

DEAN FOODS CO
Form 10-Q
November 09, 2006

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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 September 30, 2006**
or

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

Dean Foods Company

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

Delaware

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 3, 2006, the number of shares outstanding of each class of common stock was: 133,757,511
Common Stock, par value \$.01

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

(In thousands, except share data)

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 43,070 | \$ 24,456 |
| Receivables, net | 757,272 | 818,431 |
| Inventories | 375,413 | 355,004 |
| Deferred income taxes | 116,657 | 137,776 |
| Prepaid expenses and other current assets | 72,564 | 65,526 |
| Total current assets | 1,364,976 | 1,401,193 |
| Property, plant and equipment, net | 1,792,145 | 1,776,801 |
| Goodwill | 2,934,999 | 2,922,940 |
| Identifiable intangible and other assets | 653,501 | 648,223 |
| Assets of discontinued operations | 17,587 | 301,727 |
| Total | \$ 6,763,208 | \$ 7,050,884 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 835,753 | \$ 926,067 |
| Income taxes payable | 29,055 | 34,541 |
| Current portion of long-term debt | 484,968 | 65,326 |
| Total current liabilities | 1,349,776 | 1,025,934 |
| Long-term debt | 2,691,405 | 3,321,522 |
| Deferred income taxes | 490,961 | 449,707 |
| Other long-term liabilities | 228,599 | 225,479 |
| Liabilities of discontinued operations | 6,490 | 126,029 |
| Commitments and contingencies (Note 11) | | |
| Stockholders equity: | | |
| Preferred stock, none issued | | |
| Common stock, 134,442,436 and 134,209,190 shares issued and outstanding, with a par value of \$0.01 per share | 1,344 | 1,342 |
| Additional paid-in capital | 874,924 | 922,791 |
| Retained earnings | 1,156,466 | 1,004,013 |
| Accumulated other comprehensive loss | (36,757) | (25,933) |
| Total stockholders equity | 1,995,977 | 1,902,213 |

| | | | | |
|-------|----|-----------|----|-----------|
| Total | \$ | 6,763,208 | \$ | 7,050,884 |
|-------|----|-----------|----|-----------|

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|--------------|-----------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (unaudited) | | | |
| Net sales | \$ 2,517,792 | \$ 2,569,405 | \$ 7,504,717 | \$ 7,559,106 |
| Cost of sales | 1,823,786 | 1,918,356 | 5,475,518 | 5,649,599 |
| Gross profit | 694,006 | 651,049 | 2,029,199 | 1,909,507 |
| Operating costs and expenses: | | | | |
| Selling and distribution | 416,835 | 399,180 | 1,231,341 | 1,173,493 |
| General and administrative | 101,414 | 94,458 | 302,434 | 283,398 |
| Amortization of intangibles | 1,540 | 1,444 | 4,469 | 4,595 |
| Facility closing and reorganization costs | 5,471 | 17,993 | 12,823 | 26,821 |
| Total operating costs and expenses | 525,260 | 513,075 | 1,551,067 | 1,488,307 |
| Operating income | 168,746 | 137,974 | 478,132 | 421,200 |
| Other (income) expense: | | | | |
| Interest expense | 48,031 | 37,837 | 144,335 | 115,681 |
| Other (income), net | (60) | (173) | (46) | (455) |
| Total other expense | 47,971 | 37,664 | 144,289 | 115,226 |
| Income from continuing operations before income taxes | 120,775 | 100,310 | 333,843 | 305,974 |
| Income taxes | 46,277 | 38,129 | 129,856 | 119,075 |
| Income from continuing operations | 74,498 | 62,181 | 203,987 | 186,899 |
| Gain (loss) on sale of discontinued operations, net of tax | 90 | 37,766 | (136) | 37,690 |
| Income (loss) from discontinued operations, net of tax | (3,795) | (563) | (51,398) | 17,890 |
| Net income | \$ 70,793 | \$ 99,384 | \$ 152,453 | \$ 242,479 |
| Average common shares: | | | | |
| Basic | 133,739,115 | 148,098,362 | 134,643,557 | 149,578,334 |
| Diluted | 139,159,658 | 155,536,494 | 140,500,663 | 156,137,091 |
| Basic earnings per common share: | | | | |
| Income from continuing operations | \$ 0.56 | \$ 0.42 | \$ 1.51 | \$ 1.25 |
| Income (loss) from discontinued operations | (0.03) | 0.25 | (0.38) | 0.37 |

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| | | | | | | | | |
|--|----|--------|----|------|----|--------|----|------|
| Net income | \$ | 0.53 | \$ | 0.67 | \$ | 1.13 | \$ | 1.62 |
| Diluted earnings per common share: | | | | | | | | |
| Income from continuing operations | \$ | 0.54 | \$ | 0.40 | \$ | 1.45 | \$ | 1.20 |
| Income (loss) from discontinued operations | | (0.03) | | 0.24 | | (0.36) | | 0.35 |
| Net income | \$ | 0.51 | \$ | 0.64 | \$ | 1.09 | \$ | 1.55 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Common Stock | | Additional | Retained | Accumulated | Total |
|--|--------------|----------|------------|--------------|-------------|--------------|
| | Shares | Amount | Paid-In | Earnings | Other | Stockholders |
| | | | Capital | | Income | Equity |
| | | | | | (Loss) | |
| (unaudited) | | | | | | |
| Balance, December 31, 2005 | 134,209,190 | \$ 1,342 | \$ 922,791 | \$ 1,004,013 | \$ (25,933) | \$ 1,902,213 |
| Issuance of common stock | 3,970,446 | 39 | 59,221 | | | 59,260 |
| Share-based compensation expense | | | 28,554 | | | 28,554 |
| Purchase and retirement of treasury stock | (3,737,200) | (37) | (135,642) | | | (135,679) |
| Net income | | | | 152,453 | | 152,453 |
| Other comprehensive income (Note 8): | | | | | | |
| Change in fair value of derivative instruments | | | | | 7,160 | 7,160 |
| Amounts reclassified to income statement related to hedging activities | | | | | (5,575) | (5,575) |
| Cumulative translation adjustment | | | | | (12,409) | (12,409) |
| Balance, September 30, 2006 | 134,442,436 | \$ 1,344 | \$ 874,924 | \$ 1,156,466 | \$ (36,757) | \$ 1,995,977 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended September 30 | |
|---|-----------------------------------|------------|
| | 2006 | 2005 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$ 152,453 | \$ 242,479 |
| Loss (income) from discontinued operations | 51,398 | (17,890) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 169,029 | 159,929 |
| Share-based compensation expense | 28,554 | 32,280 |
| Loss on disposition of assets | 1,904 | 874 |
| Loss (gain) on sale of discontinued operations | 136 | (37,690) |
| Write-down of impaired assets | 4,034 | 9,051 |
| Deferred income taxes | 61,802 | 43,569 |
| Other | 949 | (2,383) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Receivables | 65,095 | (733) |
| Inventories | (19,838) | (12,725) |
| Prepaid expenses and other assets | 9,356 | 29,935 |
| Accounts payable and accrued expenses | (102,232) | 30,972 |
| Income taxes payable | 4,312 | (9,444) |
| Net cash provided by continuing operations | 426,952 | 468,224 |
| Net cash provided by (used in) discontinued operations | (900) | 7,552 |
| Net cash provided by operating activities | 426,052 | 475,776 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (174,913) | (206,035) |
| Cash outflows for acquisitions and investments | (16,819) | (361) |
| Net proceeds from divestitures | 96,280 | 189,862 |
| Proceeds from sale of fixed assets | 5,619 | 7,021 |
| Net cash used in continuing operations | (89,833) | (9,513) |
| Net cash used in discontinued operations | (14,696) | (22,636) |
| Net cash used in investing activities | (104,529) | (32,149) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | 498,020 | 9,100 |
| Repayment of debt | (729,381) | (196,301) |
| Payment of deferred financing costs | (6,889) | (3,281) |
| Issuance of common stock | 28,049 | 46,051 |
| Tax savings on share-based compensation | 31,211 | 16,895 |

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| | | |
|--|-----------|-----------|
| Redemption of common stock | (135,679) | (345,087) |
| Net cash used in continuing operations | (314,669) | (472,623) |
| Net cash provided by discontinued operations | 11,760 | 33,321 |
| Net cash used in financing activities | (302,909) | (439,302) |
| Increase in cash and cash equivalents | 18,614 | 4,325 |
| Cash and cash equivalents, beginning of period | 24,456 | 25,357 |
| Cash and cash equivalents, end of period | \$ 43,070 | \$ 29,682 |

See Notes to Condensed Consolidated Financial Statements.

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

1. General

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

Certain reclassifications have been made to conform the prior year's Condensed Consolidated Financial Statements to the current year's classifications. During the nine months ended September 30, 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in the distribution of our products from cost of sales to distribution expense. The reclassification reduced cost of sales and increased distribution expense by \$11.1 million and \$29.9 million for the three and nine months ended September 30, 2005, respectively. The reclassification had no impact on net income.

On September 14, 2006, we completed the sale of our operations based in Spain. The sale of our remaining Iberian operations is subject to the completion of Portuguese regulatory proceedings. Our Condensed Consolidated Financial Statements for the three-month and nine-month periods ended September 30, 2006 and 2005 have been reclassified to give effect to the Iberian operations as discontinued operations.

