

DEAN FOODS CO/
Form 10-Q/A
December 12, 2005

Table of Contents

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

**Form 10-Q/ A
Amendment No. 1**

(Mark One)

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

For the Quarterly Period Ended September 30, 2005

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 December 8, 2005 the number of shares outstanding of each class of common stock was: 134,599,560
Common Stock, par value \$.01

Explanatory Note

Dean Foods Company (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed with the Securities and Exchange Commission (the SEC) on November 9, 2005, to (1) refile the full text of the original Form 10-Q for the quarter ended September 30, 2005, (2) amend Item 6 of Part II, and (3) correct inadvertent omissions from and refile the Section 302 certifications. This Amendment No. 1 does not reflect the restatement of any previously reported financial statements or, except as noted above, change any other disclosures.

This Amendment No. 1 continues to speak as of the date of the original Form 10-Q for the quarter ended September 30, 2005 and the Company has not updated or amended the disclosures contained herein to reflect events that have occurred since the filing of the original Form 10-Q, or modified or updated those disclosures in any way other than as described in the preceding paragraph. Accordingly, this Amendment No. 1 should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the original Form 10-Q on November 9, 2005.

Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>Item 1 Financial Statements</u>	3
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 4 Controls and Procedures</u>	41
<u>Part II Other Information</u>	
<u>Item 1 Legal Proceedings</u>	43
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 5 Other Information</u>	43
<u>Item 6 Exhibits</u>	45
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

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, 2005	December 31, 2004
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,381	\$ 27,407
Receivables, net	816,093	828,754
Inventories	383,753	365,403
Deferred income taxes	138,328	143,079
Prepaid expenses and other current assets	61,265	72,439
Total current assets	1,431,820	1,437,082
Property, plant and equipment	1,846,764	1,813,284
Goodwill	3,083,248	3,100,446
Identifiable intangible and other assets	672,194	672,852
Assets of discontinued operations		732,704
Total	\$ 7,034,026	\$ 7,756,368
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 918,245	\$ 869,163
Income taxes payable	74,693	40,000
Current portion of long-term debt	66,849	141,012
Total current liabilities	1,059,787	1,050,175
Long-term debt	3,025,944	3,110,716
Deferred income taxes	532,390	483,540
Other long-term liabilities	288,457	322,378
Liabilities of discontinued operations		125,960
Commitments and contingencies (Note 10)		
Stockholders equity:		
Preferred stock, none issued		
Common stock, 142,536,545 and 149,222,997 shares issued and outstanding, with a par value of \$0.01 per share	1,425	1,492
Additional paid-in capital	1,023,501	1,308,172
Retained earnings	1,123,992	1,359,632
Accumulated other comprehensive income (loss)	(21,470)	(5,697)
Total stockholders equity	2,127,448	2,663,599

Total	\$	7,034,026	\$	7,756,368
-------	----	-----------	----	-----------

See Notes to Condensed Consolidated Financial Statements.

-3-

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(unaudited)			
Net sales	\$ 2,646,613	\$ 2,583,578	\$ 7,810,916	\$ 7,447,075
Cost of sales	1,997,188	1,977,934	5,895,088	5,689,084
Gross profit	649,425	605,644	1,915,828	1,757,991
Operating costs and expenses:				
Selling and distribution	394,701	368,049	1,161,465	1,071,041
General and administrative	89,555	85,031	275,813	254,089
Amortization of intangibles	1,467	1,662	4,662	3,669
Facility closing and reorganization costs	17,993	11,590	26,821	19,295
Other operating income				(122)
Total operating costs and expenses	503,716	466,332	1,468,761	1,347,972
Operating income	145,709	139,312	447,067	410,019
Other (income) expense:				
Interest expense	40,163	74,393	121,912	158,068
Other (income) expense, net	(197)	415	(536)	(1,244)
Total other expense	39,966	74,808	121,376	156,824
Income from continuing operations before income taxes	105,743	64,504	325,691	253,195
Income taxes	39,335	26,678	123,918	99,218
Income from continuing operations	66,408	37,826	201,773	153,977
Gain on sale of discontinued operations, net of tax	37,766		37,690	
Income (loss) from discontinued operations, net of tax	(299)	2,366	17,257	32,528

Edgar Filing: DEAN FOODS CO/ - Form 10-Q/A

Net income	\$	103,875	\$	40,192	\$	256,720	\$	186,505
Basic earnings per common share:								
Income from continuing operations	\$	0.45	\$	0.24	\$	1.35	\$	0.98
Gain on sale of discontinued operations		0.25				0.25		
Income from discontinued operations				0.02		0.12		0.21
Net income	\$	0.70	\$	0.26	\$	1.72	\$	1.19
Diluted earnings per common share:								
Income from continuing operations	\$	0.43	\$	0.24	\$	1.29	\$	0.95
Gain on sale of discontinued operations		0.24				0.24		
Income from discontinued operations				0.01		0.11		0.20
Net income	\$	0.67	\$	0.25	\$	1.64	\$	1.15
Average common shares:								
Basic		148,098,362		155,920,588		149,578,334		156,450,474
Diluted		155,536,494		162,100,926		156,137,091		162,793,019

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Other	Stockholders	Income
			Capital		Comprehensive	Equity	
					Income		
					(Loss)		
	(unaudited)						
Balance, December 31, 2004	149,222,997	\$ 1,492	\$ 1,308,172	\$ 1,359,632	\$ (5,697)	\$ 2,663,599	
Issuance of common stock	3,249,548	32	76,494			76,526	
Share dividend of TreeHouse common stock				(492,360)		(492,360)	
Purchase and retirement of treasury stock	(9,926,000)	(99)	(361,165)			(361,264)	
Net income				256,720		256,720	\$ 256,720
Other comprehensive income (Note 7):							
Change in fair value of derivative instruments					3,255	3,255	3,255
Amounts reclassified to income statement related to hedging activities					7,305	7,305	7,305
Cumulative translation adjustment					(24,541)	(24,541)	(24,541)
Minimum pension liability adjustment					(1,792)	(1,792)	(1,792)
Comprehensive income							\$ 240,947
Balance, September 30, 2005	142,546,545	\$ 1,425	\$ 1,023,501	\$ 1,123,992	\$ (21,470)	\$ 2,127,448	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30	
	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 256,720	\$ 186,505
Income from discontinued operations	(17,257)	(32,528)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	164,978	153,598
Loss (gain) on disposition of assets	808	(979)
Gain on sale of discontinued operations	(37,690)	
Costs related to early extinguishment of debt		32,613
Write-down of impaired assets	9,051	6,346
Deferred income taxes	48,028	122,897
Tax savings on equity compensation	16,895	17,548
Other	(3,055)	(631)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	14,673	(43,091)
Inventories	(18,458)	(87,159)
Prepaid expenses and other assets	26,784	(2,214)
Accounts payable and accrued expenses	9,921	(61,434)
Income taxes payable	(8,636)	(86,747)
Net cash provided by continuing operations	462,762	204,724
Net cash provided by discontinued operations	16,978	63,195
Net cash provided by operating activities	479,740	267,919
Cash flows from investing activities:		
Additions to property, plant and equipment	(220,955)	(248,285)
Cash outflows for acquisitions and investments	(767)	(366,990)
Net proceeds from divestitures	189,862	
Proceeds from sale of fixed assets	7,586	9,451
Net cash used in continuing operations	(24,274)	(605,824)
Net cash used in discontinued operations	(7,875)	(16,543)
Net cash used in investing activities	(32,149)	(622,367)
Cash flows from financing activities:		
Proceeds from issuance of debt	27,488	1,731,695
Repayment of debt	(192,521)	(1,204,314)
Payment of deferred financing costs	(3,281)	(9,309)
Issuance of common stock, net of expenses	59,631	62,371

Edgar Filing: DEAN FOODS CO/ - Form 10-Q/A

Purchase of common stock	(345,087)	(257,343)
Net cash provided by (used in) continuing operations	(453,770)	323,100
Net cash provided by (used in) discontinued operations	11,153	(3,615)
Net cash provided by (used in) financing activities	(442,617)	319,485
Increase (decrease) in cash and cash equivalents	4,974	(34,963)
Cash and cash equivalents, beginning of period	27,407	46,037
Cash and cash equivalents, end of period	\$ 32,381	\$ 11,074

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DEAN FOODS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(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, 2004. 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 reclassifications have been made to conform the prior year's Consolidated Financial Statements to the current year's classifications. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. Our results of operations for the period ended September 30, 2005 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 2004 Consolidated Financial Statements contained in our Annual Report on Form 10-K (filed with the Securities and Exchange Commission on March 16, 2005).

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*® dips and dressings and *Dean*® dips businesses to Ventura Foods. Our Condensed Financial Statements as of December 31, 2004 and for the three-month and nine-month periods ended September 30, 2004 have been reclassified to give effect to the businesses transferred to TreeHouse and the *Marie*® dips and dressings and *Dean*® 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 and product loading and handling costs. Our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution warehouses within cost of sales while WhiteWave Foods Company includes these costs in selling and distribution expense. Shipping and handling costs included in selling and distribution expense consist primarily of route delivery costs for both company-owned delivery routes and independent distributor routes, to the extent that such independent distributors are paid a delivery fee, and the cost of shipping products to customers through third party carriers. Shipping and handling costs recorded as a component of selling and distribution expense were approximately \$305.1 million and \$280.6 million in the third quarter of 2005 and 2004, respectively, and \$886.1 million and \$805 million during the first nine months of 2005 and 2004, respectively.

