DEAN FOODS CO
Form 10-Q
August 09, 2007

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

Form 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2007

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period from to

Commission File Number 001-12755

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

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

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

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

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 þ; Accelerated filer o; Non-accelerated filer o

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

As of August 3, 2007, the number of shares outstanding of each class of common stock was: 130,648,859

Common Stock, par value $.01

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Part I Financial Information

Item 1. Financial Statements

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

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 37,426	$ 31,140
Receivables, net	859,339	799,038
Income tax receivable	27,894	
Inventories	405,993	360,754
Deferred income taxes	129,394	117,991
Prepaid expenses and other current assets	81,512	70,367
Total current assets	1,541,558	1,379,290
Property, plant and equipment, net	1,778,843	1,786,907
Goodwill	3,057,805	2,943,139
Identifiable intangible and other assets	693,767	640,857
Assets of discontinued operations		19,980
Total	$ 7,071,973	$ 6,770,173
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 872,113	$ 822,122
Income taxes payable		30,776
Current portion of long-term debt	280,023	483,658
Total current liabilities	1,152,136	1,336,556
Long-term debt	5,077,367	2,872,193
Deferred income taxes	520,131	504,552
Other long-term liabilities	287,602	238,682
Liabilities of discontinued operations		8,791
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, none issued		
Common stock, 130,336,400 and 128,371,104 shares issued and outstanding, with a par value of $0.01 per share	1,303	1,284
Additional paid-in capital	24,608	624,475

Retained earnings	28,416	1,229,427
Accumulated other comprehensive loss	(19,590)	(45,787)
Total stockholders equity	34,737	1,809,399
Total	$ 7,071,973	$ 6,770,173

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net sales	$ 2,843,645	$ 2,477,884	$ 5,473,394	$ 4,986,925
Cost of sales	2,155,595	1,794,037	4,098,070	3,651,732
Gross profit	688,050	683,847	1,375,324	1,335,193
Operating costs and expenses:				
Selling and distribution	428,576	409,361	844,210	814,506
General and administrative	100,423	98,739	209,813	201,020
Amortization of intangibles	1,614	1,508	3,936	2,929
Facility closing and reorganization costs	2,458	2,950	8,233	7,352
Other operating loss	1,342		1,342	
Total operating costs and expenses	534,413	512,558	1,067,534	1,025,807
Operating income	153,637	171,289	307,790	309,386
Other (income) expense:				
Interest expense	102,486	48,768	154,727	96,304
Other (income) expense, net	4,546	(86)	4,846	14
Total other expense	107,032	48,682	159,573	96,318
Income from continuing operations before income taxes	46,605	122,607	148,217	213,068
Income taxes	18,428	47,812	56,837	83,579
Income from continuing operations	28,177	74,795	91,380	129,489
Income (loss) from discontinued operations, net of tax	239	(45,927)	856	(47,829)
Net income	$ 28,416	$ 28,868	$ 92,236	$ 81,660
Average common shares:				
Basic	130,016,900	135,037,233	129,456,835	135,103,306
Diluted	138,384,896	140,433,760	136,562,233	141,104,654
Basic earnings per common share:				
Income from continuing operations	$ 0.22	$ 0.55	$ 0.70	$ 0.96
Income (loss) from discontinued operations		(0.34)	0.01	(0.36)

Net income	$	0.22	$	0.21	$	0.71	$	0.60
Diluted earnings per common share:								
Income from continuing operations	$	0.21	$	0.53	$	0.67	$	0.92
Income (loss) from discontinued operations				(0.32)		0.01		(0.34)
Net income	$	0.21	$	0.21	$	0.68	$	0.58
Cash dividend paid	$	15.00	$		$	15.00	$	

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Comprehensive Income
Balance, December 31, 2006	128,371,104	$ 1,284	$ 624,475	$ 1,229,427	$ (45,787)	$ 1,809,399	
Issuance of common stock	1,965,296	19	36,568			36,587	
Share-based compensation expense			19,088			19,088	
Special cash dividend			(655,218)	(1,287,520)		(1,942,738)	
Net income				92,236		92,236	$ 92,236
Other comprehensive income (Note 8):							
Change in fair value of derivative instruments, net of tax					30,449	30,449	30,449
Amounts reclassified to income statement related to hedging activities, net of tax					(4,413)	(4,413)	(4,413)
Cumulative translation adjustment					161	161	161
Adoption of FIN 48			(305)	(5,727)		(6,032)	
Comprehensive income							$ 118,433
Balance, June 30, 2007	130,336,400	$ 1,303	$ 24,608	$ 28,416	$ (19,590)	$ 34,737	