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

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

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

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shipping products to customers through third party carriers. Shipping and handling costs recorded as a component of selling and distribution expense were approximately \$325.8 million and \$311.3 million in the third quarter of 2006 and 2005, respectively, and \$951.5 million and \$900.7 million during the first nine months of 2006 and 2005, respectively.

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

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

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

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---------------------|--|---|
| | (In thousands, except share data) | |
| Decrease in: | | |
| Income before taxes | \$5,797 | \$ 18,701 |
| Net income | 4,491 | 14,241 |
| Basic EPS | \$ 0.03 | \$ 0.10 |
| Diluted EPS | 0.03 | 0.09 |

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

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

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Effective January 1, 2006, we adopted SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 eliminates the rule in APB No. 29 which excluded from fair value measurement exchanges of similar productive assets. Instead, SFAS No. 153 excludes from fair value measurement exchanges of nonmonetary assets that do not have commercial substance. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

Recently Issued Accounting Pronouncements The Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes in June 2006. This interpretation clarifies the accounting for income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109,

Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We are currently evaluating the impact of FIN No. 48 on our Consolidated Financial Statements. This interpretation will become effective for us in the first quarter of 2007.

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

The FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106, and 132(R) in September 2006. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. We are currently evaluating the impact of SFAS No. 158 on our Consolidated Financial Statements. This standard will become effective for us in the fourth quarter of 2006.

2. Discontinued Operations

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

Iberian Operations During the second quarter of 2006, we committed to a plan to sell our Iberian operations. These operations manufacture, market and sell private label and branded milk in Spain and Portugal. The decision to sell such operations is part of our strategy to focus on our core dairy and branded businesses. In the second quarter of 2006, we recognized an estimated non-cash impairment charge of \$46.4 million, net of an income tax benefit of \$8.1 million, representing our best estimate as of June 30, 2006 of the impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for cash proceeds of approximately \$96.3 million. In addition to customary indemnifications of the purchaser of the business, we have retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately \$19.1 million as of September 30, 2006) if certain regulatory approvals are not received with respect to a specific facility. Primarily as a result of such retained obligations and indemnifications, an incremental loss on the sale of our operations in Spain of \$2.4 million (net of tax) was recognized during the quarter ended September 30, 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (which comprise the remainder of our Iberian operations) for approximately

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\$11.4 million subject to regulatory approvals. Other than transaction related costs, no incremental loss is expected on the sale of our remaining Iberian operations.

Sale of Marie's Dips and Dressings and Dean's Dips On August 22, 2005, we completed the sale of tangible and intangible assets related to the production and distribution of *Marie's* dips and dressings and *Dean's* dips to Ventura Foods. We also agreed to license the Dean trademark to Ventura Foods for use on certain non-dairy dips. Our net proceeds were approximately \$189.9 million. The sale of these brands is part of our strategy to focus on our core dairy and branded businesses.

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

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

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

Other Included in the quarter ended September 30, 2006 is a \$2.5 million gain from the favorable resolution of contingencies related to prior discontinued operations.

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

| | Three Months Ended September 30(1) | | Nine Months Ended September 30(1) | |
|-------------------------------|---------------------------------------|-----------|--------------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Net sales | \$ 59,886 | \$ 86,301 | \$ 223,088 | \$ 646,692 |
| Income (loss) before taxes(2) | (2,040) | 365 | (51,978) | 32,990 |

- (1) All intercompany sales and expenses have been appropriately eliminated in the table.
- (2) Interest expense of \$1.3 million and \$4.7 million in the three and nine month periods ended September 30, 2006, respectively, was allocated to our Iberian discontinued operations based on the net assets of our discontinued operations relative to our total net assets. Interest expense of \$2.3 million and \$7.6 million in the three and nine month periods ended September 30, 2005, respectively, was allocated to our Iberian operations and *Marie's* dips and dressings and *Dean's* dips discontinued operations based on the net assets of our discontinued operations relative to our total net assets.

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

| | September 30, 2006 | December 31, 2005 |
|-------------------------|-----------------------|----------------------|
| | (In thousands) | |
| Current assets | \$ 12,321 | \$ 75,774 |
| Non-current assets | 5,266 | 225,953 |
| Current liabilities | 5,337 | 111,397 |
| Non-current liabilities | 1,153 | 14,632 |

3. Inventories

| | September 30, 2006 | December 31, 2005 |
|----------------------------|-----------------------|----------------------|
| | (In thousands) | |
| Raw materials and supplies | \$ 177,922 | \$ 151,442 |
| Finished goods | 197,491 | 203,562 |
| Total | \$ 375,413 | \$ 355,004 |

4. Intangible Assets

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

| | Dairy Group | WhiteWave Foods Company | Total |
|---------------------------------|----------------|-------------------------------|--------------|
| | (In thousands) | | |
| Balance at December 31, 2005 | \$ 2,400,843 | \$ 522,097 | \$ 2,922,940 |
| Acquisitions | 11,803 | | 11,803 |
| Purchase accounting adjustments | 355 | (99) | 256 |
| Balance at September 30, 2006 | \$ 2,413,001 | \$ 521,998 | \$ 2,934,999 |

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

| September 30, 2006 | | | December 31, 2005 | | |
|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| (In thousands) | | | | | |

| | | | | | | |
|--|------------|-------------|------------|------------|-------------|------------|
| Intangible assets with indefinite lives: | | | | | | |
| Trademarks | \$ 511,867 | \$ (5,877) | \$ 505,990 | \$ 511,662 | \$ (5,877) | \$ 505,785 |
| Intangible assets with finite lives: | | | | | | |
| Customer-related | 87,621 | (26,414) | 61,207 | 86,525 | (21,358) | 65,167 |
| Total | \$ 599,488 | \$ (32,291) | \$ 567,197 | \$ 598,187 | \$ (27,235) | \$ 570,952 |

Amortization expense on intangible assets for the three months ended September 30, 2006 and 2005 was \$1.9 million and \$1.8 million, respectively. Amortization expense on intangible assets for the nine months ended September 30, 2006 and 2005 was \$5.7 million and \$5.3 million, respectively.

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

| | |
|------|----------------|
| 2007 | \$ 7.5 million |
| 2008 | 7.4 million |
| 2009 | 7.1 million |
| 2010 | 6.9 million |
| 2011 | 5.1 million |

5. Long-Term Debt

| | September 30, 2006 | | December 31, 2005 | |
|-------------------------------------|-----------------------|------------------|-----------------------|------------------|
| | Amount Outstanding | Interest Rate | Amount Outstanding | Interest Rate |
| | (In thousands) | | | |
| Dean Foods debt obligations: | | | | |
| Senior credit facility | \$ 1,612,700 | 5.99% | \$ 2,258,600 | 5.16% |
| Senior notes | 498,077 | 7.00 | | |
| | 2,110,777 | | 2,258,600 | |
| Subsidiary debt obligations: | | | | |
| Senior notes | 571,114 | 6.625-8.15 | 568,493 | 6.625-8.15 |
| Receivables-backed facility | 481,200 | 5.68 | 548,400 | 4.60 |
| Capital lease obligations and other | 13,282 | | 11,355 | |
| | 1,065,596 | | 1,128,248 | |
| | 3,176,373 | | 3,386,848 | |
| Less current portion | (484,968) | | (65,326) | |
| Total | \$ 2,691,405 | | \$ 3,321,522 | |

Senior Credit Facility Our senior credit facility provides for a \$1.5 billion revolving credit facility and a \$1.5 billion term loan. At September 30, 2006, there were outstanding term loan borrowings of \$1.5 billion under the senior credit facility, and \$112.7 million outstanding under the revolving credit facility. Letters of credit in the aggregate amount of \$136.9 million were issued but undrawn. At September 30, 2006, approximately \$1.25 billion was available for future borrowings under the revolving credit facility, subject to satisfaction of certain ordinary course conditions contained in the credit agreement.

Both the revolving credit facility and term loan bear interest, at our election, at the base rate plus a margin that varies from zero to 25 basis points depending on our credit ratings (as issued by Standard & Poor's and Moody's), or LIBOR plus a margin that varies from 50 to 150 basis points, depending on our credit ratings (as issued by Standard & Poor's and Moody's). The blended interest rate in effect on borrowings under the senior credit facility, including the applicable interest rate margin, was 5.99% at September 30, 2006. However, we had interest rate swap agreements in place that hedged \$1.5 billion of our borrowings under the senior credit facility at an average rate of 4.55%, plus the applicable interest rate margin. Interest is payable quarterly or at the end of the applicable interest period.

Principal payments are required on the term loan as follows:

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

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

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

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

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

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

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

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

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

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

Dean Foods Senior Notes On May 17, 2006, we issued \$500 million aggregate principal amount of 7.0% senior unsecured notes. The senior unsecured notes mature on June 1, 2016 and interest is payable on June 1 and December 1 of each year, beginning December 1, 2006. The outstanding balance at September 30, 2006 was \$498.1 million.

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

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

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

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

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

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

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

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

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

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

\$192.1 million (\$200 million face value), at 6.625% interest, maturing in May 2009; and

\$128.9 million (\$150 million face value), at 6.9% interest, maturing in October 2017.

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

Receivables-Backed Facility We entered into a \$600 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to three wholly-owned special purpose entities intended to be bankruptcy-remote. The special purpose entities then transfer the receivables to third party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these three special purpose entities are fully reflected on our Condensed Consolidated Balance Sheet, and the securitization is treated as a borrowing for accounting purposes. During the first nine months of 2006, we made net payments of \$67.2 million on this facility leaving an outstanding balance of \$481.2 million at September 30, 2006. The receivables-backed facility bears interest at a variable rate based on the commercial paper yield as defined in the agreement. The average interest rate on this facility was 5.68% at September 30, 2006. Our ability to re-borrow under this facility is subject to a borrowing base formula. The receivables-backed facility was fully funded at September 30, 2006.

