DEAN FOODS CO/
Form 10-Q
August 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2006
or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
Commission File Number 001-12755

Dean Foods Company
(Exact name of the registrant as specified in its charter)

Delaware	**75-2559681**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

2515 McKinney Avenue, Suite 1200
Dallas, Texas 75201
(214) 303-3400
(Address, including zip code, and telephone number, including area code, of the registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [X]; Accelerated filer [ ]; Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes [ ] No [X]

As of August 4, 2006, the number of shares outstanding of each class of common stock was: 133,478,082 Common Stock, par value $.01

Table of Contents

Table of Contents

Part I Financial Information

Item 1. Financial Statements

DEAN FOODS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 30,378	$ 24,456
Receivables, net	699,612	818,431
Inventories	358,243	355,004
Deferred income taxes	111,611	137,776
Prepaid expenses and other current assets	84,722	65,526
Total current assets	1,284,566	1,401,193
Property, plant and equipment, net	1,780,350	1,776,801
Goodwill	2,932,454	2,922,940
Identifiable intangible and other assets	668,270	648,223
Assets of discontinued operations	266,527	301,727
Total	$ 6,932,167	$ 7,050,884
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 777,722	$ 926,067
Income taxes payable	9,370	34,541
Current portion of long-term debt	182,150	65,326
Total current liabilities	969,242	1,025,934
Long-term debt	3,194,039	3,321,522
Deferred income taxes	486,337	449,707
Other long-term liabilities	229,302	225,479
Liabilities of discontinued operations	124,530	126,029
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, none issued		
Common stock, 133,173,139 and 134,209,190 shares issued and outstanding, with a par value of $0.01 per share	1,332	1,342
Additional paid-in capital	841,480	922,791
Retained earnings	1,085,673	1,004,013
Accumulated other comprehensive income (loss)	232	(25,933)
Total stockholders equity	1,928,717	1,902,213

Total	$ 6,932,167	$ 7,050,884

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
		(unaudited)		
Net sales	$ 2,477,884	$ 2,515,130	$ 4,986,925	$ 4,989,701
Cost of sales	1,794,555	1,867,895	3,652,628	3,731,243
Gross profit	683,329	647,235	1,334,297	1,258,458
Operating costs and expenses:				
Selling and distribution	408,843	386,383	813,610	774,313
General and administrative	98,739	97,200	201,020	188,940
Amortization of intangibles	1,508	1,482	2,929	3,151
Facility closing and reorganization costs	2,950	2,437	7,352	8,828
Total operating costs and expenses	512,040	487,502	1,024,911	975,232
Operating income	171,289	159,733	309,386	283,226
Other (income) expense:				
Interest expense	48,768	38,625	96,304	77,844
Other (income) expense, net	(86)	(205)	14	(282)
Total other expense	48,682	38,420	96,318	77,562
Income from continuing operations before income taxes	122,607	121,313	213,068	205,664
Income taxes	47,812	47,287	83,579	80,946
Income from continuing operations	74,795	74,026	129,489	124,718
Income (loss) from discontinued operations, net of tax	(45,927)	7,600	(47,829)	18,377
Net income	$ 28,868	$ 81,626	$ 81,660	$ 143,095
Average common shares:				
Basic	135,037,233	150,833,996	135,103,306	150,330,585
Diluted	140,433,760	157,219,798	141,104,654	156,442,366
Basic earnings per common share:				
Income from continuing operations	$ 0.55	$ 0.49	$ 0.96	$ 0.83
Income (loss) from discontinued operations	(0.34)	0.05	(0.36)	0.12
Net income	$ 0.21	$ 0.54	$ 0.60	$ 0.95

Diluted earnings per common share:								
Income from continuing operations	$	0.53	$	0.47	$	0.92	$	0.80
Income (loss) from discontinued operations		(0.32)		0.05		(0.34)		0.11
Net income	$	0.21	$	0.52	$	0.58	$	0.91

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DEAN FOODS COMPANY
CONDENSED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
			(unaudited)			
Balance, December 31, 2005	134,209,190	$ 1,342	$ 922,791	$ 1,004,013	$ (25,933)	$ 1,902,213
Issuance of common stock	2,701,149	27	34,069			34,096
Share-based compensation expense			20,262			20,262
Purchase and retirement of treasury stock	(3,737,200)	(37)	(135,642)			(135,679)
Net income				81,660		81,660
Other comprehensive income (Note 8):						
Change in fair value of derivative instruments					16,834	16,834
Amounts reclassified to income statement related to hedging activities					(1,867)	(1,867)
Cumulative translation adjustment					11,198	11,198
Balance, June 30, 2006	133,173,139	$ 1,332	$ 841,480	$ 1,085,673	$ 232	$ 1,928,717

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30	
	2006	2005
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 81,660	$ 143,095
Loss (income) from discontinued operations	47,829	(18,377)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	111,875	105,719
Share-based compensation expense	20,262	21,214
Loss on disposition of assets	962	585
Write-down of impaired assets	1,888	697
Deferred income taxes	55,145	20,071
Other	676	(2,143)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	121,981	42,497
Inventories	(3,513)	(6,542)
Prepaid expenses and other assets	(6,870)	23,965
Accounts payable and accrued expenses	(142,302)	6,961
Income taxes payable	(25,021)	(4,782)
Net cash provided by continuing operations	264,572	332,960
Net cash provided by (used in) discontinued operations	(1,693)	28,452
Net cash provided by operating activities	262,879	361,412
Cash flows from investing activities:		
Additions to property, plant and equipment	(113,569)	(130,596)
Cash outflows for acquisitions and investments	(10,960)	(1,296)
Proceeds from sale of fixed assets	3,404	5,281
Net cash used in continuing operations	(121,125)	(126,611)
Net cash used in discontinued operations	(9,505)	(21,709)
Net cash used in investing activities	(130,630)	(148,320)
Cash flows from financing activities:		
Proceeds from issuance of debt	498,020	1,400
Repayment of debt	(524,058)	(288,281)
Payment of deferred financing costs	(6,561)	(3,281)
Issuance of common stock	10,052	38,873
Tax savings on share-based compensation	24,044	12,697
Redemption of common stock	(135,679)	

Net cash used in continuing operations		(134,182)		(238,592)
Net cash provided by discontinued operations		7,855		29,167
Net cash used in financing activities		(126,327)		(209,425)
Increase in cash and cash equivalents		5,922		3,667
Cash and cash equivalents, beginning of period		24,456		25,357
Cash and cash equivalents, end of period	$	30,378	$	29,024

See Notes to Condensed Consolidated Financial Statements.

DEAN FOODS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(unaudited)

1. General

Basis of Presentation The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to present fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Our results of operations for the period ended June 30, 2006 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2005 Consolidated Financial Statements contained in our Annual Report on Form 10-K (filed with the Securities and Exchange Commission on March 10, 2006).

Certain reclassifications have been made to conform the prior year s Condensed Consolidated Financial Statements to the current year s classifications. During the six months ended June 30, 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in our distribution process to distribution expense. The reclassification reduced cost of sales and increased distribution expense by $9.7 million and $18.8 million for the three and six months ended June 30, 2005, respectively. The reclassification had no impact on net income.

During the second quarter of 2006, we committed to a plan to sell our Iberian operations with the expectation that the sale of such operations will be completed within one year. Our Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2006 and 2005 have been reclassified to give effect to the Iberian operations as discontinued operations.

On June 27, 2005, we completed the spin-off (Spin-off) of our indirect majority-owned subsidiary TreeHouse Foods, Inc. (TreeHouse). Immediately prior to the Spin-off, we transferred to TreeHouse (1) all of the businesses previously conducted by our Specialty Foods Group segment, (2) the *Mocha Mix*® non-dairy coffee creamer and *Second Nature*® liquid egg substitute businesses previously conducted by WhiteWave Foods Company, and (3) the foodservice salad dressings businesses, previously conducted by the Dairy Group and WhiteWave Foods Company. In August 2005, we completed the sale of our *Marie s*® dips and dressings and *Dean s*® dips businesses to Ventura Foods. Our Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2005 have been reclassified to give effect to the businesses transferred to TreeHouse and the *Marie s* dips and dressings and *Dean s* dips businesses as discontinued operations.

Unless otherwise indicated, references in this report to we, us or our refer to Dean Foods Company and its subsidiaries, taken as a whole.

Shipping and Handling Fees Our shipping and handling costs are included in both cost of sales and selling and distribution expense, depending on the nature of such costs. Shipping and handling costs included in cost of sales reflect inventory warehouse costs, product loading and handling costs. Our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution warehouses within cost of sales while WhiteWave Foods Company includes these costs in selling and distribution expense. Shipping and handling costs included in selling and distribution expense consist primarily of route delivery costs for both company-owned delivery routes and independent distributor routes, to the extent that such independent distributors are paid a delivery fee, and the cost of shipping products to customers through third party carriers. Shipping and handling costs recorded as a

Table of Contents

component of selling and distribution expense were approximately $315.9 million and $295.5 million in the second quarter of 2006 and 2005, respectively, and $624.8 million and $589.4 million during the first six months of 2006 and 2005, respectively.

Recently Adopted Accounting Pronouncements Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment . Among its provisions, SFAS No. 123(R) requires the Company to recognize compensation expense for equity awards over the vesting period based on their grant-date fair value. Prior to the adoption of SFAS No. 123(R), we utilized the intrinsic-value based method of accounting under APB Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, and adopted the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation . Under the intrinsic-value based method of accounting, compensation expense for stock options granted to the Company s employees and directors was measured as the excess of the quoted market price of common stock at the grant date over the amount the recipient must pay for the stock. The Company s policy is to grant stock options at fair value on the date of grant and as a result no compensation expense was historically recognized for stock options. As our restricted stock units do not require the recipients to pay for the stock, we have historically recognized compensation expense for the fair value at the date of grant over the vesting period. The fair value for the restricted stock unit grants is equal to the closing price of our stock on the date immediately prior to the date of grant.

Compensation expense is recognized only for share-based payments expected to vest. We estimate forfeitures at the date of grant based on the Company s historical experience and future expectations. Prior to the adoption of SFAS No. 123(R), the effect of forfeitures on the pro forma expense was recognized based on estimated forfeitures.

In order to enhance comparability among all periods presented, we elected to adopt SFAS No. 123(R) using the modified retrospective approach. Under this transition method, the results for prior periods reflect the recognition of the compensation expense and related income tax benefit historically disclosed in our financial statements. As a result of adopting SFAS No. 123(R), our income before taxes, net income, basic earnings per share and diluted earnings per share were lower than if we had continued to account for share-based compensation under APB Opinion No. 25 as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands, except share data)			
Decrease in:				
Income before taxes	$ 6,023	$ 6,729	$ 11,047	$ 12,904
Net income	4,033	5,022	6,703	9,750
Basic EPS	$ 0.03	$ 0.03	$ 0.05	$ 0.06
Diluted EPS	0.03	0.03	0.05	0.06

For financial reporting purposes, share-based compensation expense is included within the same financial statement caption where the recipient s cash compensation is reported, and is classified as a corporate item for business segment reporting. See Note 6 for information regarding our share-based compensation programs.

Effective January 1, 2006, we adopted SFAS No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material, requiring that those items be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads be based on the normal capacity of the production facilities. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

Effective January 1, 2006, we adopted SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 eliminates the rule in APB No. 29 which excluded

from fair value measurement exchanges of similar productive assets. Instead, SFAS No. 153 excludes from fair value measurement exchanges of nonmonetary assets that do not have commercial substance. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

Recently Issued Accounting Pronouncements The Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes in June 2006. This interpretation clarifies the accounting for income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We are currently evaluating the impact of FIN No. 48 on our Consolidated Financial Statements. This interpretation will become effective for us in the first quarter of 2007.

2. Discontinued Operations

Iberian Operations During the second quarter of 2006, we committed to a plan to sell our Iberian operations. These operations manufacture, market and sell private label and branded milk in Spain and Portugal. The decision to sell such operations is part of our strategy to focus on our core dairy and branded businesses. As a result, we have revised all reportable periods to reclassify these operations as discontinued.

As required by SFAS No. 142, Goodwill and Other Intangible Assets , as we now believe it is more likely than not that the Iberian operations will be sold, we performed an interim test for goodwill impairment as of June 30, 2006 and concluded that the carrying value of the goodwill may not be recoverable. Accordingly, we recognized an estimated non-cash impairment charge of $46.4 million, net of an income tax benefit of $8.1 million representing our best estimate as of June 30, 2006 of the goodwill impairment required based on our expected proceeds upon sale of the Iberian operations.

Sale of Marie s Dips and Dressings and Dean s Dips On August 22, 2005, we completed the sale of tangible and intangible assets related to the production and distribution of *Marie s* dips and dressings and *Dean s* dips to Ventura Foods. We also agreed to license the Dean trademark to Ventura Foods for use on certain non-dairy dips. The sales price was approximately $194 million. The sale of these brands is part of our strategy to focus on our core dairy and branded businesses.

Spin-off of TreeHouse On January 25, 2005, we formed TreeHouse. At that time, TreeHouse sold shares of common stock to certain members of a newly retained management team, who purchased approximately 1.67% of the outstanding common stock of TreeHouse, for an aggregate purchase price of $10 million.

