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# Dairy Farm Operating Trends

June 30, 2010



*Relationships backed by performance*

## **To Our Valued Clients and Other Friends in the Dairy Industry**

*The following pages contain the Frazer Frost, LLP's Dairy Farm Operating Trends for the six months ended June 30, 2010.*

*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 2.4 billion pounds and more than 224,000 head of mature cows for the six months ended June 30, 2010.*

*This report includes a comparison of the results in the regions listed above for the six months ended June 30, 2010 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 period.*

*This publication is designed as a reference tool and a management aid for dairy farm managers and advisors. Frazer Frost, 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 Frost, LLP. If you have any comments or questions, please contact Tim Gulling or Sharon A. Davis at our Brea office at (714) 990-1040 and 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.frazerfrost.com](http://www.frazerfrost.com).*

Sincerely,

*Frazer Frost LLP*

FRAZER FROST, LLP

Certified Public Accountants and Consultants

**October 2010**

# DAIRY FARM OPERATING TRENDS

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## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

COMPARISON BY AREA  
FOR THE SIX MONTHS ENDED JUNE 30, 2010  
(BASED ON AVERAGE AMOUNTS PER HEAD)

	Southern California	San Joaquin Valley	Kern County
Income:			
Milk sales	\$ 1,553	\$ 1,596	\$ 1,631
Calves and other	33	18	10
Total income	\$ 1,586	\$ 1,614	\$ 1,641
Cost of operations:			
Feed:			
Grain	\$ 538	\$ 620	\$ 641
Hay and other	172	199	223
Total feed	\$ 710	\$ 819	\$ 864
Labor, (including fringe costs)	\$ 199	\$ 154	\$ 151
Herd replacement costs	\$ 174	\$ 124	\$ 136
Other costs:			
Milk hauling	\$ 43	\$ 37	\$ 39
State and association charges	20	24	22
Veterinary, breeding, testing, etc.	33	46	31
Supplies	63	51	60
Repairs and maintenance	62	49	47
Utilities	25	32	24
Occupancy costs	47	78	69
Depreciation - equipment	20	35	30
Interest	69	70	61
Miscellaneous	62	68	52
Total other costs	\$ 444	\$ 490	\$ 435
Total cost of operations	\$ 1,527	\$ 1,587	\$ 1,586
Net income (loss)	\$ 59	\$ 27	\$ 55

Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your June 30, 2010 Amounts
\$ 1,692 34	\$ 1,545 11	\$ 1,484 27	\$ 1,497 24	\$ 1,762 43	\$
\$ 1,726	\$ 1,556	\$ 1,511	\$ 1,521	\$ 1,805	\$
\$ 504 273	\$ 557 251	\$ 564 181	\$ 522 186	\$ 641 228	\$
\$ 777	\$ 808	\$ 745	\$ 708	\$ 869	\$
\$ 159	\$ 170	\$ 147	\$ 168	\$ 162	\$
\$ 141	\$ 123	\$ 110	\$ 154	\$ 182	\$
\$ 48 42 25 72 46 34 75 17 65 75	\$ 29 23 35 80 69 19 42 43 62 78	\$ 73 42 34 46 49 23 44 26 49 77	\$ 72 31 36 65 44 23 77 25 51 62	\$ 69 33 67 43 46 20 85 31 79 71	\$
\$ 499	\$ 480	\$ 463	\$ 486	\$ 544	\$
\$ 1,576	\$ 1,581	\$ 1,465	\$ 1,516	\$ 1,757	\$
\$ 150	\$ (25)	\$ 46	\$ 5	\$ 48	\$

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

COMPARISON BY AREA  
FOR THE SIX MONTHS ENDED JUNE 30, 2010  
(BASED ON AVERAGE AMOUNTS  
PER HUNDREDWEIGHT OF MILK)

	Southern California	San Joaquin Valley	Kern County
Income:			
Milk sales	\$ 14.47	\$ 14.17	\$ 14.29
Calves and other	0.29	0.16	0.09
<b>Total income</b>	<b>\$ 14.76</b>	<b>\$ 14.33</b>	<b>\$ 14.38</b>
Cost of operations:			
Feed:			
Grain	\$ 5.02	\$ 5.51	\$ 5.62
Hay and other	1.60	1.77	1.95
<b>Total feed</b>	<b>\$ 6.62</b>	<b>\$ 7.28</b>	<b>\$ 7.57</b>
Labor, (including fringe costs)	\$ 1.86	\$ 1.37	\$ 1.32
Herd replacement costs	\$ 1.62	\$ 1.10	\$ 1.20
Other costs:			
Milk hauling	\$ 0.40	\$ 0.33	\$ 0.34
State and association charges	0.19	0.21	0.19
Veterinary, breeding, testing, etc.	0.31	0.41	0.26
Supplies	0.60	0.45	0.52
Repairs and maintenance	0.58	0.44	0.42
Utilities	0.24	0.28	0.21
Occupancy costs	0.44	0.69	0.60
Depreciation - equipment	0.19	0.31	0.26
Interest	0.65	0.63	0.53
Miscellaneous	0.57	0.57	0.45
<b>Total other costs</b>	<b>\$ 4.17</b>	<b>\$ 4.32</b>	<b>\$ 3.78</b>
<b>Total cost of operations</b>	<b>\$ 14.27</b>	<b>\$ 14.07</b>	<b>\$ 13.87</b>
<b>Net income (loss)</b>	<b>\$ 0.49</b>	<b>\$ 0.26</b>	<b>\$ 0.51</b>

Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your June 30, 2010 Amounts
\$ 15.05 0.29	\$ 14.38 0.10	\$ 15.33 0.24	\$ 15.94 0.26	\$ 15.71 0.38	\$
\$ 15.34	\$ 14.48	\$ 15.57	\$ 16.20	\$ 16.09	\$
\$ 4.49 2.44	\$ 5.19 2.34	\$ 5.82 1.87	\$ 5.56 1.97	\$ 5.71 2.02	\$
\$ 6.93	\$ 7.53	\$ 7.69	\$ 7.53	\$ 7.73	\$
\$ 1.42	\$ 1.58	\$ 1.51	\$ 1.79	\$ 1.44	\$
\$ 1.25	\$ 1.15	\$ 1.14	\$ 1.64	\$ 1.62	\$
\$ 0.42 0.37 0.23 0.64 0.41 0.30 0.67 0.15 0.57 0.67	\$ 0.27 0.21 0.32 0.75 0.65 0.18 0.38 0.40 0.57 0.71	\$ 0.75 0.43 0.34 0.47 0.50 0.24 0.45 0.27 0.50 0.73	\$ 0.76 0.33 0.38 0.69 0.47 0.24 0.82 0.26 0.54 0.65	\$ 0.62 0.30 0.59 0.38 0.41 0.18 0.76 0.28 0.70 0.63	\$
\$ 4.43	\$ 4.44	\$ 4.68	\$ 5.14	\$ 4.85	\$
\$ 14.03	\$ 14.70	\$ 15.02	\$ 16.10	\$ 15.64	\$
\$ 1.31	\$ (0.22)	\$ 0.55	\$ 0.10	\$ 0.45	\$



## SUMMARY OF FINANCIAL STATISTICS

### COMPARISON BY AREA FOR THE SIX MONTHS ENDED JUNE 30, 2010

	Southern California	San Joaquin Valley	Kern County
1. Current Ratio	0.41 : 1	0.47 : 1	1.01 : 1
2. Debt Per Cow	\$ 2,448	\$ 2,667	\$ 2,901
3. Debt to Equity Ratio	2.43 : 1	2.28 : 1	1.79 : 1
4. Return on Total Assets	0.6%	0.2%	0.4%
5. Income (loss) per milking cow per month	\$ 9.36	\$ 3.37	\$ 6.48

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity ratio represents total debt divided by total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.

Arizona	Idaho	New Mexico	Panhandle	Pacific Northwest	Your June 30, 2010 Results
0.50 : 1	0.90 : 1	0.77 : 1	0.50 : 1	0.35 : 1	
\$ 2,524	\$ 2,699	\$ 1,834	\$ 2,468	\$ 2,332	\$
5.92 : 1	2.04 : 1	1.14 : 1	3.17 : 1	2.85 : 1	
1.8%	-0.2%	0.5%	0.1%	0.5%	
\$ 24.51	\$ (6.25)	\$ 20.52	\$ 10.32	\$ 12.35	\$

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
SOUTHERN CALIFORNIA  
(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
Income:		
Milk sales	\$ 14.47	\$ 12.42
Calves and other	0.29	0.46
<b>Total income</b>	<b>\$ 14.76</b>	<b>\$ 12.88</b>
Cost of operations:		
Feed:		
Grain	\$ 5.02	\$ 5.28
Hay and other	1.60	3.46
<b>Total feed</b>	<b>\$ 6.62</b>	<b>\$ 8.74</b>
Labor, (including fringe costs)	\$ 1.86	\$ 1.86
Herd replacement costs	\$ 1.62	\$ 1.65
Other costs:		
Milk hauling	\$ 0.40	\$ 0.41
State and association charges	0.19	0.18
Veterinary, breeding, testing, etc.	0.31	0.30
Supplies	0.60	0.55
Repairs and maintenance	0.58	0.59
Utilities	0.24	0.32
Occupancy costs	0.44	0.64
Depreciation - equipment	0.19	0.19
Interest	0.65	0.68
Miscellaneous	0.57	0.70
<b>Total other costs</b>	<b>\$ 4.17</b>	<b>\$ 4.56</b>
<b>Total cost of operations</b>	<b>\$ 14.27</b>	<b>\$ 16.81</b>
<b>Net income (loss)</b>	<b>\$ 0.49</b>	<b>\$ (3.93)</b>

