

What is a Safety-Net of \$12 per CWT- Income over Feed Cost Worth?

Rough Estimates: April 30- May 01, 2010 Enrollment Period (June 2010 thru March 2011 milk)

(Illustration for Educational Purposes)

The data is derived from futures and options prices from dates: 2010-04-12, 2010-04-13, 2010-04-14

| Months Available | Amount Enrolled in Dairy GM | Gross Margin | Calculating the Gross Margins | | | | Prices Used to calculate gross margins | | | Feed Quantities used to calculate gross margins) | |
|-------------------|-----------------------------|--------------|-------------------------------|-------------------------------|---|----------------------------------|--|--|---|--|-------------------|
| | | | Insured Months | Covered Production Each month | Est. Gross Margin Guarantee @ 0 Deductible (income over feed costs) | Est. Milk Price (class3 futures) | Est. Total Feed Cost (futures) | Est. Corn or Equivalents Price (futures) @ 1/2 bu./cwt of milk | Est. Soybean Meal or Equivalents Price (futures) @ 4 lbs./cwt of milk | Avg. Milk Futures | Avg. Corn Futures |
| | cwt/month | \$/cwt | \$/cwt | (\$)/cwt Milk | (\$) | (\$) | (\$/cwt) | (\$/bu) | (\$/ton) | (Tons) | (Tons) |
| Jun-10 | 1 | 11.00 | 13.34 | 2.34 | 1.79 | 0.55 | 13.34 | 3.58 | 273.40 | 0.014 | 0.002 |
| Jul-10 | 1 | 11.53 | 13.90 | 2.37 | 1.82 | 0.55 | 13.90 | 3.64 | 273.17 | 0.014 | 0.002 |
| Aug-10 | 1 | 12.13 | 14.52 | 2.39 | 1.85 | 0.54 | 14.52 | 3.69 | 270.06 | 0.014 | 0.002 |
| Sep-10 | 1 | 12.51 | 14.91 | 2.40 | 1.87 | 0.53 | 14.91 | 3.74 | 264.89 | 0.014 | 0.002 |
| Oct-10 | 1 | 12.52 | 14.92 | 2.40 | 1.89 | 0.51 | 14.92 | 3.78 | 256.72 | 0.014 | 0.002 |
| Nov-10 | 1 | 12.24 | 14.66 | 2.42 | 1.91 | 0.51 | 14.66 | 3.81 | 256.02 | 0.014 | 0.002 |
| Dec-10 | 1 | 12.19 | 14.63 | 2.44 | 1.93 | 0.51 | 14.63 | 3.85 | 255.32 | 0.014 | 0.002 |
| Jan-11 | 1 | 12.08 | 14.54 | 2.46 | 1.95 | 0.51 | 14.54 | 3.89 | 256.26 | 0.014 | 0.002 |
| Feb-11 | 1 | 12.03 | 14.51 | 2.48 | 1.97 | 0.51 | 14.51 | 3.93 | 257.47 | 0.014 | 0.002 |
| Mar-11 | 1 | 12.01 | 14.51 | 2.50 | 1.99 | 0.52 | 14.51 | 3.97 | 258.68 | 0.014 | 0.002 |
| Total/Avg. | 10 | 12.02 | 14.44 | 2.42 | 1.89 | 0.52 | 14.44 | 3.79 | 262.20 | Avg. for 10 month | |

Est. Premium cost/cwt/month @ various deductibles(ded/\$ cost): 0/\$0.70; \$0.20/\$0.59; \$0.50/\$0.46; \$1/\$0.28; \$1.50/\$.16