On June 27, 2005, we completed the Spin-off. Immediately prior to the Spin-off we transferred to TreeHouse (1) all of the businesses previously conducted by our Specialty Foods Group segment, (2) the *Mocha Mix* non-dairy coffee creamer and *Second Nature* liquid egg substitute businesses previously conducted by WhiteWave Foods Company, and (3) the foodservice salad dressings businesses previously conducted by the Dairy Group and WhiteWave Foods Company. The Spin-off was effected by means of a share dividend of the TreeHouse common stock held by us to our stockholders of record on June 20, 2005 (the Record Date). In the distribution, our stockholders received one share of TreeHouse common stock for every five shares of our common stock held by them on the Record Date.

Prior to the Spin-off, we entered into certain agreements with TreeHouse to define our ongoing relationship. These arrangements include agreements that define our respective responsibilities for taxes, employee matters and all other liabilities and obligations related to the transferred businesses. Following the Spin-off, we have no ownership interest in TreeHouse. We transferred the obligation for pension and other postretirement benefit plans of transferred employees and retirees to TreeHouse. In 2005, we transferred a portion of the related plan assets. In 2006, we transferred the remaining plan assets related to such obligations.

Our financial statements have been reclassified to give effect to the businesses transferred to TreeHouse and the Iberian operations, *Marie* s dips and dressings and *Dean* s dips businesses as discontinued operations.

Net sales and income before taxes generated by discontinued operations were as follows:

	Three Months Ended June 30(1)		Six Months Ended June 30(1)	
	2006	2005	2006	2005
	(In thousands)			
Net sales	$ 80,276	$ 291,734	$ 163,202	$ 560,391
Income (loss) before taxes(2)	(54,696)	15,437	(58,402)	32,549

(1) All intercompany sales and expenses have been appropriately eliminated in the table.

(2) Interest expense of $1.7 million and $3.4 million in the three and six month periods ended June 30, 2006, respectively, was allocated to our Iberian discontinued operations based on the net assets of our discontinued operations relative to our total net assets. Interest expense of $2.8 million and $5.4 million in the three and six month periods ended June 30, 2005, respectively, was allocated to our Iberian operations and *Marie* s dips and dressings and *Dean* s dips discontinued operations based on the net assets of our discontinued operations relative to our total net assets.

Major classes of assets and liabilities of our Iberian operations included in Assets and Liabilities of Discontinued Operations were as follows:

	June 30, 2006	December 31, 2005
	(In thousands)	
Current assets	$ 75,895	$ 75,774
Non-current assets	190,632	225,953
Current liabilities(1)	114,967	111,397
Non-current liabilities(1)	9,563	14,632

(1) Liabilities at June 30, 2006 and December 31, 2005 include $61.0 million and $50.0 million, respectively, of long-term debt obligations including current portion.

3. Inventories

	June 30, 2006	December 31, 2005
	(In thousands)	
Raw materials and supplies	$ 156,758	$ 151,442
Finished goods	201,485	203,562
Total	$ 358,243	$ 355,004

Table of Contents

4. Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2006 are as follows:

	Dairy Group	WhiteWave Foods Company	Total
		(In thousands)	
Balance at December 31, 2005	$ 2,400,843	$ 522,097	$ 2,922,940
Acquisitions	9,727		9,727
Purchase accounting adjustments	(114)	(99)	(213)
Balance at June 30, 2006	$ 2,410,456	$ 521,998	$ 2,932,454

The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of June 30, 2006 and December 31, 2005 are as follows:

	June 30, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(In thousands)			
Intangible assets with indefinite lives:						
Trademarks	$ 511,791	$ (5,877)	$ 505,914	$ 511,662	$ (5,877)	$ 505,785
Intangible assets with finite lives:						
Customer-related	87,575	(24,589)	62,986	86,525	(21,358)	65,167
Total	$ 599,366	$ (30,466)	$ 568,900	$ 598,187	$ (27,235)	$ 570,952

Amortization expense on intangible assets for both the three months ended June 30, 2006 and 2005 was $1.8 million. Amortization expense on intangible assets for the six months ended June 30, 2006 and 2005 was $3.7 million and $3.6 million, respectively.

Estimated aggregate intangible asset amortization expense for the next five years is as follows:

2006	$ 7.4 million
2007	7.3 million
2008	7.1 million
2009	6.9 million
2010	6.7 million

Table of Contents

5. Long-Term Debt

	June 30, 2006		December 31, 2005	
	Amount Outstanding	Interest Rate	Amount Outstanding	Interest Rate
	(In thousands)			
Dean Foods debt obligations:				
Senior credit facility	$ 1,799,300	6.16%	$ 2,258,600	5.16%
Senior notes	498,043	7.00		
	2,297,343		2,258,600	
Subsidiary debt obligations:				
Senior notes	570,210	6.625-8.15	568,493	6.625-8.15
Receivables-backed facility	493,200	5.50	548,400	4.60
Capital lease obligations and other	15,436		11,355	
	1,078,846		1,128,248	
	3,376,189		3,386,848	
Less current portion	(182,150)		(65,326)	
Total	$ 3,194,039		$ 3,321,522	

Senior Credit Facility Our senior credit facility provides for a $1.5 billion revolving credit facility and a $1.5 billion term loan. At June 30, 2006, there were outstanding term loan borrowings of $1.5 billion under the senior credit facility, and $299.3 million outstanding under the revolving credit facility. Letters of credit in the aggregate amount of $128.2 million were issued but undrawn. At June 30, 2006, approximately $1.07 billion was available for future borrowings under the revolving credit facility, subject to satisfaction of certain ordinary course conditions contained in the credit agreement.

Both the revolving credit facility and term loan bear interest, at our election, at the base rate plus a margin that varies from zero to 25 basis points depending on our credit ratings (as issued by Standard & Poor s and Moody s), or LIBOR plus a margin that varies from 50 to 150 basis points, depending on our credit ratings (as issued by Standard & Poor s and Moody s). The blended interest rate in effect on borrowings under the senior credit facility, including the applicable interest rate margin, was 6.16% at June 30, 2006. However, we had interest rate swap agreements in place that hedged $1.625 billion of our borrowings under the senior credit facility at an average rate of 4.5%, plus the applicable interest rate margin. Interest is payable quarterly or at the end of the applicable interest period.

Principal payments are required on the term loan as follows:

$56.3 million quarterly beginning on December 31, 2006 through September 30, 2008;

$262.5 million quarterly beginning on December 31, 2008 through June 30, 2009; and

A final payment of $262.5 million on the maturity date of August 13, 2009.

No principal payments are due on the $1.5 billion revolving credit facility until maturity on August 13, 2009.

The credit agreement also requires mandatory principal prepayments upon the occurrence of certain asset dispositions or recovery events.

In consideration for the revolving commitment, we pay a quarterly commitment fee on unused amounts of the revolving credit facility that ranges from 12.5 to 30 basis points, depending on our credit ratings (as issued by Standard & Poor s and Moody s).

The senior credit facility contains various financial and other restrictive covenants and requires that we maintain certain financial ratios, including a maximum leverage and minimum interest coverage ratio. We are currently in compliance with all covenants contained in our credit agreement.

Table of Contents

Our credit agreement permits us to complete acquisitions that meet the following conditions without obtaining prior approval: (1) the acquired company is involved in the manufacture, processing and distribution of food or packaging products or any other line of business in which we are currently engaged, (2) the net cash purchase price is not greater than $500 million, (3) we acquire at least 51% of the acquired entity, (4) the transaction is approved by the Board of Directors or shareholders, as appropriate, of the target and (5) after giving effect to such acquisition on a pro-forma basis, we are in compliance with all financial covenants. All other acquisitions must be approved in advance by the required lenders.

The senior credit facility also contains limitations on liens, investments and the incurrence of additional indebtedness, and prohibits certain dispositions of property and restricts certain payments, including dividends. The senior credit facility is secured by liens on substantially all of our domestic assets including the assets of our subsidiaries, but excluding the capital stock of the former Dean Foods Company s (Legacy Dean s) subsidiaries, and the real property owned by Legacy Dean and its subsidiaries.

The credit agreement contains standard default triggers, including without limitation: failure to maintain compliance with the financial and other covenants contained in the credit agreement, default on certain of our other debt, a change in control and certain other material adverse changes in our business. The credit agreement does not contain any default triggers based on our credit rating.

Dean Foods Senior Notes On May 17, 2006, we issued $500 million aggregate principal amount of 7.0% senior unsecured notes. The senior unsecured notes mature on June 1, 2016 and interest is payable on June 1 and December 1 of each year, beginning December 1, 2006. The outstanding balance at June 30, 2006 was $498.0 million.

The indenture under which we issued the senior unsecured notes does not contain financial covenants but does contain covenants that, among other things, limit our ability to incur secured indebtedness, enter into sale-leaseback transactions and engage in mergers, consolidations and sales of all or substantially all of our assets.

The notes are senior unsecured obligations and are effectively subordinated to the indebtedness outstanding under our senior credit facility and any other secured debt we may incur. The notes are fully and unconditionally guaranteed by the subsidiaries that are guarantors under our senior credit facility, which are substantially all of our wholly owned U.S. subsidiaries other than our receivables securitization subsidiaries.

We may, at our option, redeem some or all of the notes at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the notes being redeemed; and

- The sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (excluding interest accrued to the redemption date) from the redemption date to the maturity date discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury rate plus 50 basis points,

plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the redemption date.

If we experience a change in control, we may be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

We used all of the net proceeds from the sale of the notes to reduce a corresponding amount of borrowings under our senior credit facility.

Table of Contents

Subsidiary Senior Notes Legacy Dean had certain senior notes outstanding at the time of the acquisition, which remain outstanding. The notes carry the following interest rates and maturities:

$250.1 million ($250 million face value), at 8.15% interest, maturing in 2007;

$191.5 million ($200 million face value), at 6.625% interest, maturing in 2009; and

$128.6 million ($150 million face value), at 6.9% interest, maturing in 2017.

The related indentures do not contain financial covenants but they do contain certain restrictions, including a prohibition against Legacy Dean and its subsidiaries granting liens on certain of their real property interests and a prohibition against Legacy Dean granting liens on the stock of its subsidiaries.

Receivables-Backed Facility We entered into a $600 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to three wholly-owned special purpose entities intended to be bankruptcy-remote. The special purpose entities then transfer the receivables to third party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these three special purpose entities are fully reflected on our Condensed Consolidated Balance Sheet, and the securitization is treated as a borrowing for accounting purposes. During the first six months of 2006, we made net payments of $55.2 million on this facility leaving an outstanding balance of $493.2 million at June 30, 2006. The receivables-backed facility bears interest at a variable rate based on the commercial paper yield as defined in the agreement. The average interest rate on this facility was 5.50% at June 30, 2006. Our ability to re-borrow under this facility is subject to a borrowing base formula. The receivables-backed facility was fully funded at June 30, 2006.

Capital Lease Obligations and Other Capital lease obligations and other subsidiary debt includes various promissory notes for the purchase of property, plant and equipment and capital lease obligations. The various promissory notes payable provide for interest at varying rates and are payable in monthly installments of principal and interest until maturity, when the remaining principal balances are due. Capital lease obligations represent machinery and equipment financing obligations, which are payable in monthly installments of principal and interest and are collateralized by the related assets financed.

Interest Rate Agreements We have interest rate swap agreements in place that have been designated as cash flow hedges against variable interest rate exposure on a portion of our debt, with the objective of minimizing our interest rate risk and stabilizing cash flows. These swap agreements provide hedges for loans under our senior credit facility by limiting or fixing the LIBOR interest rates specified in the senior credit facility at the interest rates noted below until the indicated expiration dates of these interest rate swap agreements.

The following table summarizes our various interest rate agreements in effect at both June 30, 2006 and December 31, 2005:

Fixed Interest Rates	Expiration Date	Notional Amounts
		(In millions)
3.65% to 6.78%	December 2006	$ 625
4.81% to 4.84%	December 2007	500
4.07% to 4.27%	December 2010	500

These swaps are required to be recorded as an asset or liability on our Condensed Consolidated Balance Sheet at fair value, with an offset to other comprehensive income to the extent the hedge is effective. Derivative gains and losses included in other comprehensive income are reclassified into earnings as the underlying transaction occurs. Any ineffectiveness in our hedges is recorded as an adjustment to interest expense.

Table of Contents

As of June 30, 2006 and December 31, 2005, our derivative asset and liability balances were:

	June 30, 2006	December 31, 2005
	(In thousands)	
Current derivative asset	$ 13,859	$ 5,877
Long-term derivative asset	21,304	10,028
Total derivative asset	$ 35,163	$ 15,905
Current derivative liability	$ (459)	$ (1,926)
Long-term derivative liability		(400)
Total derivative liability	$ (459)	$ (2,326)

There was no hedge ineffectiveness for the three and six months ended June 30, 2006, respectively. Approximately $1.8 million and $1.9 million of interest income (net of taxes) were reclassified to interest expense from other comprehensive income during the three and six months ended June 30, 2006, respectively. We estimate that approximately $8.1 million of net derivative income (net of taxes) included in other comprehensive income will be reclassified into earnings within the next 12 months. These gains will partially offset the higher interest payments recorded on our variable rate debt.

