

DEAN FOODS CO  
Form 10-Q  
May 01, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly Period Ended March 31, 2009

or

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

Commission File Number 001-12755

**Dean Foods Company**

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

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**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 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 24, 2009, the number of shares outstanding of each class of common stock was: 154,516,257

Common Stock, par value \$.01

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**Table of Contents****Part I Financial Information****Item 1. Condensed Consolidated Financial Statements****DEAN FOODS COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share data)

|   | March 31,<br>2009 | December 31,<br>2008 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$ 62,995         | \$ 35,979            |
| Receivables, net  | 733,978           | 854,992              |
| Inventories   | 381,058           | 393,111              |
| Deferred income taxes   | 123,425           | 127,211              |
| Prepaid expenses and other current assets   | 80,217            | 69,900               |
| Total current assets  | 1,381,673         | 1,481,193            |
| Property, plant and equipment, net  | 1,812,440         | 1,821,892            |
| Goodwill  | 3,075,655         | 3,073,502            |
| Identifiable intangible and other assets  | 646,318           | 663,605              |
| Total   | \$ 6,916,086      | \$ 7,040,192         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                   |                      |
| Current liabilities:  |                   |                      |
| Accounts payable and accrued expenses   | \$ 975,579        | \$ 1,084,037         |
| Income taxes payable  | 39,140            | 27,704               |
| Current portion of debt   | 713,865           | 315,526              |
| Total current liabilities   | 1,728,584         | 1,427,267            |
| Long-term debt  | 3,654,043         | 4,173,725            |
| Deferred income taxes   | 471,010           | 468,644              |
| Other long-term liabilities   | 397,294           | 412,322              |
| Commitments and contingencies (Note 11)   |                   |                      |
| Stockholders' equity:   |                   |                      |
| Dean Foods stockholders' equity:  |                   |                      |
| Preferred stock, none issued  |                   |                      |
| Common stock, 154,502,677 and 154,036,798 shares issued and outstanding, with a par value of \$0.01 per share | 1,545             | 1,540                |
| Additional paid-in capital  | 541,136           | 532,420              |
| Retained earnings   | 327,549           | 251,303              |
| Accumulated other comprehensive loss  | (222,547)         | (227,029)            |
| Total Dean Foods stockholders' equity   | 647,683           | 558,234              |
| Noncontrolling interest   | 17,472            |                      |

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|                            |                     |                     |
|----------------------------|---------------------|---------------------|
| Total stockholders' equity | 665,155             | 558,234             |
| <b>Total</b>               | <b>\$ 6,916,086</b> | <b>\$ 7,040,192</b> |

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands, except share data)

|  | <b>Three Months<br/>Ended March 31</b> |                |
|--|--|----------------|
|  | <b>2009</b>                            | <b>2008</b>    |
| Net sales  | \$ 2,702,938                           | \$ 3,076,960   |
| Cost of sales  | 1,944,251                              | 2,388,386      |
| <b>Gross profit</b>  | <b>758,687</b>                         | <b>688,574</b> |
| Operating costs and expenses:                                |  |                |
| Selling and distribution                                     | 424,143                                | 438,003        |
| General and administrative                                   | 131,562                                | 110,681        |
| Amortization of intangibles                                  | 1,908                                  | 1,571          |
| Facility closing and reorganization costs                    | 8,248                                  | 2,215          |
| <b>Total operating costs and expenses</b>                    | <b>565,861</b>                         | <b>552,470</b> |
| Operating income   | 192,826                                | 136,104        |
| Other (income) expense:                                      |  |                |
| Interest expense   | 68,299                                 | 83,832         |
| Other (income) expense, net                                  | 195                                    | 619            |
| Total other expense  | 68,494                                 | 84,451         |
| Income from continuing operations before income taxes        | 124,332                                | 51,653         |
| Income taxes   | 48,990                                 | 20,881         |
| Income from continuing operations                            | 75,342                                 | 30,772         |
| Loss from discontinued operations, net of tax                | (142)                                  |                |
| Net income   | 75,200                                 | 30,772         |
| Net loss attributable to noncontrolling interest, net of tax | 1,046                                  |                |
| Net income attributable to Dean Foods Company                | \$ 76,246                              | \$ 30,772      |
| Average common shares:                                       |  |                |
| Basic  | 154,300,386                            | 137,883,317    |
| Diluted  | 157,255,494                            | 143,289,035    |
| Net income attributable to Dean Foods Company per share:     |  |                |
| Basic  | \$ 0.49                                | \$ 0.22        |
| Diluted  | \$ 0.48                                | \$ 0.21        |

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****DEAN FOODS COMPANY****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Unaudited)

(In thousands, except share data)

|  | Dean Foods Company Shareholders<br>Common Stock |          | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interest | Total<br>Stockholders<br>Equity | Comprehensive<br>Income |
|--|---|----------|----------------------------------|----------------------|---|----------------------------|---------------------------------|-------------------------|
|  | Shares  | Amount   |                                  |                      |   |                            |                                 |                         |
| <b>Balance, December 31, 2008</b>  | 154,036,798                                     | \$ 1,540 | \$ 532,420                       | \$ 251,303           | \$ (227,029)  |                            | \$ 558,234                      |                         |
| Issuance of common stock   | 465,879   | 5        | (494)                            |                      |   |                            | (489)                           |                         |
| Share-based compensation   |   |          | 9,210                            |                      |   |                            | 9,210                           |                         |
| Fair value of noncontrolling interest<br>acquired  |   |          |                                  |                      |   | \$ 14,499                  | 14,499                          |                         |
| Capital contribution from noncontrolling<br>interest   |   |          |                                  |                      |   | 4,019                      | 4,019                           |                         |
| Net loss attributable to noncontrolling<br>interest  |   |          |                                  |                      |   | (1,046)                    | (1,046)                         |                         |
| Other comprehensive income (loss):   |   |          |                                  |                      |   |                            |                                 |                         |
| Net income attributable to Dean Foods<br>Company   |   |          |                                  | 76,246               |   |                            | 76,246                          | \$ 76,246               |
| Change in fair value of derivative<br>instruments, net of tax of \$3,272                             |   |          |                                  |                      | (5,480)   |                            | (5,480)                         | (5,480)                 |
| Amounts reclassified to income statement<br>related to hedging activities, net of tax of<br>\$10,211 |   |          |                                  |                      | 17,018  |                            | 17,018                          | 17,018                  |
| Cumulative translation adjustment  |   |          |                                  |                      | (464)   |                            | (464)                           | (464)                   |
| Pension liability adjustment, net of tax of<br>\$3,955   |   |          |                                  |                      | (6,592)   |                            | (6,592)                         | (6,592)                 |
| <b>Comprehensive income</b>  |   |          |                                  |                      |   |                            |                                 | \$ 80,728               |
| <b>Balance, March 31, 2009</b>   | 154,502,677                                     | \$ 1,545 | \$ 541,136                       | \$ 327,549           | \$ (222,547)  | \$ 17,472                  | \$ 665,155                      |                         |

See Notes to Condensed Consolidated Financial Statements.



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

(Unaudited)

(In thousands)

|  | <b>Three Months<br/>Ended March 31</b> |                  |
|--|--|------------------|
|  | <b>2009</b>                            | <b>2008</b>      |
| <b>Cash flows from operating activities:</b>   |  |                  |
| Net income   | \$ 75,200                              | \$ 30,772        |
| Loss from discontinued operations  | 142                                    |                  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |  |                  |
| Depreciation and amortization  | 60,605                                 | 59,379           |
| Share-based compensation expense   | 9,210                                  | 8,491            |
| (Gain)loss on disposition of assets  | 1,490                                  | (368)            |
| Write-down of impaired assets  | 6,505                                  | 649              |
| Deferred income taxes  | 3,215                                  | 26,709           |
| Other  | (1,424)                                | 25               |
| <b>Changes in operating assets and liabilities, net of acquisitions:</b>                 |  |                  |
| Receivables  | 121,061                                | 65,256           |
| Inventories  | 12,375                                 | (7,001)          |
| Prepaid expenses and other assets  | (3,565)                                | (945)            |
| Accounts payable and accrued expenses  | (111,514)                              | (19,220)         |
| Income taxes receivable/payable  | 11,436                                 | (5,486)          |
| <b>Net cash provided by continuing operations</b>  | <b>184,736</b>                         | <b>158,261</b>   |
| Net cash used in discontinued operations   | (142)                                  |                  |
| <b>Net cash provided by operating activities</b>   | <b>184,594</b>                         | <b>158,261</b>   |
| <b>Cash flows from investing activities:</b>   |  |                  |
| Payments for property, plant and equipment   | (42,092)                               | (44,759)         |
| Payments for acquisitions, net of cash received  | (1,384)                                | (51,800)         |
| Proceeds from sale of fixed assets   | 3,672                                  | 2,550            |
| <b>Net cash used in investing activities</b>   | <b>(39,804)</b>                        | <b>(94,009)</b>  |
| <b>Cash flows from financing activities:</b>   |  |                  |
| Repayment of debt  | (7,433)                                | (8,995)          |
| Proceeds from senior secured revolver  | 865,200                                | 1,083,700        |
| Payments for senior secured revolver   | (865,200)                              | (1,494,100)      |
| Proceeds from receivables-backed facility  | 761,667                                | 313,500          |
| Payments for receivables-backed facility   | (876,667)                              | (355,400)        |
| Capital contribution from noncontrolling interest  | 4,019                                  |                  |
| Issuance of common stock   | 640                                    | 405,464          |
| <b>Net cash used in financing activities</b>   | <b>(117,774)</b>                       | <b>(55,831)</b>  |
| Increase in cash and cash equivalents  | 27,016                                 | 8,421            |
| Cash and cash equivalents, beginning of period   | 35,979                                 | 32,555           |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 62,995</b>                       | <b>\$ 40,976</b> |

See Notes to Condensed Consolidated Financial Statements.

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**DEAN FOODS COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Periods ended March 31, 2009 and 2008**

(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 2008 Annual Report on Form 10-K for the year ended December 31, 2008. 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 March 31, 2009 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 Consolidated Financial Statements contained in our 2008 Annual Report on Form 10-K (filed with the Securities and Exchange Commission on February 24, 2009).

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

Effective January 1, 2009, we changed the name of one of our segments. Our reporting segments consist of our Fresh Dairy Direct, previously referred to as DSD Dairy, and WhiteWave-Morningstar operations. This name change had no impact on the composition of the segments or the presentation of our historical segment disclosures.

*Recently Adopted Accounting Pronouncements* Effective January 1, 2009, we adopted Statement of Financial Accounting Standards ( SFAS ) No. 141(R), Business Combinations . SFAS No. 141(R) contains a number of major changes affecting the allocation of the value of acquired assets and liabilities including requiring an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being excess value over the net identifiable assets acquired. This standard also requires the fair value measurement of certain other assets and liabilities related to the acquisition such as contingencies and research and development. In addition, acquisition-related costs must be expensed as incurred. In April 2009, the Financial Accounting Standards Board ( FASB ) issued Staff Position No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FSP FAS 141(R)-1 ). FSP FAS 141(R)-1 amends and clarifies SFAS No. 141(R) regarding the initial recognition and measurement, subsequent measurement, accounting and disclosure of assets and liabilities arising from contingencies in a business combination. The provisions of SFAS No. 141(R) and the related FSP FAS 141 (R)-1 apply only to acquisition transactions completed in fiscal years beginning after December 15, 2008. The adoption of SFAS FAS 141(R) and FSP FAS 141(R)-1 did not have a material impact on our Condensed Consolidated Financial Statements.

Effective January 1, 2009, we adopted FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP FAS 142-3 ) which amends SFAS No. 142 and provides guidance for determining the useful life of a recognized intangible asset and requires enhanced disclosures so that users of financial statements are able to assess the extent to which the expected future cash flows associated with the asset are affected by our intent and/or ability to renew or extend the agreement. The adoption of this Staff Position did not have a material impact on our Condensed Consolidated Financial Statements.

