



DAVISCO

DAVISCO FOODS INTERNATIONAL, INC. ■ QUARTERLY NEWSLETTER

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The Team's Best

Jay Headley loved family, teamwork & the outdoors

Jay Headley, age 30, died on May 15, 2002 at Lake Poinsett, SD. He began working for Davisco's Lake Norden Food Ingredient Plant in June of 1994, just following his graduation from South Dakota State University in Brookings, SD.

Jay successfully balanced his time and efforts between his work and his love of family and the outdoors. Friends say he always made time for his wife and two children, and he loved fishing with his three-year-old son, Jack.

■ At Work

Marty Davis noticed Jay from the first day he came in to fill out an application and drop off his resumé. Jay's clean cut, well-built appearance gave Davis the impression that Jay was a farm kid, and the impression was correct.

"He didn't tell us what his wages had to be or where he was willing to work...only that he wanted a chance to move up the ladder," says Davis. "We hired him and he started the next day."

Jay grew up on a farm near White Lake, SD. From a young age, he possessed the strong work ethic for which farm families are known. Lake Norden maintenance manager, Dave Kindt, passes on a story that Jay's father recently shared with him:

"When Jay was about twelve

years old, there was a water pipe on the farm that had a bad leak in it. Jay's dad told Jay that the leak was costing him \$100 a day. So Jay found a shovel and started digging," said Kindt. "He dug down about six feet, fixed the pipe and told his dad that he was sure that was the hardest \$100 he would ever make."

Jay brought that type of determination to his work at Davisco. Plant manager Mike Noethlich says that Jay was "a very thorough quality assurance manager."

"He was a good investigator. When there was a problem he didn't quit until it was successfully resolved," Noethlich explains.

After just one year of employment, Jay became the lactose department supervisor. In time, Jay took on quality assurance manager duties for the plant, an arrangement that became permanent.

"A person who can be entrusted with responsibilities in both production and quality assurance is very rare. I've not met many people who can do both. If you understand

this reality, you understand how talented Jay was, because he did both very well," said Marty Davis.

"Jay had the discipline to separate the quality assurance responsibilities from his production responsibilities," adds Lake Norden Plant Superintendent

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Jay Headley



Friends hunting in Canada, 1998. Left to right: Mike Noethlich, Marty Davis, Jay Headley, Jay Baldwin, Butch Brey, and Mike Klein.

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Mike Klein. "Quality always has to come first, and Jay knew that."

Jay's father, Jim, says that Jay liked his work and handled responsibilities graciously. "He never complained about having to do extra things to make things work at the plant," he said.

"Jay was simply a great person," adds Matt Davis. "He was incredibly disciplined. Davisco's plants are high intensity and fast paced, and Jay was able to bring a great deal of calm and a very reasoned approach to every situation. It made him extremely ef-

fective. Everyday we miss him, and every day we miss what he did."

■ At Play

Jay was known for his love of the outdoors. Hunting and fishing with friends and family filled his spare time.

For years, co-workers and close friends Dave Kindt and Jay Baldwin spent the opening of pheasant season hunting at Jay's family farm. It was an event the three looked forward to with anticipation.

The two Jays also enjoyed an annual elk hunting trip in New Mexico. Baldwin says the two of them stayed with his cousin while the rest of their hunting party camped out.

"After hunting all day we'd come back and sit in my cousin's hot tub and relax. The other guys would give us a hard time because they were all camping and roughing it. But Jay loved it," Baldwin smiles. "He thought it was great."

In 1998, Marty Davis took Jay, Noethlich, Baldwin, Klein and Butch Brey on a goose hunting trip to Canada. The trip was a favorite of Jay's. "He'd talk about that trip all the time. I think he was waiting for an-

other invitation," jokes Baldwin.

In addition to being an avid sportsman, Jay was a conservationist. He was a committee member of the Watertown chapter of the Rocky Mountain Elk Foundation, and recruited Baldwin to join as well.

Kindt says Jay learned the importance of environmental consciousness from his father. The two had an annual tradition of planting trees.

"Jay was very interested in conservation and supported my efforts," says his father, Jim. "I believe he wanted to continue that sort of work."

In addition to sharing an interest in conservation, Jay and Jim shared an interest in the farm. Kindt notes that Jay greatly looked forward to the weekends when he could work with his dad.

"You don't always realize until someone's gone what they've contributed," says Jim. "Jay kept track of everything I did on the farm. He called at least twice a week to ask what I was doing with the cattle or crops. He was not afraid to work, and I think he could have handled the operation if there was a need."

