LIVESTOCK GROSS MARGIN INSURANCE POLICY
QUESTIONS AND ANSWERS

1. Q: What is the Livestock Gross Margin Insurance Policy?

A: The Livestock Gross Margin Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feed costs) on the Swine. The indemnity at the end of the six-month insurance period is the difference, if positive, between the Expected Gross Margin and the Actual Gross Margin. The Livestock Gross Margin Insurance Policy uses futures prices to determine the Expected Gross Margin and the Actual Gross Margin. The price the producer receives at the local market is not used in these calculations.

2. Q: Who is eligible for the Livestock Gross Margin Insurance Policy?

A: Any Producer who owns Swine fed in Adair, Adams, Allamakee, Appanoose, Audubon, Benton, Black Hawk, Boone, Bremer, Buchanan, Buena Vista, Butler, Calhoun, Carroll, Cass, Cedar, Cerro Gordo, Cherokee, Chickasaw, Clarke, Clay, Clayton, Clinton, Crawford, Dallas, Davis, Decatur, Delaware, Des Moines, Dickinson, Dubuque, Emmet, Fayette, Floyd, Franklin, Fremont, Greene, Grundy, Guthrie, Hamilton, Hancock, Hardin, Harrison, Henry, Howard, Humboldt, Ida, Iowa, Jackson, Jasper, Jefferson, Johnson, Jones, Keokuk, Kossuth, Lee, Linn, Louisa, Lucas, Lyon, Madison, Mahaska, Marion, Marshall, Mills, Mitchell, Monona, Monroe, Montgomery, Muscatine, O'Brien, Osceola, Page, Palo Alto, Plymouth, Pocahontas, Polk, Pottawattamie, Poweshiek, Ringgold, Sac, Scott, Shelby, Sioux, Story, Tama, Taylor, Union, Van Buren, Wapello, Warren, Washington, Wayne, Webster, Winnebago, Winneshiek, Woodbury, Worth, Wright counties in Iowa is eligible for Livestock Gross Margin Insurance Policy coverage.

3. Q: What Swine are eligible for coverage under the Livestock Gross Margin Insurance Policy?

A: Only Swine sold for commercial or private slaughter primarily intended for human consumption and fed in any of the eligible 99 counties in Iowa are eligible for coverage under the Livestock Gross Margin Insurance Policy.

4. Q: What are the advantages of the Livestock Gross Margin Policy over traditional options?

A: The LGM has two advantages over traditional options.

Convenience. Producers sign up for the LGM only twice each year. The producer does not have to decide on the mix of options to purchase, the strike price of the options, or the date of entry.

Customization. The LGM policy can be tailored to any size farm. Options cover fixed amounts of commodities and those amounts may be too large to be used in the risk management portfolio of some farms.

5. Q: How is LGM different from traditional options?

A: LGM is different from traditional options in that LGM is a bundled option that covers both hog price and feed costs. The mix of hog price and feed costs are set using an optimal feeding ration developed through Iowa State University. This bundle of options effectively insures the producers gross margin, hog price minus feed costs, over the insurance period.

Also, LGM cannot be exercised. The LGM works as a bundle of options that pay the difference, if positive, between the value at purchase of the options and the value at the end of a certain time period. So, the LGM would pay the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the policy provisions.

6. Q: Can the LGM be exercised?

A: No, the LGM cannot be exercised during the insurance period. The LGM pays the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the LGM provisions, at the end of the insurance period.

7. Q: Does the LGM use the price the producer receives at the market?

A: No. The prices for the LGM are based on simple averages of futures contract daily settlement prices and are not based on the prices the producer receives at the market.

8. Q: Does the LGM make early indemnity payments?

A: Yes. If an indemnity is due under LGM coverage, the company will send the producer a notice of probable loss after the last month of the producer's marketing plan. The last month of the producer's marketing plan is the last month in which the producer indicated target marketings on the application.

9. Q: How is the underwriting capacity for the LGM distributed?

A: The LGM has limited underwriting capacity that will be distributed through the federal crop insurance corporations underwriting capacity manager. The underwriting capacity will be distributed on a first come, first served basis. The LGM will not be offered for sale after capacity is full or at any time the underwriting capacity manager is not functional.

10. Q: How are the feed equations for the LGM determined?

A: The feed equations for the LGM are based on an optimal feeding ration developed through Iowa State University.

11. Q: What is the yield factor?

A: The yield factor of 0.74 is the factor used to convert lean hog price to live hog price.

12. Q: What types of losses are covered by LGM?

A: The LGM covers the difference between the gross margin guarantee and the actual gross margin. The LGM does not insure against death loss or any other loss or damage to the producer's hogs.

13. Q: Where can I purchase LGM coverage?

A: LGM is available for sale at your authorized crop insurance agent's office. Crop insurance agents must be certified by an insurance company to sell the LGM and that agent's identification number must be on file with the Federal Crop Insurance Corporation.

