

DEAN FOODS CO
Form 10-K
March 01, 2007

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

**Form 10-K
For Annual and Transition Reports Pursuant to
Sections 13 or 15(d) of the Securities Exchange Act of 1934**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 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 Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

75-2559681
*(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 Registrant's principal executive offices)*

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned-issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant at June 30, 2006, based on the \$37.19 per share closing price for the registrant's common stock on the New York Stock Exchange on June 30, 2006, was approximately \$4.78 billion.

The number of shares of the registrant's common stock outstanding as of February 23, 2007 was 128,948,976.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 18, 2007 (to be filed) are incorporated by reference into Part III of this Form 10-K.

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Amended and Restated Executive Deferred Compensation Plan

Post-2004 Executive Deferred Compensation Plan

Revised and Restated Supplemental Executive Retirement Plan

Amendment No. 1 to Supplemental Executive Retirement Plan

Amendment No. 2 to Supplemental Executive Retirement Plan

Description of Compensation Arrangements for Executive Officers

Form of Stock Option Award Agreement for Awards to Executive Officers

Form of Stock Unit Award Agreement for Awards to Executive Officers

Executive Severance Pay Plan

Amended and Restated Limited Liability Company Agreement

Statement of Computation of Ratio of Earnings to Fixed Charges

Code of Ethics

Subsidiaries

Consent of Deloitte & Touche LLP

Certification of CEO Pursuant to Section 302

Certification of CFO Pursuant to Section 302

Certification of CEO Pursuant to Section 906

Certification of CFO Pursuant to Section 906

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PART I

Item 1. *Business*

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 develops, manufactures, 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*[®] creamers and fluid dairy products and *Rachel's Organic*[®] dairy products.

Our principal executive offices are located at 2515 McKinney Avenue, Suite 1200, Dallas, Texas 75201. Our telephone number is (214) 303-3400. We maintain a worldwide web site at www.deanfoods.com. We were incorporated in Delaware in 1994.

Segments and Operating Divisions

We have two reportable segments: the Dairy Group and WhiteWave Foods Company. Our reportable segments are described below.

Dairy Group

Our Dairy Group manufactures, markets and distributes a wide variety of branded and private label dairy case products to retailers, distributors, foodservice outlets, schools and governmental entities across the United States.

The Dairy Group's net sales totaled approximately \$8.82 billion in 2006, or approximately 87% of our consolidated net sales. The following charts graphically depict the Dairy Group's 2006 net sales by product and by channel, and indicate the percentage of private label versus company branded sales in 2006.

- (1) Includes, among other things, half-and-half, whipping cream, dairy coffee creamers and ice cream mix.
- (2) Includes ice cream and ice cream novelties.
- (3) Includes yogurt, cottage cheese, sour cream and dairy-based dips.
- (4) Includes fruit juice, fruit-flavored drinks and water.
- (5) Includes, among other things, items for resale such as butter, cheese and eggs.
- (6) Such as restaurants, hotels and other foodservice outlets.

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Products not sold under private labels are sold under the Dairy Group's local and regional proprietary or licensed brands. Our local and regional proprietary and licensed brands include the following:

Alta Dena®	Gandy ™	Oak Farms®
Arctic Splash®	Garelick Farms®	Over the Moon™
Barbers®	Hershey ® (licensed brand)	Pet® (licensed brand)
Barbe ®	Hygeia®	Price ™
Berkeley Farms™	Kohler™	Purity™
Broughton®	<i>LAND O LAKES</i>	Reiter™
Borden® (licensed brand)	(licensed brand)	Robinson®
Brown Cow®	Land-O-Sun & design®	Saunders™
Brown's Dairy®	Lehigh Valley®	Schenkel's All*Star™
Bud's Ice Cream™	Liberty™	Schepps®
Chug®	Louis Trauth®	Sealtest® (licensed brand)
Country Charm®	Maplehurst®	Shenandoah's Pride®
Country Churn™	Mayfield®	Skinny Cow™ (licensed brand)
Country Delite™	McArthur®	Stroh ®
Country Fresh®	Meadow Brook™	Swiss Dairy™
Country Love®	Meadow Gold®	Swiss Premium™
Creamland™	Melody Farms®	TG Lee®
Dairy Fresh®	Mile High Ice Cream™	Tuscan®
Dean ®	Model Dairy®	Turtle Tracks®
Dipzz®	Mountain High®	Verifine®
Fieldcrest®	Nature's Pride®	Viva®
Foremost® (licensed brand)		

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 (Wal-Mart including its subsidiaries, such as Sam's Club, which accounted for approximately 18.2% of the Dairy Group's 2006 net sales), purchase products from the Dairy Group either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

Our Dairy Group currently operates 98 manufacturing facilities in 34 states. For more information about facilities in the Dairy Group, see Item 2. Properties.

Due to the perishable nature of the Dairy Group's products, our Dairy Group delivers the majority of its products from its facilities 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. We believe our Dairy Group has one of the most extensive refrigerated DSD systems in the United States.

The primary raw material used in our Dairy Group is raw milk. We purchase our raw milk primarily from farmers cooperatives, typically pursuant to requirements contracts (with no minimum purchase obligation). Raw milk is generally readily available. The minimum price of raw milk is regulated in most parts of the country by the federal government. Several states also regulate raw milk pricing through their own programs. Another significant raw material used by our Dairy Group is resin, which is used to make plastic bottles. Resin is a petroleum-based product, and the price of resin is subject to fluctuations based on changes in crude oil prices. Resin supplies have from time to time been insufficient to meet demand. Other raw materials used by the Dairy Group, such as juice concentrates and

sweeteners, in addition to diesel fuel used to operate our extensive DSD system, are generally available from numerous suppliers and we are not dependent on any single supplier for these materials. Certain of our Dairy Group's raw materials and packaging supplies are purchased under long-term contracts in order to obtain lower costs. The prices of our raw materials increase and decrease based on supply and demand. For more

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information, see Government Regulation Milk Industry Regulation and Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Known Trends and Uncertainties Prices of Raw Materials and Other Inputs.

The Dairy Group generally increases or decreases the prices of its fluid dairy products on a monthly basis in correlation to fluctuations in the costs of raw materials, packaging supplies and delivery costs. However, in some cases, we are competitively or contractually constrained with respect to the means and/or timing of price increases. This can have a negative impact on the Dairy Group's profitability.

The dairy industry is a mature industry that has traditionally been characterized by slow to flat growth, low profit margins, fragmentation and excess capacity. Excess capacity resulted from the development of more efficient manufacturing techniques, the establishment of captive dairy manufacturing operations by some grocery retailers and declining demand for fluid milk products. From 1990 through 2001, the dairy industry experienced significant consolidation, led by us. Consolidation has resulted in lower operating costs, less excess capacity and greater efficiency. According to the United States Department of Agriculture (USDA), per capita consumption of fluid milk and cream decreased by over 10% from 1990 to the end of 2005, although total consumption has remained relatively flat over the same period due to population increases. Therefore, volume growth across the industry generally remains flat to modest, profit margins generally remain low and excess manufacturing capacity continues to exist. In this environment, price competition is particularly intense, as smaller processors seek to retain enough volume to cover their fixed costs. In response to this dynamic and significant competitive pressure caused by the ongoing consolidation among food retailers, many processors, including us, are now placing an increased emphasis on product differentiation and cost reduction in an effort to increase consumption, sales and margins.

Our Dairy Group has several competitors in each of our major product and geographic markets. Competition between dairy processors for shelf-space with retailers is based primarily on price, service and quality, while competition for consumer sales is based on a variety of factors such as brand recognition, price, taste preference and quality. Dairy products also compete with many other beverages and nutritional products for consumer sales.

For more information about our Dairy Group, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 20 to our Consolidated Financial Statements.

WhiteWave Foods Company

WhiteWave Foods Company develops, manufactures, 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* 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*[®] milks and milkshakes. We license the *LAND O LAKES* and *Hershey's* names from third parties.

WhiteWave Foods Company's net sales totaled approximately \$1.28 billion in 2006, or approximately 13% of our consolidated net sales. WhiteWave Foods Company sells its products to a variety of customers, including

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grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores and foodservice outlets. The following charts graphically depict WhiteWave Foods Company's net sales by brand and by channel:

- (1) Includes *Horizon Organic* and *The Organic Cow* organic dairy products.
- (2) Includes *Hershey's* milk and milk shakes and *White Wave* and *Tofu Town* tofu.

WhiteWave Foods Company sells its products through its internal sales force and through independent brokers. The majority of WhiteWave Foods Company's products including sales to its largest customer (Wal-Mart including its subsidiaries, such as Sam's Club, which accounted for approximately 14.3% of WhiteWave Foods Company's 2006 net sales) are sold pursuant to customer purchase orders or pursuant to contracts that are generally terminable at will by the customer.

In 2006, approximately 75% of the products sold by WhiteWave Foods Company were manufactured in facilities operated by either WhiteWave Foods Company or our Dairy Group. The remaining 25% were manufactured by third-party manufacturers under processing agreements. WhiteWave Foods Company currently operates seven manufacturing facilities, including three facilities that were previously operated by our Dairy Group. The majority of WhiteWave Foods Company's products are delivered by common carrier to customer warehouses, although some products are distributed through third-party distributors or through our Dairy Group's DSD system.

The primary raw material used in our soy-based products is organic soybeans. Organic soybeans are generally available from several suppliers and we are not dependent on any single supplier for these products. We have entered into supply agreements for organic soybeans, which we believe will meet our needs in 2007. These agreements provide pricing at fixed levels. The primary raw material used in our organic milk-based products is organic raw milk. We currently purchase organic raw milk from a network of over 360 dairy farmers across the United States. We also produce certain of our own organic raw milk needs in the U.S. at two organic farms that we own and operate and an additional farm that we lease and have contracted with a third party to manage. We generally enter into supply agreements with dairy farmers with typical terms of one to two years, which obligate us to purchase certain minimum quantities. In the recent past, the industry-wide demand for organic raw milk has generally exceeded supply, resulting in our inability to fully meet customer demand. However, we expect that our efforts to foster increased supply and overall industry supply growth will ease the historical shortfall in supply over the near term. We are currently taking steps to increase consumer demand for our products to avoid a meaningful oversupply of raw organic milk; however, there can be no assurance that the supply of raw organic milk in the market will not exceed demand in an amount that could exert downward pricing pressure on the sale of our products and negatively impact our profitability. The primary raw material used in our *LAND O LAKES* and other non-organic dairy products is raw milk. We purchase raw milk from farmers' cooperatives, typically pursuant to requirements contracts (with no minimum purchase obligation). Raw milk is generally readily available. The minimum price of raw milk is regulated in most parts of the country by the federal government. Several states also regulate raw milk pricing through their own programs. Other raw materials used in WhiteWave Foods Company's products, such as flavorings, organic sugar and packaging materials, are generally available from several suppliers and we are not dependent on any single supplier for these materials. Certain of these raw materials are purchased

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under long-term contracts in order to obtain lower costs. The prices of raw materials increase and decrease based on supply and demand. For more information, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Known Trends and Uncertainties Prices of Raw Materials and Other Inputs.

WhiteWave Foods Company has several competitors in each of its product markets. Competition to obtain shelf-space with retailers for a particular product is based primarily on the expected or historical sales performance of the product compared to its competitors. Also, in some cases, WhiteWave Foods Company pays fees to retailers to obtain shelf-space for a particular product. Competition for consumer sales is based on many factors, including brand recognition, price, taste preferences and quality. Consumer demand for soy and organic foods has grown rapidly in recent years due to growing consumer confidence in the health benefits of soy and organic foods, and WhiteWave Foods Company has a leading position in the soy and organic foods category. However, our soy and organic food products compete with many other beverages and nutritional products for consumer sales.

For more information about WhiteWave Foods Company, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 20 to our Consolidated Financial Statements.

Current Business Strategy

Lead Growth in The Dairy Category

As the largest dairy processor in the United States, our Dairy Group is in a unique position to provide unmatched service, convenience and value to our customers. We are intently focused on maintaining and extending our Dairy Group's leadership position by focusing on our customer needs.

In 2006, our Dairy Group's fresh milk volumes were up 1.9% compared to total U.S. consumption growth of approximately 1%, according to data published by the US Department of Agriculture. We believe this increase in market share is an indication of the success of our strategy. In 2007, we will maintain our focus on the highest level of service, quality and value.

Drive Efficiencies and Productivity to Fund Growth

In 2006, we began a multi-year project designed to extend our Dairy Group's competitive advantage through leveraging of our nation-wide purchasing power, as well as a realignment of our finance and accounting organization. As part of this project, we announced that we hired a Chief Procurement Officer in December 2006. In 2007, we will continue to evaluate our purchasing activities with a focus on reducing costs through consolidated purchase agreements. Throughout 2007, we will transition our finance and transaction personnel into regional accounting and transaction centers, improving the consistency, quality and cost of these activities.

Fully Leverage our Selling Systems, Especially DSD

Our Dairy Group operations include one of the largest refrigerated DSD networks in the United States. In addition to products manufactured within our Dairy Group facilities, we utilize the DSD network to deliver products manufactured by WhiteWave Foods Company, as well as third party products. In 2007, we will continue to focus on leveraging our DSD capabilities including the expansion of fresh fluid organic milk and single serve products.

Bring Innovation to the Category

Given our relative strength in people, facilities and customer-base, we have an opportunity to bring product innovation to the dairy case. In 2006, we significantly expanded the distribution of Rbst Free dairy products, further expanding

our product line to meet customer demand for healthy nutritional products. In 2007, we will introduce a new Silk Plus line of products. This extension of the Silk product line will feature additional fortifications designed to offer specific health benefits.

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Maximize the Performance of WhiteWave Foods Company

In 2004, we began the process of consolidating the operations of the three operating units that comprise our WhiteWave Foods segment into a single business. We are building a vertically integrated branded business with a focused product portfolio, efficient manufacturing processes and an efficient distribution system. During 2005, we completed the consolidation of our sales, marketing and research and development organization and began the process of integrating our supply chain. We consolidated most product manufacturing into five primary facilities, three of which were transferred from our Dairy Group, and we narrowed our network of co-packers. Further, we began building a leadership team with significant experience in growing a branded products company. In 2006, we focused on streamlining our product portfolio, focusing on our most profitable long-term opportunities, and on continuing to optimize our supply chain. In addition, in 2006 we installed the *Silk* and *Horizon Organic* brands and a portion of our plant network onto the SAP enterprise operating software platform. We expect to complete the installation of the remainder of our brands and production facilities in 2007. The implementation of the SAP platform across WhiteWave Foods Company will enable us to more effectively and efficiently manage our supply chain and business processes.

Developments Since January 1, 2006

Discontinued Operations

Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. 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. At that time, we recognized a 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 impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for net cash proceeds of approximately \$96.0 million. In addition to customary indemnifications of the purchaser of the business, we retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately \$19.8 million as of December 31, 2006) if certain regulatory approvals are not received with respect to a specific facility. A loss on the sale of our operations in Spain of \$6.8 million (net of tax) was recognized during 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (that comprised the remainder of our Iberian operations) for approximately \$11.4 million subject to regulatory approvals and working capital adjustments. We completed the sale of our Portuguese operations in January 2007. No significant loss is expected on the sale.

The Iberian operations have been reclassified as discontinued operations for all periods presented.

Management Changes

On April 27, 2006, we announced Jack F. Callahan Jr. as our 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.

On November 21, 2006, we announced Harrald Kroeker as our Senior Vice President and Chief Operating Officer, Dairy Group. Previously, Mr. Kroeker served in multiple executive capacities at Pepsi Bottling Group most recently

as Vice President and General Manager, Great West Business Unit.

On December 12, 2006, we announced Bradley J. Holcomb as our Senior Vice President and Chief Procurement Officer, Dairy Group. Previously, Mr. Holcomb served as Senior Vice President of Global Materials and Supply at Royal Group Technologies Limited.

On February 22, 2007, we announced Blaine E. McPeak as our President, Horizon Organic. Previously, Mr. McPeak served as President of Kellogg Company's Wholesome Portable Breakfast and Snacks division.

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Stock Repurchases

Between February 1 and December 31, 2006, we spent approximately \$399.9 million to repurchase 10.0 million shares of our common stock for an average price of \$39.90 per share, excluding commissions and fees. On May 3, 2006, and again on November 29, 2006, our Board of Directors authorized increases in our stock repurchase program in the aggregate amount of \$600 million. At February 23, 2007, approximately \$218.7 million remained available under our stock repurchase authorization.

Facility Closing and Reorganization Activities

In 2006, we recorded a charge of \$25.1 million as part of our ongoing costs savings initiative. We recorded a charge of \$23.0 million related to our Dairy Group operations for the closing of three Dairy Group facilities and other previously announced plans. We also recorded a charge of \$2.1 million related to the previously announced reorganization of WhiteWave Foods Company. We expect to incur additional charges related to all of these restructuring plans of approximately \$15.4 million, primarily in 2007. A significant portion of the 2007 charges relate to the realignment of our Dairy Group's finance and accounting organization. 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; 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.

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

Employees

As of December 31, 2006, we had the following employees:

	No. of Employees	% of Total
Dairy Group	24,828	94%
WhiteWave Foods Company	1,311	5
Corporate	209	1
Total	26,348	100%

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Approximately 35% of the Dairy Group's and 38% of WhiteWave Foods Company's employees participate in collective bargaining agreements.

Government Regulation

Public Health

As a manufacturer and distributor of food products, we are subject to a number of food-related regulations, including the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA). This comprehensive regulatory framework governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the United States. The FDA:

- regulates manufacturing practices for foods through its current good manufacturing practices regulations,
- specifies the standards of identity for certain foods, including many of the products we sell, and
- prescribes the format and content of certain information required to appear on food product labels.

In addition, the FDA enforces the Public Health Service Act and regulations issued thereunder, which authorize regulatory activity necessary to prevent the introduction, transmission or spread of communicable diseases. These regulations require, for example, pasteurization of milk and milk products. We are subject to numerous other federal, state and local regulations involving such matters as the licensing and registration of manufacturing facilities, enforcement by government health agencies of standards for our products, inspection of our facilities and regulation of our trade practices in connection with the sale of food products.

We use quality control laboratories in our manufacturing facilities to test raw ingredients. Product quality and freshness are essential to the successful distribution of our products. To monitor product quality at our facilities, we maintain quality control programs to test products during various processing stages. We believe our facilities and manufacturing practices comply with all material government regulations.

Employee Safety Regulations

We are subject to certain safety regulations, including regulations issued pursuant to the U.S. Occupational Safety and Health Act. These regulations require us to comply with certain manufacturing safety standards to protect our employees from accidents. We believe that we are in material compliance with all employee safety regulations.

Environmental Regulations

We are subject to various environmental regulations. Ammonia, a refrigerant used extensively in our operations, is considered an extremely hazardous substance pursuant to U.S. federal environmental laws due to its toxicity. Also, certain of our facilities discharge biodegradable wastewater into municipal waste treatment facilities in excess of levels permitted under local regulations. As a result, certain of our subsidiaries are required to pay wastewater surcharges or to construct wastewater pretreatment facilities. To date, such wastewater surcharges have not had a material effect on our Consolidated Financial Statements.

We maintain above-ground or underground petroleum storage tanks at many of our facilities. These tanks are periodically inspected to determine compliance with applicable regulations. We are required to make expenditures from time to time in order to maintain compliance of these tanks. To date, such expenditures have not had a material effect on our Consolidated Financial Statements. In accordance with Financial Accounting Standards Board

Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations , we recognized a liability of \$2.8 million as of December 31, 2005, representing the estimated future cost of removing certain underground fuel storage tanks. As we generally have ceased construction of new underground fuel storage tanks, the impact of this Interpretation was not material in 2006 and we do not anticipate the impact to be material in future periods.

We believe that we are in material compliance with the environmental regulations applicable to our business. We do not expect environmental compliance to have a material impact on our capital expenditures, earnings or competitive position in the foreseeable future.

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Milk Industry Regulation

The federal government establishes minimum prices that we must pay to producers in federally regulated areas for raw milk. Raw milk contains primarily raw skim milk, in addition to a small percentage of butterfat. The federal government establishes separate minimum prices for raw skim milk and butterfat. Raw milk delivered to our facilities is tested to determine the percentage of butterfat, and we pay our suppliers separate prices for the raw skim milk and butterfat based on the results of these tests.

The federal government's minimum prices are calculated by economic formula based on supply and demand and vary depending on the processor's geographic location or sales area and the type of product manufactured using the raw product. Federal minimum prices change monthly. Class I butterfat and raw skim milk prices (which are the minimum prices we are required to pay for butterfat and raw skim milk that is processed into milk) and Class II raw skim milk prices (which are the prices we are required to pay for raw skim milk that is processed into products such as cottage cheese, creams, creamers, ice cream and sour cream) for each month are announced by the federal government by the 23rd day of the immediately preceding month. Class II butterfat prices for each month are announced on or before the fifth day after the end of that month.

Some states have established their own rules for determining minimum prices for raw milk. In addition to the federal or state minimum prices, we also pay producer premiums, procurement costs and other related charges that vary by location and vendor. A few states also have retail pricing requirements.

Organic Regulations

Our organic products are required to meet the standards set forth in the Organic Foods Production Act (OFPA) and the regulations adopted thereunder by the National Organic Standards Board. These regulations require strict methods of production for organic food products and limit the ability of food processors to use non organic or synthetic materials in the production of organic foods or in the raising of organic livestock. We believe that we are in material compliance with the organic regulations applicable to our business.

