



HP Hood LLC Six Kimball Lane Lynnfield, MA 01940

June 8, 2009

Dear HP Hood Organic Producer:

I last communicated with you in February about the volatile organic milk market and its effects on your business and ours. Unfortunately, despite our best efforts to increase sales, the situation hasn't improved. As you know, there have been multiple factors contributing to this unanticipated national organic milk surplus including a drop in consumer demand triggered by the tough economy, changes in organic regulations resulting from the Harvey lawsuit requiring us to source milk based on long range forecasts, and the steep increase in the sale of private label dairy products which has taken a big bite out of branded organic milk sales. We attempted to push through the cost of farming increase at the beginning of the year but the market did not accept the increase, in fact quite the contrary has occurred. As I indicated, sales continue to soften and we find ourselves with an oversupply of organic milk.

While we requested a voluntary reduction of 10-15% in production from all of our dairy farms to help stabilize the imbalance of our organic milk supply, the farms that did comply with our request have been drowned out by those that did not. We have taken other difficult measures to bring organic supply more in line with demand such as reducing the number of producers in our supply, allowing us to increase our percentage of milk used organically. As this process plays out, we continue to experience balancing costs and need your support in sharing some of these costs. In spring meetings we held around the countryside we gathered feedback from our Hood organic producers. We heard loud and clear that our producers do not want to be constrained by quotas. After careful consideration, we have designed a new pay structure in an effort to maintain an adequate balance of milk supply for our facilities while retaining a viable market for our dairy producers. Beginning with milk produced in July 2009, in advance of each month, we will establish an organic pay price for milk produced the following month. The organic price for July 2009, production will be \$26.00 per cwt. The organic pay price will apply to milk we are able to market as organic, any additional milk will be paid based on the prevailing conventional market price for that given month. Therefore, the total price will be paid based on the percentage of milk that is utilized organically and a portion of the percentage balanced in the conventional market. Quality and volume premiums will continue to be paid in the manner that currently exists. We've also made some changes to our guidelines. The quality standards have been modified to be more in line with industry standards.

In an effort to effectively manage our supply going forward, we are requesting that you fill out the enclosed survey. This will allow us to work with you and gain a better understanding of our existing organic milk supply and determine future needs and the interests of our farmers. Please return the survey within 30 days using the enclosed addressed envelope. All responses to the survey will be kept confidential by Hood and will be used only in connection with managing our



## H P Hood LLC, Guidelines and Qualifications for Organic Milk

All farms must obtain and maintain organic certification through an USDA accredited certification organization.

In addition to the National Organic Program Standards, the use of oxytocin is not allowed. Ivermectin is not allowed for use on lactating animals. Ivermectin can be used on replacement animals under 8 months old.

All farms should have a bulk tank capacity for every other day pick-up of milk. Bulk tank(s) should be able to hold 4 milkings at a minimum. Milk must be cooled to less than or equal to 38°F within 1 hour after the end of milking. Use of a plate cooler is suggested.

Dairy replacement animals entering a certified organic herd are treated organically from the last third of gestation.

Must be a family owned/leased and operated grass based dairy farm.

(i) day to day labor and /or management of the farm is provided by the family that owns, or leases , the productive assets and (ii) the farm is owned/ leased and operated by one family, an extended family or jointly by not more that two unrelated or extended families (iii) Practice humane and caring animal husbandry, in accordance with industry standards

Maintain a 90% barn score on USPH rating- If the Bulk Tank Unit that you are affiliated with is determined not to meet grade A standard; Hood will not be responsible for any milk payments until the unit is reauthorized - Failure to maintain a 90% on a USPH rating will result in a \$1.50 cwt. penalty for one month.

Maintain aesthetically pleasing farmstead

Rejected loads due to growth inhibitor results in loss of organic market

Producers incur all costs associated with a rejected load

### Quality Standards

- A goal of four samples of producer milk will be run per month to determine the monthly average for premium payment and to determine if the producer meets the Organic Milk Specifications. Samples will be run for Standard Plate Count, Pasteurized Count, P.I., Somatic Cell Count, and monthly for Cryoscope and Growth inhibitor.
- Yearly average for milk should be above 3.25% butterfat.
- Quality must meet organic milk specifications for inclusion in the organic milk market at the end of the transition period.

### Organic Milk Specifications

Antibiotics	None allowed – Follow FDA Standards for testing and penalties and NOP Standards
Growth Hormone	None allowed
SPC	≤ 25,000 /ml
PI	≤ 50,000 /ml
SCC	≤ 350,000 /ml
Cryoscope	≤ -.530 °H
Temperature	≤ 38°F

Producers will receive notification when a count is outside the above specification, either in person, by phone or mail by the Area Supervisor. Field staff will encourage producer to utilize all available services from DMS to correct quality issue.

1. How many milking age cows do you have?
  
2. How many young stock do you have?
  
3. Do you have plans to increase your herd?
4. If yes, by how much and when?
  
5. Do you have plans to decrease your herd?
6. If yes, by how much and when?
  
7. How many acres of available pasture do you have currently?
  
8. Do you purchase your feed?
9. If yes, what percentage do you purchase?
  
10. Do you have a seasonal herd?
11. If yes, when do you dry off?
  
12. Provide an estimate of your annual production.
  
13. In which month(s) do you reach peak volume?

organic supply and not for any other purpose. Our current dairy producers will be given the first option to expand production before any new farms will be signed on.

You will be contacted soon by your field person with a new Letter of Commitment to replace your existing Commitment to reflect the changes to the pay program as described in this letter.

We are all significantly impacted by the current economic climate, from consumers to processors to family dairy farmers. As we work with all of our partners to adapt to this challenging environment, we remain committed to finding a solution that best serves all of us. Thank you for your continued support. Please feel free to contact me if you have any questions or concerns @ 315-243-1744.

Sincerely,

A handwritten signature in black ink that reads "Karen Cole". The signature is written in a cursive, flowing style.

Karen Cole  
Director of Milk Procurement  
HP Hood LLC