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Effective January 1, 2009, we adopted SFAS No. 157, *Fair Value Measurements* for non-financial assets and liabilities that are not measured at fair value on a recurring basis, in accordance with FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. The adoption of this statement regarding the non-financial assets and liabilities did not have a material impact on our Condensed Consolidated Financial Statements. See Note 5 for related disclosure.

Effective January 1, 2009, we adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. There were no noncontrolling interests prior to the consolidation of the Hero joint venture in the first quarter of 2009. See Note 2 regarding our noncontrolling interest in a consolidated affiliate.

Effective January 1, 2009, we adopted SFAS No. 161, *Disclosure About Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting.

We are exposed to commodity price fluctuations, including milk, organic and non-genetically modified ( non-GMO ) soybeans, butterfat, and sugar and the other commodity costs used in the manufacturing, packaging and distribution of our products, including utilities, natural gas, resin and diesel fuel. In order to secure adequate supplies of materials and bring greater stability to the cost of ingredients and their related manufacturing, packaging and distribution, we routinely enter into forward purchase contracts and other purchase arrangements with suppliers. Under the forward purchase contracts, we commit to purchasing agreed-upon quantities of ingredients and commodities at agreed-upon prices at specified future dates. The outstanding purchase commitment for these commodities at any point in time typically ranges from one month s to one year s anticipated requirements, depending on the ingredient or commodity.

In addition to entering into forward purchase contracts, from time to time we may purchase exchange-traded commodity futures contracts for raw materials which are ingredients of our products or which are components of such ingredients, as well as other commodities. In late March 2009, we entered into a fixed-for-floating DOE index swap for approximately 4.3 million gallons of On-Highway Diesel for the period April 1, 2009 through December 31, 2009. This position is intended to fix the fuel charge component in our hauling agreements with third-party distributors. The fair value of this position was nominal as of March 31, 2009. There were no other commodity-related financial contracts outstanding during the quarter ended March 31, 2009. Although we may utilize forward purchase contracts and other instruments to mitigate the risks related to commodity price fluctuations, such strategies do not fully mitigate commodity price risk. Adverse movements in commodity prices over the terms of the contracts or instruments could decrease the economic benefits we derive from these strategies. See Note 5 for information related to our interest rate derivatives and hedging activity.

*Recently Issued Accounting Pronouncements* In December 2008, the FASB issued Staff Position No. FAS 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP FAS 132 (R)-1 ), which provides additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan and is effective for us on December 31, 2009. We do not believe the adoption of FSP FAS 132 (R)-1 will have a material effect on our consolidated results of operations and financial condition.

In April 2009, the FASB issued Staff Position No. 157-4, *Determining Fair Value When The Volume and Level of Activity For The Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly* ( FSP FAS 157-4 ), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly and becomes effective for us on June 30, 2009. We do not believe the adoption of FSP FAS 157-4 will have a material effect on our consolidated results of operations and financial condition.

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In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP FAS 107-1 and APB 28-1 ), which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements and becomes effective for us on June 30, 2009. We do not believe the adoption of FSP FAS 107-1 and APB 28-1 will have a material effect on our consolidated results of operations and financial condition.

*Correction of Statements of Cash Flows* We have corrected the presentation of proceeds from (payments for) our senior secured revolver and receivables-backed facility for 2008. Related amounts had previously been presented on a net basis, rather than on a gross basis in accordance with SFAS No. 95, Statement of Cash Flows . The correction had no effect on net cash used in financing activities.

**2. Noncontrolling Interest in Consolidated Affiliate**

*Hero/WhiteWave Joint Venture* In January 2008, we entered into and formed a 50/50 strategic joint venture with Hero Group ( Hero ), producer of international fruit and infant nutrition brands, to introduce a new innovative product line to North America. The joint venture, Hero/WhiteWave, LLC, combines Hero s expertise in fruit, innovation and process engineering, with WhiteWave s deep understanding of the American consumer and manufacturing network, as well as the go-to-market system of Dean Foods.

The joint venture, which is based in Broomfield, Colorado, serves as a strategic growth platform for both companies to further extend their global reach by leveraging their established innovation, technology, manufacturing and distribution capabilities over time. During the first quarter of 2009, the joint venture began to manufacture and distribute its primary product, Fruit2Day™, in limited test markets in the United States. Full product launch is anticipated for the second quarter of 2009.

Beginning January 1, 2009, in conjunction with entering into several new agreements between WhiteWave and the joint venture and based upon guidance in FASB Interpretation ( FIN ) 46(R), Consolidation of Variable Interest Entities ( FIN 46 (R) ), we have concluded that we are the primary beneficiary of the joint venture and the financial position and the results of operations for the joint venture should be consolidated for financial reporting purposes. Accordingly, the joint venture has been consolidated as of January 1, 2009. The resulting noncontrolling interest s share in the equity of the joint venture is presented as a separate component of stockholders equity in the Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Stockholders Equity, and the net loss (net of tax) attributable to the noncontrolling interest is presented in the Condensed Consolidated Statement of Income in accordance with SFAS No. 160. For the quarter ended March 31, 2009, we contributed cash and non-cash assets to the joint venture totaling \$1.1 million and \$63,000, respectively. Net sales for the joint venture for the quarter ended March 31, 2009 totaled \$60,000.

**3. Inventories**

Inventories, net, at March 31, 2009 and December 31, 2008 consisted of the following:

|                            | March 31,<br>2009 | December 31,<br>2008 |
|----------------------------|-------------------|----------------------|
|                            | (In thousands)    |                      |
| Raw materials and supplies | \$ 168,320        | \$ 178,439           |
| Finished goods             | 212,738           | 214,672              |
| <b>Total</b>               | <b>\$ 381,058</b> | <b>\$ 393,111</b>    |

**Table of Contents****4. Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the three months ended March 31, 2009 are as follows:

|                                 | Fresh Dairy<br>Direct | WhiteWave-<br>Morningstar<br>(In thousands) | Total        |
|---------------------------------|-----------------------|---|--------------|
| Balance at December 31, 2008    | \$ 2,186,506          | \$ 886,996                                  | \$ 3,073,502 |
| Purchase accounting adjustments | 2,512                 | (359)                                       | 2,153        |
| Balance at March 31, 2009       | \$ 2,189,018          | \$ 886,637                                  | \$ 3,075,655 |

The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of March 31, 2009 and December 31, 2008 are as follows:

|  | March 31, 2009              |                             |   | December 31, 2008           |                             |                           |
|--|-----------------------------|-----------------------------|---|-----------------------------|-----------------------------|---------------------------|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount<br>(In thousands) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Intangible assets with indefinite lives: |                             |                             |   |                             |                             |                           |
| Trademarks                               | \$ 511,858                  | \$                          | \$ 511,858                                  | \$ 511,898                  | \$                          | \$ 511,898                |
| Intangible assets with finite lives:     |                             |                             |   |                             |                             |                           |
| Customer-related and other               | 91,347                      | (29,297)                    | 62,050                                      | 91,127                      | (27,553)                    | 63,574                    |
| Trademarks                               | 5,596                       | (1,186)                     | 4,410                                       | 5,596                       | (1,004)                     | 4,592                     |
| Total                                    | \$ 608,801                  | \$ (30,483)                 | \$ 578,318                                  | \$ 608,621                  | \$ (28,557)                 | \$ 580,064                |

Amortization expense on intangible assets for each of the three months ended March 31, 2009 and 2008 was \$1.9 million. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

|      |                |
|------|----------------|
| 2009 | \$ 7.5 million |
| 2010 | \$ 7.6 million |
| 2011 | \$ 7.3 million |
| 2012 | \$ 6.1 million |
| 2013 | \$ 5.9 million |

**Table of Contents****5. Debt**

|   | March 31, 2009        |                  | December 31, 2008     |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | Amount<br>Outstanding | Interest<br>Rate | Amount<br>Outstanding | Interest<br>Rate |
| (In thousands)                              |                       |                  |                       |                  |
| <b>Dean Foods Company debt obligations:</b> |                       |                  |                       |                  |
| Senior secured credit facility              | \$ 3,264,000          | 2.38%            | \$ 3,268,500          | 2.84%            |
| Senior notes                                | 498,457               | 7.00             | 498,416               | 7.00             |
|   | 3,762,457             |                  | 3,766,916             |                  |
| <b>Subsidiary debt obligations:</b>         |                       |                  |                       |                  |
| Senior notes                                | 254,877               | 6.625 6.90       | 253,828               | 6.625 6.90       |
| Receivables-backed facility                 | 345,000               | 2.43             | 460,000               | 2.72             |
| Capital lease obligations and other         | 5,574                 |                  | 8,507                 |                  |
|   | 605,451               |                  | 722,335               |                  |
|   | 4,367,908             |                  | 4,489,251             |                  |
| Less current portion                        | (713,865)             |                  | (315,526)             |                  |
| Total long-term portion                     | \$ 3,654,043          |                  | \$ 4,173,725          |                  |

*Senior Secured Credit Facility* Our senior secured credit facility consists of a combination of a \$1.5 billion five year senior secured revolving credit facility, a \$1.5 billion five year senior secured term loan A, and a \$1.8 billion seven year senior secured term loan B. At March 31, 2009, there were outstanding borrowings of \$1.5 billion under the senior secured term loan A, and \$1.8 billion under the senior secured term loan B. There were no outstanding borrowings under the senior secured revolving credit facility. Letters of credit in the aggregate amount of \$176.8 million were issued but undrawn. At March 31, 2009, approximately \$1.32 billion was available for future borrowings under the senior secured revolving credit facility, subject to the maximum leverage and minimum interest coverage ratios and the 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 amortizes 1% per year, or \$4.5 million on a quarterly basis, with any remaining principal balance due at final maturity on April 2, 2014. The senior secured 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 senior secured 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.

Under the senior secured credit facility, we are required to comply with certain financial covenants, including, but not limited to, a maximum leverage and minimum interest coverage ratio. As of March 31, 2009, we were in compliance with all covenants contained in this credit agreement. Our Leverage Ratio at March 31, 2009 was 4.45 times consolidated funded indebtedness to consolidated EBITDA for the prior four consecutive quarters, each as defined under and calculated in accordance with the terms of our senior secured credit facility and our receivables-backed facility. The maximum permitted Leverage Ratio as of March 31, 2009 is 5.75 times and will decline to 5.00 times as of December 31, 2009 and a final time to 4.50 times as of December 31, 2010.





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*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 certain indebtedness, enter into sale-leaseback transactions and engage in mergers, consolidations and sales of all or substantially all of our assets. At March 31, 2009, \$498.5 million principal amount of senior unsecured notes was outstanding.

*Subsidiary Senior Notes* The former Dean Foods Company ( Legacy Dean ) had certain senior notes outstanding at the time of its acquisition, of which two series remain outstanding. During the fourth quarter of 2008, we repurchased in the open market, \$77.0 million of Legacy Dean s subsidiary senior notes that mature May 15, 2009. The outstanding series of notes carry the following interest rates and maturities:

\$122.8 million (\$123 million face value), at 6.625% interest, maturing May 15, 2009; and

\$132.0 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 subsidiary senior notes are not guaranteed by Dean Foods Company or Legacy Dean s wholly owned subsidiaries.

*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. As of March 31, 2009, trade receivables of \$743.3 million are pledged as collateral under this program. Effective March 30, 2009, we amended the facility to reflect the reallocation of commitments among the financial institutions following the addition of one institution to our receivables-backed program and to change the facility date to be a 364-day facility, terminating on March 29, 2010. During the first quarter of 2009, we made net payments of \$115.0 million on this facility leaving a drawn balance of \$345.0 million at March 31, 2009. Our ability to re-borrow under this facility is subject to a borrowing base formula. The facility had \$255.0 million of availability as of March 31, 2009. The receivables-backed facility bears interest at a variable rate based on the commercial paper yield plus an applicable margin as defined in the amended agreement.