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30 2007	Six Months Ended June 30 2006
Cash flows from operating activities:		
Net income	$ 92,236	$ 81,660
(Income) loss from discontinued operations	(856)	47,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115,513	111,875
Share-based compensation expense	19,088	20,262
Loss on disposition of assets	1,880	962
Write-down of impaired assets	4,746	1,888
Loss on divestiture of operations	1,342	
Write-off of financing costs	13,545	
Deferred income taxes	10,212	55,145
Other	383	676
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(52,996)	121,981
Inventories	(42,969)	(3,513)
Prepaid expenses and other assets	11,786	(6,870)
Accounts payable and accrued expenses	38,813	(142,302)
Income taxes payable	(42,240)	(25,021)
Net cash provided by continuing operations	170,483	264,572
Net cash used in discontinued operations		(1,693)
Net cash provided by operating activities	170,483	262,879
Cash flows from investing activities:		
Additions to property, plant and equipment	(103,092)	(113,569)
Payments for acquisitions and investments, net of cash received	(129,636)	(10,960)
Net proceeds from divestitures	12,551	
Proceeds from sale of fixed assets	3,228	3,404
Net cash used in continuing operations	(216,949)	(121,125)
Net cash used in discontinued operations		(9,505)
Net cash used in investing activities	(216,949)	(130,630)
Cash flows from financing activities:		
Proceeds from issuance of debt	2,071,800	498,020
Repayment of debt	(81,616)	(524,058)
Payment of financing costs	(31,281)	(6,561)
Issuance of common stock	26,501	10,052
Payment of special cash dividend	(1,942,738)	

Tax savings on share-based compensation		10,086		24,044
Redemption of common stock				(135,679)
Net cash provided by (used in) continuing operations		52,752		(134,182)
Net cash provided by discontinued operations				7,855
Net cash provided by (used in) financing activities		52,752		(126,327)
Increase in cash and cash equivalents		6,286		5,922
Cash and cash equivalents, beginning of period		31,140		24,456
Cash and cash equivalents, end of period	$	37,426	$	30,378

See Notes to Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 30, 2007 and 2006
(Unaudited)

1. General

Basis of Presentation The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2006. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to present fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Our results of operations for the period ended June 30, 2007 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2006 Consolidated Financial Statements contained in our Annual Report on Form 10-K (filed with the Securities and Exchange Commission on March 1, 2007).

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

Recently Adopted Accounting Pronouncements Effective January 1, 2007, we adopted Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes . As a result of adopting the provisions of FIN 48, we recognized a $25.9 million increase in our liability for uncertain tax positions to $41.6 million, a $20.1 million increase in deferred income tax assets, a $0.3 million decrease to additional paid-in capital, a $0.2 million decrease to goodwill, and a $5.7 million decrease to retained earnings.

The amount of unrecognized tax benefits at June 30, 2007 recorded in other long-term liabilities is $44.3 million, of which $20.0 million would impact our effective tax rate and $3.4 million would reduce goodwill if recognized. We do not expect any material changes to our liability for uncertain tax positions during the next 12 months.

Consistent with periods prior to the adoption of FIN 48, we recognize accrued interest related to uncertain tax positions as a component of income tax expense. Penalties, if incurred, are recognized as a component of operating income. As of June 30, 2007, we have accrued $6.3 million for the payment of tax-related interest.

Our U.S. federal income tax returns for the years 2004 and 2005 are currently under examination by the Internal Revenue Service. We expect the examination of those years to be completed no earlier than the fourth quarter of 2008. State income tax returns are generally subject to examination for a period of 3 to 5 years after filing. We have various state income tax returns in the process of examination or appeals.

2. Acquisitions and Discontinued Operations

Acquisitions

Friendship Dairies On March 13, 2007, our Dairy Group completed the acquisition of Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction expanded our cultured dairy product capabilities and added a strong regional brand. We paid approximately $130 million, including transaction costs, for the purchase of Friendship Dairies and funded the purchase price with borrowings under our senior credit facility. We have not completed a final allocation of the purchase price to the fair values of Friendship s assets and liabilities. The pro forma impact of this acquisition on consolidated net earnings would not have materially changed reported net earnings.

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Divestiture

On June 8, 2007, we completed the sale of our tofu business, including a dedicated facility in Boulder, Colorado, for cash proceeds of approximately $2.0 million. We recorded a pre-tax loss on the sale of approximately $1.3 million. Such loss is included within other operating loss. The historical sales and contribution margin of these operations were not material.

Discontinued Operations

Iberian Operations Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. On September 14, 2006, we completed the sale of our operations in Spain. 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, resulting in a gain of $617,000.

Our financial statements have been reclassified to give effect to our Iberian operations as discontinued operations.

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

	December 31, 2006 (In thousands)
Current assets	$ 14,255
Non-current assets	5,725
Current liabilities	8,791

3. Inventories

	June 30, 2007	December 31, 2006
	(In thousands)	
Raw materials and supplies	$ 174,360	$ 173,208
Finished goods	231,633	187,546
Total	$ 405,993	$ 360,754

4. Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2007 are as follows:

WhiteWave

	Dairy Group	Foods Company (In thousands)	Total
Balance at December 31, 2006	$ 2,408,413	$ 534,726	$ 2,943,139
Acquisitions (divestitures)(1)(2)	115,374	(625)	114,749
Purchase accounting adjustments	(83)		(83)
Balance at June 30, 2007	$ 2,523,704	$ 534,101	$ 3,057,805

(1) We have not completed a final allocation of the purchase price to the fair value of Friendship s assets and liabilities.