14. Q: What months make up the Spring Insurance Period?

A: The months of February, March, April, May, June, and July.

15. Q: What months make up the Fall Insurance Period?

A: The months of August, September, October, November, and December of the current year and January of the following year.

16. Q: Why do the Insurance Periods begin in February and August?

A: The six month Insurance Periods are designed to coincide with the December and June quarterly USDA Swine and Pigs Report. The timing of the Insurance Periods allows the market to utilize the information contained in these reports prior to establishing the Expected Prices.

17. Q: What are the Producer's Target Marketings?

A: A determination made by the insured as to the maximum number of slaughter ready barrows and gilts that the producer will market (sell) in each month during the Insurance Period. The Target Marketings must be less than or equal to that Producer's applicable Approved Target Marketings as certified by the producer.

18. Q: What are the Producer's Approved Target Marketings?

A: The Producer's Approved Target Marketings are the maximum number of Swine that may be stated as Target Marketings on the application. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company. A producer's Approved Target Marketings will be the lesser of:

A. 135% of the total swine inoculated for any disease in the previous insurance period, as determined by veterinary records;

B. 135% of total swine marketed in the same insurance period during the previous year as determined by marketing receipts, or;

C. The underwriting capacity limit as stated in the special provisions.

Approved Target marketings for new producers will be no more than the capacity of the producer's swine operation for the six-month insurance period as determined by the insurance provider.

19. Q: What is the Expected Corn Price?

A: The Expected Corn Price for the months of March, and May, for the spring Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CBOT corn futures contract for that month expressed in dollars per bushel. The Expected Corn Price for the months of July and September for the fall Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CBOT corn futures contract for that month expressed in dollars per bushel.

For the month of January, the expected corn price will equal 2/3 times the December actual corn price for the previous insurance period as defined in this policy plus 1/3 times the expected corn price for March. For the month of February, the expected corn price will equal 1/3 times the December actual corn price for the previous insurance period as defined in this policy plus 2/3 times the expected corn price for March. For the month of October, the expected corn price will equal 2/3 times the expected corn price for September plus 1/3 times the expected corn price for December. For the month of November, the actual corn price will equal 1/3 times the expected corn price for September plus 2/3 times the expected corn price for December.

The Expected Corn Price for other months is the average of the expected prices for the immediately surrounding months. Contract months that have expired prior to January 14 for the spring insurance period and July 14 for the fall insurance period will use the actual prices from the previous insurance period for that month. For example, the Expected Corn Price in April is the average of the Expected Corn Price for March and May.

A chart listing the Chicago Board of Trade (CBOT) corn futures contract months used for each calendar month is supplied below. For the first few months of the Insurance Period, feed costs are predetermined since the applicable corn prices have already been observed. For example, the Expected Price of Corn for December for the spring Insurance Period will be the last three trading days of the December contract prior to expiration of that futures contract.

CBOT Contract Months Used to Determine Expected Corn Price for Each Calendar Month

Feed Month	Corn Contract
January	2/3 December plus 1/3 March
February	1/3 December plus 2/3 march
March	March
April	March - May average
May	May
June	May - July average
July	July
August	July - September average
September	September
October	2/3 September plus 1/3 December
November	1/3 September plus 2/3 December
December	December

20. Q: What is the Expected Soybean Meal Price?

A: The Expected Soybean Meal Price for the months of January, March, and May, for the spring Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CBOT soybean futures contract for that month expressed in dollars per ton.

The Expected Soybean Meal Price for the months of July, August, September, and October, for the fall Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CBOT soybean futures contract for that month expressed in dollars per ton.

For other months the Expected Soybean Meal Price is the average of the expected prices for the immediately surrounding months. For example, the Expected Soybean Meal Price in April is the average of the Expected Soybean Meal Price for March and May.

A chart listing the CBOT soybean meal futures contract month used for each calendar month is supplied below. For the first few months of the Insurance Period, feed costs are predetermined since the applicable soybean meal prices have already been observed. For example, the Expected Soybean Meal Price for December for the spring Insurance Period will be the average

of the last three trading days of the CBOT December soybean meal futures contract prior to the expiration of that futures contract.

CBOT Contract Months Used to Determine Expected Soybean Meal Price for Each Calendar Month	
Feed Month	Soybean Meal Contract
January	January
February	January - March average
March	March
April	March - May average
May	May
June	May - July average
July	July
August	August
September	September
October	October
November	October - December
December	December

21. Q: Q: What is the Expected Cost of Feed?

A: The Expected Cost of Feed for Farrow to Finish Operations for each month equals 12.95 times the Expected Corn Price for that month plus 184.89 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price for that month.