In work and play, Jay loved being part of the team. He was an important member of Davisco's team, and his constant efforts and hard work through the years are appreciated. "He is sorely missed," says Marty Davis.

Service with a Smile

Walk through the halls of Davisco's business office and you will quickly gain a sense that the personnel is knowledgeable, efficient, and organized. But what you'll notice the most is the smiles employees share with their co-workers and customers.

The team serves the financial, administrative, legal, human resource, and payroll needs of Davis Family Holdings, which includes Davisco Foods International and Cambria. The team makes sure that payroll checks are cut, milk truck license plates are current, and all business contracts are completed and filed, plus much more.

Leading the group, along with CFO Jim Ward, is John Velgersdyk, Vice President of Business Finance and Administration. He joined Davisco in March of 2000 with a plan to organize corporate functions and serve employee needs.

Velgersdyk stresses that the team is a service organization, lending support whenever and wherever needed.

"This department ensures that business



processes are carried out with integrity while providing services and assistance to employees so they can do their jobs," Velgersdyk said.

He cites accounts payable manager Tammy Borchardt, accounts receivable manager Kristin Skelley, business manager, Sue Gliszinski, and controllers Krista Henkels and Julie Saatzer as leaders of this team.

In addition to broad experience, these five women bring high levels of energy and a sense of humor to their work.

"We're really funny," quips Gliszinski,

who covers the company's legal and human resource responsibilities. "I think sometimes corporate people get a reputation for being really serious all of the time, but we try to have fun and laugh at ourselves."

Velgersdyk says the department works as a team and believes in the concept of teamwork because its members are able to share a broad range of experience.

According to Gliszinski, much of the office's activity requires involvement from all department staff.

"We achieve the best results with the highest efficiency if we all work together and think together," she adds.



Left, left to right: (back row) Rebecca Brenke, Lori Parson, Ann-Marie Erickson, (front row) Tammy Borchardt, and Holly Spiess
Right, left to right: Kathy Krohn, Krista Henkels, and Julie Saatzer

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The business office is located in Le Sueur, MN, but serves all Davisco and Cambria plants. While a similar arrangement may have been a challenge years ago, Saatzer says e-mail and fax machines now make long-distance management much easier.

"The biggest challenge is knowing all the laws and regulations of each state, and keeping up-to-date on all of them," she adds.



Challenge also lies in working for a company that has seen tremendous growth in recent years.

"It is nearly overwhelming," says Gliszinski. "We have a growing, dynamic company with dynamic sales people, so at times it is difficult to keep up. But everyone works very hard, because we know it will benefit

the company."

Velgersdyk says growth provides not only challenge, but great opportunity.

"I like working for the Davis family because they have tremendous vision, and they provide the means for the employees to contribute to that vision," he says.

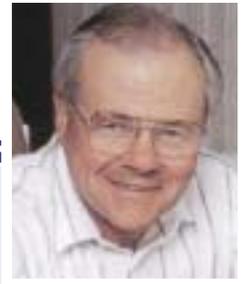
This excitement about opportunity, in addition to the satisfaction of doing a good job, is what drives the business office. But helping fellow Davisco and Cambria employees, as they work to accomplish their objectives, offers the greatest gratification.

"We're here to serve," says Saatzer.

"With a smile," adds Borchardt.

Above, left to right: (back row) Jim Ward, Jenny Olinger, Sue Gliszinski, John Velgersdyk, (front row) Char Barke, Jody Sippo, and Lori Hammes

Below, left to right: (back row) Karen Ulrich, Anita Olson, Jenny Morgan (front row) Kristin Skelley, and Sue Jensen



In Focus

Mark Davis

It takes many different teams of people, performing a multitude of seemingly unrelated tasks, to produce a raw material, operate a manufacturing process and create a product, and then deliver that product to the marketplace. Necessary to all of that is the function of accounting for all the related detail; tying the beginning (feeding, raising and milking the cows) to the administration of the process, to the final steps (costing, inventorying and billing).

The Delstra's represent that beginning. Peter and Denise have always been aware that the whole process is important. They were on site, along with Jemse, at the time in his stroller and not yet able to walk, when Jerome Cheese manufactured its first pound of cheese on December 31, 1992.

Somewhat under the radar screen and tying all this activity together is Davisco's administrative staff. These happy warriors (by their own description) deal with mountains of mundane paperwork, detail and services, without which this company wouldn't have the necessary information to make decisions or plan for the future. We certainly acknowledge and appreciate their sunny dispositions, their considerable efforts and their accomplishments.