(2) Goodwill adjustment of $0.6 million is related to the sale of the tofu business within the WhiteWave segment.

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The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of June 30, 2007 and December 31, 2006 are as follows:

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets with indefinite lives:						
Trademarks	$ 511,792	$ (5,877)	$ 505,915	$ 511,294	$ (5,877)	$ 505,417
Intangible assets with finite lives:						
Customer-related and other	74,748	(23,564)	51,184	72,789	(21,490)	51,299
Total	$ 586,540	$ (29,441)	$ 557,099	$ 584,083	$ (27,367)	$ 556,716

Amortization expense on intangible assets for the three months ended June 30, 2007 and 2006 was $1.6 million and $1.8 million, respectively. Amortization expense on intangible assets for the six months ended June 30, 2007 and 2006 was $3.2 million and $3.4 million, respectively.

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

2007	$ 6.2 million
2008	6.1 million
2009	6.0 million
2010	6.0 million
2011	4.3 million

5. Long-Term Debt

	June 30, 2007		December 31, 2006	
	Amount Outstanding	Interest Rate	Amount Outstanding	Interest Rate
	(In thousands)			
Dean Foods debt obligations:				
Senior credit facility	$ 3,708,000	6.84%	$ 1,757,250	5.99%
Senior notes	498,184	7.00	498,112	7.00
	4,206,184		2,255,362	
Subsidiary debt obligations:				
Senior notes	573,942	6.625-8.15	572,037	6.625-8.15

Receivables-backed facility	560,700	6.00	512,500	5.68
Capital lease obligations and other	16,564		15,952	
	1,151,206		1,100,489	
	5,357,390		3,355,851	
Less current portion	(280,023)		(483,658)	
Total	$ 5,077,367		$ 2,872,193	

Senior Credit Facility On April 2, 2007, we recapitalized our balance sheet through the completion of a new $4.8 billion senior credit facility and the return of $1.94 billion to shareholders of record on March 27, 2007, through a $15.00 per share special cash dividend. We entered into an amended and restated credit agreement that consists of a combination of a $1.5 billion 5-year senior secured revolving credit facility, a $1.5 billion 5-year senior secured term loan A, and a $1.8 billion 7-year senior secured term loan B. At

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June 30, 2007, there were outstanding borrowings of $1.5 billion under the senior secured term loan A, $1.8 billion under the senior secured term loan B, and $412.5 million outstanding under the revolving credit facility. Letters of credit in the aggregate amount of $154.1 million were issued but undrawn. At June 30, 2007, approximately $933.4 million was available for future borrowings under the revolving credit facility, subject to satisfaction of certain ordinary course conditions contained in the credit agreement.

The term loan A is payable in 12 consecutive quarterly installments of:

$56.25 million in each of the first eight installments, beginning on June 30, 2009 and ending on March 31, 2011 and;

$262.5 million in each of the next four installments, beginning on June 30, 2011 and ending on April 2, 2012.

The term loan B will amortize 1% per year, or $4.5 million on a quarterly basis, with any remaining principal balance due at final maturity, April 2, 2014. The revolving credit facility will be available for the issuance of up to $350 million of letters of credit and up to $150 million for swing line loans. No principal payments are due on the $1.5 billion revolving credit facility until maturity on April 2, 2012. The credit agreement also requires mandatory principal prepayments upon the occurrence of certain asset dispositions, recovery events, or as a result of exceeding certain leverage limits.

The credit facility contains various financial and other restrictive covenants and requires that we comply with certain financial ratios, including a maximum leverage ratio and a minimum interest coverage ratio.

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 for any single acquisition 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 would have been in compliance with all financial covenants. All other acquisitions must be approved in advance by the required lenders.

The senior credit facility contains limitations on liens, investments and the incurrence of additional indebtedness, and prohibits certain dispositions of property and conditionally 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 subsidiaries of the former Dean Foods Company (Legacy Dean), and the real property owned by Legacy Dean and its subsidiaries.

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

Interest on the outstanding balances under the senior credit facilities is payable, at our election, at the Alternative Base Rate (as defined in our credit agreement) plus a margin depending on our Leverage Ratio (as defined in our credit agreement) or LIBOR plus a margin depending on our Leverage Ratio. The Applicable Base Rate margin under our revolving credit and term loan A facilities varies from zero to 75 basis points while the Applicable LIBOR Rate margin varies from 62.5 to 175 basis points. The Applicable Base Rate margin under our term loan facility B varies from 37.5 to 75 basis points while the Applicable LIBOR Rate margin varies from 137.5 to 175 basis points.

In consideration for the revolving commitment, we are required to pay a quarterly commitment fee on unused amounts of the revolving credit facility that range from 12.5 to 37.5 basis points, depending on our Leverage Ratio (as defined under our credit agreement).

