	88 %	95 %	94 %
Cost of purchased cows	\$ 1,378	\$ 1,332	\$ 1,330
Beef price received	\$ 838	\$ 702	\$ 549
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	40.7 %	38.2 %	50.0 %
Hay and other	14.8 %	11.8 %	25.2 %
Totals	55.5 %	50.0 %	75.2 %

INCOME AND COST OF OPERATIONS

SAN JOAQUIN VALLEY

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

December 31, 2011 December 31, 2010 December 31, 2009

December 31, 2008

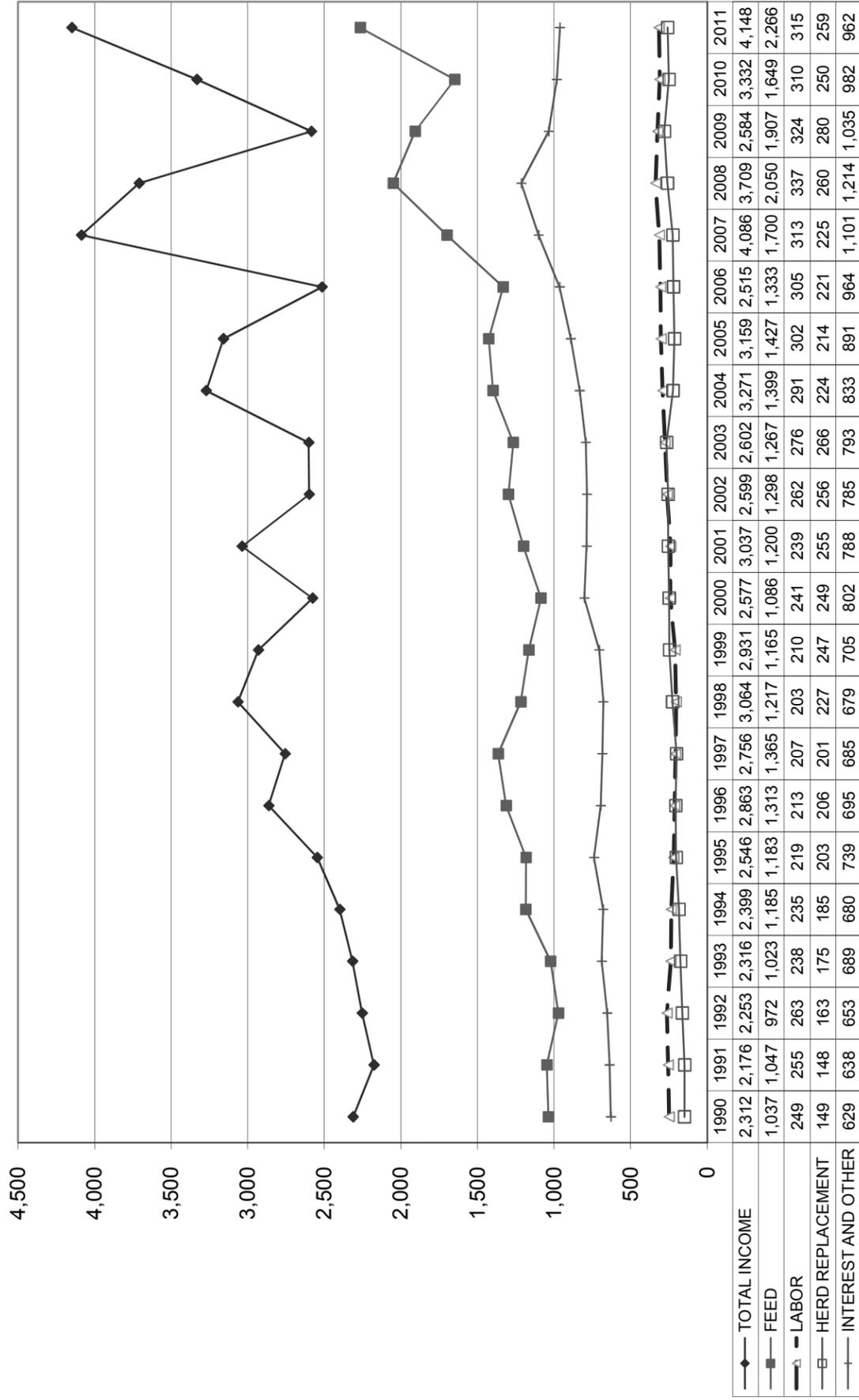
December 31, 2007

December 31, 2006

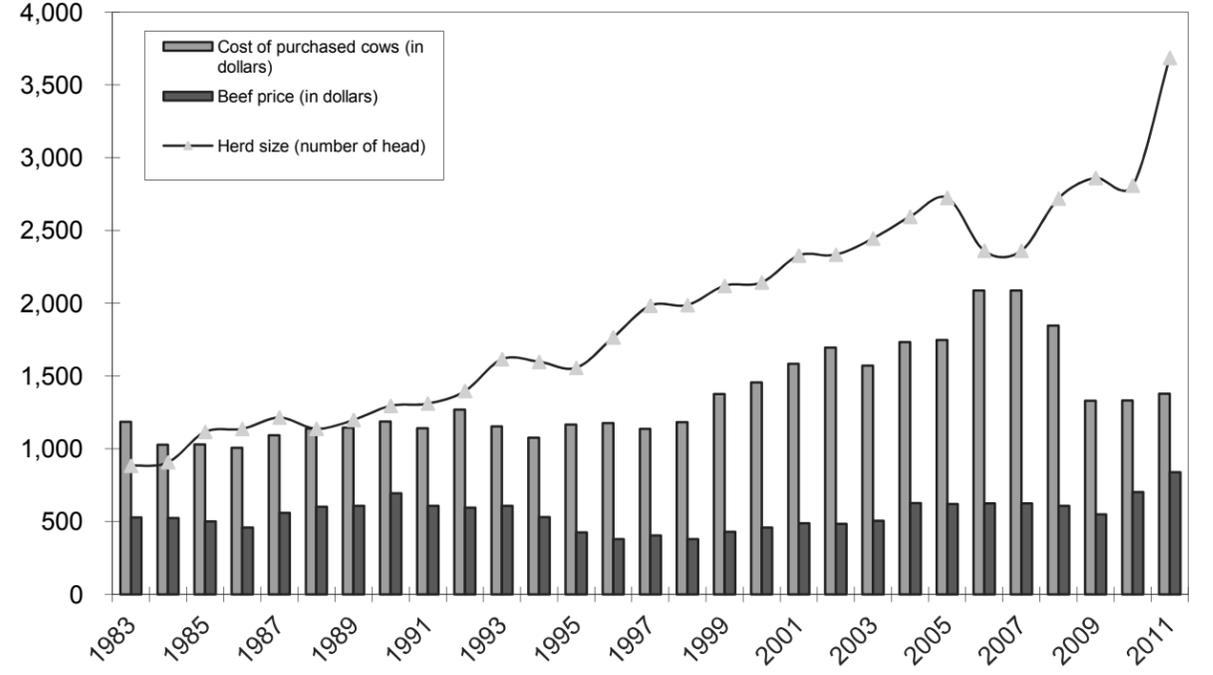
December 31, 2005

Income:														
Milk Sales	\$	18.68	\$	14.94	\$	11.71	\$	16.84	\$	18.48	\$	11.82	\$	14.45
Calves and other		0.32		0.10		0.23		0.14		0.35		0.38		0.25
Total income	\$	19.00	\$	15.04	\$	11.94	\$	16.98	\$	18.83	\$	12.20	\$	14.70
Total cost of operations:														
Feed	\$	10.37	\$	7.46	\$	8.81	\$	9.38	\$	7.84	\$	6.47	\$	6.64
Labor		1.45		1.40		1.48		1.54		1.44		1.48		1.41
Herd replacement costs		1.18		1.13		1.30		1.19		1.04		1.07		1.00
Other costs		4.39		4.42		4.78		5.52		5.03		4.68		4.13
Total costs of operations	\$	17.39	\$	14.41	\$	16.37	\$	17.63	\$	15.35	\$	13.70	\$	13.18
Net income (loss)	\$	1.61	\$	0.63	\$	(4.43)	\$	(0.65)	\$	3.48	\$	(1.50)	\$	1.52
Cost of operations as a percentage of income		91.53%		95.81%		137.10%		103.83%		81.52%		112.30%		89.66%
Feed costs as a percentage of milk sales		55.51%		49.93%		75.23%		55.70%		42.42%		54.74%		45.95%
Net income (loss) per milking cow per month	\$	59.07	\$	20.60	\$	(91.89)	\$	(1.40)	\$	88.56	\$	(27.19)	\$	31.96
Cumulative net income per cwt. from 2005 to 2011	\$	0.66												

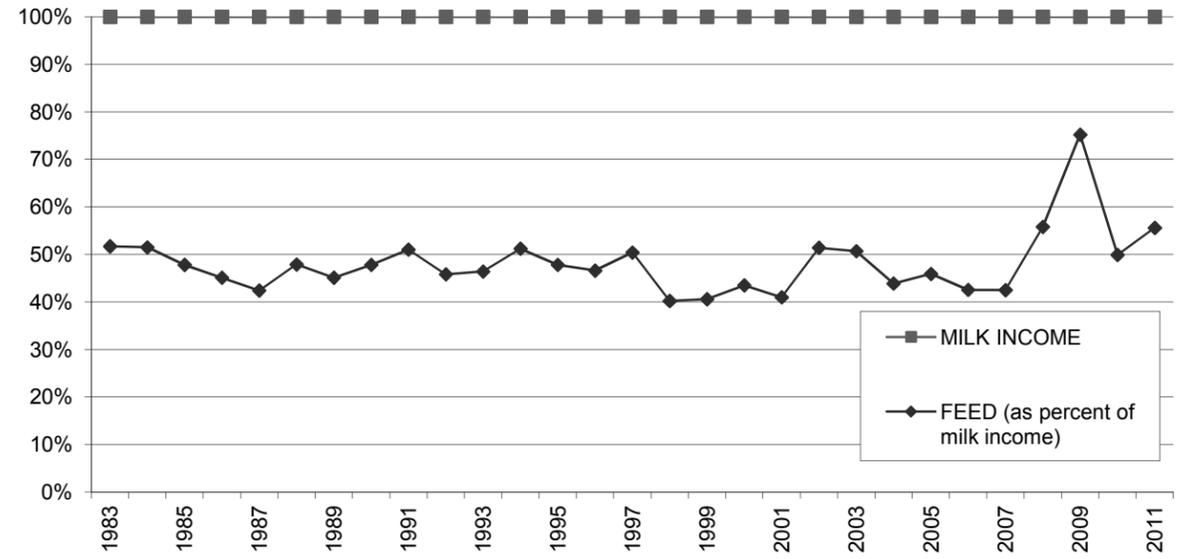
**LONG-TERM TREND - ON A "PER HEAD" BASIS
SAN JOAQUIN VALLEY
INCOME AND OPERATING COSTS
1990 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE,
AND HERD SIZE
SAN JOAQUIN VALLEY**



**FEED COST vs. MILK INCOME
SAN JOAQUIN VALLEY**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
KERN COUNTY
(BASED ON AVERAGE AMOUNTS)

	PER HEAD			PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:								
Milk sales	\$ 3,966	\$ 3,169	\$ 2,427	\$ 19.02	\$ 15.31	\$ 12.27	\$	\$
Calves and other	38	30	23	0.19	0.15	0.10		
Total income	\$ 4,004	\$ 3,199	\$ 2,450	\$ 19.21	\$ 15.46	\$ 12.37	\$	\$
Cost of operations:								
Feed:								
Grain	\$ 1,483	\$ 1,135	\$ 1,170	\$ 7.11	\$ 5.49	\$ 5.91	\$	\$
Hay and other	557	467	700	2.67	2.26	3.54		
Total feed	\$ 2,040	\$ 1,602	\$ 1,870	\$ 9.78	\$ 7.75	\$ 9.45	\$	\$
Labor, (including fringe costs)	\$ 272	\$ 273	\$ 272	\$ 1.31	\$ 1.31	\$ 1.38	\$	\$
Herd replacement costs	\$ 259	\$ 256	\$ 281	\$ 1.24	\$ 1.24	\$ 1.42	\$	\$
Other costs:								
Milk hauling	\$ 72	\$ 70	\$ 68	\$ 0.34	\$ 0.34	\$ 0.34	\$	\$
State and association charges	39	39	43	0.19	0.19	0.22		
Veterinary, breeding, testing, etc.	60	59	55	0.29	0.28	0.28		
Supplies	97	91	100	0.47	0.44	0.50		
Repairs and maintenance	92	91	101	0.44	0.43	0.51		
Utilities	74	77	74	0.35	0.37	0.37		
Occupancy costs	104	108	102	0.51	0.52	0.52		
Depreciation - equipment	59	62	71	0.28	0.30	0.36		
Interest	103	130	117	0.49	0.63	0.59		
Miscellaneous	106	99	123	0.50	0.47	0.63		
Total other costs	\$ 806	\$ 826	\$ 854	\$ 3.86	\$ 3.97	\$ 4.32	\$	\$
Total cost of operations	\$ 3,377	\$ 2,957	\$ 3,277	\$ 16.19	\$ 14.27	\$ 16.57	\$	\$
Net income (loss)	\$ 627	\$ 242	\$ (827)	\$ 3.02	\$ 1.19	\$ (4.20)	\$	\$

See accompanying explanation of income and cost factors.

SUMMARY OF FINANCIAL STATISTICS

KERN COUNTY

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.15 : 1	0.79 : 1	1.30 : 1
2. Herd Line Debt Per Cow	\$ 1,124	\$ 1,313	\$ 1,306
3. Total Debt Per Cow	\$ 3,225	\$ 3,390	\$ 2,994
4. Debt to Equity Ratio	1.28 : 1	1.65 : 1	1.40 : 1
5. Return on Total Assets	7.7%	1.6%	-11.3%
6. Income (loss) per milking cow per month	\$ 82.44	\$ 20.47	\$ (88.01)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
KERN COUNTY
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	20,855	20,700	19,793
Daily pounds of milk, per milking cow	71.3	68.2	66.2
Butterfat test	3.65 %	3.64 %	3.68 %
Solids-non-fat test	8.80 %	8.77 %	8.79 %
Blend price per hundredweight	\$ 19.02	\$ 15.31	\$ 12.27
Milk receipts, per milking cow	\$ 3,966	\$ 3,809	\$ 2,962
HERD INFORMATION:			
Herd size - total	3,498	3,365	3,126
Percent of dry cows	19.9 %	16.8 %	18.1 %
Herd turnover rate	34.4 %	34.4 %	36.1 %
Composition of herd:			
Purchased cows	6 %	7 %	6 %
Self-raised cows	94 %	93 %	94 %
Cost of purchased cows	\$ 1,495	\$ 1,275	\$ 1,505
Beef price received	\$ 750	\$ 645	\$ 514
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	37.4 %	35.9 %	48.2 %
Hay and other	14.0 %	14.8 %	28.9 %
Totals	51.4 %	50.7 %	77.1 %