Farrow-to-Finish Expected Cost of Feed:
12.95 bu. x Corn Price$_t$ + (184.89 lb./2000 lb.) x Soy Meal Price$_t$

The Expected Cost of Feed for Finishing Operations for each month equals 10.41 times the Expected Corn Price for that month plus 149.46 pounds divided by 2000 pounds per ton times times the Expected Soybean Meal Price for that month.

Finishing Expected Cost of Feed:
10.41 bu. x Corn Price$_t$ + (149.46 lb./2000 lb.) x Soy Meal Price$_t$

For example, if the Expected Corn Price for March is $2.10 per bushel and the Expected Soybean Meal Price for March is $150 per ton, a Farrow-to-Finish Expected Cost of Feed for February would be $41.06 per Swine (12.95 x $2.10) + ((184.89 / 2000) x $150) = $41.06).

22. Q: What is the Expected Swine Price?

A: For the months of February, April, May, June, and July, for the spring Insurance Period, the Expected Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CME lean hog futures contract for that month expressed in dollars per hundredweight. The Expected Swine Price is multiplied by 0.74 to convert to a live weight basis

For the months of August, October, December, and February, for the fall Insurance Period, the Expected Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CME lean hog futures contract for that month expressed in

dollars per hundredweight. The Expected Swine Price is multiplied by 0.74 to convert to a live weight basis.

For other months the Expected Swine Price is the average of the expected prices for the two immediately surrounding months. For example, the Expected Swine Price for September is the average of the Expected Swine Prices for August and October.

A chart listing the Chicago Mercantile Exchange (CME) lean Swine contract months used for each Swine marketing month is supplied below.

CME Lean Hog Contract Months Used to Determine Expected Swine Price for Each Calendar Month

Month	Lean Hog Contract
January	December - February average
February	February
March	February - April average
April	April
May	May
June	June
July	July
August	August
September	August - October average
October	October
November	October - December average
December	December

23. Q: What is the Expected Gross Margin Per Swine?

A: The Expected Gross Margin Per Swine for a Farrow to Finish Operation is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed three months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for January.

Expected Gross Margin Per Swine for a Farrow to Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn Price$_{t-3}$ - (184.89 lb./2000 lb.) x Soy Meal Price$_{t-3}$

The Expected Gross Margin Per Swine for a Finishing Operation is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed two months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for February.

Expected Gross Margin Per Swine for a Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soy Meal Price$_{t-2}$

Following is our example, a Producer with a Farrow-to-Finish Operation with Swine to sell in June would use a March corn and soybean meal price of $2.10/bu and $150/ton respectively. Assuming the CME lean hog price is $50/cwt this Producer would have an Expected Gross Margin Per Swine of $55.13 (($50 x 0.74 x 2.6) - (12.95 x 2.10) - (184.89 / 2000 x $150) = $55.13).

24. Q: How is the Expected Total Gross Margin calculated for each Insurance Period?

A: The Expected Total Gross Margin is the sum of the Target Marketings times the Expected Gross Margin Per Swine for each month of an Insurance Period.

If the Producer from the above example has 10 head of Swine to sell in June and an Expected Swine Gross Margin per Swine of $55.13, then the Expected Total Gross Margin would be $551.30 (10 x $55.13 = $551.30).

25. Q: How is the Gross Margin Guarantee calculated for each Insurance Period?

A: The Gross Margin Guarantee for each coverage period is calculated by multiplying the Expected Total Gross Margin for the applicable Insurance Period, times the Coverage Level Percent.

If our example Producer wants a 90% coverage level on 10 head of Swine, his Expected Gross Margin Per Swine is $55.13, then the Gross Margin Guarantee would be $496 (90% x $55.13 x 10 = $496).

26. Q: What is the Actual Corn Price?

A: The Actual Corn Price for the months of January, March, May, July, September, November and December is the average of the final daily settlement prices in the last three trading days prior to contract expiration for the CBOT corn futures contract for that month expressed in dollars per bushel.

For the month of January, the actual corn price will equal 2/3 times the December actual corn price plus 1/3 times the March actual corn price. For the month of February, the actual corn price will equal 1/3 times the December actual corn price plus 2/3 times the March actual corn price. For the month of October, the actual corn price will equal 2/3 times the September actual corn price plus 1/3 times the December actual corn price. For the month of November, the actual corn price will equal 1/3 times the September actual corn price plus 2/3 times the December actual corn price.

For other months the Actual Corn Price is the average of the actual prices for the immediately surrounding months. For example, the Actual Corn Price in April is the average of the Actual Corn Price for March and May.

27. Q: What is the Actual Soybean Meal Price?

A: The Actual Soybean Meal Price for the months of January, March, May, July, August, September, October and December is the simple average of the final daily settlement prices in the last three trading days prior to contract expiration for the CBOT soybean meal futures contract for that month expressed on a dollars per ton basis.

For other months the Actual Soybean Meal Price is the average of the actual prices for the immediately surrounding months. For example, the actual soybean price in April is the average of the actual soybean prices for March and May.