We are exposed to market risk under these arrangements due to the possibility of interest rates on the credit facilities falling below the rates on our interest rate swap agreements. Credit risk under these arrangements is remote because the counterparties to our interest rate swap agreements are major financial institutions.

Guarantor Information On May 17, 2006 we issued $500 million aggregate principal amount of 7.0% senior notes. The senior notes are unsecured obligations and are fully and unconditionally guaranteed by substantially all of our wholly-owned U.S. subsidiaries other than our receivables securitization subsidiaries.

Table of Contents

The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Dean Foods (Parent), the subsidiary guarantors of the senior notes and separately the combined results of the subsidiaries that are not a party to the guarantees. The non-guarantor subsidiaries reflect our foreign subsidiary operations in addition to our three receivables securitization subsidiaries. We do not allocate interest expense from the receivables-backed facility to the three receivables securitization subsidiaries. Therefore, the interest costs related to this facility are reflected within the guarantor financial information presented.

Condensed Consolidating Balance Sheet as of June 30, 2006

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 128	$ 25,149	$ 5,101	$	$ 30,378
Receivables, net	17	48,830	650,765		699,612
Intercompany receivables	172,339	2,229,459	389,193	(2,790,991)	
Other current assets	91,949	462,607	20		554,576
Total current assets	264,433	2,766,045	1,045,079	(2,790,991)	1,284,566
Property, plant and equipment, net	1,616	1,761,018	17,716		1,780,350
Goodwill		2,932,363	91		2,932,454
Identifiable intangible and other assets	72,242	596,024	4		668,270
Investment in subsidiaries	6,349,198			(6,349,198)	
Assets of discontinued operations			266,527		266,527
Total	$ 6,687,489	$ 8,055,450	$ 1,329,417	$ (9,140,189)	$ 6,932,167
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued expenses	$ 39,567	$ 737,874	$ 281	$	$ 777,722
Income taxes payable	233,781	(224,534)	123		9,370
Intercompany notes	1,739,793	561,295	489,903	(2,790,991)	
Current portion of long-term debt	168,750	13,400			182,150
Total current liabilities	2,181,891	1,088,035	490,307	(2,790,991)	969,242
Long-term debt	2,128,593	572,246	493,200		3,194,039
Other long-term liabilities	448,288	267,351			715,639
Liabilities of discontinued operations			124,530		124,530
Total stockholders equity	1,928,717	6,127,818	221,380	(6,349,198)	1,928,717
Total	$ 6,687,489	$ 8,055,450	$ 1,329,417	$ (9,140,189)	$ 6,932,167

Table of Contents

Condensed Consolidating Balance Sheet as of December 31, 2005

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 249	$ 18,677	$ 5,530	$	$ 24,456
Receivables, net	21	41,962	776,448		818,431
Intercompany receivables	285,354	2,217,898	373,488	(2,876,740)	
Other current assets	106,684	451,378	244		558,306
Total current assets	392,308	2,729,915	1,155,710	(2,876,740)	1,401,193
Property, plant and equipment, net	613	1,761,208	14,980		1,776,801
Goodwill		2,922,849	91		2,922,940
Identifiable intangible and other assets	54,468	593,746	9		648,223
Investment in subsidiaries	6,101,994			(6,101,994)	
Assets of discontinued operations			301,727		301,727
Total	$ 6,549,383	$ 8,007,718	$ 1,472,517	$ (8,978,734)	$ 7,050,884
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued expenses	$ 55,354	$ 870,336	$ 377	$	$ 926,067
Income taxes payable	233,928	(199,518)	131		34,541
Intercompany notes	1,674,132	658,512	544,096	(2,876,740)	
Current portion of long-term debt	56,250	4,465	4,611		65,326
Total current liabilities	2,019,664	1,333,795	549,215	(2,876,740)	1,025,934
Long-term debt	2,202,350	570,772	548,400		3,321,522
Other long-term liabilities	425,156	250,030			675,186
Liabilities of discontinued operations			126,029		126,029
Total stockholders equity	1,902,213	5,853,121	248,873	(6,101,994)	1,902,213
Total	$ 6,549,383	$ 8,007,718	$ 1,472,517	$ (8,978,734)	$ 7,050,884

Table of Contents

Condensed Consolidating Statements of Income
for the Three Months Ended June 30, 2006

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 2,476,277	$ 1,607	$	$ 2,477,884
Cost of sales		1,793,278	1,277		1,794,555
Gross profit		682,999	330		683,329
Selling and distribution		408,697	146		408,843
Other operating expense	802	102,164	231		103,197
Interest (income) expense	30,736	18,694	(662)		48,768
Other (income) expense, net		(479)	393		(86)
Income from subsidiaries	(154,145)			154,145	
Income (loss) from continuing operations before income taxes	122,607	153,923	222	(154,145)	122,607
Income taxes	47,812	59,509	73	(59,582)	47,812
Income (loss) from continuing operations	74,795	94,414	149	(94,563)	74,795
Loss from discontinued operations, net of tax		(226)	(45,701)		(45,927)
Net income (loss)	$ 74,795	$ 94,188	$ (45,552)	$ (94,563)	$ 28,868

Condensed Consolidating Statements of Income
for the Three Months Ended June 30, 2005

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 2,513,506	$ 1,624	$	$ 2,515,130
Cost of sales		1,866,592	1,303		1,867,895
Gross profit		646,914	321		647,235
Selling and distribution		386,239	144		386,383
Other operating expense	(75)	100,828	366		101,119
Interest expense	18,247	20,262	116		38,625
Other (income) expense, net		(413)	208		(205)
Income from subsidiaries	(139,485)			139,485	

Income (loss) from continuing operations before income taxes	121,313	139,998	(513)	(139,485)	121,313
Income taxes	47,287	54,070	(192)	(53,878)	47,287
Income (loss) from continuing operations	74,026	85,928	(321)	(85,607)	74,026
Income (loss) from discontinued operations, net of tax	(670)	7,815	455		7,600
Net income (loss)	$ 73,356	$ 93,743	$ 134	$ (85,607)	$ 81,626

Condensed Consolidating Statements of Income
for the Six Months Ended June 30, 2006

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 4,983,883	$ 3,042	$	$ 4,986,925
Cost of sales		3,650,246	2,382		3,652,628
Gross profit		1,333,637	660		1,334,297
Selling and distribution		813,301	309		813,610
Other operating expense	2,379	208,458	464		211,301
Interest (income) expense	59,663	37,377	(736)		96,304
Other (income) expense, net	(10)	(714)	738		14
Income from subsidiaries	(275,100)			275,100	
Income (loss) from continuing operations before income taxes	213,068	275,215	(115)	(275,100)	213,068
Income taxes	83,579	106,498	(60)	(106,438)	83,579
Income (loss) from continuing operations	129,489	168,717	(55)	(168,662)	129,489
Loss from discontinued operations, net of tax		(226)	(47,603)		(47,829)
Net income (loss)	$ 129,489	$ 168,491	$ (47,658)	$ (168,662)	$ 81,660

Condensed Consolidating Statements of Income
for the Six Months Ended June 30, 2005

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 4,986,904	$ 2,797	$	$ 4,989,701
Cost of sales		3,729,041	2,202		3,731,243
Gross profit		1,257,863	595		1,258,458
Selling and distribution		774,047	266		774,313
Other operating expense	58	200,574	287		200,919
Interest expense	36,804	39,937	1,103		77,844
Other (income) expense, net		(488)	206		(282)
Income from subsidiaries	(242,526)			242,526	

Income (loss) from continuing operations before income taxes	205,664	243,793	(1,267)	(242,526)	205,664
Income taxes	80,946	94,791	(476)	(94,315)	80,946
Income (loss) from continuing operations	124,718	149,002	(791)	(148,211)	124,718
Income (loss) from discontinued operations, net of tax	(670)	18,151	896		18,377
Net income (loss)	$ 124,048	$ 167,153	$ 105	$ (148,211)	$ 143,095

-19-

Table of Contents

Condensed Consolidating Statements of Cash Flows
for the Six Months Ended June 30, 2006

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
		(In thousands)		
Net cash provided by (used in) operating activities	$ (120,373)	$ 259,517	$ 123,735	$ 262,879
Additions to property, plant and equipment	(1,069)	(109,167)	(3,333)	(113,569)
Cash outflows for acquisitions and investments	(10,960)			(10,960)
Proceeds from sale of fixed assets		3,404		3,404
Other			(9,505)	(9,505)
Net cash used in investing activities	(12,029)	(105,763)	(12,838)	(130,630)
Proceeds from issuance of debt	498,020			498,020
Repayment of debt	(459,300)	(4,947)	(59,811)	(524,058)
Payment of deferred financing costs	(6,561)			(6,561)
Issuance of common stock, net of expenses	10,052			10,052
Tax savings on share-based compensation	24,044			24,044
Redemption of common stock	(135,679)			(135,679)
Other			7,855	7,855
Net cash used in financing activities	(69,424)	(4,947)	(51,956)	(126,327)
Net change in intercompany balances	201,705	(142,335)	(59,370)	
Increase (decrease) in cash and cash equivalents	(121)	6,472	(429)	5,922
Cash and cash equivalents, beginning of period	249	18,677	5,530	24,456
Cash and cash equivalents, end of period	$ 128	$ 25,149	$ 5,101	$ 30,378

Condensed Consolidating Statements of Cash Flows
for the Six Months Ended June 30, 2005

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
		(In thousands)		
Net cash provided by (used in) operating activities	$ (34,934)	$ 363,635	$ 32,711	$ 361,412
Additions to property, plant and equipment	(299)	(129,775)	(522)	(130,596)
Cash outflows for acquisitions and investments	(1,296)			(1,296)
Proceeds from sale of fixed assets		3,081	2,200	5,281
Other		(7,816)	(13,893)	(21,709)
Net cash used in investing activities	(1,595)	(134,510)	(12,215)	(148,320)
Proceeds from issuance of debt			1,400	1,400
Repayment of debt	(178,750)	(106,863)	(2,668)	(288,281)
Payment of deferred financing costs	(3,281)			(3,281)
Issuance of common stock, net of expenses	38,873			38,873
Tax savings on share-based compensation	12,697			12,697
Other		11,360	17,807	29,167
Net cash provided by (used in) financing activities	(130,461)	(95,503)	16,539	(209,425)
Net change in intercompany balances	172,514	(137,339)	(35,175)	
Increase (decrease) in cash and cash equivalents	5,524	(3,717)	1,860	3,667
Cash and cash equivalents, beginning of period	174	24,326	857	25,357
Cash and cash equivalents, end of period	$ 5,698	$ 20,609	$ 2,717	$ 29,024

6. Common Stock and Share-Based Compensation

Under our share-based long-term incentive compensation plans (including inducement grants to newly-hired employees) we grant stock options and restricted stock units to certain employees and directors. Non-employee directors also can elect to receive their compensation in the form of restricted stock in lieu of cash.

Stock Options Under the terms of our stock option plans, employees and non-employee directors may be granted options to purchase our stock at a price equal to the market price on the date the option is granted. Employee options vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date and one-third on the third anniversary of the grant date. All unvested options vest immediately upon a change of control. Each non-employee director receives an immediately vested option to purchase 7,500 shares of common stock on June 30 of each year.

We recognize share-based compensation expense for stock options ratably over the vesting period. The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model, using the following assumptions:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005

Expected volatility	25%	25%
Expected dividend yield	0%	0%
Expected option term	4.5 years	4.5 years
Risk-free rate of return	4.28 to 5.10%	3.63 to 4.26%

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to contractual terms (generally 10 years), vesting schedules and expectations of future employee and director behavior. Expected stock price volatility is based on a combination of historical volatility of the Company s stock and expectations with regard to future volatility. The risk-free rates are based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. Historically, we have not paid dividends and have no current intent to change such practice.

The following table summarizes stock option activity during the first six months of 2006:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Options outstanding at December 31, 2005	17,859,283	$ 18.87		
Options granted during the first six months	2,605,305	37.69		
Options canceled or forfeited during the first six months(1)	(609,616)	15.04		
Options exercised during the first six months	(3,114,454)	14.46		
Options outstanding at June 30, 2006	16,740,518	22.76	6.54	$ 243,107,090
Options exercisable at June 30, 2006	11,863,116	18.48	5.55	$ 222,005,804

(1) Pursuant to the terms of our stock option plans, options that are canceled or forfeited become available for future grants.

The weighted-average grant date fair value of options granted during the six months ended June 30, 2006 and 2005 was $10.97 per share and $7.71 per share, respectively, and the total intrinsic value of options exercised during the same periods was $73.2 million and $35.1 million, respectively. The fair value of shares vested during the six months ended June 30, 2006 and 2005 was $22.8 million and $40.4 million, respectively.

During the three months ended June 30, 2006 and 2005, we recognized stock option expense of $6.0 million and $6.7 million, respectively, and an income tax benefit related to stock option expense of $2.0 million and $1.7 million, respectively. During the first six months of 2006 and 2005, we recognized stock option expense of $11.0 million and $12.9 million, respectively, and an income tax benefit related to the stock option expense of $4.3 million and $3.2 million, respectively.

