Suiza Foods Corporation 2000 Annual Report

Delivering on our promises everyday.

Over 1.5 billion gallons a year on more than 4,000 routes nationwide and that ain't all.

Suiza Delivers...

Over the past seven years, we have built a nationwide family of dairies by bringing together an impressive group of local and regional companies, each with a long history of providing quality products and services to their customers. Together, the companies we have acquired have been able to build on each other's strengths to achieve goals that no single processor could reach alone, enabling us to provide our customers and consumers with even greater value. We are very proud to be the nation's leading dairy processor and distributor, and we are committed to delivering unmatched value to all of our constituents every day – including our customers, our consumers, our communities and our employees.

Contents

Delivering to the Street

Year Ended December 31,	2000	1999	1998
(in thousands, except shares outstanding and per share data)			
Net Sales	$ 5,756,303	$ 4,481,999	$ 3,320,940
Operating Income	368,063	276,874	242,456
Net Income	118,719	109,731	131,606
Diluted Earnings Per Share	$ 3.82	$ 3.13	$ 3.58
Average Common Diluted Shares	36,671,264	42,858,492	41,965,564
Net Income Before Non-Recurring Items*	120,057	119,891	102,832
Diluted Earnings Per Share Before Non-Recurring Items*	$ 3.86	$ 3.37	$ 2.90

At December 31	2000	1999	1998
(in thousands)			
Total Assets	$ 3,780,478	$ 2,658,922	$ 3,013,783
Total Debt	1,353,269	712,068	932,969
Convertible Trust Preferred Securities	584,032	683,505	682,938
Stockholders' Equity	598,832	583,972	655,771

* Non-Recurring Items are plant closing and other costs, litigation settlement costs, extraordinary loss from early extinguishment of debt, extraordinary gain from interest rate derivatives and from the sale of discontinued operations and loss from discontinued operations, all net of applicable taxes.

Delivering to Our Shareholders

Dear Fellow Shareholders:

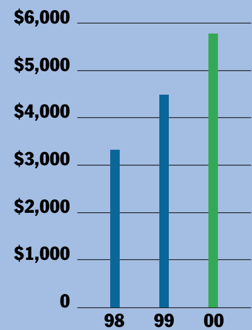
The first year of the new millennium proved to be a year of extraordinary accomplishment and change at Suiza Foods Corporation. We began the year with the acquisition of Southern Foods Group, the third largest dairy processor in the United States. This transaction, which was completed on January 1, 2000 through a joint venture with Dairy Farmers of America, transformed our business. With this acquisition we increased the number of plants that we operate by 30, gained over 5,500 new employees and grew our sales by approximately $1.3 billion. We were also delighted to welcome Pete Schenkel, former owner of Southern Foods, as President of our Dairy Group and Vice Chairman of our Board of Directors. He and his team bring a tremendous amount of expertise and experience to our company, and in their first year in the Suiza Foods family they have already proven that they can deliver results. In addition to these significant differences, the most profound change brought about by the Southern Foods acquisition was that it provided us with the infrastructure we needed to enable us to serve customers with virtually any product in the dairy case almost anywhere across the United States and Puerto Rico.

Of course, infrastructure alone does not ensure success, but it does create opportunity. Our challenge was, and still is, to use our new infrastructure to become our customers' dairy supplier of choice by providing them with unmatched service, quality and value. Our operating units acted quickly to take advantage of their new opportunities, making the first year under our new regime a truly outstanding year.

Our Operating Units Are Delivering Above Expectations – Dairy Group sales grew by 50.2% over last year, to approximately $4.66 billion. Fluid milk volumes in the Dairy Group rose by 0.8% during 2000, compared to a 0.6% decrease in industry-wide fluid milk sales, as we proved to our customers that we can deliver the best service, quality and value. Operating margin for the Dairy Group before non-recurring items improved by 84 basis points for the year, partially due to a favorable raw milk environment, but also as a result of purchasing, administrative and manufacturing synergies we were able to produce in the first year after the acquisition of Southern Foods.