## SUMMARY OF FINANCIAL STATISTICS

### SOUTHERN CALIFORNIA

	June 30, 2010	December 31, 2009
1. Current Ratio	0.41 : 1	0.22 : 1
2. Debt Per Cow	\$ 2,448	\$ 2,622
3. Debt to Equity Ratio	2.43 : 1	2.00 : 1
4. Return on Total Assets	0.6%	-15.5%
5. Income (loss) per milking cow per month	\$ 9.36	\$ (74.43)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.

**INCOME AND COST OF OPERATIONS**

## SOUTHERN CALIFORNIA

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 14.47	\$ 12.42	\$ 17.22
Calves and other	0.29	0.46	0.28
<b>Total income</b>	<b>\$ 14.76</b>	<b>\$ 12.88</b>	<b>\$ 17.50</b>
Total cost of operations:			
Feed	\$ 6.62	\$ 8.74	\$ 10.69
Labor	1.86	1.86	1.90
Herd replacement costs	1.62	1.65	1.60
Other costs	4.17	4.56	4.95
<b>Total costs of operations</b>	<b>\$ 14.27</b>	<b>\$ 16.81</b>	<b>\$ 19.14</b>
<b>Net income (loss)</b>	<b>\$ 0.49</b>	<b>\$ (3.93)</b>	<b>\$ (1.64)</b>
Cost of operations as a percentage of income	96.68%	130.51%	109.37%
Feed costs as a percentage of milk sales	45.75%	70.37%	62.08%
<b>Net income (loss) per milking cow per month</b>	<b>\$ 9.36</b>	<b>\$ (74.43)</b>	<b>\$ (34.34)</b>

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
\$	18.46	\$ 12.25	\$ 14.75	\$ 15.48
	0.23	0.48	0.42	0.38
\$	18.69	\$ 12.73	\$ 15.17	\$ 15.86
\$	8.31	\$ 6.90	\$ 7.05	\$ 6.56
	1.83	1.86	1.95	1.83
	1.24	1.05	1.13	1.08
	4.51	4.30	4.04	3.75
\$	15.89	\$ 14.11	\$ 14.17	\$ 13.22
\$	2.80	\$ (1.38)	\$ 1.00	\$ 2.64
	85.02%	110.84%	93.41%	83.35%
	45.02%	56.33%	47.80%	42.38%
\$	53.99	\$ (33.82)	\$ 18.33	\$ 48.78

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
SAN JOAQUIN VALLEY  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
<b>Income:</b>		
Milk sales	\$ 14.17	\$ 11.71
Calves and other	0.16	0.23
<b>Total income</b>	<b>\$ 14.33</b>	<b>\$ 11.94</b>
<b>Cost of operations:</b>		
<b>Feed:</b>		
Grain	\$ 5.51	\$ 5.86
Hay and other	1.77	2.95
<b>Total feed</b>	<b>\$ 7.28</b>	<b>\$ 8.81</b>
Labor, (including fringe costs)	\$ 1.37	\$ 1.48
Herd replacement costs	\$ 1.10	\$ 1.30
<b>Other costs:</b>		
Milk hauling	\$ 0.33	\$ 0.33
State and association charges	0.21	0.24
Veterinary, breeding, testing, etc.	0.41	0.43
Supplies	0.45	0.60
Repairs and maintenance	0.44	0.45
Utilities	0.28	0.38
Occupancy costs	0.69	0.70
Depreciation - equipment	0.31	0.32
Interest	0.63	0.58
Miscellaneous	0.57	0.75
<b>Total other costs</b>	<b>\$ 4.32</b>	<b>\$ 4.78</b>
<b>Total cost of operations</b>	<b>\$ 14.07</b>	<b>\$ 16.37</b>
<b>Net income (loss)</b>	<b>\$ 0.26</b>	<b>\$ (4.43)</b>

## SUMMARY OF FINANCIAL STATISTICS

### SAN JOAQUIN VALLEY

	June 30, 2010	December 31, 2009
1. Current Ratio	0.47 : 1	0.67 : 1
2. Debt Per Cow	\$ 2,667	\$ 2,767
3. Debt to Equity Ratio	2.28 : 1	2.30 : 1
4. Return on Total Assets	0.2%	-16.5%
5. Income (loss) per milking cow per month	\$ 3.37	\$ (91.89)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.