During the first six months of 2006, cash received from stock option exercises was $27.7 million and the total tax benefit for tax deductions to be realized for these option exercises was $31.7 million. In addition, we received 610,757 shares of common stock in lieu of cash for stock option exercises.

At June 30, 2006, there was $34.3 million of total unrecognized stock option expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining period of 1.2 years.

Stock Units We issue restricted stock units to certain senior employees and non-employee directors as part of our long-term incentive program. A stock unit represents the right to receive one share of common stock in the future. Stock units have no exercise price. Each employee s stock unit grant typically vests ratably over five years, subject to certain accelerated vesting provisions based primarily on our stock price. Stock units granted to non-employee directors vest ratably over three years. All unvested stock units

-22-

Table of Contents

vest immediately upon a change of control. The following table summarizes stock unit activity during the first six months of 2006:

	Employees	Directors	Total
Stock units outstanding at December 31, 2005	825,248	67,774	893,022
Stock units issued during the first six months	443,750	25,500	469,250
Shares issued during first six months upon vesting of stock units	(117,801)	(21,048)	(138,849)
Stock units cancelled or forfeited during the first six months(1)	(94,487)		(94,487)
Stock units outstanding at June 30, 2006	1,056,710	72,226	1,128,936
Weighted average grant date fair value	$ 31.69	$ 35.47	$ 31.87

(1) Pursuant to the terms of our stock unit plans, stock units that are canceled or forfeited become available for future grants.

During the three months ended June 30, 2006 and 2005, we recognized stock unit expense of $4.9 million and $6.0 million, respectively, and an income tax benefit related to stock unit expense of $1.8 million and $1.2 million, respectively. Our expense for the three months ended June 30, 2006 and 2005 included $2.6 million and $3.9 million, respectively, related to the accelerated vesting of certain stock units. During the first six months of 2006 and 2005, we recognized stock unit expense of $9.2 million and $8.3 million, respectively, and an income tax benefit related to the stock unit expense of $3.2 million and $2.1 million, respectively. Our expense for the six months ended June 30, 2006 and 2005 included $4.7 million and $3.9 million, respectively, related to the accelerated vesting of certain stock units.

The weighted-average grant date fair value of stock units granted during the six months ended June 30, 2006 and 2005 was $37.49 per share and $27.79 per share, respectively. At June 30, 2006, there was $26.3 million of total unrecognized stock unit expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 3.9 years.

Restricted Stock We offer our non-employee directors the option to receive their compensation for services rendered in either cash or shares of restricted stock. Shares of restricted stock vest one-third on grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The following table summarizes restricted stock activity during the first six months of 2006:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2005	29,516	$35.27
Restricted shares granted during the first six months	14,805	38.02
Restricted shares vested during the first six months	(16,840)	35.70
Nonvested at June 30, 2006	27,481	36.49

Stock Repurchases During the first six months of 2006, we incurred approximately $135.7 million, including commissions and fees, to repurchase 3,737,200 shares of our common stock for an average price of $36.31 per share. The repurchases were funded using borrowings under our senior credit facility and cash flow from operations.

Table of Contents

7. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents outstanding during each period. The following table reconciles the numerators and denominators used in the computations of both basic and diluted earnings per share (EPS):

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands, except share data)			
Basic EPS computation:				
Numerator:				
Income from continuing operations	$ 74,795	$ 74,026	$ 129,489	$ 124,718
Denominator:				
Average common shares	135,037,233	150,833,996	135,103,306	150,330,585
Basic EPS from continuing operations	$ 0.55	$ 0.49	$ 0.96	$ 0.83
Diluted EPS computation:				
Numerator:				
Income from continuing operations	$ 74,795	$ 74,026	$ 129,489	$ 124,718
Denominator:				
Average common shares basic	135,037,233	150,833,996	135,103,306	150,330,585
Stock option conversion	5,126,554	5,216,310	5,630,865	4,954,320
Stock units	269,973	1,169,492	370,483	1,157,461
Average common shares diluted	140,433,760	157,219,798	141,104,654	156,442,366
Diluted EPS from continuing operations	$ 0.53	$ 0.47	$ 0.92	$ 0.80

8. Comprehensive Income (Loss)

The components of comprehensive income (loss) are summarized below.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands)			
Net income	$ 28,868	$ 81,626	$ 81,660	$ 143,095
Other comprehensive income (loss):				
Cumulative translation adjustment	7,724	(12,955)	11,198	(23,918)
Change in fair value of derivative instruments, net of tax	7,815	(1,276)	16,834	1,814
Amounts reclassified to income statement related to hedging activities, net of tax	(1,808)	2,382	(1,867)	5,409

Minimum pension liability adjustment, net of tax		(686)		(1,792)
	13,731	(12,535)	26,165	(18,487)
Comprehensive income	$ 42,599	$ 69,091	$ 107,825	$ 124,608

Table of Contents

9. Employee Retirement and Postretirement Benefits

Defined Benefit Plans The benefits under our defined benefit plans are based on years of service and employee compensation.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands)			
Components of net period cost:				
Service cost	$ 576	$ 727	$ 1,265	$ 1,454
Interest cost	4,452	4,251	8,285	8,502
Expected return on plan assets	(4,048)	(3,925)	(7,891)	(7,850)
Amortizations:				
Unrecognized transition obligation	27	27	55	54
Prior service cost	269	157	425	314
Unrecognized net loss	791	753	1,722	1,506
Effect of settlement	(409)	887	175	1,774
Net periodic benefit cost	$ 1,658	$ 2,877	$ 4,036	$ 5,754

We expect to contribute $25.8 million to the pension plans during 2006.

Postretirement Benefits Certain of our subsidiaries provide healthcare benefits to certain retirees who are covered under specific group contracts.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands)			
Components of net period cost:				
Service cost	$ 230	$ 251	$ 531	$ 502
Interest cost	417	277	750	554
Amortizations:				
Prior service cost	(16)	(18)	(34)	(35)
Unrecognized net loss	380	71	479	142
Net periodic benefit cost	$ 1,011	$ 581	$ 1,726	$ 1,163

We expect to contribute $2.6 million to the postretirement health plans during 2006.

10. Facility Closing And Reorganization Costs

Facility Closing and Reorganization Costs We recorded net facility closing and reorganization costs of $3.0 million and $2.4 million during the three months ended June 30, 2006 and 2005, respectively, and $7.4 million and $8.8 million during the six months ended June 30, 2006 and 2005, respectively.

The charges recorded during 2006 are primarily related to the closing of a Dairy Group plant in Union, New Jersey and the reorganization of WhiteWave Foods Company.

We expect to incur additional charges related to these restructuring plans of approximately $4.6 million, including approximately $100,000 in work force reduction costs and approximately $4.5 million in shutdown and other costs. Substantially all of these additional charges are expected to be incurred by December 2006.

The principal components of our continued reorganization and cost reduction efforts include the following:

Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions;

Shutdown costs, including those costs necessary to prepare abandoned facilities for closure;

Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes;

Costs associated with the reorganization of WhiteWave Foods Company supply chain and distribution activities, including termination of certain contractual agreements; and

Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities at June 30, 2006 was approximately $14.0 million. We are marketing these properties for sale.

We consider several factors when evaluating a potential facility closure, including, among other things, the impact of such a closure on our customers, the impact on production, distribution and overhead costs, the investment required to complete any such closure, and the impact on future investment decisions. Some facility closures are pursued to improve our operating cost structure, while others enable us to avoid unnecessary capital expenditures, allowing us to more prudently invest our capital expenditure dollars in our production facilities and better serve our customers.

Activity for the first six months of 2006 is summarized below:

	Accrued Charges at December 31, 2005	Charges (Reversals)	Payments	Accrued Charges at June 30, 2006
		(In thousands)		
Cash charges:				
Workforce reduction costs	$ 8,302	$ 945	$ (4,957)	$ 4,290
Shutdown costs	209	3,540	(3,724)	25
Lease obligations after shutdown	2,072	(30)	(946)	1,096
Settlement of contracts	724	45	(769)	
Other	470	964	(1,215)	219
Subtotal	$ 11,777	5,464	$ (11,611)	$ 5,630
Noncash charges:				
Write-down of assets		1,888		
Total charges		$ 7,352		

Acquired Facility Closing and Other Exit Costs As part of our purchase price allocations, we accrue costs from time to time pursuant to plans to exit certain facilities and activities of acquired businesses in order to rationalize production and reduce costs and inefficiencies. During 2004, we accrued costs to close two Dairy Group facilities acquired in 2003 and the Horizon Organic Farm and Education Center acquired in 2004, as well as to exit certain acquired contractual obligations.

The principal components of the plans include the following:

- Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions and offices;

Shutdown costs, including those costs necessary to clean and prepare abandoned facilities for closure; and

Costs incurred after shutdown, such as lease or termination costs, utilities and property taxes after shutdown of the facility, as well as, costs to exit certain contractual obligations.

Activity with respect to these acquisition liabilities during the first six months of 2006 is summarized below:

	Accrued Charges at December 31, 2005	Payments	Accrued Charges at June 30, 2006
		(In thousands)	
Workforce reduction costs	$ 366	$ (155)	$ 211
Shutdown and exit costs	40,479	(38,816)	1,663
Total	$ 40,845	$ (38,971)	$ 1,874

11. Commitments and Contingencies

Contingent Obligations Related to Divested Operations We have divested several businesses in recent years. In each case, we have retained certain known contingent obligations related to those businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities, including environmental liabilities. We believe we have established adequate reserves for any potential liability related to our divested businesses. Moreover, we do not expect any liability that we may have for these retained liabilities, or any indemnification liability, to be material.

Contingent Obligations Related to Milk Supply Arrangements On December 21, 2001, in connection with our acquisition of the former Dean Foods Company, we purchased Dairy Farmers of America s (DFA) 33.8% interest in our Dairy Group. In connection with that transaction, we entered into two agreements with DFA designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our facilities, or be paid for the loss of that business. One such agreement is a promissory note with a 20-year term that bears interest based on the consumer price index. Interest will not be paid in cash but will be added to the principal amount of the note annually, up to a maximum principal amount of $96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire in 2021, without any obligation to pay any portion of the principal or interest. Payments made under the note, if any, would be expensed as incurred. The other agreement would require us to pay damages to DFA if we fail to offer DFA the right to supply milk to certain facilities that we acquired as part of the former Dean Foods after the pre-existing agreements with certain other suppliers or producers expire.

Insurance We retain selected levels of property and casualty risks, primarily related to employee health care, workers compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third party carriers with high deductible limits. In other areas, we are self-insured with stop-loss coverages. These deductibles range from $350,000 for medical claims to $2.0 million for casualty claims. We believe we have established adequate reserves to cover these claims.

During 2005, we experienced operational disruptions in our Dairy Group segment caused by Hurricanes Katrina and Rita. Our insurance policies cover a portion of our business interruption losses for 12 months following the restoration of our property. During the first quarter of 2006, we received approximately $3.1 million in settlement of a portion of our business interruption claim for the period of August 29, 2005 through December 31, 2005. The insurance proceeds are recorded within cost of sales. We will continue to submit additional business interruption claims during 2006, and we will recognize these amounts upon settlement of the claims.

Table of Contents

Leases and Purchase Obligations We lease certain property, plant and equipment used in our operations under both capital and operating lease agreements. Such leases, which are primarily for machinery, equipment and vehicles, have lease terms ranging from one to 20 years. Certain of the operating lease agreements require the payment of additional rentals for maintenance, along with additional rentals based on miles driven or units produced. Certain leases require us to guarantee a minimum value of the leased asset at the end of the lease. Our maximum exposure under those guarantees is not a material amount.

We have entered into various contracts obligating us to purchase minimum quantities of raw materials used in our production processes, including organic soybeans and organic raw milk. We enter into these contracts from time to time to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.

Litigation, Investigations and Audits We are party from time to time to certain claims, litigation, audits and investigations. We believe that we have established adequate reserves to satisfy any probable liability we may have under all such claims, litigations, audits and investigations that are currently pending. In our opinion, the settlement of any such currently pending or threatened matter is not expected to have a material adverse impact on our financial position, results of operations or cash flows.

12. Business and Geographic Information and Major Customers

We currently have two reportable segments: the Dairy Group and WhiteWave Foods Company.

Our Dairy Group segment is our largest segment. It manufactures, markets and distributes a wide variety of branded and private label dairy case products, such as milk, cream, ice cream, cultured dairy products and juices, to retailers, distributors, foodservice outlets, schools and governmental entities across the United States.