Stock-Based Compensation We have elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock options. All options granted to date have been to employees, officers and directors. No compensation expense has been recognized as the stock options were granted at exercise prices that were at or above market value at the grant date. Compensation expense for grants of stock units is recognized over the vesting period. See Note 6 for more information about our stock option and stock unit programs. Had compensation expense been determined for stock option grants using fair value methods provided for in

Table of Contents

SFAS No. 123, Accounting for Stock-Based Compensation, our pro forma net income and net income per common share would have been the amounts indicated below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(In thousands, except share data)			
Net income, as reported	\$ 103,875	\$ 40,192	\$ 256,720	\$ 186,505
Add: Stock-based compensation expense included in net income, net of tax(1)	4,073	943	10,495	2,760
Less: Stock-based employee compensation, determined under fair value-based methods for all awards, net of income tax benefit	(8,565)	(8,704)	(24,736)	(26,584)
Pro forma net income	\$ 99,383	\$ 32,431	\$ 242,479	\$ 162,681
Net income per share:				
Basic as reported	\$ 0.70	\$ 0.26	\$ 1.72	\$ 1.19
Basic pro forma	0.67	0.21	1.62	1.04
Diluted as reported	0.67	0.25	1.64	1.15
Diluted pro forma	0.64	0.20	1.55	1.00
Stock option share data:				
Stock options granted during period	64,265	51,370	2,196,317	2,228,658
Weighted-average option fair value	\$ 10.28	\$ 8.68	\$ 7.78	\$ 8.87

(1) Included in the three-month and nine-month periods ended September 30, 2005 is \$3.4 million and \$6.7 million, respectively, of compensation expense, net of tax, resulting from the acceleration of vesting on certain stock units issued in January 2003. See further discussion in Note 6.

The fair value of each stock option grant is calculated using the Black-Scholes option-pricing model, with the following assumptions:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Expected volatility	25%	25%	25%	25%
Expected dividend yield	0%	0%	0%	0%
Expected option term	4.5 years	5 years	4.5 years	5 years
Risk-free rate of return	3.84 to 4.16%	3.38%	3.63 to 4.26%	2.98 to 3.81%

Recently Issued Accounting Pronouncements The Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations in March 2005. This Interpretation clarifies the term conditional asset retirement obligation as used in FASB Statement of Financial

Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations , and also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We are currently evaluating the impact of FIN No. 47, which will become effective for us in the fourth quarter of 2005, on our Consolidated Financial Statements.

The FASB issued SFAS No. 123(R), Share-Based Payment in December 2004. It will require the cost of employee compensation paid with equity instruments to be measured based on grant-date fair values. That cost will be recognized over the vesting period. SFAS No. 123(R) will become effective for us in the first quarter of 2006. We are still evaluating the impact of SFAS No. 123(R) on our Consolidated Financial Statements and have not yet determined the transition method we will apply when we adopt the statement. Refer to the section titled Stock-Based Compensation in this Note for an illustration of the pro-forma impact of expensing our stock options in the historical periods.

Table of Contents

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* an Amendment of ARB No. 43, Chapter 4. SFAS No. 151, which is effective for inventory costs incurred during years beginning after June 15, 2005, 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. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements.

In December 2004, FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal years beginning after June 15, 2005. 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. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements.

2. Discontinued Operations

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

Spin-off of TreeHouse On January 25, 2005, we formed TreeHouse. At that time, TreeHouse sold shares of common stock to certain members of a newly retained management team, who purchased approximately 1.67% of the outstanding common stock of TreeHouse, for an aggregate purchase price of \$10 million. The proceeds from this transaction were distributed to us as a dividend and are reflected within stockholders' equity in our Condensed Consolidated Balance Sheet.

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. In addition, we entered into a co-pack agreement under which we will continue to manufacture certain products for TreeHouse and TreeHouse will continue to manufacture certain products for us. Our anticipated future sales to and purchases from TreeHouse are not expected to be significant. Following the Spin-off, we have no ownership interest in TreeHouse.

Prior to the Spin-off, we transferred the obligation, net of estimated related plan assets, for pension and other postretirement benefit plans of transferred employees and retirees to TreeHouse. During the fourth quarter of 2005, we will finalize the preliminary computations and transfer the plan assets related to such obligations.

Our financial statements 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.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(In thousands)			
Net sales	\$9,093	\$188,917	\$394,882	\$584,135
Income before taxes	727	2,664	32,019	50,370

Major classes of assets and liabilities of discontinued operations included in our balance sheet at December 31, 2004 (in thousands) were as follows:

Current assets	\$ 159,341
Goodwill	389,683
Other non-current assets	183,680
Current liabilities	56,253
Non-current liabilities	69,707

3. Inventories

	September 30, 2005	December 31, 2004
	(In thousands)	
Raw materials and supplies	\$ 160,724	\$ 159,365
Finished goods	223,029	206,038
Total	\$ 383,753	\$ 365,403

4. Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2005 are as follows:

	Dairy Group	WhiteWave Foods Company	Other	Total
	(In thousands)			
Balance at December 31, 2004	\$ 2,442,968	\$ 551,472	\$ 106,006	\$ 3,100,446
Purchase accounting adjustments	(5,175)	(802)		(5,977)
Acquisitions	1,263			1,263
Currency changes			(12,484)	(12,484)
Balance at September 30, 2005	\$ 2,439,056	\$ 550,670	\$ 93,522	\$ 3,083,248

Table of Contents

The gross carrying amount and accumulated amortization of our intangible assets (other than goodwill) as of September 30, 2005 and December 31, 2004 are as follows:

	September 30, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In thousands)						
Intangible assets with indefinite lives:						
Trademarks	\$ 534,918	\$ (6,649)	\$ 528,269	\$ 537,636	\$ (6,649)	\$ 530,987
Intangible assets with finite lives:						
Customer-related	87,777	(20,122)	67,655	85,167	(14,884)	70,283
Total	\$ 622,695	\$ (26,771)	\$ 595,924	\$ 622,803	\$ (21,533)	\$ 601,270

Amortization expense on intangible assets for the three months ended September 30, 2005 and 2004 was \$1.7 million and \$2 million, respectively, and \$5.3 million and \$3.8 million for the nine months ended September 30, 2005 and 2004, respectively. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

2006	\$ 7.1 million
2007	7.1 million
2008	6.9 million
2009	6.8 million
2010	6.7 million

5. Long-Term Debt

	September 30, 2005		December 31, 2004	
	Amount Outstanding	Interest Rate	Amount Outstanding	Interest Rate
(In thousands)				
Senior credit facility	\$ 1,955,000	4.71%	\$ 2,031,100	3.72%
Line of credit	9,100	4.56		
Subsidiary debt obligations:				
Senior notes	567,645	6.625-8.15	664,696	6.625-8.15
Receivables-backed loan	494,100	4.18	500,000	2.83
Other lines of credit	46,100	2.88	30,750	2.64
Capital lease obligations and other	20,848		25,182	
	3,092,793		3,251,728	
Less current portion	(66,849)		(141,012)	

Total	\$ 3,025,944	\$ 3,110,716
-------	--------------	--------------

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, 2005 there were outstanding term loan borrowings of \$1.5 billion under the senior credit facility, and \$455 million outstanding under the revolving line of credit. Letters of credit in the aggregate amount of \$103.7 million were issued but undrawn. At September 30, 2005, approximately \$941.3 million was available for future borrowings under the revolving credit facility, subject to satisfaction of certain ordinary course conditions contained in the credit agreement.

In May 2005, we amended our senior credit facility to modify the interest rate on the revolving credit facility and term loan. With the amendment, 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

Table of Contents

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). Prior to the amendment, the base rate margin was zero to 62.5 basis points and the LIBOR margin varied from 75 to 187.5 basis points based on our credit ratings. The blended interest rate in effect on borrowings under the senior credit facility, including the applicable interest rate margin, was 4.71% at September 30, 2005. However, we had interest rate swap agreements in place that hedged \$775 million of our borrowings under the senior credit facility at an average rate of 4.96%, 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:

\$56.25 million quarterly beginning on December 31, 2006 through September 30, 2008;

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

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

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

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

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

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

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

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

Uncommitted Line of Credit We entered into a \$30 million uncommitted and unsecured line of credit in August 2005. Each loan is payable according to a payment grid determined on the date of the loan or on demand, but no later than August 23, 2006. The interest rate is determined for each loan at the prime rate or a fixed rate calculated by the bank for the applicable interest period. At September 30, 2005, we had outstanding borrowings of \$9.1 million at an interest rate of 4.56%.

Table of Contents

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

\$250.2 million (\$250 million face value), at 8.15% interest, maturing in 2007;

\$189.6 million (\$200 million face value), at 6.625% interest, maturing in 2009; and

\$127.8 million (\$150 million face value), at 6.9% interest, maturing in 2017.