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We commenced operations in 1988 through a predecessor entity. Our original operations consisted solely of a packaged ice business. Since then the following activity has occurred:

December 1993	Acquired Suiza Dairy Corporation, a regional dairy processor located in Puerto Rico. We then began acquiring other local and regional U.S. dairy processors, growing our dairy business rapidly primarily through acquisitions.
April 1996	Completed our initial public offering under our former name Suiza Foods Corporation and began trading on NASDAQ National Market.
January 1997	Completed a secondary offering.
March 1997	Began trading on the New York Stock Exchange.
August 1997	Acquired Franklin Plastics, Inc., a company engaged in the business of manufacturing and selling plastic containers. After the acquisition, we began acquiring other companies in the plastic packaging industry.
November 1997	Acquired Morningstar Foods Inc., whose business was a predecessor to our WhiteWave Foods Company. This was our first acquisition of a company with national brands.
April 1998	Sold our packaged ice operations.
May 1998	Acquired Continental Can Company, making us one of the largest plastic packaging companies in the United States.
July 1999	Sold all of our U.S. plastic packaging operations to Consolidated Container Company in exchange for cash and a minority interest in the purchaser.
January 2000	Acquired Southern Foods Group, L.P., the third largest dairy processor in the United States, making us the largest dairy processor in the country.
February 2000	Acquired Leche Celta, one of the largest dairy processors in Spain.
March and May 2000	Sold our European packaging operations.
December 2001	Acquired Dean Foods Company (Legacy Dean) and changed our name from Suiza Foods Corporation to Dean Foods Company. Legacy Dean changed its name to Dean Holding Company.
May 2002	Acquired the portion of White Wave, Inc. that we did not already own.
January 2004	Acquired the portion of Horizon Organic that we did not already own.
2005	Consolidated our nationally branded business, including White Wave, Horizon Organic and Dean National Brand Group into a single operating unit called WhiteWave Foods Company.
June 2005	Spun-off our Specialty Foods Group segment to our shareholders.
September 2006	Sold our Leche Celta operations in Spain.
January 2007	Sold our Leche Celta operations in Portugal.

Minority Holdings

We own an approximately 25% interest, on a fully diluted basis, in Consolidated Container Company (CCC), one of the nation's largest manufacturers of rigid plastic containers and our largest supplier of plastic bottles and bottle components. We have owned a minority interest in CCC since July 1999 when we sold our U.S. plastic packaging operations to CCC. Vestar Capital Partners controls CCC through a majority ownership interest. Less than 1% of CCC is owned indirectly by Alan Bernon, President of our Dairy Group and a member of our Board of Directors, and his

brother Peter Bernon. Pursuant to our agreements with Vestar, we control two of the eight seats on CCC's Management Committee. We also have entered into various supply agreements with CCC pursuant to which we have agreed to purchase certain of our requirements for plastic bottles and bottle components from CCC. In 2006, we spent approximately \$284.4 million on products purchased from CCC. Because CCC has

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issued certain senior notes, CCC files annual, quarterly and other reports with the Securities and Exchange Commission. More information about CCC can be found on its website at www.cccllc.com or in its filings with the Securities and Exchange Commission available at www.sec.gov.

See Note 3 to our Consolidated Financial Statements for more information about our investment in CCC.

Where You Can Get More Information

Our fiscal year ends on December 31. We furnish our stockholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

You may read and copy any reports, statements or other information that we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

We file our reports with the Securities and Exchange Commission electronically through the Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding companies that file electronically with the Securities and Exchange Commission through EDGAR. The address of this Internet site is <http://www.sec.gov>.

We also make available free of charge through our website at www.deanfoods.com our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Our Code of Ethics, which is applicable to all of our employees and directors, is available on our corporate website at www.deanfoods.com, together with the Corporate Governance Principles of our Board of Directors and the charters of all of the Committees of our Board of Directors. Any waivers that we may grant to our executive officers or directors under the Code of Ethics, and any amendments to our Code of Ethics, will be posted on our corporate website. If you would like hard copies of any of these documents, or of any of our filings with the Securities and Exchange Commission, write or call us at:

Dean Foods Company
2515 McKinney Avenue, Suite 1200
Dallas, Texas 75201
(214) 303-3400
Attention: Investor Relations

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, potential, or otherwise, and words with similar negative connotations. These statements are only predictions, and in evaluating them, 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.

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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. During 2005, we appointed a new President of WhiteWave Foods Company, 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 began the process of integrating our supply chain. 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 focused on streamlining our product portfolio, focusing on the most profitable opportunities, and on continuing to optimize our supply chain. On January 1, 2006, we transferred our Rachel's Organic business in the United Kingdom from our former International division to WhiteWave Foods Company. In addition, in 2006 we installed the *Silk* and *Horizon Organic* brands and a portion of our plant network onto the SAP enterprise operating software platform. We expect to complete the installation of the remainder of our brands and production facilities in 2007. The implementation of the SAP platform across WhiteWave Foods Company 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

In 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. We are currently focused on reorganizing our purchasing, finance 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.

The Consolidation of Retail Customers May Put Pressures on Our Operating Margins and Profitability

Our customers such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years and consolidation is expected to continue. These consolidations have produced large, sophisticated customers with increased buying power. These customers may use shelf space currently used for our products for their private label products. If we fail to respond to these trends, our volume growth could slow or we may need to lower prices or increase promotional spending for our products, any of which would adversely affect our profitability.

Availability and 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 soybeans 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. We expect certain raw material prices, including raw skim milk prices, to increase in 2007.

In the recent past, the industry-wide demand for organic raw milk has generally exceeded supply, resulting in our inability to fully meet customer demand. However, our efforts to foster increased supply have increased overall industry supply which has eased the historical shortfall in supply. We are currently taking steps to increase consumer demand for our products to avoid a meaningful oversupply of raw organic milk; however, there can be no

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assurance that the supply of raw organic milk in the market will not exceed demand in an amount that could exert downward pricing pressure on the sale of our products and negatively impact our profitability.

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. Resin supplies have from time to time been insufficient to meet demand. Over the first nine months of 2006, the prices of resin and fuel increased before decreasing over the last three months of the year. 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.

Our Products Could Attract Increased Competitive Activity, Which Could Impede Our Growth Rate and Cost Us Sales

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. The willingness of consumers to purchase our products will depend upon our ability to offer products providing the right consumer benefits at the right price. Furthermore, in periods of economic uncertainty, consumers tend to purchase more private label or other lower-priced products which could result in a reduction of sales.

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.

We May Experience Liabilities or Negative Effects on Our Reputation as a Result of Product Recalls, Product Injuries or Other Legal Claims

We sell products for human consumption, which involves a number of legal risks. Product contamination, spoilage or other adulteration, product misbranding or product tampering could require us to recall products. We also may be subject to liability if our products or operations violate applicable laws or regulations or in the event our products cause injury, illness or death. In addition, we advertise our products and could be the target of claims relating to false or deceptive advertising under U.S. federal and state laws, including consumer protection statutes of some states. A significant product liability or other legal judgment against us or a widespread product recall may negatively impact our profitability. Even if a product liability or consumer fraud claim is unsuccessful or is not merited, the negative publicity surrounding such assertions regarding our products or processes could adversely affect our reputation and brand image.

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.

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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*, *P&G* 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 Part II Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

We have pledged substantially all of our assets (including the assets of our subsidiaries) to secure our indebtedness. Our 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 certain of 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.

Item 1B. *Unresolved Staff Comments*

None.

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Item 2. *Properties*

Dairy Group

Our Dairy Group currently conducts its manufacturing operations within the following 98 facilities, most of which are owned:

Birmingham, Alabama (2)
Decatur, Alabama
Buena Park, California (2)
City of Industry, California
Fullerton, California
Gustine, California
Hayward, California
Riverside, California
Tulare, California
Delta, Colorado
Denver, Colorado (3)
Englewood, Colorado
Greeley, Colorado
Newington, Connecticut
Miami, Florida
Orange City, Florida
Orlando, Florida
Baxley, Georgia
Braselton, Georgia
Hilo, Hawaii
Honolulu, Hawaii
Boise, Idaho
Belvidere, Illinois
Chemung, Illinois
Huntley, Illinois
O Fallon, Illinois
Rockford, Illinois
Huntington, Indiana
Rochester, Indiana
Louisville, Kentucky
Murray, Kentucky
Newport, Kentucky
New Orleans, Louisiana
Shreveport, Louisiana
Bangor, Maine
Franklin, Massachusetts
Lynn, Massachusetts
Mendon, Massachusetts
Detroit, Michigan
Ewart, Michigan

Flint, Michigan
Grand Rapids, Michigan
Livonia, Michigan
Marquette, Michigan
Thief River Falls, Minnesota
White Bear Lake, Minnesota
Woodbury, Minnesota
Billings, Montana
Great Falls, Montana
Kalispell, Montana
Lincoln, Nebraska
Las Vegas, Nevada
Reno, Nevada
Burlington, New Jersey
Albuquerque, New Mexico
New Delhi, New York
Rensselaer, New York
Hickory, North Carolina
High Point, North Carolina
Winston-Salem, North Carolina
Bismarck, North Dakota
Tulsa, Oklahoma
Marietta, Ohio
Springfield, Ohio
Toledo, Ohio
Belleville, Pennsylvania
Erie, Pennsylvania
Lansdale, Pennsylvania
Lebanon, Pennsylvania
Schuylkill Haven, Pennsylvania
Sharpsville, Pennsylvania
Florence, South Carolina
Spartanburg, South Carolina
Sioux Falls, South Dakota
Athens, Tennessee
Kingsport, Tennessee
Nashville, Tennessee (2)
Dallas, Texas (2)
El Paso, Texas
Houston, Texas
Lubbock, Texas
McKinney, Texas
San Antonio, Texas
Sulphur Springs, Texas (2)
Waco, Texas
Orem, Utah
Salt Lake City, Utah
Portsmouth, Virginia
Springfield, Virginia
Richland Center, Wisconsin
Sheboygan, Wisconsin

Each of the Dairy Group's manufacturing facilities also serves as a distribution facility. In addition, our Dairy Group has numerous distribution branches located across the country, some of which are owned but most of which are leased. The Dairy Group's headquarters are located in Dallas, Texas in leased premises.

WhiteWave Foods Company

WhiteWave Foods Company currently conducts its manufacturing operations from the following seven facilities, all but one of which is owned:

City of Industry, California

Boulder, Colorado

Jacksonville, Florida

Bridgeton, New Jersey

Cedar City, Utah

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Mt. Crawford, Virginia

Aberystwyth, United Kingdom

WhiteWave Foods Company also owns two organic dairy farms located in Paul, Idaho and Kennedyville, Maryland and leases an organic dairy farm in Portales, New Mexico.

WhiteWave Foods Company's headquarters are located in leased premises in Broomfield, Colorado.

Corporate

Our corporate headquarters are located in leased premises at 2515 McKinney Avenue, Suite 1200, Dallas, Texas 75201.

Item 3. *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.

Two shareholder derivative complaints were filed in July and October 2006 in the district court of Dallas County, Texas, which allege stock option backdating. The complaints name certain current and former members of the Board of Directors and certain current and former members of management. In response to the litigation, a special litigation committee of our Board of Directors was established in August 2006. The Committee has conducted its own independent review of our stock option grants and the allegations made in the complaints. The committee consists of independent board members not named in the litigation. This Committee has determined that there were no fraudulent acts by management.

The staff of the Securities and Exchange Commission (the SEC) is conducting an informal inquiry into our stock option practices. We are cooperating fully with the SEC's inquiry.

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

No matter was submitted by us during the fourth quarter of 2006 to a vote of security holders, through the solicitation of proxies or otherwise.

Table of Contents**PART II****Item 5. *Market for Our Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock began trading on the NASDAQ National Market on April 17, 1996, and continued trading on the NASDAQ until March 5, 1997, when it began trading on the New York Stock Exchange under the symbol SZA. We changed our trading symbol to DF effective December 24, 2001. The following table sets forth the high and low sales prices of our common stock as quoted on the New York Stock Exchange for the last two fiscal years. At February 23, 2007, there were approximately 4,854 record holders of our common stock.

	High	Low
2005:		
First Quarter	\$ 35.60	\$ 31.74
Second Quarter	41.07	33.87
Third Quarter	38.86	34.80
Fourth Quarter	39.45	34.45
2006:		
First Quarter	39.69	37.02
Second Quarter	39.79	34.70
Third Quarter	42.81	35.97
Fourth Quarter	43.51	39.36
2007:		
First Quarter (through February 23, 2007)	46.22	41.26

On June 27, 2005, we declared a stock dividend related to the Spin-off of TreeHouse Foods, which decreased our stock price. No adjustment has been made to the historical stock prices related to the impact of the stock dividend.

We have not historically declared or paid a cash dividend on our common stock. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Current Debt Obligations and Note 9 to our Consolidated Financial Statements for further information regarding the terms of our senior credit facility.

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A summary of the increases in our stock repurchase program, as authorized by our Board of Directors, is shown below.

Date of Authorization	Authorized Increase in Stock Repurchase Program	Cumulative Authorized Stock Repurchase Program
	(In millions)	
September 15, 1998	\$ 100	\$ 100
September 28, 1999	100	200
November 17, 1999	100	300
May 19, 2000	100	400
November 2, 2000	100	500
January 8, 2003	150	650
February 12, 2003	150	800
September 7, 2004	200	1,000
November 2, 2004	100	1,100
August 10, 2005	300	1,400
November 2, 2005	300	1,700
May 3, 2006	300	2,000
November 29, 2006	300	2,300

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

Period(1)	Total Number of Shares (or Units) Purchased	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)
February 2006	400,000	\$ 38.37	70,382,766	\$ 3.2 million
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
October 2006	716,100	41.63	74,436,066	153.1 million
November 2006	3,493,600	41.53	77,929,666	308.0 million
December 2006	2,075,300	43.06	80,004,966	218.7 million

Total 10,022,200

- (1) Repurchases during 2006 were made only in the months listed.
- (2) Excludes fees and commissions paid on stock repurchases.
- (3) Amount represents maximum amount authorized for share repurchases. At December 31, 2006, approximately \$218.7 million remained available pursuant to the stock repurchase program approved by our Board of Directors on November 29, 2006, which allowed for the repurchase of an additional \$300 million in stock beyond amounts previously authorized. The amount can be increased by actions of our Board of Directors.

Table of Contents**Item 6. Selected Financial Data**

The following selected financial data as of and for each of the five years in the period ended December 31, 2006 has been derived from our audited Consolidated Financial Statements. Balances for 2002 through 2006 have been adjusted to remove our Leche Celta operations which have been reclassified as discontinued operations. The selected financial data do not purport to indicate results of operations as of any future date or for any future period. The selected financial data should be read in conjunction with our Consolidated Financial Statements and related Notes.

	Year Ended December 31				
	2006	2005	2004	2003	2002
	(Dollars in thousands except share data)				
Operating data(1):					
Net sales	\$ 10,098,555	\$ 10,174,718	\$ 9,725,548	\$ 8,146,103	\$ 8,002,677
Cost of sales(2)	7,358,676	7,591,548	7,338,138	5,985,527	5,895,645
Gross profit	2,739,879	2,583,170	2,387,410	2,160,576	2,107,032
Operating costs and expenses:					
Selling and distribution(2)	1,648,860	1,581,028	1,472,112	1,309,498	1,262,492
General and administrative	409,225	380,490	355,772	330,751	343,355
Amortization of intangibles	5,983	6,106	5,105	3,576	6,229
Facility closing and reorganization costs	25,116	35,451	24,575	11,787	19,050
Other operating income(3)			(5,899)	(68,719)	
Total operating costs and expenses	2,089,184	2,003,075	1,851,665	1,586,893	1,631,126
Operating income	650,695	580,095	535,745	573,683	475,906
Other (income) expense:					
Interest expense(4)	194,547	160,230	191,788	166,897	181,795
Financing charges on trust issued preferred securities				14,164	33,578
Equity in (earnings) losses of unconsolidated affiliates				(244)	7,899
Other (income) expense, net	435	(683)	(722)	(2,708)	2,953

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Total other expense	194,982	159,547	191,066	178,109	226,225
Income from continuing operations before income taxes	455,713	420,548	344,679	395,574	249,681
Income taxes	175,450	163,898	138,472	159,386	94,623
Minority interest in earnings					30
Income from continuing operations	280,263	256,650	206,207	236,188	155,028
Gain (loss) on sale of discontinued operations, net of tax	(1,978)	38,763			(8,231)
Income (loss) from discontinued operations, net of tax	(52,871)	14,793	47,514	85,297	58,888
Income before cumulative effect of accounting change	225,414	310,206	253,721	321,485	205,685
Cumulative effect of accounting change, net of tax(5)		(1,552)			(61,519)
Net income	\$ 225,414	\$ 308,654	\$ 253,721	\$ 321,485	\$ 144,166
Basic earnings per common share:					
Income from continuing operations	\$ 2.09	\$ 1.75	\$ 1.33	\$ 1.63	\$ 1.15
Income (loss) from discontinued operations	(0.41)	0.36	0.31	0.58	0.39
Cumulative effect of accounting change		(0.01)			(0.47)
Net income	\$ 1.68	\$ 2.10	\$ 1.64	\$ 2.21	\$ 1.07
Diluted earnings per common share:					
Income from continuing operations	\$ 2.01	\$ 1.67	\$ 1.28	\$ 1.53	\$ 1.08
Income (loss) from discontinued operations	(0.40)	0.35	0.30	0.53	0.31
Cumulative effect of accounting change		(0.01)			(0.38)
Net income	\$ 1.61	\$ 2.01	\$ 1.58	\$ 2.06	\$ 1.01

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Average common
shares:

Basic	133,938,777	146,673,322	154,635,979	145,201,412	135,031,274
Diluted	139,762,104	153,438,636	160,704,576	160,695,670	163,163,904

Other data:

Ratio of earnings to fixed charges(6)	2.87x	3.01x	2.69x	2.89x	2.16x
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	Year Ended December 31				
	2006	2005	2004	2003	2002
	(Dollars in thousands except share data)				
Balance sheet data (at end of period):					
Total assets	\$ 6,770,173	\$ 7,050,884	\$ 7,756,368	\$ 6,992,536	\$ 6,582,265
Long-term debt(7)	3,355,851	3,386,848	3,214,269	2,777,928	2,674,122
Other long-term liabilities	238,682	225,479	321,252	256,371	287,567
Mandatorily redeemable convertible trust issued preferred securities					585,177
Total stockholders' equity(8)	1,809,399	1,902,213	2,692,985	2,567,390	1,665,512

- (1) On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment , which requires, among its provisions, that compensation expense for equity awards be recognized over the vesting period based on their grant date fair values. 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. For financial reporting purposes, share-based compensation expense is included within the same financial statement caption where the recipient's cash compensation is reported. As a result of adopting SFAS No. 123(R) using the modified retrospective approach, our net income was reduced by \$18.9 million, \$31.7 million, \$34.2 million and \$31.2 million in 2005, 2004, 2003 and 2002, respectively.
- (2) In 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in the distribution of our products from cost of sales to distribution expense. The reclassification reduced cost of sales and increased distribution expense by \$42.0 million, \$36.2 million, \$27.5 million and \$22.1 million in 2005, 2004, 2003 and 2002, respectively. The reclassification had no impact on net income.
- (3) Results for 2004 include a gain of \$5.9 million primarily related to the settlement of litigation. Results for 2003 include a gain of \$66.2 million on the sale of our frozen pre-whipped topping and frozen creamer operations and a gain of \$2.5 million related to the divestiture of 11 facilities in 2001 in connection with our acquisition of Dean Holding Company.
- (4) Results for 2004 include a charge of \$32.6 million to write-off deferred financing costs related to the refinancing of our senior credit facility.
- (5) In the fourth quarter of 2005, we adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 47 Accounting for Conditional Asset Retirement Obligations . If FIN 47 had always been in effect, we would have expensed this amount for depreciation in periods prior to January 1, 2005.
- (6) For purposes of calculating the ratio of earnings to fixed charges, earnings represents income before income taxes plus fixed charges. Fixed charges consist of interest on all debt, amortization of deferred financing costs and the portion of rental expense that we believe is representative of the interest component of rent expense.
- (7) Includes the current portion of long-term debt.
- (8)

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The balance at December 31, 2006 reflects a \$14.8 million reduction related to the adoption of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R) . The reduction had no impact on net income.

Table of Contents**Item 7. 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 develops, manufactures, 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*[®] creamers and fluid dairy products and *Rachel's Organic*[®] dairy products.

Dairy Group Our Dairy Group segment is our largest segment, with approximately 87% of our consolidated net sales in 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.

The dairy industry is a mature industry that has traditionally been characterized by slow to flat growth, low profit margins, fragmentation and excess capacity. Excess capacity resulted from the development of more efficient manufacturing techniques, the establishment of captive dairy manufacturing operations by some grocery retailers and declining demand for fluid milk products. From 1990 through 2001, the dairy industry experienced significant consolidation, led by us. Consolidation has resulted in lower operating costs, less excess capacity and greater efficiency. According to the United States Department of Agriculture (USDA), per capita consumption of fluid milk and cream decreased by over 10% from 1990 to the end of 2005, although total consumption has remained relatively flat over the same period due to population increases. Therefore, volume sales growth across the industry generally remains flat to modest, profit margins generally remain low and excess manufacturing capacity continues to exist. In this environment, price competition is particularly intense, as smaller processors struggle to retain enough volume to cover their fixed costs. In response to this dynamic and significant competitive pressure caused by the ongoing consolidation among food retailers, many processors, including us, are now placing an increased emphasis on product differentiation, and cost reduction in an effort to increase consumption, sales and margins.

Our Dairy Group has several competitors in each of our major product and geographic markets. Competition between dairy processors for shelf-space with retailers is based primarily on price, service and quality, while competition for consumer sales is based on a variety of factors such as brand recognition, price, taste preference and quality. Dairy products also compete with many other beverages and nutritional products for consumer sales.

WhiteWave Foods Company WhiteWave Foods Company develops, manufactures, 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* creamers and fluid dairy products and *Rachel's Organic* dairy products. WhiteWave Foods Company also sells *The Organic Co.*[®] 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.

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. WhiteWave Foods Company sells its products through its internal sales force and through independent brokers. Most of the WhiteWave Foods Company's customers, including its largest customer, purchase products from WhiteWave Foods Company either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

WhiteWave Foods Company has several competitors in each of its product markets. Competition to obtain shelf-space with retailers for a particular product is based primarily on the expected or historical sales performance

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of the product compared to its competitors. In some cases, WhiteWave Foods Company pays fees to retailers to obtain shelf-space for a particular product. Competition for consumer sales is based on many factors, including brand recognition, price, taste preferences and quality. Consumer demand for soy and organic foods has grown rapidly in recent years due to growing consumer confidence in the health benefits of soy and organic foods, and WhiteWave Foods Company has a leading position in the soy and organic foods category. However, our soy and organic food products compete with many other beverages and nutritional products for consumer sales.

Recent Developments

Discontinued Operations

Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. 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. At that time, we recognized a 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 impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for net cash proceeds of approximately \$96.0 million. In addition to customary indemnifications of the purchaser of the business, we retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately \$19.8 million as of December 31, 2006) if certain regulatory approvals are not received with respect to a specific facility. A loss on the sale of our operations in Spain of \$6.8 million (net of tax) was recognized during 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (that comprised the remainder of our Iberian operations) for approximately \$11.4 million subject to regulatory approvals and working capital settlements. We completed the sale of our Portuguese operations in January 2007. No significant loss is expected on the sale.