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

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

The following table summarizes our various interest rate agreements in effect at September 30, 2006:

| Fixed Interest Rates | Expiration Date | Notional Amounts |
|----------------------|-----------------|------------------|
| | | (In millions) |
| 3.65% to 6.78% | December 2006 | \$550 |
| 4.81% to 4.84% | December 2007 | 500 |
| 4.07% to 4.27% | December 2010 | 450 |

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The following table summarizes our various interest rate agreements in effect at December 31, 2005:

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

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

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

| | September 30, 2006 | December 31, 2005 |
|--------------------------------|-----------------------|----------------------|
| | (In thousands) | |
| Current derivative asset | \$ 7,780 | \$ 5,877 |
| Long-term derivative asset | 8,562 | 10,028 |
| Total derivative asset | \$16,342 | \$15,905 |
| Current derivative liability | \$ (264) | \$ (1,926) |
| Long-term derivative liability | | (400) |
| Total derivative liability | \$ (264) | \$ (2,326) |

There was no hedge ineffectiveness for the three and nine months ended September 30, 2006, respectively. Approximately \$3.7 million and \$5.6 million of interest income (net of taxes) were reclassified to interest expense from other comprehensive income during the three and nine months ended September 30, 2006, respectively. We estimate that approximately \$4.6 million of net derivative income (net of taxes) included in other comprehensive income will be reclassified into earnings within the next 12 months. These gains will partially offset the higher interest payments recorded on our variable rate debt.

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

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

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

Condensed Consolidating Balance Sheet as of September 30, 2006

| | Parent | Guarantor Entities | Non- Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|---------------------|-----------------------|-----------------------------------|-----------------------|------------------------|
| (In thousands) | | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 511 | \$ 38,521 | \$ 4,038 | \$ | \$ 43,070 |
| Receivables, net | 18 | 31,315 | 725,939 | | 757,272 |
| Intercompany receivables | 299,614 | 2,423,148 | 288,496 | (3,011,258) | |
| Other current assets | 88,712 | 475,918 | 4 | | 564,634 |
| Total current assets | 388,855 | 2,968,902 | 1,018,477 | (3,011,258) | 1,364,976 |
| Property, plant and equipment, net | 954 | 1,772,442 | 18,749 | | 1,792,145 |
| Goodwill | | 2,934,908 | 91 | | 2,934,999 |
| Identifiable intangible and other assets | 60,112 | 593,385 | 4 | | 653,501 |
| Investment in subsidiaries | 6,351,945 | | | (6,351,945) | |
| Assets of discontinued operations | | | 17,587 | | 17,587 |
| Total | \$ 6,801,866 | \$ 8,269,637 | \$ 1,054,908 | \$ (9,363,203) | \$ 6,763,208 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 48,695 | \$ 786,629 | \$ 429 | \$ | \$ 835,753 |
| Income taxes payable | 255,243 | (226,320) | 132 | | 29,055 |
| Intercompany notes | 1,945,752 | 589,004 | 476,502 | (3,011,258) | |
| Current portion of long-term debt | 225,000 | 259,968 | | | 484,968 |
| Total current liabilities | 2,474,690 | 1,409,281 | 477,063 | (3,011,258) | 1,349,776 |
| Long-term debt | 1,885,777 | 324,428 | 481,200 | | 2,691,405 |
| Other long-term liabilities | 456,519 | 263,041 | | | 719,560 |
| Liabilities of discontinued operations | | | 6,490 | | 6,490 |
| Total stockholders equity | 1,984,880 | 6,272,887 | 90,155 | (6,351,945) | 1,995,977 |
| Total | \$ 6,801,866 | \$ 8,269,637 | \$ 1,054,908 | \$ (9,363,203) | \$ 6,763,208 |

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Condensed Consolidating Balance Sheet as of December 31, 2005

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

Table of ContentsCondensed Consolidating Statements of Income
for the Three Months Ended September 30, 2005

| | Parent | Guarantor Entities | Non- Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|----------------|-----------------------|-----------------------------------|--------------|------------------------|
| | (In thousands) | | | | |
| Net sales | \$ | \$ 2,567,740 | \$ 1,665 | \$ | \$ 2,569,405 |
| Cost of sales | | 1,917,023 | 1,333 | | 1,918,356 |
| Gross profit | | 650,717 | 332 | | 651,049 |
| Selling and distribution | | 399,031 | 149 | | 399,180 |
| General and administrative | 642 | 95,090 | 170 | | 95,902 |
| Facility closing and reorganization costs | | 17,993 | | | 17,993 |
| Interest expense | 19,011 | 18,278 | 548 | | 37,837 |
| Other (income) expense, net | (8) | (325) | 160 | | (173) |
| Income from subsidiaries | (119,955) | | | 119,955 | |
| Income (loss) from continuing operations before income taxes | 100,310 | 120,650 | (695) | (119,955) | 100,310 |
| Income taxes | 38,129 | 45,517 | (263) | (45,254) | 38,129 |
| Income (loss) from continuing operations | 62,181 | 75,133 | (432) | (74,701) | 62,181 |
| Gain on sale of discontinued operations, net of tax | | 37,766 | | | 37,766 |
| Loss from discontinued operations, net of tax | | (301) | (262) | | (563) |
| Net income (loss) | \$ 62,181 | \$ 112,598 | \$ (694) | \$ (74,701) | \$ 99,384 |

Table of ContentsCondensed Consolidating Statements of Cash Flows
for the Nine Months Ended September 30, 2006

| | Parent | Guarantor Entities | Non- Guarantor Subsidiaries | Consolidated Totals |
|---|--------------|-----------------------|-----------------------------------|------------------------|
| (In thousands) | | | | |
| Net cash provided by (used in) operating activities | \$ (155,174) | \$ 531,773 | \$ 49,453 | \$ 426,052 |
| Additions to property, plant and equipment | (2,065) | (168,768) | (4,080) | (174,913) |
| Cash outflows for acquisitions and investments | (16,819) | | | (16,819) |
| Net proceeds from divestitures | 96,280 | | | 96,280 |
| Proceeds from sale of fixed assets | | 5,619 | | 5,619 |
| Other | | | (14,696) | (14,696) |
| Net cash provided by (used in) investing activities | 77,396 | (163,149) | (18,776) | (104,529) |
| Proceeds from issuance of debt | 498,020 | | | 498,020 |
| Repayment of debt | (645,900) | (11,670) | (71,811) | (729,381) |
| Payment of deferred financing costs | (6,889) | | | (6,889) |
| Issuance of common stock, net of expenses | 28,049 | | | 28,049 |
| Tax savings on share-based compensation | 31,211 | | | 31,211 |
| Redemption of common stock | (135,679) | | | (135,679) |
| Other | | | 11,760 | 11,760 |
| Net cash used in financing activities | (231,188) | (11,670) | (60,051) | (302,909) |
| Net change in intercompany balances | 309,228 | (337,110) | 27,882 | |
| Increase (decrease) in cash and cash equivalents | 262 | 19,844 | (1,492) | 18,614 |
| Cash and cash equivalents, beginning of period | 249 | 18,677 | 5,530 | 24,456 |
| Cash and cash equivalents, end of period | \$ 511 | \$ 38,521 | \$ 4,038 | \$ 43,070 |

Table of ContentsCondensed Consolidating Statements of Cash Flows
for the Nine Months Ended September 30, 2005

| | Parent | Guarantor Entities | Non- Guarantor Subsidiaries | Consolidated Totals |
|---|------------|-----------------------|-----------------------------------|------------------------|
| (In thousands) | | | | |
| Net cash provided by (used in) operating activities | \$ (8,198) | \$ 487,572 | \$ (3,598) | \$ 475,776 |
| Additions to property, plant and equipment | (534) | (204,367) | (1,134) | (206,035) |
| Cash outflows for acquisitions and investments | (361) | | | (361) |
| Net proceeds from divestitures | | 189,862 | | 189,862 |
| Proceeds from sale of fixed assets | | 4,821 | 2,200 | 7,021 |
| Other | | (7,875) | (14,761) | (22,636) |
| Net cash used in investing activities | (895) | (17,559) | (13,695) | (32,149) |
| Proceeds from issuance of debt | 9,100 | | | 9,100 |
| Repayment of debt | (77,350) | (110,322) | (8,629) | (196,301) |
| Payment of deferred financing costs | (3,281) | | | (3,281) |
| Issuance of common stock, net of expenses | 46,051 | | | 46,051 |
| Tax savings on share-based compensation | 16,895 | | | 16,895 |
| Redemption of common stock | (345,087) | | | (345,087) |
| Other | | 11,153 | 22,168 | 33,321 |
| Net cash provided by (used in) financing activities | (353,672) | (99,169) | 13,539 | (439,302) |
| Net change in intercompany balances | 363,354 | (370,433) | 7,079 | |
| Increase in cash and cash equivalents | 589 | 411 | 3,325 | 4,325 |
| Cash and cash equivalents, beginning of period | 174 | 24,326 | 857 | 25,357 |
| Cash and cash equivalents, end of period | \$ 763 | \$ 24,737 | \$ 4,182 | \$ 29,682 |