Our WhiteWave Foods Company segment manufactures, develops, markets and sells a variety of nationally branded soy, dairy and dairy-related products, such as *Silk*® soymilk and cultured soy products, *Horizon Organic*® dairy products, *International Delight*® coffee creamers, *LAND O LAKES*® creamer and fluid dairy products and *Rachel s Organic*® dairy products. WhiteWave Foods Company sells its products to a variety of customers, including grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores and foodservice outlets. Rachel s Organic manufactures and distributes organic dairy products in the United Kingdom under the *Rachel s Organic* and *Divine Rice*® brand names. A portion of our WhiteWave Foods Company s products (approximately $27.1 million and $26.4 million for the quarter ended June 30, 2006 and 2005, respectively, and $54.7 million and $53.8 million for the six months ended June 30, 2006 and 2005, respectively) are sold through the Dairy Group s distribution network. Those sales, together with their related costs, are included in WhiteWave Foods Company for segment reporting purposes.

We evaluate the performance of our segments based on operating profit or loss before gains and losses on the sale of assets, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the expense related to share-based compensation has not been allocated to our segments and is reflected entirely within the caption Corporate . Therefore, the measure of segment profit or loss presented below is before such items. The accounting policies of our segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to our 2005 Consolidated Financial Statements contained in our 2005 Annual Report on Form 10-K.

Table of Contents

The amounts in the following tables are obtained from reports used by our executive management team and do not include any allocated income taxes or management fees. There are no significant non-cash items reported in segment profit or loss other than depreciation and amortization.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(In thousands)			
Net sales to external customers:				
Dairy Group	$ 2,170,691	$ 2,227,602	$ 4,372,758	$ 4,420,676
WhiteWave Foods Company	307,193	287,528	614,167	569,025
Total	$ 2,477,884	$ 2,515,130	$ 4,986,925	$ 4,989,701
Intersegment sales:				
Dairy Group	$ 3,250	$ 16,177	$ 6,673	$ 36,476
WhiteWave Foods Company	22,909	24,245	46,031	50,041
Total	$ 26,159	$ 40,422	$ 52,704	$ 86,517
Operating income:				
Dairy Group	$ 180,478	$ 171,441	$ 333,225	$ 320,392
WhiteWave Foods Company	29,978	28,626	56,076	41,206
Corporate	(36,217)	(37,897)	(72,563)	(69,544)
Segment operating income	174,239	162,170	316,738	292,054
Facility closing and reorganization costs	(2,950)	(2,437)	(7,352)	(8,828)
Total	$ 171,289	$ 159,733	$ 309,386	$ 283,226

	June 30, 2006	December 31, 2005
	(In thousands)	
Assets:		
Dairy Group	$ 5,077,189	$ 5,197,092
WhiteWave Foods Company	1,332,714	1,308,388
Corporate	255,737	243,677
Discontinued operations	266,527	301,727
Total	$ 6,932,167	$ 7,050,884

Geographic Information

	Net Sales				Long-Lived Assets	
	Three Months Ended June 30		Six Months Ended June 30		June 30, 2006	December 31, 2005
	2006	2005	2006	2005		
	(In thousands)				(In thousands)	
United States	$ 2,456,144	$ 2,498,030	$ 4,944,171	$ 4,956,667	$ 5,371,203	$ 5,338,432
Europe	21,740	17,100	42,754	33,034	200,503	235,485
Total	$ 2,477,884	$ 2,515,130	$ 4,986,925	$ 4,989,701	$ 5,571,706	$ 5,573,917

Significant Customers Our WhiteWave Foods Company and Dairy Group segments each had a single customer that represented greater than 10% of their sales in the first six months of 2006. Approximately 17.3% of our consolidated net sales in the first six months of 2006 were to this same customer.

Table of Contents

13. Subsequent Events

Subsequent to June 30, 2006, we entered into an agreement to sell our Iberian operations. We expect cash proceeds of approximately $110 million, net of debt to be assumed by the purchaser and transaction costs. Subject to the timing of regulatory approval and typical closing conditions, we expect the transaction to be completed prior to the end of the year. Under the agreement we will retain certain known contingent obligations. No significant gain or loss is expected on the transaction.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We are a leading food and beverage company. Our Dairy Group is the largest processor and distributor of milk and various other dairy products in the United States. The Dairy Group manufactures and sells its products under a variety of local and regional brand names and under private labels. Our WhiteWave Foods Company segment manufactures, markets and sells a variety of well known soy, dairy and dairy-related nationally branded products such as: *Silk*® soymilk and cultured soy products, *Horizon Organic*® dairy products, *International Delight*® coffee creamers, and *LAND O LAKES*® creamers and fluid dairy products.

Dairy Group Our Dairy Group segment is our largest segment, with approximately 88% of our consolidated sales in the six months ended June 30, 2006. Our Dairy Group manufactures, markets and distributes a wide variety of branded and private label dairy case products, such as milk, cream, ice cream, cultured dairy products and juices to retailers, distributors, foodservice outlets, schools and governmental entities across the United States. Due to the perishable nature of the Dairy Group s products, our Dairy Group delivers the majority of its products directly to its customers stores in refrigerated trucks or trailers that we own or lease. This form of delivery is called a direct store delivery or DSD system and we believe we have one of the most extensive refrigerated DSD systems in the United States. The Dairy Group sells its products primarily on a local or regional basis through its local and regional sales forces, although some national customer relationships are coordinated by the Dairy Group s corporate sales department. Most of the Dairy Group s customers, including its largest customer, purchase products from the Dairy Group either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

WhiteWave Foods Company WhiteWave Foods Company manufactures, develops, markets and sells a variety of nationally-branded soy, dairy and dairy-related products, such as *Silk* soymilk and cultured soy products; *Horizon Organic* dairy and other products; *International Delight* coffee creamers; *LAND O LAKES* creamers and fluid dairy products and *Rachel s Organic* dairy products. WhiteWave Foods Company also sells *The Organic Cow*® organic dairy products; *White Wave*® and *Tofu Town*® branded tofu and *Hershey s*® milks and milkshakes. We license the *LAND O LAKES* and *Hershey s* names from third parties.

Recent Developments

Discontinued Operations

Our international operations include the manufacture and distribution of private label and branded milk across Spain and Portugal (Iberia). We entered the Iberian market in February 2000 prior to the merger of Suiza Foods Corporation and Dean Foods Company, which occurred in December 2001, when we believed that opportunities for domestic expansion appeared limited. With the emergence of the WhiteWave Foods Company platform and additional growth opportunities within our domestic Dairy Group, our primary focus has been on our domestic operations. Accordingly, with the change in our strategic focus, we concluded that there are other organizations that may be better positioned to take advantage of the Iberian market. In the second quarter of 2006, we committed to a plan to sell our Iberian operations with the expectation that such sale could be completed within one year. As a result, we have revised all reportable periods to reclassify these operations as discontinued.

As required by SFAS No. 142, Goodwill and Other Intangible Assets , we performed an interim test for goodwill impairment as of June 30, 2006 and concluded that the carrying value of the goodwill may not be recoverable. Accordingly, we recognized an estimated non-cash impairment charge of $46.4 million, net of an income tax benefit of $8.1 million.

We recently entered into an agreement to sell our Iberian operations. We expect cash proceeds of approximately $110 million, net of debt to be assumed by the purchaser and transaction costs. Subject to the timing of regulatory approval and typical closing conditions, we expect the transaction to be completed prior to the end of the year. No significant gain or loss is expected to be recognized upon completion of the transaction.

On June 27, 2005, we completed the spin-off (Spin-off) of our indirect, majority-owned subsidiary TreeHouse Foods, Inc. (TreeHouse). Immediately prior to the Spin-off, we transferred to TreeHouse (1) the businesses previously conducted by our Specialty Foods Group segment, (2) the *Mocha Mix*® and *Second Nature*® businesses previously conducted by WhiteWave Foods Company, and (3) the foodservice salad dressings businesses previously conducted by the Dairy Group and WhiteWave Foods Company. The Spin-off was effected by means of a share dividend of the TreeHouse common stock held by us to our stockholders of record on June 20, 2005 (the Record Date). In the distribution, our stockholders received one share of TreeHouse common stock for every five shares of our common stock held by them on the Record Date.

On August 22, 2005, we completed the sale of certain tangible and intangible assets related to the production and distribution of *Marie s* dips and dressings and *Dean s* dips. We also licensed the Dean trademark to Ventura Foods for use on certain non-dairy dips. The sales price was approximately $194 million.

Both the TreeHouse Spin-off and the *Marie s* dips and dressings and *Dean s* dips transactions were part of our strategy to focus on our core dairy and branded businesses. Prior periods have been revised to remove the results of our former Specialty Foods Group segment and *Mocha Mix, Second Nature* and private label dressings businesses and our *Marie s* dips and dressings and *Dean s* dips businesses, which have been reclassified as discontinued operations.

Management Changes

On April 27, 2006, we announced Jack F. Callahan Jr. as the Executive Vice President and Chief Financial Officer. He began his employment in May 2006. Previously, Mr. Callahan served as Senior Vice President of Corporate Strategy and Development at PepsiCo, where he oversaw all corporate strategy and merger and acquisition activity.

Facility Closing and Reorganization Activities

We recorded a total of approximately $7.4 million in facility closing and reorganization costs during the first six months of 2006, related to previously announced plans. We expect to incur additional charges related to these restructuring plans of approximately $4.6 million, primarily in 2006. These charges include the following costs:

- Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions;
- Shutdown costs, including those costs necessary to prepare abandoned facilities for closure;
- Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes;
- Costs associated with the reorganization of WhiteWave Foods Company s supply chain and distribution activities, including termination of certain contractual agreements; and

Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale.

See Note 10 to our Condensed Consolidated Financial Statements for more information regarding our facility closing and reorganization activities.

Results of Operations

The following table presents certain information concerning our financial results, including information presented as a percentage of net sales.

	Three Months Ended June 30				Six Months Ended June 30			
	2006		2005		2006		2005	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)							
Net sales	$ 2,477.9	100.0%	$ 2,515.1	100.0%	$ 4,986.9	100.0%	$ 4,989.7	100.0%
Cost of sales	1,794.6	72.4	1,867.9	74.3	3,652.6	73.2	3,731.2	74.8
Gross profit	683.3	27.6	647.2	25.7	1,334.3	26.8	1,258.5	25.2
Operating costs and expenses:								
Selling and distribution	408.8	16.5	386.4	15.4	813.6	16.3	774.3	15.5
General and administrative	98.7	4.0	97.2	3.9	201.0	4.0	189.0	3.8
Amortization of intangibles	1.5	0.1	1.5		2.9	0.1	3.2	
Facility closing and reorganization costs	3.0	0.1	2.4		7.4	0.2	8.8	0.2
Total operating costs and expenses	512.0	20.7	487.5	19.3	1,024.9	20.6	975.3	19.5
Total operating income	$ 171.3	6.9%	$ 159.7	6.4%	$ 309.4	6.2%	$ 283.2	5.7%

Quarter Ended June 30, 2006 Compared to Quarter Ended June 30, 2005 Consolidated Results

Net Sales Consolidated net sales decreased approximately $37.2 million to $2.48 billion during the second quarter of 2006 from $2.52 billion in the second quarter of 2005. Net sales by segment are shown in the table below.

	Quarter Ended June 30			
	2006	2005	$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in millions)			
Dairy Group	$ 2,170.7	$ 2,227.6	$ (56.9)	(2.6)%

WhiteWave Foods Company	307.2	287.5	19.7	6.8
Total	$ 2,477.9	$ 2,515.1	$ (37.2)	(1.5)%

Net sales decreased primarily due to the effects of lower selling prices in our Dairy Group resulting from the pass-through of lower Class I raw skim milk and butterfat costs. This decrease was partly offset by fluid dairy volume growth in our Dairy Group segment and higher selling prices in response to higher commodity costs and overall volume increases at WhiteWave Foods Company. See Results by Segment for more information.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs; labor costs; and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution facilities. Our cost of sales as a percentage of net sales decreased to 72.4% in the second quarter of 2006 compared to 74.3% in the second quarter of 2005 primarily due to lower raw milk costs in our Dairy Group segment in the second quarter of 2006.

Operating Costs and Expenses Our operating expenses increased approximately $24.5 million during the second quarter of 2006 as compared to the same period in the prior year. Our operating expense as a percentage of net sales was 20.7% in the second quarter of 2006 compared to 19.3% during the second quarter of 2005. Operating expenses increased primarily due to an increase in distribution costs of $20.4 million resulting from higher fuel prices and increased volumes, as well as, higher marketing expenses at WhiteWave Foods Company. See Results by Segment for more information.

Operating Income Operating income during the second quarter of 2006 was $171.3 million, an increase of $11.6 million from the second quarter of 2005 operating income of $159.7 million. Our operating margin in the second quarter of 2006 was 6.9% compared to 6.4% in the second quarter of 2005. Our operating margin increased primarily as a result of lower raw milk costs.

Other (Income) Expense Total other expense increased to $48.7 million in the second quarter of 2006 compared to $38.4 million in the second quarter of 2005. Interest expense increased to $48.8 million in the second quarter of 2006 from $38.6 million in the second quarter of 2005 primarily due to higher average debt balances, higher interest rates and the senior notes offering completed in the second quarter of 2006.

Income Taxes Income tax expense was recorded at an effective rate of 39.0% in both the second quarter of 2006 and the second quarter of 2005. Our tax rate in the second quarter of 2006 was impacted by the reclassification of our Iberian operations as discontinued operations and an adjustment to deferred taxes related to a revision in the State of Texas Franchise Tax law enacted during the quarter. In addition, our tax rate varies as the mix of earnings contributed by our various business units changes.