*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 secured credit facility at the interest rates noted below until the indicated expiration dates of these interest rate swap agreements.

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The following table summarizes our various interest rate agreements in effect as of March 31, 2009:

| Fixed Interest Rates | Expiration Date  | Notional Amounts<br>(In millions) |
|----------------------|------------------|-----------------------------------|
| 4.07% to 4.27%       | December 2010    | \$ 450                            |
| 4.91%(1)             | March 2010 -2012 | 2,300                             |

(1) The notional amounts of the swap agreements decrease by \$800 million on March 31, 2010, and \$250 million on March 31, 2011, and the balance on March 30, 2012.

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 as interest expense as the underlying transaction occurs. Any ineffectiveness in our hedges is recorded as an adjustment to interest expense. There was no hedge ineffectiveness for the three months ended March 31, 2009 and 2008.

As of March 31, 2009 and December 31, 2008, our interest rate derivative liability balances were:

|  | March 31,<br>2009 | December 31,<br>2008 |
|--|-------------------|----------------------|
|  | (In thousands)    |                      |
| Current derivative liability (included within Accounts payable and accrued expenses) | \$ 100,285        | \$ 103,278           |
| Long-term derivative liability (included within Other long-term liabilities)         | 91,221            | 106,731              |
| <b>Total derivative liability</b>  | <b>\$ 191,506</b> | <b>\$ 210,009</b>    |

The impact of our interest rate swaps reclassified from other comprehensive income to interest expense (net of taxes) was \$17.0 million and \$84,000 during the three months ended March 31, 2009 and 2008, respectively. Based on current interest rates, we estimate that \$62.7 million of hedging activity will be reclassified as interest expense within the next 12 months.

We are exposed to market risk under these arrangements due to the possibility of interest rates on our senior secured credit facility rising above the rates on our interest rate swap agreements. Credit risk under these arrangements is believed to be remote as the counterparties to our interest rate swap agreements are major financial institutions. However, beginning in the second half of 2008, a number of financial institutions similar to those that serve as counterparties to our hedging arrangements have been adversely affected by the global credit crisis and in some cases have been unable to fulfill their debt and other obligations. If any of the counterparties to our hedging arrangements become unable to fulfill their obligation to us, we may lose the financial benefits of these arrangements.

**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, joint and severally 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 Company ( Parent ), the wholly-owned subsidiary guarantors of the senior notes and separately the combined results of the wholly-owned subsidiaries that are not a party to the guarantees. The wholly-owned non-guarantor subsidiaries reflect certain foreign and other 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 March 31, 2009**

|  | Parent        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries<br>(In thousands) | Eliminations    | Consolidated<br>Totals |
|--|---------------|---------------------------|---|-----------------|------------------------|
| <b>ASSETS</b>                              |               |                           |   |                 |                        |
| Current assets:                            |               |                           |   |                 |                        |
| Cash and cash equivalents                  | \$ 37,095     | \$ 18,426                 | \$ 7,474  | \$              | \$ 62,995              |
| Receivables, net                           | 300           |                           | 743,977   | (10,299)        | 733,978                |
| Inventories                                |               | 379,632                   | 1,426   |                 | 381,058                |
| Intercompany receivables                   | 1,859,105     | 5,437,399                 | 4,327   | (7,300,831)     |                        |
| Other current assets                       | 107,473       | 95,332                    | 837   |                 | 203,642                |
| Total current assets                       | 2,003,973     | 5,930,789                 | 758,041   | (7,311,130)     | 1,381,673              |
| Property, plant and equipment, net         | 1,175         | 1,774,427                 | 36,838  |                 | 1,812,440              |
| Goodwill                                   |               | 3,075,655                 |   |                 | 3,075,655              |
| Identifiable intangible and other assets   | 44,008        | 602,304                   | 6   |                 | 646,318                |
| Investment in subsidiaries                 | 8,179,780     |                           |   | (8,179,780)     |                        |
| Total                                      | \$ 10,228,936 | \$ 11,383,175             | \$ 794,885  | \$ (15,490,910) | \$ 6,916,086           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |               |                           |   |                 |                        |
| Current liabilities:                       |               |                           |   |                 |                        |
| Accounts payable and accrued expenses      | \$ 166,072    | \$ 818,850                | \$ 956  | \$ (10,299)     | \$ 975,579             |
| Other current liabilities                  | 38,580        | 393                       | 167   |                 | 39,140                 |
| Intercompany notes                         | 5,065,538     | 1,873,516                 | 361,777   | (7,300,831)     |                        |
| Current portion of debt                    | 243,000       | 125,600                   | 345,265   |                 | 713,865                |
| Total current liabilities                  | 5,513,190     | 2,818,359                 | 708,165   | (7,311,130)     | 1,728,584              |
| Long-term debt                             | 3,519,457     | 133,822                   | 764   |                 | 3,654,043              |
| Other long-term liabilities                | 548,606       | 319,698                   |   |                 | 868,304                |
| Stockholders' equity:                      |               |                           |   |                 |                        |
| Dean Foods stockholders' equity            | 647,683       | 8,111,296                 | 68,484  | (8,179,780)     | 647,683                |
| Noncontrolling interest                    |               |                           | 17,472  |                 | 17,472                 |
| Total stockholders' equity                 | 647,683       | 8,111,296                 | 85,956  | (8,179,780)     | 665,155                |
| Total                                      | \$ 10,228,936 | \$ 11,383,175             | \$ 794,885  | \$ (15,490,910) | \$ 6,916,086           |

**Table of Contents****Condensed Consolidating Balance Sheet as of December 31, 2008**

|  | Parent       | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries<br>(In thousands) | Eliminations    | Consolidated<br>Totals |
|--|--------------|---------------------------|---|-----------------|------------------------|
| <b>ASSETS</b>                              |              |                           |   |                 |                        |
| Current assets:                            |              |                           |   |                 |                        |
| Cash and cash equivalents                  | \$ 9,391     | \$ 21,198                 | \$ 5,390  | \$              | \$ 35,979              |
| Receivables, net                           | 401          | 22,361                    | 832,230   |                 | 854,992                |
| Inventories                                |              | 393,111                   |   |                 | 393,111                |
| Intercompany receivables                   | 1,718,910    | 5,229,896                 | 135,961   | (7,084,767)     |                        |
| Other current assets                       | 109,544      | 82,403                    | 5,164   |                 | 197,111                |
| Total current assets                       | 1,838,246    | 5,748,969                 | 978,745   | (7,084,767)     | 1,481,193              |
| Property, plant and equipment, net         | 1,807        | 1,791,561                 | 28,524  |                 | 1,821,892              |
| Goodwill                                   |              | 3,073,502                 |   |                 | 3,073,502              |
| Identifiable intangible and other assets   | 50,481       | 613,118                   | 6   |                 | 663,605                |
| Investment in subsidiaries                 | 8,014,706    |                           |   | (8,014,706)     |                        |
| Total                                      | \$ 9,905,240 | \$ 11,227,150             | \$ 1,007,275  | \$ (15,099,473) | \$ 7,040,192           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |              |                           |   |                 |                        |
| Current liabilities:                       |              |                           |   |                 |                        |
| Accounts payable and accrued expenses      | \$ 189,615   | \$ 894,331                | \$ 91   | \$              | \$ 1,084,037           |
| Other current liabilities                  | 27,140       | 436                       | 128   |                 | 27,704                 |
| Intercompany notes                         | 4,772,535    | 1,839,218                 | 473,014   | (7,084,767)     |                        |
| Current portion of debt                    | 186,750      | 128,776                   |   |                 | 315,526                |
| Total current liabilities                  | 5,176,040    | 2,862,761                 | 473,233   | (7,084,767)     | 1,427,267              |
| Long-term debt                             | 3,580,166    | 133,559                   | 460,000   |                 | 4,173,725              |
| Other long-term liabilities                | 590,800      | 290,016                   | 150   |                 | 880,966                |
| Total stockholders equity                  | 558,234      | 7,940,814                 | 73,892  | (8,014,706)     | 558,234                |
| Total                                      | \$ 9,905,240 | \$ 11,227,150             | \$ 1,007,275  | \$ (15,099,473) | \$ 7,040,192           |

**Table of Contents****Condensed Consolidating Statements of Income  
for the Three Months Ended March 31, 2009**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(In thousands)</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|--|---------------|-----------------------------------|---|---------------------|--------------------------------|
| Net sales  | \$            | \$ 2,701,862                      | \$ 1,076  | \$                  | \$ 2,702,938                   |
| Cost of sales  |               | 1,942,400                         | 1,851   |                     | 1,944,251                      |
| Gross profit   |               | 759,462                           | (775)   |                     | 758,687                        |
| Selling and distribution                                     |               | 422,357                           | 1,786   |                     | 424,143                        |
| General, administrative and other                            | 4,158         | 127,971                           | 1,341   |                     | 133,470                        |
| Facility closing and reorganization costs                    |               | 8,248                             |   |                     | 8,248                          |
| Interest (income) expense                                    | 62,603        | 5,683                             | 13  |                     | 68,299                         |
| Other (income) expense, net                                  |               | (561)                             | 756   |                     | 195                            |
| Income from subsidiaries                                     | (191,093)     |                                   |   | 191,093             |                                |
| Income (loss) before income taxes                            | 124,332       | 195,764                           | (4,671)   | (191,093)           | 124,332                        |
| Income taxes   | 48,990        | 77,131                            | (1,815)   | (75,316)            | 48,990                         |
| Net income (loss) from continuing operations                 | 75,342        | 118,633                           | (2,856)   | (115,777)           | 75,342                         |
| Loss from discontinued operations, net of tax                | (142)         | (142)                             |   | 142                 | (142)                          |
| Net income (loss)  | 75,200        | 118,491                           | (2,856)   | (115,635)           | 75,200                         |
| Net loss attributable to noncontrolling interest, net of tax | 1,046         |                                   | 1,046   | (1,046)             | 1,046                          |
| Net income (loss) attributable to Dean Foods Company         | \$ 76,246     | \$ 118,491                        | \$ (1,810)  | \$ (116,681)        | \$ 76,246                      |

**Condensed Consolidating Statements of Income  
for the Three Months Ended March 31, 2008**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(In thousands)</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------|-----------------------------------|---|---------------------|--------------------------------|
| Net sales                                 | \$            | \$ 3,072,764                      | \$ 4,196  | \$                  | \$ 3,076,960                   |
| Cost of sales                             |               | 2,385,063                         | 3,323   |                     | 2,388,386                      |
| Gross profit                              |               | 687,701                           | 873   |                     | 688,574                        |
| Selling and distribution                  |               | 437,793                           | 210   |                     | 438,003                        |
| General, administrative and other         | 170           | 111,502                           | 580   |                     | 112,252                        |
| Facility closing and reorganization costs |               | 2,215                             |   |                     | 2,215                          |
| Interest (income) expense                 | 70,391        | 13,535                            | (94)  |                     | 83,832                         |
| Other (income) expense, net               | 571           | (464)                             | 512   |                     | 619                            |
| Income from subsidiaries                  | (122,785)     |                                   |   | 122,785             |                                |
| Income (loss) before income taxes         | 51,653        | 123,120                           | (335)   | (122,785)           | 51,653                         |
| Income taxes                              | 20,881        | 47,766                            | (142)   | (47,624)            | 20,881                         |
| Net income (loss)                         | \$ 30,772     | \$ 75,354                         | \$ (193)  | \$ (75,161)         | \$ 30,772                      |