The completion of the new senior credit facility resulted in the write-off of $13.5 million of financing costs in the second quarter of 2007.

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Dean Foods Senior Notes On May 17, 2006, we issued $500 million aggregate principal amount of 7.0% senior unsecured notes. The senior unsecured notes mature on June 1, 2016 and interest is payable on June 1 and December 1 of each year, beginning December 1, 2006. The 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 certain indebtedness, enter into sale-leaseback transactions and engage in mergers, consolidations and sales of all or substantially all of our assets. The outstanding balance at June 30, 2007 was $498.2 million.

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

$250.0 million ($250 million face value), at 8.15% interest, maturing August 1, 2007;

$194.1 million ($200 million face value), at 6.625% interest, maturing May 15, 2009; and

$129.8 million ($150 million face value), at 6.9% interest, maturing October 15, 2017.

The related indentures do not contain financial covenants but they do contain certain restrictions, including a prohibition against Legacy Dean and its subsidiaries granting liens on certain of their real property interests and a prohibition against Legacy Dean granting liens on the stock of its subsidiaries. The $250 million notes were paid according to their terms on August 1, 2007.

Receivables-Backed Facility We have a $600 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to three wholly-owned special purpose entities intended to be bankruptcy-remote. The special purpose entities then transfer the receivables to third party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these three special purpose entities are fully reflected on our Condensed Consolidated Balance Sheet, and the securitization is treated as a borrowing for accounting purposes. This facility was amended and restated on April 2, 2007, which extended the facility termination date from November 15, 2009 to April 2, 2010. During the first six months of 2007, we made net borrowings of $48.2 million on this facility leaving an available and drawn balance of $560.7 million at June 30, 2007. 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 6.00% at June 30, 2007. 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 financing current year property and casualty insurance premiums, as well as 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 the impact of interest rate fluctuations and stabilizing cash flows. These swap agreements provide hedges for loans under our senior credit facility by fixing the LIBOR interest rates specified in the senior credit facility at the interest rates noted below until the indicated expiration dates of these interest rate swap agreements.

The following table summarizes our various interest rate agreements at June 30, 2007:

Fixed Interest Rates	Expiration Date	Notional Amounts (In millions)
4.07% to 4.27%	December 2010	$ 450
4.907%(1)	March 2008-March 2012	2,950

(1) The notional amount of the swap will decline to $1.25 billion over its term in connection with the principal payments due on the loans.

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The following table summarizes our various interest rate agreements at 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

During the six months ended June 30, 2007, we settled the interest rate swaps expiring in 2007. Amounts included in other comprehensive income related to these swaps will be recognized over the originally forecasted period.

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

As of June 30, 2007 and December 31, 2006, our derivative asset balances were:

	June 30, 2007		December 31, 2006	
	(In thousands)			
Current derivative asset	$	15,907	$	6,525
Long-term derivative asset		38,204		8,322
Total derivative asset	$	54,111	$	14,847

Hedge ineffectiveness for the three and six months ended June 30, 2007 was not material. Approximately $3.2 million and $4.4 million of interest income (net of taxes) were reclassified to interest expense from other comprehensive income during the three and six months ended June 30, 2007, respectively. We estimate that $10.1 million of net derivative income (net of taxes) included in other comprehensive income will be reclassified into earnings within the next 12 months. These gains will partially offset the higher interest payments recorded on our variable rate debt.

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

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

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

	Condensed Consolidating Balance Sheet as of June 30, 2007				
	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 5	$ 33,336	$ 4,085	$	$ 37,426
Receivables, net	410	(4,284)	863,213		859,339
Intercompany receivables	516,563	3,388,297	307,426	(4,212,286)	
Other current assets	150,632	494,150	11		644,793
Total current assets	667,610	3,911,499	1,174,735	(4,212,286)	1,541,558
Property, plant and equipment, net	319	1,760,516	18,008		1,778,843
Goodwill		3,057,714	91		3,057,805
Identifiable intangible and other assets	108,887	583,823	1,057		693,767
Investment in subsidiaries	6,877,914			(6,877,914)	
Total	$ 7,654,730	$ 9,313,552	$ 1,193,891	$ (11,090,200)	$ 7,071,973
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued expenses	$ 59,532	$ 812,180	$ 401	$	$ 872,113
Income taxes payable	(328)	240	88		
Intercompany notes	2,832,597	825,580	554,109	(4,212,286)	
Current portion of long-term debt	18,000	262,023			280,023
Total current liabilities	2,909,801	1,900,023	554,598	(4,212,286)	1,152,136
Long-term debt	4,188,184	328,483	560,700		5,077,367
Other long-term liabilities	522,008	285,725			807,733
Total stockholders equity	34,737	6,799,321	78,593	(6,877,914)	34,737
Total	$ 7,654,730	$ 9,313,552	$ 1,193,891	$ (11,090,200)	$ 7,071,973

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Condensed Consolidating Balance Sheet as of December 31, 2006