INCOME AND COST OF OPERATIONS

KERN COUNTY

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

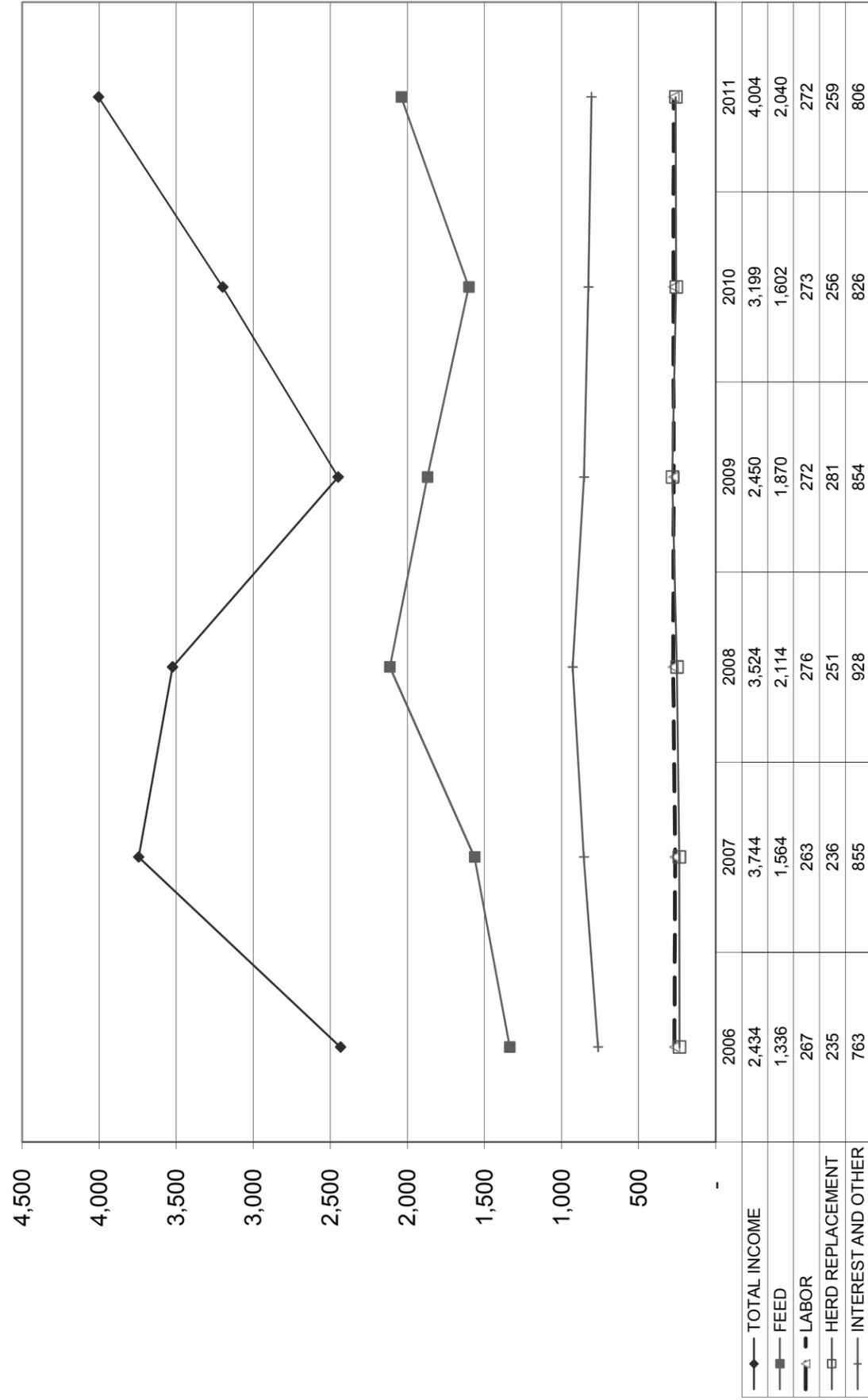
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 19.02	\$ 15.31	\$ 12.27
Calves and other	0.19	0.15	0.10
Total income	\$ 19.21	\$ 15.46	\$ 12.37
Total cost of operations:			
Feed	\$ 9.78	\$ 7.75	\$ 9.45
Labor	1.31	1.31	1.38
Herd replacement costs	1.24	1.24	1.42
Other costs	3.86	3.97	4.32
Total costs of operations	\$ 16.19	\$ 14.27	\$ 16.57
Net income (loss)	\$ 3.02	\$ 1.19	\$ (4.20)
Cost of operations as a percentage of income	84.28%	92.30%	133.95%
Feed costs as a percentage of milk sales	51.42%	50.62%	77.02%
Net income (loss) per milking cow per month	\$ 82.44	\$ 20.47	\$ (88.01)
Cumulative net income per cwt. from 2006 to 2011	\$ 3.10		

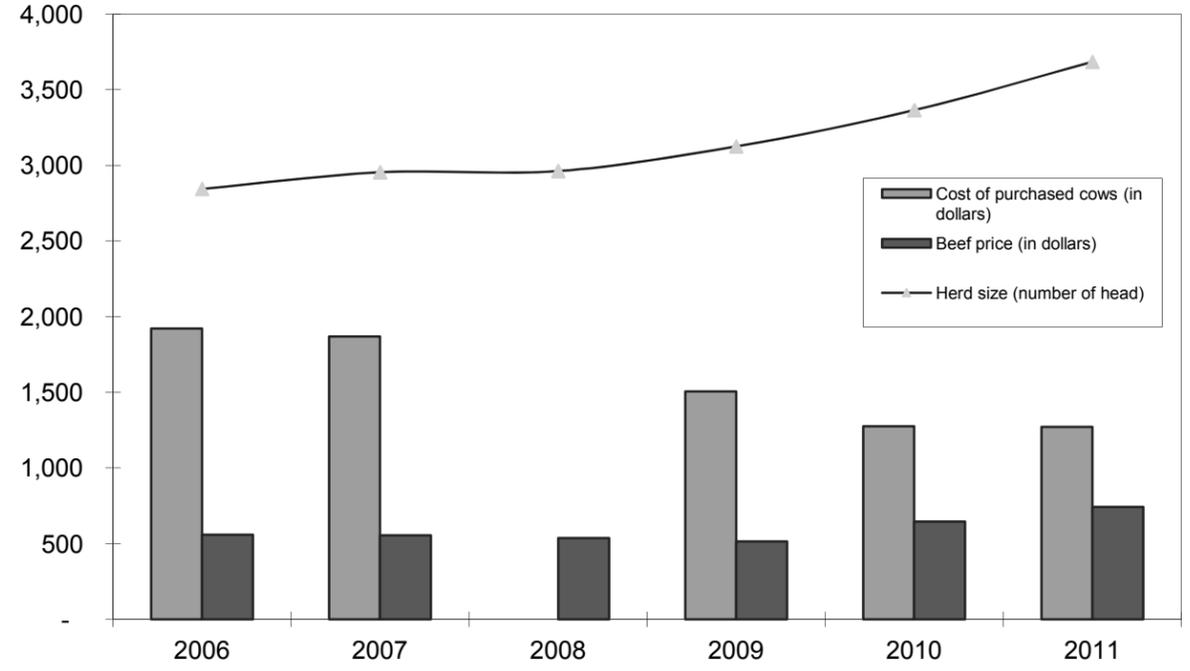
December 31, 2008 December 31, 2007 December 31, 2006

Income:			
Milk Sales	\$ 17.37	\$ 18.53	\$ 12.21
Calves and other	0.14	0.35	0.31
Total income	\$ 17.51	\$ 18.88	\$ 12.52
Total cost of operations:			
Feed	\$ 10.50	\$ 7.89	\$ 6.89
Labor	1.36	1.33	1.37
Herd replacement costs	1.25	1.19	1.21
Other costs	4.60	4.31	3.92
Total costs of operations	\$ 17.71	\$ 14.72	\$ 13.39
Net income (loss)	\$ (0.20)	\$ 4.16	\$ (0.87)
Cost of operations as a percentage of income	101.14%	77.97%	106.95%
Feed costs as a percentage of milk sales	60.45%	42.58%	56.43%
Net income (loss) per milking cow per month	\$ (1.22)	\$ 84.69	\$ (21.76)
Cumulative net income per cwt. from 2006 to 2011			

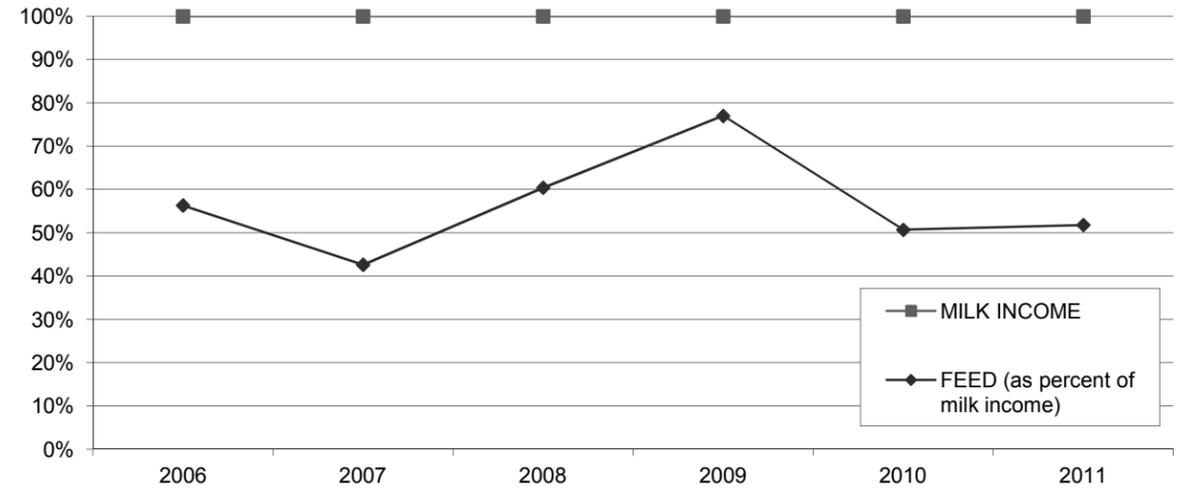
**LONG-TERM TREND - ON A "PER HEAD" BASIS
KERN COUNTY
INCOME AND OPERATING COSTS
2006 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE, AND HERD SIZE
KERN COUNTY**



**FEED COST vs. MILK INCOME
KERN COUNTY**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
ARIZONA
(BASED ON AVERAGE AMOUNTS)

	PER HEAD		
	2011	2010	2009
Income:			
Milk sales	\$ 4,253	\$ 3,510	\$ 2,569
Calves and other	54	22	52
Total income	\$ 4,307	\$ 3,532	\$ 2,621
Cost of operations:			
Feed:			
Grain	\$ 1,462	\$ 1,032	\$ 1,103
Hay and other	718	562	625
Total feed	\$ 2,180	\$ 1,594	\$ 1,728
Labor, (including fringe costs)	\$ 343	\$ 334	\$ 323
Herd replacement costs	\$ 265	\$ 316	\$ 399
Other costs:			
Milk hauling	\$ 100	\$ 80	\$ 73
State and association charges	53	101	97
Veterinary, breeding, testing, etc.	95	50	60
Supplies	134	146	144
Repairs and maintenance	118	94	85
Utilities	86	86	83
Occupancy costs	124	143	151
Depreciation - equipment	48	33	30
Interest	175	159	140
Miscellaneous	165	144	129
Total other costs	\$ 1,098	\$ 1,036	\$ 992
Total cost of operations	\$ 3,886	\$ 3,280	\$ 3,442
Net income (loss)	\$ 421	\$ 252	\$ (821)

See accompanying explanation of income and cost factors.

	PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:					
Milk sales	\$ 20.74	\$ 16.47	\$ 12.58	\$	\$
Calves and other	0.28	0.11	0.25		
Total income	\$ 21.02	\$ 16.58	\$ 12.83	\$	\$
Cost of operations:					
Feed:					
Grain	\$ 7.13	\$ 4.85	\$ 5.40	\$	\$
Hay and other	3.48	2.64	3.06		
Total feed	\$ 10.61	\$ 7.49	\$ 8.46	\$	\$
Labor, (including fringe costs)	\$ 1.67	\$ 1.58	\$ 1.60	\$	\$
Herd replacement costs	\$ 1.29	\$ 1.49	\$ 1.95	\$	\$
Other costs:					
Milk hauling	\$ 0.49	\$ 0.38	\$ 0.36	\$	\$
State and association charges	0.26	0.48	0.48		
Veterinary, breeding, testing, etc.	0.47	0.24	0.30		
Supplies	0.66	0.69	0.70		
Repairs and maintenance	0.58	0.44	0.42		
Utilities	0.42	0.40	0.41		
Occupancy costs	0.61	0.68	0.74		
Depreciation - equipment	0.23	0.16	0.14		
Interest	0.85	0.73	0.68		
Miscellaneous	0.82	0.69	0.64		
Total other costs	\$ 5.39	\$ 4.89	\$ 4.87	\$	\$
Total cost of operations	\$ 18.96	\$ 15.45	\$ 16.88	\$	\$
Net income (loss)	\$ 2.06	\$ 1.13	\$ (4.05)	\$	\$

SUMMARY OF FINANCIAL STATISTICS

ARIZONA

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.50 : 1	0.57 : 1	0.48 : 1
2. Herd Line Debt Per Cow	\$ 1,074	\$ 1,118	\$ 1,365
3. Total Debt Per Cow	\$ 3,370	\$ 2,964	\$ 2,708
4. Debt to Equity Ratio	2.87 : 1	5.15 : 1	6.45 : 1
5. Return on Total Assets	6.6%	5.3%	-19.0%
6. Income (loss) per milking cow per month	\$ 42.84	\$ 28.71	\$ (84.26)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
ARIZONA
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	20,504	21,303	20,417
Daily pounds of milk, per milking cow	66.4	66.4	66.6
Butterfat test	3.43 %	3.41 %	3.41 %
Blend price per hundredweight	\$ 20.74	\$ 16.47	\$ 12.58
Milk receipts, per milking cow	\$ 4,307	\$ 4,492	\$ 3,058
HERD INFORMATION:			
Herd size - total	3,818	3,301	3,178
Percent of dry cows	15.3 %	12.1 %	16.0 %
Herd turnover rate	31.3 %	31.2 %	29.9 %
Composition of herd:			
Purchased cows	47 %	44 %	43 %
Self-raised cows	53 %	56 %	57 %
Cost of purchased cows	\$ 1,486	\$ 1,413	\$ 1,377
Beef price received	\$ 754	\$ 690	\$ 561
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	34.4 %	29.4 %	42.9 %
Hay and other	16.8 %	16.0 %	24.3 %
Totals	51.2 %	45.4 %	67.2 %

INCOME AND COST OF OPERATIONS

ARIZONA
(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

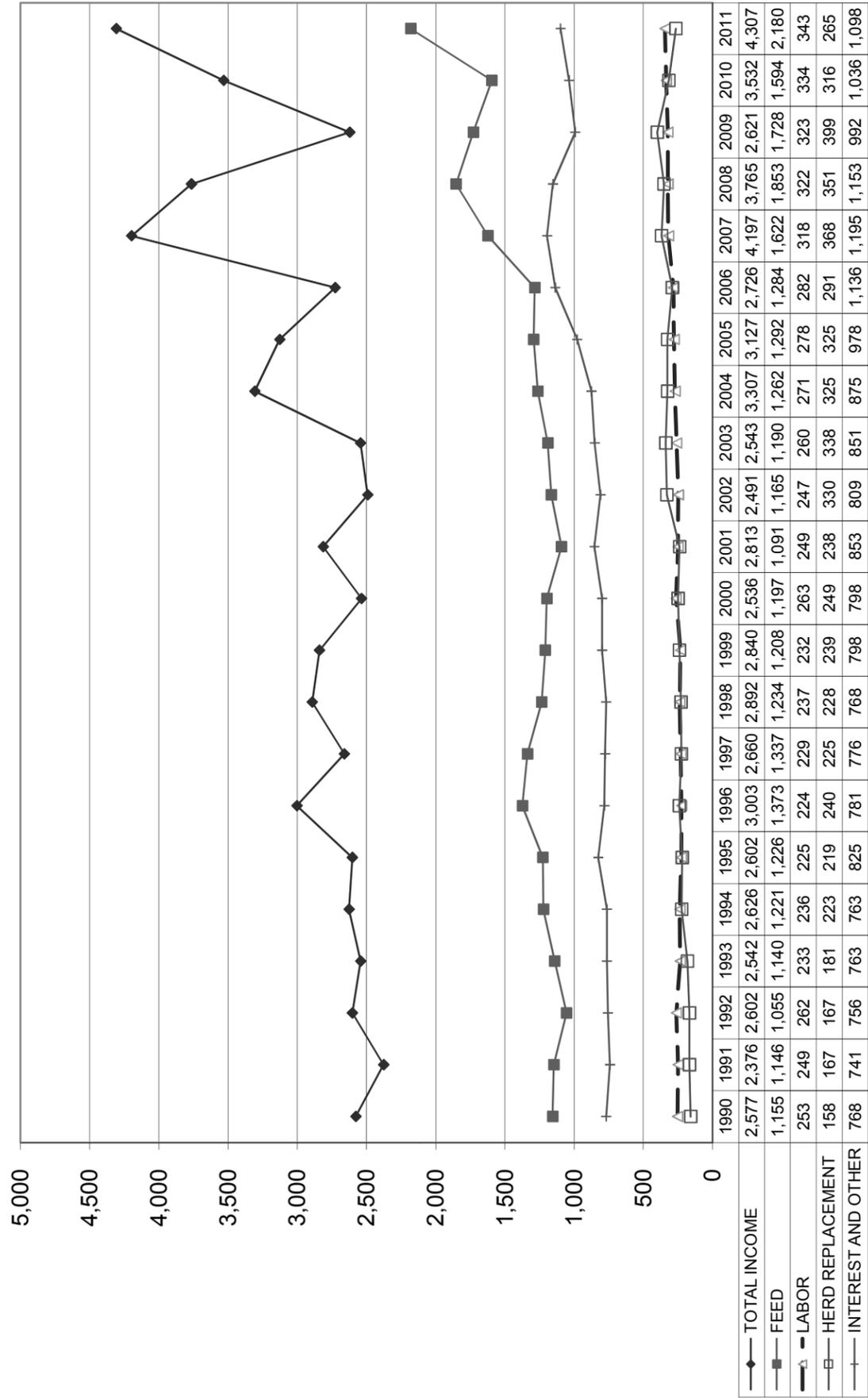
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 20.74	\$ 16.47	\$ 12.58
Calves and other	0.28	0.11	0.25
Total income	\$ 21.02	\$ 16.58	\$ 12.83
Total cost of operations:			
Feed	\$ 10.61	\$ 7.49	\$ 8.46
Labor	1.67	1.58	1.60
Herd replacement costs	1.29	1.49	1.95
Other costs	5.39	4.88	4.88
Total costs of operations	\$ 18.96	\$ 15.44	\$ 16.89
Net income (loss)	\$ 2.06	\$ 1.14	\$ (4.06)
Cost of operations as a percentage of income	90.20%	93.12%	131.64%
Feed costs as a percentage of milk sales	51.16%	45.48%	67.25%
Net income (loss) per milking cow per month	\$ 42.84	\$ 28.71	\$ (84.26)
Cumulative net income per cwt. from 2005 to 2011	\$ 2.84		