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| <b>Condensed Consolidating Statement of Cash Flows<br/>for the Three Months Ended March 31, 2009</b> |                       |                                   |  |                                |
|--|-----------------------|-----------------------------------|--|--------------------------------|
|  | <b>Parent</b>         | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|  | <b>(In thousands)</b> |                                   |  |                                |
| Net cash provided by (used in) continuing operations   | \$ 39,998             | \$ 62,485                         | \$ 82,253                                  | \$ 184,736                     |
| Net cash provided by (used in) discontinuing operations  |                       | (142)                             |  | (142)                          |
| Net cash provided by (used in) operating activities  | 39,998                | 62,343                            | 82,253                                     | 184,594                        |
| Additions to property, plant and equipment   | (581)                 | (40,610)                          | (901)                                      | (42,092)                       |
| Payments for acquisitions, net of cash received  | (1,384)               |                                   |  | (1,384)                        |
| Proceeds from sale of fixed assets   |                       | 3,672                             |  | 3,672                          |
| Net cash provided by (used in) investing activities  | (1,965)               | (36,938)                          | (901)                                      | (39,804)                       |
| Repayment of debt  | (4,500)               | (2,933)                           |  | (7,433)                        |
| Proceeds from senior secured revolver  | 865,200               |                                   |  | 865,200                        |
| Payments for senior secured revolver   | (865,200)             |                                   |  | (865,200)                      |
| Proceeds from receivables-backed facility  |                       |                                   | 761,667                                    | 761,667                        |
| Payments for receivables-backed facility   |                       |                                   | (876,667)                                  | (876,667)                      |
| Issuance of common stock   | 640                   |                                   |  | 640                            |
| Capital contribution from noncontrolling interest  |                       |                                   | 4,019                                      | 4,019                          |
| Net change in intercompany balances  | (6,469)               | (25,244)                          | 31,713                                     |                                |
| Net cash provided by (used in) financing activities  | (10,329)              | (28,177)                          | (79,268)                                   | (117,774)                      |
| Increase (decrease) in cash and cash equivalents   | 27,704                | (2,772)                           | 2,084                                      | 27,016                         |
| Cash and cash equivalents, beginning of period   | 9,391                 | 21,198                            | 5,390                                      | 35,979                         |
| Cash and cash equivalents, end of period   | \$ 37,095             | \$ 18,426                         | \$ 7,474                                   | \$ 62,995                      |

| <b>Condensed Consolidating Statements of Cash Flows<br/>for the Three Months Ended March 31, 2008</b> |                       |                                   |  |                                |
|---|-----------------------|-----------------------------------|--|--------------------------------|
|   | <b>Parent</b>         | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|   | <b>(In thousands)</b> |                                   |  |                                |
| Net cash provided by (used in) operating activities   | \$ (25,357)           | \$ 126,875                        | \$ 56,743                                  | \$ 158,261                     |
| Additions to property, plant and equipment  |                       | (44,759)                          |  | (44,759)                       |
| Payments for acquisitions, net of cash received   | (51,800)              |                                   |  | (51,800)                       |
| Proceeds from sale of fixed assets  |                       | 2,550                             |  | 2,550                          |
| Net cash provided by (used in) investing activities   | (51,800)              | (42,209)                          |  | (94,009)                       |
| Repayment of debt   | (4,500)               | (4,495)                           |  | (8,995)                        |
| Proceeds from senior secured revolver   | 1,083,700             |                                   |  | 1,083,700                      |
| Payments for senior secured revolver  | (1,494,100)           |                                   |  | (1,494,100)                    |
| Proceeds from receivables-backed facility   |                       |                                   | 313,500                                    | 313,500                        |
| Payments for receivables-backed facility  |                       |                                   | (355,400)                                  | (355,400)                      |
| Issuance of common stock  | 405,464               |                                   |  | 405,464                        |
| Net change in intercompany balances   | 87,028                | (70,953)                          | (16,075)                                   |                                |
| Net cash provided by (used in) financing activities   | 77,592                | (75,448)                          | (57,975)                                   | (55,831)                       |
| Increase (decrease) in cash and cash equivalents  | 435                   | 9,218                             | (1,232)                                    | 8,421                          |
| Cash and cash equivalents, beginning of period  | 601                   | 26,557                            | 5,397                                      | 32,555                         |

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|  |    |       |    |        |    |       |    |        |
|--|----|-------|----|--------|----|-------|----|--------|
| Cash and cash equivalents, end of period | \$ | 1,036 | \$ | 35,775 | \$ | 4,165 | \$ | 40,976 |
|--|----|-------|----|--------|----|-------|----|--------|

**Table of Contents****6. Common Stock and Share-Based Compensation**

*Stock Options* The following table summarizes stock option activity during the first quarter of 2009:

|  | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Contractual<br/>Life (Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|--|----------------|--|--|--|
| Options outstanding at December 31, 2008 | 20,346,587     | \$ 20.24                                       |  |  |
| Granted                                  | 3,288,477      | 20.07  |  |  |
| Canceled or forfeited(1)                 | (144,393)      | 25.79  |  |  |
| Exercised                                | (171,784)      | 9.75   |  |  |
| Options outstanding at March 31, 2009    | 23,318,887     | 20.26  | 6.04   | \$ 41,274,601                            |
| Options exercisable at March 31, 2009    | 16,800,924     | 19.01  | 4.89   | 41,226,201                               |

(1) Pursuant to the terms of our stock option plans, options that are canceled or forfeited become available for future grants. 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. The weighted average assumptions for stock option grants during the first quarter of 2009 were expected volatility of 33%, expected dividend yield of 0%, expected option term of 4.75 years and risk-free rate of return of 1.88%. During the three months ended March 31, 2009 and 2008, we recognized stock option expense of \$5.5 million and \$5.6 million, respectively.

*Restricted Stock Units* The following table summarizes restricted stock unit activity during the first quarter of 2009:

|  | <b>Employees</b> | <b>Directors</b> | <b>Total</b> |
|--|------------------|------------------|--------------|
| Stock units outstanding at December 31, 2008 | 1,753,230        | 71,681           | 1,824,911    |
| Stock units issued                           | 1,016,992        | 33,336           | 1,050,328    |
| Shares issued upon vesting of stock units    | (285,326)        |                  | (285,326)    |
| Stock units canceled or forfeited(1)         | (124,374)        | (9,203)          | (133,577)    |
| Stock units outstanding at March 31, 2009    | 2,360,522        | 95,814           | 2,456,336    |
| Weighted average grant date fair value       | \$ 23.75         | \$ 20.56         | \$ 23.65     |

(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 canceled or forfeited become available for future grants. During the three months ended March 31, 2009 and 2008, we recognized stock unit expense of \$3.7 million and \$2.9 million, respectively.



**Table of Contents****7. Earnings Per Share**

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

|  | <b>Three Months<br/>Ended March 31</b>   |             |
|--|--|-------------|
|  | <b>2009</b>                              | <b>2008</b> |
|  | <b>(In thousands, except share data)</b> |             |
| <b>Basic EPS computation:</b>                                  |  |             |
| Numerator:   |  |             |
| Net income attributable to Dean Foods Company                  | \$ 76,246                                | \$ 30,772   |
| Denominator:   |  |             |
| Average common shares  | 154,300,386                              | 137,883,317 |
| Basic EPS from net income attributable to Dean Foods Company   | \$ 0.49                                  | \$ 0.22     |
| <b>Diluted EPS computation</b>                                 |  |             |
| Numerator:   |  |             |
| Net income attributable to Dean Foods Company                  | \$ 76,246                                | \$ 30,772   |
| Denominator:   |  |             |
| Average common shares basic                                    | 154,300,386                              | 137,883,317 |
| Stock option conversion(1)                                     | 2,772,100                                | 5,186,544   |
| Stock units(2)   | 183,008                                  | 219,174     |
| Average common shares diluted                                  | 157,255,494                              | 143,289,035 |
| Diluted EPS from net income attributable to Dean Foods Company | \$ 0.48                                  | \$ 0.21     |
| (1) Anti-dilutive stock options excluded                       | 11,796,016                               | 9,627,015   |
| (2) Anti-dilutive stock units excluded                         | 170,289                                  | 875,576     |

**8. Employee Retirement and Postretirement Benefits**

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

|   | <b>Three Months<br/>Ended March 31</b> |             |
|---|--|-------------|
|   | <b>2009</b>                            | <b>2008</b> |
|   | <b>(In thousands)</b>                  |             |
| <b>Components of net periodic pension cost:</b> |  |             |
| Service cost                                    | \$ 721                                 | \$ 620      |
| Interest cost                                   | 4,208                                  | 4,040       |
| Expected return on plan assets                  | (3,494)                                | (4,796)     |
| Recognized settlement gain                      | (9)                                    |             |
| Amortizations:                                  |  |             |
| Unrecognized transition obligation              | 28                                     | 28          |
| Prior service cost                              | 231                                    | 222         |

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|                           |          |        |
|---------------------------|----------|--------|
| Unrecognized net loss     | 3,023    | 510    |
| Net periodic benefit cost | \$ 4,708 | \$ 624 |

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

|   | <b>Three Months<br/>Ended March 31</b> |               |
|---|--|---------------|
|   | <b>2009</b>                            | <b>2008</b>   |
|   | <b>(In thousands)</b>                  |               |
| <b>Components of net periodic benefit cost:</b> |  |               |
| Service cost                                    | \$ 13                                  | \$ 380        |
| Interest cost                                   | 234                                    | 426           |
| <b>Amortizations:</b>                           |  |               |
| Prior service cost                              | (84)                                   | (17)          |
| Unrecognized net loss                           | 265                                    | 155           |
| <b>Net periodic benefit cost</b>                | <b>\$ 428</b>                          | <b>\$ 944</b> |

**9. Facility Closing And Reorganization Costs**

We recorded net facility closing and reorganization costs of \$8.2 million and \$2.2 million during the three months ended March 31, 2009 and 2008, respectively. These costs included the following types of cash and non-cash charges:

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 centralization of certain finance and transaction processing activities from local to regional facilities; and

Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of the decision to close a facility. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value.

Approved plans within our multi-year initiatives and related charges, are summarized as follows:

|   | <b>Three Months<br/>Ended March 31</b> |             |
|---|--|-------------|
|   | <b>2009</b>                            | <b>2008</b> |
|   | <b>(In thousands)</b>                  |             |
| <b>Closure of facilities</b>  |  |             |
| Fresh Dairy Direct(1)   | \$ 7,278                               | \$ 2,058    |
| WhiteWave-Morningstar(2)  | 938                                    |             |
| <b>Workforce reductions within Fresh Dairy Direct resulting from:</b> |  |             |
| Realignment of finance and transaction processing activities(3)       | 32                                     | 157         |

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Total \$ 8,248 \$ 2,215

- (1) Charges primarily relate to two facility closures which were approved and announced in April 2009, as well as previously announced closures of ice cream operations in Hickory, North Carolina and the closure of facilities in Kalispell, Montana; Denver, Colorado; Detroit, Michigan; Union, New Jersey; Akron, Ohio; and South Gate, California. We expect to incur additional charges related to these facility closures of \$9.8 million, related to shutdown and other costs. As we continue the evaluation of our supply chain, it is likely that we will close additional facilities in the future.
  
- (2) Charges primarily relate to shutdown and other costs associated with the closure of a facility in Belleville, Pennsylvania.

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- (3) In 2006, we began the centralization of certain finance and transaction processing activities from local to regional facilities. We have incurred \$7.1 million of workforce reduction costs since the inception of this initiative. We do not expect to incur additional costs related to this initiative. We will continue to evaluate additional opportunities for centralization of activities, which could result in additional charges in the future.