28. Q: What is the Actual Cost of Feed?

A: The Actual Cost of Feed for Farrow to Finish Operations for each month equals 12.95 times the Actual Corn Price for that month plus 184.89 pounds divided by 2000 pounds times the Actual Soybean Meal Price for that month.

Farrow-to-Finish Actual Cost of Feed:
12.95 bu. x Corn $Price_t$ - (184.89 lb./2000 lb.) x Soy Meal $Price_t$

For Finishing Operations the Actual Cost of Feed for each month equals 10.41 times the Actual Corn Price for that month plus 149.46 pounds divided by 2000 pounds times the Actual Soybean Meal Price for that month.

Finishing Actual Cost of Feed:
10.41 bu. x Corn $Price_t$ - (149.46 lb./2000 lb.) x Soy Meal $Price_t$

For example, if the Actual Corn Price for March is $2.50 per bushel and the Actual Soybean Meal Price for March is $170 per ton, a Farrow-to-Finish Actual Cost of Feed for February would be $48.09 per Swine (12.95 x $2.50 + (184.89 / 2000) x $170 = $48.09).

29. Q: What is the Actual Swine Price?

A: For the months of February, April, May, June, July, August, October, and December the Actual Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to contract expiration for the CME lean hog futures contract for that month expressed in dollars per hundredweight. The Actual Swine Price is multiplied by 0.74 to convert to a live weight basis.

For other months the Actual Swine Price is the average of the actual prices for the immediately surrounding months. For example, the Actual Swine Price in September is the average of the Actual Swine Prices for August and October.

Following is our example, if the average of the last three days of the June lean Swine futures contract is $40/cwt then the June Actual Swine Price is $40/cwt.

30. Q: What is the Actual Gross Margin Per Swine?

A: The Actual Gross Margin Per Swine for a Farrow to Finish Operation is the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed three months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for January.

Actual Gross Margin Per Swine for a Farrow to Finish Operation:
(Swine $Price_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn $Price_{t-3}$ - (184.89 lb./2000 lb.) x Soy Meal $Price_{t-3}$

The Actual Gross Margin Per Swine for a Finishing Operation are the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed two months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for February.

Actual Gross Margin Per Swine for Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soy Meal Price$_{t-2}$

For example, a farrow-to-finish operation with Swine to be sold in June would use a June lean Swine futures price of $40/cwt and an April corn and soybean meal price of $2.50/bu and $170/ton respectively would have an Actual Gross Margin Per Swine of $28.86 (($40 x 0.74 x 2.6) - 12.95 x $2.50 - 184.89 / 2000 x $170 = $28.86).

31. Q: How is the Actual Total Gross Margin calculated?

A: The Actual Total Gross Margin is the sum of the Target Marketings times the Actual Gross Margin Per Swine for each month of an Insurance Period.

If the Producer in the example sold 10 head of Swine in June and an Actual Gross Margin Per Swine of $28.86, then the Actual Total Gross Margin would be $289 (10 x $28.86 = $289).

32. Q: How are Indemnities Determined?

A: Indemnities to be paid will equal the difference between the Gross Margin Guarantee and the Actual Total Gross Margin for the Insurance Period.

The producer in our example would receive an indemnity of $209 ($496 - $289 = $207)

33. Q: Is a Marketing Report required and when should the Company receive it?

A: Yes, in the event of a loss the producer must submit a Marketing Report and sales receipts showing evidence of Actual Marketings for each month. The producer must submit the Marketing Report within 15 days of receipt of Notice of Probable Loss.

34. Q: Is this a Continuous Policy?

A: This is a continuous policy with two insurance periods per year. Target Marketings must be submitted for each Insurance Period. If a Target Marketing Report is not submitted by the Sales Closing Date for the applicable insurance period, Target Marketings for that insurance period will be zero.

35. Q: When must the Application for insurance be turned into the Company?

A: The Sales Closing Dates for the pilot project Policy are January 31 for the spring Insurance Period and July 31 for the fall Insurance Period. The Application must be completed and filed not later than the Sales Closing Date of the initial Insurance Period for which coverage is requested. Coverage for the Swine described in the Application will not be provided unless the Insurance Company receives and accepts a completed Application, a Target Marketing Report, premium is paid in full and sends the Producer a written Summary of Insurance.

36. Q: When does Coverage begin?

A: For the Spring Insurance Period coverage begins on February 1, the Fall period begins on August 1.

37. Q: When are the Contract Change Dates for the Policy?

A: The Contract Change Date is April 30. Any changes to the Livestock Gross Margin Policy will be made prior to this Contract Change Date.

38. Q: When are the Cancellation Dates for the Policy?

A: The Cancellation Date is June 30 for all insurance periods.

39. Q: When is the End of Insurance for the Policy?

A: The End of Insurance for the first period is July 31 and the End of Insurance date for the second period is January 31.