The Iberian operations have been reclassified as discontinued operations for all periods presented.

Acquisitions

In February 2007, our Dairy Group entered into an agreement to acquire Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction will expand our cultured dairy product capabilities and add a strong regional brand. The purchase price will be approximately \$130 million, including the costs of the acquisition. We expect to complete the transaction by the second quarter of 2007, subject to regulatory approval.

Management Changes

On April 27, 2006, we announced Jack F. Callahan Jr. as our 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.

On November 21, 2006, we announced Harrald Kroeker as our Senior Vice President and Chief Operating Officer, Dairy Group. Previously, Mr. Kroeker served in multiple executive capacities at Pepsi Bottling Group most recently as Vice President and General Manager, Great West Business Unit.

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On December 12, 2006, we announced Bradley J. Holcomb as our Senior Vice President and Chief Procurement Officer, Dairy Group. Previously, Mr. Holcomb served as Senior Vice President of Global Materials and Supply at Royal Group Technologies Limited.

On February 22, 2007, we announced Blaine E. McPeak as our President, Horizon Organic. Previously, Mr. McPeak served as President of Kellogg Company's Wholesome Portable Breakfast and Snacks division.

Stock Repurchases

Between February 1 and December 31, 2006, we spent approximately \$399.9 million to repurchase 10.0 million shares of our common stock for an average price of \$39.90 per share, excluding commissions and fees. On May 3, 2006, and again on November 29, 2006 our Board of Directors authorized increases in our stock repurchase program in the aggregate amount of \$600 million. At February 23, 2007, approximately \$218.7 million remained available under our stock repurchase authorization.

Facility Closing and Reorganization Activities

In 2006, we recorded a charge of \$25.1 million as part of our ongoing costs savings initiative. We recorded a charge of \$23.0 million related to our Dairy Group operations for the closing of three Dairy Group facilities and other previously announced plans. We also recorded a charge of \$2.1 million related to the previously announced reorganization of WhiteWave Foods Company. We expect to incur additional charges related to all of these restructuring plans of approximately \$15.4 million, primarily in 2007. A significant portion of the 2007 charges relate to the realignment of our Dairy Group's finance and accounting organization. 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; 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.

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

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

	2006		Year Ended December 31 2005		2004	
	Dollars	Percent	Dollars (Dollars in millions)	Percent	Dollars	Percent
Net sales	\$ 10,098.6	100.0%	\$ 10,174.7	100.0%	\$ 9,725.5	100.0%
Cost of sales	7,358.7	72.9	7,591.5	74.6	7,338.1	75.5
Gross profit	2,739.9	27.1	2,583.2	25.4	2,387.4	24.5
Operating costs and expenses:						
Selling and distribution	1,648.9	16.3	1,581.0	15.5	1,472.1	15.1
General and administrative	409.2	4.1	380.5	3.7	355.8	3.7
Amortization of intangibles	6.0	0.1	6.1	0.1	5.1	0.1
Facility closing and reorganization costs	25.1	0.2	35.5	0.4	24.6	0.2
Other operating income					(5.9)	(0.1)
Total operating costs and expenses	2,089.2	20.7	2,003.1	19.7	1,851.7	19.0
Total operating income	\$ 650.7	6.4%	\$ 580.1	5.7%	\$ 535.7	5.5%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 Consolidated Results

Net Sales Consolidated net sales decreased approximately 0.7% to \$10.10 billion during 2006 from \$10.17 billion in 2005. Net sales by segment are shown in the table below.

	Net Sales			
	2006	2005	\$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in millions)			
Dairy Group	\$ 8,821.0	\$ 8,973.4	\$ (152.4)	(1.7)%
WhiteWave Foods Company	1,277.6	1,201.3	76.3	6.4
Total	\$ 10,098.6	\$ 10,174.7	\$ (76.1)	(0.7)

The change in net sales was due to the following:

	Change in Net Sales 2006 vs. 2005		
	Acquisitions	Pricing, Volume and Product Mix Changes (In millions)	Total Increase/ (Decrease)
Dairy Group	\$ 8.0	\$ (160.4)	\$ (152.4)
WhiteWave Foods Company		76.3	76.3
Total	\$ 8.0	\$ (84.1)	\$ (76.1)

Net sales decreased approximately \$76.1 million during 2006 compared to the prior year primarily due to lower raw milk costs in our Dairy Group, partly offset by volume growth at the Dairy Group and WhiteWave Foods Company and increased pricing at WhiteWave Foods Company.

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 our finished products from our manufacturing facilities to our own distribution facilities. Cost of sales decreased by

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approximately 3.1% to \$7.36 billion in 2006 from \$7.59 billion in 2005 primarily due to lower raw milk costs in our Dairy Group, partly offset by increased volumes at the Dairy Group and WhiteWave Foods Company and higher commodity costs at WhiteWave Foods Company. Our cost of sales as a percentage of net sales decreased to 72.9% in 2006 compared to 74.6% in 2005 primarily due to the impact of lower raw milk prices and higher volumes.

Operating Costs and Expenses Our operating expenses increased approximately \$86.1 million, or approximately 4.3%, during 2006 versus the prior year. Significant changes to operating expenses include the following:

Distribution costs increased approximately \$60.1 million due to increased volumes and higher fuel costs partly offset by distribution efficiencies at WhiteWave Foods Company;

General and administrative expenses at our Dairy Group were approximately \$24.2 million higher than last year, primarily due to higher information technology spending and higher salaries and benefits;

Marketing costs increased approximately \$10.2 million due to higher spending at WhiteWave Foods Company and our Dairy Group;

Bad debt expense decreased \$10.6 million compared to 2005. The expense in 2005 was higher due to the impact of Hurricane Katrina and the write-off of a receivable from a large customer; and

Net facility closing and reorganization costs that were approximately \$10.3 million lower than 2005. See Note 15 to our Consolidated Financial Statements for further information on our facility closing and reorganization activities.

Our operating expense as a percentage of net sales increased to 20.7% for 2006 as compared to 19.7% for 2005, partly due to lower net sales resulting from lower raw milk costs.

Operating Income For the reasons noted above, operating income was \$650.7 million in 2006, an increase of \$70.6 million from 2005 operating income of \$580.1 million. Our operating margin was 6.4% in 2006 compared to 5.7% in 2005.

Other (Income) Expense Interest expense increased to \$194.5 million in 2006 from \$160.2 million in 2005 primarily due to higher interest rates, including higher interest rates on our \$500 million aggregate principal amount of senior notes issued on May 17, 2006, and higher average debt outstanding.

Income Taxes Income tax expense was recorded at an effective rate of 38.5% in 2006 compared to 39.0% in 2005. Our effective tax rate varies based on the relative earnings of our business units. In 2006, our income tax rate was positively impacted by the settlement of certain state and federal tax matters.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 Results by Segment

Dairy Group

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

Year Ended December 31			
2006		2005	
Dollars	Percent	Dollars	Percent

(Dollars in millions)

Net sales	\$ 8,821.0	100.0%	\$ 8,973.4	100.0%
Cost of sales	6,529.3	74.0	6,809.5	75.9
Gross profit	2,291.7	26.0	2,163.9	24.1
Operating costs and expenses	1,613.7	18.3	1,521.9	16.9
Total operating income	\$ 678.0	7.7%	\$ 642.0	7.2%

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Our Dairy Group's net sales decreased approximately \$152.4 million, or 1.7%, in 2006 versus 2005. The change in net sales from 2005 to 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2005 Net sales	\$ 8,973.4	
Acquisitions	8.0	0.1%
Volume	133.0	1.5
Pricing and product mix	(293.4)	(3.3)
2006 Net sales	\$ 8,821.0	(1.7)%

The decrease in the Dairy Group's net sales was due to lower raw milk costs, partly offset by increased volumes.

The decrease in the Dairy Group's net sales due to pricing and product mix shown in the above table primarily resulted from decreased pricing due to the pass through of lower raw milk costs in 2006. In general, our Dairy Group changes the prices it charges customers for fluid dairy products on a monthly basis, as the costs of raw materials and other variable costs fluctuate. Because of competitive pressures, the price increases do not always reflect the entire increase in raw material and other input costs that we may experience. The following table sets forth the average monthly Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for 2006 compared to 2005:

	Year Ended December 31*		
	2006	2005	% Change
Class I raw skim milk mover(1),(2)	\$ 7.47	\$ 8.54	(13)%
Class I butterfat mover(1),(3)	1.34	1.76	(24)
Class II raw skim milk minimum(2),(4)	7.35	7.74	(5)
Class II butterfat minimum(3),(4)	1.33	1.72	(23)

* The prices noted in this table are not the prices that we actually pay. The minimum prices applicable at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover 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 and Known Trends and Uncertainties Prices of Materials and Other Inputs for a more complete description of raw milk pricing.

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

(2) Prices are per hundredweight.

(3) Prices are per pound.

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

Volume sales of all Dairy Group products, excluding the impact of acquisitions, increased 1.5% in 2006 compared to 2005. Volume sales of fresh milk, which were approximately 69% of the Dairy Group's 2006 volumes, were up approximately 1.9% for the year compared to USDA data showing a 1.0% increase in total consumption of milk in the U.S. during the year.

Our Dairy Group acquired Jilbert Dairy in July 2006, which we estimate contributed an additional \$8.0 million in net sales during 2006.

Our Dairy Group's cost of sales decreased to \$6.53 billion in 2006 compared to \$6.81 billion in 2005 primarily due to lower raw milk costs, partly offset by increased volumes. The Dairy Group's cost of sales as a percentage of net sales decreased to 74.0% in 2006 compared to 75.9% in 2005 primarily due to the impact of lower raw milk costs and higher volumes.

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Our Dairy Group's operating expenses increased approximately \$91.8 million during 2006 compared to 2005 primarily due to: (1) higher distribution costs of \$64.2 million, approximately \$15 million of which was due to increased fuel prices and the remaining increase was due to increased volumes, higher salaries and benefits and higher repairs and maintenance costs; (2) higher general and administrative costs of \$24.2 million due to higher information technology spending and higher compensation costs and (3) higher marketing costs of \$4.1 million. Increases in selling costs were more than offset by lower bad debt expense of \$8.1 million compared to 2005 due to higher bad debt expense in 2005 related to the impact of Hurricane Katrina and the write-off of a receivable from a large customer. Our Dairy Group's operating expense as a percentage of net sales increased to 18.3% in 2006 from 16.9% in 2005.

WhiteWave Foods Company

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

	Year Ended December 31			
	2006		2005	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 1,277.6	100.0%	\$ 1,201.3	100.0%
Cost of sales	828.2	64.8	780.4	65.0
Gross profit	449.4	35.2	420.9	35.0
Operating costs and expenses	310.0	24.3	306.0	25.4
Total operating income	\$ 139.4	10.9%	\$ 114.9	9.6%

WhiteWave Foods Company's net sales increased by approximately \$76.3 million, or 6.4%, in 2006 versus 2005. The change in net sales from 2005 to 2006 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2005 Net sales	\$ 1,201.3	
Volume	24.6	2.1%
Pricing and product mix	51.7	4.3
2006 Net sales	\$ 1,277.6	6.4%

The increase in WhiteWave Foods Company's net sales was largely due to higher pricing. The two primary drivers of this increase were (1) increased selling prices in response to increased commodity costs and (2) a decline in slotting fees, couponing and certain other promotional costs that are required to be recorded as reductions of net sales.

Volume growth in our *Silk*, *Horizon Organic*, *International Delight*, *LAND O LAKES* and *Rachel's Organic* brands was partly offset by the elimination of certain product offerings in late 2005 and early 2006. We believe increased *Horizon Organic* and *Silk* volumes were due primarily to increased consumer acceptance and increased marketing efforts.

Cost of sales for WhiteWave Foods Company increased to \$828.2 million in 2006 from \$780.4 million in 2005 primarily due to the impact of higher raw material costs, particularly organic raw milk and sugar, which increased cost of sales by approximately \$41 million and increased volumes. The cost of sales as a percentage of net sales declined to 64.8% in 2006 from 65.0% in 2005 due to increased selling prices and improved product mix, principally driven by the product rationalization in 2006.

Operating expenses increased approximately \$4.0 million in 2006 compared to the prior year primarily due to higher marketing spending of \$6.1 million, higher fuel costs of \$3.5 million and SAP related costs of \$2.9 million, partly offset by increased distribution efficiencies.

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Net Sales Consolidated net sales increased approximately 4.6% to \$10.17 billion during 2005 from \$9.73 billion in 2004. Net sales by segment are shown in the table below.

	Net Sales			% Increase
	2005	2004	\$ Increase (Dollars in millions)	
Dairy Group	\$ 8,973.4	\$ 8,683.1	\$ 290.3	3.3%
WhiteWave Foods Company	1,201.3	1,042.4	158.9	15.2
Total	\$ 10,174.7	\$ 9,725.5	\$ 449.2	4.6

The change in net sales was due to the following:

	Change in Net Sales 2005 vs. 2004			Total Increase
	Acquisitions	Pricing, Volume and Product Mix Changes (Dollars in millions)		
Dairy Group	\$ 35.4	\$ 254.9	\$ 290.3	
WhiteWave Foods Company	9.2	149.7	158.9	
Total	\$ 44.6	\$ 404.6	\$ 449.2	

Net sales increased approximately \$449.2 million during 2005 compared to the prior year primarily due to strong volume growth and increased pricing in the Dairy Group and WhiteWave Foods Company segments.

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 our finished products from our manufacturing facilities to our own distribution facilities. Cost of sales increased by approximately 3.5% to \$7.59 billion in 2005 from \$7.34 billion in 2004 primarily due to increased volumes and increased resin and other commodity costs, partly offset by lower raw milk costs in our Dairy Group. Our cost of sales as a percentage of net sales decreased to 74.6% in 2005 compared to 75.5% in 2004 primarily due to the impact of higher volumes and efficiencies gained through our facility rationalization activities.

Operating Costs and Expenses Our operating expenses increased approximately \$151.4 million, or approximately 8.2%, during 2005 versus the prior year. Operating expenses increased primarily due to the following:

Distribution costs increased approximately \$95.2 million due to higher fuel costs and increased volumes at our Dairy Group and WhiteWave Foods Company segments;

Incentive compensation costs at our Dairy Group increased approximately \$12 million due to improved operating results;

Bad debt expense at our Dairy Group increased approximately \$9 million in 2005 due to the impact of Hurricane Katrina, the write-off of a receivable from a large customer, as well as the relatively higher level of bad debt recoveries recognized in 2004;

Corporate expenses were approximately \$10.1 million higher than in 2004, primarily due to higher professional fees of approximately \$11 million, primarily related to the reorganization of our WhiteWave Foods Company, and higher compensation costs, partly offset by lower share-based compensation expense;

Net facility closing and reorganization costs that were approximately \$10.9 million higher than 2004. See Note 15 to our Consolidated Financial Statements for further information on our facility closing and reorganization activities; and

Other operating income declined by approximately \$5.9 million in 2005 compared to 2004 due to a gain recorded in 2004 related to the settlement of litigation.

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Our operating expense as a percentage of net sales increased to 19.7% for 2005 as compared to 19.0% for 2004.

Operating Income Operating income was \$580.1 million in 2005, an increase of \$44.4 million from 2004 operating income of \$535.7 million. Our operating margin was 5.7% in 2005 compared to 5.5% in 2004.

Other (Income) Expense Interest expense decreased to \$160.2 million in 2005 from \$191.8 million in 2004, primarily due to a charge of \$32.6 million in 2004 to write-off deferred financing costs related to our senior credit facility amendment in August 2004.

Income Taxes Income tax expense was recorded at an effective rate of 39.0% in 2005 compared to 40.2% in 2004. Our effective tax rate varies based on the relative earnings of our business units. In 2005, our income tax rate was positively impacted by a favorable tax settlement and the change in expected realization of net operating loss carryforwards. In 2004, our tax rate was negatively impacted by the write-off of deferred financing costs that were incurred in a business unit with a lower relative effective tax rate.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 Results by Segment*Dairy Group*

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

	Year Ended December 31			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 8,973.4	100.0%	\$ 8,683.1	100.0%
Cost of sales	6,809.5	75.9	6,646.5	76.5
Gross profit	2,163.9	24.1	2,036.6	23.5
Operating costs and expenses	1,521.9	16.9	1,438.6	16.6
Total operating income	\$ 642.0	7.2%	\$ 598.0	6.9%

The Dairy Group's net sales increased approximately \$290.3 million, or 3.3%, in 2005 versus 2004. The change in net sales from 2004 to 2005 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2004 Net sales	\$ 8,683.1	
Acquisitions	35.4	0.4%
Volume	159.4	1.8
Pricing and product mix	95.5	1.1

2005 Net sales	\$ 8,973.4	3.3%
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The increase in the Dairy Group's net sales was driven primarily by increased volumes. Volume sales of all Dairy Group products, excluding the impact of acquisitions, increased 1.8% in 2005 compared to 2004. Volume sales of fresh milk, which were approximately 68% of the Dairy Group's 2005 volumes, were up approximately 2.5% for the year compared to USDA data showing a relatively flat total consumption of milk in the U.S. during the year.

The increase in the Dairy Group's net sales due to pricing and product mix shown in the above table primarily resulted from increased pricing due to the pass through of increased fuel and packaging costs, partly offset by lower raw milk costs in 2005. In general, our Dairy Group changes the prices it charges customers for fluid dairy products on a monthly basis, as the costs of raw materials and other variable costs fluctuate. Because of competitive pressures, the price increases do not always reflect the entire increase in raw material and other input costs that we

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may experience. The following table sets forth the average monthly Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for 2005 compared to 2004:

	Year Ended December 31*		
	2005	2004	% Change
Class I raw skim milk mover(1),(2)	\$ 8.54	\$ 8.44	1%
Class I butterfat mover(1),(3)	1.76	1.95	(10)
Class II raw skim milk minimum(2),(4)	7.74	6.90	12
Class II butterfat minimum(3),(4)	1.72	2.06	(17)

* The prices noted in this table are not the prices that we actually pay. The minimum prices applicable at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover 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 and Known Trends and Uncertainties Prices of Materials and Other Inputs for a more complete description of raw milk pricing.

- (1) We process Class I raw skim milk and butterfat into fluid milk products.
- (2) Prices are per hundredweight.
- (3) Prices are per pound.
- (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 acquired Milk Products of Alabama in October 2004, which we estimate contributed an additional \$35.4 million in sales during 2005.

The Dairy Group's cost of sales increased to \$6.81 billion in 2005 compared to \$6.65 billion in 2004 primarily due to increased volumes and an approximately \$43 million increase in resin costs, partly offset by lower raw milk costs. Resin prices increased primarily due to significant supply constraints resulting from the Gulf Coast hurricanes. Resin is the primary raw material in our plastic bottles. The Dairy Group's cost of sales as a percentage of net sales decreased to 75.9% in 2005 compared to 76.5% in 2004 primarily due to the impact of higher volumes and efficiencies gained through our facility rationalization activities.

The Dairy Group's operating expenses increased approximately \$83.3 million during 2005 compared to 2004 primarily due to (1) higher distribution costs of \$66.7 million, \$31 million of which was due to increased fuel prices and the remaining increase was driven by increased volumes; (2) higher incentive compensation costs of approximately \$12 million due to improved operating results and (3) higher bad debt expense. Bad debt expense increased approximately \$9 million in 2005 compared to the prior year due to the impact of Hurricane Katrina, the write-off of a receivable from a large customer, as well as the relatively higher level of bad debt recoveries recognized in 2004. The Dairy Group's operating expense as a percentage of net sales increased to 16.9% in 2005 from 16.6% in 2004.

Table of Contents*WhiteWave Foods Company*

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

	Year Ended December 31			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 1,201.3	100.0%	\$ 1,042.4	100.0%
Cost of sales	780.4	65.0	684.8	65.7
Gross profit	420.9	35.0	357.6	34.3
Operating costs and expenses	306.0	25.4	269.9	25.9
Total operating income	\$ 114.9	9.6%	\$ 87.7	8.4%

WhiteWave Foods Company's net sales increased by approximately \$158.9 million, or 15.2%, in 2005 versus 2004. The change in net sales from 2004 to 2005 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2004 Net sales	\$ 1,042.4	
Acquisitions	9.2	0.9%
Volume	100.2	9.6
Pricing and product mix	49.5	4.7
2005 Net sales	\$ 1,201.3	15.2%

Double digit volume growth in our *Silk* and *Horizon Organic* brands, combined with somewhat slower growth in *International Delight* and *LAND O LAKES*, was partly offset by the elimination of certain product offerings. We believe increased *Silk* and *Horizon Organic* volumes were due primarily to increased consumer acceptance and increased marketing efforts.

Higher pricing also contributed to the increase in sales. The two primary drivers of this increase were (1) increased selling prices in response to increased commodity costs and (2) a decline in slotting fees, couponing and certain other promotional costs that are required to be recorded as reductions of net sales. We also benefited from the 2004 acquisition of the *LAND O LAKES* cream, sour cream, and whipping cream business in the Eastern part of the U.S., which we estimate added \$9.2 million to our sales growth.

Cost of sales for WhiteWave Foods Company increased to \$780.4 million in 2005 from \$684.8 million in 2004 primarily due to increased volumes and the impact of higher raw material costs, particularly organic raw milk and

organic soybeans, which increased cost of sales by approximately \$26 million. Cost of sales as a percentage of net sales declined to 65.0% in 2005 from 65.7% in 2004 due to the impact of supply chain changes and product rationalization in 2005.

Operating expenses increased approximately \$36.1 million in 2005 compared to the prior year primarily due to increased volumes and higher fuel costs which together contributed approximately \$22 million to distribution expenses. Compensation expense also increased as a result of increased staffing levels to support the growth of our organization.

Liquidity and Capital Resources

Historical Cash Flow

During 2006, we met our working capital needs with cash flow from operations. Net cash provided by operating activities from continuing operations was \$561.6 million for 2006 as compared to \$541.9 million for 2005, an increase of \$19.7 million. Net cash provided by operating activities from continuing operations was impacted by an increase in our working capital of \$86.4 million in 2006 compared to a decrease of \$23.4 million in

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2005 due primarily to several large obligations that were accrued at the end of 2005 and paid early in 2006. In addition, income taxes payable decreased \$11.3 million in 2006 compared to an increase of \$37.1 million in 2005 due to the timing of tax payments.