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
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
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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Condensed Consolidating Statements of Income for the Three Months Ended June 30, 2007

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 2,842,125	$ 1,520	$	$ 2,843,645
Cost of sales		2,154,447	1,148		2,155,595
Gross profit		687,678	372		688,050
Selling and distribution		428,438	138		428,576
General, administrative and other	1,457	99,682	898		102,037
Facility closing, reorganization and other costs	117	3,683			3,800
Interest expense	84,089	18,241	156		102,486
Other (income) expense, net	4,518	375	(347)		4,546
Income from subsidiaries	(136,786)			136,786	
Income (loss) from continuing operations before income taxes	46,605	137,259	(473)	(136,786)	46,605
Income taxes	18,428	52,409	(170)	(52,239)	18,428
Income (loss) from continuing operations	28,177	84,850	(303)	(84,547)	28,177
Income from discontinued operations, net of tax			239		239
Net income (loss)	$ 28,177	$ 84,850	$ (64)	$ (84,547)	$ 28,416

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

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 2,476,277	$ 1,607	$	$ 2,477,884
Cost of sales		1,792,760	1,277		1,794,037
Gross profit		683,517	330		683,847
Selling and distribution		409,215	146		409,361
General, administrative and other	802	99,214	231		100,247
Facility closing, reorganization and other costs		2,950			2,950
Interest (income) expense	30,736	18,694	(662)		48,768
Other (income) expense, net		(479)	393		(86)
Income from subsidiaries	(154,145)			154,145	
Income (loss) from continuing operations before income taxes	122,607	153,923	222	(154,145)	122,607
Income taxes	47,812	59,509	73	(59,582)	47,812
Income (loss) from continuing operations	74,795	94,414	149	(94,563)	74,795
Loss from discontinued operations, net of tax		(226)	(45,701)		(45,927)
Net income (loss)	$ 74,795	$ 94,188	$ (45,552)	$ (94,563)	$ 28,868

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Condensed Consolidating Statements of Income
for the Six Months Ended June 30, 2007

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 5,470,581	$ 2,813	$	$ 5,473,394
Cost of sales		4,095,943	2,127		4,098,070
Gross profit		1,374,638	686		1,375,324
Selling and distribution		843,932	278		844,210
General, administrative and other	2,859	209,084	1,806		213,749
Facility closing, reorganization and other costs	117	9,458			9,575
Interest expense	117,780	36,744	203		154,727
Other (income) expense, net	4,895	287	(336)		4,846
Income from subsidiaries	(273,868)			273,868	
Income (loss) from continuing operations before income taxes	148,217	275,133	(1,265)	(273,868)	148,217
Income taxes	56,837	104,428	(476)	(103,952)	56,837
Income (loss) from continuing operations	91,380	170,705	(789)	(169,916)	91,380
Income from discontinued operations, net of tax			856		856
Net income (loss)	$ 91,380	$ 170,705	$ 67	$ (169,916)	$ 92,236

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

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
			(In thousands)		
Net sales	$	$ 4,983,883	$ 3,042	$	$ 4,986,925
Cost of sales		3,649,350	2,382		3,651,732
Gross profit		1,334,533	660		1,335,193
Selling and distribution		814,197	309		814,506
General, administrative and other	2,379	201,106	464		203,949
Facility closing, reorganization and other costs		7,352			7,352
Interest (income) expense	59,663	37,377	(736)		96,304
Other (income) expense, net	(10)	(714)	738		14
Income from subsidiaries	(275,100)			275,100	
Income (loss) from continuing operations before income taxes	213,068	275,215	(115)	(275,100)	213,068
Income taxes	83,579	106,498	(60)	(106,438)	83,579
Income (loss) from continuing operations	129,489	168,717	(55)	(168,662)	129,489
Loss from discontinued operations, net of tax		(226)	(47,603)		(47,829)
Net income (loss)	$ 129,489	$ 168,491	$ (47,658)	$ (168,662)	$ 81,660

Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2007

	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
		(In thousands)		
Net cash provided by (used in) operating activities	$ (77,808)	$ 345,653	$ (97,362)	$ 170,483
Additions to property, plant and equipment	(386)	(102,512)	(194)	(103,092)
Payments for acquisitions and investments, net of cash received	(129,636)			(129,636)
Net proceeds from divestitures	12,551			12,551
Proceeds from sale of fixed assets		3,228		3,228
Net cash used in investing activities	(117,471)	(99,284)	(194)	(216,949)
Proceeds from issuance of debt	2,011,500		60,300	2,071,800

Repayment of debt	(60,750)	(8,766)	(12,100)	(81,616)
Payment of financing costs	(31,281)			(31,281)
Issuance of common stock	26,501			26,501
Payment of special cash dividend	(1,942,738)			(1,942,738)
Tax savings on share-based compensation	10,086			10,086
Net cash provided by (used in) financing activities	13,318	(8,766)	48,200	52,752
Net change in intercompany balances	181,387	(230,521)	49,134	
Increase (decrease) in cash and cash equivalents	(574)	7,082	(222)	6,286
Cash and cash equivalents, beginning of period	579	26,254	4,307	31,140
Cash and cash equivalents, end of period	$ 5	$ 33,336	$ 4,085	$ 37,426