40. Q: What Coverage Level Percentages are available for the Policy?

A: The Producer may select Coverage Levels Percentages of 80%, 85%, 90%, 95%, or 100%.

41. Q: How is the Producer's Premium Calculated?

A: The Producer's premium is calculated by a premium calculator program that determines the per Swine premium based on Target Marketings, expected gross margins for each period and coverage level percentages.

42. Q: When is the Premium for the Policy due?

A: The Premium for the initial insurance period is due with the application for Livestock Gross Margin Insurance coverage. The premium for all subsequent insurance periods is due with the Target Marketings Report, which is due no later than the sales closing date.

43. Q: What portion of a Producer's Swine will be insured under the Policy?

A: A producer can insure any amount of swine that the producer owns up to a limit of 15,000 head for each six-month insurance period. Ownership of insured hogs must be certified by the producer and may be subject to inspection and verification by the insurance company.

44. Q: What information is required for acceptance of an Application for the Livestock Gross Margin Insurance Policy?

A: The Application for the Livestock Gross Margin Insurance Policy must contain all the information required by us to insure the gross margin for the animals. Applications that do not contain all social security numbers and employer identification numbers, as applicable (except as stated in the policy), coverage level percent, Target Marketings Report, and any other material information required to insure the gross margin for the animals, will not be acceptable.

42. Q: If a producer has both Farrow to Finish and Finishing hogs on the same policy, are the guarantees and the loss payments separate.

A: Yes, if a producer has both Farrow to Finish and Finishing swine on the same policy, guarantees and loss payments are calculated separately for the farrow to finish swine and the finishing swine. However, the producer is still limited to covering 15,000 hogs for the entire policy.

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2. Q: Who is eligible for the Livestock Gross Margin Insurance Policy?

A: Any Producer who owns Swine fed in Adair, Adams, Allamakee, Appanoose, Audubon, Benton, Black Hawk, Boone, Bremer, Buchanan, Buena Vista, Butler, Calhoun, Carroll, Cass, Cedar, Cerro Gordo, Cherokee, Chickasaw, Clarke, Clay, Clayton, Clinton, Crawford, Dallas, Davis, Decatur, Delaware, Des Moines, Dickinson, Dubuque, Emmet, Fayette, Floyd, Franklin, Fremont, Greene, Grundy, Guthrie, Hamilton, Hancock, Hardin, Harrison, Henry, Howard, Humboldt, Ida, Iowa, Jackson, Jasper, Jefferson, Johnson, Jones, Keokuk, Kossuth, Lee, Linn, Louisa, Lucas, Lyon, Madison, Mahaska, Marion, Marshall, Mills, Mitchell, Monona, Monroe, Montgomery, Muscatine, O'Brien, Osceola, Page, Palo Alto, Plymouth, Pocahontas, Polk, Pottawattamie, Poweshiek, Ringgold, Sac, Scott, Shelby, Sioux, Story, Tama, Taylor, Union, Van Buren, Wapello, Warren, Washington, Wayne, Webster, Winnebago, Winneshiek, Woodbury, Worth, Wright counties in Iowa is eligible for Livestock Gross Margin Insurance Policy coverage.

3. Q: What Swine are eligible for coverage under the Livestock Gross Margin Insurance Policy?

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Customization. The LGM policy can be tailored to any size farm. Options cover fixed amounts of commodities and those amounts may be too large to be used in the risk management portfolio of some farms.

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A: The LGM has limited underwriting capacity that will be distributed through the federal crop insurance corporations underwriting capacity manager. The underwriting capacity will be distributed on a first come, first served basis. The LGM will not be offered for sale after capacity is full or at any time the underwriting capacity manager is not functional.

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17. Q: What are the Producer's Target Marketings?

A: A determination made by the insured as to the maximum number of slaughter ready barrows and gilts that the producer will market (sell) in each month during the Insurance Period. The Target Marketings must be less than or equal to that Producer's applicable Approved Target Marketings as certified by the producer.

18. Q: What are the Producer's Approved Target Marketings?

A: The Producer's Approved Target Marketings are the maximum number of Swine that may be stated as Target Marketings on the application. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company. A producer's Approved Target Marketings will be the lesser of:

A. 135% of the total swine inoculated for any disease in the previous insurance period, as determined by veterinary records;

B. 135% of total swine marketed in the same insurance period during the previous year as determined by marketing receipts, or;

C. The underwriting capacity limit as stated in the special provisions.

Approved Target marketings for new producers will be no more than the capacity of the producer's swine operation for the six-month insurance period as determined by the insurance provider.

19. Q: What is the Expected Corn Price?

A: The Expected Corn Price for the months of March, and May, for the spring Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CBOT corn futures contract for that month expressed in dollars per bushel. The Expected Corn Price for the months of July and September for the fall Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CBOT corn futures contract for that month expressed in dollars per bushel.