6. Common Stock and Share-Based Compensation

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

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

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

Three Months Ended

Nine Months Ended

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| | September 30 | | September 30 | |
|--------------------------|---------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Expected volatility | 25% | 25% | 25% | 25% |
| Expected dividend yield | 0% | 0% | 0% | 0% |
| Expected option term | 4.5 years | 4.5 years | 4.5 years | 4.5 years |
| Risk-free rate of return | 4.70 to 5.10% | 3.84 to 4.16% | 4.28 to 5.10% | 3.63 to 4.26% |

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

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

| | Options | Weighted Average Exercise Price | Weighted Average Contractual Life | Aggregate Intrinsic Value |
|--|-------------|---------------------------------------|--|---------------------------------|
| Options outstanding at December 31, 2005 | 17,859,283 | \$ 18.87 | | |
| Options granted during the first nine months | 2,639,805 | 37.68 | | |
| Options canceled or forfeited during the first nine months(1) | (721,902) | 17.44 | | |
| Options exercised during the first nine months | (4,158,435) | 15.43 | | |
| Options outstanding at September 30, 2006 | 15,618,751 | 23.04 | 6.35 | \$296,487,822 |
| Options exercisable at September 30, 2006 | 10,883,467 | 18.59 | 5.31 | \$255,037,083 |

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

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2006 and 2005 was \$10.98 per share and \$7.79 per share, respectively, and the total intrinsic value of options exercised during the same periods was \$95.8 million and \$47.2 million, respectively. The fair value of shares vested during the nine months ended September 30, 2006 and 2005 was \$23.4 million and \$41.7 million, respectively.

During the three months ended September 30, 2006 and 2005, we recognized stock option expense of \$5.7 million and \$5.8 million, respectively, and an income tax benefit related to stock option expense of \$2.2 million and \$1.3 million, respectively. During the first nine months of 2006 and 2005, we recognized stock option expense of \$16.7 million and \$18.7 million, respectively, and an income tax benefit related to the stock option expense of \$6.6 million and \$4.5 million, respectively.

During the three months ended September 30, 2006 we recognized a pre-tax cumulative non-cash charge of approximately \$500,000 resulting from administrative errors associated with historical stock option compensation expense related to a few stock option grants in 1997 and 2000. As the aggregate differences were not deemed material, no restatement of our historical financial statements is necessary and the full impact of the cumulative non-cash charge was recognized in the third quarter.

During the first nine months of 2006, cash received from stock option exercises was \$46.8 million and the total tax benefit for tax deductions to be realized for these option exercises was \$39.9 million. In addition, we received 610,757 shares of common stock in lieu of cash for stock option exercises.

At September 30, 2006, there was \$29.4 million of total unrecognized stock option expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining period of 1.1 years.

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

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price. Stock units granted to non-employee directors vest ratably over three years. All unvested stock units vest immediately upon a change of control. The following table summarizes stock unit activity during the first nine months of 2006:

| | Employees | Directors | Total |
|--|-----------|-----------|-----------|
| Stock units outstanding at December 31, 2005 | 825,248 | 67,774 | 893,022 |
| Stock units issued during the first nine months | 445,750 | 25,500 | 471,250 |
| Shares issued during first nine months upon vesting of stock units | (333,623) | (23,598) | (357,221) |
| Stock units cancelled or forfeited during the first nine months(1) | (154,582) | | (154,582) |
| Stock units outstanding at September 30, 2006 | 782,793 | 69,676 | 852,469 |
| Weighted average grant date fair value | \$ 33.35 | \$ 35.47 | \$ 33.49 |

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

During the three months ended September 30, 2006 and 2005, we recognized stock unit expense of \$2.5 million and \$5.3 million, respectively, and an income tax benefit related to stock unit expense of \$0.6 million and \$1.2 million, respectively. During the first nine months of 2006 and 2005, we recognized stock unit expense of \$11.7 million and \$13.6 million, respectively, and an income tax benefit related to the stock unit expense of \$3.4 million and \$2.7 million, respectively.

The weighted-average grant date fair value of stock units granted during the nine months ended September 30, 2006 and 2005 was \$37.63 per share and \$28.33 per share, respectively. At September 30, 2006, there was \$23.8 million of total unrecognized stock unit expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 3.1 years.

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

| | Shares | Weighted-Average Grant Date Fair Value |
|--|----------|--|
| Nonvested at December 31, 2005 | 29,516 | \$35.27 |
| Restricted shares granted during the first nine months | 22,014 | 39.33 |
| Restricted shares vested during the first nine months | (23,595) | 36.10 |
| Nonvested at September 30, 2006 | 27,935 | 37.77 |

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

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

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following table reconciles the numerators and denominators used in the computations of both basic and diluted earnings per share (EPS):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|-------------|-----------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| (In thousands, except share data) | | | | |
| Basic EPS computation: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 74,498 | \$ 62,181 | \$ 203,987 | \$ 186,899 |
| Denominator: | | | | |
| Average common shares | 133,739,115 | 148,098,362 | 134,643,557 | 149,578,334 |
| Basic EPS from continuing operations | \$ 0.56 | \$ 0.42 | \$ 1.51 | \$ 1.25 |
| Diluted EPS computation: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 74,498 | \$ 62,181 | \$ 203,987 | \$ 186,899 |
| Denominator: | | | | |
| Average common shares basic | 133,739,115 | 148,098,362 | 134,643,557 | 149,578,334 |
| Stock option conversion | 5,219,835 | 6,502,384 | 5,503,163 | 5,476,012 |
| Stock units | 200,708 | 935,748 | 353,943 | 1,082,745 |
| Average common shares diluted | 139,159,658 | 155,536,494 | 140,500,663 | 156,137,091 |
| Diluted EPS from continuing operations | \$ 0.54 | \$ 0.40 | \$ 1.45 | \$ 1.20 |

8. Comprehensive Income (Loss)

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|-----------|-----------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| (In thousands) | | | | |
| Income from continuing operations | \$ 74,498 | \$ 62,181 | \$ 203,987 | \$ 186,899 |
| Other comprehensive income (loss): | | | | |
| Cumulative translation adjustment | 801 | (342) | 1,441 | (1,035) |
| Change in fair value of derivative instruments, net of tax | (9,675) | 1,440 | 7,160 | 3,255 |
| Amounts reclassified to income statement related to hedging activities, net of tax | (3,707) | 1,897 | (5,575) | 7,305 |
| Minimum pension liability adjustment, net of tax | | | | (1,792) |
| | (12,581) | 2,995 | 3,026 | 7,733 |

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| | | | | |
|--|-----------|------------|------------|------------|
| Comprehensive income from continuing operations | 61,917 | 65,176 | 207,013 | 194,632 |
| Income (loss) from discontinued operations, net of tax | (3,705) | 37,203 | (51,534) | 55,580 |
| Cumulative translation adjustment | (24,408) | (281) | (13,850) | (23,506) |
| Comprehensive income (loss) from discontinued operations | (28,113) | 36,922 | (65,384) | 32,074 |
| Comprehensive income | \$ 33,804 | \$ 102,098 | \$ 141,629 | \$ 226,706 |

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Table of Contents**9. Employee Retirement and Postretirement Benefits**

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|------------------------------------|------------------------------------|----------|-----------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| (In thousands) | | | | |
| Components of net period cost: | | | | |
| Service cost | \$ 633 | \$ 727 | \$ 1,898 | \$ 2,182 |
| Interest cost | 4,143 | 4,251 | 12,428 | 12,752 |
| Expected return on plan assets | (3,946) | (3,925) | (11,837) | (11,774) |
| Amortizations: | | | | |
| Unrecognized transition obligation | 28 | 27 | 83 | 80 |
| Prior service cost | 213 | 157 | 638 | 471 |
| Unrecognized net loss | 861 | 753 | 2,583 | 2,258 |
| Effect of settlement | 88 | 887 | 263 | 2,660 |
| Net periodic benefit cost | \$ 2,020 | \$ 2,877 | \$ 6,056 | \$ 8,629 |

We expect to contribute \$36.1 million to the pension plans during 2006.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--------------------------------|------------------------------------|--------|-----------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| (In thousands) | | | | |
| Components of net period cost: | | | | |
| Service cost | \$ 265 | \$ 251 | \$ 796 | \$ 753 |
| Interest cost | 375 | 276 | 1,125 | 830 |
| Amortizations: | | | | |
| Prior service cost | (17) | (17) | (51) | (52) |
| Unrecognized net loss | 239 | 71 | 718 | 213 |
| Net periodic benefit cost | \$ 862 | \$ 581 | \$ 2,588 | \$ 1,744 |

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

10. Facility Closing And Reorganization Costs

Facility Closing and Reorganization Costs We recorded net facility closing and reorganization costs of \$5.5 million and \$18.0 million during the three months ended September 30, 2006 and 2005, respectively, and \$12.8 million and \$26.8 million during the nine months ended September 30, 2006 and 2005, respectively.

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

We expect to incur additional charges related to these restructuring plans of approximately \$5.5 million, including approximately \$600,000 in work force reduction costs and approximately \$4.9 million in shutdown and other costs. Approximately \$3.4 million and \$2.1 million of these additional charges are expected to be completed by December 31, 2006 and 2007, respectively.

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

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

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

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

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

Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities at September 30, 2006 was approximately \$13.0 million. We are marketing these properties for sale.