Net cash used in investing activities from continuing operations was \$152.3 million in 2006 compared to \$90.3 million in 2005, an increase of \$62.0 million. We used approximately \$17.2 million for acquisitions and \$237.2 million for capital expenditures in 2006 compared to \$1.4 million and \$287.1 million in 2005, respectively. We received cash proceeds from the sale of operations of \$96.0 million in 2006 compared to \$189.9 million in 2005.

We used approximately \$400.1 million to repurchase our stock during 2006. Set forth in the chart below is a summary of the stock we repurchased in 2006:

Period	No. of Shares of Common Stock Repurchased	Aggregate Purchase Price(1)	Average Purchase Price Per Share(1)
		(Dollars in millions except per share data)	
February 2006	400,000	\$ 15.4	\$ 38.39
May 2006	2,050,800	74.4	36.27
June 2006	1,286,400	45.9	35.71
October 2006	716,100	29.8	41.65
November 2006	3,493,600	145.2	41.55
December 2006	2,075,300	89.4	43.08
	10,022,200	\$ 400.1	39.92

(1) Includes commissions and fees.

We repaid \$53.5 million of debt in 2006 compared to a net borrowing of \$157.3 million in 2005.

We received approximately \$32.3 million in 2006, net of minimum withholding taxes paid from cash proceeds, compared to \$57.7 million in 2005 as a result of stock option exercises and employee stock purchases through our employee stock purchase plan.

Current Debt Obligations

Senior Credit Facility Our senior credit facility provides for a \$1.5 billion revolving credit facility and a \$1.5 billion term loan. Both the revolving credit facility and term loan bear interest, at our election, at the base rate plus a margin that varies from 0 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 5.99% at December 31, 2006. However, we had interest rate swap agreements in place that hedged \$950.0 million of our borrowings under the senior credit facility at an average rate of 4.53%, 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.

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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 ratio and a minimum interest coverage ratio. We are currently in compliance with all covenants contained in our credit agreement.

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 Dean Holding Company's subsidiaries, and the real property owned by Dean Holding Company 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, certain other material adverse changes in our business, and a change in control. The credit agreement does not contain any default triggers based on our credit rating.

At December 31, 2006, we had outstanding borrowings of \$1.76 billion under our senior credit facility (compared to \$2.26 billion at December 31, 2005), including \$1.44 billion in term loan borrowings and \$313.5 million outstanding under the revolving line of credit. At December 31, 2006, there were \$136.6 million of letters of credit under the revolving line that were issued but undrawn. As of February 23, 2007, approximately \$1.20 billion was outstanding under our senior credit facility.

In addition to our senior credit facility, we also have a \$600 million receivables-backed facility subject to a borrowing base formula. The receivables-backed facility had \$512.5 million available and drawn at December 31, 2006. The average interest rate on this facility at December 31, 2006 was 5.68%. Approximately \$488.4 million was outstanding under this facility at February 23, 2007.

Our outstanding borrowings under the senior credit facility decreased from 2005 to 2006 primarily due to our paydown of this facility as a result of our issuance of \$500 million aggregate principal amount of senior notes on May 17, 2006, the proceeds of which were used to repay borrowings under our senior credit facility.

Other indebtedness outstanding at December 31, 2006 also included \$600 million face value of outstanding indebtedness under Dean Holding Company's senior notes, \$500 million face value of outstanding indebtedness under Dean Foods Company's senior notes and approximately \$16.0 million of capital lease and other obligations.

See Note 9 to our Consolidated Financial Statements for more information about our indebtedness.

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The table below summarizes our obligations for indebtedness, purchase and lease obligations at December 31, 2006. See Note 18 to our Consolidated Financial Statements for more detail about our lease and purchase obligations.

Indebtedness, Purchase & Lease Obligations	Total	Payments Due by Period					2011	Thereafter
		2007	2008	2009	2010	(In millions)		
Senior credit facility	\$ 1,757.3	\$ 225.0	\$ 431.3	\$ 1,101.0	\$	\$	\$	
Dean Foods Company senior notes(1)	500.0						500.0	
Subsidiary senior notes(1)	600.0	250.0		200.0			150.0	
Receivables-backed facility	512.5			512.5				
Capital lease obligations and other	16.0	8.6	1.6	1.6	1.7	1.7	0.8	
Purchasing obligations(2)	602.3	310.4	106.2	60.0	41.7	8.2	75.8	
Operating leases	489.4	107.0	95.7	85.7	68.1	49.5	83.4	
Interest payments(3)	762.2	201.5	169.6	85.5	45.3	45.3	215.0	
Total	\$ 5,239.7	\$ 1,102.5	\$ 804.4	\$ 2,046.3	\$ 156.8	\$ 104.7	\$ 1,025.0	

(1) Represents face value.

(2) 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 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.

(3) Includes fixed rate interest obligations as well as interest on our variable rate debt based on the rates and balances in effect at December 31, 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 also 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 and postretirement costs also 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 benefit obligation and annual periodic pension costs.

In accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employer's Accounting for Postretirement Benefits*, changes in obligations associated with these factors may not be immediately recognized as pension costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. As such, significant portions of pension costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants. In 2006, we recorded non-cash pension expense of \$8.1 million, of which \$7.7 million was attributable to periodic expense and \$350,000 was attributable to settlements compared to a total of \$11.5 million in 2005, of which \$3.5 million was attributable to settlements. These amounts were determined in accordance with the provisions of SFAS No. 87, SFAS No. 106 and SFAS No. 88, *Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

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The assumed discount rate used to determine plan obligations was 5.85% and 5.75% at December 31, 2006 and 2005, respectively. In order to select a discount rate for purposes of valuing the plan obligations and fiscal year-end disclosure, an analysis is performed in which the duration of projected cash flows from defined benefit and retiree health care plans are matched with a yield curve based on an appropriate universe of high-quality corporate bonds that are available. We use the results of the yield curve analysis to select the discount rate that matches the duration and payment stream of the benefits in each plan. In selecting the assumed rate of return on plan assets, we consider past performance and economic forecasts for the types of investments held by the plan, as well as our investment allocation policy and the effect of periodic target asset allocation rebalancing. We rebalance the investments when the allocation is not within the target range. The results are adjusted for the payment of reasonable expenses of the plan from plan assets. We believe these assumptions are appropriate based upon the mix of investments and the long-term nature of the plans' investments. Plan asset returns were \$24.3 million in 2006, a \$10.2 million increase from plan asset returns of \$14.1 million in 2005. Net periodic pension expense for our plans is expected to increase in 2007 to approximately \$9.5 million. Based on current projections, 2007 funding requirements will be approximately \$23.2 million as compared to \$37.5 million for 2006. The postretirement benefit plans are not funded. Based on current projections, 2007 cash requirements to pay benefits for our other postretirement benefit obligations will remain at approximately \$2.4 million, the same as the 2006 cash requirements.

See Notes 13 and 14 to our Consolidated Financial Statements for information regarding retirement plans and other postretirement benefits.

Other Commitments and Contingencies

On December 21, 2001, in connection with our acquisition of Dean Holding Company, 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 ever 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 have not breached or terminated any of our milk supply agreements with DFA.

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 18 to our Consolidated Financial Statements for more information about our commitments and contingent obligations.

Table of Contents***Future Capital Requirements***

During 2007, 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 and borrowings under our senior credit facility. We intend to spend this amount approximately as follows:

Operating Division	Amount (In millions)
Dairy Group	\$ 165
WhiteWave Foods Company	80
Corporate	5
Total	\$ 250

We expect that cash flow from operations and borrowings under our senior credit facility will be sufficient to meet our requirements for our existing businesses for the foreseeable future. As of February 23, 2007, approximately \$1.20 billion was available for future borrowings under our senior credit facility.

Known Trends and Uncertainties***Prices of Raw Materials 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 change 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.

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 four 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 the effectiveness of 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.

In 2005, prices for raw skim milk, butterfat and cream remained high. In 2006, prices for raw skim milk, butterfat and cream declined. We expect raw milk, butterfat and cream prices to increase in 2007. However, raw milk, butterfat and cream prices are difficult to predict and we change our forecasts frequently based on current market activity.

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During the first nine months of 2006, the prices of resin and fuel increased before decreasing over the last three months of the year. As resin supplies have from time to time been insufficient to meet demand, we are undertaking all reasonable measures to 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 fluctuate throughout 2007.

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 2007. 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. 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. In the recent past, the industry-wide demand for organic raw milk has generally exceeded supply, resulting in our inability to fully meet customer demand. However, we expect that our efforts to foster increased supply and overall industry supply growth will ease the historical shortfall in supply over the near term. We are currently taking steps to increase consumer demand for our products to avoid a meaningful oversupply of raw organic milk; however, there can be no assurance that the supply of raw organic milk in the market will not exceed demand in an amount that could exert downward pricing pressure on the sale of our products and negatively impact our profitability. We also experienced an increase in organic sugar costs in 2006. We have entered into supply agreements for organic sugar, which we believe will meet our needs in 2007.

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 segment, which reduced our profitability on sales to several customers. We expect this trend to continue. In bidding situations we are subject to the risk of losing 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

In 2006, our tax rate on continuing operations was 38.5%. We estimate the effective tax rate for 2007 will be approximately 39%. Changes in the relative profitability of our operating segments, as well as changes to federal and state tax laws may cause the rate to change from historical rates.

Table of Contents**Critical Accounting Policies**

Critical accounting policies are defined as those that are both most important to the portrayal of a company's financial condition and results, and that require our most difficult, subjective or complex judgments. In many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles with no need for the application of our judgment. In certain circumstances, however, the preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles requires us to use our judgment to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. We have identified the policies described below as our critical accounting policies. See Note 1 to our Consolidated Financial Statements for a detailed discussion of these and other accounting policies.

Accounts Receivable We provide credit terms to customers generally ranging up to 30 days, perform ongoing credit evaluations of our customers and maintain allowances for estimated credit losses. As these factors change, our estimates change and we could accrue different amounts for doubtful accounts in different accounting periods. At December 31, 2006, our allowance for doubtful accounts was approximately \$17.1 million, or approximately 2.1% of the accounts receivable balance at December 31, 2006. The allowance for doubtful accounts, expressed as a percent of accounts receivable, was approximately 2.6% at December 31, 2005. Each 0.10% change in the ratio of allowance for doubtful accounts to accounts receivable would impact bad debt expense by approximately \$816,000.

Employee Benefit Plan Costs We provide a range of benefits including pension and postretirement benefits to our eligible employees and retirees. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, such as discount rates, assumed investment rates of return, compensation increases, employee turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate. As required by generally accepted accounting principles, the effect of the modifications is generally recorded and amortized over future periods. Different assumptions could result in the recognition of different amounts of expense over different periods of time.

Substantially all of our qualified pension plans are consolidated into one master trust. We retained investment consultants to assist our Investment Committee with the transition of the plans' assets to the master trust and to help our Investment Committee formulate a long-term investment policy for the master trust. Our current asset mix guidelines under the investment policy target equities at 65% to 75% of the portfolio and fixed income at 25% to 35%. At December 31, 2006, our master trust was invested as follows: equity securities and limited partnerships 71%; fixed income securities 26%; and cash and cash equivalents 3%.

We determine our expected long-term rate of return based on our expectations of future returns for the pension plan's investments based on target allocations of the pension plan's investments. Additionally, we consider the weighted-average return of a capital markets model that was developed by the plans' investment consultants and historical returns on comparable equity, debt and other investments. The resulting weighted average expected long-term rate of return on plan assets is 8.0% for the year ended December 31, 2006 compared to 8.5% for the year ended December 31, 2005.

While a number of the key assumptions related to our qualified pension plans are long-term in nature, including assumed investment rates of return, compensation increases, employee turnover rates and mortality rates, generally accepted accounting principles require that our discount rate assumption reflect current market conditions. As such,

our discount rate likely will change more frequently than in prior years. The discount rate utilized to determine our estimated future benefit obligations increased from 5.75% at December 31, 2005 to 5.85% at December 31, 2006.

A 0.25% reduction in the assumed rate of return on plan assets or a 0.25% reduction in the discount rate would increase our annual pension expense by approximately \$585,000 and \$363,000, respectively. In addition, a 1% increase in assumed healthcare costs trends would increase the aggregate annual post retirement medical expense by approximately \$419,000.

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Goodwill and Intangible Assets Our goodwill and intangible assets totaled \$3.51 billion as of December 31, 2006 resulting primarily from acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including trademarks and customer-related intangible assets, with any remaining purchase price recorded as goodwill. Goodwill and trademarks with indefinite lives are not amortized.

We believe that a trademark has an indefinite life if it has sufficient market share and a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. If these perpetual trademark criteria are not met, the trademarks are amortized over their expected useful lives, which generally range from five to 40 years. Determining the expected life of a trademark requires considerable management judgment and is based on an evaluation of a number of factors including the competitive environment, market share, trademark history and anticipated future trademark support.

Perpetual trademarks and goodwill are evaluated for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual trademark is impaired if its book value exceeds its estimated fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its estimated fair value. Currently, our reporting units are our two segments. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value based on its discounted future cash flows.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows.

Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

We did not recognize any impairment charges in continuing operations for goodwill during 2006. As a result of the decision to close a facility and shift customers from one regional brand to another, we recognized an impairment charge of approximately \$700,000 on a perpetual trademark for a regional brand during 2006.

Income Taxes Deferred taxes are recognized for future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Future business results may affect deferred tax liabilities or the valuation of deferred tax assets over time. We estimate our probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretations of tax regulations in the jurisdictions in which we operate. These judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to or further interpretations of regulations. If such changes take place, there is a risk that our tax rate may increase or decrease in any period, which could have an impact on our earnings.

Insurance Accruals 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. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of variables including claims history and expected trends. These loss development factors are developed by us in consultation with external insurance brokers and actuaries. At December 31, 2006 and 2005, we recorded accrued liabilities related to these retained risks of \$172.9 million and \$161.2 million, respectively, including both current and long-term liabilities.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements Effective October 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106, and 132(R) . SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the overfunded or underfunded status of its postretirement benefit plans (other than multiemployer plans) as an asset or liability in its statement of financial position, measure the fair value of plan

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assets and benefit obligations as of the date of its year-end statement of financial position, and provide additional disclosures. The effect of adopting SFAS No. 158 on our financial condition at December 31, 2006 has been included in our Consolidated Financial Statements. SFAS No. 158 did not have an effect on our financial condition at December 31, 2005 or 2004. SFAS No. 158's provisions regarding the change in measurement date of postretirement benefit plans are not applicable as we already use a measurement date of December 31 for our postretirement benefit plans. See Notes 1, 13 and 14 to our Consolidated Financial Statements for further discussion of our postretirement benefit plans and the effect of adopting SFAS No. 158 on our Consolidated Financial Statements.

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*. Among its provisions, SFAS No. 123(R) requires us 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 our 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. Our 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 our 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.

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 Notes 1 and 10 to our Consolidated Financial Statements for further discussion of our share-based compensation plans and the effect of adopting SFAS No. 123(R) on our Consolidated Financial Statements.

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 SFAS 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.

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The FASB issued SFAS No. 157, *Fair Value Measurements* in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* in February 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

Item 7A. *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 as of December 31, 2006:

Fixed Interest Rates	Expiration Date	Notional Amounts (In millions)
4.81% to 4.84%	December 2007	\$ 500
4.07% to 4.27%	December 2010	450

The following table summarizes our various interest rate swap agreements as of 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 \$7.5 million of interest income, net of taxes, during 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 because the counter parties 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 December 31, 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 that are denominated in foreign currencies. Our most significant foreign currency exposure relates to the British pound. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates. As of December 31, 2006 and 2005, 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.

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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 this risk management strategy 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.

Item 8. Consolidated Financial Statements

Our Consolidated Financial Statements for 2006 are included in this report on the following pages.

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2006 and 2005</u>	F-2
<u>Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004</u>	F-3
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	
<u>1. Summary of Significant Accounting Policies</u>	F-6
<u>2. Acquisitions and Discontinued Operations</u>	F-11
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<u>5. Property, Plant and Equipment</u>	F-15
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<u>7. Accounts Payable and Accrued Expenses</u>	F-17
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dean Foods Company
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Dean Foods Company and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Dean Foods Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2006 the Company changed its method of accounting for share based compensation to adopt Statement of Financial Accounting Standards No. 123(R) and its method of accounting for defined benefit pension and other postretirement plans to adopt Statement of Financial Accounting Standards No. 158. As discussed in Note 1 to the consolidated financial statements, in 2005 the Company changed its method of accounting for conditional asset retirement obligations to adopt Financial Accounting Standards Board Interpretation No. 47.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2007

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DEAN FOODS COMPANY
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
	(Dollars in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,140	\$ 24,456
Receivables, net of allowance for doubtful accounts of \$17,070 and \$22,065	799,038	818,431
Inventories	360,754	355,004
Deferred income taxes	117,991	137,776
Prepaid expenses and other current assets	70,367	65,526
Total current assets	1,379,290	1,401,193
Property, plant and equipment, net	1,786,907	1,776,801
Goodwill	2,943,139	2,922,940
Identifiable intangible and other assets	640,857	648,223
Assets of discontinued operations	19,980	301,727
Total	\$ 6,770,173	\$ 7,050,884
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 822,122	\$ 926,067
Income taxes payable	30,776	34,541
Current portion of long-term debt	483,658	65,326
Total current liabilities	1,336,556	1,025,934
Long-term debt	2,872,193	3,321,522
Deferred income taxes	504,552	449,707
Other long-term liabilities	238,682	225,479
Liabilities of discontinued operations	8,791	126,029
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, none issued		
Common stock 128,371,104 and 134,209,190 shares issued and outstanding, with a par value of \$0.01 per share	1,284	1,342
Additional paid-in capital	624,475	922,791
Retained earnings	1,229,427	1,004,013
Accumulated other comprehensive loss	(45,787)	(25,933)
Total stockholders' equity	1,809,399	1,902,213
Total	\$ 6,770,173	\$ 7,050,884

See Notes to Consolidated Financial Statements.

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Table of Contents**DEAN FOODS COMPANY****CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31		
	2006	2005	2004
	(Dollars in thousands, except share data)		
Net sales	\$ 10,098,555	\$ 10,174,718	\$ 9,725,548
Cost of sales	7,358,676	7,591,548	7,338,138
Gross profit	2,739,879	2,583,170	2,387,410
Operating costs and expenses:			
Selling and distribution	1,648,860	1,581,028	1,472,112
General and administrative	409,225	380,490	355,772
Amortization of intangibles	5,983	6,106	5,105
Facility closing and reorganization costs	25,116	35,451	24,575
Other operating income			(5,899)
Total operating costs and expenses	2,089,184	2,003,075	1,851,665
Operating income	650,695	580,095	535,745
Other (income) expense:			
Interest expense	194,547	160,230	191,788
Other (income) expense, net	435	(683)	(722)
Total other expense	194,982	159,547	191,066
Income from continuing operations before income taxes	455,713	420,548	344,679
Income taxes	175,450	163,898	138,472
Income from continuing operations	280,263	256,650	206,207
Gain (loss) on sale of discontinued operations, net of tax	(1,978)	38,763	
Income (loss) from discontinued operations, net of tax	(52,871)	14,793	47,514
Income before cumulative effect of accounting change	225,414	310,206	253,721
Cumulative effect of accounting change, net of tax		(1,552)	
Net income	\$ 225,414	\$ 308,654	\$ 253,721
Average common shares:			
Basic	133,938,777	146,673,322	154,635,979
Diluted	139,762,104	153,438,636	160,704,576
Basic earnings per common share:			
Income from continuing operations	\$ 2.09	\$ 1.75	\$ 1.33
Income (loss) from discontinued operations	(0.41)	0.36	0.31
Cumulative effect of accounting change		(0.01)	

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Net income	\$	1.68	\$	2.10	\$	1.64
Diluted earnings per common share:						
Income from continuing operations	\$	2.01	\$	1.67	\$	1.28
Income (loss) from discontinued operations		(0.40)		0.35		0.30
Cumulative effect of accounting change				(0.01)		
Net income	\$	1.61	\$	2.01	\$	1.58

See Notes to Consolidated Financial Statements.