Quarter Ended June 30, 2006 Compared to Quarter Ended June 30, 2005 Results by Segment

Dairy Group

The key performance indicators of our Dairy Group are sales volumes, gross profit and operating income.

	Quarter Ended June 30			
	2006		2005	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$ 2,170.7	100.0%	$ 2,227.6	100.0%
Cost of sales	1,592.9	73.4	1,681.5	75.5
Gross profit	577.8	26.6	546.1	24.5
Operating costs and expenses	397.3	18.3	374.7	16.8
Total segment operating income	$ 180.5	8.3%	$ 171.4	7.7%

The Dairy Group s net sales decreased approximately $56.9 million, or 2.6%, in the second quarter of 2006 versus the second quarter of 2005. The change in net sales from the second quarter of 2005 to the second quarter of 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	

2005 Net sales	$	2,227.6	
Volume		43.6	2.0%
Pricing and product mix		(100.5)	(4.6)
2006 Net sales	$	2,170.7	(2.6)%

Table of Contents

The Dairy Group s net sales decreased primarily due to the effects of lower selling prices resulting from the pass-through of lower Class I raw skim milk and butterfat costs. In general, we change the prices that we charge our customers for fluid dairy products on a monthly basis, as the costs of our raw materials fluctuate. Class I raw skim milk prices were approximately 21% lower in the second quarter of 2006 compared to the second quarter of 2005. The following table sets forth the average monthly component prices of the Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for the second quarter of 2006 compared to the second quarter of 2005:

	Quarter Ended June 30*		
	2006	2005	% Change
Class I raw skim milk mover(3)	$6.83(1)	$8.69(1)	(21)%
Class I butterfat mover(3)	1.26(2)	1.66(2)	(24)
Class II raw skim milk minimum(4)	7.03(1)	7.63(1)	(8)
Class II butterfat minimum(4)	1.25(2)	1.62(2)	(23)

* The prices noted in this table are not the prices that we actually pay. The federal order minimum prices at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover prices plus a location differential. Class II prices noted in the table are federal minimum prices, applicable at all locations. Our actual cost also includes producer premiums, procurement costs and other related charges that vary by location and vendor. Please see Part I Item 1. Business Government Regulation Milk Industry Regulation in our Annual Report on Form 10-K for 2005, and Known Trends and Uncertainties Prices of Raw Milk and Other Inputs in this Quarterly Report for a more complete description of raw milk pricing.

(1) Prices are per hundredweight.

(2) Prices are per pound.

(3) We process Class I raw skim milk and butterfat into fluid milk products.

(4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream.

These price decreases were partly offset by fluid milk volume increases during the second quarter of 2006. Fluid milk volumes (which represented approximately 67% of the Dairy Group s sales volume during the quarter) increased approximately 2.1%. We believe the increase in volumes is a result of the superior value and service that we are able to offer our customers as the largest dairy processor in the nation.

The Dairy Group s cost of sales as a percentage of net sales decreased to 73.4% in the second quarter of 2006 compared to 75.5% in the second quarter of 2005 primarily due to the decrease in raw milk costs compared to the prior year. This decrease was partly offset by higher resin costs of approximately $3 million during the second quarter of 2006 compared to the second quarter of 2005. Resin is the primary component used in our plastic bottles.

The Dairy Group s operating expenses increased approximately $22.6 million to $397.3 million during the second quarter of 2006 compared to $374.7 in the second quarter of 2005, primarily due to a $19.1 million increase in distribution costs. Distribution costs increased as a result of higher fuel prices of approximately $7 million and increased deliveries in our DSD system due to the addition of certain customers and the acquisition of several small distributors.

WhiteWave Foods Company

The key performance indicators of WhiteWave Foods Company are sales dollars, gross profit and operating income.

	Quarter Ended June 30			
	2006		2005	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$ 307.2	100.0%	$ 287.5	100.0%
Cost of sales	201.3	65.5	185.9	64.6
Gross profit	105.9	34.5	101.6	35.4
Operating costs and expenses	75.9	24.7	73.0	25.4
Total segment operating income	$ 30.0	9.8%	$ 28.6	10.0%

WhiteWave Foods Company s net sales increased by $19.7 million, or 6.8%, in the second quarter of 2006 versus the second quarter of 2005. The change in net sales from the second quarter of 2005 to the second quarter of 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2005 Net sales	$ 287.5	
Volume	6.9	2.4%
Pricing and product mix	12.8	4.4
2006 Net sales	$ 307.2	6.8%

The increase in net sales was primarily due to increased prices in response to higher raw material costs. Volumes increased approximately 2.4% related to the growth of our key brands, particularly *Silk* and *Horizon Organic*. Our overall volume growth was significantly impacted by the elimination of certain product offerings in late 2005 and early 2006. Excluding the impact of the elimination of these product offerings, sales volumes grew approximately 7.5% in the second quarter of 2006.

Cost of sales as a percentage of net sales for WhiteWave Foods Company increased to 65.5% in the second quarter of 2006 from 64.6% in the second quarter of 2005. Cost of goods sold dollars increased approximately $15.4 million primarily due to higher commodity costs, including organic raw milk and sugar, as well as, higher sales volumes. These increases were partly offset by efficiencies we achieved throughout our supply chain including our continued increase of in-house production versus the utilization of third party co-packers.

Operating expenses increased approximately $2.9 million in the second quarter of 2006 compared to the same period in the prior year primarily due to higher marketing expenses. The increase in marketing expenses primarily relates to our rollout of an updated marketing campaign for *Silk*® soymilk in the second quarter of 2006. In addition, distribution costs increased approximately $1.3 million primarily due to higher fuel costs.

Table of Contents

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005 Consolidated Results

Net Sales Consolidated net sales were consistent at $4.99 billion during the first six months of 2006 and the first six months of 2005. Net sales by segment are shown in the table below.

	Six Months Ended June 30			
	2006	2005	$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in millions)			
Dairy Group	$ 4,372.8	$ 4,420.7	$ (47.9)	(1.1)%
WhiteWave Foods Company	614.1	569.0	45.1	7.9
Total	$ 4,986.9	$ 4,989.7	$ (2.8)	(0.1)%

Net sales decreased approximately $2.8 million during the first six months of 2006 compared to the same period in the prior year primarily due to the pass-through of lower Class I raw skim milk costs in our Dairy Group. These price decreases were partly offset by higher pricing at WhiteWave Foods Company in response to higher commodity costs, as well as increased volumes in both segments. See Results by Segment for more information.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs, labor costs, and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution facilities. Our cost of sales as a percentage of net sales decreased to 73.2% in the first six months of 2006 compared to 74.8% in the first six months of 2005 primarily due to lower raw milk costs in our Dairy Group segment and the continued impact of supply chain efficiencies and product rationalization at WhiteWave Foods Company.

Operating Costs and Expenses Our operating expenses increased $49.6 million during the first six months of 2006 as compared to the same period in the prior year. Our operating expense as a percentage of net sales was 20.6% in the first six months of 2006 compared to 19.5% during the first six months of 2005. Operating expenses increased primarily due to an (1) increase in distribution costs of $35.4 million related to higher fuel costs and increased volumes; (2) corporate expenses that were approximately $6 million higher primarily related to professional fees in connection with the ongoing cost saving initiatives in our Dairy Group and higher health care costs and (3) increased marketing expenses at WhiteWave Foods Company.

Operating Income Our operating margin in the first six months of 2006 was 6.2% compared to 5.7% in the first six months of 2005. Operating income during the first six months of 2006 was $309.4 million, an increase of $26.2 million from operating income of $283.2 million during the first six months of 2005. Operating income increased primarily due to lower raw milk costs in our Dairy Group segment. See Results by Segment for more information.

Other (Income) Expense Total other expense increased to $96.3 million in the first six months of 2006 compared to $77.6 million in the first six months of 2005. Interest expense increased to $96.3 million in the first six months of 2006 from $77.8 million in the first six months of 2005 primarily due to higher average debt balances and higher interest rates.

Income Taxes Income tax expense was recorded at an effective rate of 39.2% in the first six months of 2006 compared to 39.4% in the first six months of 2005. Our tax rate in the first six months of 2006 was impacted by the reclassification of our Iberian operations as discontinued operations and an adjustment to deferred taxes related to a revision in the State of Texas Franchise Tax law enacted during the second quarter. In addition, our tax rate varies as the mix of earnings contributed by our various business units changes.

Table of Contents

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005 Results by Segment

Dairy Group

The key performance indicators of our Dairy Group are sales volumes, gross profit and operating income.

	Six Months Ended June 30			
	2006		2005	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$ 4,372.8	100.0%	$ 4,420.7	100.0%
Cost of sales	3,252.9	74.4	3,353.0	75.8
Gross profit	1,119.9	25.6	1,067.7	24.2
Operating costs and expenses	786.7	18.0	747.3	16.9
Total segment operating income	$ 333.2	7.6%	$ 320.4	7.3%

The Dairy Group s net sales decreased approximately $47.9 million, or 1.1%, in the first six months of 2006 versus the first six months of 2005. The change in net sales from the first six months of 2005 to the first six months of 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2005 Net sales	$ 4,420.7	
Volume	112.2	2.5%
Pricing and product mix	(160.1)	(3.6)
2006 Net sales	$ 4,372.8	(1.1)%

The Dairy Group s net sales decreased primarily due to the effects of lower selling prices resulting from the pass-through of lower Class I raw skim milk and butterfat costs. In general, we change the prices that we charge our customers for fluid dairy products on a monthly basis, as the costs of our raw materials fluctuate. Class I raw skim milk prices were approximately 15% lower in the first six months of 2006 compared to the first six months of 2005. The following table sets forth the average monthly component prices of the Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for the first six months of 2006 compared to the same period in 2005:

	Six Months Ended June 30*		
	2006	2005	% Change
Class I raw skim milk mover(3)	$ 7.56(1)	$ 8.89(1)	(15)%
Class I butterfat mover(3)	1.35(2)	1.76(2)	(23)
Class II raw skim milk minimum(4)	7.53(1)	7.48(1)	1

Class II butterfat minimum(4)	1.31(2)	1.69(2)	(22)

* The prices noted in this table are not the prices that we actually pay. The federal order minimum prices at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover prices plus a location differential. Class II prices noted in the table are federal minimum prices, applicable at all locations. Our actual cost also includes producer premiums, procurement costs and other related charges that vary by location and vendor. Please see Part I Item 1. Business Government Regulation Milk Industry Regulation in our Annual Report on Form 10-K for 2005, and Known Trends and Uncertainties Prices of Raw Milk and Other Inputs in this Quarterly Report for a more complete description of raw milk pricing.

(1) Prices are per hundredweight.

(2) Prices are per pound.

-37-

(3) We process Class I raw skim milk and butterfat into fluid milk products.

(4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream.

The Dairy Group s sales volumes increased by 2.5% during the first six months of 2006 compared to the first six months of 2005. Fluid milk volumes (which represented approximately 69% of the Dairy Group s sales volume during the first six months of 2006) increased approximately 2.8% during the first six months of 2006 compared to the same period in the prior year. We believe the increase in volumes is a result of the superior value and service that we are able to offer our customers as the largest dairy processor in the nation.

The Dairy Group s cost of sales as a percentage of net sales decreased to 74.4% in the first six months of 2006 compared to 75.8% in the first six months of 2005. Cost of sales dollars decreased $100.1 million primarily due to lower raw milk costs in the first six months of 2006 compared to the same period in the prior year. This decrease was partly offset by higher resin costs which increased by approximately $7 million. Resin is the primary component used in our plastic bottles.

The Dairy Group s operating expense as a percentage of net sales increased to 18.0% in the first six months of 2006 from 16.9% in the first six months of 2005. Operating expense dollars increased approximately $39.4 million during the first six months of 2006 compared to the first six months of 2005, primarily due to an increase in distribution costs. Total distribution costs increased $33.7 million primarily as a result of higher fuel prices which impacted distribution costs by approximately $13 million, increased deliveries in our DSD system due to the addition of certain customers and the acquisition of several small distributors in 2006.

WhiteWave Foods Company

The key performance indicators of WhiteWave Foods Company are sales dollars, gross profit and operating income.

	Six Months Ended June 30			
	2006		2005	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$ 614.1	100.0%	$ 569.0	100.0%
Cost of sales	399.1	65.0	377.3	66.3
Gross profit	215.0	35.0	191.7	33.7
Operating costs and expenses	158.9	25.9	150.5	26.5
Total segment operating income	$ 56.1	9.1%	$ 41.2	7.2%

WhiteWave Foods Company s net sales increased by $45.1 million, or 7.9%, in the first six months of 2006 versus the first six months of 2005. The change in net sales from the first six months of 2005 to the first six months of 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2005 Net sales	$ 569.0	
Volume	18.2	3.2%

Pricing and product mix		26.9	4.7
2006 Net sales	$	614.1	7.9%

The increase in net sales was primarily due to higher pricing in response to increased commodity costs and increased volumes related to the growth of our brands, particularly *Silk* and *Horizon Organic.* Our overall volume growth was significantly impacted by the elimination of certain product offerings in late 2005 and early 2006. Excluding the impact of the elimination of these product offerings, sales volumes grew approximately 8.8% in the first six months of 2006.