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

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

6. Share-Based Compensation

Stock Options The following table summarizes stock option activity during the first six months of 2007:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2006	15,322,398	$ 23.09		
Options granted during the first six months(1)	3,231,003	30.28		
	6,707,790	15.89		

Adjustment to options granted prior to December 31, 2006 and outstanding at the time of the special cash dividend(1)				
Options canceled or forfeited during the first six months(2)	(179,238)	27.17		
Options exercised during the first six months	(1,754,641)	15.05		
Options outstanding at June 30, 2007	23,327,312	17.95	6.28	$ 324,784,063
Options exercisable at June 30, 2007	16,662,343	14.36	5.22	291,766,399

(1) The number and exercise prices of options outstanding at the time of the special cash dividend were proportionately adjusted to maintain the aggregate fair value of the options before and after the special cash dividend.

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

During the six months ended June 30, 2007 and 2006, we recognized stock option expense of $11.6 million and $11.0 million, respectively.

Stock Units The following table summarizes stock unit activity during the first six months of 2007:

	Employees	Directors	Total
Stock units outstanding at December 31, 2006	774,261	69,676	843,937
Stock units issued during 2007	462,564	22,950	485,514
Adjustment to stock units outstanding at the time of the special cash dividend(1)	471,691	32,708	504,399
Shares issued during 2007 upon vesting of stock units	(145,333)	(46,471)	(191,804)
Stock units cancelled or forfeited during 2007(2)	(88,802)		(88,802)
Stock units outstanding at June 30, 2007	1,474,381	78,863	1,553,244
Weighted average grant date fair value	$ 26.19	$ 24.40	$ 26.12

(1) Stock units outstanding at the time of the special cash dividend were proportionately adjusted to maintain the aggregate fair value of the stock units before and after the special cash dividend.

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

During the six months ended June 30, 2007 and 2006, we recognized stock unit expense of $7.5 million and $9.2 million, respectively.

7. Equity and Earnings Per Share

Special Cash Dividend On April 2, 2007, we recapitalized our balance sheet through the completion of a new $4.8 billion senior credit facility and the return of $1.94 billion to shareholders of record on March 27, 2007 through a $15.00 per share special cash dividend. In connection with the dividend, we recorded a charge to retained earnings equal to the retained earnings balance at the date of the dividend with the excess charged to additional paid-in capital.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(In thousands, except share data)			
Basic EPS computation:				
Numerator:				
Income from continuing operations	$ 28,177	$ 74,795	$ 91,380	$ 129,489
Denominator:				
Average common shares	130,016,900	135,037,233	129,456,835	135,103,306
Basic EPS from continuing operations	$ 0.22	$ 0.55	$ 0.70	$ 0.96
Diluted EPS computation:				
Numerator:				
Income from continuing operations	$ 28,177	$ 74,795	$ 91,380	$ 129,489
Denominator:				
Average common shares basic	130,016,900	135,037,233	129,456,835	135,103,306
Stock option conversion(1)	7,923,709	5,126,554	6,672,200	5,630,865
Stock units	444,287	269,973	433,198	370,483
Average common shares diluted	138,384,896	140,433,760	136,562,233	141,104,654
Diluted EPS from continuing operations	$ 0.21	$ 0.53	$ 0.67	$ 0.92

(1) Stock option conversion excludes anti-dilutive shares of 3,052,561 and 2,812,737 at June 30, 2007 and 2006, respectively.

8. Comprehensive Income (Loss)

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

	Pre-Tax Income (Loss)	Tax Benefit (Expense)	Net Amount
		(In thousands)	
Accumulated other comprehensive income (loss), December 31, 2006	$ (75,156)	$ 29,369	$ (45,787)
Cumulative translation adjustment arising during period	161		161

Net change in fair value of derivative instruments	47,149	(16,700)	30,449
Amounts reclassified to income statement related to derivatives	(7,153)	2,740	(4,413)
Accumulated other comprehensive income (loss), June 30, 2007	$ (34,999)	$ 15,409	$ (19,590)

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9. Employee Retirement and Postretirement Benefits

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(In thousands)			
Components of net period cost:				
Service cost	$ 675	$ 576	$ 1,351	$ 1,265
Interest cost	4,246	4,452	8,492	8,285
Expected return on plan assets	(4,681)	(4,048)	(9,362)	(7,891)
Amortizations:				
Unrecognized transition obligation	28	27	56	55
Prior service cost	211	269	421	425
Unrecognized net loss	719	791	1,438	1,722
Effect of settlement		(409)		175
Net periodic benefit cost	$ 1,198	$ 1,658	$ 2,396	$ 4,036

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(In thousands)			
Components of net period cost:				
Service cost	$ 358	$ 230	$ 715	$ 531
Interest cost	411	417	823	750
Amortizations:				
Prior service cost	(17)	(16)	(34)	(34)
Unrecognized net loss	266	380	532	479
Net periodic benefit cost	$ 1,018	$ 1,011	$ 2,036	$ 1,726

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10. Facility Closing And Reorganization Costs

We recorded net facility closing and reorganization costs of $2.5 million and $3.0 million during the three months ended June 30, 2007 and 2006, respectively, and $8.2 million and $7.4 million during the six months ended June 30, 2007 and 2006, respectively.