In midst of all the above-described activity, the reality of life and death was visited on Davisco. Jay Headley died after picnicking with his wife, Ashley, their son Jack and daughter Sydney. He and Jack, as they often did, went fishing. No one will probably ever know for sure what happened, but Jay died. Jack survived.

Jay was a man of character, quiet determination and intense discipline, his considerable contributions, like those of Marlow Starkson and Dawn Shafer before him, have set the course for a future and will always be a part of that future.

Jay is and always will be remembered and missed.

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Producer Update

Heifer Replacement: Consider the Options

As dairy farms become more competitive, producers are seeking ways to increase efficiency in all areas of their operations, including heifer replacement. In order to find the most efficient and cost-effective way to supply replacements, dairy managers are examining two primary options: raising their own replacements or hiring a custom raiser.

Maintaining a closed herd, controlling herd health care, and avoiding the difficulties of dealing with contract growers are advantages producers gain when raising their own replacements.

However, by contracting to a custom raiser, producers may lower costs, increase labor efficiency, and/or find the heifers reach their first calving at an earlier age.

When deciding how to manage heifer replacement, producers should first calculate the costs of raising their own heifers. The final decision, however, should not solely be a cost comparison. It is important to look at other areas of the operation, like labor and resources, to make a balanced decision. The following five questions help examine and evaluate these areas:

1) Do I have enough labor to raise my own replacements?

Insufficient labor is a valid reason to have heifers custom raised. Even if labor is adequate, the elimination of heifer raising may improve labor efficiency, which may, in turn, increase the productivity of the milking herd.

2) Is there adequate land, feed, and housing facilities to raise heifers?

The operation may not have the resources or infrastructure needed to raise heifers successfully.

3) With your current program, does it take over 24 months to raise heifers to first calving?

If maturing takes over 24 months, heifer-raising costs can increase by an average of \$1.60 per day, resulting in high overall costs—a good reason to contract a heifer raiser.

4) Do you have enough cash flow to pay someone else to raise your heifers?

Growers will need to be paid on time to keep their operations running.

5) Is there another way that you could use your current heifer replacement housing facilities?

This question is especially important for a producer who is considering an expansion. If milking cows could be housed in current replacement herd facilities, the producer may want to move the heifers to a grower to postpone, or even eliminate, the need for additional housing.

Because the future of a dairy farm is dependent on heifer replacements, it is important to carefully consider rearing options. By evaluating both costs and resources, a producer can choose the method that will best serve his or her operation.



Healthy new stock are key to the success of a dairy.



Start a Youth Dairy Program

As young people leave family farms to pursue careers in other industries, some farming parents have made fostering their children's interest in agriculture a priority. By giving their children a clear view of both the responsibilities and rewards of farming at a young age, parents can develop young agricultural entrepreneurs with a skill set that may last a lifetime.

One way families can encourage children's interest in the dairy industry is to start a joint dairy project. (This could be a family project or part of a 4-H project.) With the parents' assistance and advice, the child will select, raise, and manage a dairy heifer from calf to milking cow.

Family members should decide together whether they will pursue a replacement program and sell the heifer just before breeding, or keep and raise the calves in a breeding program. A breeding program will allow children to learn more about milking procedures and managing lactating animals.

An effective dairy project is designed to help the child develop basic care and feeding techniques, learn the importance of good record keeping, and gain experience in buying, developing and showing an animal.

If kids are involved in management decisions such as selecting a calf, designing a diet, and choosing a service sire, they will have both time and knowledge invested in the project, making the rewards of milk production, new calves, and profit that much greater.

With continuing support from parents, young dairy entrepreneurs could soon build a small herd of their own.

If parents feel that either they or their children are not ready to make the commitments that a heifer replacement program requires, there are other effective ways to introduce the dairy industry. Giving young people specific responsibilities on the farm, for example, will help kids take pride in the work of agriculture. From a young age, children can assist in tasks such as milking, feeding, record keeping, and cleaning.

Linnea Beckel, a sophomore at the University of Wisconsin, River Falls, has helped with the morning milking, cleaning the stalls, and feeding about half of the young stock at her family's dairy since she was in elementary school, in addition to being a member of 4-H and FFA. She is currently majoring in broad area agriculture and minoring in dairy science and animal nutrition. She says that being raised on the farm and taking part in the work has been a big influence in her life and career choice. "Since agriculture has been a part of my life for so long, I couldn't imagine not being a part of it," said Beckel.

The Holstein Foundation has developed a booklet on working with dairy cattle, which can be downloaded from their web site, www.holsteinfoundation.org. This booklet is written for young people and outlines the steps in raising a dairy heifer.