Activity for the three months ended March 31, 2009 with respect to facility closing and reorganization costs is summarized below and includes items expensed as incurred:

|                                  | <b>Accrued<br/>Charges<br/>at<br/>December 31,<br/>2008</b> | <b>Charges</b>  | <b>Payments</b>   | <b>Accrued<br/>Charges at<br/>March 31,<br/>2009</b> |
|----------------------------------|---|-----------------|-------------------|--|
|                                  | <b>(In thousands)</b>                                       |                 |                   |  |
| <b>Cash charges:</b>             |   |                 |                   |  |
| Workforce reduction costs        | \$ 1,739  | \$ 223          | \$ (1,128)        | \$ 834   |
| Shutdown costs                   | 13  | 1,229           | (1,242)           |  |
| Lease obligations after shutdown |   | 65              | (65)              |  |
| Other                            | 14  | 226             | (224)             | 16   |
| <b>Subtotal</b>                  | <b>\$ 1,766</b>   | <b>1,743</b>    | <b>\$ (2,659)</b> | <b>\$ 850</b>  |
| <b>Noncash charges:</b>          |   |                 |                   |  |
| Write-down of assets(1)          |   | 6,505           |                   |  |
| <b>Total charges</b>             |   | <b>\$ 8,248</b> |                   |  |

- (1) The write-down of assets during the first quarter of 2009 primarily relates to owned buildings, land and equipment of two facilities identified for closure. The assets were written down to their estimated fair value. The asset fair values were determined using Level 3 (significantly unobservable) inputs. The inputs for the fair value calculation were based on assessment of an individual asset's alternative use within other production facilities, evaluation of recent market data and historical liquidation sales values for similar assets. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant.

The total carrying value for closed facilities within our Fresh Dairy Direct segment was \$11.8 million at March 31, 2009. We are marketing these properties for sale.

We are currently working through a multi-year initiative to optimize our manufacturing and distribution capabilities. This initiative will have multiple phases as we evaluate and modify historical activities surrounding purchasing, support, and decision-making infrastructure, supply chain, selling organization, brand building, and product innovation. These initiatives will require investments in people, systems, tools, and facilities. As a direct result of these initiatives, over the next several years, we will incur facility closing and reorganization costs including:

One-time termination benefits to employees;

Write-down of operating assets prior to the end of their respective economic useful lives;

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

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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.

**Table of Contents****10. Fair Value Measurement**

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 establishes a framework for measuring fair value in GAAP, and expands disclosures about fair market value measurements. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active market.

Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

In addition, SFAS No. 157 requires disclosures about the use of fair value to measure assets and liabilities to enable the assessment of inputs used to develop fair value measures, and for unobservable inputs, to determine the effects of the measurements on earnings.

We use certain cash flow hedging derivative instruments to manage interest rate exposures on a portion of our debt. These derivative instruments are determined using direct observable swap rates for similar instruments with similar terms.

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 is as follows (in thousands):

|  | <b>Fair<br/>Value<br/>as of<br/>March 31,<br/>2009</b> |                |                |    |
|--|--|----------------|----------------|----|
|  | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |    |
| Cash flow hedging derivative liability | \$ 191,506   | \$             | \$ 191,506     | \$ |

**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 operations. 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





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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 Legacy Dean 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. These deductibles range from \$500,000 for medical claims to \$2.0 million for casualty claims but may vary higher or lower due to insurance market conditions and risk. 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 diesel fuel, soybeans and organic raw milk. We enter into these contracts from time to time to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.

*Litigation, Investigations and Audits* We are not party to, nor are our properties the subject of, any material pending legal proceedings, other than set forth below.

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 (dairy farmer actions). A third purported class action antitrust complaint (retailer action) was filed on August 9, 2007 in the United States District Court for the Eastern District of Tennessee, Greeneville Division. The complaint in the retailer action was amended on March 28, 2008. The amended complaint alleges generally that we, either acting alone or in conjunction with others in the milk industry, lessened competition in the Southeastern United States for the sale of processed fluid Grade A milk to retail outlets and other customers, and that the defendants' conduct also artificially inflated retail prices for direct milk purchasers. Four additional purported class action complaints were filed on August 27, 2007, October 3, 2007, November 15, 2007 and February 13, 2008 in the United States District Court for the Eastern District of Tennessee, Greeneville Division. The allegations in these complaints are similar to those in the dairy farmer actions.

On January 7, 2008, a United States Judicial Panel on Multidistrict Litigation transferred all of the pending cases to the Eastern District of Tennessee, Greeneville Division. On April 1, 2008, the Eastern District Court ordered the consolidation of the six dairy farmer actions, and ordered the retailer action to be administratively consolidated with the coordinated dairy farmer actions. A motion to dismiss the dairy farmer actions was denied on May 20, 2008, and an amended consolidated complaint was filed by the dairy farmer plaintiffs on June 20, 2008. A joint motion to dismiss the retailer action was filed on October 22, 2007, and is currently pending before the Court. A hearing on the joint motion was held on January 6, 2009. These matters are currently in discovery and we intend to vigorously defend them.

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On April 28, 2009, a stockholder derivative complaint was filed purportedly on behalf of Dean Foods Company (the Company) in the United States District Court for the Eastern District of Tennessee, Greeneville division. The complaint names the Company's current directors, as well as Richard Fehr, an executive officer of the Company, and former directors Alan Bernon and Ron Kirk among the defendants. The complaint alleges that the officers and directors breached their fiduciary duties to the Company under Delaware law by approving the 2001 merger between the former Dean Foods Company and Suiza Foods Corporation, and allegedly engaging in a conspiracy to fix the price of Grade A milk. The complaint also names others in the milk industry as defendants for allegedly aiding and abetting the officers' and directors' breach of their fiduciary duties, and names the Company as a nominal defendant. The plaintiffs are seeking an undisclosed amount of damages and equitable relief.

On January 18, 2008, our subsidiary, Kohler Mix Specialties, LLC (Kohler), was named as defendant in a civil complaint filed in the Superior Court, Judicial District of Hartford. The plaintiff in the case is the Commissioner of Environmental Protection of the State of Connecticut. The complaint alleges generally that Kohler improperly discharged wastewater into the waters of the State of Connecticut, and bypassed certain wastewater treatment equipment. The plaintiff is seeking injunctive relief to correct the sources of pollution and to comply with all applicable regulations, and civil penalties with respect to the claims.

At this time, it is not possible for us to predict the ultimate outcome of the matters set forth above.

Other than the matters set forth above, we are party from time to time to certain claims, litigation, audits and investigations and we believe that we have established adequate reserves to satisfy any potential liability we may have under these claims, litigations, audits and investigations that are currently pending. Potential liabilities associated with the other matters referred to in this paragraph are not expected to have a material adverse impact on our financial position, results of operations or cash flows.

## **12. Segment, Geographic and Customers Information**

We currently have two reportable segments: Fresh Dairy Direct and WhiteWave-Morningstar.

Fresh Dairy Direct is our largest segment with over 80 manufacturing facilities geographically located largely based on local and regional customer needs and other market factors. It manufactures, markets and distributes a wide variety of branded and private label dairy case products, including milk, creamers, ice cream, juices and teas, to retailers, distributors, foodservice outlets, educational institutions and governmental entities across the United States. Our products are delivered through what we believe to be one of the most extensive refrigerated direct-store-delivery systems in the United States.

WhiteWave-Morningstar consists of two aggregated platforms: WhiteWave and Morningstar. Our WhiteWave platform (WhiteWave) 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® milk and other dairy products, The Organic Cow® dairy products, International Delight® coffee creamers, LAND O LAKES® creamers and fluid dairy products and Rachel's Organic® dairy products. Our Morningstar platform (Morningstar) is one of the leading U.S. manufacturers of private label cultured and extended shelf life dairy products such as ice cream mix, sour and whipped cream, yogurt and cottage cheese. WhiteWave-Morningstar sells its products to a variety of customers, including grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores, drug stores and foodservice outlets. The majority of the WhiteWave-Morningstar products are delivered through warehouse delivery systems.

We evaluate the performance of our segments based on sales and operating profit or loss before gains and losses on the sale of businesses, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the results of the Hero/WhiteWave joint venture and the expense related to share-based compensation, which has not been allocated to our segments, are reflected entirely within the caption

Corporate and Other. Therefore, the measure of segment profit presented below is before such items. Our Chief Executive Officer is our chief operating decision maker. 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 Consolidated Financial Statements contained in our 2008 Annual Report on Form 10-K.

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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.

|  | <b>Three Months<br/>Ended March 31</b> |                              |
|--|--|------------------------------|
|  | <b>2009</b>                            | <b>2008</b>                  |
| <b>(In thousands)</b>                            |  |                              |
| <b>Net sales to external customers:</b>          |  |                              |
| Fresh Dairy Direct                               | \$ 2,098,534                           | \$ 2,458,476                 |
| WhiteWave-Morningstar                            | 604,344                                | 618,484                      |
| Corporate and Other                              | 60                                     |                              |
| <b>Total</b>                                     | <b>\$ 2,702,938</b>                    | <b>\$ 3,076,960</b>          |
| <b>Intersegment sales:</b>                       |  |                              |
| Fresh Dairy Direct                               | \$ 14,298                              | \$ 12,478                    |
| WhiteWave-Morningstar                            | 66,837                                 | 64,898                       |
| <b>Total</b>                                     | <b>\$ 81,135</b>                       | <b>\$ 77,376</b>             |
| <b>Operating income:</b>                         |  |                              |
| Fresh Dairy Direct                               | \$ 181,668                             | \$ 130,908                   |
| WhiteWave-Morningstar                            | 63,473                                 | 45,392                       |
| <b>Total reportable segment operating income</b> | <b>245,141</b>                         | <b>176,300</b>               |
| Corporate and Other                              | (44,067)                               | (37,981)                     |
| Facility closing and reorganization costs        | (8,248)                                | (2,215)                      |
| <b>Total</b>                                     | <b>\$ 192,826</b>                      | <b>\$ 136,104</b>            |
|  |  |                              |
|  | <b>March 31,<br/>2009</b>              | <b>December 31,<br/>2008</b> |
| <b>(In thousands)</b>                            |  |                              |
| <b>Assets:</b>                                   |  |                              |
| Fresh Dairy Direct                               | \$ 4,583,710                           | \$ 4,732,074                 |
| WhiteWave-Morningstar                            | 2,037,537                              | 2,063,717                    |
| Corporate and Other                              | 294,839                                | 244,401                      |
| <b>Total</b>                                     | <b>\$ 6,916,086</b>                    | <b>\$ 7,040,192</b>          |

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

*Significant Customers* Fresh Dairy Direct and WhiteWave-Morningstar each had a single customer that represented greater than 10% of their net sales in the three months ended March 31, 2009 and 2008. Approximately 19.8% and 18.7% of our consolidated net sales in the three months ended March 31, 2009 and 2008, respectively, were to that same customer.

**13. Subsequent Events**

Subsequent to March 31, 2009, our Fresh Dairy Direct segment completed one acquisition with a purchase price of \$35.0 million, excluding transaction costs which were expensed as incurred, and entered into an asset purchase agreement, subject to certain closing conditions including regulatory approval, for another acquisition with a purchase price of \$90.0 million, excluding transaction costs. The completed acquisition was funded with borrowings under our revolving credit facility.

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During April 2009, we approved and announced our intent to effect the closure of two facilities within Fresh Dairy Direct during 2009. We recorded a \$6.1 million impairment charge associated with these closures in the quarter ended March 31, 2009.

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On May 1, 2009, we announced our intent to sell equity securities in a registered public offering; however, there can be no assurance that this transaction will be consummated. We intend to use the net proceeds of the offering to repay the \$122.8 million aggregate principal amount of our subsidiary's 6.625% senior notes due May 15, 2009, and use the remaining net proceeds to repay indebtedness under our receivables-backed facility. Using the net proceeds of this offering to repay indebtedness will more appropriately align our capital structure with our long-term goals, while increasing our financial and strategic flexibility given the current market environment.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q (the "Form 10-Q") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are predictions based on our current expectations and our projections about future events, and are not statements of historical fact. Forward-looking statements include statements concerning our business strategy, among other things, including anticipated trends and developments in and management plans for our business and the markets in which we operate. In some cases, you can identify these statements by forward-looking words, such as estimate, expect, anticipate, project, plan, intend, believe, forecast, foresee, likely, may, might, will, could, predict, and continue, the negative or plural of these words and other comparable terminology. All forward-looking statements included in this Form 10-Q are based upon information available to us as of the filing date of this Form 10-Q, and we undertake no obligation to update any of these forward-looking statements for any reason. You should not place undue reliance on these forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled "Part I Item 1A Risk Factors" in our 2008 Annual Report on Form 10-K, and elsewhere in this Form 10-Q. You should carefully consider the risks and uncertainties described under these sections.