For the month of January, the expected corn price will equal 2/3 times the December actual corn price for the previous insurance period as defined in this policy plus 1/3 times the expected corn price for March. For the month of February, the expected corn price will equal 1/3 times the December actual corn price for the previous insurance period as defined in this policy plus 2/3 times the expected corn price for March. For the month of October, the expected corn price will equal 2/3 times the expected corn price for September plus 1/3 times the expected corn price for December. For the month of November, the actual corn price will equal 1/3 times the expected corn price for September plus 2/3 times the expected corn price for December.

The Expected Corn Price for other months is the average of the expected prices for the immediately surrounding months. Contract months that have expired prior to January 14 for the spring insurance period and July 14 for the fall insurance period will use the actual prices from the previous insurance period for that month. For example, the Expected Corn Price in April is the average of the Expected Corn Price for March and May.

A chart listing the Chicago Board of Trade (CBOT) corn futures contract months used for each calendar month is supplied below. For the first few months of the Insurance Period, feed costs are predetermined since the applicable corn prices have already been observed. For example, the Expected Price of Corn for December for the spring Insurance Period will be the last three trading days of the December contract prior to expiration of that futures contract.

CBOT Contract Months Used to Determine Expected Corn Price for Each Calendar Month

Feed Month	Corn Contract
January	2/3 December plus 1/3 March
February	1/3 December plus 2/3 march
March	March
April	March - May average
May	May
June	May - July average
July	July
August	July - September average
September	September
October	2/3 September plus 1/3 December
November	1/3 September plus 2/3 December
December	December

20. Q: What is the Expected Soybean Meal Price?

A: The Expected Soybean Meal Price for the months of January, March, and May, for the spring Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CBOT soybean futures contract for that month expressed in dollars per ton.

The Expected Soybean Meal Price for the months of July, August, September, and October, for the fall Insurance Period, is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CBOT soybean futures contract for that month expressed in dollars per ton.

For other months the Expected Soybean Meal Price is the average of the expected prices for the immediately surrounding months. For example, the Expected Soybean Meal Price in April is the average of the Expected Soybean Meal Price for March and May.

A chart listing the CBOT soybean meal futures contract month used for each calendar month is supplied below. For the first few months of the Insurance Period, feed costs are predetermined since the applicable soybean meal prices have already been observed. For example, the Expected Soybean Meal Price for December for the spring Insurance Period will be the average

of the last three trading days of the CBOT December soybean meal futures contract prior to the expiration of that futures contract.

CBOT Contract Months Used to Determine Expected Soybean Meal Price for Each Calendar Month	
Feed Month	Soybean Meal Contract
January	January
February	January - March average
March	March
April	March - May average
May	May
June	May - July average
July	July
August	August
September	September
October	October
November	October - December
December	December

21. Q: Q: What is the Expected Cost of Feed?

A: The Expected Cost of Feed for Farrow to Finish Operations for each month equals 12.95 times the Expected Corn Price for that month plus 184.89 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price for that month.

Farrow-to-Finish Expected Cost of Feed:
12.95 bu. x Corn Price$_t$ + (184.89 lb./2000 lb.) x Soy Meal Price$_t$

The Expected Cost of Feed for Finishing Operations for each month equals 10.41 times the Expected Corn Price for that month plus 149.46 pounds divided by 2000 pounds per ton times times the Expected Soybean Meal Price for that month.

Finishing Expected Cost of Feed:
10.41 bu. x Corn Price$_t$ + (149.46 lb./2000 lb.) x Soy Meal Price$_t$

For example, if the Expected Corn Price for March is $2.10 per bushel and the Expected Soybean Meal Price for March is $150 per ton, a Farrow-to-Finish Expected Cost of Feed for February would be $41.06 per Swine (12.95 x $2.10) + ((184.89 / 2000) x $150) = $41.06).

22. Q: What is the Expected Swine Price?

A: For the months of February, April, May, June, and July, for the spring Insurance Period, the Expected Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to January 15th for the CME lean hog futures contract for that month expressed in dollars per hundredweight. The Expected Swine Price is multiplied by 0.74 to convert to a live weight basis

For the months of August, October, December, and February, for the fall Insurance Period, the Expected Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to July 15th for the CME lean hog futures contract for that month expressed in

dollars per hundredweight. The Expected Swine Price is multiplied by 0.74 to convert to a live weight basis.

For other months the Expected Swine Price is the average of the expected prices for the two immediately surrounding months. For example, the Expected Swine Price for September is the average of the Expected Swine Prices for August and October.

A chart listing the Chicago Mercantile Exchange (CME) lean Swine contract months used for each Swine marketing month is supplied below.

CME Lean Hog Contract Months Used to Determine Expected Swine Price for Each Calendar Month

Month	Lean Hog Contract
January	December - February average
February	February
March	February - April average
April	April
May	May
June	June
July	July
August	August
September	August - October average
October	October
November	October - December average
December	December

23. Q: What is the Expected Gross Margin Per Swine?

A: The Expected Gross Margin Per Swine for a Farrow to Finish Operation is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed three months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for January.