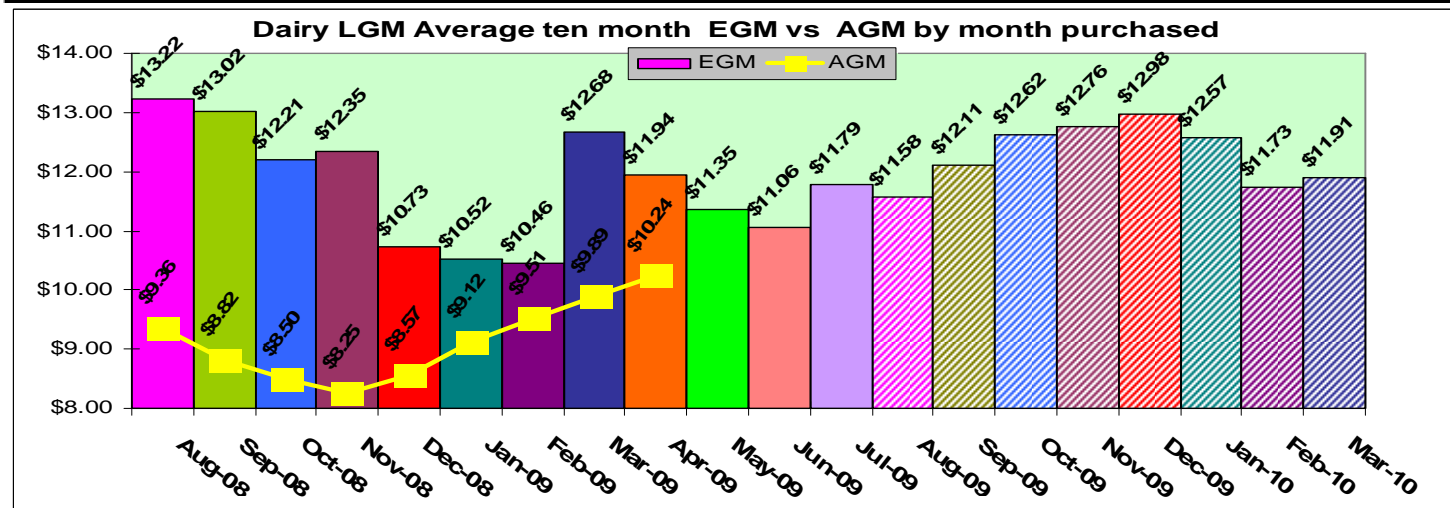
Default feed amounts used to calculation (corn: .014T.=1/2 bu, soymeal: .002T.=4 lbs. to produce 1 cwt. of milk)

The above estimated information is from the homepage of the University of Wisconsin Dairy Marketing and Risk Management Program and is maintained by Prof. Brian W. Gould of the Dept. of Agric. and Applied Economics. It is recommended that you use the browser:

Internet Explorer (V7), Firefox, or Safari set at their medium or normal text size. [Http://future.aae.wisc.edu/lgm_premium/](http://future.aae.wisc.edu/lgm_premium/)

LAST MONTH - March 2010 Enrollment Period (Snapshot of Expected Gross Margins per Cwt. of Milk Enrolled)

| Eligible months | May-10 | Jun-10 | Jul-10 | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | 10 mo. Avg. |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------------|
| Expected Gross Margins | \$10.81 | \$11.52 | \$11.77 | \$12.14 | \$12.50 | \$12.46 | \$12.23 | \$12.05 | \$11.81 | \$11.80 | \$11.91 |



Dairy LGM Historical Performance Estimates: Nearby- loss pmts. \$50,000, premium cost \$15,000, benefit cost ratio cost 3.31; past 10 years- loss pmts. \$174,000, premium cost \$137,000, benefit cost ratio cost 1.26
Assumptions: Nearby = first 9 enrollment periods 8/08-4/09; 200 cwts. of milk enrolled each mo. of each enrollment period.

New Dairy Gross Margin (income over feed cost) Insurance

The program is based on milk income over feed costs, which the program calls a “gross margin.” The insurance program covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for the producer’s selected months, based on a targeted amount of milk. Futures prices from the Chicago Mercantile Exchange (CME) & Chicago Board of Trade (CBOT) are used to determine the values of Class III milk, corn and soybean meal. Futures prices result in uniform commodity prices for all producers. There is a maximum producer enrollment limit of 240,000 cwt. of milk per year.