## INCOME AND COST OF OPERATIONS

### SAN JOAQUIN VALLEY

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 14.17	\$ 11.71	\$ 16.84
Calves and other	0.16	0.23	0.14
<b>Total income</b>	<b>\$ 14.33</b>	<b>\$ 11.94</b>	<b>\$ 16.98</b>
Total cost of operations:			
Feed	\$ 7.28	\$ 8.81	\$ 9.38
Labor	1.37	1.48	1.54
Herd replacement costs	1.10	1.30	1.19
Other costs	4.32	4.78	5.52
<b>Total costs of operations</b>	<b>\$ 14.07</b>	<b>\$ 16.37</b>	<b>\$ 17.63</b>
<b>Net income (loss)</b>	<b>\$ 0.26</b>	<b>\$ (4.43)</b>	<b>\$ (0.65)</b>
Cost of operations as a percentage of income	98.19%	137.10%	103.83%
Feed costs as a percentage of milk sales	51.38%	75.23%	55.70%
<b>Net income (loss) per milking cow per month</b>	<b>\$ 3.37</b>	<b>\$ (91.89)</b>	<b>\$ (1.40)</b>

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
\$	18.48	\$ 11.82	\$ 14.45	\$ 15.30
	0.35	0.38	0.25	0.42
\$	18.83	\$ 12.20	\$ 14.70	\$ 15.72
\$	7.84	\$ 6.47	\$ 6.64	\$ 6.72
	1.44	1.48	1.41	1.40
	1.04	1.07	1.00	1.08
	5.03	4.68	4.13	4.00
\$	15.35	\$ 13.70	\$ 13.18	\$ 13.20
\$	3.48	\$ (1.50)	\$ 1.52	\$ 2.52
	81.52%	112.30%	89.66%	83.97%
	42.42%	54.74%	45.95%	43.92%
\$	88.56	\$ (27.19)	\$ 31.96	\$ 82.13

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
KERN COUNTY  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
Income:		
Milk sales	\$ 14.29	\$ 12.27
Calves and other	0.09	0.10
<b>Total income</b>	<b>\$ 14.38</b>	<b>\$ 12.37</b>
Cost of operations:		
Feed:		
Grain	\$ 5.62	\$ 5.91
Hay and other	1.95	3.54
<b>Total feed</b>	<b>\$ 7.57</b>	<b>\$ 9.45</b>
Labor, (including fringe costs)	\$ 1.32	\$ 1.38
Herd replacement costs	\$ 1.20	\$ 1.42
Other costs:		
Milk hauling	\$ 0.34	\$ 0.34
State and association charges	0.19	0.22
Veterinary, breeding, testing, etc.	0.26	0.28
Supplies	0.52	0.50
Repairs and maintenance	0.42	0.51
Utilities	0.21	0.37
Occupancy costs	0.60	0.52
Depreciation - equipment	0.26	0.36
Interest	0.53	0.59
Miscellaneous	0.45	0.63
<b>Total other costs</b>	<b>\$ 3.78</b>	<b>\$ 4.32</b>
<b>Total cost of operations</b>	<b>\$ 13.87</b>	<b>\$ 16.57</b>
<b>Net income (loss)</b>	<b>\$ 0.51</b>	<b>\$ (4.20)</b>

See accompanying explanation of income and cost factors.

# SUMMARY OF FINANCIAL STATISTICS

## KERN COUNTY

	June 30, 2010	December 31, 2009
1. Current Ratio	1.01 : 1	1.30 : 1
2. Debt Per Cow	\$ 2,901	\$ 2,994
3. Debt to Equity Ratio	1.79 : 1	1.40 : 1
4. Return on Total Assets	0.4%	-11.3%
5. Income (loss) per milking cow per month	\$ 6.48	\$ (88.01)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.

## INCOME AND COST OF OPERATIONS

### KERN COUNTY

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 14.29	\$ 12.27	\$ 17.37
Calves and other	0.09	0.10	0.14
Total income	\$ 14.38	\$ 12.37	\$ 17.51
Total cost of operations:			
Feed	\$ 7.57	\$ 9.45	\$ 10.50
Labor	1.32	1.38	1.36
Herd replacement costs	1.20	1.42	1.25
Other costs	3.78	4.32	4.60
Total costs of operations	\$ 13.87	\$ 16.57	\$ 17.71
Net income (loss)	\$ 0.51	\$ (4.20)	\$ (0.20)
Cost of operations as a percentage of income	96.45%	133.95%	101.14%
Feed costs as a percentage of milk sales	52.97%	77.02%	60.45%
Net income (loss) per milking cow per month	\$ 6.48	\$ (88.01)	\$ (1.22)

