

THE PRODUCER WARRANTS THAT THE PRODUCER'S MILK WILL:

- Qualify as Grade A milk, as determined by applicable regulatory authorities;
- Be free of added water;
- Be free of antibiotics and drugs;
- Not be adulterated or misbranded as defined by any federal or state statute or regulation;
- Be properly cooled and not sour;
- Not contain any foreign substance harmful to human health;
- Be safe for human consumption and not make persons ill;
- Be produced solely from Producer's dairy herd and not from dairy cows of other dairies;
- Be free and clear of security interests, liens and claims of lenders, creditors and other persons except as disclosed to and approved by Valley Queen;
- Be produced from Producer's dairy herd and dairy facilities that meet all requirements of government statutes, laws and regulations, and governmental and court orders and judgments applicable thereto.

ANTIBIOTICS AND DRUGS

If a producer suspects that antibiotics or drugs have entered the milk supply at the producer's dairy facilities, the producer is to immediately notify Valley Queen. Milk suspected of containing antibiotics or drugs is **not** to be loaded onto trucks until tested.

If antibiotics or drugs are discovered in the milk while it is yet at the producer's dairy facilities and before the milk is loaded on Valley Queen's truck, the milk will be disposed of at the producer's dairy facilities, and the producer will be paid according to the following schedule:

- For the first occurrence during the calendar year, the producer will receive 80% of the purchase price;
- For the second occurrence during the calendar year, the producer will be paid 30% of the purchase price;
- and for the third and additional occurrences during the calendar year, the producer will be paid 0% of the purchase price.

If antibiotics or drugs are discovered as the result of routine sampling of producer samples and were not detected on the bulk load:

- No further milk can be picked up from the producer until sampled and proved to be free of drug residue;
- No payment will be made for any milk which is subsequently disposed of;
- State and Federal laws require milk processors to report to regulatory authorities milk that contains antibiotics or drugs.

If antibiotics or drugs are discovered in the producer's milk after it has been loaded on a truck and if the source of the antibiotic or drugs is determined to be the producer's milk, the following provisions apply:

- Producer will be paid 0% of the purchase price for the milk;
- Producer will be financially responsible for the entire load of contaminated milk including disposal costs;
- Valley Queen will be entitled to all remedies afforded to it by all applicable laws;
- No further milk can be picked up from the producer until the milk is sampled and proven to be antibiotic and drug free;
- State and Federal laws require milk processors to report to regulatory authorities milk that contains antibiotics or drugs.

ADULTERATED MILK

If the producer suspects that milk has been adulterated (generally: poisonous, unsafe or deleterious substance which may render milk injurious to health), the producer is to immediately notify Valley Queen. Adulterated milk is not to be loaded onto trucks until tested.

If the producer's milk is found to be adulterated:

- No further milk can be picked up from Producer until the milk is free from deleterious substances.
- State and Federal laws require milk processors to report to the state regulatory authorities adulterated shipments;
- Valley Queen will be entitled to all remedies afforded to it by all applicable laws.

FAMILY DAIRIES DISASTER COVERAGE

As part of pooling our milk in the Federal Milk Marketing Order, Valley Queen contracts with Family Dairies for services. One of the services Family Dairies provides is disaster coverage for loss of production caused by wind, lightning, fire, snowstorms, etc. This coverage comes at no cost to the producer. If you have questions about coverage, contact your Family Dairies Representative at 608-244-3373.

BULK TANK

Bulk tank storage capacity shall be sufficient for every-other-day pickup year-round. Any producer with multiple tanks shall have all tanks in working order.

CHEESE

Cheese orders will be delivered with the next pickup following the order. We have several varieties available. Please check with your milk hauler for current selection.



Milk Procurement Policies

EFFECTIVE JANUARY 1, 2012

Milk Procurement Department

24-Hour On-Call Phone 605-438-3444

Dan Mikkelson
Field Service Representative
Cell 605-880-3044 Office 605-432-9624

Gregg Dunnihoo and Kyle Schweer
Scheduling Coordinators
Cell 605-880-3217 Office 605-432-9626

Kevin Welberg
Driver Supervisor
Cell 605-880-3216 Office 605-432-9625

Jody Kuper
Procurement Manager
Cell 605-880-1256 Office 605-432-9623

P.O. Drawer 351 Phone: 605-432-4563
Milbank, SD 57252 Toll Free 800-782-2950
Fax: 605-432-9383
<http://www.vqcheese.com>

MILK PRICES

Milk prices are based on Valley Queen's cheese yield pricing program and will vary with the cheese market. Fixed pricing is also available at producer's election. Please see the Valley Queen forward pricing program brochure for details.

All premiums and adjustments described in these policies, the cheese yield pricing program and the fixed pricing program are subject to change or termination at any time.

BUTTERFAT AND PROTEIN TESTS

Samples will be tested for each milk delivery and will be averaged semi-monthly for payment purposes.

SOMATIC CELL QUALITY PROGRAM

Somatic cell adjustment rate = .0015 multiplied by the pay period cheese yield value. Somatic cell counts will be completed for each milk delivery, and will be averaged for each pay period.