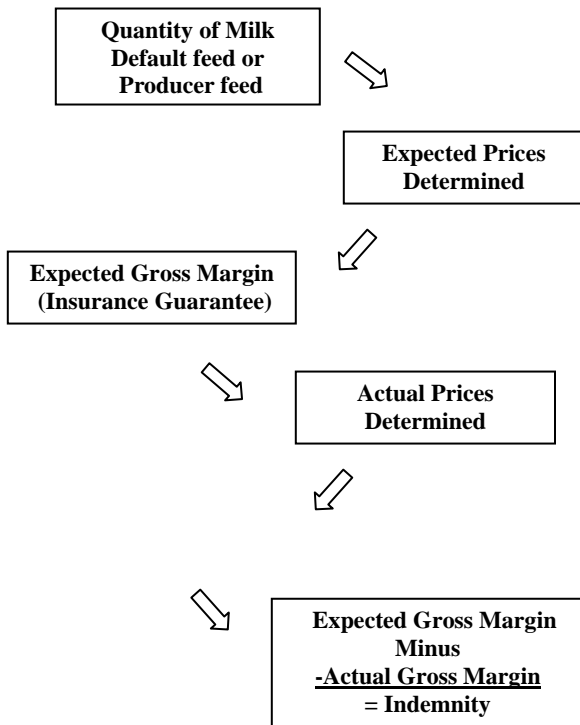
Key Definitions:

The expected gross margin is calculated by using the amount of milk (cwt) the producer chooses to enroll times the futures prices for the milk and feed to be fed for the selected month(s). The expected gross margin is the difference between the values of milk minus the feed cost.

The actual gross margin is calculated for the same time period as the expected gross margin. The calculations are done using the same methodology as was used to calculate the expected gross margin.

An insurance indemnity (loss payment) results when the expected gross margin exceeds the actual gross margin. **Indemnities are paid within 60 days after the last month insured (after the claim can be calculated),** in the chart below, payments could have occurred December through July if any of these months had been selected as the months for which insurance had been purchased.

How Dairy LGM Works

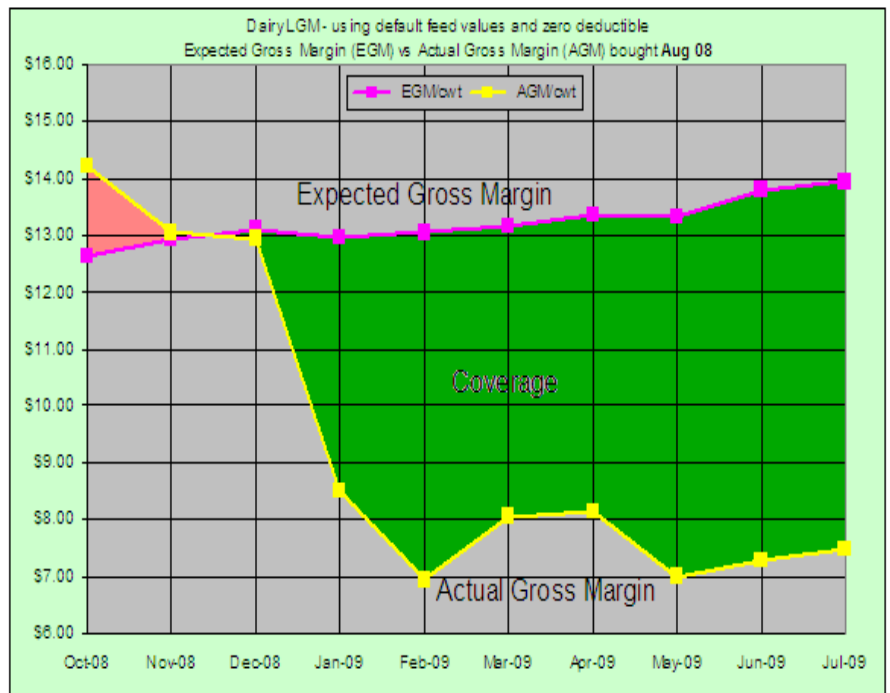


Cause of loss covered is the difference between the expected gross margin (insurance guarantee) and the actual gross margin. It does not insure against death or other cause of production loss or damage to the producer’s dairy cattle. It does not insure expected price changes which are already reflected in BOT futures prices.

Enrollment Periods. Twelve monthly enrollment periods are available **beginning the last business Friday of each month until 9pm next day.** The last 10 months of each enrollment period is when insurance is available. Producer can elect to insure during selected or all 10 months in each period.

The states where it’s available are AZ, CO, CT, DE, IA, IL, IN, KS, KY, MA, MD, ME, MN, MI, MO, MT, ND, NE, NH, NJ, NM, NV, NY, OH, OK, PA, RI, SD, TN, TX, UT, VT, WA, WI, WV, and WY. This is a risk management tool for dairy producers.

August 2008 enrollment performance



Estimates for educational purposes