The charges recorded during 2007 are primarily related to realignment of our Dairy Group s finance organization and the closing of Dairy Group facilities in Akron, Ohio; Detroit, Michigan; and Union, New Jersey.

Activity for the first six months of 2007 is summarized below:

	Accrued Charges at December 31, 2006	Charges	Payments	Accrued Charges at June 30, 2007
		(In thousands)		
Cash charges:				
Workforce reduction costs	$ 4,322	$ 4,241	$ (4,401)	$ 4,162
Shutdown costs	16	1,680	(1,667)	29
Lease obligations after shutdown	1,313	321	(689)	945
Other	216	1,200	(1,289)	127
Subtotal	$ 5,867	7,442	$ (8,046)	$ 5,263
Noncash charges:				
Write-down of assets		791		
Total charges		$ 8,233		

The write-down of assets relates primarily to owned buildings, land and equipment of those facilities identified for closure. The assets are written down to their estimated fair value and held for sale. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities at June 30, 2007 was $11.4 million. We are marketing these properties for sale.

We expect to incur additional charges related to these restructuring plans of $11.1 million, including $6.0 million in work force reduction costs and $5.1 million in shutdown and other costs; $9.4 million and $1.7 million of these additional charges are expected to be incurred by December 31, 2007 and 2008, respectively.

The principal components of our continuing 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; and
- Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes.

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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11. Commitments and Contingencies

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

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

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

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

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

Litigation, Investigations and Audits 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 alleged stock option backdating. The complaints named 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, consisting of independent board members not named in the litigation, conducted its own

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independent review of our stock option grants and the allegations made in the complaints and determined that there were no fraudulent acts by management. The derivative actions were settled in the first quarter of 2007. The settlement resolves all claims and includes no finding of wrongdoing on the part of any of the defendants and no cash payment other than attorneys fees. We agreed to the adoption and implementation of stock option grant procedures that reflect developing best practices. The district court approved the settlement and the actions were dismissed. As previously announced, the staff of the SEC began an informal inquiry into our historical stock option practices. On May 7, 2007, the staff of the SEC notified us that the informal inquiry was closed without any recommended enforcement action.

We were named, among several defendants, in two purported class action antitrust complaints filed on July 5, 2007. The complaints were filed in the United States District Court for the Middle District of Tennessee, Columbia Division, and allege generally that we and others in the milk industry worked together to limit the price Southeastern dairy farmers are paid for their raw milk and to deny these farmers access to fluid Grade A milk processing facilities. We believe that the claims against us are without merit and we will vigorously defend the actions.

12. Business and Geographic Information and Major Customers

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

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

Our WhiteWave Foods Company segment manufactures, develops, markets and sells a variety of nationally branded soy, dairy and dairy-related products, such as *Silk*® soymilk and cultured soy products, *Horizon Organic*® dairy products, *International Delight*® coffee creamers, *LAND O LAKES*® creamer and fluid dairy products and *Rachel s Organic*® dairy products. WhiteWave Foods Company sells its products to a variety of customers, including grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores and foodservice outlets. 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.

We evaluate the performance of our segments based on operating profit or loss before gains and losses on the sale of assets, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the expense related to share-based compensation has not been allocated to our segments and is reflected entirely within the caption Corporate. Therefore, the measure of segment profit or loss presented below is before such items. The accounting policies of our segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to our 2006 Consolidated Financial Statements contained in our 2006 Annual Report on Form 10-K.

Due to changes in the Company s business strategy, primary responsibility for the Hershey relationship has been moved into the Dairy Group beginning in the first quarter of 2007. In addition, we aligned the results related to the sales of certain foodservice products between segments. In order to present results on a comparable basis, segment results for 2006 have been adjusted to reflect the way management evaluates performance related to the Hershey relationship, as well as certain foodservice relationships. These changes had no impact on consolidated operating income.

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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.

