

You must carefully evaluate the benefits of a fixed price contract under which you are protected against a milk price decline by foregoing potentially higher prices.

The risk of foregoing potentially higher prices is removed under a minimum price contract. By paying the minimum price premium, you establish a contract price floor and any increase in milk price will still be gained. The higher the contract floor in relation to current futures market prices, the higher the premium required to be paid.

CDI Contract Guidelines:

Members must sign and return a Master Forward Contracting Agreement to participate.

- ◆ Contract may be established up to 12 months into the future.
- ◆ Members may not contract for more than 50% of their production.
- ◆ Minimum contract size is 200,000 pounds per month.
- ◆ Each member must sign and return confirmation for each contract.
- ◆ Contracts may not be cancelled, liquidated or changed.

Disclaimer:

Before entering into a forward contract, you should fully understand the terms of the transaction and make your own independent assessment of the risks and potential benefits associated with the transaction.

You should carefully evaluate whether the transaction is appropriate for you in light of your experience, financial objectives, needs and other relevant circumstances. In making these assessments, we urge you to obtain independent advice before entering into any transaction.

Also, you should give consideration to the effect of administrative fees and premiums, if applicable, on the price you ultimately receive for your milk.

It is important to remember that Federal Order Class III and Class IV milk prices do not perfectly correlate with California milk prices due to differences in the formulas.

This is a program summary. The actual terms of the program are contained in the Master Forward Contracting Agreement. Program terms and conditions are subject to change.



Forward Contracting Program

To receive your Master Forward Contracting Agreement and for more information on the CDI Forward Contracting Program, contact Bill Twist (ext. 127) or Carolyn Davis (ext. 120) at our Fresno Office. (800) 873-6455

Contracts Offered :

CDI offers the following forward contracts based on Federal Order* Class III and Class IV Milk Futures and Options:

- ◆ Class III Forward Sale Fixed Price Contract
- ◆ Class IV Forward Sale Fixed Price Contract
- ◆ Class III Minimum Price Contract
- ◆ Class IV Minimum Price Contract
- ◆ Class III Minimum/Maximum Price Contract
- ◆ Class IV Minimum/Maximum Price Contract

*California pricing based contracts are not currently offered by the exchange.

How it works:

For any of the six contracts listed above, the contract price is based on the current market price at the exchange. CDI will contract with you and at the same time use futures contracts on the exchange to hedge the price.

Forward Sales Fixed Price Contract:

The forward contract price will be reflected on your final milk check (“settlement”) for the contract month as follows:

A new “line item” will be used to either add or deduct the difference between the contracted milk price and the USDA announced Class III or Class IV milk price (“announced price”) on the contracted portion of your milk.

Minimum/Maximum Price Contract:

The minimum/maximum price contract will be reflected on your settlement for the contract month as follows:

- ◆ When the minimum/maximum contract’s minimum price exceeds the announced price, the difference between the contracted price minimum and the announced price less the minimum/maximum premium will be added to your settlement.
- ◆ When the announced price exceeds the minimum/maximum contract’s minimum and is less than the maximum price, only the contract’s premium will be deducted from your settlement.
- ◆ When the announced price exceeds the maximum price of the contract, the difference between the announced price and the maximum contract price and the contract’s premium will be deducted from your settlement.

Minimum Price Contract:

The minimum price contract will be reflected on your settlement for the contract month as follows:

- ◆ When the minimum price exceeds the announced price, the difference between the contracted price and the announced price less the minimum price premium will be added to your settlement.
- ◆ When the minimum price is less than the announced price, the minimum price premium will be deducted from

CDI Administrative Fee:

Unlike futures contracting directly on the exchange, the CDI forward contracting program involves no initial margin or margin calls. It is designed to provide members of CDI the opportunity to forward contract without the headache of daily monitoring or financing margin calls.

As a result, CDI has established an administrative fee of \$.10/cwt to cover its costs. The administrative fee will be reflected on your settlement for the contract month.

Contracting Risks:

There is the risk of “lost opportunity” with the possibility that you may forward contract a fixed price that could be lower than the announced price for a given month. However, you can also gain. For instance, that same forward contract fixed price may be higher than the announced price.