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DEAN FOODS COMPANY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Other	Stockholders	Income
			Capital		Income	Equity	
			(Dollars in thousands, except share data)		(Loss)		
Balance, January 1, 2004	154,993,214	\$ 1,550	\$ 1,661,443	\$ 934,251	\$ (29,854)	\$ 2,567,390	
Issuance of common stock	3,539,783	35	75,872			75,907	
Horizon Organic stock option conversion			20,635			20,635	
Share-based compensation expense			48,193			48,193	
Purchase and retirement of treasury stock	(9,310,000)	(93)	(296,925)			(297,018)	
Net income				253,721		253,721	\$ 253,721
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments					(717)	(717)	(717)
Amounts reclassified to income statement related to derivatives					20,723	20,723	20,723
Cumulative translation adjustment					17,313	17,313	17,313
Minimum pension liability adjustment					(13,162)	(13,162)	(13,162)
Comprehensive income							\$ 277,878
Balance, December 31, 2004	149,222,997	1,492	1,509,218	1,187,972	(5,697)	2,692,985	
Issuance of common stock	3,867,493	39	73,195			73,234	
Share dividend of TreeHouse common stock				(492,613)		(492,613)	
Share-based compensation expense			40,067			40,067	
	(18,881,300)	(189)	(699,689)			(699,878)	

Purchase and retirement of treasury stock							
Net income				308,654		308,654	\$ 308,654
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments					11,290	11,290	11,290
Amounts reclassified to income statement related to derivatives					8,510	8,510	8,510
Cumulative translation adjustment					(28,220)	(28,220)	(28,220)
Minimum pension liability adjustment					(11,816)	(11,816)	(11,816)
Comprehensive income							\$ 288,418
Balance, December 31, 2005	134,209,190	1,342	922,791	1,004,013	(25,933)	1,902,213	
Issuance of common stock	4,184,114	42	64,775			64,817	
Share-based compensation expense			36,871			36,871	
Purchase and retirement of treasury stock	(10,022,200)	(100)	(399,962)			(400,062)	
Net income				225,414		225,414	\$ 225,414
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments					8,737	8,737	8,737
Amounts reclassified to income statement related to derivatives					(7,455)	(7,455)	(7,455)
Cumulative translation adjustment					(10,336)	(10,336)	(10,336)
Minimum pension liability adjustment					4,003	4,003	4,003
Comprehensive income							\$ 220,363
Adjustment to pension and other postretirement liabilities related to adoption of SFAS No. 158					(14,803)	(14,803)	
Balance, December 31, 2006	128,371,104	\$ 1,284	\$ 624,475	\$ 1,229,427	\$ (45,787)	\$ 1,809,399	

Table of Contents**DEAN FOODS COMPANY****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 225,414	\$ 308,654	\$ 253,721
Loss (income) from discontinued operations	52,871	(14,793)	(47,514)
Loss (gain) on sale of discontinued operations	1,978	(38,763)	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	227,682	214,630	202,289
Share-based compensation expense	36,871	40,067	48,193
Loss on disposition of assets	7,841	1,525	4,093
Cumulative effect of accounting change		1,552	
Write-down of impaired assets	13,589	11,297	5,385
Deferred income taxes	66,994	34,141	124,641
Costs related to early extinguishment of debt			32,613
Other	3,401	(2,700)	236
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	23,317	(53,618)	(64,816)
Inventories	(5,226)	(10,427)	(49,863)
Prepaid expenses and other assets	12,442	24,359	(2,769)
Accounts payable and accrued expenses	(116,945)	63,068	(80,900)
Income taxes payable	11,323	(37,054)	(11,694)
Net cash provided by continuing operations	561,552	541,938	413,615
Net cash provided by (used in) discontinued operations	(334)	13,838	115,111
Net cash provided by operating activities	561,218	555,776	528,726
Cash flows from investing activities:			
Additions to property, plant and equipment	(237,242)	(287,129)	(301,186)
Cash outflows for acquisitions	(17,244)	(1,378)	(378,164)
Net proceeds from divestitures	95,982	189,862	
Proceeds from sale of fixed assets	6,190	8,357	10,028
Net cash used in continuing operations	(152,314)	(90,288)	(669,322)
Net cash used in discontinued operations	(15,151)	(27,432)	(77,249)
Net cash used in investing activities	(167,465)	(117,720)	(746,571)
Cash flows from financing activities:			
Proceeds from issuance of debt	498,020	275,900	1,642,000
Repayment of debt	(551,473)	(118,554)	(1,222,630)
Payments of deferred financing costs	(6,974)	(4,279)	(9,801)

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Issuance of common stock	32,311	57,718	61,969
Tax savings on share-based compensation	31,211	20,614	18,527
Redemption of common stock	(400,062)	(699,878)	(297,018)
Net cash provided by (used in) continuing operations	(396,967)	(468,479)	193,047
Net cash provided by discontinued operations	9,898	29,522	18,847
Net cash provided by (used in) financing activities	(387,069)	(438,957)	211,894
Increase (decrease) in cash and cash equivalents	6,684	(901)	(5,951)
Cash and cash equivalents, beginning of period	24,456	25,357	31,308
Cash and cash equivalents, end of period	\$ 31,140	\$ 24,456	\$ 25,357

See Notes to Consolidated Financial Statements.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Our Business 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 sells its products under a variety of local and regional brands and under private labels. Our 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 products, *International Delight*[®] coffee creamers, *LAND O LAKES*[®] creamers and fluid dairy products and *Rachel's Organic*[®] dairy products.

Basis of Presentation Our Consolidated Financial Statements include the accounts of our wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

On September 14, 2006, we completed the sale of our operations based in Spain. The sale of our remaining Iberian operations was completed in January 2007 following the completion of Portuguese regulatory proceedings. In our Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004, the Iberian operations have been reclassified 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) 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. In August 2005, we completed the sale of our *Marie*[®] dips and dressings and *Dean*[®] dips businesses to Ventura Foods. In our Consolidated Financial Statements for the years ended December 31, 2005 and 2004, the businesses transferred to TreeHouse and the *Marie*[®] dips and dressings and *Dean*[®] dips businesses have been reclassified as discontinued operations.

Use of Estimates The preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles (GAAP) requires us to use our judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates under different assumptions or conditions.

Cash Equivalents We consider temporary cash investments with an original maturity of three months or less to be cash equivalents.

Inventories Inventories are stated at the lower of cost or market. Our products are valued using the first-in, first-out (FIFO) method. The costs of finished goods inventories include raw materials, direct labor and indirect production and overhead costs.

Property, Plant and Equipment Property, plant and equipment are stated at acquisition cost, plus capitalized interest on borrowings during the actual construction period of major capital projects. Also included in property, plant and equipment are certain direct costs related to the implementation of computer software for internal use. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Asset	Useful Life
Buildings and improvements	7 to 40 years
Machinery and equipment	3 to 20 years

We perform impairment tests when circumstances indicate that the carrying value may not be recoverable. Capitalized leases are amortized over the shorter of their lease term or their estimated useful lives. Expenditures for repairs and maintenance, which do not improve or extend the life of the assets, are expensed as incurred.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible and Other Assets Identifiable intangible assets are amortized over their estimated useful lives as follows:

Asset	Useful Life
Customer relationships	Straight-line method over 5 to 15 years
Customer supply contracts	Straight-line method over the terms of the agreements
Trademarks/trade names	Straight-line method over 10 to 40 years
Noncompetition agreements	Straight-line method over the terms of the agreements
Deferred financing costs	Interest method over the terms of the related debt

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, goodwill and other intangible assets determined to have indefinite useful lives are not amortized. Instead, we conduct impairment tests on our goodwill, trademarks and other intangible assets with indefinite lives annually and when circumstances indicate that the carrying value may not be recoverable. To determine whether an impairment exists, we use present value techniques.

Foreign Currency Translation The financial statements of our foreign subsidiaries are translated to U.S. dollars in accordance with the provisions of SFAS No. 52, Foreign Currency Translation. The functional currency of our foreign subsidiaries is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at the average rates prevailing during the year. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in the determination of net income. The cumulative translation adjustment in stockholders' equity reflects the unrealized adjustments resulting from translating the financial statements of our foreign subsidiaries.

Share-Based Compensation In accordance with SFAS No. 123(R), Share-Based Payment, share-based compensation expense is recognized for equity awards over the vesting period based on their grant date fair value. The fair value of option awards is estimated at the date of grant using the Black-Scholes valuation model. The fair value of restricted stock unit awards is equal to the closing price of our stock on the date of grant. Compensation expense is recognized only for equity awards expected to vest. We estimate forfeitures at the date of grant based on the Company's historical experience and future expectations. 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.

Sales Recognition and Accounts Receivable Sales are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been shipped to the customer and there is a reasonable assurance of collection of the sales proceeds. In accordance with Emerging Issues Task Force (EITF) 01-09, Accounting for Consideration Given by a Vendor to a Customer, sales are reduced by certain sales incentives, some of which are recorded by estimating expense based on our historical experience. We provide credit terms to customers generally ranging up to 30 days, perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses based on historical experience. Estimated product returns, which have not been material, are deducted from sales at the time of shipment.

Income Taxes All of our wholly-owned U.S. operating subsidiaries are included in our U.S. federal consolidated tax return. In addition, our proportional share of the operations of our former majority-owned subsidiaries and certain of our equity method affiliates, all of which are organized as limited liability companies or limited partnerships, are included in our consolidated tax return. Our foreign subsidiaries are required to file separate income tax returns in their local jurisdictions. Certain distributions from these subsidiaries are subject to U.S. income taxes; however, available tax credits of these subsidiaries may reduce or eliminate these U.S. income tax liabilities. Other foreign earnings are expected to be reinvested indefinitely. At December 31, 2006, no provision had been made for U.S. federal or state income tax on approximately \$11 million of accumulated foreign earnings.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes are provided for temporary differences between amounts recorded in the Consolidated Financial Statements and tax bases of assets and liabilities using current tax rates. Deferred tax assets, including the benefit of net operating loss carry forwards, are evaluated based on the guidelines for realization and are reduced by a valuation allowance if deemed necessary.

Advertising Expense Advertising expense is comprised of media, agency, coupon, trade shows and other promotional expenses. Advertising expenses are charged to income during the period incurred, except for expenses related to the development of a major commercial or media campaign which are charged to income during the period in which the advertisement or campaign is first presented by the media. Advertising expenses charged to income totaled \$113.5 million in 2006, \$93.6 million in 2005 and \$114.1 million in 2004. Additionally, prepaid advertising costs were \$3.3 million and \$4.9 million at December 31, 2006 and 2005, respectively.

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 and 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 that were recorded as a component of selling and distribution expense were approximately \$1.28 billion, \$1.22 billion and \$1.13 billion during 2006, 2005 and 2004, respectively.

Insurance Accruals 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. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of factors including claims history and expected trends. These loss development factors are developed by us in consultation with external insurance brokers and actuaries.

Facility Closing and Reorganization Costs We have an on-going facility closing and reorganization strategy. We record facility closing and reorganization charges when we have identified a facility for closure or other reorganization opportunity, developed a plan and notified the affected employees.

Comprehensive Income We consider all changes in equity from transactions and other events and circumstances, except those resulting from investments by owners and distributions to owners, to be comprehensive income.

Recently Adopted Accounting Pronouncements In 2006, we adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* - an Amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, *postretirement benefit plans*) to recognize the overfunded or underfunded status of its postretirement benefit plans (other than multiemployer plans) as an asset or liability in its statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of its year-end statement of financial position, and

provide additional disclosures.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The incremental effects of adopting the provisions of SFAS No. 158 on our Consolidated Balance Sheet at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 did not have an effect on our Consolidated Balance Sheets at December 31, 2005 or 2004 and our Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004, and it will not effect our Consolidated Statements of Income in future periods. Had we not been required to adopt SFAS No. 158 at December 31, 2006, we would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in table below in the column labeled Prior to Adopting SFAS No. 158.

	Prior to Adopting SFAS No. 158	December 31, 2006 Effect of Adopting SFAS No. 158 (In thousands)	As Reported At December 31, 2006
Non-current pension asset	\$ 10,383	\$ (10,383)	\$
Pension and other postretirement plan liabilities	82,885	13,492	96,377
Deferred income taxes	26,195	9,072	35,267
Accumulated other comprehensive loss	(43,433)	(14,803)	(58,236)

SFAS No. 158's provisions regarding the change in measurement date of postretirement benefit plans are not applicable as we already use a measurement date of December 31 for our postretirement benefit plans. See Notes 13 and 14 for further discussion of our postretirement benefit plans.

Effective January 1, 2006, we adopted 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*.

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:

Year Ended December 31, 2005	Year Ended December 31, 2004
(In thousands, except share data)	

Decrease in:		
Income before taxes	\$ 24,723	\$ 42,216
Net income	18,877	31,654
Basic EPS	\$ 0.13	\$ 0.20
Diluted EPS	0.12	0.20

See Note 10 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.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Effective in the fourth quarter of 2005, we adopted Financial Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*. See Note 5 for additional information.

Recently Issued Accounting Pronouncements The Financial Accounting Standards Board (FASB) issued 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 SFAS 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 48 on our Consolidated Financial Statements. This interpretation will become effective for us in the first quarter of 2007.

The FASB issued SFAS No. 157, *Fair Value Measurements* in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* in February 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

Reclassifications Certain reclassifications have been made to conform the prior year's Consolidated Financial Statements to the current year's classifications. During the year ended December 31, 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in the distribution of our products from cost of sales to distribution expense. The reclassification reduced cost of sales and increased distribution expense by \$42.0 million and \$36.2 million for the years ended December 31, 2005 and 2004, respectively. The reclassification had no impact on net income.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS AND DISCONTINUED OPERATIONS***Acquisitions*

We completed the acquisitions of 15 businesses during 2006, 2005 and 2004. All of these acquisitions were funded with cash flows from operations and borrowings under our senior credit facility and our receivables-backed facility. The results of operations of the acquired companies are included in our Consolidated Financial Statements subsequent to their respective acquisition dates. At the acquisition date, the purchase price was allocated to assets acquired, including identifiable intangibles, and liabilities assumed based on their fair market values. The excess of the total purchase prices over the fair values of the net assets acquired represented goodwill. In connection with the acquisitions, assets were acquired and liabilities were assumed as follows:

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Purchase prices:			
Cash paid, net of cash acquired(1)	\$ 17,244	\$ 2,312	\$ 378,164
Forgiveness of debt		1,051	
Total purchase prices	17,244	3,363	378,164
Fair value of net assets acquired:			
Assets acquired	11,207	2,114	244,690
Liabilities assumed	(4,836)	(782)	(160,354)
Total fair value of net assets acquired	6,371	1,332	84,336
Goodwill	\$ 10,873	\$ 2,031	\$ 293,828

(1) In 2005, excludes \$934,000 received in 2005 related to a 2004 acquisition.

Our Dairy Group completed several small acquisitions for an aggregate purchase price of \$17.2 million and \$3.4 million in 2006 and 2005, respectively.

Milk Products of Alabama On October 15, 2004, our Dairy Group acquired Milk Products of Alabama, a dairy manufacturer based in Decatur, Alabama. Milk Products of Alabama had net sales of approximately \$34 million in 2003. As a result of this acquisition, we expanded our production capabilities in the southeastern United States, allowing us to better serve our customers. Milk Products of Alabama's results of operations are now included in our Dairy Group. We paid approximately \$23.2 million for the purchase of Milk Products of Alabama, including costs of

acquisition, and funded the purchase price with borrowings under our senior credit facility.

Soy Processing Facility On April 5, 2004, our WhiteWave Foods Company acquired a soy processing and packaging plant located in Bridgeton, New Jersey. Prior to the acquisition, the previous owner of the facility co-packed *Silk* products for us at the facility. As a result of the acquisition, we increased our in-house processing and packaging capabilities for our soy products, resulting in cost reductions. We paid approximately \$25.7 million for the purchase of the facility, all of which was funded using borrowings under our senior credit facility.

LAND O LAKES East In 2002, we purchased a perpetual license to use the *LAND O LAKES* brand on certain dairy products nationally, excluding cheese and butter. This perpetual license was subject, however, to a pre-existing sublicense entitling a competitor to manufacture and sell cream, sour cream and whipping cream in certain channels in the eastern United States. Effective March 31, 2004, WhiteWave Foods Company acquired that sublicense and certain customer relationships of the sublicensee (*LAND O LAKES East*) for an aggregate purchase price of approximately \$17 million, all of which was funded using borrowings under our senior credit facility. We now have the exclusive right to use the *LAND O LAKES* brand on certain dairy products (other than cheese and butter) throughout the entire United States.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Ross Swiss Dairies On January 26, 2004, our Dairy Group acquired Ross Swiss Dairies, a dairy distributor based in Los Angeles, California, which had net sales of approximately \$120 million in 2003. As a result of this acquisition, we increased the distribution capability of our Dairy Group in southern California, allowing us to better serve our customers. Ross Swiss Dairies historically purchased a significant portion of its products from other processors. The fluid dairy products distributed by Ross Swiss Dairies are now manufactured in our southern California facilities. We paid approximately \$21.8 million, including transaction costs, for the purchase of Ross Swiss Dairies and funded the purchase price with borrowings under our receivables-backed facility.

Horizon Organic On January 2, 2004, we completed the acquisition of the 87% of Horizon Organic Holding Corporation (Horizon Organic) that we did not already own. Horizon Organic had sales of over \$200 million during 2003. We already owned approximately 13% of the outstanding common stock of Horizon Organic as a result of investments made in 1998. Third-party co-packers, including us, historically manufactured all of Horizon Organic's products. During 2003, we produced approximately 27% of Horizon Organic's fluid dairy products. We also distributed Horizon Organic's products in several parts of the country. Horizon Organic is a leading branded organic foods company in the United States. Because organic foods are gaining popularity with consumers and because Horizon Organic's products offer consumers an alternative to our Dairy Group's traditional dairy products, we believe Horizon Organic is an important addition to our portfolio of brands. The aggregate purchase price for the 87% of Horizon Organic that we did not already own was approximately \$287 million, including approximately \$217 million of cash paid to Horizon Organic's stockholders, the repayment of approximately \$40 million of borrowings under Horizon Organic's former credit facilities, and transaction expenses of approximately \$9 million, all of which was funded using borrowings under our senior credit facility and our receivables-backed facility. In addition, each of the options to purchase Horizon Organic's common stock outstanding on January 2, 2004 was converted into an option to purchase .7301 shares of our stock, with an aggregate fair value of approximately \$21 million. Beginning with the first quarter of 2004, Horizon Organic's financial results are reported in our WhiteWave Foods Company segment.

Other During 2004, our Dairy Group completed four smaller acquisitions for an aggregate purchase price of \$23.3 million.

Discontinued Operations

Our financial statements have been reclassified to give effect to the following businesses as discontinued operations.

Iberian Operations Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. 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. The decision to sell such operations is part of our strategy to focus on our core dairy and branded businesses. At that time, we recognized a 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 impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for net cash proceeds of approximately \$96.0 million. In addition to customary indemnifications of the purchaser of the business, we retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately \$19.8 million as of December 31, 2006) if certain regulatory approvals are not received with respect to a specific facility. A loss on the sale of our operations in Spain of \$6.8 million (net of tax) was recognized

during 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (that comprised the remainder of our Iberian operations) for approximately \$11.4 million subject to

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

regulatory approvals and working capital settlements. We completed the sale of our Portuguese operations in January 2007. No significant loss is expected on the sale.

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. Our net proceeds were approximately \$189.9 million. The sale of these brands was 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. The proceeds from this transaction were distributed to us as a dividend and are reflected within stockholders' equity in our Consolidated Balance Sheet.

On June 27, 2005, we completed the Spin-off. 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* 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. At the time of the Spin-off, we transferred the obligation for pension and other postretirement benefit plans of transferred employees and retirees to TreeHouse. In the second half of 2005, we transferred a portion of the related plan assets. In 2006, we transferred the remaining plan assets related to such obligations. Following the Spin-off, we have no ownership interest in TreeHouse.

Other In 2006, we recognized a \$4.8 million gain from the favorable resolution of contingencies related to prior discontinued operations.

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

	Year Ended December 31		
	2006(1)	2005(1)	2004(1)
	(In thousands)		
Net sales	\$ 240,470	\$ 725,602	\$ 1,096,737
Income (loss) before taxes(2)	(52,842)	25,524	75,480

- (1) All intercompany sales and expenses have been appropriately eliminated in the table.
- (2) Interest expense of \$4.8 million in the year ended December 31, 2006 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 \$9.2 million and \$10.6 million in the years ended December 31, 2005 and 2004, 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.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Major classes of assets and liabilities of discontinued operations included in our Consolidated Balance Sheets at December 31, 2006 and 2005 are as follows:

	December 31	
	2006	2005
	(In thousands)	
Current assets	\$ 14,255	\$ 75,774
Goodwill		91,938
Other non-current assets	5,725	134,015
Current liabilities	8,791	111,397
Non-current liabilities		14,632

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investment in Consolidated Container Company We own an approximately 25% minority interest, on a fully diluted basis, in Consolidated Container Company (CCC), one of the nation's largest manufacturers of rigid plastic containers and our largest supplier of plastic bottles and bottle components. We have owned our minority interest since July 2, 1999, when we sold our U.S. plastic packaging operations to CCC.

Since July 2, 1999, our investment in CCC has been accounted for under the equity method of accounting. During 2001, due to a variety of operational difficulties, CCC consistently reported operating results that were significantly weaker than expected, which resulted in significant losses in the third and fourth quarters of 2001. As a result, by late 2001 CCC had become unable to comply with the financial covenants contained in its credit facility. We concluded that our investment was impaired and that the impairment was not temporary so we wrote off our remaining investment during the fourth quarter of 2001. Our investment in CCC has been recorded at \$0 since we wrote-off our remaining investment in 2001. As the tax basis of our investment in CCC is less than the carrying value of the investment recognized in our Consolidated Financial Statements, the sale or liquidation of our investment could result in a disproportionate tax obligation.

In 2002, we agreed to loan CCC \$10 million of their \$35 million financing requirements in exchange for cancellation of a pre-existing \$10 million loan guaranty we provided to them, as well as for the receipt of additional equity. Vestar Capital Partners, majority owner of CCC, loaned CCC the remaining \$25 million. We were required to recognize a portion of CCC's 2002 losses, up to the amount of the loan. The loan was written off in its entirety in the fourth quarter of 2002. In 2004, in connection with a refinancing of CCC, our \$10 million loan plus \$1.9 million in accrued interest was repaid through the issuance of 11,938,056 Series B Preferred Units from CCC. The Series B Units are convertible into common shares or a combination of common shares and Series C Preferred Units, at various times and subject to certain conditions. This transaction had no impact on our 2004 Consolidated Statement of Income.

Less than 1% of CCC is owned indirectly by Alan Bernon, President of our Dairy Group, and his brother Peter Bernon. Pursuant to our agreements with Vestar, we control two of the eight seats on CCC's Management Committee. We have supply agreements with CCC to purchase certain of our requirements for plastic bottles and bottle

components from CCC. We spent approximately \$284.4 million, \$324.1 million and \$235.5 million on products purchased from CCC for the years ended December 31, 2006, 2005 and 2004, respectively. In the third quarter of 2006, we reached a favorable resolution of a dispute with CCC resulting in a \$7.0 million reduction in cost of sales. In the fourth quarter of 2004, we purchased equipment previously owned and operated by CCC totaling \$3.2 million.

Investment in Momentx As of December 31, 2006 and 2005, we had an approximately 16% voting interest in Momentx, Inc. Our investment in Momentx at both December 31, 2006 and 2005 was \$1.2 million. Momentx is the owner and operator of *dairy.com*, an online vertical exchange dedicated to the dairy industry. We account for this

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

investment under the cost method of accounting. We spent approximately \$600,000, \$444,000 and \$664,000 on products purchased from *dairy.com* for the years ended December 31, 2006, 2005 and 2004, respectively.

4. INVENTORIES

	December 31	
	2006	2005
	(In thousands)	
Raw materials and supplies	\$ 173,208	\$ 151,442
Finished goods	187,546	203,562
Total	\$ 360,754	\$ 355,004

5. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2006	2005
	(In thousands)	
Land	\$ 176,425	\$ 166,750
Buildings and improvements	749,163	709,159
Machinery and equipment	1,892,028	1,758,755
	2,817,616	2,634,664
Less accumulated depreciation	(1,030,709)	(857,863)
Total	\$ 1,786,907	\$ 1,776,801

For 2006 and 2005, we capitalized \$3.4 million and \$3.8 million in interest related to borrowings during the actual construction period of major capital projects, which is included as part of the cost of the related asset.