Our Morningstar subsidiary also delivered an outstanding performance in 2000. Branded sales grew 16.6% for the year, while overall sales grew 7.5%. Despite an unexpected spike in butterfat costs during the fourth quarter, Morningstar increased its operating margin for the year before non-recurring items by 150 basis points, again demonstrating our ability to expand profitability even in the face of a difficult commodity environment. Morningstar also reached some exciting goals in product innovation during 2000. In February 2000, we launched *Sun Soy*®, a non-dairy, lactose-free, cholesterol-free soy milk. We were pleased with *Sun Soy's* first year sales, and we plan further innovations in this rapidly growing category in 2001. Sales of *International Delight*® increased 17% during the year. In September 2000, we formed a strategic partnership with Hershey Foods whereby Morningstar will manufacture, sell and distribute dairy products under the *Hershey®'s* brand. We are very excited about this partnership and believe that it provides us with a wealth of opportunity for future innovation and growth. Our first products launched under this partnership achieved nationwide distribution in January of this year, including all U.S. Wal-Mart stores. Morningstar has several exciting new product and packaging innovations scheduled for introduction in 2001, and we have budgeted a significant investment in support of their launch.

Net Sales
(in millions)



We redesigned and updated the packaging of our *International Delight*® line of coffee creamers (shown below) during 2000 and launched an aggressive advertising campaign intended to reposition the product as an essential part of every cup of coffee. Our efforts were rewarded as we saw sales of *International Delight*® increase by 17% during the year.

Diluted Earnings Per Share*

*Before non-recurring items

Early in 2000, we assigned Bing Graffunder, President of Morningstar, the task of reviving our Puerto Rico operations, which have experienced operational difficulties since late 1998. Under the leadership of Bing and his outstanding team, we saw significant improvement during 2000, and we expect these operations to continue to improve throughout 2001.

I thank all of our operating units for their hard work during the year to ensure that our customers did not feel any negative impact as a result of the inevitable internal strains associated with the integration process.

We Are Integrating, Rationalizing and Becoming More Efficient – We put a significant amount of energy during the year into integrating our acquired businesses as quickly and efficiently as possible. One important step we took was the consolidation of our employee benefit plans. As a result of our rapid growth, we had a number of employee benefit plans in place throughout our company. With the help of our outstanding human resources professionals, we were able to consolidate our many non-union plans into one, which resulted in a one-time gain of approximately $.03 per share in the second quarter of 2000 and will produce significant savings for our company in the future. Perhaps more important than the savings, however, is the sense of unity that a single benefit plan brings to our company, and I applaud all of our 18,000 employees for their graceful navigation of this transition.

We also took some important steps during the year in rationalizing our manufacturing capabilities. During the year, we moved three plants out of our Dairy Group into Morningstar. Production of fresh dairy products previously processed in those plants was moved to nearby Dairy Group plants, leaving Morningstar with the ultra-high temperature (or "UHT") operations and providing them with much needed UHT capacity. We also transferred three plants from Morningstar into the Dairy Group. These plants all produce cultured dairy products and we believe that we can more efficiently produce these products out of our Dairy Group, allowing Morningstar to focus primarily on UHT and specialty products. These realignments of manufacturing resources allow our operating units to better serve our customers, while at the same time enabling them to operate more efficiently as they concentrate on their core businesses. We plan further rationalization of this type in 2001 and beyond.

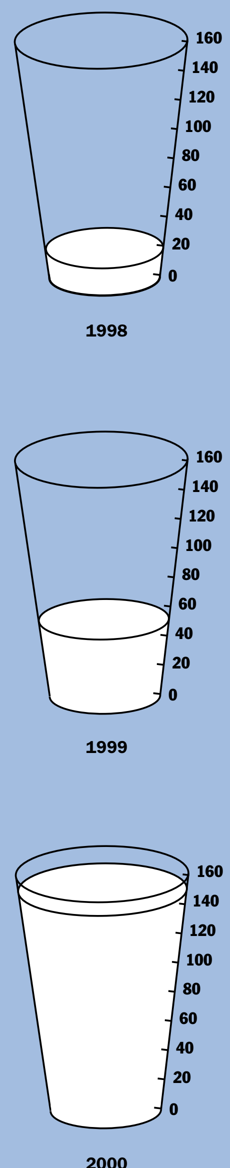
Also during 2000, as part of our overall integration and cost reduction strategy, we closed three plants, eliminated a significant amount of duplicative administrative expenses and booked over $29 million in purchasing synergies. We formed an in-house tax group and assigned them the responsibility of, among other things, identifying tax savings for our company. As a result of the efforts of this group, we lowered our overall tax rate for the year. We are proud of our tax group's accomplishments during 2000 and expect that they will continue to identify potential savings as we move through 2001 and beyond.