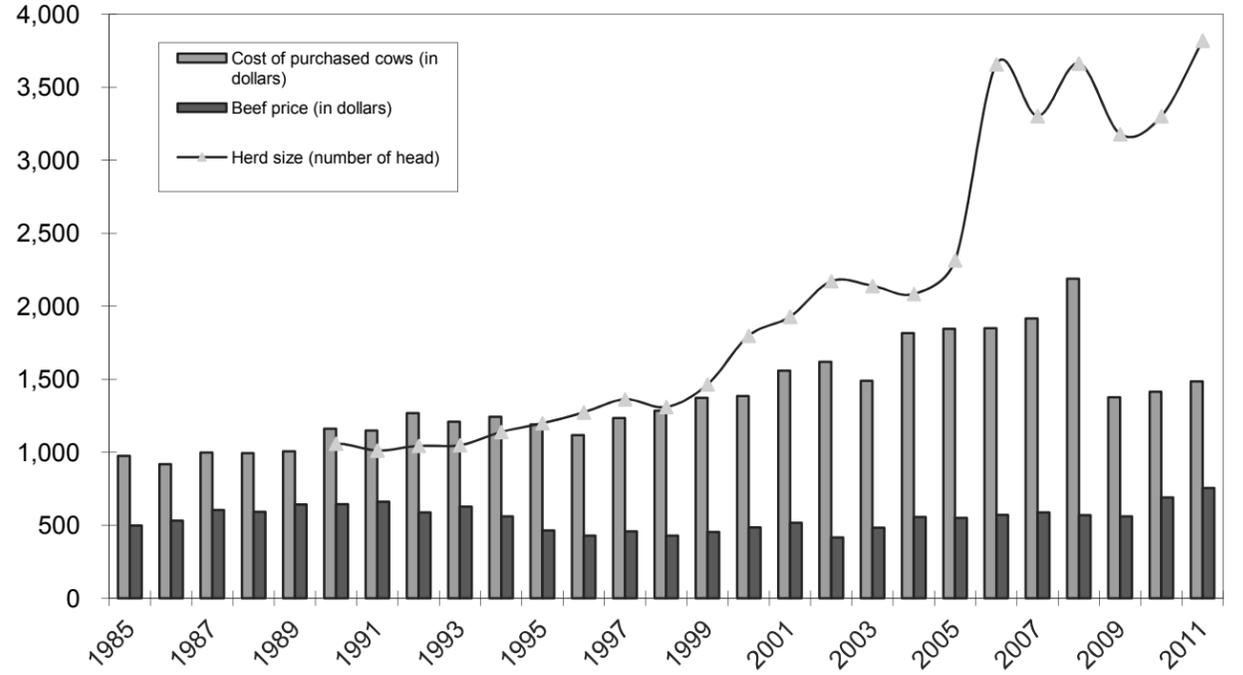
December 31, 2008 December 31, 2007 December 31, 2006 December 31, 2005

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Income:				
Milk Sales	\$ 18.11	\$ 19.87	\$ 12.92	\$ 15.25
Calves and other	0.30	0.40	0.40	0.50
Total income	\$ 18.41	\$ 20.27	\$ 13.32	\$ 15.75
Total cost of operations:				
Feed	\$ 9.07	\$ 7.85	\$ 6.28	\$ 6.51
Labor	1.59	1.54	1.39	1.40
Herd replacement costs	1.72	1.78	1.42	1.64
Other costs	5.64	5.73	5.56	4.93
Total costs of operations	\$ 18.02	\$ 16.90	\$ 14.65	\$ 14.48
Net income (loss)	\$ 0.39	\$ 3.37	\$ (1.33)	\$ 1.27
Cost of operations as a percentage of income	97.88%	83.37%	109.98%	91.94%
Feed costs as a percentage of milk sales	50.08%	39.51%	48.61%	42.69%
Net income (loss) per milking cow per month	\$ 5.99	\$ 64.56	\$ (22.53)	\$ 37.37
Cumulative net income per cwt. from 2005 to 2011				

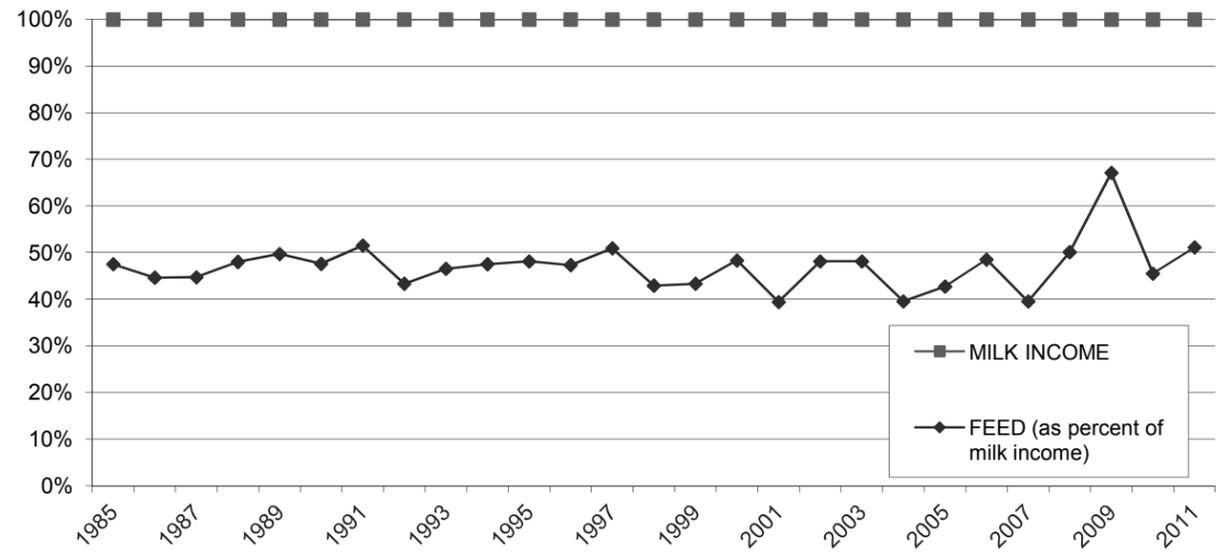
**LONG-TERM TREND - ON A "PER HEAD" BASIS
ARIZONA
INCOME AND OPERATING COSTS
1990 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE,
AND HERD SIZE
ARIZONA**



**FEED COST vs. MILK INCOME
ARIZONA**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
IDAHO
(BASED ON AVERAGE AMOUNTS)

	PER HEAD		
	2011	2010	2009
Income:			
Milk sales	\$ 4,185	\$ 3,307	\$ 2,667
Calves and other	44	37	54
Total income	\$ 4,229	\$ 3,344	\$ 2,721
Cost of operations:			
Feed:			
Grain	\$ 1,468	\$ 1,125	\$ 1,186
Hay and other	699	546	803
Total feed	\$ 2,167	\$ 1,671	\$ 1,989
Labor, (including fringe costs)	\$ 361	\$ 352	\$ 359
Herd replacement costs	\$ 226	\$ 243	\$ 287
Other costs:			
Milk hauling	\$ 67	\$ 60	\$ 55
State and association charges	45	47	46
Veterinary, breeding, testing, etc.	73	71	86
Supplies	203	166	171
Repairs and maintenance	157	142	147
Utilities	47	47	54
Occupancy costs	91	90	99
Depreciation - equipment	82	83	84
Interest	118	123	117
Miscellaneous	184	159	160
Total other costs	\$ 1,067	\$ 988	\$ 1,019
Total cost of operations	\$ 3,821	\$ 3,254	\$ 3,654
Net income (loss)	\$ 408	\$ 90	\$ (933)

	PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:					
Milk sales	\$ 18.88	\$ 15.15	\$ 12.27		
Calves and other	0.20	0.16	0.25		
Total income	\$ 19.08	\$ 15.31	\$ 12.52		
Cost of operations:					
Feed:					
Grain	\$ 6.62	\$ 5.16	\$ 5.45		
Hay and other	3.16	2.50	3.69		
Total feed	\$ 9.78	\$ 7.66	\$ 9.14		
Labor, (including fringe costs)	\$ 1.63	\$ 1.62	\$ 1.65		
Herd replacement costs	\$ 1.02	\$ 1.12	\$ 1.32		
Other costs:					
Milk hauling	\$ 0.30	\$ 0.27	\$ 0.25		
State and association charges	0.20	0.21	0.21		
Veterinary, breeding, testing, etc.	0.33	0.32	0.40		
Supplies	0.91	0.76	0.78		
Repairs and maintenance	0.70	0.65	0.68		
Utilities	0.21	0.22	0.25		
Occupancy costs	0.40	0.41	0.45		
Depreciation - equipment	0.37	0.38	0.39		
Interest	0.53	0.56	0.54		
Miscellaneous	0.82	0.70	0.75		
Total other costs	\$ 4.77	\$ 4.48	\$ 4.70		
Total cost of operations	\$ 17.20	\$ 14.88	\$ 16.81		
Net income (loss)	\$ 1.88	\$ 0.43	\$ (4.29)		

SUMMARY OF FINANCIAL STATISTICS

	IDAHO		
	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.83 : 1	0.64 : 1	0.86 : 1
2. Herd Line Debt Per Cow	\$ 657	\$ 825	\$ 884
3. Total Debt Per Cow	\$ 2,568	\$ 2,635	\$ 2,880
4. Debt to Equity Ratio	1.56 : 1	1.94 : 1	2.28 : 1
5. Return on Total Assets	6.7%	1.6%	-15.9%
6. Income (loss) per milking cow per month	\$ 56.87	\$ 18.16	\$ (81.62)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

	FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009 IDAHO (BASED ON AVERAGE AMOUNTS)		
	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	22,174	21,829	21,741
Daily pounds of milk, per milking cow	70.0	68.9	68.6
Butterfat test	3.59 %	3.61 %	3.54 %
Blend price per hundredweight	\$ 18.88	\$ 15.15	\$ 12.27
Milk receipts, per milking cow	\$ 4,185	\$ 3,810	\$ 3,071
HERD INFORMATION:			
Herd size - total	3,684	2,959	2,661
Percent of dry cows	13.2 %	13.2 %	13.1 %
Herd turnover rate	37.3 %	34.3 %	35.8 %
Composition of herd:			
Purchased cows	6 %	7 %	8 %
Self-raised cows	94 %	93 %	92 %
Cost of purchased cows	\$ 1,271	\$ 1,167	\$ 1,290
Beef price received	\$ 743	\$ 622	\$ 497
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	35.1 %	34.1 %	44.4 %
Hay and other	16.7 %	16.5 %	30.1 %
Totals	51.8 %	50.6 %	74.5 %

INCOME AND COST OF OPERATIONS

IDAHO
(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

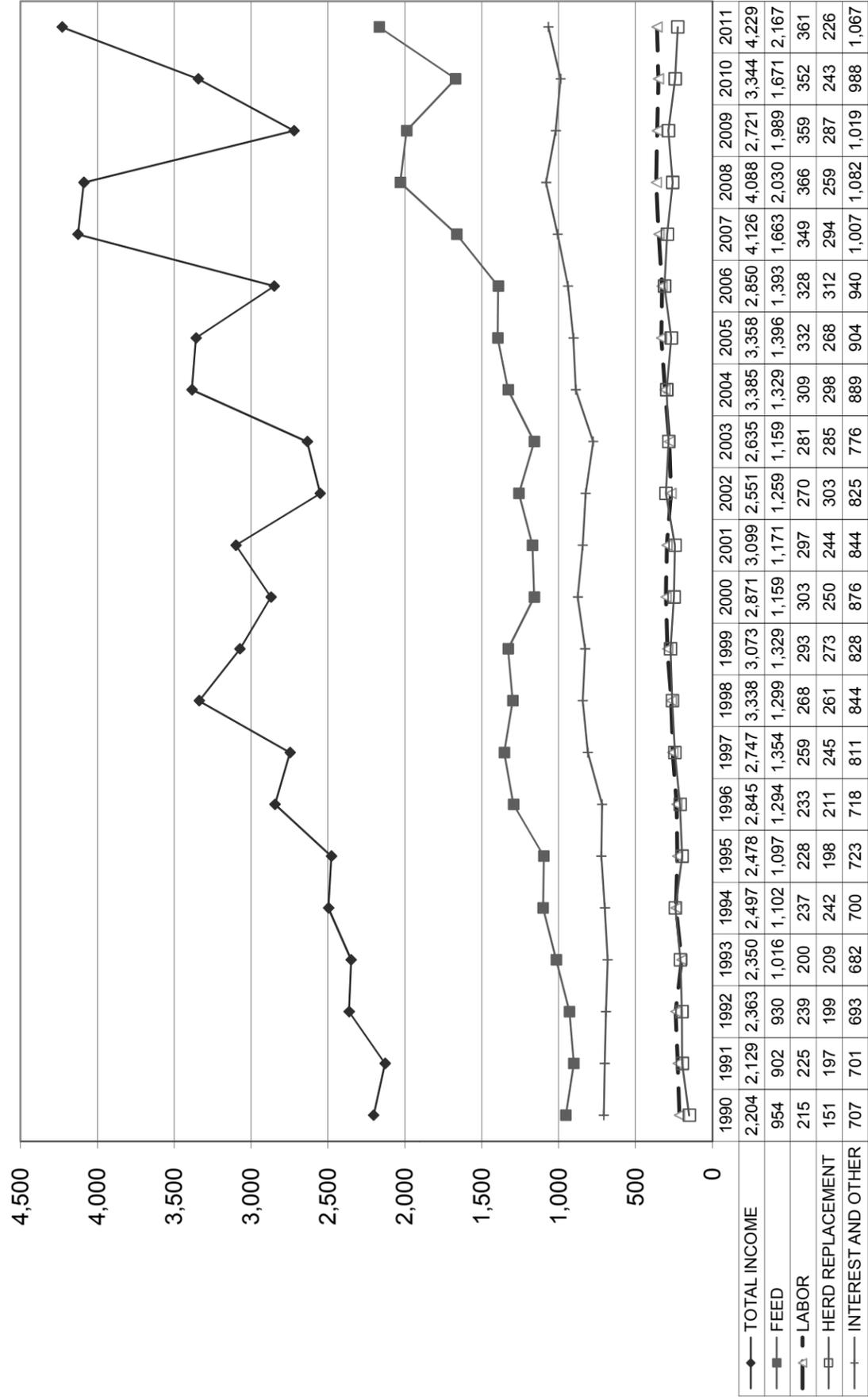
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 18.88	\$ 15.15	\$ 12.27
Calves and other	0.20	0.16	0.25
Total income	\$ 19.08	\$ 15.31	\$ 12.52
Total cost of operations:			
Feed	\$ 9.78	\$ 7.66	\$ 9.14
Labor	1.63	1.62	1.65
Herd replacement costs	1.02	1.12	1.32
Other costs	4.77	4.49	4.70
Total costs of operations	\$ 17.20	\$ 14.89	\$ 16.81
Net income (loss)	\$ 1.88	\$ 0.42	\$ (4.29)
Cost of operations as a percentage of income	90.15%	97.26%	134.27%
Feed costs as a percentage of milk sales	51.80%	50.56%	74.49%
Net income (loss) per milking cow per month	\$ 56.87	\$ 18.16	\$ (81.62)
Cumulative net income per cwt. from 2005 to 2011	\$ 4.89		

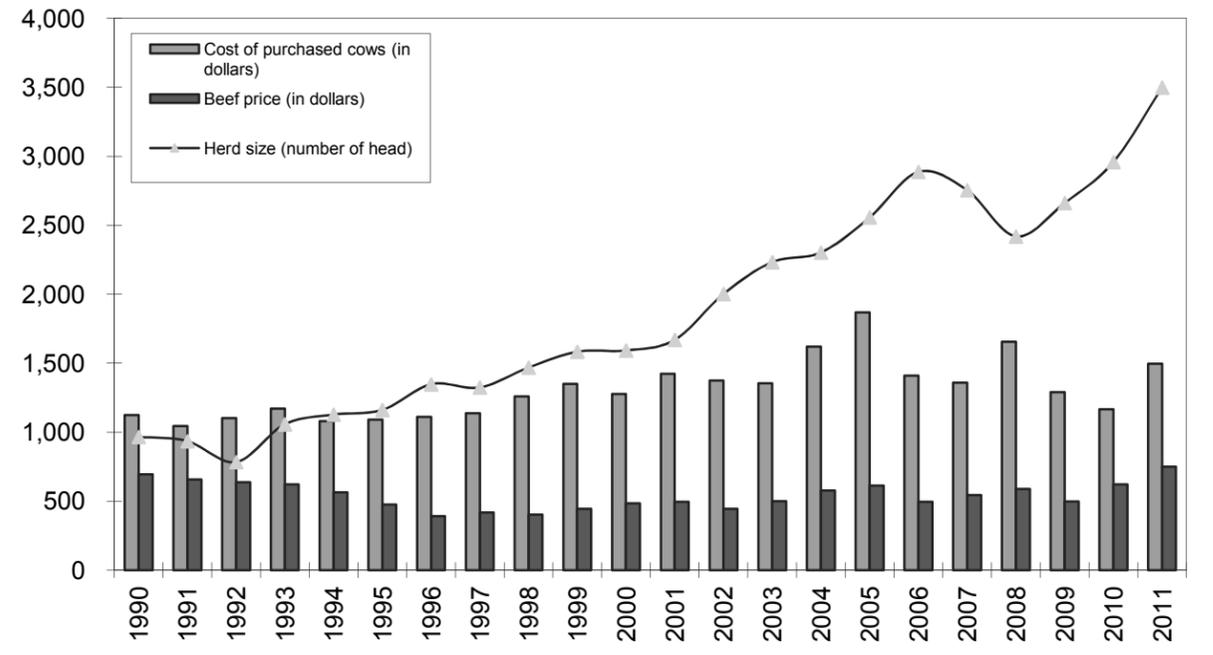
December 31, 2008 December 31, 2007 December 31, 2006 December 31, 2005