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

Receivables-Backed Facility We have entered into a \$600 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to three wholly-owned special purpose entities intended to be bankruptcy-remote. The special purpose entities then transfer the receivables to third party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these three special purpose entities are fully reflected on our balance sheet, and the securitization is treated as a borrowing for accounting purposes. During the first nine months of 2005, we made net payments of \$5.9 million on this facility leaving an outstanding balance of \$494.1 million at September 30, 2005. 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 4.18% at September 30, 2005. Our ability to re-borrow under this facility is subject to a standard borrowing base formula. At September 30, 2005 this facility was fully funded.

Other Lines of Credit Leche Celta, our Spanish subsidiary, has certain lines of credit separate from the senior credit facility described above. At September 30, 2005, \$46.1 million was outstanding under these lines of credit at an average interest rate of 2.88%.

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

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

The following table summarizes our various interest rate agreements in effect at both September 30, 2005 and December 31, 2004:

Fixed Interest Rates	Expiration Date	Notional Amounts
		(In millions)
5.20% to 6.74%	December 2005	\$ 400
3.65% to 6.78%	December 2006	375

During the second quarter of 2005, we entered into additional interest rate swap agreements that become effective for us in December 2005 and expire in December 2010. These swaps have a total notional amount of \$500 million and fixed interest rates of 4.07% to 4.27%.

These swaps are required to be recorded as an asset or liability on our consolidated balance sheet at fair value, with an offset to other comprehensive income to the extent the hedge is effective. Derivative

-13-

Table of Contents

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, 2005 and December 31, 2004 our derivative asset and liability balances were:

	September 30, 2005	December 31, 2004
	(In thousands)	
Current derivative asset	\$ 2,177	\$
Long-term derivative asset	684	
Total derivative asset	\$ 2,861	\$
Current derivative liability	\$ (3,382)	\$ (14,993)
Long-term derivative liability	(393)	(2,069)
Total derivative liability	\$ (3,775)	\$ (17,062)

There was no hedge ineffectiveness for the three and nine months ended September 30, 2005, respectively. Approximately \$1.9 million and \$7.3 million of losses (net of tax) were reclassified to interest expense from other comprehensive income during the quarter and nine months ended September 30, 2005, respectively. We estimate that approximately \$760,000 of net derivative losses (net of tax) included in other comprehensive income will be reclassified into earnings within the next 12 months. These losses will increase the interest expense recorded on our variable rate debt.

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

6. Stockholders Equity

Stock Award Plans The following table summarizes stock option activity during the first nine months of 2005 under our stock-based compensation programs:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2004	16,847,721	\$ 20.32
Options granted during the first nine months(1)	2,196,317	27.81
Adjustment to options outstanding at the time of the Spin-off(2)	2,002,634	18.14
Options canceled or forfeited during the first nine months(3)	(292,977)	28.05
Options exercised during the first nine months	(2,566,541)	18.24
Options outstanding at September 30, 2005	18,187,154	18.59

(1)

Employee options vest as follows: 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. Options granted to non-employee directors vest upon grant. On June 30 of each year, each non-employee director receives an immediately vested option to purchase 7,500 shares of common stock.

- (2) The number and exercise prices of certain options outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the options before and after the Spin-off.
- (3) Pursuant to the terms of our stock award plans, options that are canceled or forfeited become available for future grants.

We issued 22,192 shares of restricted stock during the first nine months of 2005 to non-employee directors as compensation for services rendered. Shares of restricted stock granted to non-employee

Table of Contents

directors vest one-third on grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant.

In addition to stock options, we issue stock units to certain key employees and 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 vests ratably over five years, subject to certain accelerated vesting provisions based primarily on our stock price. Stock units granted to non-employee directors vest ratably over three years. The following table summarizes the status of our stock unit compensation program during the first nine months of 2005:

	Employees	Directors	Total
Stock units outstanding at December 31, 2004	950,500	50,150	1,000,650
Stock units issued during the first nine months	417,550	25,500	443,050
Shares issued during the first nine months upon vesting of stock units(1)	(454,567)	(17,117)	(471,684)
Adjustment to stock units outstanding at the time of the Spin-off(2)	199,335	9,241	208,576
Stock units canceled or forfeited during the first nine months(3)	(263,898)		(263,898)
Outstanding at September 30, 2005	848,920	67,774	916,694
Weighted average fair value	\$ 26.98	\$ 32.26	\$ 27.31
Compensation expense for the nine months ended September 30, 2005 (in thousands)	\$ 13,037	\$ 543	\$ 13,580

- (1) During the second quarter of 2005, it became probable that the conditions required to accelerate the vesting of stock units granted in January 2003 would be achieved in the third quarter 2005 because our stock price had achieved the price target. Therefore, we reduced the remaining period over which we recognized the compensation expense associated with the stock units. We recognized \$3.4 million and \$6.7 million of compensation expense, net of tax, in the three months and nine months ended September 30, 2005, respectively, resulting from the acceleration of the vesting period.
- (2) Stock units outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the stock units before and after the Spin-off.
- (3) Pursuant to the terms of our plan, employees have the option of forfeiting units to cover their tax liability when shares are issued. Units that are canceled or forfeited become available for future grants.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
(In thousands, except share data)				
Basic EPS computation:				
Numerator:				
Income from continuing operations	\$ 66,408	\$ 37,826	\$ 201,773	\$ 153,977
Denominator:				
Average common shares	148,098,362	155,920,588	149,578,334	156,450,474
Basic EPS from continuing operations	\$ 0.45	\$ 0.24	\$ 1.35	\$ 0.98
Diluted EPS computation:				
Numerator:				
Income from continuing operations	\$ 66,408	\$ 37,826	\$ 201,773	\$ 153,977
Denominator:				
Average common shares basic	148,098,362	155,920,588	149,578,334	156,450,474
Stock option conversion(1)	6,502,384	5,218,145	5,476,012	5,409,654
Stock units	935,748	962,193	1,082,745	932,891
Average common shares diluted	155,536,494	162,100,926	156,137,091	162,793,019
Diluted EPS from continuing operations	\$ 0.43	\$ 0.24	\$ 1.29	\$ 0.95

(1) There were 24,783 and 117,412 anti-dilutive shares for the quarter and nine-months ended September 30, 2005 and 96,000 and 34,210 anti-dilutive shares for the quarter and nine months ended September 30, 2004, respectively.

Stock Repurchases During the first nine months of 2005 we incurred approximately \$361.3 million, including commissions and fees, to repurchase 9.93 million shares of our common stock for an average price of \$36.40 per share. The repurchases were funded using borrowings under our senior credit facility.

Table of Contents**7. Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income plus all other changes in equity from non-owner sources. Consolidated comprehensive income was \$106.6 million and \$240.9 million for the three and nine months ended September 30, 2005, respectively. The amounts of income tax (expense) benefit allocated to each component of other comprehensive income during the nine months ended September 30, 2005 are included below.

	Pre-Tax Income (Loss)	Tax Benefit (Expense)	Net Amount
(In thousands)			
Accumulated other comprehensive income (loss), December 31, 2004	\$ (33,482)	\$ 27,785	\$ (5,697)
Cumulative translation adjustment arising during period	(24,541)		(24,541)
Net change in fair value of derivative instruments	4,908	(1,653)	3,255
Amounts reclassified to income statement related to hedging activities	11,239	(3,934)	7,305
Minimum pension liability adjustment	(2,310)	518	(1,792)
Accumulated other comprehensive income (loss), September 30, 2005	\$ (44,186)	\$ 22,716	\$ (21,470)

8. Employee Retirement and Postretirement Benefits

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
(In thousands)				
Components of net period cost:				
Service cost	\$ 763	\$ 693	\$ 2,289	\$ 2,079
Interest cost	3,952	3,973	11,856	11,919
Expected return on plan assets	(3,358)	(3,063)	(10,074)	(9,189)
Amortizations:				
Unrecognized transition obligation	27	36	81	108
Prior service cost	156	171	468	513
Unrecognized net loss	413	423	1,239	1,269
Effect of settlement	439	444	1,317	1,332
Net periodic benefit cost	\$ 2,392	\$ 2,677	\$ 7,176	\$ 8,031

We expect to contribute \$33.7 million to the pension plans during 2005.

Table of Contents

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	
	2005	2004	2005	2004
(In thousands)				
Components of net period cost:				
Service cost	\$ 229	\$ 211	\$ 687	\$ 633
Interest cost	291	299	873	897
Amortizations:				
Prior service cost	(52)	(17)	(156)	(51)
Unrecognized net loss	69	76	207	228
Net periodic benefit cost	\$ 537	\$ 569	\$ 1,611	\$ 1,707

We expect to contribute \$1.8 million to the postretirement health plans during 2005.

9. Facility Closing And Reorganization Costs

Facility Closing and Reorganization Costs We recorded net facility closing and reorganization costs of \$18 million and \$11.6 million during the third quarter of 2005 and 2004, respectively, and \$26.8 million and \$19.3 million during the first nine months of 2005 and 2004, respectively.

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

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

Previously announced plans including reorganizing WhiteWave Foods Company and closing Dairy Group manufacturing facilities in Madison, Wisconsin; and South Gate, California; and

Consolidation of certain administrative functions in the Midwest region of our Dairy Group.