Table of Contents

Cost of sales as a percentage of net sales for WhiteWave Foods Company decreased to 65.0% in the first six months of 2006 from 66.3% in the first six months of 2005. Cost of goods sold dollars increased $21.8 million primarily due to increased volumes and higher organic raw milk and sugar costs. These increases were partly offset by our supply chain initiatives and product rationalization, which has resulted in increased efficiencies.

Operating expenses increased approximately $8.4 million in the first six months of 2006 compared to the same period in the prior year primarily due to higher marketing expenses related to a new marketing campaign for *Silk*® soymilk and higher fuel costs.

Liquidity and Capital Resources

Historical Cash Flow

During the first six months of 2006, we met our working capital needs with cash flow from operations.

Net cash provided by operating activities from continuing operations was $264.6 million for the first six months of 2006 as contrasted to $333.0 million for the same period in 2005, a decrease of $68.4 million. Net cash provided by operating activities was primarily impacted by changes in operating assets and liabilities, which declined approximately $117.8 million in the first six months of 2006 compared to the first six months of the prior year. The decline primarily relates to changes in working capital balances, lower raw milk costs, payment of annual employee bonuses, a payment made in settlement of contractual obligations under a co-pack agreement entered into prior to our acquisition of an entity and changes in estimated tax payments due in 2006.

Net cash used in investing activities from continuing operations was $121.1 million in the first six months of 2006 compared to $126.6 million in the first six months of 2005, a decrease of $5.5 million. Our capital expenditures totaled $113.6 million in the first six months of 2006 compared to $130.6 in the first six months of 2005. We used approximately $11.0 million for acquisitions in the first six months of 2006 compared to $1.3 million in the first six months of 2005.

We repaid a net amount of $26.0 million of debt in the first six months of 2006.

Current Debt Obligations

The table below summarizes our obligations for indebtedness and purchase and lease obligations at June 30, 2006. See Note 5 to our Condensed Consolidated Financial Statements for additional information regarding our indebtedness.

		Payments Due by Period					
Indebtedness, Purchase & Lease Obligations	Total	7/1/06-6/30/07	7/1/07-6/30/08	7/1/08-6/30/09	7/1/09-6/30/10	7/1/10-6/30/11	Thereafter
				(In millions)			
Senior credit facility	$ 1,799.3	$ 168.8	$ 225.0	$ 843.7	$ 561.8	$	$
Dean Foods senior notes(1)	500.0						500.0
Subsidiary senior notes(1)	600.0		250.0	200.0			150.0
Receivables-backed facility	493.2			493.2			
Capital lease obligations and other(2)	76.5	65.6	4.4	2.9	2.1	0.9	0.6
Purchase obligations(3)	487.0	266.6	71.1	35.5	20.0	11.3	82.5
Operating leases	470.5	100.9	89.4	77.7	64.2	50.2	88.1
Interest payments(4)	961.3	242.8	212.7	166.8	56.0	45.4	237.6
Total	$ 5,387.8	$ 844.7	$ 852.6	$ 1,819.8	$ 704.1	$ 107.8	$ 1,058.8

(1) Represents face value.

(2) Includes our Iberian operations lines of credit and other debt obligations. These amounts are included in liabilities of discontinued operations on the Condensed Consolidated Balance Sheet.

Table of Contents

(3) Primarily represents commitments to purchase minimum quantities of raw materials used in our production processes, including organic soybeans and organic raw milk. We enter into these contracts from time to time in an effort to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.

(4) Includes fixed rate interest obligations, as well as interest on our variable rate debt based on the rates and balances in effect at June 30, 2006. Interest that may be due in the future on the variable rate portion of our senior credit facility and receivables backed-facility will vary based on the interest rate in effect at the time and the borrowings outstanding at the time.

Other Long-Term Liabilities

We offer pension benefits through various defined benefit pension plans and also offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing non-contributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates. For example, these costs are impacted by actual employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plan and earnings on plan assets. Our pension plan assets are primarily made up of equity and fixed income investments. Changes made to the provisions of the plan may impact current and future pension costs. Fluctuations in actual equity market returns, as well as changes in general interest rates may result in increased or decreased pension costs in future periods. Pension costs may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and pension costs.

We expect to contribute approximately $25.8 million to the pension plans and approximately $2.6 million to the postretirement health plans in 2006.

Other Commitments and Contingencies

On December 21, 2001, in connection with our acquisition of Legacy Dean, we issued a contingent, subordinated promissory note to Dairy Farmers of America (DFA) in the original principal amount of $40 million. DFA is our primary supplier of raw milk, and the promissory note is designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our facilities until 2021, or be paid for the loss of that business. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash, but will be added to the principal amount of the note annually, up to a maximum principal amount of $96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire at the end of 20 years, without any obligation to pay any portion of the principal or interest. Payments we make under this note, if any, will be expensed as incurred.

We also have the following commitments and contingent liabilities, in addition to contingent liabilities related to ordinary course litigation, investigations and audits:

- certain indemnification obligations related to businesses that we have divested;

- certain lease obligations, which require us to guarantee the minimum value of the leased asset at the end of the lease; and

- selected levels of property and casualty risks, primarily related to employee health care, workers compensation claims and other casualty losses.

See Note 11 to our Condensed Consolidated Financial Statements for more information about our commitments and contingent obligations.

Table of Contents

Future Capital Requirements

During 2006, we intend to invest a total of approximately $250 million in capital expenditures primarily for our existing manufacturing facilities and distribution capabilities. We intend to fund these expenditures using cash flow from operations.

In 2006, we expect cash interest to be approximately $190 million to $200 million based on current debt levels and cash taxes to be approximately $75 million to $80 million. We expect that cash flow from operations will be sufficient to meet our requirements for our existing businesses for the foreseeable future. As of August 4, 2006, approximately $1.13 billion was available for future borrowings under our senior credit facility.

Known Trends and Uncertainties

Prices of Raw Milk and Other Inputs

Dairy Group The primary raw material used in our Dairy Group is raw milk (which contains both raw skim milk and butterfat). The federal government and certain state governments set minimum prices for raw milk, and those prices are set on a monthly basis. The regulated minimum prices differ based on how the raw milk is utilized. Raw milk processed into fluid milk is priced at the Class I price, and raw milk processed into products such as cottage cheese, creams and creamers, ice cream and sour cream is priced at the Class II price. Generally, we pay the federal minimum prices for raw milk, plus certain producer premiums (or over-order premiums) and location differentials. We also incur other raw milk procurement costs in some locations (such as hauling, field personnel, etc.). A change in the federal minimum price does not necessarily mean an identical change in our total raw milk costs, as over-order premiums may increase or decrease. This relationship is different in every region of the country, and sometimes within a region based on supplier arrangements. However, in general, the overall change in our raw milk costs can be linked to the change in federal minimum prices.

Because our Class II products typically have a higher fat content than that contained in raw milk, we also purchase bulk cream for use in some of our Class II products. Bulk cream is typically purchased based on a multiple of the AA butter price on the Chicago Mercantile Exchange (CME).

Another significant raw material used by our Dairy Group is resin, which is used to make plastic bottles. We purchase approximately 27 million pounds of resin and bottles per month. Resin is a petroleum-based product, and the price of resin is subject to fluctuations based on changes in crude oil prices. Our Dairy Group purchases approximately 4 million gallons of diesel fuel per month to operate our extensive direct store delivery system. In general, our Dairy Group changes the prices that it charges for Class I dairy products on a monthly basis, as the costs of raw milk, packaging, fuel and other materials fluctuate. Prices for some Class II products are also changed monthly while others are changed from time to time as circumstances warrant. However, there can be a lag between the time of a raw material cost increase or decrease and a corresponding price change to our customers, especially in the case of Class II butterfat because Class II butterfat prices for each month are not announced by the government until after the end of that month. Also, in some cases we are competitively or contractually constrained with the means and timing of implementing price changes. These factors can cause volatility in our earnings. Our sales and operating profit margin fluctuate with the price of our raw materials and other inputs.

During the first six months of 2006, Class I raw skim milk and butterfat prices declined. We expect raw skim milk and butterfat prices to increase in the second half of 2006. However, these prices are difficult to predict, and we change our forecasts frequently based on current market activity.

During the first six months of 2006, the prices of resin and fuel have continued to increase. As resin supplies have from time to time been insufficient to meet demand, we are undertaking all reasonable measures in an attempt to secure an adequate resin supply; however, there can be no assurance that we will always be successful in our attempts. We expect prices of both resin and diesel fuel to remain high throughout the remainder of 2006.

WhiteWave Foods Company A significant raw material used to manufacture products sold by WhiteWave Foods Company is organic soybeans. We have entered into supply agreements for organic soybeans, which we believe will meet our needs for 2006. Generally, these agreements provide for pricing at fixed levels. However, should our need for organic soybeans exceed the quantity that we have under contract, or if the suppliers do not perform under the contracts, we may have difficulty obtaining sufficient supply, and the price we could be required to pay could be significantly higher.

Significant raw materials used in our products include organic raw milk and sugar. Organic raw milk is not readily available and the growth of our organic dairy business depends on us being able to procure sufficient quantities of organic raw milk in time to meet our needs. We obtain our supply of organic raw milk by entering into one to two year agreements with farmers pursuant to which the farmers agree to sell us specified quantities of organic raw milk for fixed prices for the duration of the agreement. We also source approximately 20% of our organic raw milk supply from our own farms. The industry-wide demand for organic raw milk has exceeded supply, resulting in our inability to fully meet customer demand. As a result, at times we are forced to limit quantities we ship to our customers. While we are not currently on allocation, we expect supply to be tight for the foreseeable future. Also, as our contracts with farmers expire, we may have to renew at higher prices as a result of increased competition for organic raw milk supply. The increase in the demand for organic milk combined with competitive activity and a limited supply has put significant upward pressure on organic milk costs. We also have experienced an increase in sugar costs during the first six months of 2006 and expect these costs to remain high during the remainder of the year.

Competitive Environment

There has been significant consolidation in the retail grocery industry in recent years, and this trend is continuing. As our customer base consolidates, we expect competition to intensify as we compete for the business of fewer customers. There can be no assurance that we will be able to keep our existing customers, or gain new customers. There are several large regional grocery chains that have captive dairy operations. As the consolidation of the grocery industry continues, we could lose sales if any one or more of our existing customers were to be sold to a chain with captive dairy operations.

Many of our retail customers have become increasingly price sensitive in the current intensely competitive environment. Over the past few years, we have been subject to a number of competitive bidding situations in our Dairy Group, which reduced our profitability on sales to several customers. We expect this trend to continue. In bidding situations, we may lose certain customers altogether. The loss of any of our largest customers could have a material adverse impact on our financial results. We do not have contracts with many of our largest customers, and most of the contracts that we do have are generally terminable at will by the customer.

Both the difficult economic environment and the increased competitive environment at the retail level have caused competition to become increasingly intense at the processor level. We expect this trend to continue for the foreseeable future.

Tax Rate

Our tax rate was 39.2% for the first six months of 2006 and 39.4% for the first six months of 2005. Our tax rate decreased from 2005 to 2006 primarily as a result of the mix of business and the impact of FAS 123(R). The tax benefit related to certain stock options exercised in the first six months of 2006 exceeded the benefit in 2005. The decrease in our tax rate was partly offset by an adjustment to deferred taxes related to a revision in the State of Texas Franchise Tax law enacted during the second quarter of 2006. Because of the impact of adoption of FAS 123(R), the acceleration of stock units and the anticipated mix of business, we expect our effective tax rate for the full year 2006 to be approximately 39.0%.

See Part II Item 1A Risk Factors for a description of various other risks and uncertainties concerning our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Fluctuations

In order to reduce the volatility of earnings that arises from changes in interest rates, we manage interest rate risk through the use of interest rate swap agreements. These swap agreements provide hedges for loans under our senior credit facility by limiting or fixing the LIBOR interest rates specified in the senior credit facility at the interest rates noted below until the indicated expiration dates.

The following table summarizes our various interest rate swap agreements at both June 30, 2006 and December 31, 2005:

Fixed Interest Rates	Expiration Date	Notional Amounts
		(In millions)
3.65% to 6.78%	December 2006	$625
4.81% to 4.84%	December 2007	500
4.07% to 4.27%	December 2010	500

We are exposed to market risk under these arrangements due to the possibility of interest rates on our senior credit facility falling below the rates on our interest rate derivative agreements. We recorded $1.9 million of interest income, net of taxes, during the first six months of 2006 as a result of interest rates on our variable rate debt rising above the agreed-upon interest rate on our existing swap agreements. Credit risk under these arrangements is remote since the counterparties to our interest rate derivative agreements are major financial institutions.

A majority of our debt obligations are currently at variable rates. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in interest rates. As of June 30, 2006, the analysis indicated that such interest rate movement would not have a material effect on our financial position, results of operations or cash flows. However, actual gains and losses in the future may differ materially from that analysis based on changes in the timing and amount of interest rate movement and our actual exposure and hedges.