We know that better technology increases our efficiency, and we are constantly working to enhance our technological capabilities. We took a leadership role in the development and formation of *Dairy.com*, the first business-to-business online vertical exchange focused specifically on bringing farmers, farm cooperatives, processors and manufacturers together in an electronic marketplace for the exchange of goods and services, supply chain efficiency tools and dairy farm optimization tools. The product exchange component of the site began operations in January 2001, and we have already realized benefits as we have used it to streamline the process of buying and selling cream, raw milk and other ingredients. We expect this tool to allow us to increase our efficiency even further as more and more buyers and sellers begin to use this tool in their operations. We also made significant progress during 2000 on the roll-out of our state-of-the-art "enterprise resource planning" system in our Northeast region. All phases of the roll-out have been on time or ahead of schedule and we expect the system to be fully operational by mid-2001.

We Are Using Our Capital Wisely – At Suiza Foods, we are extremely disciplined about investing our capital where potential returns are greatest. During 2000, that meant aggressively investing in our own stock. We repurchased a total of 3.3 million shares of our common stock during 2000 for a total cost of $148.5 million. We have repurchased an additional 123,334 shares to date this year, and approximately $101.3 million remains available under our current Board authorization.

Also in 2000, in addition to Southern Foods, we acquired six companies with a total of more than $500 million in annual sales. Acquisitions have always been an important part of our growth strategy, and we expect to continue to make both "tuck-in" and "new platform" acquisitions in various markets throughout the country, in order to ensure that we are always able to meet our customers' service needs. In February 2000, we acquired a 75% interest in Leche Celta, the fourth largest dairy in Spain with annual revenues of approximately $150 million. We have learned a

Free Cash Flow*
(in millions of dollars)



*Free cash flow is defined as net income before non-recurring items plus depreciation, amortization and minority interest less capital expenditures and income contributed by Consolidated Container.

great deal in our first year in Spain, and we continue to believe that Europe offers us a potentially attractive new platform for growth. We intend to take a cautious approach to significant further investment in Europe, however, in order to ensure that any such investment will be value-creating for our shareholders.

During the first and second quarters of 2000, we sold the two European packaging operations we acquired from Continental Can, and re-invested the proceeds in our core dairy business and in the repurchase of our stock. We also closed and fully funded an asset securitization totaling $150 million, and used the proceeds to pay down higher cost debt.

We Are Delivering on Our Commitments – I am extremely proud of our performance in 2000. Our strong operating performance allowed us to overcome unavoidable situations such as weak performance at our minority-owned businesses, rising energy prices and a volatile butterfat market. Despite these challenges, we met or exceeded the goals that we set for ourselves. We have an outstanding management team with a formidable record of delivering on commitments. Our efforts have been rewarded with an increase in our stock price of more than 20% since the beginning of 2000, and the recognition of the financial and business press with honors such as inclusion in Forbes' 2000 Platinum List of the finest companies in America and Fortune magazines' 2000 list of America's Most Admired Companies. I thank all of our 18,000 employees for their daily contributions that allow our company to continuously build on its success.

Looking Ahead – While we are always proud to report outstanding historical performance, we are never satisfied to rest on our past

Also in 2000, Suiza Dairy Group expanded its test market of our new Milk Made Better line of value-added milks into markets in New England and Michigan, and extended our offerings to include Chocolate *kidsmilk*™. While we intend to continue our test of this line in a slow and deliberate manner, these products have been embraced by our customers and consumers. We are committed to continuing to bring innovative products and packaging to our customers through our Dairy Group.

accomplishments. Our business is extremely competitive, and we understand that the only way to win is to consistently deliver unsurpassed value to our customers. In 2001 we intend to:

- Continue building on our customer relationships by providing them with unmatched service, quality and value;
- Continue to introduce winning new products and packaging, and market them aggressively;
- Continue integrating the businesses we have acquired and increasing our efficiency by taking advantage of economies of scale and lowering costs; and
- Continue to invest our capital where potential returns are greatest.

We expect adherence to this strategy to translate into top-line sales growth of approximately 3% to 4%, and earnings per share growth in the range of 10% to 12%.

I thank you for your investment in and support of our company, and I look forward to reporting another year of outstanding performance in 2001.