To calculate somatic cell adjustments:

For counts below 350,000: Subtract the SCC average (in thousands) from 350 and multiply by the somatic cell adjustment rate.

For counts above 450,000: Subtract the SCC average from 450 and multiply by the adjustment rate.

Counts between 350,000 and 450,000 are in the zero adjustment zone.

Calculation Examples:

Example: If the cheese yield value = \$1.50, then the Somatic Cell Adjustment Rate = \$.002250 (\$1.50 x .0015 = \$.002250). The following chart illustrates somatic cell adjustments for various cell counts based on a \$1.50 cheese yield value.

<u>SCC Ave</u>	<u>\$/cwt.</u>	<u>SCC Ave</u>	<u>\$/cwt.</u>
50,000	\$0.68	325,000	\$0.06
75,000	\$0.62	350,000	\$0.00
100,000	\$0.56	400,000	\$0.00
125,000	\$0.51	450,000	\$0.00
150,000	\$0.45	500,000	(\$0.11)
175,000	\$0.39	550,000	(\$0.23)
200,000	\$0.34	600,000	(\$0.34)
225,000	\$0.28	650,000	(\$0.45)
250,000	\$0.23	700,000	(\$0.56)
275,000	\$0.17	750,000	(\$0.68)
300,000	\$0.11	850,000	(\$0.90)

GRADE A PREMIUM

Valley Queen will purchase only Grade A milk. Any Valley Queen producer holding a Grade A permit will receive a payment premium as determined by Valley Queen. The payment premium will be no less than \$.50/cwt. If a producer temporarily loses their Grade A permit, the premium payment will be forfeited until Grade A status is reinstated to the producer. Persistently high bacteria counts above 100,000 may also result in the loss of the Grade A premium.

VOLUME PREMIUM AND BASE HAULING RATES

The premium levels and hauling rates will be determined for each pay period based on the daily milk production for that period.

<u>Level</u>	<u>Min. Daily Production</u>	<u>Volume Premium</u>	<u>Base Hauling</u>
0	108,000 & Above	\$ 0.90	mileage based
1	81,000 - 107,999	\$ 0.85	mileage based
2	38,000 - 80,999	\$ 0.75	mileage based
3	24,500 - 37,999	\$ 0.65	mileage based
4	15,000 - 24,499	\$ 0.55	\$ 0.20
5	9,500 - 14,999	\$ 0.30	\$ 0.30
6	4,500 - 9,499	\$ 0.15	\$ 0.35
7	0 - 4,499	\$ 0.00	\$ 0.40

HAULING SURCHARGE

A mileage surcharge based on the distance from Valley Queen will be applied as follows for levels 4-7 in the table above:

<u>Less than 10 miles</u>	<u>10 or more miles</u>
No surcharge	\$.02/cwt per 5 mile increment starting at 10 miles

FUEL SURCHARGE

Your hauling rate as calculated above will be multiplied by a fuel surcharge rate based on the prevailing diesel price at the time of calculation. We will publish on our website (www.vqcheese.com/milk.htm) our current fuel surcharge rate and the formula used to calculate the fuel surcharge.

rbST-FREE PREMIUM

Valley Queen will offer a premium of \$.10/cwt for all milk certified as rbST-free. If you are interested in certifying your herd, please contact our field service staff. Please be advised that Valley Queen's rbST-free policies are subject to change at any time depending on market conditions.

MILK PAYMENT

Semi-monthly cutoffs are on the 15th and last day of each month. Milk payments will be deposited to the producer's account on the 8th and 23rd or next banking day. Vouchers will be delivered on milk trucks. Direct deposit of milk payments is required.

ASSIGNMENTS

1. A maximum of three assignments per producer.
2. Any existing producer with more than three assignments will be allowed; however, upon satisfaction or termination of any assignments in excess of three, replacement will not be allowed.
3. Any changes to existing assignments or any new assignments must be in writing and received and approved by Valley Queen prior to the beginning of the pay period.
4. A \$10.00 annual fee per assignment will be assessed on the first pay period of the year.
5. A \$10.00 administration fee will be assessed on all new assignments and changes to existing assignments, including but not limited to, dollar amount or percentage changes and suspensions and reinstatements. This fee will not apply to mailing address changes or name changes.

ADVANCES

No advances allowed.

MINIMUM PRODUCTION

Valley Queen will not pick up milk from any producer who does not have at least 1000# per day.

MILK ROOM AND MILKING FACILITIES

All milk rooms and milking facilities must be state approved.

Valley Queen will pay for inspection fees up to \$200 per farm relative to the annual inspection process in any state where we procure milk.

Valley Queen will deduct from the producer's milk check any reinspection fees paid on behalf of the producer.

Valley Queen will deduct from the producer's milk check any Raw Milk Assessment imposed by any state where we procure milk.

SOUR AND/OR IMPROPERLY COOLED MILK

Any producer who has tank problems or has sour or improperly cooled milk must immediately call a field service representative or Valley Queen's office. Valley Queen cannot accept or use sour milk. The decision to accept or reject milk that may be sour will be based, at Valley Queen's election, on the sensory evaluation of Valley Queen employees or analytical laboratory testing. The decision to accept or reject sour or improperly cooled milk may be made either prior to or after the milk has been loaded on the truck.