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Income:				
Milk Sales	\$ 18.15	\$ 18.07	\$ 12.15	\$ 14.18
Calves and other	0.18	0.43	0.35	0.48
Total income	\$ 18.33	\$ 18.50	\$ 12.50	\$ 14.66
Total cost of operations:				
Feed	\$ 9.09	\$ 7.37	\$ 6.11	\$ 6.09
Labor	1.65	1.55	1.43	1.45
Herd replacement costs	1.16	1.31	1.37	1.17
Other costs	4.85	4.46	4.11	3.94
Total costs of operations	\$ 16.75	\$ 14.69	\$ 13.02	\$ 12.65
Net income (loss)	\$ 1.58	\$ 3.81	\$ (0.52)	\$ 2.01
Cost of operations as a percentage of income	91.38%	79.41%	104.16%	86.29%
Feed costs as a percentage of milk sales	50.08%	40.79%	50.29%	42.95%
Net income (loss) per milking cow per month	\$ 42.46	\$ 95.04	\$ (11.16)	\$ 42.08
Cumulative net income per cwt. from 2005 to 2011				

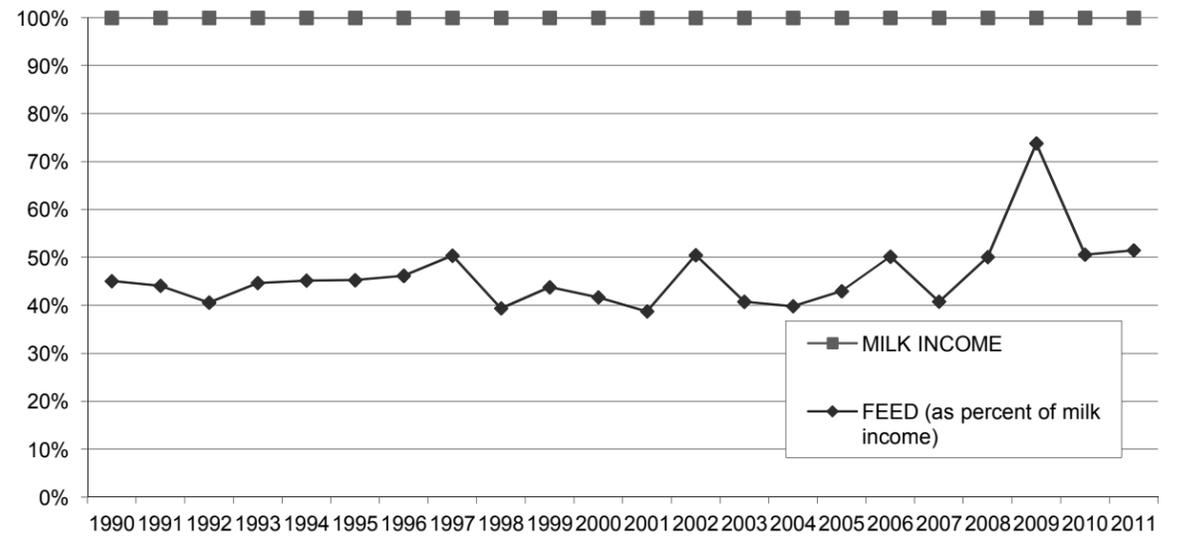
**LONG-TERM TREND - ON A "PER HEAD" BASIS
IDAHO
INCOME AND OPERATING COSTS
1990 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE,
AND HERD SIZE
IDAHO**



**FEED COST vs. MILK INCOME
IDAHO**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
NEW MEXICO
(BASED ON AVERAGE AMOUNTS)

	PER HEAD		
	2011	2010	2009
Income:			
Milk sales	\$ 3,948	\$ 3,219	\$ 2,449
Calves and other	60	42	48
Total income	\$ 4,008	\$ 3,261	\$ 2,497
Cost of operations:			
Feed:			
Grain	\$ 1,443	\$ 1,098	\$ 1,184
Hay and other	663	457	472
Total feed	\$ 2,106	\$ 1,555	\$ 1,656
Labor, (including fringe costs)	\$ 319	\$ 302	\$ 298
Herd replacement costs	\$ 222	\$ 243	\$ 258
Other costs:			
Milk hauling	\$ 152	\$ 155	\$ 121
State and association charges	77	83	77
Veterinary, breeding, testing, etc.	80	73	69
Supplies	108	119	102
Repairs and maintenance	99	103	100
Utilities	70	54	50
Occupancy costs	83	81	80
Depreciation - equipment	58	57	55
Interest	110	101	76
Miscellaneous	160	173	140
Total other costs	\$ 997	\$ 999	\$ 870
Total cost of operations	\$ 3,644	\$ 3,099	\$ 3,082
Net income (loss)	\$ 364	\$ 162	\$ (585)

	PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	PER HEAD	PER CWT. OF MILK
	\$ 19.89	\$ 17.02	\$ 12.83		
	0.29	0.18	0.25		
	\$ 20.18	\$ 17.20	\$ 13.08		
	\$ 7.27	\$ 5.81	\$ 6.21		
	3.35	2.42	2.47		
	\$ 10.62	\$ 8.23	\$ 8.68		
	\$ 1.62	\$ 1.60	\$ 1.56		
	\$ 1.12	\$ 1.28	\$ 1.35		
	\$ 0.77	\$ 0.82	\$ 0.63		
	0.39	0.44	0.40		
	0.39	0.39	0.36		
	0.55	0.63	0.53		
	0.50	0.54	0.52		
	0.35	0.29	0.26		
	0.42	0.43	0.42		
	0.29	0.30	0.29		
	0.56	0.53	0.40		
	0.81	0.85	0.73		
	\$ 5.03	\$ 5.22	\$ 4.54		
	\$ 18.39	\$ 16.33	\$ 16.13		
	\$ 1.79	\$ 0.87	\$ (3.05)		

See accompanying explanation of income and cost factors.

SUMMARY OF FINANCIAL STATISTICS

NEW MEXICO

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.86 : 1	0.85 : 1	1.02 : 1
2. Herd Line Debt Per Cow	\$ 774	\$ 795	\$ 823
3. Total Debt Per Cow	\$ 2,273	\$ 2,155	\$ 2,324
4. Debt to Equity Ratio	1.63 : 1	1.53 : 1	1.80 : 1
5. Return on Total Assets	6.8%	3.3%	-11.7%
6. Income (loss) per milking cow per month	\$ 49.14	\$ 27.80	\$ (55.60)
1. The current ratio represents current assets divided by current liabilities.			
2. Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.			
3. Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.			
4. Debt to equity represents the total debt divided by the total equity.			
5. The return on total assets represents the net income divided by the total assets, stated at cost.			
6. Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.			

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
NEW MEXICO
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	19,855	18,914	19,086
Daily pounds of milk, per milking cow	67.8	65.3	65.7
Butterfat test	3.51 %	3.49 %	3.44 %
Blend price per hundredweight	\$ 19.89	\$ 17.02	\$ 12.83
Milk receipts, per milking cow	\$ 4,920	\$ 4,055	\$ 3,075
HERD INFORMATION:			
Herd size - total	3,801	5,148	3,077
Percent of dry cows	19.8 %	20.6 %	20.4 %
Herd turnover rate	34.3 %	29.9 %	28.8 %
Composition of herd:			
Purchased cows	13 %	21 %	22 %
Self-raised cows	87 %	79 %	78 %
Cost of purchased cows	\$ 1,643	\$ 1,384	\$ 1,378
Beef price received	\$ 749	\$ 633	\$ 533
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	36.6 %	34.1 %	48.4 %
Hay and other	16.8 %	14.2 %	19.3 %
Totals	53.4 %	48.3 %	67.7 %

INCOME AND COST OF OPERATIONS

NEW MEXICO
(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

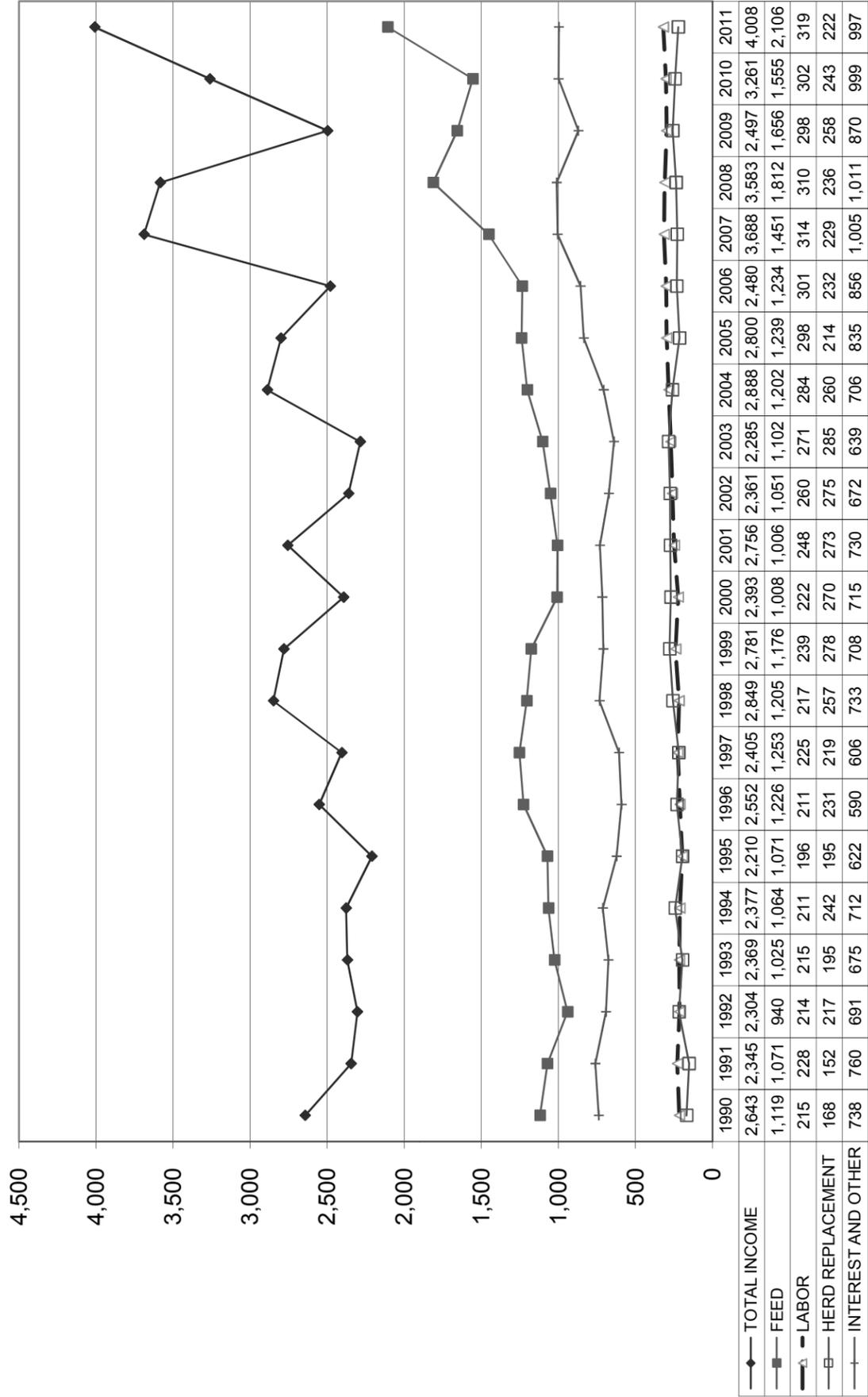
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 19.89	\$ 17.02	\$ 12.83
Calves and other	0.29	0.18	0.25
Total income	\$ 20.18	\$ 17.20	\$ 13.08
Total cost of operations:			
Feed	\$ 10.62	\$ 8.23	\$ 8.68
Labor	1.62	1.60	1.56
Herd replacement costs	1.12	1.28	1.35
Other costs	5.03	5.22	4.53
Total costs of operations	\$ 18.39	\$ 16.33	\$ 16.12
Net income (loss)	\$ 1.79	\$ 0.87	\$ (3.04)
Cost of operations as a percentage of income	91.13%	94.94%	123.24%
Feed costs as a percentage of milk sales	53.39%	48.35%	67.65%
Net income (loss) per milking cow per month	\$ 49.14	\$ 27.80	\$ (55.60)
Cumulative net income per cwt. from 2005 to 2011	\$ 4.72		

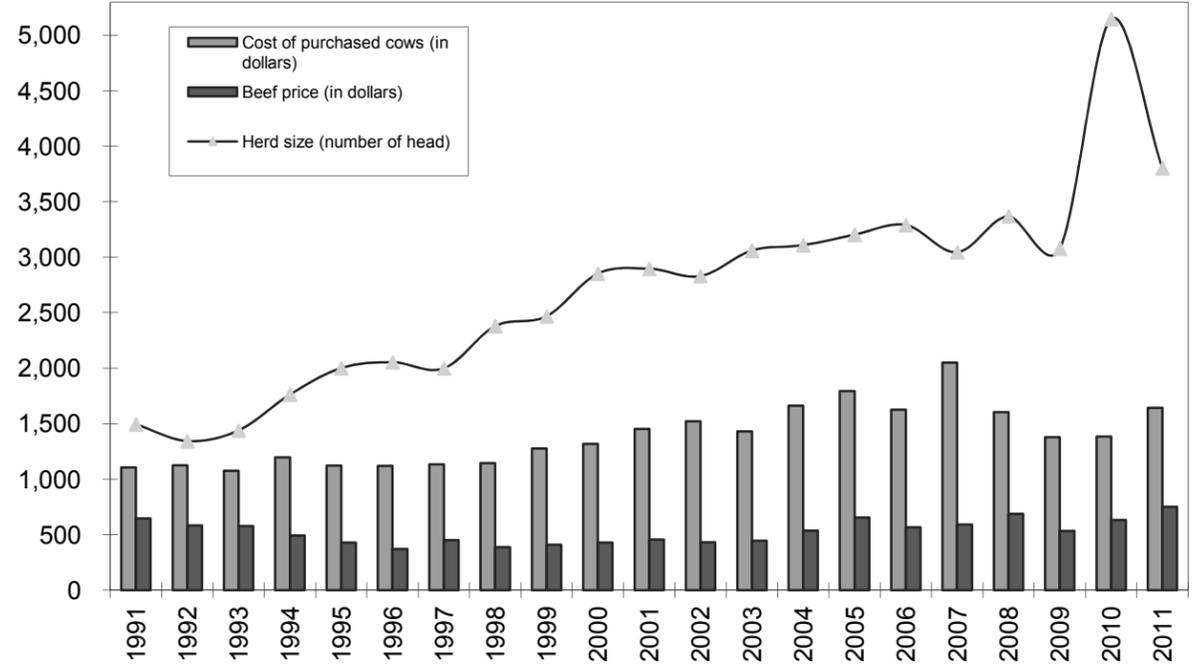
December 31, 2008 December 31, 2007 December 31, 2006 December 31, 2005

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Income:				
Milk Sales	\$ 17.92	\$ 18.62	\$ 11.86	\$ 13.78
Calves and other	0.29	0.60	0.65	0.49
Total income	\$ 18.21	\$ 19.22	\$ 12.51	\$ 14.27
Total cost of operations:				
Feed	\$ 9.22	\$ 7.57	\$ 6.24	\$ 6.31
Labor	1.58	1.63	1.52	1.52
Herd replacement costs	1.20	1.19	1.17	1.09
Other costs	5.11	5.20	4.30	4.26
Total costs of operations	\$ 17.11	\$ 15.59	\$ 13.23	\$ 13.18
Net income (loss)	\$ 1.10	\$ 3.63	\$ (0.72)	\$ 1.09
Cost of operations as a percentage of income	93.96%	81.11%	105.76%	92.36%
Feed costs as a percentage of milk sales	51.45%	40.66%	52.61%	45.79%
Net income (loss) per milking cow per month	\$ 41.90	\$ 93.36	\$ (7.28)	\$ 25.79
Cumulative net income per cwt. from 2005 to 2011				