	December 31, 2007		December 31, 2006
	\$ 18.53		\$ 12.21
	0.35		0.31
	\$ 18.88		\$ 12.52
	\$ 7.89		\$ 6.89
	1.33		1.37
	1.19		1.21
	4.31		3.92
	\$ 14.72		\$ 13.39
	\$ 4.16		\$ (0.87)
	77.97%		106.95%
	42.58%		56.43%
	\$ 84.69		\$ (21.76)

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
ARIZONA  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
Income:		
Milk sales	\$ 15.05	\$ 12.58
Calves and other	0.29	0.25
<b>Total income</b>	<b>\$ 15.34</b>	<b>\$ 12.83</b>
Cost of operations:		
Feed:		
Grain	\$ 4.49	\$ 5.40
Hay and other	2.44	3.06
<b>Total feed</b>	<b>\$ 6.93</b>	<b>\$ 8.46</b>
Labor, (including fringe costs)	\$ 1.42	\$ 1.60
Herd replacement costs	\$ 1.25	\$ 1.95
Other costs:		
Milk hauling	\$ 0.42	\$ 0.36
State and association charges	0.37	0.48
Veterinary, breeding, testing, etc.	0.23	0.30
Supplies	0.64	0.70
Repairs and maintenance	0.41	0.42
Utilities	0.30	0.41
Occupancy costs	0.67	0.74
Depreciation - equipment	0.15	0.14
Interest	0.57	0.68
Miscellaneous	0.67	0.64
<b>Total other costs</b>	<b>\$ 4.43</b>	<b>\$ 4.87</b>
<b>Total cost of operations</b>	<b>\$ 14.03</b>	<b>\$ 16.88</b>
<b>Net income (loss)</b>	<b>\$ 1.31</b>	<b>\$ (4.05)</b>

See accompanying explanation of income and cost factors.

## SUMMARY OF FINANCIAL STATISTICS

### ARIZONA

	June 30, 2010	December 31, 2009
1. Current Ratio	0.50 : 1	0.48 : 1
2. Debt Per Cow	\$ 2,524	\$ 2,709
3. Debt to Equity Ratio	5.92 : 1	6.45 : 1
4. Return on Total Assets	1.8%	-19.0%
5. Income (loss) per milking cow per month	\$ 24.51	\$ (84.26)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.



## INCOME AND COST OF OPERATIONS

### ARIZONA

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 15.05	\$ 12.58	\$ 18.11
Calves and other	0.29	0.25	0.30
<b>Total income</b>	<b>\$ 15.34</b>	<b>\$ 12.83</b>	<b>\$ 18.41</b>
Total cost of operations:			
Feed	\$ 6.93	\$ 8.46	\$ 9.07
Labor	1.42	1.60	1.59
Herd replacement costs	1.25	1.95	1.72
Other costs	4.43	4.87	5.64
<b>Total costs of operations</b>	<b>\$ 14.03</b>	<b>\$ 16.88</b>	<b>\$ 18.02</b>
<b>Net income (loss)</b>	<b>\$ 1.31</b>	<b>\$ (4.05)</b>	<b>\$ 0.39</b>
Cost of operations as a percentage of income	91.46%	131.64%	97.88%
Feed costs as a percentage of milk sales	46.05%	67.25%	50.08%
<b>Net income (loss) per milking cow per month</b>	<b>\$ 24.51</b>	<b>\$ (84.26)</b>	<b>\$ 5.99</b>

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
\$	19.87	\$ 12.92	\$ 15.25	\$ 16.06
	0.40	0.40	0.50	0.55
\$	20.27	\$ 13.32	\$ 15.75	\$ 16.61
\$	7.85	\$ 6.28	\$ 6.51	\$ 6.35
	1.54	1.39	1.40	1.36
	1.78	1.42	1.64	1.63
	5.73	5.56	4.93	4.41
\$	16.90	\$ 14.65	\$ 14.48	\$ 13.75
\$	3.37	\$ (1.33)	\$ 1.27	\$ 2.86
	83.37%	109.98%	91.94%	82.78%
	39.51%	48.61%	42.69%	39.54%
\$	64.56	\$ (22.53)	\$ 37.37	\$ 65.39