We expect to incur additional charges related to these restructuring plans of approximately \$8 million, including approximately \$797,000 in work force reduction costs and approximately \$7.2 million in shutdown and other costs. Approximately \$4.5 million and approximately \$3.4 million of these additional charges are expected to be incurred by December 2005 and December 2006, respectively.

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

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

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

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

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

Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities and related equipment at September 30, 2005 was approximately \$15.9 million. We are marketing these assets for sale.

Table of Contents

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 2005 is summarized below:

	Accrued Charges at December 31, 2004	Charges	Payments	Accrued Charges at September 30, 2005
(In thousands)				
Cash charges:				
Workforce reduction costs	\$ 5,175	\$ 12,604	\$ (6,747)	\$ 11,032
Shutdown costs		560	(560)	
Lease obligations after shutdown	74	374	(383)	65
Other	2	4,232	(3,219)	1,015
Subtotal	\$ 5,251	17,770	\$ (10,909)	\$ 12,112
Noncash charges:				
Write-down of assets		9,051		
Total charges		\$ 26,821		

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

The principal components of the plans include the following:

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

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

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

Activity with respect to these acquisition liabilities during the first nine months of 2005 is summarized below:

	Accrued Charges at December 31, 2004	Accruals	Payments	Adjustments	Accrued Charges at September 30, 2005
(In thousands)					

Workforce reduction costs	\$ 2,135	\$ 431	\$ (816)	\$ (1,324)	\$ 426
Shutdown and exit costs	81,766		(970)	(1,583)	79,213
Total	\$ 83,901	\$ 431	\$ (1,786)	\$ (2,907)	\$ 79,639

10. 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

-19-

Table of Contents

businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities, including environmental liabilities. We believe we have established adequate reserves for any potential liability related to our divested businesses. Moreover, we do not expect any liability that we may have for these retained liabilities, or any indemnification liability, to be material.

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

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

We have entered into various contracts obligating us to purchase minimum quantities of raw materials used in our production processes, including organic soybeans and organic raw milk. We enter into these contracts from time to time to ensure a sufficient supply of raw ingredients. 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.

11. Business and Geographic Information and Major Customers

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

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

Our WhiteWave Foods Company segment manufactures, develops, markets and sells a variety of nationally branded soy, dairy and dairy-related products, such as *Silk*® soymilk and cultured soy products;

Table of Contents

Horizon Organic® milk, juice and other products; *International Delight*® coffee creamers; and *LAND O LAKES*® creamers and cultured 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. WhiteWave Foods Company's operations have historically been conducted through three distinct operating units: White Wave, Inc., Horizon Organic and Dean National Brand Group. We are currently in the process of consolidating these three operating units and expect the consolidation to be completed in 2006.

The Dairy Group, which manufactures a portion of WhiteWave Foods Company's products, transfers finished products to WhiteWave Foods Company at or near cost. A small percentage of WhiteWave Foods Company's products (approximately \$13.4 million and \$12.4 million for the quarter ended September 30, 2005 and 2004, respectively and \$39.5 million and \$32.8 million for the nine months ended September 30, 2005 and 2004, respectively) are sold through the Dairy Group's direct store delivery network. Those sales, together with their related costs, are included in WhiteWave Foods Company for segment reporting purposes. Fixed assets, capital expenditures and depreciation related to the Dairy Group facilities that manufacture a portion of WhiteWave Foods Company's products are reported as part of the Dairy Group, while intangibles and any associated amortization related to WhiteWave Foods Company's brands are reported as part of WhiteWave Foods Company.

Our International Group, which does not qualify as a reportable segment, consists of our Leche Celta and Rachel's Organic businesses. Leche Celta manufactures, markets and sells private label and branded milk, butter and cream through its internal sales force to retailers and distributors across Spain and Portugal. Rachel's Organic markets and sells premium organic milk, yogurt and desserts in the United Kingdom. Effective January 1, 2005 the Rachel's Organic business, which had historically been included with our WhiteWave Foods Company segment, was moved to our International Group. Segment results for 2004 have been restated to reflect the Rachel's Organic business in Corporate/ Other. Net sales, income and assets of the International Group are reflected in the charts below on the Corporate/ Other lines.

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. 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 2004 Consolidated Financial Statements contained in our 2004 Annual Report on Form 10-K.

Table of Contents

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

	Three Months Ended September 30(1)		Nine Months Ended September 30(1)	
	2005	2004	2005	2004
(In thousands)				
Net sales to external customers:				
Dairy Group	\$ 2,267,527	\$ 2,234,296	\$ 6,681,897	\$ 6,462,261
WhiteWave Foods Company	284,860	259,920	827,157	722,962
Corporate/ Other	94,226	89,362	301,862	261,852
Total	\$ 2,646,613	\$ 2,583,578	\$ 7,810,916	\$ 7,447,075
Intersegment sales:				
Dairy Group	\$ 19,615	\$ 16,178	\$ 56,091	\$ 40,304
WhiteWave Foods Company	13,548	1,667	40,834	4,626
Total	\$ 33,163	\$ 17,845	\$ 96,925	\$ 44,930
Operating income:				
Dairy Group	\$ 156,223	\$ 149,069	\$ 475,804	\$ 442,168
WhiteWave Foods Company	35,910	25,307	73,647	45,407
Corporate/ Other	(28,431)	(23,474)	(75,563)	(58,383)
Segment operating income	163,702	150,902	473,888	429,192
Facility closing and reorganization costs	(17,993)	(11,590)	(26,821)	(19,295)
Other operating income				122
Total	\$ 145,709	\$ 139,312	\$ 447,067	\$ 410,019

	September 30, 2005	December 31, 2004
(In thousands)		
Assets:		
Dairy Group	\$ 5,313,868	\$ 5,389,258
WhiteWave Foods Company	1,158,380	1,086,078
Corporate/ Other	561,778	548,328
Discontinued operations		732,704
Total	\$ 7,034,026	\$ 7,756,368

Table of Contents**Geographic Information**

	Net Sales(1)				Long-Lived Assets(1)	
	Three Months Ended September 30		Nine Months Ended September 30		September 30,	December 31,
	2005	2004	2005	2004	2005	2004
	(In thousands)				(In thousands)	
United States	\$ 2,552,387	\$ 2,494,216	\$ 7,509,054	\$ 7,185,224	\$ 5,367,351	\$ 6,074,755
Europe	94,226	89,362	301,862	261,851	234,855	244,531
Total	\$ 2,646,613	\$ 2,583,578	\$ 7,810,916	\$ 7,447,075	\$ 5,602,206	\$ 6,319,286

(1) Balances have been reclassified to remove discontinued operations.

Significant Customers Our Dairy Group and WhiteWave Foods segments each had a single customer that represented greater than 10% of their sales in the first nine months of 2005. Approximately 13.8% of our consolidated sales in the first nine months of 2005 were to this same customer. In addition, our International Group had two customers that represented greater than 10% of their sales in the first nine months of 2005. These customers represented less than 1% of our consolidated sales during the first nine months of 2005.

12. Subsequent Events

Stock Repurchase Between October 1 and November 4, 2005 we spent approximately \$88.3 million to repurchase 2.3 million shares of our common stock for an average price of \$37.73 per share, excluding commissions and fees. On November 2, 2005, our Board authorized a \$300 million increase in our stock repurchase program. At November 4, 2005, approximately \$268.6 million remained available under our stock repurchase authorization.

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 customer private labels. Our WhiteWave Foods Company segment manufactures, markets and sells a variety of well known soy, dairy and dairy-related nationally branded products including, for example: *Silk*® soymilk and cultured soy products; *Horizon Organic*® dairy products, juices and other products; *International Delight*® coffee creamers; and *LAND O LAKES*® creamers and cultured products. We also own the fourth largest dairy processor in Spain and an organic dairy business in the United Kingdom.

Dairy Group Our Dairy Group segment is our largest segment, with approximately 86% of our consolidated sales in the nine months ended September 30, 2005. 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. The Dairy Group also manufactures a portion of the products marketed and sold by WhiteWave Foods Company. 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.

WhiteWave Foods Company WhiteWave Foods Company's operations have historically been conducted through three distinct operating units: White Wave, Inc., Horizon Organic and Dean National Brand Group. We are currently in the process of consolidating these three operating units and expect the consolidation to be completed in 2006. WhiteWave Foods Company manufactures, develops, markets and sells a variety of nationally-branded soy, dairy and dairy-related products, such as *Silk* soymilk and cultured soy products; *Horizon Organic* dairy products, juices and other products; *International Delight* coffee creamers; and *LAND O LAKES* creamers and cultured products. WhiteWave Foods Company also sells *Sun Soy*® soymilk; *The Organic Cow of Vermont*® organic dairy products; *White Wave*® and *Tofu Town*® branded tofu; *Hershey's*® milks and milkshakes; and *Naturally Yours*® sour cream. We license the *LAND O LAKES* and *Hershey's* names from third parties.