In the fourth quarter of 2005 we adopted FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*. As a result of the adoption we increased the carrying value of our assets by \$285,000, net of accumulated depreciation, and recognized asset retirement obligations of \$2.8 million at December 31, 2005. We recognized \$2.5 million (\$1.6 million, net of tax) as a cumulative change in accounting principal in 2005 for depreciation expense on the increase in property, plant and equipment related to the anticipated removal costs of underground fuel storage tanks.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 are as follows:

	Dairy Group	WhiteWave Foods Company (In thousands)	Total
Balance at December 31, 2004	\$ 2,442,968	\$ 551,472	\$ 2,994,440
Purchase accounting adjustments	(44,156)	(29,375)	(73,531)
Acquisitions	2,031		2,031
Balance at December 31, 2005	2,400,843	522,097	2,922,940
Purchase accounting adjustments	(3,303)	12,629	9,326
Acquisitions	10,873		10,873
Balance at December 31, 2006	\$ 2,408,413	\$ 534,726	\$ 2,943,139

Purchase accounting adjustments generally represent adjustments of the preliminary allocation of the purchase price to the fair values of assets and liabilities purchased in recent acquisitions. Included in the Dairy Group 2006 purchase accounting adjustments is \$3.5 million related to a reduction in tax reserves from the Dean Holding Company acquisition and the revision of deferred tax assets on other acquisitions. Included in the Dairy Group 2005 purchase accounting adjustments is \$35.6 million related to the revision of tax attributes of assets from the Dean Holding Company acquisition. Deferred tax liabilities were reduced by a similar amount. The adjustments to WhiteWave Foods Company in 2006 represent a reduction in deferred tax assets due to an adjustment in the tax basis of liabilities related to the Horizon Organic acquisition. The adjustments to WhiteWave Foods Company in 2005 primarily represent the difference between the cost of eliminating certain contractual obligations entered into by Horizon prior to our acquisition of that company and the estimated costs to exit entirely from such activities and related obligations as originally estimated in the purchase price allocation. These adjustments have no impact on the Consolidated Statements of Income.

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

December 31					
2006			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	\$ 511,294	\$ (5,877)	\$ 505,417	\$ 511,662	\$ (5,877)	\$ 505,785
Intangible assets with finite lives:						
Customer-related and other	87,616	(28,474)	59,142	86,525	(21,358)	65,167
Total	\$ 598,910	\$ (34,351)	\$ 564,559	\$ 598,187	\$ (27,235)	\$ 570,952

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amortization expense on intangible assets for the years ended December 31, 2006, 2005 and 2004 was \$7.7 million, \$7.2 million and \$5.4 million, respectively. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

2007	\$ 7.6 million
2008	7.4 million
2009	7.1 million
2010	7.0 million
2011	5.2 million

Our goodwill and intangible assets have resulted primarily from acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including trademarks and customer-related intangible assets, with any remaining purchase price recorded as goodwill. Goodwill and trademarks with indefinite lives are not amortized.

A trademark is recorded with an indefinite life if it has sufficient market share and a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. If these perpetual trademark criteria are not met, the trademarks are amortized over their expected useful lives, which range from five to 40 years. Determining the expected life of a trademark is based on a number of factors including the competitive environment, market share, trademark history and anticipated future trademark support.

In accordance with SFAS No. 142, we conduct impairment tests of goodwill and intangible assets with indefinite lives annually in the fourth quarter or when circumstances arise that indicate a possible impairment might exist. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value based on its discounted future cash flows. Our 2006, 2005 and 2004 annual impairment tests of goodwill indicated no impairments. Our 2006 annual impairment tests of intangibles with indefinite lives indicated an impairment on a perpetual trademark for a regional brand in our Dairy Group as a result of the decision to close a facility and shift customers from one regional brand to another. In 2006, we recognized an impairment charge of approximately \$700,000 related to this trademark. Our 2005 and 2004 annual impairment tests of intangibles with indefinite lives indicated no impairment.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31	
	2006	2005
	(In thousands)	
Accounts payable	\$ 463,965	\$ 498,331
Payroll and benefits	123,507	148,548
Health insurance, workers compensation and other insurance costs	84,988	85,250

Other accrued liabilities	149,662	193,938
Total	\$ 822,122	\$ 926,067

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. INCOME TAXES**

The following table presents the 2006, 2005 and 2004 provisions for income taxes:

	Year Ended December 31		
	2006(1)	2005(2)	2004(3)
	(In thousands)		
Federal	\$ 96,245	\$ 113,025	\$ 5,505
State	12,183	14,514	3,240
Foreign and other	517	853	2,250
Deferred income taxes	66,505	35,506	127,477
Total	\$ 175,450	\$ 163,898	\$ 138,472

(1) Excludes \$12.0 million income tax benefit related to discontinued operations.

(2) Excludes \$53.1 million income tax expense related to discontinued operations and \$900,000 income tax benefit related to cumulative effect of accounting change.

(3) Excludes \$28.0 million income tax expense related to discontinued operations.

The following is a reconciliation of income taxes computed at the U.S. federal statutory tax rate to income taxes reported in the Consolidated Statements of Income:

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Tax expense at statutory rates	\$ 159,500	\$ 147,192	\$ 120,638
State income taxes	11,419	11,422	8,581
Change in valuation allowance	(1,036)	(481)	1,208
Nondeductible compensation	3,446	4,603	512
Favorable tax settlement	(259)	(1,709)	
Other	2,380	2,871	7,533
Total	\$ 175,450	\$ 163,898	\$ 138,472

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax effects of temporary differences giving rise to deferred income tax assets (liabilities) were:

	December 31	
	2006	2005
	(In thousands)	
Deferred income tax assets:		
Accrued liabilities	\$ 162,805	\$ 182,715
Stock options	27,026	30,133
Asset valuation reserves	16,910	11,121
Net operating loss carryforwards	12,797	11,528
State and foreign tax credits	10,173	15,193
Valuation allowances	(9,671)	(14,280)
	220,040	236,410
Deferred income tax liabilities:		
Depreciation and amortization	(566,521)	(508,836)
Basis differences in unconsolidated affiliates	(23,214)	(25,821)
Derivative instruments	(9,951)	(8,333)
Other	(6,915)	(5,351)
	(606,601)	(548,341)
Net deferred income tax liability	\$ (386,561)	\$ (311,931)

These net deferred income tax assets (liabilities) are classified in our Consolidated Balance Sheets as follows:

	December 31	
	2006	2005
	(In thousands)	
Current assets	\$ 117,991	\$ 137,776
Noncurrent liabilities	(504,552)	(449,707)
Total	\$ (386,561)	\$ (311,931)

At December 31, 2006, we had approximately \$10.2 million of state and foreign tax credits available for carryover to future years. The credits are subject to certain limitations and begin to expire in 2010.

A valuation allowance of \$9.7 million has been established because we do not believe it is more likely than not that all of the deferred tax assets related to state net operating loss and credit carryforwards and foreign tax credit carryforwards will be realized prior to expiration. Our valuation allowance decreased \$4.6 million in 2006 including \$3.6 million related to a previously discontinued operation and the expected realization of state net operating loss carryforwards not previously recognized.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT

	December 31			
	2006	Interest	2005	Interest
	Amount	Rate	Amount	Rate
	Outstanding	(Dollars in thousands)	Outstanding	
Dean Foods Company debt obligations:				
Senior credit facility	\$ 1,757,250	5.99%	\$ 2,258,600	5.16%
Senior notes	498,112	7.00		
	2,255,362		2,258,600	
Subsidiary debt obligations:				
Senior notes	572,037	6.625-8.15	568,493	6.625-8.15
Receivables-backed facility	512,500	5.68	548,400	4.60
Capital lease obligations and other	15,952		11,355	
	1,100,489		1,128,248	
	3,355,851		3,386,848	
Less current portion	(483,658)		(65,326)	
Total long-term portion	\$ 2,872,193		\$ 3,321,522	

The scheduled maturities of long-term debt, at December 31, 2006, were as follows (in thousands):

2007	\$ 483,576
2008	432,891
2009	1,815,121
2010	1,643
2011	1,689
Thereafter	650,782
Subtotal	3,385,702
Less discounts	(29,851)
Total outstanding debt	\$ 3,355,851

Senior Credit Facility Our senior credit facility provides for a \$1.5 billion revolving credit facility and a \$1.5 billion term loan. At December 31, 2006, there were outstanding term loan borrowings of \$1.44 billion under the senior credit facility and \$313.5 million outstanding under the revolving line of credit. Letters of credit in the aggregate amount of \$136.6 million were issued but undrawn. At December 31, 2006, approximately \$1.05 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 5.99% at December 31, 2006. However, we had interest rate swap agreements in place that hedged \$950.0 million of our borrowings under the senior credit facility at an average rate of 4.53%, plus the applicable interest rate margin. Interest is payable quarterly or at the end of the applicable interest period.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 Holding Company's subsidiaries, and the real property owned by Dean Holding Company 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 Company 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 December 31, 2006 was

\$498.1 million net of discount.

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

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Subsidiary Senior Notes Dean Holding Company had certain senior notes outstanding at the time of the acquisition. One note (\$100 million face value at 6.75% interest) matured and was repaid in June 2005. The outstanding notes carry the following interest rates and maturities:

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

\$192.7 million (\$200 million face value), at 6.625% interest, maturing in May 2009; and

\$129.2 million (\$150 million face value), at 6.9% interest, maturing in October 2017.

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

Receivables-Backed Facility We have 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 Consolidated Balance Sheets, and the securitization is treated as a borrowing for accounting purposes. During 2006, we had net payments of \$35.9 million on this facility leaving an available and drawn balance of \$512.5 million at December 31, 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 5.68% at December 31, 2006. Our ability to re-borrow under this facility is subject to a borrowing base formula.

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.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes our various interest rate agreements in effect as of December 31, 2006:

Fixed Interest Rates	Expiration Date	Notional Amounts (In millions)
4.81% to 4.84%	December 2007	\$ 500
4.07% to 4.27%	December 2010	450

The following table summarizes our various interest rate agreements in effect as of 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 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.

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

	December 31	
	2006	2005
	(In thousands)	
Current derivative asset	\$ 6,525	\$ 5,877
Long-term derivative asset	8,322	10,028
Total derivative asset	\$ 14,847	\$ 15,905
Current derivative liability	\$	\$ 1,926
Long-term derivative liability		400
Total derivative liability	\$	\$ 2,326

There was no hedge ineffectiveness for the years ended 2006, 2005 and 2004. Approximately \$7.5 million of gains (net of tax) and \$8.5 million and \$20.7 million of losses (net of tax) were reclassified to interest expense from other comprehensive income during the years ended 2006, 2005 and 2004, respectively. We estimate that approximately \$4.1 million of net derivative gains (net of tax) included in other comprehensive income will be reclassified into earnings within the next 12 months. These gains will decrease the interest expense 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**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Dean Foods Company (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 December 31, 2006

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 579	\$ 26,254	\$ 4,307	\$	\$ 31,140
Receivables, net	301	32,720	766,017		799,038
Intercompany receivables	126,707	2,702,858	309,747	(3,139,312)	
Other current assets	105,882	443,210	20		549,112
Total current assets	233,469	3,205,042	1,080,091	(3,139,312)	1,379,290
Property, plant and equipment, net	608	1,767,734	18,565		1,786,907
Goodwill		2,943,048	91		2,943,139
Identifiable intangible and other assets	54,410	586,443	4		640,857
Investment in subsidiaries	6,507,028			(6,507,028)	
Assets of discontinued operations			19,980		19,980
Total	\$ 6,795,515	\$ 8,502,267	\$ 1,118,731	\$ (9,646,340)	\$ 6,770,173
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued expenses	\$ 39,077	\$ 782,507	\$ 538	\$	\$ 822,122
Income taxes payable	28,347	2,295	134		30,776
Intercompany notes	2,194,952	437,725	506,635	(3,139,312)	
Current portion of long-term debt	225,000	258,658			483,658
Total current liabilities	2,487,376	1,481,185	507,307	(3,139,312)	1,336,556
Long-term debt	2,030,362	329,331	512,500		2,872,193
Other long-term liabilities	468,378	274,856			743,234

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Liabilities of discontinued operations			8,791		8,791
Total stockholders equity	1,809,399	6,416,895	90,133	(6,507,028)	1,809,399
Total	\$ 6,795,515	\$ 8,502,267	\$ 1,118,731	\$ (9,646,340)	\$ 6,770,173

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Balance Sheet as of December 31, 2005**

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
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	281,842	2,217,898	373,488	(2,873,228)	
Other current assets	106,684	451,378	244		558,306
Total current assets	388,796	2,729,915	1,155,710	(2,873,228)	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	6,105,506			(6,105,506)	
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	655,000	544,096	(2,873,228)	
Current portion of long-term debt	56,250	4,465	4,611		65,326
Total current liabilities	2,019,664	1,330,283	549,215	(2,873,228)	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	5,856,633	248,873	(6,105,506)	1,902,213
Total	\$ 6,549,383	\$ 8,007,718	\$ 1,472,517	\$ (8,978,734)	\$ 7,050,884

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income for
the Year Ended December 31, 2006**

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Net sales	\$	\$ 10,088,080	\$ 10,475	\$	\$ 10,098,555
Cost of sales		7,350,026	8,650		7,358,676
Gross profit		2,738,054	1,825		2,739,879
Selling and distribution		1,648,191	669		1,648,860
General and administrative	5,725	407,225	2,258		415,208
Facility closing and reorganization costs		25,116			25,116
Interest expense	120,679	74,308	(440)		194,547
Other (income) expense, net	(14)	377	72		435
Income from subsidiaries	(582,103)			582,103	
Income (loss) from continuing operations before income taxes	455,713	582,837	(734)	(582,103)	455,713
Income taxes	175,450	222,732	(293)	(222,439)	175,450
Income (loss) from continuing operations	280,263	360,105	(441)	(359,664)	280,263
Loss on sale of discontinued operations, net of tax		(379)	(1,599)		(1,978)
Loss from discontinued operations, net of tax		(2,440)	(50,431)		(52,871)
Net income (loss)	\$ 280,263	\$ 357,286	\$ (52,471)	\$ (359,664)	\$ 225,414

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income for
the Year Ended December 31, 2005**

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Net sales	\$	\$ 10,168,883	\$ 5,835	\$	\$ 10,174,718
Cost of sales		7,586,940	4,608		7,591,548
Gross profit		2,581,943	1,227		2,583,170
Selling and distribution		1,580,458	570		1,581,028
General and administrative	1,337	384,249	1,010		386,596
Facility closing and reorganization costs		35,451			35,451
Interest expense	81,594	76,835	1,801		160,230
Other (income), net	(8)	(263)	(412)		(683)
Income from subsidiaries	(503,471)			503,471	
Income (loss) from continuing operations before income taxes	420,548	505,213	(1,742)	(503,471)	420,548
Income taxes	163,898	194,630	(658)	(193,972)	163,898
Income (loss) from continuing operations	256,650	310,583	(1,084)	(309,499)	256,650
Gain on sale of discontinued operations, net of tax		38,763			38,763
Gain (loss) from discontinued operations, net of tax		17,847	(3,054)		14,793
Cumulative effect of accounting change, net of tax		(1,552)			(1,552)
Net income (loss)	\$ 256,650	\$ 365,641	\$ (4,138)	\$ (309,499)	\$ 308,654

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Income
for the Year Ended December 31, 2004

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Net sales	\$	\$ 9,712,991	\$ 12,557	\$	\$ 9,725,548
Cost of sales		7,328,528	9,610		7,338,138
Gross profit		2,384,463	2,947		2,387,410
Selling and distribution		1,471,475	637		1,472,112
General and administrative	2,079	359,633	(835)		360,877
Facility closing and reorganization costs		24,575			24,575
Other operating income		(5,899)			(5,899)
Interest expense	108,619	82,630	539		191,788
Other (income) expense, net	(13)	461	(1,170)		(722)
Income from subsidiaries	(455,364)			455,364	
Income (loss) from continuing operations before income taxes	344,679	451,588	3,776	(455,364)	344,679
Income taxes	138,472	177,147	1,373	(178,520)	138,472
Income (loss) from continuing operations	206,207	274,441	2,403	(276,844)	206,207
Gain (loss) on sale of discontinued operations, net of tax					
Gain from discontinued operations, net of tax		46,213	1,301		47,514
Net income (loss)	\$ 206,207	\$ 320,654	\$ 3,704	\$ (276,844)	\$ 253,721

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Cash Flows
for the Year Ended December 31, 2006

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries	Consolidated Totals
	(In thousands)			
Net cash provided by (used in) operating activities	\$ (488,275)	\$ 1,038,833	\$ 10,660	\$ 561,218
Additions to property, plant and equipment	(2,435)	(229,721)	(5,086)	(237,242)
Cash outflows for acquisitions	(17,244)			(17,244)
Net proceeds from divestitures	95,982			95,982
Proceeds from sale of fixed assets		6,190		6,190
Other			(15,151)	(15,151)
Net cash provided by (used in) investing activities	76,303	(223,531)	(20,237)	(167,465)
Proceeds from issuance of debt	498,020			498,020
Repayment of debt	(501,350)	(9,612)	(40,511)	(551,473)
Payments of deferred financing costs	(6,974)			(6,974)
Issuance of common stock	32,311			32,311
Tax savings on share-based compensation	31,211			31,211
Redemption of common stock	(400,062)			(400,062)
Other			9,898	9,898
Net cash used in financing activities	(346,844)	(9,612)	(30,613)	(387,069)
Net change in intercompany balances	759,145	(798,112)	38,967	
Increase (decrease) in cash end cash equivalents	329	7,578	(1,223)	6,684
Cash and cash equivalents, beginning of period	249	18,677	5,530	24,456
Cash and cash equivalents, end of period	\$ 578	\$ 26,255	\$ 4,307	\$ 31,140

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Cash Flows
for the Year Ended December 31, 2005

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries	Consolidated Totals
	(In thousands)			
Net cash provided by (used in) operating activities	\$ (49,675)	\$ 671,635	\$ (66,184)	\$ 555,776
Additions to property, plant and equipment	(681)	(282,697)	(3,751)	(287,129)
Cash outflows for acquisitions	(1,378)			(1,378)
Net proceeds from divestitures	189,862			189,862
Proceeds from sale of fixed assets		6,157	2,200	8,357
Other		(7,875)	(19,557)	(27,432)
Net cash provided by (used in) investing activities	187,803	(284,415)	(21,108)	(117,720)
Proceeds from issuance of debt	227,500		48,400	275,900
Repayment of debt	(1,250)	(114,413)	(2,891)	(118,554)
Payments of deferred financing costs	(4,279)			(4,279)
Issuance of common stock	57,718			57,718
Tax savings on share-based compensation	20,614			20,614
Redemption of common stock	(699,878)			(699,878)
Other		11,153	18,369	29,522
Net cash provided by (used in) financing activities	(399,575)	(103,260)	63,878	(438,957)
Net change in intercompany balances	261,522	(289,609)	28,087	
Increase (decrease) in cash and cash equivalents	75	(5,649)	4,673	(901)
Cash and cash equivalents, beginning of period	174	24,326	857	25,357
Cash and cash equivalents, end of period	\$ 249	\$ 18,677	\$ 5,530	\$ 24,456

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Cash Flows
for the Year Ended December 31, 2004

	Parent	Guarantor Entities	Non- Guarantor Subsidiaries	Consolidated Totals
	(In thousands)			
Net cash provided by (used in) operating activities	\$ (99,943)	\$ 713,590	\$ (84,921)	\$ 528,726
Additions to property, plant and equipment	(641)	(300,485)	(60)	(301,186)
Cash outflows for acquisitions	(378,164)			(378,164)
Proceeds from sale of fixed assets		10,028		10,028
Other		(23,349)	(53,900)	(77,249)
Net cash used in investing activities	(378,805)	(313,806)	(53,960)	(746,571)
Proceeds from issuance of debt	1,444,500		197,500	1,642,000
Repayment of debt	(1,198,286)	(23,378)	(966)	(1,222,630)
Payments of deferred financing costs	(9,801)			(9,801)
Issuance of common stock	61,969			61,969
Tax savings on share-based compensation	(297,018)			(297,018)
Redemption of common stock	18,527			18,527
Other		18,847		18,847
Net cash provided by (used in) financing activities	19,891	(4,531)	196,534	211,894
Net change in intercompany balances	458,037	(400,481)	(57,556)	
Increase (decrease) in cash and cash equivalents	(820)	(5,228)	97	(5,951)
Cash and cash equivalents, beginning of period	994	29,554	760	31,308
Cash and cash equivalents, end of period	\$ 174	\$ 24,326	\$ 857	\$ 25,357

10. COMMON STOCK AND SHARE-BASED COMPENSATION

Our authorized shares of capital stock include one million shares of preferred stock and 500 million shares of common stock with a par value of \$.01 per share.

Stock Award Plans We currently have two stock award plans with shares remaining available for issuance. These plans, which are our 1997 Stock Option and Restricted Stock Plan and the 1989 Dean Foods Company Stock Awards Plan (which we adopted upon completion of our acquisition of Dean Holding Company), provide for grants of stock options, stock units, restricted stock and other stock-based awards to employees, officers, directors and, in some cases, consultants, up to a maximum of 37.5 million and approximately 5.7 million shares, respectively. Options and other

stock-based awards vest in accordance with provisions set forth in the applicable award agreements.

Under our stock award 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.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

	Year Ended December 31		
	2006	2005	2004
Expected volatility	25%	25%	25%
Expected dividend yield	0%	0%	0%
Expected option term	4.5 years	4.5 years	5 years
Risk-free rate of return	4.28 to 5.10%	3.63 to 4.27%	2.98 to 3.81%

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.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes stock option activity during the years ended December 31, 2006, 2005 and 2004:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Options outstanding at January 1, 2004	16,599,126	\$ 18.50		
Granted	2,392,658	31.37		
Options issued to Horizon Organic Option Holders(1)	1,137,308	16.37		
Cancelled(2)	(208,152)	22.56		
Exercised	(3,073,219)	17.12		
Options outstanding at December 31, 2004	16,847,721	20.32		
Granted(3)	2,466,594	28.90		
Adjustment to options granted prior to December 31, 2004 and outstanding at the time of the Spin-off(3)	2,016,291	18.14		
Cancelled(2)	(343,241)	28.22		
Exercised	(3,128,082)	18.16		
Options outstanding at December 31, 2005	17,859,283	18.87		
Granted	2,686,305	37.77		
Cancelled(2)	(857,571)	19.17		
Exercised	(4,365,619)	15.63		
Options outstanding at December 31, 2006	15,322,398	23.09	6.05	\$ 294,030,230
Options exercisable at December 31, 2004	10,642,287	17.16		
Options exercisable at December 31, 2005	12,935,984	16.07		
Options exercisable at December 31, 2006	10,780,307	18.75	5.05	253,619,324

(1) In connection with our acquisition of Horizon Organic in January 2004, all options to purchase Horizon Organic stock outstanding at the time of the acquisition were converted into options to purchase our stock, most of which were automatically vested when we completed the acquisition.