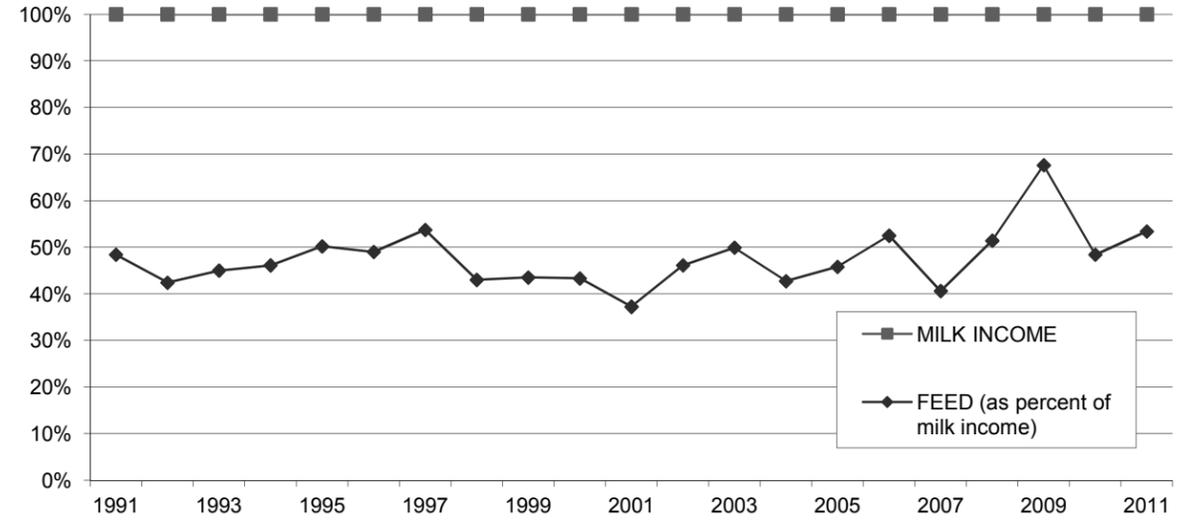
**LONG-TERM TREND - ON A "PER HEAD" BASIS
NEW MEXICO
INCOME AND OPERATING COSTS
1990 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE, AND
HERD SIZE
NEW MEXICO**



**FEED COST vs. MILK INCOME
NEW MEXICO**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010 AND 2009
PANHANDLE
(BASED ON AVERAGE AMOUNTS)

	PER HEAD		
	2011	2010	2009
Income:			
Milk sales	\$ 4,116	\$ 3,376	\$ 2,876
Calves and other	51	30	42
Total income	\$ 4,167	\$ 3,406	\$ 2,918
Cost of operations:			
Feed:			
Grain	\$ 1,370	\$ 1,046	\$ 1,289
Hay and other	650	526	631
Total feed	\$ 2,020	\$ 1,572	\$ 1,920
Labor, (including fringe costs)	\$ 354	\$ 325	\$ 349
Herd replacement costs	\$ 269	\$ 351	\$ 401
Other costs:			
Milk hauling	\$ 136	\$ 153	\$ 132
State and association charges	50	64	59
Veterinary, breeding, testing, etc.	86	91	71
Supplies	118	126	138
Repairs and maintenance	80	79	85
Utilities	48	44	49
Occupancy costs	126	121	146
Depreciation - equipment	54	60	79
Interest	101	115	138
Miscellaneous	159	138	150
Total other costs	\$ 958	\$ 991	\$ 1,047
Total cost of operations	\$ 3,601	\$ 3,239	\$ 3,717
Net income (loss)	\$ 566	\$ 167	\$ (799)

	PER CWT. OF MILK			YOUR 2011 RESULTS	
	2011	2010	2009	PER HEAD	PER CWT. OF MILK
Income:					
Milk sales	\$ 20.57	\$ 16.89	\$ 13.63		
Calves and other	0.26	0.14	0.20		
Total income	\$ 20.83	\$ 17.03	\$ 13.83		
Cost of operations:					
Feed:					
Grain	\$ 6.85	\$ 5.23	\$ 6.11		
Hay and other	3.25	2.62	2.98		
Total feed	\$ 10.10	\$ 7.85	\$ 9.09		
Labor, (including fringe costs)	\$ 1.76	\$ 1.62	\$ 1.65		
Herd replacement costs	\$ 1.35	\$ 1.75	\$ 1.90		
Other costs:					
Milk hauling	\$ 0.68	\$ 0.76	\$ 0.62		
State and association charges	0.25	0.32	0.28		
Veterinary, breeding, testing, etc.	0.43	0.44	0.32		
Supplies	0.59	0.63	0.65		
Repairs and maintenance	0.40	0.39	0.40		
Utilities	0.24	0.22	0.23		
Occupancy costs	0.64	0.60	0.69		
Depreciation - equipment	0.27	0.30	0.37		
Interest	0.51	0.57	0.65		
Miscellaneous	0.80	0.69	0.71		
Total other costs	\$ 4.81	\$ 4.92	\$ 4.92		
Total cost of operations	\$ 18.02	\$ 16.14	\$ 17.56		
Net income (loss)	\$ 2.81	\$ 0.89	\$ (3.73)		

See accompanying explanation of income and cost factors.

SUMMARY OF FINANCIAL STATISTICS

PANHANDLE

	December 31, 2011	December 31, 2010	December 31, 2009
1. Current Ratio	0.67 : 1	0.51 : 1	0.59 : 1
2. Herd Line Debt Per Cow	\$ 875	\$ 1,000	\$ 980
3. Total Debt Per Cow	\$ 2,355	\$ 2,551	\$ 3,099
4. Debt to Equity Ratio	1.99 : 1	2.89 : 1	4.01 : 1
5. Return on Total Assets	10.7%	4.8%	-15.2%
6. Income (loss) per milking cow per month	\$ 53.28	\$ 17.85	\$ (61.10)

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009
PANHANDLE
(BASED ON AVERAGE AMOUNTS)

	2011	2010	2009
PRODUCTION AND PRICE INFORMATION:			
Annual pounds of milk, per cow (including dry cows)	20,005	20,412	21,113
Daily pounds of milk, per milking cow	65.1	64.7	61.8
Butterfat test	3.83 %	3.69 %	3.81 %
Blend price per hundredweight	\$ 20.57	\$ 16.89	\$ 13.63
Milk receipts, per milking cow	\$ 4,887	\$ 3,984	\$ 3,074
HERD INFORMATION:			
Herd size - total	3,988	3,918	2,988
Percent of dry cows	15.8 %	15.2 %	17.2 %
Herd turnover rate	33.4 %	33.1 %	29.3 %
Composition of herd:			
Purchased cows	8 %	19 %	35 %
Self-raised cows	92 %	81 %	65 %
Cost of purchased cows	\$ 1,384	\$ 1,332	\$ 1,448
Beef price received	\$ 719	\$ 569	\$ 490
FEED INFORMATION:			
Cost of feed as a percent of milk income:			
Grain	33.3 %	31.0 %	44.8 %
Hay and other	15.8 %	15.5 %	21.9 %
Totals	49.1 %	46.5 %	66.7 %

INCOME AND COST OF OPERATIONS

PANHANDLE
(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

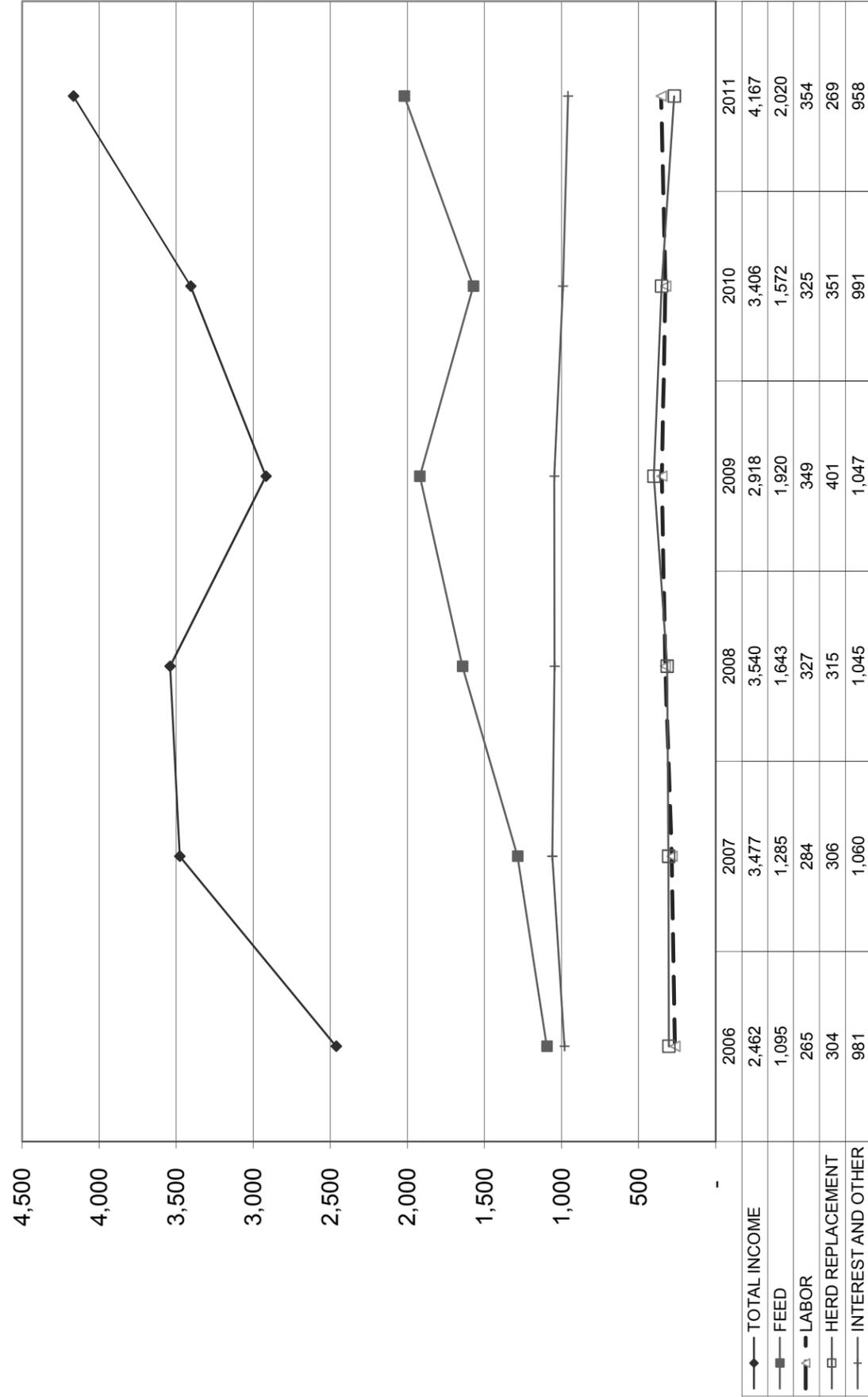
December 31, 2011 December 31, 2010 December 31, 2009

	December 31, 2011	December 31, 2010	December 31, 2009
Income:			
Milk Sales	\$ 20.57	\$ 16.89	\$ 13.63
Calves and other	0.26	0.14	0.20
Total income	\$ 20.83	\$ 17.03	\$ 13.83
Total cost of operations:			
Feed	\$ 10.10	\$ 7.85	\$ 9.09
Labor	1.76	1.62	1.65
Herd replacement costs	1.35	1.75	1.90
Other costs	4.81	4.92	4.92
Total costs of operations	\$ 18.02	\$ 16.14	\$ 17.56
Net income (loss)	\$ 2.81	\$ 0.89	\$ (3.73)
Cost of operations as a percentage of income	86.51%	94.77%	126.97%
Feed costs as a percentage of milk sales	49.10%	46.48%	66.69%
Net income (loss) per milking cow per month	\$ 53.28	\$ 17.85	\$ (61.10)
Cumulative net income per cwt. from 2006 to 2011	\$ 3.25		

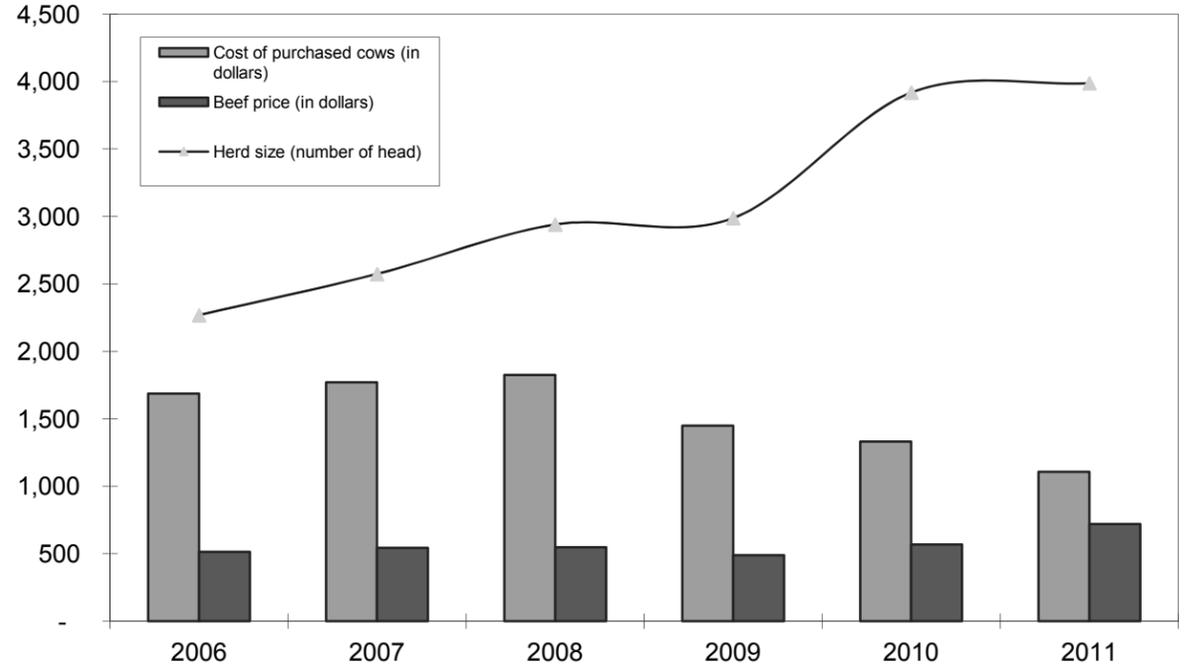
December 31, 2008 December 31, 2007 December 31, 2006

	December 31, 2008	December 31, 2007	December 31, 2006
Income:			
Milk Sales	\$ 19.11	\$ 20.01	\$ 12.63
Calves and other	0.09	0.27	0.49
Total income	\$ 19.20	\$ 20.28	\$ 13.12
Total cost of operations:			
Feed	\$ 8.91	\$ 7.50	\$ 5.84
Labor	1.77	1.66	1.41
Herd replacement costs	1.71	1.79	1.62
Other costs	5.69	6.18	5.24
Total costs of operations	\$ 18.08	\$ 17.13	\$ 14.11
Net income (loss)	\$ 1.12	\$ 3.15	\$ (0.99)
Cost of operations as a percentage of income	94.17%	84.47%	107.55%
Feed costs as a percentage of milk sales	46.62%	37.48%	46.24%
Net income (loss) per milking cow per month	\$ 19.04	\$ 82.81	\$ (14.35)
Cumulative net income per cwt. from 2006 to 2011			

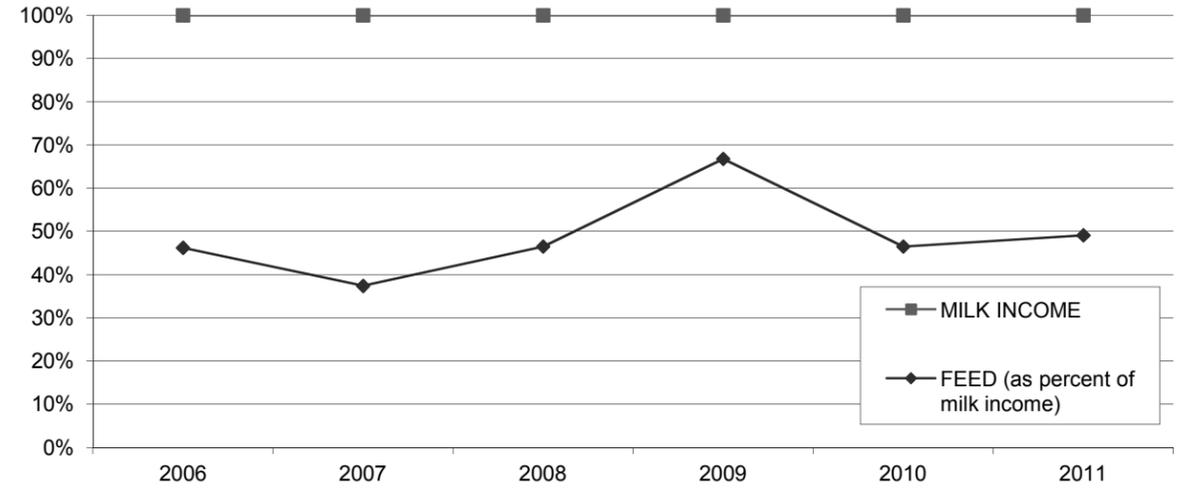
**LONG-TERM TREND - ON A "PER HEAD" BASIS
PANHANDLE
INCOME AND OPERATING COSTS
2006 - 2011**