International Group Our International Group, which consists of our Leche Celta and Rachel's Organic businesses, does not qualify as a reportable segment. Leche Celta manufactures, markets and sells private label and branded milk, butter and cream through its internal sales force to retailers and distributors across Spain and Portugal. Rachel's Organic markets and sells premium organic milk, yogurt and desserts in the United Kingdom. Effective January 1, 2005, our Rachel's Organic Dairy business, which has historically been part of our WhiteWave Foods Company segment's operations, was transferred to the International Group. Our segment discussion for 2004 has been reclassified to reflect the results of Rachel's Organic Dairy business in our Corporate/ Other segment.

Recent Developments***Sale of Marie's® Dips and Dressings and Dean's® Dips***

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 agreed to license the Dean trademark to Ventura Foods for use on certain non-dairy dips. The sales price was approximately \$194 million. The sale of these brands is part of our strategy to focus on our core dairy and branded businesses.

Table of Contents***Spin-Off of TreeHouse Foods, Inc.***

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*® 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 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 the sale of our *Marie* s dips and dressings and *Dean* s dips businesses, which have been reclassified as discontinued operations.

Management Changes

On August 25, 2005, we announced that we had selected Joseph E. Scalzo to serve as President of the new WhiteWave Foods. Mr. Scalzo, most recently Group President, Personal Care and Global Value Chain of the Gillette Company, joined WhiteWave Foods on October 11, 2005. As previously reported on a current report on Form 8-K, we entered into an employment agreement and certain ancillary agreements with Mr. Scalzo, age 47, all of which are filed as exhibits to this Quarterly Report on Form 10-Q.

On September 7, 2005 we announced the succession plan for the President of our Dairy Group, Alan Bernon, currently Chief Operating Officer of the Northeast Region of our Dairy Group, will become President of our Dairy Group effective January 1, 2006. Pete Schenkel, current President of the Dairy Group, will resign from his position effective January 1, 2006. We expect Mr. Schenkel, age 70, to become Vice Chairman of our Board of Directors effective January 1, 2006, assisting in the transition of leadership of the Dairy Group through the end of 2007. As previously reported on a current report on Form 8-K, we entered into an employment agreement and certain ancillary agreements with Mr. Bernon, age 51, all of which are filed as exhibits to this Quarterly Report on Form 10-Q.

On October 14, 2005, we announced that Barry Fromberg, Executive Vice President and Chief Financial Officer, will resign from his position on or around April 1, 2006. On November 7, we entered into a transition agreement with Mr. Fromberg, which is described in Part II, Item 5 of this Quarterly Report on Form 10-Q, and which is filed as an exhibit hereto. We are currently conducting a search for Mr. Fromberg s successor, including both internal and external candidates.

Stock Repurchases

Between July 1 and November 4, 2005 we spent approximately \$449.4 million to repurchase 12.3 million shares of our common stock for an average price of \$36.63 per share, excluding commissions and fees. On November 2, 2005 our Board authorized a \$300 million increase in our stock repurchase program. At November 4, 2005, approximately \$268.6 million remained available under our stock repurchase authorization.

Facility Closing and Reorganization Activities

We recorded a total of approximately \$26.8 million in facility closing and reorganization costs during the first nine months of 2005, of which \$15.3 million related to the closing of a Dairy Group facility in Union, New Jersey and the remainder was primarily related to plans announced in 2004. We expect to incur additional charges related to these restructuring plans of approximately \$8 million, primarily in 2005 and 2006. These charges include the following costs:

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

Table of Contents

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

Results of Operations

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2005		2004		2005		2004	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)							
Net sales	\$ 2,646.6	100.0%	\$ 2,583.6	100.0%	\$ 7,810.9	100.0%	\$ 7,447.1	100.0%
Cost of sales	1,997.2	75.5	1,978.0	76.6	5,895.1	75.5	5,689.1	76.4
Gross profit	649.4	24.5	605.6	23.4	1,915.8	24.5	1,758.0	23.6
Operating costs and expenses:								
Selling and distribution	394.7	14.9	368.0	14.2	1,161.4	14.9	1,071.0	14.4
General and administrative	89.5	3.4	85.0	3.3	275.8	3.5	254.1	3.4
Amortization of intangibles	1.5		1.7	0.1	4.7	0.1	3.7	
Facility closing and reorganization costs	18.0	0.7	11.6	0.4	26.8	0.3	19.3	0.3
Other operating income							(0.1)	
Total operating costs and expenses	503.7	19.0	466.3	18.0	1,468.7	18.8	1,348.0	18.1
Total operating income	\$ 145.7	5.5%	\$ 139.3	5.4%	\$ 447.1	5.7%	\$ 410.0	5.5%

Quarter Ended September 30, 2005 Compared to Quarter Ended September 30, 2004

Consolidated Results

Net Sales Consolidated net sales increased to \$2.65 billion during the third quarter of 2005 from \$2.58 billion during the third quarter of 2004. Net sales by segment are shown in the table below.

	Quarter Ended September 30			
	2005	2004	\$ Increase	% Increase
	(Dollars in millions)			
Dairy Group	\$ 2,267.5	\$ 2,234.3	\$ 33.2	1.5%
WhiteWave Foods Company	284.9	259.9	25.0	9.6
Corporate/ Other	94.2	89.4	4.8	5.4
Total	\$ 2,646.6	\$ 2,583.6	\$ 63.0	2.4%

Table of Contents

The change in net sales was due to the following:

Quarter Ended September 30, 2005 vs.
Quarter Ended September 30, 2004

	Acquisitions	Foreign Exchange	Pricing, Volume and Product Mix Changes	Total Increase
(Dollars in millions)				
Dairy Group	\$ 12.9	\$	\$ 20.3	\$ 33.2
WhiteWave Foods Company			25.0	25.0
Corporate/ Other		(0.5)	5.3	4.8
Total	\$ 12.9	\$ (0.5)	\$ 50.6	\$ 63.0

Net sales increased by 2.4% in the third quarter of 2005 compared to the third quarter of 2004 due to higher pricing and increased volumes at WhiteWave Foods Company, combined with a decline in slotting, couponing and certain other promotional costs (required to be recorded as a reduction of sales) at WhiteWave Foods Company, and fluid dairy volume growth in our Dairy Group segment. In addition, sales increased due to the acquisition of a small dairy in late 2004 in our Dairy Group segment. These increases were partly offset by the effects of lower selling prices at the Dairy Group resulting from the pass-through of lower Class I raw skim milk costs. See **Results by Segment** for more information on net sales.

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 ratio decreased to 75.5% in the third quarter of 2005 compared to 76.6% in the third quarter of 2004 primarily due to lower raw milk costs in our Dairy Group segment and the effect of higher selling prices and lower promotional costs at WhiteWave Foods Company in the third quarter of 2005.

Operating Costs and Expenses Our operating expenses increased approximately \$37.4 million during the third quarter of 2005 as compared to the same period in the prior year. Our operating expense ratio was 19.0% in the third quarter of 2005 compared to 18.0% during the third quarter of 2004. Operating expenses increased primarily due to (1) an increase in distribution costs of \$24.5 million resulting from higher fuel prices and increased sales volumes, (2) higher employee compensation costs of approximately \$7.5 million, including a charge related to the accelerated vesting of certain stock units and higher incentive compensation due to improved performance, and (3) increased facility closing and reorganization costs of \$6.4 million. See **Results by Segment** for more information on operating costs.

Operating Income Operating income during the third quarter of 2005 was \$145.7 million, an increase of \$6.4 million from the third quarter of 2004 operating income of \$139.3 million. Our operating margin in the third quarter of 2005 was 5.5% compared to 5.4% in the third quarter of 2004. Our operating margin increased primarily as a result of lower raw milk costs and improved results at WhiteWave Foods Company.

Other (Income) Expense Interest expense decreased to \$40.2 million in the third quarter of 2005 from \$74.4 million in the third quarter of 2004 primarily due to a charge of \$32.6 million in the third quarter of 2004 to write-off deferred financing costs related to amending our senior credit facility in August 2004.

Income Taxes Income tax expense was recorded at an effective rate of 37.2% in the third quarter of 2005 compared to 41.4% in the prior year. In the third quarter of 2005, we recorded a change in the anticipated benefit

related to net operating loss carry forwards that we had previously fully reserved. In the third quarter of 2004 our income tax rate was significantly impacted by the write-off of deferred financing

Table of Contents

charges that were incurred in a business unit with a lower relative effective tax rate. Our tax rate varies as the mix of earnings contributed by our various business units changes.

Quarter Ended September 30, 2005 Compared to Quarter Ended September 30, 2004 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			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 2,267.5	100.0%	\$ 2,234.3	100.0%
Cost of sales	1,738.6	76.7	1,726.7	77.3
Gross profit	528.9	23.3	507.6	22.7
Operating costs and expenses	372.7	16.4	358.5	16.0
Total segment operating income	\$ 156.2	6.9%	\$ 149.1	6.7%

The Dairy Group's net sales increased approximately \$33.2 million, or 1.5%, in the third quarter of 2005 versus the third quarter of 2004. The change in net sales from the third quarter of 2004 to the third quarter of 2005 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2004 Net sales	\$ 2,234.3	
Acquisitions	12.9	0.6%
Volume	75.3	3.4
Pricing and product mix	(55.0)	(2.5)
2005 Net sales	\$ 2,267.5	1.5%

The Dairy Group's net sales increased primarily due to a 3.4% increase in sales volume in the third quarter of 2005. 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 net sales also increased \$12.9 million due to the acquisition of a small dairy in late 2004.

