

May 15, 2009



Dear Farmer/Member of CROPP Cooperative

On Tuesday, May 12th, the Board met and decided to implement a mandatory supply reduction program. Our sales have continued to slow down with some categories lower by 15% than last year. Right now our organic utilization for the year is forecasted to be at 91%. The steps taken earlier in the year took care of up to 5% of the conventional sales and now we need to address the balance.

We have made the clear decision to not lower the organic pay price but to implement a mandatory supply reduction as one part of the response to this challenging situation. We reviewed the multiple other methods like to pay on monthly utilization basis or buying out cows (or cwts.) but felt that mandatory supply reduction using a Quota system was the most assured path to react to the slow down we are experiencing.

This letter is to give you notice that the mandatory reduction quota program that is highlighted below will start with July's milk. On June 1, we will be mailing your actual information to you but wanted to send this out immediately so you can begin to adjust your plans before July. We are strongly recommending that you use this opportunity to reduce our volume and to improve our milk quality by selling your high SCC and Johnes positive cows. You can choose to produce over your quota and receive conventional pay equivalent for the overage but again we encourage you to reduce supply by culling, feeding less grain and more grazing or whatever is best for your farm.

The program decided upon was:

1. A new term 'Active base' will be determined by using your monthly average for up to the last 3 years including the transition year data, if need be. A monthly calculated 'Active Base' will be the foundation which will be reviewed by the regional pool coordinators to determine final 'Active Base'
 - a. The regional pool coordinators will review recent base increases, farm expansion knowledge, seasonal and producers with 1 year and less history in considering to adjust the 'Active Base'.
 - b. Once the members receive their active base and quota they will be able to appeal to staff to alter the 'Active Base'. Two members of the Board will be part of the final appeal process for the contested appeal.
2. The 'Active Base' than will be used to determine your 'Quota' that your farm will be held to depending on our market success. The 'Quota' being declared will be 7% less than the 'Active Base' for the time period starting with July milk through January milk. The quota notification that we will send you June 1 will list individual monthly quota that the cooperative will pay organic for each month.
 - a. The Board can cancel this sooner or extend it or change the reduction % as deemed necessary to balance the business forces.

3. Monthly production over your quota will be deducted from the gross organic income at the rate of \$15/cwt for all members. This deduct will be labeled 'conventional milk deduct'.
 - a. At the end of the budget/calendar year your compliance with the Quota will be reviewed and if you are under your quota for the total time period but had been deducted on an individual monthly basis then you will be reimbursed for the deduct.
4. The producers who came on in 2009 will be treated like regular members once on the truck with returning to the same pay and be part of this mandatory reduction.
5. The only producers exempted were the 3 Rocky Mountain producers where we need the milk and are desperate to achieve hauling efficiencies.

We wanted to give you as much notice to this significant step as we could so this letter is the first notification. As stated on June 1, we will send out your farm's specific Quota and more details. We have set up a process to be as fair as possible so feel free to contact your regional pool coordinator and help us make the quota goal reflect 7% less than what you were going to produce in the designated time period. We know that despite our best efforts there will be some unfair aspects to this program. However, we encourage you to appeal our determination if you can document a reason to adjust your 'Active Base' and the corresponding 'Quota'. Remember, though, an increase in milk supply due to appeal approvals may require further reduction from the membership.

These are most unusual times and we are taking steps to safeguard our future market. We have already cut costs internally, shrunk our employee numbers and reduced new projects and now we have to see what else we can do internally to match the sacrifices that the farmers are making. This is a historical time for the cooperative as we develop this key component to our long term pay plan strategy. As we look forward, we see the importance of supply management and we will all learn through this first attempt and ask that you work with us to make it successful. If you have questions throughout this process please contact your regional pool coordinator.

In cooperation,

George Siemon, CEO