**LONG TERM TREND - COST OF PURCHASED COWS, BEEF PRICE, AND HERD SIZE
THE PANHANDLE**



**FEED COST vs. MILK INCOME
THE PANHANDLE**



CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010
PACIFIC NORTHWEST
(BASED ON AVERAGE AMOUNTS)

	PER HEAD		PER CWT. OF MILK		YOUR 2011 RESULTS	
	2011	2010	2011	2010	PER HEAD	PER CWT. OF MILK
Income:						
Milk sales	\$ 4,397	\$ 3,606	\$ 20.58	\$ 16.59		
Calves and other	119	59	0.57	0.27		
Total income	\$ 4,516	\$ 3,665	\$ 21.15	\$ 16.86		
Cost of operations:						
Feed:						
Grain	\$ 1,410	\$ 1,266	\$ 6.60	\$ 5.82		
Hay and other	692	509	3.27	2.33		
Total feed	\$ 2,102	\$ 1,775	\$ 9.87	\$ 8.15		
Labor, (including fringe costs)	\$ 368	\$ 315	\$ 1.71	\$ 1.44		
Herd replacement costs	\$ 291	\$ 366	\$ 1.36	\$ 1.68		
Other costs:						
Milk hauling	\$ 145	\$ 137	\$ 0.68	\$ 0.63		
State and association charges	60	64	0.28	0.30		
Veterinary, breeding, testing, etc.	122	138	0.57	0.62		
Supplies	104	90	0.49	0.41		
Repairs and maintenance	134	97	0.63	0.45		
Utilities	40	39	0.19	0.18		
Occupancy costs	185	171	0.87	0.79		
Depreciation - equipment	65	65	0.31	0.30		
Interest	110	154	0.53	0.71		
Miscellaneous	146	164	0.67	0.75		
Total other costs	\$ 1,111	\$ 1,119	\$ 5.22	\$ 5.14		
Total cost of operations	\$ 3,872	\$ 3,575	\$ 18.16	\$ 16.41		
Net income	\$ 644	\$ 90	\$ 2.99	\$ 0.45		

SUMMARY OF FINANCIAL STATISTICS

PACIFIC NORTHWEST

	December 31, 2011	December 31, 2010
1. Current Ratio	0.82 : 1	0.49 : 1
2. Herd Line Debt Per Cow	\$ 737	\$ 841
3. Total Debt Per Cow	\$ 2,229	\$ 2,292
4. Debt to Equity Ratio	1.19 : 1	2.23 : 1
5. Return on Total Assets	11.1%	1.8%
6. Income per milking cow per month	\$ 74.13	\$ 16.80

- The current ratio represents current assets divided by current liabilities.
- Herd line debt per cow equals the total debt secured by the herd divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Total debt per cow equals the total current liabilities and long-term debt divided by the average total herd size. Heifers are included on a mature equivalent basis.
- Debt to equity represents the total debt divided by the total equity.
- The return on total assets represents the net income divided by the total assets, stated at cost.
- Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by twelve.

SUMMARY OF DAIRY FARM STATISTICAL ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010
PACIFIC NORTHWEST
(BASED ON AVERAGE AMOUNTS)

	2011	2010
PRODUCTION AND PRICE INFORMATION:		
Annual pounds of milk, per cow (including dry cows)	21,361	21,746
Daily pounds of milk, per milking cow	69.1	68.6
Butterfat test	3.75 %	3.69 %
Blend price per hundredweight	\$ 20.58	\$ 16.59
Milk receipts, per milking cow	\$ 4,397	\$ 4,149
HERD INFORMATION:		
Herd size - total	3,378	2,146
Percent of dry cows	15.4 %	13.1 %
Herd turnover rate	33.2 %	34.0 %
Composition of herd:		
Purchased cows	13 %	16 %
Self-raised cows	87 %	84 %
Cost of purchased cows	\$ 1,345	\$ 1,109
Beef price received	\$ 709	\$ 616
FEED INFORMATION:		
Cost of feed as a percent of milk income:		
Grain	32.1 %	35.1 %
Hay and other	15.9 %	14.0 %
Totals	48.0 %	49.1 %

INCOME AND COST OF OPERATIONS

PACIFIC NORTHWEST

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

**December 31,
2011** **December 31,
2010**

Income:		
Milk Sales	\$ 20.58	\$ 16.59
Calves and other	0.57	0.27
Total income	\$ 21.15	\$ 16.86
Total cost of operations:		
Feed	\$ 9.87	\$ 8.15
Labor	1.71	1.44
Herd replacement costs	1.36	1.68
Other costs	5.22	5.14
Total costs of operations	\$ 18.16	\$ 16.41
Net income	\$ 2.99	\$ 0.45
Cost of operations as a percentage of income	85.86%	97.33%
Feed costs as a percentage of milk sales	47.96%	49.13%
Net income per milking cow per month	\$ 74.13	\$ 16.80
Cumulative net income per cwt. from 2010 to 2011	\$ 3.44	

EXPLANATION OF INCOME AND COST FACTORS

Basis of presentation	Information is included both on a "per head" basis and a "per hundredweight of milk" basis. The "per head" statistics are based on the total average number of milking and dry cows in a herd for the period. The Panhandle region includes the triangle from Clovis, New Mexico to Amarillo, Texas to Lubbock, Texas. The Pacific Northwest region includes the states of Washington and Oregon.
Milk sales	Includes milk income, quality and production bonuses, patronage dividends, USDA program payments, and milk futures.
Calves and other income	This is primarily composed of the sale of calves, heifers, other livestock and equipment, and miscellaneous other income.
Feed	Grain includes all minerals, supplements, and vitamins.
Labor	Includes wages and fringe costs such as payroll taxes, workers' compensation insurance, medical insurance, union benefits, etc. Compensation to owner-employees or partners is not included.
Herd replacement cost	Represents the difference between the actual price paid for purchased cows (or estimated cost of self-raised cows) at the time the cows were added to the milking herd less the sales price received for cows disposed of. This difference is amortized over the productive life of the cows.
Occupancy cost	Includes property taxes and depreciation of buildings on owner occupied facilities, rent paid and depreciation of improvements on leased facilities. It does not include interest paid on real property.
Miscellaneous cost	Includes auto, truck and fuel expenses, insurance, professional fees, quality penalties and other dairy expenses not specifically classified in another category.
Net income	Is stated before a provision for income taxes or a return on the dairy owner's investment.

OUR FIRM AND THE DAIRY INDUSTRY

Frazer, LLP has been associated with the dairy industry since the early 1950's. At that time, many immigrants from Europe were arriving in California's "Dairy Valley" and establishing their farming operations. These early dairies averaged 50 cows and the families provided most of the labor. Frazer, LLP's partners, situated in "Dairy Valley," were instrumental in the creation of federal and state laws to help dairymen. We have consistently supported pro-agricultural organizations in their efforts to help shape policy and better the living and working environments for dairy families.

As development expanded in the dairy farming area, our firm helped many dairies relocate throughout California, and other states throughout the West and Mid-West. Many families we are servicing now have their third generation stepping into the operation's management. We have grown with these families into their multiple operations, often totaling 10,000 cows or more. Today, Frazer, LLP has clients in California, Arizona, Texas, New Mexico, Colorado, Idaho, Nevada, Oregon, Washington, Nebraska, Kansas, Wisconsin, Iowa, and South Dakota. Also, we actively consult with many dairies throughout the United States.

As we look to the future, the trend towards efficiently operated dairies will continue. Along with this trend, the dairy industry is facing continued challenges in its operations, efficiency building efforts which are continuous, expansion and relocation activities including the ability to construct new dairies. The dairy industry brings many jobs to an area and allows associated businesses to grow and flourish. This creates further conflict between the local communities, governments and the environmentalists. Dairy producers face volatility in many facets of their business. Milk pricing and feed market updates can be monitored daily by producers via the CME website boards. Making the correct market decision with respect to milk and feed pricing are crucial to the successful operations of any facility. These decisions to contract any pricing of commodities often carry substantial risk/reward to the producers operation.

As we are well through 2012, bottom line results have been dramatically reduced when compared to 2011, and major issues loom for most producers in the nation. Milk and feed futures continue to react with volatility, and obtaining future credit has become increasingly difficult. Current borrowing base valuations have been reduced by most banks throughout the industry to comply with tougher lending standards. Milk production continues to rise and heifers are coming on line with incredible numbers as the impact of improved breeding, and continuous beefing of lower end producing cows, which started over a year ago translates now into exploding heifer programs and first calf herds. Dairy price stabilization programs, to be introduced with the 2012 farm bill, will head to congress later this year which may or may not pass all branches in their current form, and their eventual effectiveness to help producers remains to be seen. All of these factors require that producers do as much as they can to conserve resources, reduce costs, improve efficiencies, and make the right decisions day to day for their operations in order to insure a viable future.

Frazer, LLP will be instrumental in providing the assistance needed to make these decisions.



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Low Costs Drive Production to Large Dairy Farms

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- Dairy production is shifting to larger farms; small dairy farms are exiting, and more expect to leave in the next decade.
- Average production costs per hundredweight of milk produced fall sharply with herd size. Large dairy farms earn substantial profits, while most smaller operations experience economic losses.
- Given the cost advantages, the shift of dairy production to large farms contributes to rising industry productivity and lower inflation-adjusted dairy prices.



Photos: William McBride, ERS/USDA

Dairy farming is undergoing striking changes. In the 1970s, a large dairy farm had a herd of 100 milk cows. Typically, the family operating the farm provided most of the labor and grew most of the herd's feed on the farm. While thousands of such farms remain in operation, their numbers, as well as their production methods, are in sharp decline.

During the 1970s, a different type of dairy farm began appearing in Western States such as California. These operations were much larger, often with herds of 1,000-2,000 milk cows. Whereas the smaller dairy farms tended to graze their cows on pasture, the new larger ones often housed their cows in large barns or drylot feedyards. While still family owned and operated, the large farms relied extensively on hired labor and on feed purchased off the farm. As the larger dairy farms prospered, milk production began to shift to Western States and smaller dairies started to go out of business.

Larger dairy farms spread rapidly in the 1990s, taking hold in traditional dairy regions, like the Northeast and Upper Midwest. While only 15 dairies over 1,000 head operated in traditional areas in 1992, this number grew to 176 over the next 10 years. Meanwhile, farm sizes continued to grow in the Western production regions, with farms with as many as 5,000 cows increasingly commonplace.

The ongoing reorganization of dairy farming increases productivity, meaning more milk can be produced with an equivalent complement of production inputs. This places downward pressure on farm costs and milk prices. It also creates new challenges for dairy and environmental policies, especially regarding manure management. Recent ERS research documents the industry's structural changes and identifies their effect on production costs. This article focuses on production costs for farms producing conventional milk.

Dairy Farming Structure Has Changed Rapidly

In 1992, about half of all milk cows were on the approximately 135,000 U.S. dairy farms operating with fewer than 100 cows. By 2006, only about 58,000 dairy farms had fewer than 100 cows, accounting for less than one-quarter of all dairy cows.

At the opposite end of the size continuum, 560 dairy farms operated with at least 1,000 dairy cows in 1992. Fourteen years later, over 1,400 such farms accounted for 35 percent of all cows. This trend may be accelerating, as farms with at least 1,000 head added 4 percentage points to their share of cow inventory in 2004-06 alone.

Larger Farms Have Lower Costs

Large dairy farms have significant cost advantages over smaller operations, and those cost advantages are a powerful force for consolidation. Average costs of production per hundredweight of milk fell sharply as herd sizes increased. Large farms with at least 1,000 milk cows had 15 percent lower dairy enterprise costs in 2005 than farms with 500-999 cows, and 25-35 percent less than farms with 200-499 and 100-199 cows.

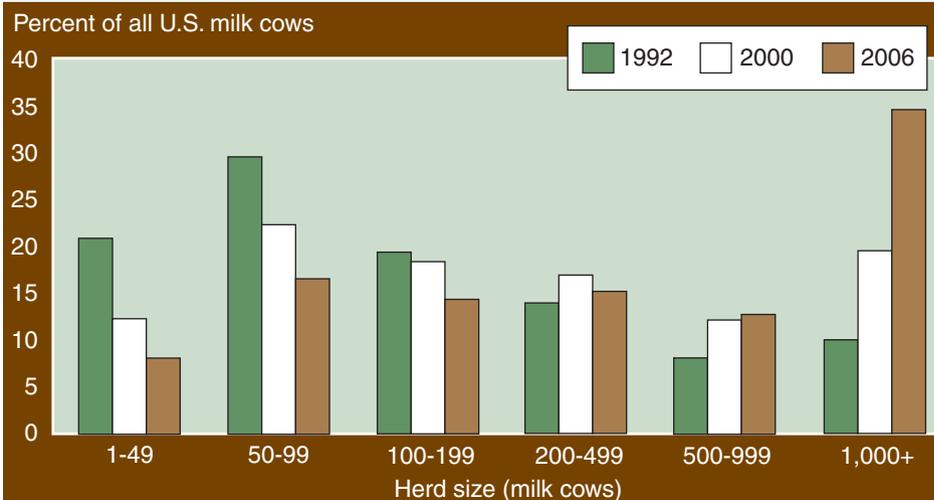
Overhead costs comprise the major cost advantage held by larger dairy enterprises, as these operations are able to use

capital and labor far more intensively than smaller operations. Although most operators and their families do not pay themselves a cash wage for their labor, their labor still has an opportunity cost—they forego other money-earning activities when they work on the farm. An estimate of this opportunity cost is included in a measure of overhead and full economic costs even though the operation does not pay an explicit labor expense.

Costs Are Only One Side of Financial Performance

A complete financial evaluation looks at net returns, or the difference between a dairy enterprise's gross value of produc-

Milk production is shifting to large dairy farms



Source: 1992 Census of Agriculture, and USDA, National Agricultural Statistics Service surveys for 2000 and 2006.

Small conventional dairies have higher average costs, 2005

Item	Herd size (milk cows)					
	1-49	50-99	100-199	200-499	500-999	1,000+
	<i>Dollars per hundredweight of milk produced</i>					
Gross value of production	17.87	17.56	17.20	17.25	16.56	16.54
Operating costs	12.30	12.94	11.51	11.31	11.07	9.74
Overhead costs	17.79	12.56	9.31	6.61	5.00	3.85
Unpaid labor	10.60	6.10	3.13	1.34	0.54	0.17
Capital recovery	5.26	4.56	3.89	2.55	2.03	1.66
Total costs	30.09	25.50	20.82	17.92	16.07	13.59
Net returns	-12.22	-7.94	-3.62	-0.67	0.49	2.95

Source: ERS estimates, at www.ers.usda.gov/data/costsandreturns/

tion and total costs of production. Gross value of production is largely milk sales (89 percent), as well as the value of joint products like cull cow and calf sales and the value of manure produced. Small farms generally realize higher gross values of production per hundredweight of milk because milk prices tend to be higher in regions where small dairy farms predominate.

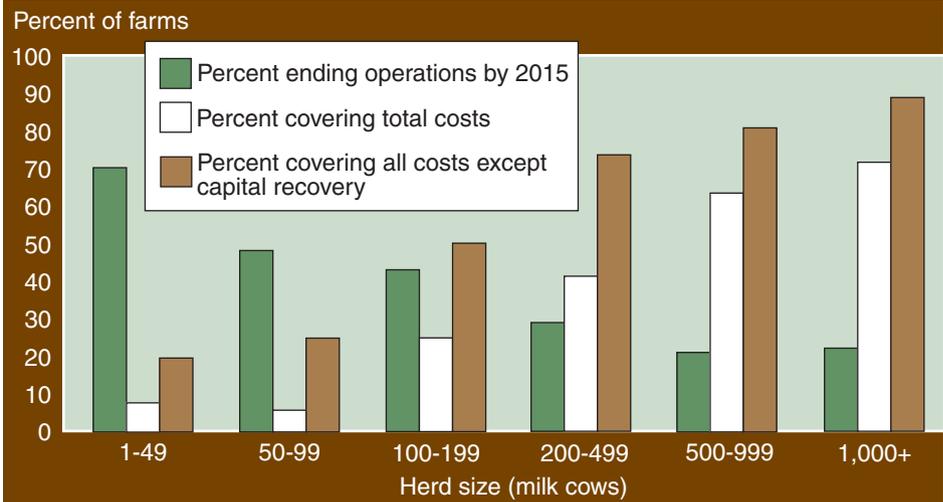
Despite the price advantage held by smaller farms, the cost advantage of larger enterprises enables them to achieve much higher net returns. In fact, small and mid-size dairy enterprises (with 100-499 cows) had negative net returns, on average, in 2005.