These sales increases were partly offset by price decreases due to lower raw milk costs, the primary raw material used by our Dairy Group. 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 7% lower in the third quarter of 2005 compared to the third quarter of 2004. The following table sets forth the average monthly Class I mover and average monthly Class II minimum prices for raw skim milk and butterfat for the third quarter of 2005 compared to the third quarter of 2004:

Quarter Ended September 30*

	2005	2004	% Change
Class I raw skim milk mover(3)	\$ 8.24(1)	\$ 8.82(1)	(7)%
Class I butterfat mover(3)	1.73(2)	2.00(2)	(14)
Class II raw skim milk minimum(4)	7.85(1)	7.07(1)	11
Class II butterfat minimum(4)	1.84(2)	1.93(2)	(5)

* 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

-28-

Table of Contents

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 2004, and Known Trends and Uncertainties Prices of Raw Materials, Cream 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.

Sales increases due to volume gains were also offset to some extent by the effects of Hurricane Katrina and Hurricane Rita. Our plant in New Orleans, Louisiana has been closed since immediately prior to Hurricane Katrina, and our Houston, Texas plant was closed for approximately three days around Hurricane Rita. Since Hurricane Katrina, there has been a national shortage of resin due to the impact of the hurricanes on facilities in the Gulf Coast area that produce petroleum and petroleum-based products. We ceased production of juice and water nationwide during part of September in an effort to conserve resin, the primary component used in our plastic packaging.

The Dairy Group's cost of sales ratio was 76.7% in the third quarter of 2005 compared to 77.3% in the third quarter of 2004, primarily due to the effect of increased volumes and the decrease in raw milk costs compared to the prior year. This decrease was partly offset by higher resin costs of approximately \$3 million during the third quarter of 2005 compared to the third quarter of 2004 and certain operating inefficiencies resulting from the disruption to our manufacturing operations caused by recent hurricanes, such as costs of operating incremental shifts at regional facilities surrounding the New Orleans area to compensate for our temporarily closed facility.

The Dairy Group's operating expense ratio increased to 16.4% in the third quarter of 2005 compared to 16.0% in the third quarter of 2004. Operating expenses increased \$14.2 million to \$372.7 million during the third quarter of 2005 compared to \$358.5 million in the third quarter of 2004, primarily due to a \$14.8 million increase in distribution costs. Distribution costs increased as a result of higher fuel prices of approximately \$10 million and the impact of transporting products from other regional facilities to certain customers previously served by our facility in New Orleans.

WhiteWave Foods Company

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

	Quarter Ended September 30			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 284.9	100.0%	\$ 259.9	100.0%
Cost of sales	177.3	62.2	171.2	65.9
Gross profit	107.6	37.8	88.7	34.1
Operating costs and expenses	71.7	25.2	63.4	24.4

Total segment operating income	\$ 35.9	12.6%	\$ 25.3	9.7%
--------------------------------	---------	-------	---------	------

Table of Contents

WhiteWave Foods Company's net sales increased by \$25 million, or 9.6%, in the third quarter of 2005 versus the third quarter of 2004. The change in net sales from the third quarter of 2004 to the third quarter of 2005 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2004 Net sales	\$ 259.9	
Volume	5.4	2.1%
Pricing and product mix	19.6	7.5
2005 Net sales	\$ 284.9	9.6%

The increase in net sales was primarily due to increased pricing of our branded products in response to increased commodity costs and a decline in slotting fees, couponing and certain other promotional costs that are required to be recorded as reductions of sales. In addition, volumes increased 2.1%. Double digit volume growth noted in our *Silk* and *Horizon Organic* brands during the third quarter of 2005 was offset by relatively slower growth in *International Delight* and rationalization of product offerings.

The cost of sales ratio for WhiteWave Foods Company decreased to 62.2% in the third quarter of 2005 from 65.9% in the third quarter of 2004 primarily due to increased operational efficiencies and supply chain integration, as a result of the consolidation of the legacy operating companies. Cost of goods sold dollars increased \$6.1 million primarily due to higher commodity costs, particularly raw organic milk and soybeans.

The operating expense ratio increased to 25.2% in the third quarter of 2005 compared to 24.4% in the third quarter of 2004. Operating expenses increased approximately \$8.3 million in the third quarter of 2005 compared to the same period in the prior year primarily due to higher distribution costs. Distribution costs increased \$9 million primarily due to higher fuel costs and increased volumes.

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004 Consolidated Results

Net Sales Consolidated net sales increased approximately 4.9% to \$7.81 billion during the first nine months of 2005 from \$7.45 billion during the first nine months of 2004. Net sales by segment are shown in the table below.

	Nine Months Ended September 30			
	2005	2004	\$ Increase	% Increase
	(Dollars in millions)			
Dairy Group	\$ 6,681.9	\$ 6,462.3	\$ 219.6	3.4%
WhiteWave Foods Company	827.1	722.9	104.2	14.4
Corporate/ Other	301.9	261.9	40.0	15.3
Total	\$ 7,810.9	\$ 7,447.1	\$ 363.8	4.9%

The change in net sales was due to the following:

Nine Months Ended September 30, 2005 vs.
Nine Months Ended September 30, 2004

	Acquisitions	Foreign Exchange	Pricing, Volume and Product Mix Changes	Total Increase
	(Dollars in millions)			
Dairy Group	\$ 35.4	\$	\$ 184.2	\$ 219.6
WhiteWave Foods Company	9.2		95.0	104.2
Corporate/ Other	14.5	8.5	17.0	40.0
Total	\$ 59.1	\$ 8.5	\$ 296.2	\$ 363.8

Table of Contents

Net sales increased approximately \$363.8 million during the first nine months of 2005 compared to the same period in the prior year primarily due to increased volumes and the pass-through of increased commodity and production costs in the first nine months of 2005. In addition, we benefited from the acquisitions of a small dairy in our Dairy Group segment; *LAND O LAKES East* in our WhiteWave Foods Company segment; and *Tiger Foods* in our Corporate/ Other segment. See [Results by Segment](#) for more information on net sales.

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 ratio decreased to 75.5% in the first nine months of 2005 compared to 76.4% in the first nine months of 2004 due to the impact of higher volumes and the impact of the efficiencies gained through our facility rationalization activities.

Operating Costs and Expenses Our operating expenses increased \$120.7 million during the first nine months of 2005 as compared to the same period in the prior year. Our operating expense ratio was 18.8% in the first nine months of 2005 compared to 18.1% during the first nine months of 2004. Operating expenses increased primarily due to (1) an increase in distribution costs of \$81.1 million related to higher fuel costs and increased sales volumes, (2) increased employee compensation costs of approximately \$23.2 million, including a charge related to the accelerated vesting of certain stock units and increased incentive compensation due to improved performance and (3) increased facility closing costs of \$7.5 million. See [Results by Segment](#) for more information on operating costs.

Operating Income Our operating margin in the first nine months of 2005 was 5.7% compared to 5.5% in the first nine months of 2004. Operating income during the first nine months of 2005 was \$447.1 million, an increase of \$37.1 million from the first nine months of 2004 operating income of \$410 million. Operating income increased primarily due to higher sales volumes and the pass-through of higher raw material costs. See [Results by Segment](#) for more information.

Other (Income) Expense Interest expense decreased to \$121.9 million in the first nine months of 2005 from \$158.1 million in the first nine months of 2004 primarily due to a charge of \$32.6 million in the third quarter of 2004 to write-off deferred financing costs related to amending our senior credit facility in August 2004.

Income Taxes Income tax expense was recorded at an effective rate of 38% in the first nine months of 2005 and 39.2% in the first nine months of 2004 due to a change in the anticipated benefit related to net operating loss credits that were previously fully reserved. Our tax rate varies as the mix of earnings contributed by our various business units changes.

Table of Contents***Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004 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			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 6,681.9	100.0%	\$ 6,462.3	100.0%
Cost of sales	5,105.9	76.4	4,975.6	77.0
Gross profit	1,576.0	23.6	1,486.7	23.0
Operating costs and expenses	1,100.2	16.5	1,044.5	16.2
Total segment operating income	\$ 475.8	7.1%	\$ 442.2	6.8%

The Dairy Group's net sales increased by approximately \$219.6 million, or 3.4%, in the first nine months of 2005 versus the first nine months of 2004. The change in net sales from the first nine months of 2004 to the first nine months of 2005 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2004 Net sales	\$ 6,462.3	
Acquisitions	35.4	0.5%
Volume	134.6	2.1
Pricing and product mix	49.6	0.8
2005 Net sales	\$ 6,681.9	3.4%

The Dairy Group's sales volumes increased by 2.1% during the first nine months of 2005 compared to the first nine months of 2004. Fluid milk volumes (which represented approximately 68% of the Dairy Group's sales volume during the first nine months of 2005) increased approximately 3% during the first nine months of 2005 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 net sales also increased \$35.4 million due to the acquisition of a small dairy in late 2004.