Kids can find more information on dairy production and agriculture at the following web sites:

- * www.4-h.org Includes links to state and local 4-H chapters.
- * www.usjersey.com The official web site of the American Jersey Cattle Association. Includes information on jersey cattle and jersey youth programs.
- * www.cowsnus.com A web site especially for young people who "care for cows," both dairy and beef. Includes fun facts about dairy production and features young dairy entrepreneurs.

For additional information on starting a dairy cattle project, parents can contact their local extension service or 4-H club.

**Bank
on
Success**



Linnea Beckel



We believe the success of dairying depends on an awareness of the forces at work in the marketplace and our ability to take control together.

worldwide web

Delstra Family Finds Growth, Success in U.S. Dairy Industry

When Peter Delstra emigrated from Holland in July 1990, he started his own milking operation near Wendell, Idaho with a herd of 150 cows. Within a year, his herd increased to 400, and now, twelve years later, he and his nine employees milk 1100 cows. Despite this growth, Peter insists that compared to the surrounding dairies, his is “just a small one.”

Peter got his start in the dairy business in Holland on the family farm his brother now runs. He says the biggest difference between dairy production in Holland and the production in the United States is Holland’s milk quota system, which limits the amount of milk a farmer is allowed to produce. The goal of this system is to limit production and control milk prices.

According to Peter, a farmer who wishes to increase production must buy or lease quota from another farmer or quota agency. This, of course, makes an operation expansion very expensive.

Peter enjoys working with cows, but he is quick to say that in a dairy operation, as in any business, you need to enjoy working with people as well. “It is important to get along with your neighbors,” he says, “because they might be part of your business dealings.” Peter buys his feed from his neighbors, and he appreciates the honesty both he and his neighbors bring to business.

Peter and his wife Denise have three sons, Jemse, Steven, and Durk. While he has no specific hopes that

his boys follow in his footsteps, he would help them learn the business if they showed a strong interest. “They would really have to want it. If they didn’t, it just wouldn’t work,” he said.

Peter and Denise simply want their sons to pursue careers that interest them. “I think its (operating a dairy) a good life,” Peter said. “But they might think something different.”



Denise and Peter Delstra and family

401K Plans Provide for Retirement Savings

At a time when the future of Social Security is uncertain, a 401K plan is the answer for retirement planning for many employees.

Employees in private companies can contribute money to a 401K retirement fund on a pre-tax basis. In many companies, employees also have the opportunity to earn company match funds.

The majority of Davisco employees take advantage of the 401K plan, with 85-90% enrolled once they are eligible for the company match.

The IRS developed the 401K concept and determines and regulates many of the plan’s features, such as the amount an employee can defer. However, other features, such as eligibility and company match options, are determined by individual companies.

According to John Velgersdyk, Vice President of Business Finance & Administration, companies act as facilitators of this government-designed plan. He says employers often provide a monetary match in order to motivate employees to save for their retirement.

“It also serves as a way to reward employees for their work and share company profits,” Velgersdyk adds.

Features of Davisco’s 401K plan are listed at right.

ELIGIBILITY: Upon date of hire, employees who are at least 18 years of age, can defer up to a maximum of \$11,000 per year from their salary. Employees over the age of 50 may defer an additional \$1000 per year. Employees become eligible for the employer match in the first quarter following one year of service.

When eligibility is reached, Davisco will match contributions \$1 for \$1 up to 4% of an employees deferrals. Velgersdyk strongly recommends that employees who are eligible for the match defer at least 4% so they can take advantage of the full company match. “Where else can you be guaranteed a 100% return on your investment?” he says. “The company match has that guarantee.”

TAX & VESTING INFORMATION: No income taxes are paid on contributions or investment earnings until the money is withdrawn. If the money is withdrawn before age 59 1/2, a 10% penalty may be incurred, in addition to income tax.

After six years of service, employees are 100% vested in match contributions.

INVESTMENTS: Contributed monies are invested with Salomon Smith Barney in one of six investment plans that vary according to level of risk.

Salomon Smith Barney provides an advising service, Participant Investment Planner (PIP), that is designed to help employees select the best investment plan for their needs. Employees fill out a survey and receive retirement investment advice based on their answers and needs. The employee can change elections (which plan he or she is invested in or how much money is deferred) at any time.

STAYING INFORMED: Salomon Smith Barney hosts semi-annual meetings at Davisco sites to help people enroll, as well as to answer any questions regarding the plan or investments.

Employees receive a statement each quarter reporting all significant account activity such as contributions, investment earnings, transfers, and distributions.

To receive an account update or change elections, employees can visit www.wt1.com/retirement or call 1-800 942-401K.