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
IDAHO  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
Income:		
Milk sales	\$ 14.38	\$ 12.27
Calves and other	0.10	0.25
<b>Total income</b>	<b>\$ 14.48</b>	<b>\$ 12.52</b>
Cost of operations:		
Feed:		
Grain	\$ 5.19	\$ 5.45
Hay and other	2.34	3.69
<b>Total feed</b>	<b>\$ 7.53</b>	<b>\$ 9.14</b>
Labor, (including fringe costs)	\$ 1.58	\$ 1.65
Herd replacement costs	\$ 1.15	\$ 1.32
Other costs:		
Milk hauling	\$ 0.27	\$ 0.25
State and association charges	0.21	0.21
Veterinary, breeding, testing, etc.	0.32	0.40
Supplies	0.75	0.78
Repairs and maintenance	0.65	0.68
Utilities	0.18	0.25
Occupancy costs	0.38	0.45
Depreciation - equipment	0.40	0.39
Interest	0.57	0.54
Miscellaneous	0.71	0.75
<b>Total other costs</b>	<b>\$ 4.44</b>	<b>\$ 4.70</b>
<b>Total cost of operations</b>	<b>\$ 14.70</b>	<b>\$ 16.81</b>
<b>Net loss</b>	<b>\$ (0.22)</b>	<b>\$ (4.29)</b>

## SUMMARY OF FINANCIAL STATISTICS

IDAHO

	June 30, 2010	December 31, 2009
1. Current Ratio	0.90 : 1	0.86 : 1
2. Debt Per Cow	\$ 2,699	\$ 2,880
3. Debt to Equity Ratio	2.04 : 1	2.28 : 1
4. Return on Total Assets	-0.2%	-15.9%
5. Loss per milking cow per month	\$ (6.25)	\$ (81.62)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Loss per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.

## INCOME AND COST OF OPERATIONS

	IDAHO		
	(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)		
	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 14.38	\$ 12.27	\$ 18.15
Calves and other	0.10	0.25	0.18
Total income	\$ 14.48	\$ 12.52	\$ 18.33
Total cost of operations:			
Feed	\$ 7.53	\$ 9.14	\$ 9.09
Labor	1.58	1.65	1.65
Herd replacement costs	1.15	1.32	1.16
Other costs	4.44	4.70	4.85
Total costs of operations	\$ 14.70	\$ 16.81	\$ 16.75
Net income (loss)	\$ (0.22)	\$ (4.29)	\$ 1.58
Cost of operations as a percentage of income	101.52%	134.27%	91.38%
Feed costs as a percentage of milk sales	52.36%	74.49%	50.08%
Net income (loss) per milking cow per month	\$ (6.25)	\$ (81.62)	\$ 42.46

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
\$	18.07 0.43	\$ 12.15 0.35	\$ 14.18 0.48	\$ 15.09 0.22
\$	18.50	\$ 12.50	\$ 14.66	\$ 15.31
\$	7.37 1.55 1.31 4.46	\$ 6.11 1.43 1.37 4.11	\$ 6.09 1.45 1.17 3.94	\$ 6.01 1.40 1.35 4.05
\$	14.69	\$ 13.02	\$ 12.65	\$ 12.81
\$	3.81	\$ (0.52)	\$ 2.01	\$ 2.50
	79.41%	104.16%	86.29%	83.67%
	40.79%	50.29%	42.95%	39.83%
\$	95.04	\$ (11.16)	\$ 42.08	\$ 56.97

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
NEW MEXICO  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009
Income:		
Milk sales	\$ 15.33	\$ 12.83
Calves and other	0.24	0.25
<b>Total income</b>	<b>\$ 15.57</b>	<b>\$ 13.08</b>
Cost of operations:		
Feed:		
Grain	\$ 5.82	\$ 6.21
Hay and other	1.87	2.47
<b>Total feed</b>	<b>\$ 7.69</b>	<b>\$ 8.68</b>
Labor, (including fringe costs)	\$ 1.51	\$ 1.56
Herd replacement costs	\$ 1.14	\$ 1.35
Other costs:		
Milk hauling	\$ 0.75	\$ 0.63
State and association charges	0.43	0.40
Veterinary, breeding, testing, etc.	0.34	0.36
Supplies	0.47	0.53
Repairs and maintenance	0.50	0.52
Utilities	0.24	0.26
Occupancy costs	0.45	0.42
Depreciation - equipment	0.27	0.29
Interest	0.50	0.40
Miscellaneous	0.73	0.73
<b>Total other costs</b>	<b>\$ 4.68</b>	<b>\$ 4.54</b>
<b>Total cost of operations</b>	<b>\$ 15.02</b>	<b>\$ 16.13</b>
<b>Net income (loss)</b>	<b>\$ 0.55</b>	<b>\$ (3.05)</b>

## SUMMARY OF FINANCIAL STATISTICS

### NEW MEXICO

	June 30, 2010	December 31, 2009
1. Current Ratio	0.77 : 1	1.02 : 1
2. Debt Per Cow	\$ 1,834	\$ 2,324
3. Debt to Equity Ratio	1.14 : 1	1.80 : 1
4. Return on Total Assets	0.5%	-11.7%
5. Income (loss) per milking cow per month	\$ 20.52	\$ (55.60)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.