**Business Overview**

We are one of the leading food and beverage companies in the United States. Our Fresh Dairy Direct segment ( "Fresh Dairy Direct"), previously referred to as DSD Dairy, is the largest processor and distributor of milk and other dairy products in the country, with products sold under more than 50 familiar local and regional brands and a wide array of private labels. Our WhiteWave-Morningstar segment ( "WhiteWave-Morningstar") markets and sells a variety of nationally branded dairy and dairy-related products, such as *Silk*<sup>®</sup> soymilk and cultured soy products, *Horizon Organic*<sup>®</sup> milk and other dairy products, *International Delight*<sup>®</sup> coffee creamers, *LAND O LAKES*<sup>®</sup> creamers and fluid dairy products and *Rachel's Organic*<sup>®</sup> dairy products. Additionally, WhiteWave-Morningstar markets and sells private label cultured and extended shelf life dairy products.

**Fresh Dairy Direct** Fresh Dairy Direct is our largest segment, with approximately 78% of our consolidated net sales in the three months ended March 31, 2009. Fresh Dairy Direct manufactures, markets and distributes a wide variety of branded and private label dairy case products, including milk, creamers, ice cream, juices and teas, to retailers, distributors, foodservice outlets, educational institutions and governmental entities across the United States. Due to the perishable nature of its products, Fresh Dairy Direct delivers the majority of its products directly to its customers' locations 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 that Fresh Dairy Direct has one of the most extensive DSD systems in the United States. Fresh Dairy Direct 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 Fresh Dairy Direct's corporate sales department.

**WhiteWave-Morningstar** WhiteWave-Morningstar's net sales were approximately 22% of our consolidated net sales in the three months ended March 31, 2009. WhiteWave-Morningstar 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, *The Organic Cow*<sup>®</sup> organic dairy 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. With the addition of Morningstar, WhiteWave-Morningstar now includes private label cultured and extended shelf life dairy products such as ice cream mix, sour and whipped cream, yogurt and cottage cheese. WhiteWave-Morningstar sells its products to a variety of customers, including grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores, drug stores and foodservice outlets. WhiteWave-Morningstar sells its products through its internal sales force and through independent brokers.

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### **Recent Developments**

#### **Developments Since January 1, 2009**

*Conventional Milk Environment* Throughout most of 2008, we experienced historically high conventional milk prices due to high feed and energy costs, as well as global demand for dry powdered milk. This was compounded by significant and sustained increases in diesel fuel and resin costs. In the fourth quarter of 2008, the industry experienced a sharp decline for export demands and favorable movements in energy cost components resulting in declines in conventional milk, diesel and resin prices. In the first quarter of 2009, the Class I mover declined significantly from the average for the fourth quarter of 2008. We currently expect the average Class I mover to increase through the balance of 2009 but remain significantly below the peak levels experienced in 2007 and 2008.

*Organic Milk Environment* The organic dairy industry remains a relatively new category and continues to experience significant swings in supply and demand. Beginning in the fourth quarter of 2008, we started to experience a slowing of growth in the organic milk category, and this trend has continued in the first quarter of 2009. As a result of the continuing economic downturn, we believe milk consumers have become and will continue to be increasingly price sensitive to organic milk and, as a result, we may experience a continued softening in sales in this category. We continue to monitor our position in the organic milk category including taking proactive steps to manage our supply in the short-term, and we remain focused on maintaining our leading branded position as we balance market share considerations against profitability.

*Noncontrolling Interest* Beginning January 1, 2009, in conjunction with entering into several new agreements between us and the Hero/WhiteWave 50/50 joint venture and based upon guidance in FASB Interpretation ( FIN ) 46(R), Consolidation of Variable Interest Entities ( FIN46 (R) ), we have concluded that, despite the legal ownership structure, we are the primary beneficiary of the joint venture and the financial position and the results of operations for the joint venture should be consolidated for financial reporting purposes and presented in accordance with SFAS No. 160. Accordingly, the joint venture has been consolidated as of January 1, 2009. The resulting noncontrolling interest s share in the equity of the joint venture is presented in the Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Stockholders Equity, and the net loss attributable to the noncontrolling interest is presented in the Condensed Consolidated Statement of Income.

*Acquisitions* Subsequent to March 31, 2009, our Fresh Dairy Direct segment completed one acquisition with a purchase price of \$35.0 million, excluding transaction costs which were expensed as incurred, and entered into an asset purchase agreement, subject to certain closing conditions including regulatory approval, for another acquisition with a purchase price of \$90.0 million, excluding transaction costs. The completed acquisition was funded with borrowings under our revolving credit facility. We plan to be an active participant in the market consolidation opportunities currently available. The pipeline for opportunities is robust and we will continue to evaluate potential acquisitions on an ongoing basis. As a result, we expect transaction related expenses to be higher in 2009 than 2008.

*Facility Closings and Reorganization Activities* During April 2009, we approved and announced our intent to effect the closure of two facilities within Fresh Dairy Direct during 2009. We recorded a \$6.1 million impairment charge associated with these closures in the quarter ended March 31, 2009.

*Equity Offering* On May 1, 2009, we announced our intent to sell equity securities in a registered public offering; however, there can be no assurance that this transaction will be consummated. We intend to use the net proceeds of the offering to repay the \$122.8 million aggregate principal amount of our subsidiary s 6.625% senior notes due May 15, 2009, and use the remaining net proceeds to repay indebtedness under our receivables-backed facility. Using the net proceeds of this offering to repay indebtedness will more appropriately align our capital structure with our long-term goals, while increasing our financial and strategic flexibility given the current market environment.

**Table of Contents****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 March 31 |         |            |         |
|---|-----------------------------|---------|------------|---------|
|   | 2009                        |         | 2008       |         |
|   | Dollars                     | Percent | Dollars    | Percent |
|   | (Dollars in millions)       |         |            |         |
| Net sales                                 | \$ 2,702.9                  | 100.0%  | \$ 3,077.0 | 100.0%  |
| Cost of sales                             | 1,944.3                     | 71.9    | 2,388.4    | 77.6    |
| Gross profit(1)                           | 758.6                       | 28.1    | 688.6      | 22.4    |
| Operating costs and expenses:             |                             |         |            |         |
| Selling and distribution                  | 424.1                       | 15.7    | 438.0      | 14.2    |
| General and administrative                | 131.6                       | 4.9     | 110.7      | 3.6     |
| Amortization of intangibles               | 1.9                         | 0.1     | 1.6        | 0.1     |
| Facility closing and reorganization costs | 8.2                         | 0.3     | 2.2        | 0.1     |
| Total operating costs and expenses        | 565.8                       | 21.0    | 552.5      | 18.0    |
| Total operating income                    | \$ 192.8                    | 7.1%    | \$ 136.1   | \$ 4.4% |

(1) As disclosed in Note 1 to our Consolidated Financial Statements in our 2008 Annual Report on Form 10-K, we include certain shipping and handling costs within selling and distribution expense. As a result, our gross profit may not be comparable to other entities that present all shipping and handling costs as a component of cost of sales.

**Quarter Ended March 31, 2009 Compared to Quarter Ended March 31, 2008 Consolidated Results**

*Net Sales* Net sales by segment are shown in the table below.

|                        | 2009                  | Quarter Ended March 31 |                            |                           |
|------------------------|-----------------------|------------------------|----------------------------|---------------------------|
|                        |                       | 2008                   | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|                        | (Dollars in millions) |                        |                            |                           |
| Fresh Dairy Direct     | \$ 2,098.5            | \$ 2,458.5             | \$ (360.0)                 | (14.6)%                   |
| WhiteWave-Morningstar  | 604.3                 | 618.5                  | (14.2)                     | (2.3)%                    |
| Corporate and Other(1) | 0.1                   |                        | 0.1                        |                           |
| Total                  | \$ 2,702.9            | \$ 3,077.0             | \$ (374.1)                 | (12.2)%                   |

(1) Includes Hero/WhiteWave Joint Venture.  
The change in net sales was due to the following:



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|                        | <b>Quarter ended March 31, 2009<br/>vs Quarter ended March 31, 2008</b> |               |  |   |
|------------------------|---|---------------|--|---|
|                        | <b>Acquisitions</b>   | <b>Volume</b> | <b>Pricing<br/>and Product<br/>Mix Changes</b> | <b>Total<br/>Increase/<br/>(Decrease)</b> |
|                        | <b>(Dollars in millions)</b>  |               |  |   |
| Fresh Dairy Direct     | \$ 16.1   | \$ (5.8)      | \$ (370.3)                                     | \$ (360.0)                                |
| WhiteWave-Morningstar  | 0.7   | (8.7)         | (6.2)  | (14.2)                                    |
| Corporate and Other(1) |   | 0.1           |  | 0.1                                       |
| Total                  | \$ 16.8   | \$ (14.4)     | \$ (376.5)                                     | \$ (374.1)                                |

(1) Includes Hero/WhiteWave Joint Venture.

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Net sales decreased \$374.1 million during the first quarter of 2009 as compared to the first quarter of 2008 primarily due to lower pricing, as significantly lower commodity costs were passed through to customers.

*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. Cost of sales decreased by \$444.1 million, or 18.6%, in the first quarter of 2009 from the first quarter of 2008 primarily due to an overall decline in raw material costs. Raw milk and other ingredient and packaging costs decreased by approximately \$420.4 million and \$69.6 million, respectively. These decreases were partially offset by increases in personnel related costs of \$9.5 million.

*Operating Costs and Expenses* Our operating expenses increased \$13.3 million, or 2.4%, in the first quarter of 2009 as compared to the same period in the prior year. Significant changes to operating costs and expenses include the following:

Selling and distribution costs decreased \$13.9 million primarily due to lower fuel, third-party freight and fleet costs of \$22.9 million, partially offset by higher repairs and maintenance costs for distribution assets of \$2.6 million, increased personnel costs of \$2.0 million, and higher bad debt expense of \$1.9 million.

General and administrative costs increased \$20.9 million primarily due to higher professional fees and other outside services of \$6.1 million; increased employee-related costs of \$5.3 million, higher property and casualty insurance costs of \$3.3 million, as well as higher transaction-related costs of \$2.3 million.

Higher facility closing and reorganization costs of \$6.0 million related to asset impairment charges associated with two facilities identified for closure in April 2009 as well as previously announced closures.

*Other (Income) Expense* Interest expense decreased to \$68.3 million in the first quarter of 2009 from \$83.8 million in the first quarter of 2008 primarily due to a lower average debt balance in the first quarter of 2009 compared to the prior year.

*Income Taxes* Income tax expense was recorded at an effective rate of 39.4% in the first quarter of 2009 compared to 40.4% in the first quarter of 2008. Our effective tax rate varies based on the relative earnings of our business units.

### ***Quarter Ended March 31, 2009 Compared to Quarter Ended March 31, 2008 Results by Segment***

We evaluate the performance of our segments based on sales and operating profit or loss before gains and losses on the sale of businesses, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the results of the Hero/WhiteWave joint venture and expenses related to share-based compensation have not been allocated to the Fresh Dairy Direct and WhiteWave-Morningstar segments. Therefore, the measurement of segment operating income presented below is before such items.