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

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

| | Accrued Charges at December 31, 2005 | Charges | Payments | Accrued Charges at September 30, 2006 |
|----------------------------------|---|-----------------|-------------------|--|
| (In thousands) | | | | |
| Cash charges: | | | | |
| Workforce reduction costs | \$ 8,302 | \$ 2,842 | \$ (7,708) | \$3,436 |
| Shutdown costs | 209 | 4,223 | (4,405) | 27 |
| Lease obligations after shutdown | 2,072 | 1,160 | (1,363) | 1,869 |
| Settlement of contracts | 724 | 45 | (769) | |
| Other | 470 | 1,416 | (1,626) | 260 |
| Subtotal | \$11,777 | 9,686 | \$(15,871) | \$5,592 |
| Noncash charges: | | | | |
| Write-down of assets | | 3,137 | | |
| Total charges | | \$12,823 | | |

Acquired Facility Closing and Other Exit Costs As part of our purchase price allocations, we accrue costs from time to time pursuant to plans to exit certain facilities and activities of acquired businesses in order to rationalize production and reduce costs and inefficiencies. During 2004, we accrued costs to close two Dairy Group facilities

acquired in 2003 and the Horizon Organic Farm and Education Center acquired in 2004, as well as to exit certain acquired contractual obligations.

The principal components of the plans include the following:

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

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

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

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

| | Accrued Charges at December 31, 2005 | Payments | Accrued Charges at September 30, 2006 |
|---------------------------|---|-------------------|--|
| | (In thousands) | | |
| Workforce reduction costs | \$ 366 | \$ (222) | \$ 144 |
| Shutdown and exit costs | 40,479 | (38,911) | 1,568 |
| Total | \$40,845 | \$(39,133) | \$1,712 |

11. Commitments and Contingencies

Contingent Obligations Related to Divested Operations We have divested several businesses in recent years. In each case, we have retained certain known contingent obligations related to those businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities, including environmental liabilities. We believe we have established adequate reserves for 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 the former Dean Foods Company, we purchased Dairy Farmers of America's (DFA) 33.8% interest in our Dairy Group. In connection with that transaction, we entered into two agreements with DFA designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our facilities, or be paid for the loss of that business. One such agreement is a promissory note with a 20-year term that bears interest based on the consumer price index. Interest will not be paid in cash but will be added to the principal amount of the note annually, up to a maximum principal amount of \$96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire in 2021, without any obligation to pay any portion of the principal or interest. Payments made under the note, if any, would be expensed as incurred. The other agreement would require us to pay damages to DFA if we fail to offer DFA the right to supply milk to certain facilities that we acquired as part of the former Dean Foods after the pre-existing agreements with certain other suppliers or producers expire.

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

During 2005, we experienced operational disruptions in our Dairy Group segment caused by Hurricanes Katrina and Rita. Our insurance policies cover a portion of our business interruption losses for 12 months following the restoration of our property. During the first quarter of 2006, we received approximately \$3.1 million in settlement of a portion of our business interruption claim for the period of August 29, 2005 through December 31, 2005. During the third quarter of 2006, we received approximately \$600,000 in settlement of a portion of our business interruption claim for the period of January 1, 2006

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through March 31, 2006. The insurance proceeds are recorded within cost of sales. We will continue to submit additional business interruption claims during 2006, and we will recognize these amounts upon settlement of the claims.

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

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

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

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

The Company has also been informed by the staff of the Securities and Exchange Commission (the SEC) that it is conducting an informal inquiry into the Company's stock option practices. The Company intends to cooperate fully with the SEC's inquiry.

12. Business and Geographic Information and Major Customers

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

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

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

We evaluate the performance of our segments based on operating profit or loss before gains and losses on the sale of assets, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the expense related to share-based compensation has not been allocated to our segments and is

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reflected entirely within the caption Corporate. Therefore, the measure of segment profit or loss presented below is before such items. The accounting policies of our segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to our 2005 Consolidated Financial Statements contained in our 2005 Annual Report on Form 10-K.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|-------------|-----------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| (In thousands) | | | | |
| Net sales to external customers: | | | | |
| Dairy Group | \$2,204,143 | \$2,270,310 | \$6,576,901 | \$6,690,986 |
| WhiteWave Foods Company | 313,649 | 299,095 | 927,816 | 868,120 |
| Total | \$2,517,792 | \$2,569,405 | \$7,504,717 | \$7,559,106 |
| Intersegment sales: | | | | |
| Dairy Group | \$ 3,168 | \$ 19,615 | \$ 9,841 | \$ 56,091 |
| WhiteWave Foods Company | 23,627 | 24,426 | 69,658 | 74,467 |
| Total | \$ 26,795 | \$ 44,041 | \$ 79,499 | \$ 130,558 |
| Operating income: | | | | |
| Dairy Group | \$ 172,653 | \$ 156,498 | \$ 505,878 | \$ 476,890 |
| WhiteWave Foods Company | 36,484 | 36,188 | 92,560 | 77,394 |
| Corporate | (34,920) | (36,719) | (107,483) | (106,263) |
| Segment operating income | 174,217 | 155,967 | 490,955 | 448,021 |
| Facility closing and reorganization costs | (5,471) | (17,993) | (12,823) | (26,821) |
| Total | \$ 168,746 | \$ 137,974 | \$ 478,132 | \$ 421,200 |

| | September 30, 2006 | December 31, 2005 |
|-------------------------|-----------------------|----------------------|
| (In thousands) | | |
| Assets: | | |
| Dairy Group | \$5,129,789 | \$5,197,092 |
| WhiteWave Foods Company | 1,376,502 | 1,308,388 |
| Corporate | 239,330 | 243,677 |
| Discontinued operations | 17,587 | 301,727 |

| | | |
|-------|-------------|-------------|
| Total | \$6,763,208 | \$7,050,884 |
|-------|-------------|-------------|

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

Significant Customers Our WhiteWave Foods Company and Dairy Group segments each had a single customer that represented greater than 10% of their net sales in the first nine months of 2006. Approximately 17.6% of our consolidated net sales in the first nine months of 2006 were to this same customer.

13. Subsequent Events

Stock Repurchase Between October 1, 2006 and November 3, 2006, we spent approximately \$29.8 million to repurchase 716,100 shares of our common stock at an average price of \$41.63 per share, excluding commissions and fees. At November 3, 2006, approximately \$153.1 million remained available under our stock repurchase authorization.

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Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Business Overview**

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

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

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

Recent Developments***Discontinued Operations***

Iberian Operations Our Iberian operations include the manufacture and distribution of private label and branded milk across Spain and Portugal. We entered the Iberian market in February 2000 prior to the merger of Suiza Foods Corporation and Dean Foods Company, which occurred in December 2001, when we believed that opportunities for domestic expansion appeared limited. With the emergence of the WhiteWave Foods Company platform and additional growth opportunities within our domestic Dairy Group, our primary focus has been on our domestic operations. Accordingly, with the change in our strategic focus, we concluded that there are other organizations that may be better positioned to take advantage of the Iberian market. In the second quarter of 2006, we committed to a plan to sell our Iberian operations with the expectation that such sale could be completed within one year. In the second quarter of 2006, we recognized an estimated non-cash impairment charge of \$46.4 million, net of an income tax benefit of \$8.1 million, representing our best estimate as of June 30, 2006 of the impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for cash proceeds of approximately \$96.3 million. In addition to customary indemnifications of the purchaser of the business, we have retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately \$19.1 million as of September 30, 2006) if certain regulatory approvals are not received with respect to a specific facility. Primarily as a result of such

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retained obligations and indemnifications, an incremental loss on sale of our operations in Spain of \$2.4 million (net of tax) was recognized during the quarter ended September 30, 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (which comprise the remainder of our Iberian operations) for approximately \$11.4 million subject to regulatory approvals. Other than transaction related costs, no incremental loss is expected on the sale of our remaining Iberian operations. The Iberian operations have been reclassified as discontinued operations.

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

On August 22, 2005, we completed the sale of certain tangible and intangible assets related to the production and distribution of *Marie* s dips and dressings and *Dean* s dips. We also licensed the Dean trademark to Ventura Foods for use on certain non-dairy dips. Our net proceeds were approximately \$189.9 million.

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

Facility Closing and Reorganization Activities

We recorded a total of approximately \$12.8 million in facility closing and reorganization costs during the first nine months of 2006, related to previously announced plans. We expect to incur additional charges related to these restructuring plans of approximately \$5.5 million. Approximately \$3.4 million and \$2.1 million of these additional charges are expected to be completed by December 31, 2006 and 2007, respectively. These charges include the following costs:

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

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

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

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

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

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

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 September 30 | | | | Nine Months Ended September 30 | | | |
|---|---------------------------------|---------|------------|---------|--------------------------------|---------|------------|---------|
| | 2006 | | 2005 | | 2006 | | 2005 | |
| | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| | (Dollars in millions) | | | | | | | |
| Net sales | \$ 2,517.8 | 100.0% | \$ 2,569.4 | 100.0% | \$ 7,504.7 | 100.0% | \$ 7,559.1 | 100.0% |
| Cost of sales | 1,823.8 | 72.4 | 1,918.3 | 74.7 | 5,475.5 | 73.0 | 5,649.6 | 74.7 |
| Gross profit | 694.0 | 27.6 | 651.1 | 25.3 | 2,029.2 | 27.0 | 1,909.5 | 25.3 |
| Operating costs and expenses: | | | | | | | | |
| Selling and distribution | 416.8 | 16.6 | 399.2 | 15.5 | 1,231.4 | 16.4 | 1,173.5 | 15.5 |
| General and administrative | 101.4 | 4.0 | 94.5 | 3.7 | 302.4 | 4.0 | 283.4 | 3.7 |
| Amortization of intangibles | 1.6 | 0.1 | 1.4 | | 4.5 | | 4.6 | 0.1 |
| Facility closing and reorganization costs | 5.5 | 0.2 | 18.0 | 0.7 | 12.8 | 0.2 | 26.8 | 0.4 |
| Total operating costs and expenses | 525.3 | 20.9 | 513.1 | 19.9 | 1,551.1 | 20.6 | 1,488.3 | 19.7 |
| Total operating income | \$ 168.7 | 6.7% | \$ 138.0 | 5.4% | \$ 478.1 | 6.4% | \$ 421.2 | 5.6% |