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

(3)

The number and exercise prices of certain options outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the options before and after the Spin-off.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about options outstanding and exercisable at December 31, 2006:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.45 to \$12.14	2,044,553	2.82	\$ 10.90	2,044,553	\$ 10.90
\$12.28 to \$16.87	862,774	2.69	15.01	862,774	15.01
\$17.18	3,369,258	5.02	17.18	3,369,258	17.18
\$17.29 to \$20.92	386,597	4.84	20.52	386,597	20.52
\$20.94	2,027,869	5.98	20.94	2,027,869	20.94
\$21.85 to \$25.73	107,812	6.42	25.24	84,533	25.28
\$26.32	1,646,297	6.85	26.32	1,012,661	26.32
\$26.60 to \$26.89	1,556,922	7.90	26.88	541,896	26.84
\$27.38 to \$37.39	819,941	8.40	33.80	365,165	33.09
\$37.74 to \$42.75	2,500,375	8.99	37.87	85,001	38.01

The weighted-average grant date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$11.00 per share, \$8.13 per share and \$8.87 per share, respectively, and the total intrinsic value of options exercised during the same periods was \$100.6 million, \$58.6 million and \$52.7 million, respectively. The fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was \$24.9 million, \$42.3 million and \$45.3 million, respectively.

During the years ended December 31, 2006, 2005 and 2004, we recognized stock option expense of \$21.5 million, \$24.7 million and \$42.2 million, respectively, and an income tax benefit related to stock option expense of \$8.2 million, \$5.8 million and \$10.6 million, respectively.

During the year ended December 31, 2006, we recognized a pre-tax cumulative non-cash charge of approximately \$500,000 resulting from administrative errors associated with historical stock option compensation expense related to a few stock option grants in 1997 and 2000. As the aggregate differences were not deemed material, no restatement of our historical financial statements is necessary and the full impact of the cumulative non-cash charge was recognized in 2006.

During the year ended December 31, 2006, cash received from stock option exercises was \$50.9 million and the total tax benefit for tax deductions to be realized for these option exercises was \$41.3 million. In addition, we received 610,757 shares of common stock in lieu of cash for stock option exercises.

At December 31, 2006, there was \$25.1 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 1.1 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 vest immediately upon a change of

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

control. The following table summarizes stock unit activity during the years ended December 31, 2006, 2005 and 2004:

	Employees	Directors	Total
Stock units outstanding at January 1, 2004	653,500	28,050	681,550
Stock units issued	447,700	28,050	475,750
Shares issued	(101,402)	(5,950)	(107,352)
Stock units cancelled or forfeited(1)	(49,298)		(49,298)
Stock units outstanding at December 31, 2004	950,500	50,150	1,000,650
Stock units issued	433,550	25,500	459,050
Shares issued	(461,809)	(17,117)	(478,926)
Adjustment to stock units outstanding at the time of the Spin-off(2)	198,411	9,241	207,652
Stock units cancelled or forfeited(1)	(295,404)		(295,404)
Stock units outstanding at December 31, 2005	825,248	67,774	893,022
Stock units issued	460,750	25,500	486,250
Shares issued	(334,023)	(23,598)	(357,621)
Stock units cancelled or forfeited(1)	(177,714)		(177,714)
Stock units outstanding at December 31, 2006	774,261	69,676	843,937
Weighted average grant date fair value	\$ 33.55	\$ 35.47	\$ 33.68

(1) Pursuant to the terms of our stock unit plans, employees have the option of forfeiting stock units to cover their minimum statutory tax withholding when shares are issued. Stock units that are cancelled or forfeited become available for future grants.

(2) Stock units outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the stock units before and after the Spin-off.

During the years ended December 31, 2006, 2005 and 2004, we recognized stock unit expense of \$15.3 million, \$15.3 million and \$6.0 million, respectively, including certain accelerated vestings in 2006 and 2005, and an income tax benefit related to stock unit expense of \$4.4 million, \$2.5 million and \$1.5 million, respectively.

The weighted-average grant date fair value of stock units granted during the years ended December 31, 2006, 2005 and 2004 was \$37.78 per share, \$28.24 per share and \$27.54 per share, respectively. At December 31, 2006, there was \$19.8 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 2.9 years.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 2006:

	Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2004	28,286	\$ 29.95
Restricted shares granted	31,374	33.39
Restricted shares vested	(27,005)	30.87
Nonvested at December 31, 2004	32,655	32.49
Restricted shares granted	28,586	36.31
Restricted shares vested	(31,725)	33.35
Nonvested at December 31, 2005	29,516	35.27
Restricted shares granted	28,098	39.97
Restricted shares vested	(30,029)	36.39
Nonvested at December 31, 2006	27,585	38.83

Rights Plan On February 27, 1998, our Board of Directors declared a dividend of the right to purchase one half of one common share for each outstanding share of common stock to the stockholders of record on March 18, 1998. The rights are not exercisable until ten days subsequent to the announcement of the acquisition of or intent to acquire a beneficial ownership of 15% or more in Dean Foods Company. At such time, each right entitles the registered holder to purchase from us that number of shares of common stock at an exercise price of \$145.00, with a market value of up to two times the exercise price. At any time prior to such date, we may, by action of a majority of our Board of Directors, redeem the rights in whole, but not in part, at a price of \$0.01 per right. The rights will expire on March 18, 2008, unless our Board of Directors extends the term of, or earlier redeems, the rights.

Stock Repurchases A summary of the increases in our stock repurchase program, as authorized by our Board of Directors, is shown below.

Date of Authorization	Authorized Increase in Stock Repurchase Program	Cumulative Authorized Stock Repurchase Program
	(In millions)	

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September 15, 1998	\$	100	\$	100
September 28, 1999		100		200
November 17, 1999		100		300
May 19, 2000		100		400
November 2, 2000		100		500
January 8, 2003		150		650
February 12, 2003		150		800
September 7, 2004		200		1,000
November 2, 2004		100		1,100
August 10, 2005		300		1,400
November 2, 2005		300		1,700
May 3, 2006		300		2,000
November 29, 2006		300		2,300

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Set forth in the chart below is a summary of the stock we repurchased pursuant to this program through December 31, 2006.

Year	Quarter	No. of Shares of Common Stock Repurchased	Purchase Price (In millions)
1998	Third	3,000,000	\$ 30.4
	Fourth	1,531,200	15.6
1999	Second	239,100	3.0
	Third	5,551,545	66.7
	Fourth	10,459,524	128.4
2000	First	2,066,400	27.2
	Second	2,898,195	42.2
	Third	4,761,000	77.0
	Fourth	120,000	2.1
2001	First	370,002	6.1
2002	Fourth	4,126,200	101.2
2003	First	4,854,900	128.5
	Third	360,000	9.9
	Fourth	1,453,400	47.1
2004	First	150,000	5.1
	Third	7,825,000	251.9
	Fourth	1,335,000	39.6
2005	Third	9,926,000	361.1
	Fourth	8,955,300	338.4
2006	First	400,000	15.3
	Second	3,337,200	120.3
	Fourth	6,285,000	264.2
	Total	80,004,966	\$ 2,081.3

As of December 31, 2006, \$218.7 million was available for repurchases under this program (excluding fees and commissions).

Repurchased shares are treated as effectively retired in the Consolidated Financial Statements.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. 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 during each period. The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS:

	Year Ended December 31		
	2006	2005	2004
	(In thousands, except share data)		
Basic EPS computation:			
Numerator:			
Income from continuing operations	\$ 280,263	\$ 256,650	\$ 206,207
Denominator:			
Average common shares	133,938,777	146,673,322	154,635,979
Basic EPS from continuing operations	\$ 2.09	\$ 1.75	\$ 1.33
Diluted EPS computation:			
Numerator:			
Income from continuing operations	\$ 280,263	\$ 256,650	\$ 206,207
Denominator:			
Average common shares basic	133,938,777	146,673,322	154,635,979
Stock option conversion(1)	5,463,791	5,736,543	5,125,070
Stock units	359,536	1,028,771	943,527
Average common shares diluted	139,762,104	153,438,636	160,704,576
Diluted EPS from continuing operations	\$ 2.01	\$ 1.67	\$ 1.28

(1) Stock option conversion excludes anti-dilutive shares of 2,708,364, 123,560 and 49,742 at December 31, 2006, 2005 and 2004, respectively.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. OTHER COMPREHENSIVE INCOME**

Comprehensive income comprises net income plus all other changes in equity from non-owner sources. The amount of income tax (expense) benefit allocated to each component of other comprehensive income for December 31, 2006 and 2005 are included below.

	Pre-Tax Income (Loss)	Tax Benefit (Expense) (In thousands)	Net Amount
Accumulated other comprehensive income, December 31, 2004	\$ (33,482)	\$ 27,785	\$ (5,697)
Cumulative translation adjustment	(28,220)		(28,220)
Net change in fair value of derivative instruments	17,538	(6,248)	11,290
Amounts reclassified to income statement related to derivatives	13,093	(4,583)	8,510
Minimum pension liability adjustment	(18,476)	6,660	(11,816)
Accumulated other comprehensive income, December 31, 2005	(49,547)	23,614	(25,933)
Cumulative translation adjustment	(10,336)		(10,336)
Net change in fair value of derivative instruments	14,002	(5,265)	8,737
Amounts reclassified to income statement related to derivatives	(11,854)	4,399	(7,455)
Minimum pension liability adjustment	6,454	(2,451)	4,003
Adjustment to pension and other postretirement liability related to adoption of SFAS No. 158	(23,875)	9,072	(14,803)
Accumulated other comprehensive income, December 31, 2006	\$ (75,156)	\$ 29,369	\$ (45,787)

The components of accumulated other comprehensive income (loss) at December 31, 2006 and 2005 are as follows:

	December 31, 2006	December 31, 2005
	(In thousands)	
Cumulative translation adjustment	\$ 1,922	\$ 12,258
Fair value of derivative instruments, net of tax	10,527	9,245
Pension and other postretirement liability adjustment, net of tax	(58,236)	(47,436)
Total accumulated other comprehensive income (loss)	\$ (45,787)	\$ (25,933)

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. EMPLOYEE RETIREMENT AND PROFIT SHARING PLANS**

We sponsor various defined benefit and defined contribution retirement plans, including various employee savings and profit sharing plans, and contribute to various multi-employer pension plans on behalf of our employees. Substantially all full-time union and non-union employees who have completed one or more years of service and have met other requirements pursuant to the plans are eligible to participate in one or more of these plans. During 2006, 2005 and 2004, our retirement and profit sharing plan expenses were as follows:

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Defined benefit plans	\$ 8,074	\$ 11,506	\$ 9,833
Defined contribution plans	23,806	22,219	18,006
Multi-employer pension and certain union plans	27,231	23,939	22,712
Total	\$ 59,111	\$ 57,664	\$ 50,551

Defined Benefit Plans The benefits under our defined benefit plans are based on years of service and employee compensation. Our funding policy is to contribute annually the minimum amount required under ERISA regulations plus additional amounts as we deem appropriate.

Effective October 1, 2006, we adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required us to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of our defined benefit plans in the December 31, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, *Employer's Accounting for Pensions*, all of which were previously netted against the plans' funded status in our Consolidated Balance Sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to our historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition obligation of \$675,000 (\$420,000 net of tax), unrecognized prior service costs of \$9.7 million (\$6.1 million net of tax) and unrecognized actuarial losses of \$73.1 million (\$45.6 million net of tax). The transition obligation, prior service cost, and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the year

ended December 31, 2007 is \$112,000 (\$70,000 net of tax), \$843,000 (\$525,000 net of tax), and \$2.9 million (\$1.8 million net of tax), respectively.

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The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plans assets for the years ended December 31, 2006 and 2005 and the funded status of the plans at December 31, 2006 and 2005 is as follows:

	December 31	
	2006	2005
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 295,106	\$ 274,993
Service cost	2,530	2,909
Interest cost	16,573	17,003
Plan participants' contributions		65
Plan amendments		2,459
Actuarial loss	5,215	20,300
Divestiture		1,818
Benefits paid	(21,149)	(24,441)
Benefit obligation at end of year	298,275	295,106
Change in plan assets:		
Fair value of plan assets at beginning of year	190,568	165,254
Actual return on plan assets	24,343	14,090
Employer contribution	37,453	34,113
Plan participants' contributions		65
Divestiture		1,487
Benefits paid	(21,149)	(24,441)
Fair value of plan assets at end of year	231,215	190,568
Funded status at end of year	\$ (67,060)	\$ (104,538)

At December 31, 2005, the plans included unrecognized transition obligations of \$785,000, unrecognized prior service costs of \$10.6 million, and unrecognized net losses of \$80.6 million, resulting in a net unfunded accrued pension cost of \$12.6 million. Our Consolidated Balance Sheet at December 31, 2005 included an accrued pension liability of \$100.1 million, an intangible pension asset of \$11.3 million and an accumulated other comprehensive loss of \$76.1 million determined in accordance with SFAS No. 87.

The underfunded status of the plans of \$67.1 million at December 31, 2006 is recognized in our Consolidated Balance Sheet and includes \$920,000 classified as a current accrued pension liability. No plan assets are expected to be returned to us during the year ended December 31, 2007.

A summary of our key actuarial assumptions used to determine benefit obligations as of December 31, 2006 and 2005 was:

	December 31	
	2006	2005
Discount rate	5.85%	5.75%
Expected return on plan assets	8.00%	8.50%
Rate of compensation increase	4.00%	4.00%

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of our key actuarial assumptions used to determine net periodic benefit cost for 2006, 2005 and 2004 follows:

	Year Ended December 31		
	2006	2005	2004
Discount rate	5.75%	5.75%	6.00 to 6.50%
Expected return on plan assets	8.00%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

	2006	December 31 2005	2004
	(In thousands)		
Components of net periodic pension cost:			
Service cost	\$ 2,530	\$ 2,909	\$ 2,364
Interest cost	16,573	17,003	16,231
Expected return on plan assets	(15,783)	(15,698)	(12,899)
Amortizations:			
Unrecognized transition obligation	111	107	107
Prior service cost	850	628	628
Unrecognized net loss	3,443	3,010	1,652
Effect of settlement	350	3,547	1,750
Net periodic benefit cost	\$ 8,074	\$ 11,506	\$ 9,833

Pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	December 31	
	2006	2005
(In millions)		
Projected benefit obligation	\$ 296.7	\$ 293.3
Accumulated benefit obligation	292.3	287.6
Fair value of plan assets	229.6	189.1

Substantially all of our qualified pension plans maintain their plan assets in a single master trust. We retained investment consultants to assist our Investment Committee with the transition of the plans' assets to the master trust and to help our Investment Committee formulate a long-term investment policy for the newly established master trust. Our current asset mix guidelines under our investment policy target equities at 65% to 75% of the portfolio and fixed

income at 25% to 35%.

We determine our expected long-term rate of return based on our expectations of future returns for the pension plan's investments based on target allocations of the pension plan's investments and the effect of periodic target asset allocation rebalancing. It is intended that the investments will be rebalanced when the allocation is not within the target range. The results are adjusted for the payment of reasonable expenses of the plan from plan assets. Additionally, we consider the weighted-average return of a capital markets model that was developed by the plan's investment consultants and historical returns on comparable equity, debt and other investments. The resulting weighted average expected long-term rate of return on plan assets is 8.00%. We believe these assumptions are appropriate based upon the mix of investments and the long-term nature of the plan's investments.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our pension plan weighted average asset allocations at December 31, 2006 and 2005 by asset category were as follows:

Asset Category	December 31	
	2006	2005
Equity securities and limited partnerships	71%	71%
Fixed income securities	26	27
Cash and cash equivalents	3	2
Total	100%	100%

Equity securities of the plan did not include any investment in our common stock at December 31, 2006 or 2005.

We expect to contribute \$23.2 million to the pension plans for 2007. Estimated pension plan benefit payments for the next ten years are as follows:

2007	\$ 15.9 million
2008	16.1 million
2009	16.5 million
2010	16.8 million
2011	16.5 million
Next five years	102.7 million

Defined Contribution Plans Certain of our non-union personnel may elect to participate in savings and profit sharing plans sponsored by us. These plans generally provide for salary reduction contributions to the plans on behalf of the participants of between 1% and 20% of a participant's annual compensation and provide for employer matching and profit sharing contributions as determined by our Board of Directors. In addition, certain union hourly employees are participants in company-sponsored defined contribution plans, which provide for employer contributions in various amounts ranging from \$24 to \$91 per pay period per participant.

Multi-Employer Pension and Certain Union Plans Certain of our subsidiaries contribute to various multi-employer pension and certain union plans, which are administered jointly by management and union representatives and cover substantially all full-time and certain part-time union employees who are not covered by our other plans. The Multi-Employer Pension Plan Amendments Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans. We could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, we have not established any significant liabilities because withdrawal from these plans is not probable or reasonably possible.

14. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Certain of our subsidiaries provide health care benefits to certain retirees who are covered under specific group contracts. As defined by the specific group contract, qualified covered associates may be eligible to receive major medical insurance with deductible and co-insurance provisions subject to certain lifetime maximums.

Effective October 1, 2006, we adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required us to recognize the unfunded portion (i.e., the difference between the fair value of plan assets and the accumulated postretirement benefit obligations) of our defined benefit plans in the December 31, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Prior to our adoption of SFAS No. 158, no other comprehensive income was recognized in our Consolidated Balance Sheets for our postretirement benefits other than pensions. Included in accumulated other

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic benefit cost: negative unrecognized prior service costs of \$512,000 (\$319,000 net of tax) and unrecognized actuarial losses of \$10.5 million (\$6.5 million net of tax). The negative prior service cost and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic benefit cost during the year ended December 31, 2007 is negative \$69,000 (\$43,000 net of tax) and \$1.1 million (\$663,000 net of tax), respectively.

The following table sets forth the funded status of these plans:

	December 31	
	2006	2005
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 27,397	\$ 22,677
Service cost	1,062	1,004
Interest cost	1,496	1,107
Actuarial loss	1,788	5,241
Benefits paid	(2,426)	(2,633)
Benefit obligation at end of year	29,317	27,396
Fair value of plan assets at end of year		
Funded status	\$ (29,317)	\$ (27,396)

At December 31, 2005, the plans included unrecognized negative prior service costs of \$581,000 and unrecognized net losses of \$9.6 million, resulting in a net unfunded accrued postretirement cost of \$18.3 million determined in accordance with SFAS No. 87.

The unfunded portion of the liability of \$29.3 million at December 31, 2006 is recognized in our Consolidated Balance Sheet and includes \$2.4 million classified as a current accrued postretirement liability.

A summary of our key actuarial assumptions used to determine the benefit obligation as of December 31, 2006 and 2005 as follows:

	December 31	
	2006	2005
Healthcare inflation:		
Initial rate	12.00%	12.00%
Ultimate rate	5.05%	5.05%

Year of ultimate rate achievement	2011	2010
Discount rate	5.85%	5.75%

The weighted average discount rate used to determine net periodic benefit cost was 5.75%, 5.75% and 6.0% to 6.5% for 2006, 2005 and 2004, respectively.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2006	December 31 2005 (In thousands)	2004
Components of net periodic benefit cost:			
Service and interest cost	\$ 2,558	\$ 2,111	\$ 2,034
Amortizations:			
Prior service cost	(69)	(69)	(69)
Unrecognized net loss	941	284	291
Net periodic benefit cost	\$ 3,430	\$ 2,326	\$ 2,256

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease (In thousands)
Effect on total of service and interest cost components	\$ 224	\$ (195)
Effect on postretirement obligation	2,139	(1,912)

We expect to contribute \$2.4 million to the postretirement health care plans for 2007. Estimated postretirement health care plan benefit payments for the next ten years are as follows:

2007	\$ 2.4 million
2008	2.7 million
2009	2.9 million
2010	3.1 million
2011	3.1 million
Next five years	18.3 million

15. FACILITY CLOSING AND REORGANIZATION COSTS

Facility Closing and Reorganization Costs We recorded net facility closing and reorganization costs of \$25.1 million, \$35.5 million and \$24.6 million during 2006, 2005 and 2004, respectively. Our facility closing and reorganization costs are not allocated to our segments as we evaluate segment performance before such costs.

The charges recorded during 2006 are primarily related to the following:

The closing of Dairy Group facilities in Akron, Ohio and Madison, Wisconsin; and

Previously announced plans including reorganizing WhiteWave Foods Company and closing Dairy Group manufacturing facilities.

The charges recorded during 2005 are primarily related to the following:

The closing of Dairy Group manufacturing facilities in Union, New Jersey and Albuquerque, New Mexico; and

Previously announced plans including reorganizing WhiteWave Foods Company and closing Dairy Group manufacturing facilities.

The charges recorded during 2004 are primarily related to the following:

Closing Dairy Group manufacturing facilities in Madison, Wisconsin; San Leandro and South Gate, California; Westwego, Louisiana; Pocatello, Idaho and Wilkesboro, North Carolina;

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reorganizing our WhiteWave Foods Company including consolidating the operations of the three distinct operating units: White Wave, Horizon Organic, and Dean National Brand Group; and

Transferring Morningstar Foods private label and manufacturing operations to the Dairy Group.

These charges were accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which became effective for us in January 2003. We expect to incur additional charges related to these restructuring plans of approximately \$15.4 million, including an additional \$10.0 million in work force reduction costs and approximately \$5.4 million in shut down and other costs. Approximately \$14.9 million and \$500,000 of these additional charges are expected to be completed by December 2007 and December 2008, respectively. A significant portion of the 2007 charges relate to the realignment of our Dairy Group's finance and accounting organization.

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'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. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities and related equipment at December 31, 2006 was approximately \$15.8 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.