**Table of Contents****Fresh Dairy Direct**

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

|                                | Quarter Ended March 31 |         |            |         |
|--------------------------------|------------------------|---------|------------|---------|
|                                | 2009                   |         | 2008       |         |
|                                | Dollars                | Percent | Dollars    | Percent |
|                                | (Dollars in millions)  |         |            |         |
| Net sales                      | \$ 2,098.5             | 100.0%  | \$ 2,458.5 | 100.0%  |
| Cost of sales                  | 1,517.0                | 72.3    | 1,933.8    | 78.7    |
| Gross profit                   | 581.5                  | 27.7    | 524.7      | 21.3    |
| Operating costs and expenses   | 399.8                  | 19.0    | 393.8      | 16.0    |
| Total segment operating income | \$ 181.7               | 8.7%    | \$ 130.9   | 5.3%    |

*Net Sales* Fresh Dairy Direct fluid milk volumes increased approximately 1.4% while total sales volume was relatively flat during the first quarter of 2009 versus the first quarter of 2008. Despite relatively flat volumes, Fresh Dairy Direct's net sales decreased 14.6% primarily due to significantly lower commodity costs being passed through to customers.

Fresh Dairy Direct 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. The following table sets forth the average monthly Class I mover and its components, as well as the average monthly Class II minimum prices for raw skim milk and butterfat for the first quarter of 2009 compared to the first quarter of 2008:

|                                      | Quarter Ended March 31* |          |          |
|--------------------------------------|-------------------------|----------|----------|
|                                      | 2009                    | 2008     | % Change |
| Class I mover(1)                     | \$ 11.96                | \$ 19.12 | (37.4)%  |
| Class I raw skim milk mover(1)(2)    | 8.04                    | 14.84    | (45.8)   |
| Class I butterfat mover(2)(3)        | 1.20                    | 1.37     | (12.4)   |
| Class II raw skim milk minimum(1)(4) | 6.63                    | 13.75    | (51.8)   |
| Class II butterfat minimum(3)(4)     | 1.13                    | 1.34     | (15.7)   |

\* The prices noted in this table are not the prices that we actually pay. The federal order minimum prices applicable at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover prices plus a location differential. Class II prices noted in the table are federal minimum prices, applicable at all locations. Our actual cost also includes producer premiums, procurement costs and other related charges that vary by location and supplier. Please see Part I Item 1. Business Government Regulation Milk Industry Regulation in our 2008 Annual Report on Form 10-K and Known Trends and Uncertainties Prices of Raw Milk and Other Inputs below for a more complete description of raw milk pricing.

- (1) Prices are per hundredweight.
- (2) We process Class I raw skim milk and butterfat into fluid milk products.
- (3) Prices are per pound.

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(4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream. *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. Fresh Dairy Direct's cost of sales decreased by \$416.8 million, or

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21.6%, in the first quarter of 2009 driven by lower raw milk, as well as packaging and other ingredient costs of \$378.9 million and \$46.4 million, respectively. These decreases were partly offset by higher employee-related costs of \$7.3 million.

*Operating Costs and Expenses* Fresh Dairy Direct's operating costs and expenses increased by \$6.0 million, or 1.5%, in the first quarter of 2009 compared to the first quarter of 2008. The increase was primarily due to increased general and administrative expenses of \$14.0 million related to higher employee-related costs, including salary and wages and incentive compensation as well as higher professional and outside service fees; higher selling and marketing costs of \$5.2 million, partially offset by lower fuel costs of \$18.0 million.

Fresh Dairy Direct operating income increased approximately 38.8% above year ago levels to \$181.7 million as the increase in gross profit, primarily due to the significant decrease in raw material costs, more than offset a modest increase in operating expenses.

**WhiteWave-Morningstar**

The key performance indicators of our WhiteWave-Morningstar segment are sales volumes, net sales dollars, gross profit and operating income.

|                                | Quarter Ended March 31 |         |          |         |
|--------------------------------|------------------------|---------|----------|---------|
|                                | 2009                   |         | 2008     |         |
|                                | Dollars                | Percent | Dollars  | Percent |
|                                | (Dollars in millions)  |         |          |         |
| Net sales                      | \$ 604.3               | 100.0%  | \$ 618.5 | 100.0%  |
| Cost of sales                  | 427.4                  | 70.7    | 454.3    | 73.5    |
| Gross profit                   | 176.9                  | 29.3    | 164.2    | 26.5    |
| Operating costs and expenses   | 113.4                  | 18.8    | 118.8    | 19.2    |
| Total segment operating income | \$ 63.5                | 10.5%   | \$ 45.4  | 7.3%    |

*Net Sales* Net sales of the WhiteWave-Morningstar segment decreased \$14.2 million to \$604.3 million in the first quarter of 2009. Net sales of the WhiteWave platform declined modestly related to volume declines in our *International Delight*, *Horizon Organic*, and *Silk* products, which was impacted by our decision to exit a certain foodservice business as well as an organic milk business in the U.K. These volume declines were substantially offset by increased volume in our *LAND O LAKES* products and generally higher pricing across the branded product portfolio. In addition, net sales of the Morningstar platform declined by \$10.1 million on the pass through of lower commodity prices, partially offset by single digit volume growth of private-label products, particularly yogurt and cottage cheese.

*Cost of Sales* WhiteWave-Morningstar's cost of sales decreased by \$26.9 million, or 5.9%, in the first quarter of 2009 from the first quarter of 2008. This decrease was primarily driven by lower conventional raw milk costs of \$36.5 million at Morningstar, as well as productivity initiatives, partly offset by higher employee-related costs of \$3.7 million and increased farm and livestock costs of \$6.9 million.

*Operating Costs and Expenses* WhiteWave-Morningstar's operating costs and expenses decreased by \$5.4 million, or 4.5%, during the first quarter of 2009, from the first quarter of 2008 primarily due to lower freight costs of \$5.5 million.

WhiteWave-Morningstar operating income increased 39.9% above year ago levels to \$63.5 million, driven by higher price realization across the WhiteWave businesses and a favorable commodity environment at Morningstar.

**Table of Contents****Liquidity and Capital Resources**

As of March 31, 2009, the recent volatility in the capital and credit market has not had any material adverse impact on our liquidity. Based on information available to us, each of the financial institutions syndicated under our senior secured credit facility and our receivables-backed facility are able to fulfill their commitments. However, there can be no assurance that each financial institution will be able to continue to fulfill its funding obligations.

Notwithstanding the above, we believe that our cash on hand, coupled with future cash flows from operations and other available sources of liquidity, including our existing \$1.5 billion 5-year senior secured revolving credit facility and our \$600 million receivables-backed facility, which we intend and expect to renew under similar 364 day terms at the end of the current term, will provide sufficient liquidity to allow our Company to meet our cash requirements. We may, from time to time, raise additional funds through borrowings or public or private sales of debt or equity securities, which may be issued from time to time under an effective registration statement, through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933 or a combination of one or more of the foregoing.

At March 31, 2009, we had \$4.37 billion of outstanding debt obligations and cash-on-hand of \$63.0 million. Our anticipated uses of cash include capital expenditures, working capital needs, pension contributions and financial obligations. On an ongoing basis, we will evaluate and consider strategic acquisitions, divestitures, joint ventures, repurchasing shares of our common stock, as well as, other transactions to create shareholder value and enhance financial performance. Such transactions may require cash expenditures or generate proceeds.

On May 1, 2009, we announced our intent to sell equity securities in a registered public offering; however, there can be no assurance that this transaction will be consummated. We intend to use the net proceeds of the offering to repay the \$122.8 million aggregate principal amount of our subsidiary's 6.625% senior notes due May 15, 2009, and use the remaining net proceeds to repay indebtedness under our receivables-backed facility. Using the net proceeds of this offering to repay indebtedness will more appropriately align our capital structure with our long-term goals, while increasing our financial and strategic flexibility given the current market environment.

Under the senior secured credit facility, we are required to comply with certain financial covenants, including, but not limited to, maximum leverage and minimum interest coverage ratios. We are currently in compliance with all financial covenants and based on our internal projections we expect to maintain such compliance. As of March 31, 2009, our Leverage Ratio was 4.45 times consolidated funded indebtedness to consolidated EBITDA for the prior four consecutive quarters, each as defined under and calculated in accordance with the terms of our senior secured credit facility and our receivables-backed facility. The maximum permitted Leverage Ratio as of March 31, 2009 is 5.75 times and will decline to 5.00 times as of December 31, 2009 and a final time to 4.50 times as of December 31, 2010.

**Historical Cash Flow**

The following table summarizes our cash flows from operating, investing and financing activities:

|   | Quarter Ended March 31 |            |           |
|---|------------------------|------------|-----------|
|   | 2009                   | 2008       | Change    |
| Net cash flows from:                      |                        |            |           |
| Operating activities                      | \$ 184,736             | \$ 158,261 | \$ 26,475 |
| Investing activities                      | (39,804)               | (94,009)   | 54,205    |
| Financing activities                      | (117,774)              | (55,831)   | (61,943)  |
| Discontinued operations                   | (142)                  |            | (142)     |
| Net increase in cash and cash equivalents | \$ 27,016              | \$ 8,421   | \$ 18,595 |

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### *Operating Activities*

Net cash provided by operating activities from continuing operations increased due to higher net earnings as well as a significant decrease in our working capital requirements. Our working capital requirements declined primarily due to the decrease in accounts receivable and inventories associated with declining commodity costs. Accounts receivable was a source of cash of \$121.1 million during the first quarter of 2009 compared to \$65.3 million in the first quarter of 2008. The change in accounts receivable is driven by the lower average accounts receivable balances in 2009 as compared to 2008 related to the pass-through of relatively lower raw milk and other commodity costs in 2009 versus 2008. Inventories provided a source of cash of \$12.4 million in 2009 compared to a use of cash of \$7.0 million in the same period of the prior year.

### *Investing Activities*

Net cash used in investing activities decreased during the first quarter of 2009 primarily due to lower payments for acquisitions. Capital expenditures in the first quarter of 2009 were relatively flat versus the first quarter of 2008.

### *Financing Activities*

Net cash used in financing activities increased during the first quarter of 2009 primarily due to net repayment of debt of approximately \$122.4 million. In 2008, we issued and sold 18.7 million shares of our common stock resulting in net proceeds of approximately \$400 million from the offering, which were used to pay down debt.

### *Contractual Obligations*

Except as discussed below, there have been no material changes outside the ordinary course of business to the information provided with respect to our contractual obligations, including indebtedness and purchase and lease obligations, as disclosed in our 2008 Annual Report on Form 10-K. See Note 5 to our Condensed Consolidated Financial Statements provided herein for a description of our debt obligations.

Effective March 30, 2009, we amended our receivables-backed facility to reflect the reallocation of commitments among the financial institutions following the addition of one institution to our receivables-backed program and to change the facility to be a 364-day facility, terminating on March 29, 2010.

### *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. 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 projected benefit obligation and annual periodic pension costs.

We expect to contribute approximately \$20.1 million to the pension plans and approximately \$1.8 million to the postretirement health plans in 2009.

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### ***Other Commitments and Contingencies***

On December 21, 2001, in connection with our acquisition of Legacy Dean, we issued a contingent, subordinated promissory note to Dairy Farmers of America ( DFA ) in the original principal amount of \$40 million. DFA is our primary supplier of raw milk, and the promissory note is designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our facilities until 2021, or be paid for the loss of that business. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash, but will be added to the principal amount of the note annually, up to a maximum principal amount of \$96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire at the end of 20 years, without any obligation to pay any portion of the principal or interest. Payments we make under this note, if any, will be expensed as incurred. We 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 11 to our Condensed Consolidated Financial Statements for more information about our commitments and contingent obligations.

### ***Future Capital Requirements***

During 2009, we intend to invest a total of approximately \$300 million in capital expenditures primarily for our existing manufacturing facilities and distribution capabilities. We expect cash interest to be approximately \$250 million to \$258 million based on current debt levels under our senior secured credit facility. Cash interest excludes amortization of deferred financing fees and bond discounts of approximately \$10 million. The portion of our debt due within the next 12 months totals \$713.9 million, including \$345 million under our 364 day receivables-backed facility, which we intend and expect to renew under similar 364 day terms at the end of the current term. We expect that cash flow from operations and borrowings under our senior secured credit facility will be sufficient to meet our future capital requirements for the foreseeable future. At April 24, 2009, approximately \$1.11 billion was available under the receivables-backed and revolving credit facilities, subject to the limitations of our credit agreement.