Expected Gross Margin Per Swine for a Farrow to Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn Price$_{t-3}$ - (184.89 lb./2000 lb.) x Soy Meal Price$_{t-3}$

The Expected Gross Margin Per Swine for a Finishing Operation is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed two months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for February.

Expected Gross Margin Per Swine for a Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soy Meal Price$_{t-2}$

Following is our example, a Producer with a Farrow-to-Finish Operation with Swine to sell in June would use a March corn and soybean meal price of $2.10/bu and $150/ton respectively. Assuming the CME lean hog price is $50/cwt this Producer would have an Expected Gross Margin Per Swine of $55.13 (($50 x 0.74 x 2.6) - (12.95 x 2.10) - (184.89 / 2000 x $150) = $55.13).

24. Q: How is the Expected Total Gross Margin calculated for each Insurance Period?

A: The Expected Total Gross Margin is the sum of the Target Marketings times the Expected Gross Margin Per Swine for each month of an Insurance Period.

If the Producer from the above example has 10 head of Swine to sell in June and an Expected Swine Gross Margin per Swine of $55.13, then the Expected Total Gross Margin would be $551.30 (10 x $55.13 = $551.30).

25. Q: How is the Gross Margin Guarantee calculated for each Insurance Period?

A: The Gross Margin Guarantee for each coverage period is calculated by multiplying the Expected Total Gross Margin for the applicable Insurance Period, times the Coverage Level Percent.

If our example Producer wants a 90% coverage level on 10 head of Swine, his Expected Gross Margin Per Swine is $55.13, then the Gross Margin Guarantee would be $496 (90% x $55.13 x 10 = $496).

26. Q: What is the Actual Corn Price?

A: The Actual Corn Price for the months of January, March, May, July, September, November and December is the average of the final daily settlement prices in the last three trading days prior to contract expiration for the CBOT corn futures contract for that month expressed in dollars per bushel.

For the month of January, the actual corn price will equal 2/3 times the December actual corn price plus 1/3 times the March actual corn price. For the month of February, the actual corn price will equal 1/3 times the December actual corn price plus 2/3 times the March actual corn price. For the month of October, the actual corn price will equal 2/3 times the September actual corn price plus 1/3 times the December actual corn price. For the month of November, the actual corn price will equal 1/3 times the September actual corn price plus 2/3 times the December actual corn price.

For other months the Actual Corn Price is the average of the actual prices for the immediately surrounding months. For example, the Actual Corn Price in April is the average of the Actual Corn Price for March and May.

27. Q: What is the Actual Soybean Meal Price?

A: The Actual Soybean Meal Price for the months of January, March, May, July, August, September, October and December is the simple average of the final daily settlement prices in the last three trading days prior to contract expiration for the CBOT soybean meal futures contract for that month expressed on a dollars per ton basis.

For other months the Actual Soybean Meal Price is the average of the actual prices for the immediately surrounding months. For example, the actual soybean price in April is the average of the actual soybean prices for March and May.

28. Q: What is the Actual Cost of Feed?

A: The Actual Cost of Feed for Farrow to Finish Operations for each month equals 12.95 times the Actual Corn Price for that month plus 184.89 pounds divided by 2000 pounds times the Actual Soybean Meal Price for that month.

Farrow-to-Finish Actual Cost of Feed:
12.95 bu. x Corn $Price_t$ - (184.89 lb./2000 lb.) x Soy Meal $Price_t$

For Finishing Operations the Actual Cost of Feed for each month equals 10.41 times the Actual Corn Price for that month plus 149.46 pounds divided by 2000 pounds times the Actual Soybean Meal Price for that month.

Finishing Actual Cost of Feed:
10.41 bu. x Corn $Price_t$ - (149.46 lb./2000 lb.) x Soy Meal $Price_t$

For example, if the Actual Corn Price for March is $2.50 per bushel and the Actual Soybean Meal Price for March is $170 per ton, a Farrow-to-Finish Actual Cost of Feed for February would be $48.09 per Swine (12.95 x $2.50 + (184.89 / 2000) x $170 = $48.09).

29. Q: What is the Actual Swine Price?

A: For the months of February, April, May, June, July, August, October, and December the Actual Swine Price is the simple average of the final daily settlement prices in the last three trading days prior to contract expiration for the CME lean hog futures contract for that month expressed in dollars per hundredweight. The Actual Swine Price is multiplied by 0.74 to convert to a live weight basis.

For other months the Actual Swine Price is the average of the actual prices for the immediately surrounding months. For example, the Actual Swine Price in September is the average of the Actual Swine Prices for August and October.

Following is our example, if the average of the last three days of the June lean Swine futures contract is $40/cwt then the June Actual Swine Price is $40/cwt.