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(In thousands)			
Net sales to external customers:				
Dairy Group	$ 2,518,078	$ 2,176,058	$ 4,825,140	$ 4,383,718
WhiteWave Foods Company	325,567	301,826	648,254	603,207
Total	$ 2,843,645	$ 2,477,884	$ 5,473,394	$ 4,986,925
Intersegment sales:				
Dairy Group	$ 5,492	$ 3,250	$ 9,703	$ 6,673
WhiteWave Foods Company	24,327	22,909	48,408	46,031
Total	$ 29,819	$ 26,159	$ 58,111	$ 52,704
Operating income:				
Dairy Group	$ 165,255	$ 181,167	$ 336,308	$ 337,799
WhiteWave Foods Company	31,723	29,289	59,498	51,502
Corporate	(39,541)	(36,217)	(78,441)	(72,563)
Segment operating income	157,437	174,239	317,365	316,738
Facility closing, reorganization and other costs	(3,800)	(2,950)	(9,575)	(7,352)
Total	$ 153,637	$ 171,289	$ 307,790	$ 309,386

	June 30, 2007	December 31, 2006
	(In thousands)	
Assets:		
Dairy Group	$ 5,364,402	$ 5,141,662
WhiteWave Foods Company	1,362,044	1,372,946
Corporate	345,527	235,585
Discontinued operations		19,980
Total	$ 7,071,973	$ 6,770,173

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

Significant Customers Our WhiteWave Foods Company and Dairy Group segments each had a single customer that represented greater than 10% of their net sales in the first six months of 2007 and 2006. Approximately 18.3% and 17.3% of our consolidated net sales in the first six months of 2007 and 2006, respectively, were to this same customer.

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

Business Overview

We are a leading food and beverage company. Our Dairy Group is the largest processor and distributor of milk and various other dairy products in the United States. The Dairy Group segment manufactures and sells its products under a variety of local and regional brand names and under private labels. Our WhiteWave Foods Company segment manufactures, markets and sells a variety of well known soy, dairy and dairy-related nationally-branded products.

Dairy Group Our Dairy Group segment is our largest segment, with approximately 88% of our consolidated sales in the six months ended June 30, 2007. 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 that we have one of the most extensive refrigerated DSD systems in the United States. The Dairy Group sells its products primarily on a local or regional basis through its local and regional sales forces, although some national customer relationships are coordinated by the Dairy Group s corporate sales department. Most of the Dairy Group s customers, including its largest customer, purchase products from the Dairy Group either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

WhiteWave Foods Company 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 and other products; *International Delight®* coffee creamers; *LAND O LAKES®* creamers and fluid dairy products and *Rachel s Organic®* dairy products. We license the *LAND O LAKES* name from a third party.

Recent Developments

Developments Since January 1, 2007

Credit Facility and Special Cash Dividend On April 2, 2007, we recapitalized our balance sheet through the completion of a new $4.8 billion senior credit facility and the return of $1.94 billion to shareholders of record on March 27, 2007, through a $15.00 per share special cash dividend. We entered into an amended and restated credit agreement that consists of a combination of a $1.5 billion 5-year senior secured revolving credit facility, a $1.5 billion 5-year senior secured term loan A, and a $1.8 billion 7-year senior secured term loan B. The completion of the new senior credit facility resulted in the write-off of $13.5 million of financing costs in the second quarter of 2007.

In addition, we entered into an amendment and restatement of our receivables facility that extended the facility termination date from November 15, 2009 to April 2, 2010. We believe that other modifications related to this amendment will slightly increase our borrowing capacity under the facility.

See Note 5 to our Condensed Consolidated Financial Statements for more information.

Dairy Group Settlement In the first quarter of 2007, we entered into a settlement agreement with a customer to exit a supply agreement. In connection with the settlement, we evaluated the realization of certain customer-related intangible assets for potential impairment. The gain from settlement of $7.2 million, net of an impairment charge, was recognized in the first quarter. As the exiting of the supply agreement impacts anticipated product volumes, the gain will likely be offset by reduced operating income in future periods.

Friendship Dairies On March 13, 2007, our Dairy Group completed the acquisition of Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction expanded our cultured dairy product capabilities and added a strong regional brand. We paid approximately $130 million, including transaction costs, for the purchase of Friendship Dairies and funded the purchase price with borrowings under our senior credit facility.

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Divestiture

On June 8, 2007, we completed the sale of our tofu business, including a dedicated facility in Boulder, Colorado. The historical sales and contribution margin of these operations were not material. The sale allows us to continue to focus on our core brands.

Discontinued Operations

Iberian Operations Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. On September 14, 2006, we completed the sale of our operations in Spain. 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, resulting in a gain of $617,000. Our financial statements have been reclassified to give effect to our Iberian operations as discontinued operations.

Facility Closing and Reorganization Activities

We recorded a total of $8.2 million in facility closing and reorganization costs during the first six months of 2007, related to the realignment of our Dairy Group s finance organization and the closing of Dairy Group facilities in Akron, Ohio; Detroit, Michigan; and Union, New Jersey. We expect to incur additional charges related to these restructuring plans of $11.1 million, including $6.0 million in workforce reduction costs and $5.1 million in shutdown and other costs; $9.4 million and $1.7 million of these charges are expected to be incurred by December 31, 2007 and 2008, respectively. 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; and
- Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes.

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

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Results of Operations

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

	Three Months Ended June 30				Six Months Ended June 30			
	2007		2006		2007		2006	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)							
Net sales	$ 2,843.6							