## INCOME AND COST OF OPERATIONS

### NEW MEXICO

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 15.33	\$ 12.83	\$ 17.92
Calves and other	0.24	0.25	0.29
<b>Total income</b>	<b>\$ 15.57</b>	<b>\$ 13.08</b>	<b>\$ 18.21</b>
Total cost of operations:			
Feed	\$ 7.69	\$ 8.68	\$ 9.22
Labor	1.51	1.56	1.58
Herd replacement costs	1.14	1.35	1.20
Other costs	4.68	4.54	5.11
<b>Total costs of operations</b>	<b>\$ 15.02</b>	<b>\$ 16.13</b>	<b>\$ 17.11</b>
<b>Net income (loss)</b>	<b>\$ 0.55</b>	<b>\$ (3.05)</b>	<b>\$ 1.10</b>
Cost of operations as a percentage of income	96.47%	123.24%	93.96%
Feed costs as a percentage of milk sales	50.16%	67.65%	51.45%
<b>Net income (loss) per milking cow per month</b>	<b>\$ 20.52</b>	<b>\$ (55.60)</b>	<b>\$ 41.90</b>

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
\$	18.62	\$ 11.86	\$ 13.78	\$ 14.79
	0.60	0.65	0.49	0.40
\$	19.22	\$ 12.51	\$ 14.27	\$ 15.19
\$	7.57	\$ 6.24	\$ 6.31	\$ 6.32
	1.63	1.52	1.52	1.50
	1.19	1.17	1.09	1.37
	5.20	4.30	4.26	3.69
\$	15.59	\$ 13.23	\$ 13.18	\$ 12.88
\$	3.63	\$ (0.72)	\$ 1.09	\$ 2.31
	81.11%	105.76%	92.36%	84.79%
	40.66%	52.61%	45.79%	42.73%
\$	93.36	\$ (7.28)	\$ 25.79	\$ 55.56

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010  
AND YEAR ENDED DECEMBER 31, 2009  
PANHANDLE  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010		December 31, 2009
<b>Income:</b>			
Milk sales	\$ 15.94		\$ 13.63
Calves and other	0.26		0.20
<b>Total income</b>	<b>\$ 16.20</b>		<b>\$ 13.83</b>
<b>Cost of operations:</b>			
<b>Feed:</b>			
Grain	\$ 5.56		\$ 6.11
Hay and other	1.97		2.98
<b>Total feed</b>	<b>\$ 7.53</b>		<b>\$ 9.09</b>
Labor, (including fringe costs)	\$ 1.79		\$ 1.65
Herd replacement costs	\$ 1.64		\$ 1.90
<b>Other costs:</b>			
Milk hauling	\$ 0.76		\$ 0.62
State and association charges	0.33		0.28
Veterinary, breeding, testing, etc.	0.38		0.32
Supplies	0.69		0.65
Repairs and maintenance	0.47		0.40
Utilities	0.24		0.23
Occupancy costs	0.82		0.69
Depreciation - equipment	0.26		0.37
Interest	0.54		0.65
Miscellaneous	0.65		0.71
<b>Total other costs</b>	<b>\$ 5.14</b>		<b>\$ 4.92</b>
<b>Total cost of operations</b>	<b>\$ 16.10</b>		<b>\$ 17.56</b>
<b>Net income (loss)</b>	<b>\$ 0.10</b>		<b>\$ (3.73)</b>

## SUMMARY OF FINANCIAL STATISTICS

### PANHANDLE

	June 30, 2010	December 31, 2009
1. Current Ratio	0.50 : 1	0.59 : 1
2. Debt Per Cow	\$ 2,468	\$ 3,099
3. Debt to Equity Ratio	3.17 : 1	4.01 : 1
4. Return on Total Assets	0.1%	-15.2%
5. Income (loss) per milking cow per month	\$ 10.32	\$ (61.10)

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income (loss) per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.

## INCOME AND COST OF OPERATIONS

### PANHANDLE

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

	June 30, 2010	December 31, 2009	December 31, 2008
Income:			
Milk Sales	\$ 15.94	\$ 13.63	\$ 19.11
Calves and other	0.26	0.20	0.09
Total income	\$ 16.20	\$ 13.83	\$ 19.20
Total cost of operations:			
Feed	\$ 7.53	\$ 9.09	\$ 8.91
Labor	1.79	1.65	1.77
Herd replacement costs	1.64	1.90	1.71
Other costs	5.14	4.92	5.69
Total costs of operations	\$ 16.10	\$ 17.56	\$ 18.08
Net income (loss)	\$ 0.10	\$ (3.73)	\$ 1.12
Cost of operations as a percentage of income	99.38%	126.97%	94.17%
Feed costs as a percentage of milk sales	47.24%	66.69%	46.62%
Net income (loss) per milking cow per month	\$ 10.32	\$ (61.10)	\$ 19.04