In addition, the Dairy Group's net sales increased due to increased pricing and product mix changes. 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. For the nine month period, the Class I raw milk mover was 2% higher in 2005 than in 2004. In addition, our selling prices increased slightly due to the pass through of increases in fuel and resin costs during the first nine months of 2005.

Nine Months Ended

September 30*

	2005	2004	% Change
Class I raw skim milk mover(3)	\$ 8.67(1)	\$ 8.54(1)	2%
Class I butterfat mover(3)	1.75(2)	1.97(2)	(11)
Class II raw skim milk minimum(4)	7.60(1)	6.83(1)	11
Class II butterfat minimum(4)	1.74(2)	2.08(2)	(16)

* 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

-32-

Table of Contents

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 2004, and Known Trends and Uncertainties Prices of Raw Materials 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 cost of sales ratio decreased to 76.4% in the first nine months of 2005 compared to 77% in the first nine months of 2004 primarily due to the impact of higher volumes and the impact of efficiencies gained through our facility rationalization activities. Cost of sales dollars increased \$130.3 million primarily due to an increase in volumes and other production costs, including higher raw milk costs and increased resin costs, which negatively impacted cost of goods sold by approximately \$24 million. Resin is the primary component used in our plastic bottles.

The Dairy Group's operating expense ratio increased to 16.5% in the first nine months of 2005 from 16.2% in the first nine months of 2004. Operating expense dollars increased approximately \$55.7 million during the first nine months of 2005 compared to the first nine months of 2004, primarily due to an increase in distribution costs. Total distribution costs increased \$45.8 million primarily as a result of (1) higher fuel prices which impacted distribution costs by approximately \$22 million, (2) increased deliveries in our DSD system due to the addition of certain customers and (3) the integration of several distributors that were acquired in late 2004 and early 2005.

WhiteWave Foods Company

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

	Nine Months Ended September 30			
	2005		2004	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	\$ 827.1	100.0%	\$ 722.9	100.0%
Cost of sales	533.4	64.5	488.7	67.6
Gross profit	293.7	35.5	234.2	32.4
Operating costs and expenses	220.1	26.6	188.8	26.1
Total segment operating income	\$ 73.6	8.9%	\$ 45.4	6.3%

WhiteWave Foods Company's net sales increased by \$104.2 million, or 14.4%, in the first nine months of 2005 versus the first nine months of 2004. The change in net sales from the first nine months of 2004 to the first nine months of 2005 was due to the following:

	Dollars	Percent
--	---------	---------

	(Dollars in millions)	
2004 Net sales	\$	722.9
Acquisitions		9.2
Volume		45.8
Pricing and product mix		49.2
2005 Net sales	\$	827.1

Table of Contents

The increase in net sales was due to increased prices in response to higher raw material and distribution costs and to increased volumes related to the growth of our brands, particularly *Silk* and *Horizon Organic*.

The cost of sales ratio for WhiteWave Foods Company decreased to 64.5% in the first nine months of 2005 from 67.6% in the first nine months of 2004, primarily due to the effect of increased volumes and to operational efficiencies resulting from the consolidation of the legacy operating companies. Cost of goods sold dollars increased \$44.7 million primarily due to increased volumes and higher raw organic milk and soybean costs.

The operating expense ratio increased to 26.6% in the first nine months of 2005 from 26.1% in the first nine months of 2004. Operating expenses increased approximately \$31.3 million in the first nine months of 2005 compared to the same period in the prior year due to higher distribution costs. Distribution costs were primarily impacted by increased volumes and higher fuel costs.

Liquidity and Capital Resources

Historical Cash Flow

During the first nine months of 2005, we met our working capital needs with cash flow from operations.

Net cash provided by operating activities from continuing operations was \$462.8 million for the first nine months of 2005 as contrasted to \$204.7 million for the same period in 2004, an increase of \$258.1 million. Net cash provided by operating activities was primarily impacted by changes in operating assets and liabilities, which improved by \$304.9 million in the first nine months of 2005 compared to the first nine months of the prior year. The improvement in working capital reflects the benefit of lower raw milk costs during the first nine months of 2005 compared to a more volatile environment in the first nine months of 2004.

Net cash used in investing activities from continuing operations was \$24.3 million in the first nine months of 2005 compared to \$605.8 million in the first nine months of 2004, a decrease of \$581.5 million. We used approximately \$767,000 for acquisitions in the first nine months of 2005 compared to \$367 million in the first nine months of 2004. We received cash proceeds from the sale of operations of \$189.9 million during the first nine months of 2005. Our capital expenditures totaled \$221 million in the first nine months of 2005 compared to \$248.3 in the first nine months of 2004.

We repaid a net amount of \$165 million of debt in the first nine months of 2005.

Current Debt Obligations

At September 30, 2005, we had outstanding borrowings of \$1.96 billion under our senior credit facility (compared to \$2.03 billion at December 31, 2004), including \$1.5 billion in term loan borrowings, and \$455 million outstanding under the revolving credit facility. In addition, at September 30, 2005, there were \$103.7 million of letters of credit under the revolver that were issued but undrawn. We are currently, and have always been, in compliance with all covenants contained in our credit agreement.

In addition to our senior credit facility, we also have a \$600 million receivables-backed credit facility, which had \$494.1 million outstanding at September 30, 2005 (compared to \$500 million at December 31, 2004) and \$9.1 million under our uncommitted and unsecured line of credit.

Other indebtedness outstanding at September 30, 2005 included \$600 million face value of outstanding indebtedness under senior notes issued by a subsidiary, \$46.1 million under lines of credit at our Spanish subsidiary and approximately \$20.8 million of capital lease and other obligations.

See Note 5 to our Condensed Consolidated Financial Statements.

Table of Contents

The table below summarizes our obligations for indebtedness and purchase and lease obligations at September 30, 2005.

Indebtedness, Purchase & Lease Obligations	Total	Payments Due by Period					
		10/1/05- 9/30/06	10/1/06- 9/30/07	10/1/07- 9/30/08	10/1/08- 9/30/09	10/1/09- 9/30/10	Thereafter
(In millions)							
Senior credit facility	\$ 1,955.0	\$	\$ 225.0	\$ 225.0	\$ 1,505.0	\$	\$
Line of credit	9.1	9.1					
Senior notes(1)	600.0		250.0		200.0		150.0
Receivables-backed facility	494.1			494.1			
Foreign line of credit	46.1	45.3	0.5	0.3			
Capital lease obligations and other	20.8	12.5	2.5	2.2	1.9	0.9	0.8
Purchasing obligations(2)	323.5	185.0	52.2	30.4	16.2	9.7	30.0
Operating leases	446.2	92.8	81.2	70.5	61.4	50.0	90.3
Interest payments(3)	248.4	74.0	47.9	23.6	19.2	10.4	73.3
Total	\$ 4,143.2	\$ 418.7	\$ 659.3	\$ 846.1	\$ 1,803.7	\$ 71.0	\$ 344.4

(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) Only includes our fixed rate interest obligations, which consist of our senior notes and our interest rate swap agreements.

Other Long-Term Liabilities

We offer pension benefits through various defined benefit pension plans and also offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing non-contributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates.

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

We expect to contribute approximately \$33.7 million to the pension plans and approximately \$1.8 million to the postretirement health plans in 2005.

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 ever materially breach or

Table of Contents

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

Future Capital Requirements

During 2005, we intend to invest a total of approximately \$325 million, for capital expenditures, primarily for our existing manufacturing facilities and distribution capabilities. Through the first nine months of 2005 we have spent \$221 million. We expect to spend approximately \$260 million in capital expenditures in 2006. The lower amount reflects the completion of several major capital projects in 2005. We intend to fund these expenditures using cash flow from operations.

In 2005, we expect cash interest to be approximately \$160 million based on current debt levels and cash taxes to be approximately \$200 million, including approximately \$60 million in taxes related to the sale of *Marie's* dips and dressings and *Dean's* dips. We expect that cash flow from operations will be sufficient to meet our requirements for our existing businesses for the foreseeable future.

In the future, we expect to make additional repurchases of our securities. We base our decision regarding when to repurchase shares on a variety of factors, including primarily an analysis of the optimal use of capital, taking into account the market value of our securities and the relative expected return on alternative investments. We expect to fund these repurchases with borrowings under our senior credit facility.

As of November 4, 2005, approximately \$916.3 million was available for future borrowings under our senior credit facility.

Known Trends and Uncertainties

Prices of Raw Materials and Other Inputs

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

Table of Contents

some of our Class II products. Bulk cream is typically purchased based on a multiple of the AA butter price on the Chicago Mercantile Exchange.

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

In 2004, our Dairy Group was adversely affected by extreme volatility in the prices of raw skim milk, butterfat and cream. In 2005, prices have been more stable. We expect raw milk, butterfat and cream prices to decrease slightly over the next two quarters. However, raw milk, butterfat and cream prices are difficult to predict and we change our forecasts frequently based on current market activity.

Due to the disruption in production caused by Hurricanes Katrina and Rita, the prices of resin and fuel have increased dramatically and resin supplies have 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 be successful in our attempts. Although there can be no assurance, we expect the resin shortage to be resolved by early 2006. We expect prices of both resin and diesel fuel to remain high.