### ***Known Trends and Uncertainties***

#### ***Prices of Raw Milk and Other Inputs***

***Conventional Raw Milk and Butterfat*** The primary raw material used in Fresh Dairy Direct and WhiteWave-Morningstar is conventional raw milk (which contains both raw milk and butterfat). The federal government and certain state governments set minimum prices for raw milk, and those prices are set on a monthly basis. The regulated minimum prices differ based on how the raw milk is utilized. Raw milk processed into fluid milk is priced at the Class I price, and raw milk processed into products such as cottage cheese, creams and creamers, ice cream and sour cream is priced at the Class II price. Generally, we pay the federal minimum prices for raw milk, plus certain producer premiums (or over-order premiums) and location differentials. We also incur other raw milk procurement costs in some locations (such as hauling, field personnel, etc.). A change in the federal minimum price does not necessarily mean an identical change in our total raw milk costs, as



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over-order premiums may increase or decrease. This relationship is different in every region of the country, and sometimes within a region based on supplier arrangements. However, in general, the overall change in our raw milk costs can be linked to the change in federal minimum prices. Because our Class II products typically have a higher fat content than that contained in raw milk, we also purchase bulk cream for use in some of our Class II products. Bulk cream is typically purchased based on a multiple of the AA butter price on the Chicago Mercantile Exchange ( CME ).

In general, Fresh Dairy Direct and our Morningstar platform change the prices charged 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 timing of a raw material cost increase or decrease and a corresponding price change to our customers, especially in the case of Class II butterfat because Class II butterfat prices for each month are not announced by the government until after the end of that month. Also, in some cases we are competitively or contractually constrained with respect to the implementation of price changes. This can have a negative impact on our profitability and can cause volatility in our earnings. Our sales and operating profit margin fluctuate with the price of our raw materials and other inputs.

Throughout most of 2008, we experienced historically high conventional milk prices. Contributors to the high prices included high feed and energy costs, as well as global demand for dry powdered milk. This was compounded by significant and sustained increases in diesel fuel and resin costs. In the fourth quarter of 2008, the industry experienced a sharp decline for export demands and favorable movements in the energy cost components resulting in declines in conventional milk, diesel and resin prices. Despite the volatility of the average Class I mover throughout 2007 and 2008, the average for the 12 months ended December 31, 2008 approximated that of 2007. In the first quarter of 2009, Class I mover declined significantly from the average for the fourth quarter of 2008. We currently expect the average Class I mover to increase through the balance of 2009 but remain significantly below the peak levels experienced in 2007 and 2008.

*Organic Raw Milk* The primary raw material used in our organic milk-based products is organic raw milk. We currently purchase approximately 80% of our organic raw milk from a network of over 400 dairy farmers across the United States. The balance of our organic raw milk is sourced from two farms that we own and operate and a third farm that we lease and have contracted with a third-party to manage and operate. We generally enter into supply agreements with organic dairy farmers with typical terms of two to three years, which obligate us to purchase certain minimum quantities of organic raw milk. The organic dairy industry remains a relatively new category and continues to experience significant swings in supply and demand. In 2008, the balance of supply and demand improved resulting in a reduction of aggressive discounting resulting from oversupply. However, sharp increases in feed and energy costs drove up the cost of organic raw milk at a greater pace than the corresponding increases in retail prices. The retail price increases on private label products lagged that of branded products, creating pricing pressures and causing retail price gaps to expand.

Beginning in the fourth quarter of 2008, we started to experience a slowing of growth in the organic milk category, and this trend has continued in the first quarter of 2009. As a result of the continuing economic downturn, we believe milk consumers have become and will continue to be increasingly price sensitive to organic milk and, as a result, we may experience a continued softening in sales in this category. We continue to monitor our position in the organic milk category including taking proactive steps to manage our supply in the short term, and we remain focused on maintaining our leading branded position as we balance market share considerations against profitability.

*Soybeans* Historically, the primary raw material used in our soy-based products has been organic soybeans. However, in 2009, we began augmenting our current product line by offering customers and consumers soy-based products manufactured with non-GMO soybeans. We expect that the launch of these new products will shift a substantial portion of our raw material requirements from organic to non-GMO. Both organic soybeans and non-GMO soybeans are generally available from several suppliers and we are not

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dependent on any single supplier for these raw materials. In 2009, we do not believe our overall costs for soybeans will differ materially from 2008 and we have already secured the majority of our anticipated needs for soybeans for 2009.

*Fuel and Resin costs* Fresh Dairy Direct purchases approximately four million gallons of diesel fuel per month to operate its extensive direct store delivery system. WhiteWave-Morningstar primarily relies on third-party carriers for product distribution and the transportation agreements typically adjust for movement in diesel prices. Another significant raw material used by Fresh Dairy Direct is resin, which is a petroleum-based product used to make plastic bottles. We purchase approximately 29 million pounds of resin and bottles per month. The price of diesel and resin are subject to fluctuations based on changes in crude oil and natural gas prices. Diesel and resin inflation escalated in 2007 and peaked in mid-2008 before significantly declining during the fourth quarter of 2008. We believe the prices of both resin and diesel fuel will continue to fluctuate throughout 2009, but be below the 2008 levels. We have entered into fixed price contracts for a portion of our fuel purchases beginning April 1, 2009 to mitigate volatility in diesel fuel prices and have entered into a fixed-for-floating DOE index swap intended to fix a portion of our fuel charges which are a component of our hauling agreements with third-party distributors.

### ***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. In addition, there are several large regional grocery chains that have captive dairy operations. Over the past few years, Fresh Dairy Direct has been subject to a number of competitive bidding situations, which reduced our profitability on sales to several customers. In bidding situations, we are subject to the risk of losing certain customers altogether. In addition, higher levels of price competition and higher resistance to pricing are becoming more widespread in our business. We expect these trends to continue and intensify. 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 customers, including our largest customers, and to the extent such contracts do exist, they are generally terminable at will by the customer.

### ***Tax Rate***

Income tax expense was recorded at an effective rate of 39.4% in the first quarter of 2009 compared to 40.4% in the first quarter of 2008. We estimate that our effective tax rate will be approximately 39% to 39.5% for the full year 2009. 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.

See Part II Item 1A Risk Factors below and Part I Item 1A Risk Factors in our 2008 Annual Report on Form 10-K for a description of various other risks and uncertainties concerning our business.

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### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in our quantitative and qualitative disclosures about market risk as provided in our 2008 Annual Report on Form 10-K other than those discussed below.

We are exposed to commodity price fluctuations, including milk, organic and non-GMO soybeans, butterfat, and sugar and the other commodity costs used in the manufacturing, packaging and distribution of our products, including utilities, natural gas, resin and diesel fuel. In order to secure adequate supplies of materials and bring greater stability to the cost of ingredients and their related manufacturing, packaging and distribution, we routinely enter into forward purchase contracts and other purchase arrangements with suppliers. Under the forward purchase contracts, we commit to purchasing agreed-upon quantities of ingredients and commodities at agreed-upon prices at specified future dates. The outstanding purchase commitment for these commodities at any point in time typically ranges from one month's to one year's anticipated requirements, depending on the ingredient or commodity.

In addition to entering into forward purchase contracts, from time to time we may purchase exchange-traded commodity futures contracts, for raw materials which are ingredients of our products or which are components of such ingredients, as well as other commodities. In late March 2009, we entered into a fixed-for-floating DOE index swap for approximately 4.3 million gallons of On-Highway Diesel for the period April 1, 2009 through December 31, 2009. This position is intended to fix the fuel charge component in our hauling agreements with third-party distributors. The fair value of this position was nominal as of March 31, 2009.

Although we utilize forward purchase contracts and other instruments to mitigate the risks related to commodity price fluctuations, such strategies do not fully mitigate commodity price risk. Adverse movements in commodity prices over the terms of the contracts or instruments could decrease the economic benefits we derive from these strategies.

### **Item 4. Controls and Procedures**

#### **Controls Evaluation and Related Certifications**

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2009.

#### **Changes in Internal Control over Financial Reporting**

During the quarter covered by this report, there have been no changes in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II Other Information**

**Item 1. Legal Proceedings**

We are not party to, nor are our properties the subject of, any material pending legal proceedings, other than as set forth below.

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 ( dairy farmer actions ). A third purported class action antitrust complaint ( retailer action ) was filed on August 9, 2007 in the United States District Court for the Eastern District of Tennessee, Greeneville Division. The complaint in the retailer action was amended on March 28, 2008. The amended complaint alleges generally that we, either acting alone or in conjunction with others in the milk industry, lessened competition in the Southeastern United States for the sale of processed fluid Grade A milk to retail outlets and other customers, and that the defendants' conduct also artificially inflated retail prices for direct milk purchasers. Four additional purported class action complaints were filed on August 27, 2007, October 3, 2007, November 15, 2007 and February 13, 2008 in the United States District Court for the Eastern District of Tennessee, Greeneville Division. The allegations in these complaints are similar to those in the dairy farmer actions.

On January 7, 2008, a United States Judicial Panel on Multidistrict Litigation transferred all of the pending cases to the Eastern District of Tennessee, Greeneville Division. On April 1, 2008, the Eastern District Court ordered the consolidation of the six dairy farmer actions, and ordered the retailer action to be administratively consolidated with the coordinated dairy farmer actions. A motion to dismiss the dairy farmer actions was denied on May 20, 2008, and an amended consolidated complaint was filed by the dairy farmer plaintiffs on June 20, 2008. A joint motion to dismiss the retailer action was filed on October 22, 2007, and is currently pending before the Court. A hearing on the joint motion was held on January 6, 2009. These matters are currently in discovery and we intend to vigorously defend them.

On April 28, 2009, a stockholder derivative complaint was filed purportedly on behalf of the Company in the United States District Court for the Eastern District of Tennessee, Greeneville division. The complaint names the Company's current directors, as well as Richard Fehr, an executive officer of the Company, and former directors Alan Bernon and Ron Kirk among the defendants. The complaint alleges that the officers and directors breached their fiduciary duties to the Company under Delaware law by approving the 2001 merger between the former Dean Foods Company and Suiza Foods Corporation, and allegedly engaging in a conspiracy to fix the price of Grade A milk. The complaint also names others in the milk industry as defendants for allegedly aiding and abetting the officers' and directors' breach of their fiduciary duties, and names the Company as a nominal defendant. The plaintiffs are seeking an undisclosed amount of damages and equitable relief.

On January 18, 2008, our subsidiary, Kohler Mix Specialties, LLC ( Kohler ), was named as defendant in a civil complaint filed in the Superior Court, Judicial District of Hartford. The plaintiff in the case is the Commissioner of Environmental Protection of the State of Connecticut. The complaint alleges generally that Kohler improperly discharged wastewater into the waters of the State of Connecticut, and bypassed certain wastewater treatment equipment. The plaintiff is seeking injunctive relief to correct the sources of pollution and to comply with all applicable regulations, and also civil penalties with respect to the claims.

At this time, it is not possible for us to predict the ultimate outcome of the matters set forth above.

Other than the matters set forth above, we are party from time to time to certain claims, litigation, audits and investigations and we believe that we have established adequate reserves to satisfy any potential liability we may

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have under these claims, litigations, audits and investigations that are currently pending. Potential liabilities associated with the other matters referred to in this paragraph are not expected to have a material adverse impact on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in our 2008 Annual Report on Form 10-K.

**Item 6. Exhibits**

- 10.1 Amendment No. 7 to Fifth Amended and Restated Receivables Purchase Agreement and Reaffirmation of Performance Undertaking, dated March 30, 2009 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 3, 2009 and incorporated herein by reference).
- 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).

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**SIGNATURES**

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

DEAN FOODS COMPANY

/s/ RONALD L. McCRUMMEN

**Ronald L. McCrummen**

*Senior Vice President and Chief Accounting Officer*

May 1, 2009