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

Net Sales Consolidated net sales decreased approximately \$51.6 million to \$2.52 billion during the third quarter of 2006 from \$2.57 billion in the third quarter of 2005. Net sales by segment are shown in the table below.

| | Quarter Ended September 30 | | | |
|-------------------------|----------------------------|-----------|----------------------------|---------------------------|
| | 2006 | 2005 | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
| | (Dollars in millions) | | | |
| Dairy Group | \$2,204.1 | \$2,270.3 | \$(66.2) | (2.9)% |
| WhiteWave Foods Company | 313.7 | 299.1 | 14.6 | 4.9 |
| Total | \$2,517.8 | \$2,569.4 | \$(51.6) | (2.0)% |

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

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs; labor costs; and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution facilities. Our cost of sales as a percentage of net sales decreased to 72.4% in the third quarter of 2006 compared to 74.7% in the third quarter of 2005 primarily due to lower raw milk costs in our Dairy Group segment in the third quarter of 2006.

Operating Costs and Expenses Our operating expenses increased approximately \$12.2 million during the third quarter of 2006 as compared to the same period in the prior year. Our operating expense as a percentage of net sales was 20.9% in the third quarter of 2006 compared to 19.9% during the third quarter of 2005. Operating expenses increased primarily due to an increase in distribution costs of \$14.4 million resulting from higher fuel prices and increased volumes. In addition, general and administrative expenses

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increased approximately \$6.9 million due to higher salaries and benefits, legal and professional fees and information technology expenditures partially offset by a reduction in share-based compensation expense. These increases were offset by a decline of approximately \$12.5 million in facility closing and reorganization costs. See **Results by Segment** for more information.

Operating Income Operating income during the third quarter of 2006 was \$168.7 million, an increase of \$30.7 million from the third quarter of 2005 operating income of \$138.0 million. Our operating margin in the third quarter of 2006 was 6.7% compared to 5.4% in the third quarter of 2005. Our operating margin increased primarily as a result of lower raw milk costs.

Other (Income) Expense Total other expense increased to \$48.0 million in the third quarter of 2006 compared to \$37.7 million in the third quarter of 2005. Interest expense increased to \$48.0 million in the third quarter of 2006 from \$37.8 million in the third quarter of 2005 primarily due to higher average debt balances and higher interest rates.

Income Taxes Income tax expense was recorded at an effective rate of 38.3% in the third quarter of 2006 compared to 38.0% in the third quarter of 2005. Our tax rate varies as the mix of earnings contributed by our various business units changes.

Quarter Ended September 30, 2006 Compared to Quarter Ended September 30, 2005 Results by Segment**Dairy Group**

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

| | Quarter Ended September 30 | | | |
|--------------------------------|----------------------------|---------|------------|---------|
| | 2006 | | 2005 | |
| | Dollars | Percent | Dollars | Percent |
| | (Dollars in millions) | | | |
| Net sales | \$ 2,204.1 | 100.0% | \$ 2,270.3 | 100.0% |
| Cost of sales | 1,619.1 | 73.5 | 1,729.5 | 76.2 |
| Gross profit | 585.0 | 26.5 | 540.8 | 23.8 |
| Operating costs and expenses | 412.3 | 18.7 | 384.3 | 16.9 |
| Total segment operating income | \$ 172.7 | 7.8% | \$ 156.5 | 6.9% |

The Dairy Group's net sales decreased approximately \$66.2 million, or 2.9%, in the third quarter of 2006 versus the third quarter of 2005. The change in net sales from the third quarter of 2005 to the third quarter of 2006 was due to the following:

| | Dollars | Percent |
|-------------------------|-----------------------|---------|
| | (Dollars in millions) | |
| 2005 Net sales | \$2,270.3 | |
| Acquisitions | 3.9 | 0.2% |
| Volume | 4.7 | 0.2 |
| Pricing and product mix | (74.8) | (3.3) |
| 2006 Net sales | \$2,204.1 | (2.9)% |

The Dairy Group's net sales decreased primarily due to the effects of lower selling prices resulting from the pass-through of lower Class I raw skim milk and butterfat costs. In general, we change the prices that we charge our customers for fluid dairy products on a monthly basis, as the costs of our raw materials fluctuate. Class I raw skim milk prices were approximately 16% lower in the third quarter of 2006 compared to the third quarter of 2005. The following table sets forth the average monthly component

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prices of the Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for the third quarter of 2006 compared to the third quarter of 2005:

| | Quarter Ended September 30* | | |
|-----------------------------------|-----------------------------|------------|-------------|
| | 2006 | 2005 | % Change |
| Class I raw skim milk mover(3) | \$ 6.95(1) | \$ 8.24(1) | (16)% |
| Class I butterfat mover(3) | 1.24(2) | 1.73(2) | (28) |
| Class II raw skim milk minimum(4) | 6.86(1) | 7.85(1) | (13) |
| Class II butterfat minimum(4) | 1.32(2) | 1.84(2) | (28) |

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

- (1) Prices are per hundredweight.
- (2) Prices are per pound.
- (3) We process Class I raw skim milk and butterfat into fluid milk products.
- (4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream.

These price decreases were partly offset by fluid milk volume increases during the third quarter of 2006. Fluid milk volumes (which represented approximately 68% of the Dairy Group's sales volume during the quarter) increased approximately 1.3%. We believe the increase in volumes is a result of the superior value and service that we are able to offer our customers as the largest dairy processor in the nation.

The Dairy Group's cost of sales as a percentage of net sales decreased to 73.5% in the third quarter of 2006 compared to 76.2% in the third quarter of 2005 primarily due to the decrease in raw milk costs compared to the prior year. In addition, we reached a favorable resolution of a dispute with Consolidated Container Company, a supplier of resin and plastic bottles, resulting in a \$7.0 million reduction in cost of sales in the third quarter of 2006. These decreases were partly offset by higher resin costs of approximately \$9.1 million during the third quarter of 2006 compared to the third quarter of 2005. Resin is the primary component used in our plastic bottles.

The Dairy Group's operating expenses increased approximately \$28.0 million to \$412.3 million during the third quarter of 2006 compared to \$384.3 million in the third quarter of 2005, primarily due to a \$16.2 million increase in distribution costs. Distribution costs increased as a result of higher fuel prices of approximately \$3.7 million, as well as, increased labor costs and volume. General and administrative expenses increased approximately \$7.7 million due to higher salaries and benefits, information technology expenditures, and losses on sales of fixed assets.

Table of Contents*WhiteWave Foods Company*

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

| | Quarter Ended September 30 | | | |
|--------------------------------|----------------------------|---------|----------|---------|
| | 2006 | | 2005 | |
| | Dollars | Percent | Dollars | Percent |
| | (Dollars in millions) | | | |
| Net sales | \$ 313.7 | 100.0% | \$ 299.1 | 100.0% |
| Cost of sales | 204.4 | 65.2 | 188.5 | 63.0 |
| Gross profit | 109.3 | 34.8 | 110.6 | 37.0 |
| Operating costs and expenses | 72.8 | 23.2 | 74.4 | 24.9 |
| Total segment operating income | \$ 36.5 | 11.6% | \$ 36.2 | 12.1% |

WhiteWave Foods Company's net sales increased by \$14.6 million, or 4.9%, in the third quarter of 2006 versus the third quarter of 2005. The change in net sales from the third quarter of 2005 to the third quarter of 2006 was due to the following:

| | Dollars | Percent |
|-------------------------|-----------------------|---------|
| | (Dollars in millions) | |
| 2005 Net sales | \$299.1 | |
| Volume | 5.6 | 1.9% |
| Pricing and product mix | 9.0 | 3.0 |
| 2006 Net sales | \$313.7 | 4.9% |

The increase in net sales was primarily due to increased prices in response to higher raw material costs. Volumes increased approximately 1.9% related to the growth of our key brands, particularly *Silk* and *Horizon Organic*. Our overall volume growth was significantly impacted by the elimination of certain product offerings in late 2005 and early 2006.

Cost of sales as a percentage of net sales for WhiteWave Foods Company increased to 65.2% in the third quarter of 2006 from 63.0% in the third quarter of 2005. Cost of sales dollars increased approximately \$15.9 million primarily due to higher commodity costs, including organic raw milk and sugar, as well as higher sales volumes.

Operating expenses decreased approximately \$1.6 million in the third quarter of 2006 compared to the same period in the prior year primarily related to a decrease in distribution expenses due to efficiencies gained through centralizing and reducing distribution points.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 Consolidated Results

Net Sales Consolidated net sales decreased to \$7.50 billion during the first nine months of 2006 compared to \$7.56 billion in the first nine months of 2005. Net sales by segment are shown in the table below.