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Activity for 2006 and 2005 with respect to facility closing and reorganization costs is summarized below and includes items expensed as incurred:

	Accrued Charges at December 31, 2004			Accrued Charges at December 31, 2005 (In thousands)			Accrued Charges at December 31, 2006	
	Charges	Payments	Charges	Payments	Charges	Payments	Charges	Payments
Cash charges:								
Workforce reduction costs	\$ 5,568	\$ 14,373	\$ (11,639)	\$ 8,302	\$ 4,954	\$ (8,934)	\$ 4,322	
Shutdown costs	287	2,644	(2,722)	209	4,895	(5,088)	16	
Lease obligations after shutdown	74	2,559	(561)	2,072	1,123	(1,882)	1,313	
Settlement of contracts		724		724	45	(769)		
Other	236	4,084	(3,850)	470	1,991	(2,245)	216	
Subtotal	\$ 6,165	\$ 24,384	\$ (18,772)	\$ 11,777	\$ 13,008	\$ (18,918)	\$ 5,867	
Noncash charges:								
Write-down of assets		11,067			12,108			
Total charges		\$ 35,451			\$ 25,116			

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. During 2005, we resolved a contractual obligation for less than we had previously reserved. The accruals and subsequent adjustments, if any, are reflected within the determination of the purchase price. The accruals and subsequent adjustments had no impact on our Consolidated Statements of Income.

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 for 2006 and 2005 is summarized below:

	Accrued Charges at December 31, 2004		Accrued Charges at December 31, 2005			Accrued Charges at December 31, 2006	
	Accruals	Payments	Adjustments	Payments	Adjustments	Payments	
	(In thousands)						
Workforce reduction costs	\$ 2,135	\$ 431	\$ (876)	\$ (1,324)	\$ 366	\$ (296)	\$ 70
Shutdown and exit costs	81,766		(11,164)	(30,123)	40,479	(38,905)	1,574
Total	\$ 83,901	\$ 431	\$ (12,040)	\$ (31,447)	\$ 40,845	\$ (39,201)	\$ 1,644

16. OTHER OPERATING INCOME

In the fourth quarter of 2004, we recognized a \$5.9 million gain primarily related to the settlement of litigation.

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DEAN FOODS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Cash paid for interest and financing charges, net of capitalized interest	\$ 184,902	\$ 161,580	\$ 155,015
Cash paid for taxes	63,037	166,224	27,453
Noncash transactions:			
Stock dividend related to the Spin-off		(492,613)	

18. COMMITMENTS AND CONTINGENCIES

Contingent Obligations Related to Divested Operations We have sold 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 have established reserves for estimated probable liabilities related to our divested businesses.

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 ever 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 Dean Holding Company after the pre-existing agreements with certain other suppliers or producers expire. We have not breached or terminated any of our milk supply agreements with DFA.

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. Rent expense, including additional rent, was \$132.3 million, \$129.0 million and \$119.7 million for 2006, 2005 and 2004, respectively.

The composition of capital leases which are reflected as property, plant and equipment in our Consolidated Balance Sheets are as follows:

	December 31	
	2006	2005
	(In thousands)	
Machinery and equipment	\$ 7,509	\$ 2,550
Less accumulated amortization	(785)	(163)
	\$ 6,724	\$ 2,387

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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.

Future minimum payments at December 31, 2006, under non-cancelable capital leases and operating leases with terms in excess of one year and purchase obligations are summarized below:

	Capital Leases	Operating Leases (In thousands)	Purchase Obligations
2007	\$ 918	\$ 107,021	\$ 310,416
2008	1,299	95,739	106,222
2009	1,278	85,725	59,997
2010	1,300	68,134	41,667
2011	1,375	49,488	8,259
Thereafter	393	83,323	75,780
Total minimum lease payments	6,563	\$ 489,430	\$ 602,341
Less amount representing interest	(656)		
Present value of capital lease obligations	\$ 5,907		

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.

Two shareholder derivative complaints were filed against us which allege stock option backdating. The complaints name certain current and former members of the Board of Directors and certain current and former members of management. In response to the litigation, a special litigation committee of our Board of Directors was established and has been conducting its own independent review of our stock option grants and the allegations made in the complaints. The committee consists of independent board members not named in the litigation.

We also have been informed by the staff of the Securities and Exchange Commission (the SEC) that it is conducting an informal inquiry into our stock option practices. We are cooperating fully with the SEC's inquiry.

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 million for casualty claims. We believe we have established adequate reserves to cover these claims. At December 31, 2006 and 2005, we recorded accrued liabilities related to these retained risks of \$172.9 million and \$161.2 million, respectively, including both current and long-term liabilities.

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 2006, we received approximately \$5.8 million in settlement of a portion of our business interruption claim for the period of August 29, 2005 through June 30, 2006. The insurance proceeds are recorded within cost of sales. We will continue to submit additional business interruption claims during 2007, and we will recognize these amounts upon settlement of the claims.

Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Pursuant to SFAS No. 107, Disclosure About Fair Value of Financial Instruments, we are required to disclose an estimate of the fair value of our financial instruments as of December 31, 2006 and 2005. SFAS No. 107 defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties.

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. In addition, because the interest rates on our senior credit facility and certain other debt are variable, their fair values approximate their carrying values.

We have senior notes with an aggregate face value of \$600 million with fixed interest rates ranging from 6.625% to 8.15% at December 31, 2006. These notes were issued by Dean Holding Company prior to our acquisition of Dean Holding Company. On May 17, 2006, we issued \$500 million aggregate principal amount of senior notes with a fixed interest rate of 7.0%.

We have entered into various interest rate agreements to reduce our sensitivity to changes in interest rates on our variable rate debt. The fair values of these instruments and our senior notes were determined based on fair values for similar instruments with similar terms. The following table presents the carrying value and fair value of our senior notes and interest rate agreements at December 31:

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subsidiary senior notes	\$ (572,037)	\$ (604,500)	\$ (568,493)	\$ (615,625)
Dean Foods Company senior notes	(498,112)	(508,750)		
Interest rate agreements	14,847	14,847	13,579	13,579

20. SEGMENT, GEOGRAPHIC AND CUSTOMER INFORMATION

We 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 LAKE*[®] 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. A portion of our WhiteWave Foods Company's products 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.

On January 1, 2006, we transferred Rachel's Organic from our former International division to WhiteWave Foods Company. Our results have been restated for this transfer for all periods presented.

We evaluate the performance of our segments based on operating profit or loss before other operating income, 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.

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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.

	2006	2005	2004
	(In thousands)		
Net sales to external customers:			
Dairy Group	\$ 8,820,950	\$ 8,973,442	\$ 8,683,135
WhiteWave Foods Company	1,277,605	1,201,276	1,042,413
Total	\$ 10,098,555	\$ 10,174,718	\$ 9,725,548
Intersegment sales:			
Dairy Group	\$ 13,208	\$ 76,324	\$ 56,844
WhiteWave Foods Company	96,322	101,459	58,541
Total	\$ 109,530	\$ 177,783	\$ 115,385
Operating income:			
Dairy Group	\$ 678,011	\$ 642,043	\$ 598,013
WhiteWave Foods Company	139,352	114,950	87,723
Corporate	(141,552)	(141,447)	(131,315)
Segment operating income	675,811	615,546	554,421
Facility closing and reorganization costs	(25,116)	(35,451)	(24,575)
Other operating income			5,899
Total	650,695	580,095	535,745
Other (income) expense:			
Interest expense	194,547	160,230	191,788
Other (income) expense, net	435	(683)	(722)
Consolidated income from continuing operations before tax	\$ 455,713	\$ 420,548	\$ 344,679
Depreciation and amortization:			
Dairy Group	\$ 179,304	\$ 190,849	\$ 177,649
WhiteWave Foods Company	37,361	12,224	8,685
Corporate	11,017	11,557	15,955
Total	\$ 227,682	\$ 214,630	\$ 202,289

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Assets:			
Dairy Group	\$ 5,141,662	\$ 5,197,092	\$ 5,389,258
WhiteWave Foods Company	1,372,946	1,308,388	1,108,181
Corporate	235,585	243,677	198,879
Discontinued operations	19,980	301,727	1,060,050
Total	\$ 6,770,173	\$ 7,050,884	\$ 7,756,368

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	2006	2005	2004
	(In thousands)		
Capital expenditures:			
Dairy Group	\$ 149,381	\$ 181,400	\$ 270,255
WhiteWave Foods Company	77,275	99,994	27,969
Corporate	10,586	5,735	2,962
Total	\$ 237,242	\$ 287,129	\$ 301,186

Geographic Information Less than 1% of our net sales and long-lived assets relate to operations outside of the United States.

Major Customers Our WhiteWave Foods Company and Dairy Group segments each had a single customer that represented greater than 10% of their net sales. Approximately 17.7%, 15.4% and 14.0%, respectively, of our consolidated net sales were to that same customer in 2006, 2005 and 2004.

21. RELATED PARTY TRANSACTIONS

Real Property Lease We lease the land for our Franklin, Massachusetts facility from a partnership in which Alan Bernon, President of our Dairy Group and a member of our Board of Directors, owns a 13.45% minority interest. (The remaining interests are owned by members of Mr. Bernon's family.) Our lease payments were approximately \$700,000 in 2006, 2005 and 2004.

Minority Interest in Consolidated Container Holding Company We hold our minority interest in Consolidated Container Company through our subsidiary Franklin Plastics, Inc., in which we own an approximately 99% interest. Alan Bernon, President of our Dairy Group and a member of our Board of Directors, and his brother, Peter Bernon, collectively own less than 1% of Franklin Plastics, Inc.

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Table of Contents**DEAN FOODS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. QUARTERLY RESULTS OF OPERATIONS (unaudited)**

The following is a summary of our unaudited quarterly results of operations for 2006 and 2005.

	Quarter			
	First	Second	Third	Fourth
	(In thousands, except share data)			
2006				
Net sales	\$ 2,509,041	\$ 2,477,884	\$ 2,517,792	\$ 2,593,838
Gross profit	651,346	683,847	694,006	710,680
Income from continuing operations	54,694	74,795	74,498	76,276
Net income(1)	52,792	28,868	70,793	72,961
Earnings per common share(2):				
Basic	0.39	0.21	0.53	0.55
Diluted	0.37	0.21	0.51	0.53
2005				
Net sales	\$ 2,474,571	\$ 2,515,130	\$ 2,569,405	\$ 2,615,612
Gross profit	611,223	647,235	651,049	673,663
Income from continuing operations	50,692	74,026	62,181	69,751
Net income(3)	61,469	81,626	99,384	66,175
Earnings per common share(2):				
Basic	0.41	0.54	0.67	0.48
Diluted	0.39	0.52	0.64	0.45

(1) The results for the first, second, third and fourth quarters include facility closing and reorganization costs, net of tax, of \$2.7 million, \$1.8 million, \$3.4 million and \$7.6 million, respectively.

(2) Earnings per common share calculations for each of the quarters were based on the basic and diluted weighted average number of shares outstanding for each quarter, and the sum of the quarters may not necessarily be equal to the full year earnings per common share amount.

(3) The results for the first, second, third and fourth quarters include facility closing and reorganization costs, net of tax, of \$3.9 million, \$1.5 million, \$11.3 million and \$5.3 million, respectively.

23. SUBSEQUENT EVENTS (unaudited)

Sale of Iberian Operations On January 18, 2007, we completed the sale of our Portuguese operations (that comprised the remainder of our Iberian operations). Our net cash proceeds were approximately \$11.0 million subject to final working capital settlements. No significant loss was recorded on the sale. The sale of these operations is part of our strategy to focus on our core dairy and branded business.

Acquisition of Friendship Dairies, Inc. In February 2007, our Dairy Group entered into an agreement to acquire Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction will expand our cultured dairy product capabilities and add a strong regional brand. The purchase price will be approximately \$130 million, including the costs of the acquisition. We expect to complete the transaction by the second quarter of 2007, subject to regulatory approval.

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Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

During our two most recent fiscal years, no independent accountant who was engaged as the principal accountant to audit our financial statements, nor any independent accountant who was engaged to audit a significant subsidiary and on whom our principal accountant expressed reliance in its report, has resigned or been dismissed.

Item 9A. *Controls and Procedures*

Controls Evaluation and Related Certifications

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of December 31, 2006. 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 annual 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 U.S. 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 error 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.

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

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as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Changes in Internal Control over Financial Reporting

During the third quarter of 2006, WhiteWave Foods Company implemented SAP as its primary financial reporting and resource planning system. As a result, we made changes to our internal control over financial reporting. SAP was implemented at all locations of WhiteWave Foods Company in the United States except for the manufacturing facilities located in City of Industry, CA, Jacksonville, FL and Mt. Crawford, VA. WhiteWave Foods Company will implement SAP at these facilities during 2007.

Conclusions

Based upon our most recent controls evaluation, our CEO and CFO have concluded that as of December 31, 2006, our Disclosure Controls were effective at the reasonable assurance level. In the fourth quarter of 2006, other than the ongoing implementation of SAP as discussed above, 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.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We have assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment we believe that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an audit report on our assessment of our internal control over financial reporting. This report appears on page 46.

February 28, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dean Foods Company
Dallas, Texas

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Dean Foods Company and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of new accounting standards.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 28, 2007

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Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Incorporated herein by reference to our proxy statement (to be filed) for our May 18, 2007 Annual Meeting of Stockholders.

Item 11. *Executive Compensation*

Incorporated herein by reference to our proxy statement (to be filed) for our May 18, 2007 Annual Meeting of Stockholders.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Incorporated herein by reference to our proxy statement (to be filed) for our May 18, 2007 Annual Meeting of Stockholders.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

Incorporated herein by reference to our proxy statement (to be filed) for our May 18, 2007 Annual Meeting of Stockholders.

Item 14. *Principal Accountant Fees and Services*

Incorporated herein by reference to our proxy statement (to be filed) for our May 18, 2007 Annual Meeting of Stockholders.

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PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements

The following Consolidated Financial Statements are filed as part of this report or are incorporated herein as indicated:

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2006 and 2005	F-2
Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004	F-3
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004	F-5
Notes to Consolidated Financial Statements	F-6

Financial Statement Schedules

Report of Independent Registered Public Accounting Firm

Schedule II Valuation and Qualifying Accounts

Exhibits

See Index to Exhibits.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Ronald L. McCrummen
 Ronald L. McCrummen
*Senior Vice President and
 Chief Accounting Officer*

Dated February 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Gregg L. Engles	Chief Executive Officer and Chairman of the Board	February 28, 2007
Gregg L. Engles		
/s/ Jack F. Callahan, Jr.	Executive Vice President and Chief Financial Officer	February 28, 2007
Jack F. Callahan, Jr.		
/s/ Ronald L. McCrummen	Senior Vice President and Chief Accounting Officer	February 28, 2007
Ronald L. McCrummen		
/s/ Alan Bernon	Director	February 28, 2007
Alan Bernon		
/s/ Lewis M. Collens	Director	February 28, 2007
Lewis M. Collens		
/s/ Tom Davis	Director	February 28, 2007
Tom Davis		

/s/ Stephen L. Green Director February 28, 2007

Stephen L. Green

/s/ Janet Hill Director February 28, 2007

Janet Hill

/s/ Joseph S. Hardin, Jr. Director February 28, 2007

Joseph S. Hardin, Jr.

/s/ Ron Kirk Director February 28, 2007

Ron Kirk

/s/ John S. Llewellyn, Jr. Director February 28, 2007

John S. Llewellyn, Jr.

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Name	Title	Date
/s/ John Muse	Director	February 28, 2007
John Muse		
/s/ Hector M. Nevares	Director	February 28, 2007
Hector M. Nevares		
/s/ Pete Schenkel	Director	February 28, 2007
Pete Schenkel		
/s/ Jim Turner	Director	February 28, 2007
Jim Turner		

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dean Foods Company
Dallas, Texas

We have audited the consolidated financial statements of Dean Foods Company and subsidiaries (the Company) as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, and have issued our reports thereon dated February 28, 2007 (the report on the consolidated financial statements expresses an unqualified opinion and includes an explanatory paragraph regarding the Company's adoption of new accounting standards); such consolidated financial statements and reports are included in your 2006 Annual Report to Stockholders and are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2007

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Allowance for doubtful accounts deducted from accounts receivable:

Year	Balance at Beginning of Period	Charged to (Reduction in) Costs and			Deductions	Balance at End of Period
		Expenses	Other (In thousands)			
2004	\$ 31,552	\$ (1,567)	\$ 2,052	\$ 8,112	\$ 23,925	
2005	23,925	7,800		9,660	22,065	
2006	22,065	(2,816)	524	2,703	17,070	

Table of Contents**INDEX TO EXHIBITS**

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2001, filed April 1, 2002 (File No. 1-12755)).
3.2	Amended and Restated Bylaws (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 1-12755)).
4.1	Specimen of Common Stock Certificate (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2001, filed April 1, 2002 (File No. 1-12755)).
4.2	Registration Rights Agreement (incorporated by reference from our Registration Statement on Form S-1 (File No. 333-1858)).
4.3	Rights Agreement dated March 6, 1998 among us and Harris Trust & Savings Bank, as rights agent, which includes as Exhibit A the Form of Rights Certificate (incorporated by reference from the Registration Statement on Form 8-A filed on March 10, 1998 (File No. 1-12755)).
4.4	Amendment No. 1 to Rights Agreement dated May 26, 2004 by and between us and The Bank of New York, as rights agent (incorporated by reference from our Current Report on Form 8-K dated May 27, 2004 (Filed No. 1-12755)).
4.5	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)).
4.6	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	Eighth Amended and Restated 1997 Stock Option and Restricted Stock Plan (filed herewith).
*10.2	Third Amended and Restated 1989 Dean Foods Stock Awards Plan (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2004, filed March 16, 2005 (File No. 1-12755)).
*10.3	Amended and Restated Executive Deferred Compensation Plan (filed herewith).
*10.4	Post-2004 Executive Deferred Compensation Plan (filed herewith).
*10.5	Fifth Amended and Restated 1997 Employee Stock Purchase Plan (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12755)).
*10.6	Executive Incentive Compensation Plan (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12755)).
*10.7	Revised and Restated Supplemental Executive Retirement Plan (filed herewith).
*10.8	Amendment No. 1 to the Dean Foods Company Supplemental Executive Retirement Plan (filed herewith).
*10.9	Amendment No. 2 to the Dean Foods Company Supplemental Executive Retirement Plan (filed herewith).
*10.10	Description of Compensation Arrangements for Executive Officers (filed herewith).
*10.11	Summary of Compensation Paid to Non-Employee Directors (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12755)).
*10.12	Form of stock option award agreement for awards to executive officers (filed herewith).
*10.13	Form of stock unit award agreement for awards to executive officers (filed herewith).
*10.14	Executive Severance Pay Plan (filed herewith).
*10.15	Employment agreement dated September 7, 2005 between us and Alan Bernon (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed

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November 8, 2005 (File No. 1-12755)).

- *10.16 Stock Unit Award Agreement between us and Alan Bernon dated September 7, 2005 (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
 - *10.17 Change in Control Agreement between us and Alan Bernon dated September 7, 2005 (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
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Exhibit Number	Description
*10.18	Proprietary Information, Invention, and Non-Compete Agreement dated September 7, 2005 between us and Alan Bernon (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
*10.19	Employment agreement dated October 7, 2005 between us and Joseph Scalzo (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
*10.20	Change of Control Agreement dated October 7, 2005 between us and Joseph Scalzo (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
*10.21	Proprietary Information, Inventions and Non-Compete Agreement dated October 7, 2005 between us and Joseph Scalzo (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
*10.22	Non Qualified Stock Option Agreement dated October 7, 2005 between us and Joseph Scalzo (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 8, 2005 (File No. 1-12755)).
*10.23	Employment agreement dated December 2, 2005 between us and Pete Schenkel (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12755)).
*10.24	Independent Contractors and Non-Competition Agreement dated December 1, 2005 between us and Pete Schenkel (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12755)).
*10.25	Employment Agreement between the Company and Jack F. Callahan dated April 27, 2006 (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 1-12755)).
*10.26	Change in Control Agreement Jack F. Callahan, Jr. (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 1-12755)).
*10.27	Proprietary Information, Inventions and Non-Compete Agreement Jack F. Callahan, Jr. (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 1-12755)).
*10.28	Form of Change in Control Agreement for our executive officers (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-12755)).
*10.29	Form of Change in Control Agreement for certain senior officers (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-12755)).
*10.30	Form of Change in Control Agreement for certain other officers (incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-12755)).
10.31	Stockholders Agreement dated July 31, 1997 among us, Franklin Plastics, Peter M. Bernon and Alan J. Bernon (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, as amended on October 24, 1997 (File No. 1-12755)).
10.32	Amended and Restated Limited Liability Company Agreement of Consolidated Container Holdings, LLC (filed herewith).
10.33	Distribution Agreement between us and TreeHouse Foods dated June 27, 2005 (incorporated by reference from our Current Report on Form 8-K dated June 27, 2005 (File No. 1-12755)).
10.34	Tax Sharing Agreement dated June 27, 2005 between us and TreeHouse Foods (incorporated by reference from our Current Report on Form 8-K dated June 27, 2005 (File No. 1-12755)).
10.35	

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Amended and Restated Credit Agreement among us and our senior lenders (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-12755)).

- 10.36 Amendment No. 1 to Amended and Restated Credit Agreement (incorporated by reference from our Current Report on Form 8-K dated June 1, 2005 (File No. 1-12755)).
 - 10.37 Amendment No. 2 to Amended and Restated Credit Agreement (incorporated by reference from our Current Report on Form 8-K dated November 28, 2005 (File No. 1-12755)).
 - 10.38 Amendment No. 3 to Amended and Restated Credit Agreement (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 1-12755)).
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Exhibit Number	Description
10.39	Fourth Amended and Restated Receivables Purchase Agreement (incorporated by reference from our Current Report on Form 8-K dated November 21, 2006 (File No. 1-12755)).
10.40	Amendment No. 11 to Fourth Amended and Restated Receivables Purchase Agreement (incorporated by reference from our Current Report on Form 8-K dated November 21, 2006 (File No. 1-12755)).
12	Statement of Computation of Ratio of Earnings to Fixed Charges (filed herewith).
14	Code of Ethics (filed herewith).
21	List of Subsidiaries (filed herewith).
23.1	Consent of Deloitte & Touche LLP (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99	Supplemental Financial Information for Dean Holding Company (filed herewith).

* Management or compensatory contract