December 31, 2007		December 31, 2006	
\$	20.01	\$	12.63
	0.27		0.49
\$	20.28	\$	13.12
\$	7.50	\$	5.84
	1.66		1.41
	1.79		1.62
	6.18		5.24
\$	17.13	\$	14.11
\$	3.15	\$	(0.99)
	84.47%		107.55%
	37.48%		46.24%
\$	82.81	\$	(14.35)

## CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS

FOR THE SIX MONTHS ENDED  
JUNE 30, 2010  
PACIFIC NORTHWEST  
(BASED ON A PER HUNDREDWEIGHT OF MILK BASIS)

June 30,  
2010

Income:	
Milk sales	\$ 15.71
Calves and other	0.38
<b>Total income</b>	<b>\$ 16.09</b>
Cost of operations:	
Feed:	
Grain	\$ 5.71
Hay and other	2.02
<b>Total feed</b>	<b>\$ 7.73</b>
Labor, (including fringe costs)	\$ 1.44
Herd replacement costs	\$ 1.62
Other costs:	
Milk hauling	\$ 0.62
State and association charges	0.30
Veterinary, breeding, testing, etc.	0.59
Supplies	0.38
Repairs and maintenance	0.41
Utilities	0.18
Occupancy costs	0.76
Depreciation - equipment	0.28
Interest	0.70
Miscellaneous	0.63
<b>Total other costs</b>	<b>\$ 4.85</b>
<b>Total cost of operations</b>	<b>\$ 15.64</b>
<b>Net income</b>	<b>\$ 0.45</b>

## SUMMARY OF FINANCIAL STATISTICS

### PACIFIC NORTHWEST

**June 30,  
2010**

1. Current Ratio	0.35 : 1
2. Debt Per Cow	\$ 2,332
3. Debt to Equity Ratio	2.85 : 1
4. Return on Total Assets	0.5%
5. Income per milking cow per month	\$ 12.35

1. The current ratio represents current assets divided by current liabilities.
2. 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.
3. Debt to equity represents the total debt divided by the total equity.
4. The return on total assets represents the net income divided by the total assets, stated at cost.
5. Income per milking cow per month represents each region's accrual based financial results divided by the number of milking cows, divided by six.



## INCOME AND COST OF OPERATIONS

### PACIFIC NORTHWEST

(BASED ON PER HUNDREDWEIGHT OF MILK BASIS)

**June 30,  
2010**

Income:	
Milk Sales	\$ 15.71
Calves and other	0.38
<b>Total income</b>	<b>\$ 16.09</b>
Total cost of operations:	
Feed	\$ 7.73
Labor	1.44
Herd replacement costs	1.62
Other costs	4.85
<b>Total costs of operations</b>	<b>\$ 15.64</b>
<b>Net income</b>	<b>\$ 0.45</b>
Cost of operations as a percentage of income	97.20%
Feed costs as a percentage of milk sales	49.20%
<b>Net income per milking cow per month</b>	<b>\$ 12.35</b>

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## EXPLANATION OF INCOME AND COST FACTORS

<b>Basis of presentation</b>	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 state of Washington and Oregon.
<b>Milk sales</b>	Includes milk income, quality and production bonuses, patronage dividends, USDA program payments, and milk futures.
<b>Calves and other income</b>	This is primarily composed of the sale of calves, heifers, other livestock and equipment, and miscellaneous other income.
<b>Feed</b>	Grain includes all minerals, supplements, and vitamins.
<b>Labor</b>	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.
<b>Herd replacement cost</b>	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.
<b>Occupancy cost</b>	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.
<b>Miscellaneous cost</b>	Includes auto, truck and fuel expenses, insurance, professional fees, quality penalties and other dairy expenses not specifically classified in another category.
<b>Net income</b>	Is stated before a provision for income taxes or a return on the dairy owner's investment.

## OUR FIRM AND THE DAIRY INDUSTRY

Frazer Frost, 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 Frost, 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 Frost, 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, 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 2010, although the bottom line results have dramatically improved when compared to 2009, major issues still loom for most producers in the nation. Milk and feed futures continue to react with volatility. Obtaining future credit has become increasingly difficult. Current and long-term bank ratios have not improved during this year enough to provide any assurance or stability to the producers and their financing relationships. Heifers are coming on line with incredible numbers as the impact of same-sex semen, improved breeding, and increased beefing of cows, which started last year and now translates into exploding heifer programs and first calf herds. Dairy price stabilization programs do not seem to be gathering much in the way of consensus from producers and processors. Milk production throughout most of the nation continues to rise. All of these factors require that producers must do as much as they can to conserve resources and make the right decisions day to day for their operations in order to insure a viable future.

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





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