Foreign Currency

We are exposed to foreign currency risk due to operating cash flows and various financial instruments that are denominated in foreign currencies. Our most significant foreign currency exposures relate to the euro and British pound. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates. As of June 30, 2006, the analysis indicated that such foreign currency exchange rate change would not have a material effect on our financial position, results of operations or cash flows.

Butterfat

Our Dairy Group utilizes a significant amount of butterfat to produce Class II products. This butterfat is acquired through the purchase of raw milk and bulk cream. Butterfat acquired in raw milk is priced based on the Class II butterfat price in federal orders, which is announced near the end of the applicable month. The Class II butterfat price can generally be tied to the pricing of AA butter traded on the Chicago Mercantile Exchange (CME). The cost of butterfat acquired in bulk cream is typically based on a multiple of the AA butter price on the CME. From time to time, we purchase butter futures and butter inventory in an effort to better manage our butterfat cost in Class II products. Futures contracts are marked to market in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and physical inventory is valued at the lower of cost or market. We are exposed to market risk under these arrangements if the cost of butter falls below the cost that we have agreed to pay in a futures contract or that we actually paid for the physical inventory and we are unable to pass on the difference to our customers. At this time we believe that potential losses due to butterfat hedging activities would not have a material impact on our consolidated financial position, results of operations or operating cash flow.

Table of Contents

Item 4. Controls and Procedures

Controls Evaluation and Related CEO and CFO Certifications

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this quarterly report. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Attached as exhibits to this quarterly report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed with the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with US generally accepted accounting principles.

Limitations on the Effectiveness of Controls

We do not expect that our Disclosure Controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

Scope of the Controls Evaluation

Our evaluations of our Disclosure Controls include reviews of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in our SEC filings. In the course of our controls evaluations, we seek to identify data errors, controls problems or acts of fraud and confirm that appropriate corrective actions, including process improvements, are undertaken. Many of the components of our Disclosure Controls are evaluated on an ongoing basis by our Audit Services department. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Conclusions

Based upon our most recent controls evaluation, our CEO and CFO have concluded that as of the end of the period covered by this quarterly report, our Disclosure Controls were effective at the reasonable assurance level. In the first six months of 2006, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II Other Information

Item 1. Legal Proceedings

We are not party to, nor are our properties the subject of, any material pending legal proceedings. However, we are parties from time to time to certain claims, litigation, audits and investigations. We believe that we have established adequate reserves to satisfy any potential liability we may have under all such claims, litigations, audits and investigations that are currently pending. In our opinion, the settlement of any such currently pending or threatened matter is not expected to have a material adverse impact on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Statements that are not historical in nature are forward-looking statements about our future that are not statements of historical fact. Most of these statements are found in this report under the following subheadings: Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk. In some cases, you can identify these statements by terminology such as may, should, could, expects, seek to, anticipates, plans, believes, estimates, intends, predicts, projects, potent negative of such terms and other comparable terminology. These statements are only predictions, and in evaluating those statements, you should carefully consider the information above, including in Known Trends and Uncertainties, as well as the risks outlined below. Actual performance or results may differ materially and adversely.

Reorganization of Our WhiteWave Foods Company Segment Could Temporarily Adversely Affect the Performance of the Segment

In 2004, we began the process of consolidating the operations of the three operating units that comprise our WhiteWave Foods Company segment into a single business. We are building a vertically integrated branded business with a focused product portfolio, efficient manufacturing processes and an optimal distribution system. During 2005, we appointed a new President of WhiteWave Foods, which was a key step in the development of a consolidated leadership team for the organization. We also completed the consolidation of the sales, marketing and research and development organization and the supply chain integration is in process. We consolidated most product manufacturing into five primary facilities, three of which were transferred from our Dairy Group in 2005, and we narrowed our network of co-packers. In 2006, we will continue to focus on streamlining our product portfolio, focusing on the most profitable opportunities and on continuing to optimize our supply chain. We are currently in the initial stages of implementing the SAP platform across WhiteWave Foods Company, which we expect will enable us to more effectively and efficiently manage our supply chain and business processes. Our failure to successfully manage this process could cause us to incur unexpected costs or to lose customers or sales, which could have a material adverse effect on our financial results.

Reorganization of our Dairy Group Segment Could Temporarily Adversely Affect the Performance of the Segment

During the first quarter of 2006, we started the process of realigning our Dairy Group segment in order to further streamline our organization, improve efficiency within our operations and better meet the needs of our customers. Effective January 1, 2006, we transitioned from five operating regions to three operating regions. We are currently focused on reorganizing our purchasing and other administrative functions to better leverage our scale, which we expect will enable us to more effectively and efficiently manage our business processes. Furthermore, we are in the process of consolidating our information technology systems, including the implementation of standard accounting and distribution software packages. Our failure to successfully manage this process could cause us to incur unexpected costs, which could have a material adverse effect on our financial results.

Recent Successes of Our Products Could Attract Increased Competitive Activity, Which Could Impede Our Growth Rate and Cost Us Sales and, in the Case of Organic Products, Put Pressure on the Availability of Raw Materials

Our *Silk* soymilk and *Horizon Organic* organic food and beverage products have leading market shares in their categories and have benefited in many cases from being the first to introduce products in their categories. As soy and organic products continue to gain in popularity with consumers, we expect our products in these categories to continue to attract competitors. Many large food and beverage companies have substantially more resources than we do, and they may be able to market their soy and organic products more successfully than us, which could cause our growth rate in these categories to be slower than our forecast and could cause us to lose sales. The increase in popularity of soy and organic milks is also attracting private label competitors who sell their products at a lower price. The success of private label brands could adversely affect our sales and profitability. Finally, there is a limited supply of organic raw materials in the United States, especially organic soybeans and organic raw milk. New entrants into our markets can reduce available supply and drive up costs. Even without new entrants, our own growth can put pressure on the availability and price of organic raw materials.

Our *International Delight* coffee creamer competes intensely with Nestlé *CoffeeMate* business, and our *Hershey s* milks and milkshakes compete intensely with Nestlé *Nesquik.* Nestle has significantly greater resources than we do, which allows them to promote their products more aggressively. Our failure to successfully compete with Nestle could have a material adverse effect on the sales and profitability of our *International Delight* and/or our *Hershey s* businesses.

Changes in Raw Material and Other Input Costs Can Adversely Affect Us

Raw skim milk is the most significant raw material that we use in our Dairy Group. Organic raw milk, organic soy beans and sugar are significant inputs utilized by WhiteWave Foods Company. The prices of these materials increase and decrease based on supply and demand, and in some cases, governmental regulation. Weather also affects the availability and pricing of these inputs. In many cases we are able to adjust our pricing to reflect changes in raw material costs. Volatility in the cost of our raw materials can adversely affect our performance as price changes often lag changes in costs. These lags tend to erode our profit margins. Furthermore, cost increases may exceed the price increases we are able to pass along to our customers. Extremely high raw material costs also can put downward pressure on our margins and our volumes. Although we cannot predict future changes in raw material costs, we do expect raw material prices to increase throughout 2006.

Because our Dairy Group delivers the majority of its products directly to customers through its direct store delivery system, we are a large consumer of fuel. Similarly, our WhiteWave Foods business is impacted by the costs of petroleum-based products through the use of common carriers in delivering their products. The Dairy Group utilizes a significant amount of resin, which is the primary component used in our plastic bottles. Recently, the prices of resin and fuel have increased dramatically and resin supplies have from time to time been insufficient to meet demand. Increases in fuel and resin prices can adversely affect our results of operations. In addition, a disruption in our ability to secure an adequate resin supply could adversely affect our operations.

Changes in Laws, Regulations and Accounting Standards Could Have an Adverse Effect on Our Financial Results

We are subject to federal, state, local and foreign governmental laws and regulations, including those promulgated by the United States Food and Drug Administration, the United States Department of Agriculture, the Sarbanes-Oxley Act of 2002 and numerous related regulations promulgated by the Securities and Exchange Commission, the Public Company Accounting Oversight Board and the Financial Accounting Standards Board. Changes in federal, state or local laws, or the interpretations of such laws and regulations may negatively impact our financial results or our ability to market our products.

Table of Contents

Loss of Rights to Any of Our Licensed Brands Could Adversely Affect Our Sales and Profits

We sell certain of our products under licensed brand names such as *Borden®*, *Hershey s, LAND O LAKES, Pet®* and others. In some cases, we have invested significant capital in product development and marketing and advertising related to these licensed brands. Should our rights to manufacture and sell products under any of these names be terminated for any reason, our financial performance and results of operations could be materially and adversely affected.

We Have Substantial Debt and Other Financial Obligations and We May Incur Even More Debt

We have substantial debt and other financial obligations and significant unused borrowing capacity. See Liquidity and Capital Resources.

We have pledged substantially all of our assets (including the assets of our subsidiaries) to secure our indebtedness. Our high debt level and related debt service obligations:

- require us to dedicate significant cash flow to the payment of principal and interest on our debt which reduces the funds we have available for other purposes,
- may limit our flexibility in planning for or reacting to changes in our business and market conditions,
- impose on us additional financial and operational restrictions, and
- expose us to interest rate risk since a portion of our debt obligations are at variable rates.

The interest rate on our debt is based on our debt rating, as issued by Standard & Poor s and Moody s. We have no ability to control the ratings issued by Standard & Poor s and Moody s. A downgrade in our debt rating could cause our interest rate to increase, which could adversely affect our ability to achieve our targeted profitability level, as well as our cash flow.

Our ability to make scheduled payments on our debt and other financial obligations depends on our financial and operating performance. Our financial and operating performance is subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control. A significant increase in interest rates could adversely impact our net income. If we do not comply with the financial and other restrictive covenants under our credit facilities, we may default under them. Upon default, our lenders could accelerate the indebtedness under the facilities, foreclose against their collateral or seek other remedies, which would jeopardize our ability to continue our current operations.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the repurchase of our common stock during 2006:

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid Per Share(2)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs(3)
January 2006		$		$
February 2006	400,000	38.37	70,382,766	3.2 million
March 2006				
April 2006				
May 2006	2,050,800	36.25	72,433,566	228.8 million
June 2006	1,286,400	35.69	73,719,966	182.9 million
Total	3,737,200	36.29	73,719,966	182.9 million

(1) Stock repurchases during the three months ended June 30, 2006 were made pursuant to the stock repurchase program approved by our Board of Directors on November 2, 2005 and May 3, 2006, which allowed for the repurchase of an additional $600 million in stock.

(2) Excludes fees and commissions paid on stock repurchases.

(3) Amount represents maximum amount authorized for share repurchases. The amount can be increased by actions of our Board of Directors.

Item 4. Submission of Matters to a Vote of Security Holders

On May 19, 2006, we held our annual meeting of stockholders. At the annual meeting, we submitted the following matters to a vote of our stockholders:

The re-elections of Lewis M. Collens, Janet Hill, Hector M. Nevares, Pete Schenkel and Jim L. Turner as members of our Board of Directors, and

The ratification of our Board of Directors selection of Deloitte & Touche LLP as our independent auditor for fiscal year 2006, and

A proposal from the Office of the Comptroller of New York City, as the custodian and trustee of the New York City Employees Retirement System, the New York City Teachers Retirement System, the New York City Police Pension Fund and the New York City Fire Department Pension Fund and custodian of the New York City Board of Education Retirement System.

At the annual meeting, the stockholders re-elected the directors named above and ratified the selection of Deloitte & Touche LLP as our independent auditor. The stockholder proposal was rejected.

Table of Contents

The vote of the stockholders with respect to each such matter was as follows:

Nominee/Proposal	Votes For	Votes Withheld	Votes Against	Abstain
Lewis M. Collens	120,347,369	872,647		
Janet Hill	120,296,994	923,022		
Hector M. Nevares	119,087,354	2,132,662		
Pete Schenkel	116,441,643	4,778,373		
Jim L. Turner	120,372,068	847,948		
Selection of auditors	119,750,991		1,406,638	62,387
Stockholder proposal	31,711,959		61,870,549	16,383,671

Item 6. Exhibits

(a) Exhibits

1.1	Underwriting Agreement, dated May 11, 2006, among the Company, the subsidiary guarantors named therein and Citigroup Global Markets Inc., on behalf of itself and as representative of the several underwriters listed in Schedule II thereto (incorporated by reference from our Current Report on Form 8-K dated May 17, 2006 (File No. 1-12755))
4.1	Indenture, dated as of May 15, 2006, between the Company, the subsidiary guarantors listed therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference from our Current Report on Form 8-K dated May 19, 2006 (File No. 1-12755))
4.2	Supplemental Indenture No. 1, dated as of May 17, 2006, between the Company, the subsidiary guarantors listed therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference from our Current Report on Form 8-K dated May 19, 2006 (File No. 1-12755))
10.1	Change in Control Agreement Jack F. Callahan, Jr.
10.2	Proprietary Information, Inventions and Non-Compete Agreement Jack F. Callahan, Jr.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEAN FOODS COMPANY

/s/ Ronald L. McCrummen

Ronald L. McCrummen
Senior Vice President and Chief Accounting Officer

August 9, 2006