Nine Months Ended September 30

| | 2006 | 2005 | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|-------------------------|-----------------------|-----------|----------------------------|---------------------------|
| | (Dollars in millions) | | | |
| Dairy Group | \$6,576.9 | \$6,691.0 | \$(114.1) | (1.7)% |
| WhiteWave Foods Company | 927.8 | 868.1 | 59.7 | 6.9 |
| Total | \$7,504.7 | \$7,559.1 | \$ (54.4) | (0.7)% |

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Net sales decreased approximately \$54.4 million during the first nine months of 2006 compared to the same period in the prior year primarily due to the pass-through of lower Class I raw skim milk and butterfat costs in our Dairy Group. These price decreases were partly offset by higher pricing at WhiteWave Foods Company in response to higher commodity costs, as well as increased volumes in both segments. See [Results by Segment](#) for more information.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs, labor costs, and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution facilities. Our cost of sales as a percentage of net sales decreased to 73.0% in the first nine months of 2006 compared to 74.7% in the first nine months of 2005 primarily due to lower raw milk costs in our Dairy Group segment.

Operating Costs and Expenses Our operating expenses increased \$62.8 million during the first nine months of 2006 as compared to the same period in the prior year. Our operating expense as a percentage of net sales was 20.6% in the first nine months of 2006 compared to 19.7% during the first nine months of 2005. Operating expenses increased primarily due to an increase in distribution costs of \$50.7 million related to higher fuel costs and increased volumes and an increase in general and administrative expenses of \$19.0 million due to higher information technology spending, losses on sales of fixed assets, higher salaries and benefits, and higher legal and professional fees. These increases were offset by an approximately \$14.0 million decrease in facility closing and reorganization costs.

Operating Income Our operating margin in the first nine months of 2006 was 6.4% compared to 5.6% in the first nine months of 2005. Operating income during the first nine months of 2006 was \$478.1 million, an increase of \$56.9 million from operating income of \$421.2 million during the first nine months of 2005. Operating income increased primarily due to lower raw milk costs in our Dairy Group segment. See [Results by Segment](#) for more information.

Other (Income) Expense Total other expense increased to \$144.3 million in the first nine months of 2006 compared to \$115.2 million in the first nine months of 2005. Interest expense increased to \$144.3 million in the first nine months of 2006 from \$115.7 million in the first nine months of 2005 primarily due to higher average debt balances and higher interest rates.

Income Taxes Income tax expense was recorded at an effective rate of 38.9% in both the first nine months of 2006 and 2005. Our tax rate varies as the mix of earnings contributed by our various business units changes.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 Results by Segment

Dairy Group

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

| | Nine Months Ended September 30 | | | |
|--------------------------------|--------------------------------|---------|------------|---------|
| | 2006 | | 2005 | |
| | Dollars | Percent | Dollars | Percent |
| | (Dollars in millions) | | | |
| Net sales | \$ 6,576.9 | 100.0% | \$ 6,691.0 | 100.0% |
| Cost of sales | 4,871.1 | 74.1 | 5,082.5 | 76.0 |
| Gross profit | 1,705.8 | 25.9 | 1,608.5 | 24.0 |
| Operating costs and expenses | 1,199.9 | 18.2 | 1,131.6 | 16.9 |
| Total segment operating income | \$ 505.9 | 7.7% | \$ 476.9 | 7.1% |

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The Dairy Group's net sales decreased approximately \$114.1 million, or 1.7%, in the first nine months of 2006 versus the first nine months of 2005. The change in net sales from the first nine months of 2005 to the first nine months of 2006 was due to the following:

| | Dollars | Percent |
|-------------------------|-----------------------|---------|
| | (Dollars in millions) | |
| 2005 Net sales | \$6,691.0 | |
| Acquisitions | 3.9 | 0.1% |
| Volume | 116.1 | 1.7 |
| Pricing and product mix | (234.1) | (3.5) |
| 2006 Net sales | \$6,576.9 | (1.7)% |

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

| | Nine Months Ended September 30* | | |
|-----------------------------------|------------------------------------|-----------|----------|
| | 2006 | 2005 | % Change |
| Class I raw skim milk mover(3) | \$7.36(1) | \$8.67(1) | (15)% |
| Class I butterfat mover(3) | 1.32(2) | 1.75(2) | (25) |
| Class II raw skim milk minimum(4) | 7.30(1) | 7.60(1) | (4) |
| Class II butterfat minimum(4) | 1.31(2) | 1.74(2) | (25) |

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

(1) Prices are per hundredweight.

(2) Prices are per pound.

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

(4)

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

The Dairy Group's sales volumes increased by 1.7% during the first nine months of 2006 compared to the first nine months of 2005. Fluid milk volumes (which represented approximately 68% of the Dairy Group's sales volume during the first nine months of 2006) increased approximately 2.3% during the first nine months of 2006 compared to the same period in the prior year. We believe the increase in volumes is a result of the superior value and service that we are able to offer our customers as the largest dairy processor in the nation.

The Dairy Group's cost of sales as a percentage of net sales decreased to 74.1% in the first nine months of 2006 compared to 76.0% in the first nine months of 2005. Cost of sales dollars decreased \$211.4 million primarily due to lower raw milk costs in the first nine months of 2006 compared to the same period in the prior year.

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The Dairy Group's operating expense as a percentage of net sales increased to 18.2% in the first nine months of 2006 from 16.9% in the first nine months of 2005. Operating expense dollars increased approximately \$68.3 million during the first nine months of 2006 compared to the first nine months of 2005, primarily due to an increase in distribution costs. Total distribution costs increased \$50.8 million primarily as a result of higher fuel prices which impacted distribution costs by approximately \$16.3 million, increased deliveries in our DSD system due to the addition of certain customers and the acquisition of several small distributors in 2006. General and administrative expenses increased approximately \$15.2 million primarily due to higher information technology spending, losses on sales of fixed assets, higher salaries and benefits, and higher legal and professional fees.

WhiteWave Foods Company

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

| | Nine Months Ended September 30 | | | |
|--------------------------------|--------------------------------|---------|----------|---------|
| | 2006 | | 2005 | |
| | Dollars | Percent | Dollars | Percent |
| | (Dollars in millions) | | | |
| Net sales | \$ 927.8 | 100.0% | \$ 868.1 | 100.0% |
| Cost of sales | 603.4 | 65.0 | 565.8 | 65.2 |
| Gross profit | 324.4 | 35.0 | 302.3 | 34.8 |
| Operating costs and expenses | 231.8 | 25.0 | 224.9 | 25.9 |
| Total segment operating income | \$ 92.6 | 10.0% | \$ 77.4 | 8.9% |

WhiteWave Foods Company's net sales increased by \$59.7 million, or 6.9%, in the first nine months of 2006 versus the first nine months of 2005. The change in net sales from the first nine months of 2005 to the first nine months of 2006 was due to the following:

| | Dollars | Percent |
|-------------------------|-----------------------|---------|
| | (Dollars in millions) | |
| 2005 Net sales | \$868.1 | |
| Volume | 23.9 | 2.8% |
| Pricing and product mix | 35.8 | 4.1 |
| 2006 Net sales | \$927.8 | 6.9% |

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

Cost of sales as a percentage of net sales for WhiteWave Foods Company decreased to 65.0% in the first nine months of 2006 from 65.2% in the first nine months of 2005. Cost of sales dollars increased \$37.6 million primarily due to higher organic raw milk and sugar costs and increased volumes.

Operating expenses increased approximately \$6.9 million in the first nine months of 2006 compared to the same period in the prior year primarily due to higher marketing expenses related to a new marketing campaign for *Silk* soymilk.

Liquidity and Capital Resources

Historical Cash Flow

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

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Net cash provided by operating activities from continuing operations was \$427.0 million for the first nine months of 2006 as contrasted to \$468.2 million for the same period in 2005, a decrease of \$41.2 million. Net cash provided by operating activities was primarily impacted by changes in operating assets and liabilities, which declined approximately \$81.3 million in the first nine months of 2006 compared to the first nine months of the prior year. The decline primarily relates to changes in working capital balances, lower raw milk costs, payment of annual employee bonuses and a payment made in settlement of contractual obligations under a co-pack agreement entered into prior to our acquisition of an entity.

Net cash used in investing activities from continuing operations was \$89.8 million in the first nine months of 2006 compared to \$9.5 million in the first nine months of 2005, an increase of \$80.3 million. Our capital expenditures totaled \$174.9 million in the first nine months of 2006 compared to \$206.0 in the first nine months of 2005. We received net proceeds of approximately \$96.3 million for divestitures in the first nine months of 2006 compared to \$189.9 million in the first nine months of 2005.

We repaid a net amount of \$231.4 million of debt in the first nine months of 2006.

Current Debt Obligations

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

| Indebtedness, Purchase & Lease Obligations | Total | Payments Due by Period | | | | | |
|--|-------------------|------------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| | | 10/1/06-9/30/07 | 10/1/07-9/30/08 | 10/1/08-9/30/09 | 10/1/09-9/30/10 | 10/1/10-9/30/11 | Thereafter |
| | | (In millions) | | | | | |
| Senior credit facility | \$ 1,612.7 | \$ 225.0 | \$ 225.0 | \$ 1,162.7 | \$ | \$ | \$ |
| Dean Foods senior notes(1) | 500.0 | | | | | | 500.0 |
| Subsidiary senior notes(1) | 600.0 | 250.0 | | 200.0 | | | 150.0 |
| Receivables-backed facility | 481.2 | | | 481.2 | | | |
| Capital lease obligations and other | 13.3 | 9.9 | 0.8 | 0.7 | 0.7 | 0.4 | 0.8 |
| Purchase obligations(2) | 487.0 | 244.5 | 94.6 | 41.7 | 19.7 | 10.7 | 75.8 |
| Operating leases | 474.0 | 104.6 | 91.8 | 79.9 | 66.7 | 47.6 | 83.4 |
| Interest payments(3) | 891.2 | 235.0 | 202.9 | 136.3 | 45.4 | 45.4 | 226.2 |
| Total | \$ 5,059.4 | \$ 1,069.0 | \$ 615.1 | \$ 2,102.5 | \$ 132.5 | \$ 104.1 | \$ 1,036.2 |

(1) Represents face value.