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 2005 and 2006. Generally, these agreements provide for pricing at fixed levels. However, should our need for organic soybeans exceed the quantity that we have under contract, or if the suppliers do not perform under the contracts, we may have difficulty obtaining sufficient supply, and the price we would be required to pay would likely be significantly higher. The increase in soymilk consumption combined with the increased demand for organic cattle feed has put pressure on the supply of organic soybeans and there is significant upward pressure on organic soybean prices. We believe prices for organic soybeans will remain high as the pressure on supply continues.

Another significant raw material used in our organic products is organic raw milk. 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. At times in 2005, including now, the industry-wide demand for organic raw milk has exceeded supply, resulting in our inability to fully meet customer demand. During the first and fourth quarters of 2005 we have been forced to put our customers on allocation due to limited supply of raw organic milk. We expect these supply issues to continue through the first quarter of 2006. Our ability to grow organic milk sales will be constrained by the availability of organic raw milk supplies. Also, as our contracts with farmers expire, we are generally required to agree to higher prices to renew as a result of increased competition for organic raw milk supply. The increase in the demand for organic milk combined with competitive activity and a limited supply has put significant upward pressure on organic raw milk costs. For competitive reasons, WhiteWave Foods Company is not able to pass along price increases to customers as quickly as the Dairy Group.

Table of Contents

Competitive Environment

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

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

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

Tax Rate

In the first nine months of 2005 and 2004 our tax rate on continuing operations was 38% and 39.2%, respectively. We estimate the effective tax for 2005 will be in the range of 38% to 38.5%. Changes in the relative profitability of our operating segments, as well as recent and proposed changes to federal and state tax codes may cause the rate to change from historical rates.

See Risk Factors for a description of various other risks and uncertainties concerning our business.

Risk Factors

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

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

In the third quarter of 2004, we began the process of consolidating the operations of the three operating units that comprise our WhiteWave Foods Company segment into a single business. We have substantially completed the consolidation of the sales, marketing and research and development organization for the three companies. We expect to move to a new headquarters located in Broomfield, Colorado in the fourth quarter of 2005. However, the full integration of these businesses will be a lengthy process involving all aspects of the three company's operations, including purchasing, manufacturing, distribution and administration, and will include the selection and implementation of a new information technology platform. As part of our overall reorganization of WhiteWave Foods Company into a unified

Table of Contents

branded consumer packaged goods company, we are also in the process of bringing in-house certain manufacturing activities that are currently being performed by third parties. We expect the consolidation to be completed in 2006. This process presents a number of challenges and requires a significant amount of management's attention. Our failure to successfully manage this process could cause us to incur unexpected costs or to lose customers or sales, which could have a material adverse effect on our financial results.

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

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

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

Table of Contents

downgrade in our debt rating could cause our interest rate to increase, which could adversely affect our ability to achieve our targeted profitability level, as well as our cash flow.

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

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

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

The following table summarizes our various interest rate swap agreements at both September 30, 2005 and December 31, 2004:

Fixed Interest Rates	Expiration Date	Notional Amounts
		(In millions)
5.20% to 6.74%	December 2005	\$ 400
3.65% to 6.78%	December 2006	375

During the second quarter of 2005, we entered into additional interest rate swap agreements that become effective for us in December 2005 and expire in December 2010. These swaps have a total notional amount of \$500 million and fixed interest rates of 4.07% to 4.27%.

We are exposed to market risk under these arrangements due to the possibility of interest rates on our credit facilities falling below the rates on our interest rate derivative agreements. We incurred \$7.3 million of additional interest expense, net of taxes, during the first nine months of 2005 as a result of interest rates on our variable rate debt falling below the agreed-upon interest rate on our existing swap agreements. Credit risk under these arrangements is remote because the counter parties to our interest rate derivative agreements are major financial institutions.

A majority of our debt obligations are currently at variable rates. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in interest rates. As of September 30, 2005, the analysis indicated that such interest rate movement would not have a material effect on our financial position, results of operations or cash flows. However, actual gains and losses in the future may differ materially from that analysis based on changes in the timing and amount of interest rate movement and our actual exposure and hedges.

Foreign Currency

We are exposed to foreign currency risk due to operating cash flows and various financial instruments that are denominated in foreign currencies. Our most significant foreign currency exposures relate to the euro and the British pound. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates. As of September 30, 2005 and December 31, 2004, 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.

Table of Contents**Butterfat**

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

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

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

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

Definition of Disclosure Controls

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

Limitations on the Effectiveness of Controls

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

Table of Contents

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.

Conclusions

Based upon our most recent controls evaluation, our CEO and CFO have concluded that as of the end of the period covered by this quarterly report, our Disclosure Controls were effective at the reasonable assurance level. In the first nine months of 2005, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

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

The following table summarizes the repurchase of our common stock during 2005:

Period(1)	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share(2)	At End of Period, Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs(3)
July 2005	1,907,100	\$ 36.09	53,008,566	\$ 49.2 million
August 2005	3,927,600	35.78	56,936,166	208.7 million
September 2005	4,091,300	37.08	61,027,466	57.0 million
October 2005	1,422,500	37.93	62,449,966	3.0 million
November 2005 (through November 4, 2005)	918,300	37.41	63,368,266	268.6 million
Total	12,266,800			

(1) Repurchases during 2005 were made only in the months listed.

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

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

Item 5. Other Information

On November 7, 2005, we entered into an Employment and Release Agreement with Barry Fromberg, our Chief Financial Officer. Mr. Fromberg has recently announced his intent to retire.

Pursuant to the agreement, Mr. Fromberg has agreed to continue in his position until April 1, 2006 (the Retirement Date). Until the Retirement Date, we will continue to pay him his regular salary, at the rate of \$435,000 per year, and he will continue to be eligible to participate in our benefit plans. He will also continue to be eligible to receive his

2005 bonus, in accordance with our Executive Incentive Compensation Plan. In addition, we will pay him a prorated bonus for the three months that he will be employed in 2006, but only to the extent that other senior corporate executives are eligible to receive a bonus, which will be determined after the end of 2006 in accordance with our Executive Incentive Compensation Plan. Stock awards previously granted to Mr. Fromberg that are scheduled to vest prior to the Retirement Date will vest in accordance with their terms. Mr. Fromberg will have 60 days after the Retirement Date to exercise his vested stock options.

After the Retirement Date, Mr. Fromberg has agreed to make himself available to assist us with any transitional issues that may arise and/or to assist his successor with any issues that may arise.

-43-

Table of Contents

In consideration for his agreement to remain in his position until the Retirement Date, and to assist with transitional issues that may arise after the Retirement Date, and in exchange for the release contained in the agreement and Mr. Fromberg's agreement to abide by the non-solicitation, non-compete and non-disclosure provisions contained in the agreement, we have agreed to make certain payments to Mr. Fromberg, and to provide him with certain other benefits. Specifically, we have agreed to provide him with the following cash amounts, all of which will be paid on October 15, 2006: (1) a payment in an amount equal to two times the sum of his base annual salary plus his target bonus, (2) a health benefit advance in the amount of \$24,000, and (3) a payment in an amount equal to three times the amount of his 2005 401(k) match. In addition, on April 15, 2006, we will make a payment to Mr. Fromberg that is intended to compensate him for the value of his previously granted stock awards that would vest in 2007 and 2008 if he were still employed. For unvested options, the amount of such payment will be the difference between the Market Price (as defined below) of our stock and the strike price of the associated option, times the number of shares underlying such options. For unvested stock units, the amount of the payment will be equal to the Market Price of our stock times the number of unvested stock units. Market Price is defined in the agreement as the highest closing price of our stock during the 30 trading days ending on March 31, 2006. Finally, we will continue to provide Mr. Fromberg the annual physical benefit provided to other executives of the company.

Pursuant to the agreement, Mr. Fromberg has agreed not to solicit any of our employees or customers for a period of 2 years after the Retirement Date, and he has agreed to maintain the confidentiality of our trade secrets and other confidential information. Finally, the agreement contains a mutual release pursuant to which Mr. Fromberg and the company have agreed to release one another from all claims that may arise out of or relate to his employment with the company.

The agreement can be terminated for cause, as defined in the agreement.

Table of Contents

Item 6. Exhibits

(a) Exhibits

- 10.1 Employment Agreement between the Company and Alan Bernon dated September 7, 2005
- 10.2 Stock Unit Award Agreement between the Company and Alan Bernon
- 10.3 Change in Control Agreement between the Company and Alan Bernon dated September 7, 2005
- 10.4 Proprietary Information, Inventions and Non-Compete agreement with Alan Bernon dated September 7, 2005
- 10.5 Employment agreement between the Company and Joseph E. Scalzo dated October 7, 2005
- 10.6 Change in Control Agreement between the Company and Joseph E. Scalzo dated October 7, 2005
- 10.7 Proprietary Information, Inventions and Non-Compete Agreement between the Company and Joseph E. Scalzo dated October 7, 2005
- 10.8 Non-Qualified Stock Option Agreement between the Company and Joseph E. Scalzo
- 10.9 Employment and Release Agreement between the Company and Barry Fromberg dated November 8, 2005
- 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
- 31.3 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.4 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

Previously filed.

Table of Contents

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

December 12, 2005

-46-

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description
31.3	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	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