With the largest dairy enterprises providing returns that substantially exceed total costs (including capital recovery and the value of operators' time), those businesses have attracted investment and are expanding rapidly. Since the returns to small dairy enterprises do not cover all of their costs, many more small enterprises are leaving dairy farming than are entering.

The evidence from net returns is also consistent with operator plans. In a recent USDA survey, dairy farmers were asked how long they expected their operations to continue producing milk. Seventy percent of the farms with fewer than 50 cows expected to end milk production within 10 years. Exit expectations fell steadily as farm size increased, from 48 percent among farms with 50-99 cows to 20 percent of those with at least 1,000 cows.

Many small operations will continue producing milk. Some may be exceptionally well managed or may have favorable input or product prices that provide them with above-average profits. Others may venture into related profit-making opportunities, or niche markets, for higher valued dairy products, such as organic dairy products (see box, "Comparing Costs: Organic and Conventional Dairy

Financial performance improves consistently with conventional dairy enterprise size



Source: Analysis by USDA, Economic Research Service of 2005 Agricultural Resource Management Survey, dairy version.

Enterprises"). Even though small farms show losses on average, 25 percent of farms with 100-199 cows realized positive net returns in 2005. These farms earned enough to cover all costs, including capital replacement costs and estimated costs for operators' unpaid labor. Six percent of

farms with fewer than 100 head and 41 percent of farms with 200-499 head earned positive net returns in 2005.

Some other small and midsized operations may continue to operate, even though net returns are negative. Net returns drive investment decisions.

Comparing Costs: Organic and Conventional Dairy Enterprises

Organic dairy production offers a promising alternative for some producers. Over 87,000 dairy cows were certified organic in 2005, up from 38,000 in 2000, and they accounted for about 1 percent of the nationwide inventory of dairy cows.

Organic dairy costs of production tend to exceed conventional costs, in part because organic feed costs more than conventional feed, and in part because organic production uses more labor and capital, per hundredweight of milk produced. On the other hand, organic milk commands premium prices, so revenues are higher on organic operations. Organic systems may lead to improved financial returns for some small farms: in 2005, about 37 percent of organic operations with 50-99 cows covered all their costs, except for capital recovery, compared with 25 percent of conventional dairy enterprises in that size class.

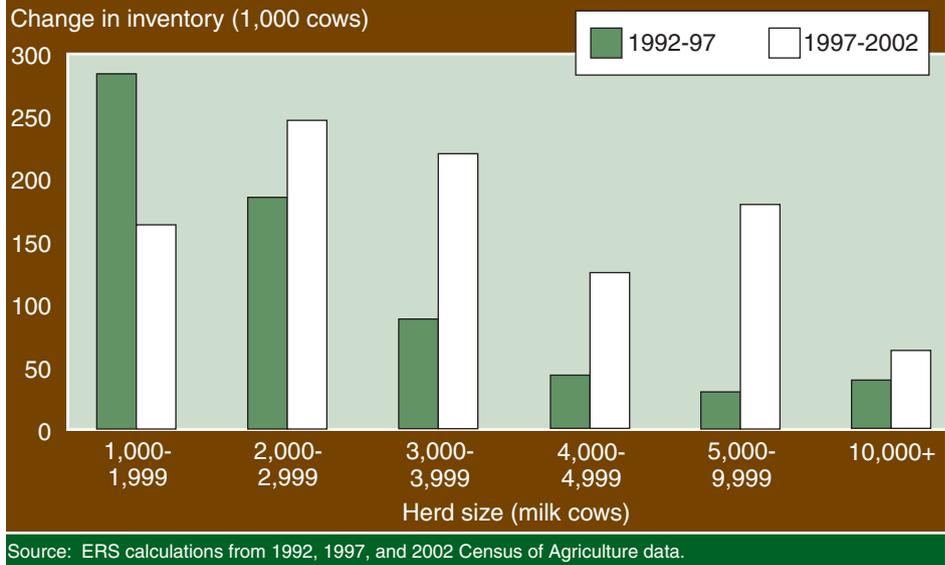
Herd size matters to organic costs, and to the future development of organic dairy markets. Estimated total costs, per hundredweight of milk produced, fall sharply as herd sizes increase. In 2005, there were several very large organic dairy enterprises, with several thousand cows each. Current organic standards require that dairy cows have access to pasture. Like most other large dairy farms, these large organic dairies purchased most of their feed and tended to rely very little on pasture. Since 2005, USDA has decertified at least one large organic dairy farm for failing to meet pasture requirements. Expanded organic pasture requirements will likely leave more production on small operations, but also will lead to higher organic production costs and prices.

Farmers are unlikely to invest capital and labor in new farms or farm expansions that are unlikely to cover the costs of those commitments. But other financial indicators may be more relevant for the decision to continue operating an existing farm. Operators of existing farms have already committed their equipment and structures, and that capital may have a very low salvage value. Capital recovery costs may be irrelevant to their decision to continue operating; what matters is not whether the value of production exceeds total costs, but whether it exceeds all costs except for capital recovery. Fifty percent of farms with 100-199 cows met that financial performance standard in 2005, as did 25 percent of those with 50-99 cows and 73 percent with 200-499 cows. Operations that cannot meet that financial standard are more likely to close because their operators can earn a better return on their labor from off-farm work.

Will Large Farms Get Larger?

On average, large dairy farms exhibit better financial performance than small. But ongoing structural change has led to even larger farms, with 5,000 and 10,000 cows. ERS's financial database is not comprehensive enough to tell whether farms of that size have financial advantages over farms with 1,000 cows, but other evidence suggests that they might.

New dairy investment shifts to very large farms



Specifically, patterns of expansion among large farms changed sharply in recent years, suggesting that the largest farms might have further cost advantages. Between 1992 and 1997, most capacity expansion at large farms occurred in farms with 1,000-3,000 head. But after 1997, most new capacity at large dairy farms was added on farms with more than 3,000 head, with some going to operations with over 10,000 head. Operators may have discovered ways to more effectively manage much larger dairy farms in recent years, and the bulk of new large farm investment appears directed at those much larger farms. In turn, those investments may place even greater cost pressures on smaller operations.

Structural Change Has Market, Environmental, and Policy Impacts

The improved efficiency of large farms frees resources for other uses and exerts downward pressure on milk prices. While the prices that dairy farmers pay for inputs like feed has continued to increase, efficiency improvements in dairy production have kept farm-level milk prices from rising. USDA's index of prices paid for livestock inputs rose by 43 percent between 1992 and 2006. While farm-level milk prices fluctuated over the same period, they showed very little trend. That performance reflects steady improvements in genetics, feed formulation, equipment design, and management, as well as a shift of production from smaller to larger farms.

The average farm-level milk price in 2005 was \$15.14 per hundredweight. Prices fell to \$12.90 in 2006, before rising to \$20 in June 2007. Higher prices in 2007 were driven by ethanol-fueled increases in feed prices and by greater world demand for dry dairy products. However, the cost relationships outlined in this article have not been fundamentally altered. Larger operations still have substantial cost

William McBride, ERS/USDA





Photos: William McBride, ERS/USDA

advantages, and shifts of production to larger enterprises will place downward pressure on industry-wide costs and prices, thus offsetting some of the impact of any long-term increases in feed expenses.

While structural change has led to improved efficiency and lower milk prices, it also concentrates milk cows and their manure onto a smaller land base. Large farms operate less land per cow, heightening the risk of environmental damages from manure nutrients being applied beyond the capacity of crops to assimilate them. In response to structural change in livestock and poultry production, State and Federal regulators have promulgated sets of regulations to guide manure and wastewater management in large confined animal feeding operations (CAFOs), including large dairy farms. At present, the costs of conforming to such regulation at large dairies appear unlikely to offset the production cost advantages held by those operations, so structural change will likely continue.

Structural change can also complicate the effects of dairy policy. Traditionally, dairy policies have been designed to improve farm operator incomes by influencing the prices that producers receive for their milk. For example, price support programs were designed to raise the minimum prices received by all producers—

regardless of herd size. But with wide disparities in production costs, prices that might cover costs for midsize farms would yield large profits, and very strong expansion incentives for large dairies.

Congress introduced counter-cyclical payments in the 2002 farm bill under the Milk Income Loss Contract (MILC) program (extended with some modifications in 2005), under which farmers can receive direct payments in months when market prices fall below a targeted level. Payments are restricted to the first 2.4 million pounds of production on a farm, the approximate annual amount that a farm with about 120 cows (at 2006 average milk yields) can produce in a year.

Payments under the program commence when milk prices fall below a reference level, and increase, although not dollar for dollar, as prices fall further. The payments cushion producers against price declines and provide stronger revenue support during periods of low prices to small operations and to regions where such farms predominate. This may help some small producers cover their operating costs during market downswings and avoid closure. Still, given the powerful cost advantages of large dairies, the payments have not counteracted the pronounced shift of production to larger farms. \mathcal{W}

This article is drawn from . . .

ERS Data on Commodity Costs and Returns, www.ers.usda.gov/data/costs_andreturns/

Profits, Costs, and the Changing Structure of U.S. Dairy Farming, by James M. MacDonald, William D. McBride, Erik J. O'Donoghue, Richard F. Nehring, Carmen L. Sandretto, and Roberto Mosheim, ERR-47, USDA Economic Research Service, September 2007, available at: www.ers.usda.gov/publications/err47/

You may also be interested in . . .

Economic Effects of U.S. Dairy Policy and Alternative Approaches to Dairy Policy, U.S. Department of Agriculture, Report to Congress, July 2004, available at: www.usda.gov/documents/NewsReleases/dairyreport1.pdf

The Changing Landscape of U.S. Milk Production, by Don P. Blayney, SB-978, USDA, Economic Research Service, June 2002, available at: www.ers.usda.gov/publications/sb978/

The ERS Briefing Room on Dairy, www.ers.usda.gov/briefing/dairy/

- [ARMS Documentation](#)
 - [Get Survey Questionnaires and Manuals](#)
-

ARMS Documentation

Documentation for the Agricultural Resources and Management Survey (ARMS) below consists of:

- General documentation of the survey design, process and procedures, including statistical methods for estimation for major components of the survey
- The survey instruments or questionnaires/manuals administered in the survey for each crop, year, phase, and version

Introduction

Sponsored jointly by ERS and the National Agricultural Statistics Service (NASS), ARMS began in 1996 as a synthesis of the former USDA cropping practice, chemical use, and farm costs and returns surveys, which dated back to 1975.

ARMS is a series of interviews with farm operators about their farm business and household. It is conducted annually in three phases over the course of the survey year, which runs from June through April. The ARMS data collection starts during the fall when production practice and cost data are collected, and finishes in the spring when a follow-on interview collects data about whole-farm costs like overhead, interest, and taxes.

Phase I, conducted during the summer of the reference year:

Farmers selected for inclusion in the survey sample are screened to verify their operating status and to determine whether they are producing commodities targeted for data collection. This first phase is merely a screening questionnaire used to improve survey efficiency; it does not contribute to the user data files.

Phase II, conducted in the fall and winter of the reference year:

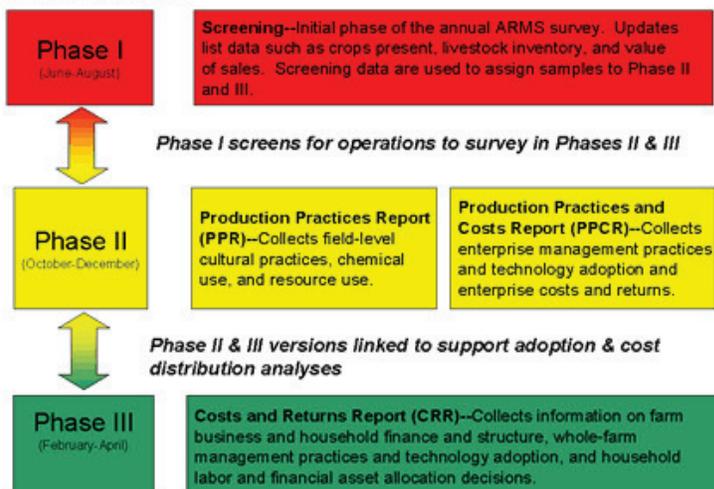
Randomly selected operating farms from Phase I are interviewed to collect information on their production practices and chemical use. Phase II mirrors the former Cropping Practices Survey. Phase II data are collected at the individual field or production unit level. Phase II is a series of commodity surveys conducted to obtain physical and economic data on production inputs, management practices, and commodity cost of production.

Phase III, conducted in the spring of the year following the reference year:

A nationally representative sample of farmers is interviewed to obtain information on their costs and returns during the reference year. Farmers that reported production practices for specific commodities in Phase II are also contacted to obtain information on their costs and returns, including data needed to estimate the costs of production associated with their production practices. Phase III data are collected at the whole farm level. Phase III is designed to represent all U.S. farms and focuses on farm income and expenditures, farm financial arrangements, and other characteristics of the farm business and farm household.

The phase II and III components are related, in that the operators are asked to complete both interviews- but only when designed to prepare a crop cost of production estimate. The cost of production estimates include the enterprise share of farm business expense items such as land taxes, insurance, fuel expenses, etc. that are collected in the phase III interviews.

ARMS Has A Modular Design To Reflect Complex Farm Production, Organization, and Financial Structures



Sample Design

The ARMS survey is technically described as a multi-phase, multi-frame, stratified, probability-weighted sampling design. What do these three characteristics of the sample design mean?

Multiframe

NASS uses two sampling frames to select farms for the survey:

- **The primary sample is derived from the NASS List Frame.** NASS maintains a list of farm operations that exhibit certain characteristics. The lists are constructed and maintained from many different sources, including the Census of Agriculture and other NASS surveys. Because some information is already known about these farms, the list can be sorted according to farm types and size classes.
- **The second sampling frame for ARMS is the NASS Area Frame.** This is used only to capture farms not on the List Frame, and consists of randomly selected agricultural land segments that represent all land in farms. Each year, NASS conducts a spring survey selected from the Area Frame to estimate crop acreage and land use. This survey identifies all land uses within the segment, and it can be used to stratify target crops for follow-on surveys. A sample for ARMS is then selected from the spring survey results. Only those farms not on the List Frame (nonoverlap) are retained for sampling.

Stratified

Strata are divisions within the sample frames that have particular characteristics. Farms in different strata are sampled with a different probability of selection. Within a stratum, the weight (expansion factor) is based on the probability of its selection. In the Area Frame, land use or crop type can be used to stratify target crops for follow-up surveys.

Probability-weighted

Because of the complexity of the sample design, each observation has a different weight, or expansion factor, to reflect its probability of selection and, therefore, what part of the sampled universe it should represent. Appropriate sample weights (expansion factors) are provided to prepare population estimates from the survey results. Population estimates are constructed by weighting each sample with the appropriate expansion factor. A jackknife re-sampling process was used with 15 additional weights from NASS for each sample to estimate the Relative Standard Error (RSE) for each data item.

Furthermore, data from the Phase II of ARMS is divided into three data files: 1) fertilizers, 2) pesticides, and 3) all other data designated as the main file (e.g., field characteristics, management practices, and production input data other than fertilizers and pesticides). Sample weights associated with each of the three data files depends on the number of usable responses for the respective parts of the Phase II questionnaire. The usability of these tables for the construction of chemical or fertilizer use estimates was determined independently from the completion of the remainder of the questionnaire. Typically, there are slightly different response rates for these three parts of the questionnaire, and hence, weights differ between the main file and the two sub-files (pesticide and fertilizer). Cross-tabbing of variables across the three data files can result in different population estimates for the same variable. In general, such population estimate differences across tables are minimal.

Data Collection

Trained enumerators conduct personal interviews, using questionnaires developed by NASS and ERS, with farm operators to collect data about their farm operations for the ARMS survey. An interviewer's manual outlines detailed enumeration procedures for each phase of the survey. These documents provide specific directions on how the interview is to be conducted and insight into how to interpret each question.

Quality Control

NASS provides enumerator training prior to the survey through a series of enumerator workshops. NASS Headquarters and ERS provide training materials to the State survey statisticians who conduct the training.

After questionnaires are completed by the enumerators, each questionnaire is reviewed by supervisory enumerators for completeness, inconsistent responses, or errors, and then transferred to a NASS State office. Supervisory statisticians also review each questionnaire before it is keyed into an electronic format. A computerized edit routine is then used to identify other potential errors or inconsistencies, checking that responses fall within expected ranges and that answers are consistent. When responses are anomalous, State survey statisticians investigate and either correct or verify the responses. A survey administration manual provides specific details about survey administration and data processing procedures.

Source, Content, and Coverage

ARMS is an ongoing program surveying U.S. farms in the 48 contiguous States and covering specific commodities on a rotating basis.