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

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

the borrowings outstanding at the time.

Other Long-Term Liabilities

We offer pension benefits through various defined benefit pension plans and also offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing non-contributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates. For example, these costs are impacted by actual employee demographics (including age, compensation levels and

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employment periods), the level of contributions made to the plan and earnings on plan assets. Our pension plan assets are primarily made up of equity and fixed income investments. Changes made to the provisions of the plan may impact current and future pension costs. Fluctuations in actual equity market returns, as well as changes in general interest rates may result in increased or decreased pension costs in future periods. Pension costs may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and pension costs.

We expect to contribute approximately \$36.1 million to the pension plans and approximately \$2.6 million to the postretirement health plans in 2006.

Other Commitments and Contingencies

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

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

certain indemnification obligations related to businesses that we have divested;

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

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

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

Future Capital Requirements

During 2006, we intend to invest a total of approximately \$250 million in capital expenditures primarily for our existing manufacturing facilities and distribution capabilities. We expect cash interest to be approximately \$185 million to \$190 million based on current debt levels and cash taxes to be approximately \$50 million to \$55 million.

As of September 30, 2006 the portion of our long-term debt due within the next 12 months totaled \$485.0 million. We expect that cash flow from operations together with availability under our existing senior credit facility will be sufficient to meet our anticipated future capital requirements. As of November 3, 2006, approximately \$1.36 billion was available for future borrowings under our senior credit facility.

Known Trends and Uncertainties**Prices of Raw Milk and Other Inputs**

Dairy Group The primary raw material used in our Dairy Group is raw milk (which contains both raw skim milk and butterfat). The federal government and certain state governments set minimum prices

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

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

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

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

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

WhiteWave Foods Company A significant raw material used to manufacture products sold by WhiteWave Foods Company is organic soybeans. We have entered into supply agreements for organic soybeans, which we believe will meet our needs for 2006 and 2007. Generally, these agreements provide for pricing at fixed levels. However, should our need for organic soybeans exceed the quantity that we have under contract, or if the suppliers do not perform under the contracts, we may have difficulty obtaining sufficient supply, and the price we could be required to pay could be significantly higher.

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

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supply. The increase in the demand for organic milk combined with competitive activity and a limited supply has put significant upward pressure on organic milk costs. We also have experienced an increase in sugar costs during the first nine months of 2006 and expect these costs to remain high during the remainder of the year.

Competitive Environment

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

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

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

Tax Rate

Our tax rate was 38.9% for the first nine months of 2006 and 2005. We expect our effective tax rate for the full year 2006 to be approximately 39.0%.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk**Interest Rate Fluctuations**

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

The following table summarizes our various interest rate agreements in effect at September 30, 2006:

| Fixed Interest Rates | Expiration Date | Notional Amounts |
|----------------------|-----------------|------------------|
| | | (In millions) |
| 3.65% to 6.78% | December 2006 | \$550 |
| 4.81% to 4.84% | December 2007 | 500 |
| 4.07% to 4.27% | December 2010 | 450 |

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The following table summarizes our various interest rate agreements in effect at December 31, 2005:

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

We are exposed to market risk under these arrangements due to the possibility of interest rates on our senior credit facility falling below the rates on our interest rate derivative agreements. We recorded \$5.6 million of interest income, net of taxes, during the first nine months of 2006 primarily as a result of interest rates on our variable rate debt rising above the agreed-upon interest rate on our existing swap agreements. Credit risk under these arrangements is remote since the counterparties to our interest rate derivative agreements are major financial institutions.

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

Foreign Currency

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

Butterfat

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

Item 4. Controls and Procedures**Controls Evaluation and Related Certifications**

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

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

Definition of Disclosure Controls

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

Limitations on the Effectiveness of Controls

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

Scope of the Controls Evaluation

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

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Changes in Internal Control over Financial Reporting

During the third quarter of 2006, WhiteWave Foods Company implemented SAP as its primary financial reporting and resource planning system. SAP was implemented at all locations of WhiteWave Foods Company in the United States except for the manufacturing facilities located in City of Industry, CA, Jacksonville, FL and Mt. Crawford, VA. WhiteWave Foods Company will implement SAP at these facilities during the first half of 2007.

Conclusions

Based upon our most recent controls evaluation, our CEO and CFO have concluded that as of the end of the period covered by this quarterly report, our Disclosure Controls were effective at the reasonable assurance level. Other than the implementation of SAP as discussed above, there was no change in our internal control over financial reporting in the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Part II Other Information****Item 1. Legal Proceedings**

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

Two shareholder derivative complaints have been filed in July and October, 2006 in the district court of Dallas County, Texas, against the Company which allege stock option backdating. The complaints name certain current and former members of the Board of Directors and certain current and former members of management. In response to the litigation, a special litigation committee of the Board of Directors of the Company was established and has been conducting its own independent review of our stock option grants and the allegations made in the complaints. The committee consists of independent board members not named in the litigation.

The Company also has been informed by the staff of the Securities and Exchange Commission (the SEC) that it is conducting an informal inquiry into the Company's stock option practices. The Company intends to cooperate fully with the SEC's inquiry.

Item 1A. Risk Factors

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Statements that are not historical in nature are forward-looking statements about our future that are not statements of historical fact. Most of these statements are found in this report under the following subheadings: Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk. In some cases, you can identify these statements by terminology such as may, should, could, expects, seek to, anticipates, plans, believes, estimates, intends, predicts, projects, potential, negative of such terms and other comparable terminology. These statements are only predictions, and in evaluating those statements, you should carefully consider the information above, including in Known Trends and Uncertainties, as well as the risks outlined below. Actual performance or results may differ materially and adversely. Except as reported in any previously filed Quarterly Report on Form 10-Q and the third and sixth items identified below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

In 2004, we began the process of consolidating the operations of the three operating units that comprise our WhiteWave Foods Company segment into a single business. During 2005, we appointed a new President of WhiteWave Foods, which was a key step in the development of a consolidated leadership team for the organization. We also completed the consolidation of the sales, marketing and research and development organization and the supply chain integration is in process. We consolidated most product manufacturing into five primary facilities, three of which were transferred from our Dairy Group in 2005, and we narrowed our network of co-packers. In 2006, we will continue to focus on streamlining our product portfolio, focusing on the most profitable opportunities and on continuing to optimize our supply chain. We are in the process of implementing the SAP platform across WhiteWave Foods Company, which we expect will enable us to more effectively and efficiently manage our supply chain and business processes. During the third quarter of 2006, we implemented SAP at all locations of WhiteWave Foods Company in the United States except for three of our manufacturing facilities. We will implement SAP at these facilities during the first half of 2007. Our failure to successfully manage this process could cause us

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to incur unexpected costs or to lose customers or sales, which could have a material adverse effect on our financial results.

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

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

The Consolidation of Retail Customers May Put Pressures on the Company's Operating Margins and Profitability

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

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

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

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

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

Our *Silk* soymilk and *Horizon Organic* organic food and beverage products have leading market shares in their categories and have benefited in many cases from being the first to introduce products in their categories. As soy and organic products continue to gain in popularity with consumers, we expect our products in these categories to continue to attract competitors. Many large food and beverage companies

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have substantially more resources than we do, and they may be able to market their soy and organic products more successfully than us, which could cause our growth rate in these categories to be slower than our forecast and could cause us to lose sales. The increase in popularity of soy and organic milks is also attracting private label competitors who sell their products at a lower price. The success of private label brands could adversely affect our sales and profitability. The willingness of consumers to purchase the Company's products will depend upon the Company's ability to offer products providing the right consumer benefits at the right price. Furthermore, in periods of economic uncertainty, consumers tend to purchase more private label or other lower-priced products which could result in a reduction of sales. Finally, there is a limited supply of organic raw materials in the United States, especially organic soybeans and organic raw milk. New entrants into our markets can reduce available supply and drive up costs. Even without new entrants, our own growth can put pressure on the availability and price of organic raw materials.

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

The Company May Experience Liabilities or Negative Effects on Its Reputation as a Result of Product Recalls, Product Injuries or Other Legal Claims

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

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

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

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

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

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

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

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

require us to dedicate significant cash flow to the payment of principal and interest on our debt which reduces the funds we have available for other purposes,

may limit our flexibility in planning for or reacting to changes in our business and market conditions,

impose on us additional financial and operational restrictions, and

expose us to interest rate risk since a portion of our debt obligations are at variable rates.

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

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

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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

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

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

(2) Amount represents maximum amount authorized for share repurchases. At September 30, 2006, approximately \$182.9 million remained available pursuant to the stock repurchase program approved by our Board of Directors on May 3, 2006, which allowed for the repurchase of an additional \$300 million in stock beyond amounts previously authorized. The amount can be increased by actions of our Board of Directors.

Item 6. Exhibits

(a) Exhibits

| | |
|------|--|
| 10.1 | Executive Severance Pay Plan |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | |

Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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

November 9, 2006

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