30. Q: What is the Actual Gross Margin Per Swine?

A: The Actual Gross Margin Per Swine for a Farrow to Finish Operation is the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed three months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for January.

Actual Gross Margin Per Swine for a Farrow to Finish Operation:
(Swine $Price_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn $Price_{t-3}$ - (184.89 lb./2000 lb.) x Soy Meal $Price_{t-3}$

The Actual Gross Margin Per Swine for a Finishing Operation are the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed two months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for February.

Actual Gross Margin Per Swine for Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soy Meal Price$_{t-2}$

For example, a farrow-to-finish operation with Swine to be sold in June would use a June lean Swine futures price of $40/cwt and an April corn and soybean meal price of $2.50/bu and $170/ton respectively would have an Actual Gross Margin Per Swine of $28.86 (($40 x 0.74 x 2.6) - 12.95 x $2.50 - 184.89 / 2000 x $170 = $28.86).

31. Q: How is the Actual Total Gross Margin calculated?

A: The Actual Total Gross Margin is the sum of the Target Marketings times the Actual Gross Margin Per Swine for each month of an Insurance Period.

If the Producer in the example sold 10 head of Swine in June and an Actual Gross Margin Per Swine of $28.86, then the Actual Total Gross Margin would be $289 (10 x $28.86 = $289).

32. Q: How are Indemnities Determined?

A: Indemnities to be paid will equal the difference between the Gross Margin Guarantee and the Actual Total Gross Margin for the Insurance Period.

The producer in our example would receive an indemnity of $209 ($496 - $289 = $207)

33. Q: Is a Marketing Report required and when should the Company receive it?

A: Yes, in the event of a loss the producer must submit a Marketing Report and sales receipts showing evidence of Actual Marketings for each month. The producer must submit the Marketing Report within 15 days of receipt of Notice of Probable Loss.

34. Q: Is this a Continuous Policy?

A: This is a continuous policy with two insurance periods per year. Target Marketings must be submitted for each Insurance Period. If a Target Marketing Report is not submitted by the Sales Closing Date for the applicable insurance period, Target Marketings for that insurance period will be zero.

35. Q: When must the Application for insurance be turned into the Company?

A: The Sales Closing Dates for the pilot project Policy are January 31 for the spring Insurance Period and July 31 for the fall Insurance Period. The Application must be completed and filed not later than the Sales Closing Date of the initial Insurance Period for which coverage is requested. Coverage for the Swine described in the Application will not be provided unless the Insurance Company receives and accepts a completed Application, a Target Marketing Report, premium is paid in full and sends the Producer a written Summary of Insurance.

36. Q: When does Coverage begin?

A: For the Spring Insurance Period coverage begins on February 1, the Fall period begins on August 1.

37. Q: When are the Contract Change Dates for the Policy?

A: The Contract Change Date is April 30. Any changes to the Livestock Gross Margin Policy will be made prior to this Contract Change Date.

38. Q: When are the Cancellation Dates for the Policy?

A: The Cancellation Date is June 30 for all insurance periods.

39. Q: When is the End of Insurance for the Policy?

A: The End of Insurance for the first period is July 31 and the End of Insurance date for the second period is January 31.

40. Q: What Coverage Level Percentages are available for the Policy?

A: The Producer may select Coverage Levels Percentages of 80%, 85%, 90%, 95%, or 100%.

41. Q: How is the Producer's Premium Calculated?

A: The Producer's premium is calculated by a premium calculator program that determines the per Swine premium based on Target Marketings, expected gross margins for each period and coverage level percentages.

42. Q: When is the Premium for the Policy due?

A: The Premium for the initial insurance period is due with the application for Livestock Gross Margin Insurance coverage. The premium for all subsequent insurance periods is due with the Target Marketings Report, which is due no later than the sales closing date.

43. Q: What portion of a Producer's Swine will be insured under the Policy?

A: A producer can insure any amount of swine that the producer owns up to a limit of 15,000 head for each six-month insurance period. Ownership of insured hogs must be certified by the producer and may be subject to inspection and verification by the insurance company.

44. Q: What information is required for acceptance of an Application for the Livestock Gross Margin Insurance Policy?

A: The Application for the Livestock Gross Margin Insurance Policy must contain all the information required by us to insure the gross margin for the animals. Applications that do not contain all social security numbers and employer identification numbers, as applicable (except as stated in the policy), coverage level percent, Target Marketings Report, and any other material information required to insure the gross margin for the animals, will not be acceptable.

42. Q: If a producer has both Farrow to Finish and Finishing hogs on the same policy, are the guarantees and the loss payments separate.

A: Yes, if a producer has both Farrow to Finish and Finishing swine on the same policy, guarantees and loss payments are calculated separately for the farrow to finish swine and the finishing swine. However, the producer is still limited to covering 15,000 hogs for the entire policy.