Farms

ARMS data are collected at both the individual field or production unit level (Phase II), and for the whole farm (Phase III). The exact questions asked vary with the type of crop or livestock enterprise being sampled. [Download the Survey](#) to see the questions asked for Phases II and III for specific crops and livestock in specific years.

The target population for ARMS is the official USDA farm population in the 48 contiguous States, which is defined as all establishments, except institutional farms, that sold or would normally have sold at least \$1,000 of agricultural products during the year.

Commodities

Commodity-specific information is collected on a rotating basis in both the field-level (Phase II) and whole-farm (Phase III) portions of the ARMS. Production practice data for major crop and livestock activities (corn, soybeans, wheat, cotton, dairy, and hogs) are gathered more often than that for other commodities (other feed grains, other small grains, sugarbeets, rice, peanuts, tobacco, and poultry). Livestock data (cow-calf, hogs, and dairy) have been collected approximately every 5 years, on a staggered rotation.

ARMS coverage by commodity and year														
Commodity	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2009	2010
Apples												✓		
Corn	✓	✓	✓	✓	✓	✓				✓				✓
Soybeans	✓	✓	✓	✓	✓		✓				✓			
Cotton	✓	✓	✓	✓	✓			✓				✓		
Winter Wheat	✓	✓	✓		✓				✓				✓	
Spring Wheat	✓	✓	✓		✓				✓				✓	
Durum Wheat	✓	✓	✓		✓				✓				✓	
Fall Potatoes	✓	✓		✓										
Rice					✓							✓		
Sorghum (milo)								✓						
Flue-cured Tobacco	✓													
Sugarbeets					✓									
Peanuts				✓					✓					
Sunflowers				✓										
Oats										✓				
Barley								✓						
Cow-calf	✓													
Hogs			✓						✓					
Dairy					✓					✓				✓
Broilers											✓			

 = Phase II field-level Production Practices Report only.
 = Both Phase II field-level Production Practices Report and Phase III whole-farm Cost of Production survey.
 = Phase III whole-farm Cost of Production survey only.

States

The States included in the survey each year vary, depending on the crops surveyed and to help minimize respondent burden. Field-level data collected in ARMS Phase II surveys do not represent the total U.S. acreage of each crop surveyed, but generally represent over 90 percent of acreage and production of the target commodity. The sampling used in ARMS Phase II was not intended to support State estimates, but sufficient data were obtained in many States to report these estimates. However, the ability to partition data for individual States is very limited.

States surveyed by commodity and year																														
Apples																														
2007	CA	MI	NY	NC	OR	PA	WA																							
Corn																														
1996			IL	IN	IA	KS	KY	MI	MN	MO	NE		NC		OH	PA	SC	SD	TX	WI										
1997			IL	IN	IA			MI	MN	MO	NE				OH				SD		WI									
1998	CO		IL	IN	IA	KS	KY	MI	MN	MO	NE		NC		OH	PA			SD	TX	WI									
1999	CO		IL	IN	IA	KS	KY	MI	MN	MO	NE		NC		OH				SD	TX	WI									
2000	CO		IL	IN	IA	KS	KY	MI	MN	MO	NE	NY	NC	ND	OH	PA			SD	TX	WI									
2001	CO	GA	IL	IN	IA	KS	KY	MI	MN	MO	NE	NY	NC	ND	OH	PA			SD	TX	WI									
2005	CO	GA	IL	IN	IA	KS	KY	MI	MN	MO	NE	NY	NC	ND	OH	PA			SD	TX	WI									
2010	CO	GA	IL	IN	IA	KS	KY	MI	MN	MO	NE	NY	NC	ND	OH	PA	SC	SD	TX	WI										
Cotton																														
1996		AZ	AR	CA	GA	LA	MS					TN	TX																	
1997	AL	AZ	AR	CA	GA	LA	MS	MO	NC	SC	TN	TX																		
1998	AL	AZ	AR	CA	GA	LA	MS		NC		TN	TX																		
1999	AL	AZ	AR	CA	GA	LA	MS		NC		TN	TX																		
2000	AL	AZ	AR	CA	GA	LA	MS	MO	NC		TN	TX																		
2003	AL	AZ	AR	CA	GA	LA	MS	MO	NC	SC	TN	TX																		
2007	AL		AR	CA	GA	LA	MS	MO	NC	SC	TN	TX																		
Soybeans																														
1996	AR		IL	IN	IA			LA			MN	MS	MO	NE		OH				TN	WI									
1997	AR	DE	IL	IN	IA	KS	KY	LA		MI	MN	MS	MO	NE	NC		OH	PA	SD	TN	WI									
1998	AR		IL	IN	IA	KS	KY	LA		MI	MN	MS	MO	NE	NC		OH		SD	TN										
1999	AR		IL	IN	IA	KS	KY	LA		MI	MN	MS	MO	NE	NC		OH	PA	SD	TN										
2000	AR		IL	IN	IA	KS	KY	LA		MI	MN	MS	MO	NE	NC	ND	OH		SD	TN		WI								
2002	AR		IL	IN	IA	KS	KY	LA	MD	MI	MN	MS	MO	NE	NC	ND	OH		SD	TN	VA	WI								
2006	AR		IL	IN	IA	KS	KY	LA		MI	MN	MS	MO	NE	NC	ND	OH		SD	TN	VA	WI								
Durum Wheat																														
1996			ND																											
1997			ND																											
1998	CA	MT	ND	SD																										
2000			ND																											
2004		MT	ND																											
2009	ID	MT	ND	SD																										
Other Spring Wheat																														
1996			MN	MT	ND																									
1997			MN	MT	ND		SD																							
1998		ID	MN	MT	ND	OR	SD	WA																						
2000			MN	MT	ND		SD																							
2004		ID	MN	MT	ND	OR	SD	WA																						
2009	CO	ID	MN	MT	ND	OR	SD	WA																						
Winter Wheat																														
1996			CO	DE		ID		KS							MT	NE			OK	OR	SD			TX	WA					
1997			CO			ID	IL	KS					MO	MT	NE		OH	OK	OR	PA	SD			TX	WA					
1998		CA	CO		GA	ID	IL	KS		LA		MN	MS	MO	MT	NE	NC	OH	OK	OR	SD			TX	WA					
2000	AR		CO			ID	IL	KS	KY					MO	MT	NE	NC	OH	OK	OR	SD			TX	WA					
2004			CO			ID	IL	KS		MI				MO	MT	NE		OH	OK	OR	SD			TX	WA					
2009			CO			ID	IL	KS		MI	MN			MO	MT	NE	ND	OH	OK	OR	SD			TX	WA					
Peanuts																														
1999	AL		GA	NC	TX																									
2004	AL	FL	GA	NC	TX																									
Potatoes																														


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Production Overload

MAY 29, 2012

By: **Catherine Merlo**, Dairy Today Western and Online Editor



Capacity reached the limit at several milk processing plants this spring.

Western processors implement supply control programs

What do you do with an extra 5.7 billion pounds of milk?

That's what the U.S. dairy industry has wrestled with this year as the nation's dairies churn out a record volume of milk. USDA's projected 201.9 billion pounds of milk for 2012 means the nation will produce 5.7 billion pounds, or 5.2%, more than last year.

To curb the flood of milk that has filled many plants to capacity, several dairy processors implemented supply control programs or cut volume premiums this spring.

"Normally there's more capacity in the Midwest, but this year, plants are full all over," says Robin Schmah, dairy marketing specialist with AgDairy LLC in Wisconsin.

The Idaho Dairymen's Association reported in April that milk from California had been "hitting the road and traveling as far as Iowa looking for a home."

"Plants in the Upper Midwest are full because of milk shipments from California and Idaho," says Bob LeFebvre of Minnesota Milk Producers Association.

In California, where the situation has been particularly acute—March 2012 output alone rose 221 million pounds over year-earlier levels—Land O'Lakes took unusual action. Rather than ship its excess California milk elsewhere and accept heavy discounts from other processors, it implemented a three-option plan to cut production among its 235 Golden State members, says Tom Barcellos, a Central California dairy producer and Land O'Lakes delegate.

The effort, which took effect on April 1, extends to June 30. The goal? To reduce daily milk flow into Land O'Lakes' Tulare, Calif., plant by more than 1.1 million pounds.

One option gave members a premium of 30¢ per cwt. if they reduced their modified temporary base by 6%. That reduced daily milk receipts by 285,000 lb. A second option, which offered an incentive to terminate membership, resulted in Land O'Lakes buying out 17 dairies in Tulare and Kings Counties and cutting the milk flow by 765,000 lb., Barcellos says. Under the third option, members could abide by their March 1 modified base rate and face a penalty of \$10 per cwt. on anything over that production amount.

 Bonus Content

Utah Producer Speaks Out

In March, California Dairies Inc. (CDI), the state's largest dairy processing co-op, sent notices urging members to abide by its internal supply program, in place since 2008.

Producers were reminded they faced over-base charges if they exceeded their allotted CDI production base. Dairy Farmers of America has also put curbs on members' milk output in Utah.

Increased volume from its members helped fill United Dairymen of Arizona's (UDA) Tempe plant "to very efficient levels," says CEO Keith Murfield. "Normally, we can handle 200 million pounds of outside milk a year, but this year we'll only be able to help on a limited scale."



Land O'Lakes has reduced daily milk flow into its Tulare, Calif., plant by more than 1.1 million pounds.

The heavy U.S. milk supply is largely due to the mild winter, an earlier-than-normal spring flush among herds and high per-cow output. Worsening the West's strained processing capacity was the closure of a dryer at a Darigold powder plant in Lynden, Wash., after a February explosion. That forced the Northwest dairy co-op to cut operations by 50%. The dryer, one of two at the plant, won't be operational until spring 2013.

Even before the Lynden plant explosion, Darigold's parent co-op, Northwest Dairy Association (NDA), had implemented in January a "wildly unpopular" interim production management program, says Jeremy Visser, an NDA board member who operates five dairies in Washington.

NDA normally receives 7.2 billion pounds of milk annually from its 550 members. Recently, NDA's milk receipts rose to 8 billion pounds for its fiscal year, which ended in March.

Initially, NDA's interim program penalized producers \$1.50 per cwt. for delivering up to 1.5% above their base amount. If they went over 1.5%, they were fined \$5 per cwt. But by late April, NDA "couldn't ship the additional milk to anyone else because of the steep discounts," Visser says.

Pressured by the Lynden dryer closure and continuing milk surplus, NDA intensified its penalties. In what the Seattle-based co-op says was an "unavoidable and difficult" decision, it announced to members that, during June and July, they will be assessed 100% of the value of any milk that exceeds their base limit.

"Members are angry at the board because we didn't see it coming," Visser says.

Struggling like many producers with this year's price downturn, Visser supports NDA's move. "The market is sending a strong economic message that we can't process all this milk," he says. "I'm hopeful this [program] will shorten the down period."

Reaction to the supply control options among Land O'Lakes' California members, Barcellos says, has ranged from anger and frustration over the harsh limits imposed with less than a month's notice to acceptance and understanding that the controls were needed.

CDI officials say their internal supply management program helped the co-op avoid tough penalties. "CDI's program was controversial when it was implemented in April 2008, but today members are thankful it's in place," says Marie teVelde, the co-op's communications director. "So far this year, CDI has been able to handle all its members' milk and hasn't imposed any penalties on members."

The co-op last fall anticipated the ramp-up in milk production and worked to improve the efficiency of its six California plants, notes John Azevedo, CDI's first vice chairman. CDI did not ship milk out of state for processing, he adds, and its plants ran "flawlessly."

"Production is down to below 50 million pounds of milk per day. It was as high as 51 million pounds," says Azevedo, a Patterson, Calif., dairy producer. "The worst is over."

But for how long? Utah dairy producer John Nye says U.S. dairy producers "must have a growth management [plan] in place or the race to the bottom will continue." UDA's Murfield thinks the proposed Dairy Security Act, with its voluntary margin protection and supply management provisions, may now appeal to more producers. Schmahl, on the other hand, says, "If we limit production, we'll limit our share in the world market." Whatever the impact of 2012's production overload, it isn't likely to end the debate about a lasting cure anytime soon.

[>See Comments](#)

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Dairy Institute Brief – Attachment 7

★ AMERICA'S **TOP STATES** FOR BUSINESS 2011 ★ | A CNBC SPECIAL REPORT

Overall Rankings - 2011

We scored all 50 states on 43 measures of competitiveness developed with input from business groups including the National Association of Manufacturers and the Council on Competitiveness. States received points based on their rankings in each metric. Then, we separated those metrics into ten broad categories, weighting the categories based on how frequently they are cited in state economic development marketing materials. That way, our study ranks the states based on the criteria they use to sell themselves.

Here are the ten categories ranked in our study:

- Cost of Doing Business
- Workforce
- Quality of Life
- Economy
- Transportation & Infrastructure
- Technology & Innovation
- Education
- Business Friendliness
- Access to Capital
- Cost of Living

<http://www.cnbc.com/id/41666602>

Cost of Doing Business – 2011

Cost is a major consideration when a company chooses a state. We looked at the tax burden, including individual income and property taxes, as well as business taxes, particularly as they apply to new investments. Utility costs can add up to a huge expense for business, and they vary widely by state. We also looked at the cost of wages, as well as rental costs for office and industrial space (rental cost information furnished by CoStar Group).

Business Friendliness - 2011

Regulation and litigation are the bane of business. Sure, some of each is inevitable. But we graded the states on the perceived “friendliness” of their legal and regulatory frameworks to business.

Overall	State	Cost of Business	Workforce	Quality of Life	Economy	Infrastructure & Transp.	Technology & Innovation	Education	Business Friendliness	Access to Capital	Cost of Living
1	Virginia	21	12	26	8	10	11	6	2	10	24
2	Texas	33	14	32	14	1	4	27	18	4	5
3	North Carolina	9	3	33	41	3	12	18	11	11	22
4	Georgia	18	4	38	35	2	17	22	16	13	9
5	Colorado	30	7	7	26	26	14	30	6	15	33
6	Massachusetts	41	31	10	15	29	3	4	15	2	41
7	Minnesota	23	36	8	27	15	16	10	20	16	33
8	Utah	12	8	14	16	33	25	46	4	23	17
9	Iowa	1	21	18	5	37	28	15	11	35	14
10	Nebraska	17	17	12	5	31	35	20	5	35	6
11	Kansas	27	13	26	16	19	30	24	14	28	7
12	Pennsylvania	27	43	29	19	13	7	8	33	7	31
13(t)	North Dakota	20	24	9	1	28	48	23	9	35	19
13(t)	South Dakota	7	15	5	11	42	49	20	3	35	26
15	Indiana	8	41	40	30	21	22	12	10	14	15
16	Missouri	3	33	34	29	9	23	17	25	22	8

17	New Hampshire	37	40	2	10	45	29	7	6	20	40
18(t)	Florida	40	2	31	47	8	13	35	26	9	25
18(t)	Tennessee	19	9	47	46	5	24	43	8	26	2
20	Washington	43	26	13	32	18	5	14	31	8	37
21	Wyoming	34	11	4	2	38	50	18	21	35	27
22	Illinois	24	45	28	32	6	6	29	36	5	20
23	Ohio	5	50	42	24	4	15	13	42	21	13
24	Arizona	38	1	35	44	10	18	49	13	18	36
25	Wisconsin	13	46	19	22	22	21	15	28	27	23
26	New York	48	49	23	20	14	2	1	36	3	45
27	Oregon	9	33	20	48	16	20	37	23	19	38
28	Oklahoma	6	22	37	4	35	37	42	24	24	3
29	Maryland	39	38	30	12	39	10	11	18	12	44
30	New Jersey	43	32	16	42	23	8	2	41	6	46
31	Idaho	11	5	16	38	36	39	45	22	35	12
<u>32</u>	<u>California</u>	<u>47</u>	<u>29</u>	<u>22</u>	<u>30</u>	<u>7</u>	<u>1</u>	<u>36</u>	<u>50</u>	<u>1</u>	<u>48</u>
32	Arkansas	1	10	45	9	40	44	31	44	35	4
34	Michigan	27	41	35	36	10	8	34	36	31	18
35	Kentucky	4	22	46	36	16	36	32	36	34	1

36	Delaware	31	19	48	22	40	32	26	1	35	35
37	South Carolina	14	6	42	49	19	26	46	29	35	28
38	Montana	25	30	15	7	34	46	28	46	35	30
39	Connecticut	45	33	11	44	43	19	3	40	17	47
40	Maine	26	44	6	34	48	40	9	32	30	39
41	Alabama	16	16	49	39	24	33	44	29	35	11
42	Louisiana	22	25	50	28	26	34	33	26	35	21
43	New Mexico	36	28	24	25	30	31	39	46	25	29
44	Vermont	42	37	3	21	49	40	4	34	32	42
45	Nevada	35	18	44	50	25	37	50	17	29	32
46	West Virginia	15	39	38	13	44	47	38	49	35	16
47	Mississippi	31	20	41	39	32	45	48	45	35	10
48	Hawaii	50	47	1	16	46	42	40	43	33	50
49	Alaska	49	48	21	3	47	43	41	34	35	49
50	Rhode Island	46	26	24	42	49	27	24	48	35	43