Sincerely,

Gregg L. Engles

Gregg L. Engles
Chairman of the Board
and Chief Executive Officer

April 4, 2001

Delivering "the Dairy Best" to Our Customers

We have built Suiza Foods on the vision of acquiring strong regional companies, empowering them to manage their businesses locally and providing the centralized resources they need to run their operations efficiently. We have completed 43 dairy acquisitions since 1993, and continue to manage our company on a decentralized, regional basis to capitalize on the established success of the businesses and brands we have acquired and the experience of our management teams in the field.

We have created a vast manufacturing and distribution network with geographic reach that is unprecedented in this industry. We have more than 4,000 direct-store-delivery routes spanning the nation. By combining these with the nationwide warehouse distribution system of Morningstar Foods, we are able to deliver high quality products and extraordinary service to our customers in a way that we believe no other industry player can.

Our product offerings extend throughout the entire dairy case from milk to sour cream and cottage cheese to ice cream and ice cream novelties. We also are providing these traditional dairy products in packaging tailored to today's on-the-go consumer – like single-serve milks, *Cheese 'n Stuff*® cottage cheese blended with fresh fruit, *International Delight Creamer Singles*® and a wide variety of ice cream snacks. We offer *kidsmilk*™ and *fitmilk*™ in more and more markets, further answering our customers' needs for new and innovative products in the dairy case, and through Morningstar Foods we bring value-added, nationally branded products into the mix like *International Delight*®, *Sun Soy*® and an exciting new line of *Hershey*®*'s* flavored milks.

At Suiza Foods our product innovation pipeline is full, and our commitment to quality and customer service is second to none.

Suiza Manufacturing Facilities

Southwest Region

Adohr Farms - Southgate, CA

Barbe's Dairy - Westwego, LA

Borden - Tulsa, OK

Brown's Dairy - New Orleans, LA

Country Delite Farms - Nashville, TN

Country Fresh - Flint, Grand Rapids, Livonia and Port Huron, MI

Foremost Dairies - Shreveport, LA

Hygeia Dairy Company – Corpus Christi, TX

Meadow Gold Dairies - Honolulu and Hilo, HI; Boise and Pocatello, ID; Kalispell, Great Falls and Billings, MT; Salt Lake City and Orem, UT; Grand Junction, Englewood and Denver, CO; Lincoln, NE; Huntsville, AL

Model Dairy - Reno, NV

Oak Farms Dairy - Dallas, Houston, San Antonio and Waco, TX

Robinson Dairy - Denver, CO

Schepps Dairy - Dallas, TX

South West Ice Cream Specialties – McKinney, TX

Cultured Specialties – Sulphur Springs, TX, Tulare and Fullerton, CA

Swiss Dairy - Riverside, CA

Southeast Region

Broughton Foods - Marietta, OH

Burger Dairy Company – New Paris, IN

Dairy Fresh - Winston-Salem, NC

Dairymens - Cleveland, OH

Flav-O-Rich - London, KY; Bristol, VA; Wilkesboro, NC; Florence, SC

Frostbite – Toledo, OH

Louis Trauth Dairies - Newport, KY

PET - O'Fallon, IL; Portsmouth, VA; Kingsport, TN; Hickory, NC; Spartanburg, SC

Schenkel's All Star Dairy – Huntington, IN

Shenandoah's Pride - Springfield, VA

Velda Farms - Winter Haven and Miami, FL

Northeast Region

Garelick Farms - Bangor, ME; Bennington, VT; East Greenbush, NY; Mendon, Franklin and Lynn, MA

Lehigh Valley Farms - Schuylkill Haven and Landsdale, PA

Tuscan Dairy - Union and Florence, NJ

Morningstar Foods

Tempe, AZ

City of Industry, CA

Gustine, CA

Greeley, CO

Frederick, MD

Fraser, NY

Arlington, TN

Sulphur Springs, TX

Mount Crawford, VA

Madison, WI

Suiza Dairy – Puerto Rico

Suiza Dairy - Aguadilla and San Juan, PR

Garrido y Compania - Lares and Caguas PR

International

Leche Celta - Pontedeume, Meira and Santander, Spain

Delivering

Bill McCoy

Truck Driver and Foreman – Garelick Farms, Bennington, Vermont

"I've been driving routes here for 46 years, and I've enjoyed myself every day. I help my customers any way I can and try to keep them happy. I see them several times a week so they're almost like family. I love my work and I have a good day every day."

Fluid Performance

We currently produce more than 1.5 billion gallons of milk, almost 100 million gallons of ice cream and over 400 million pounds of cultured dairy products each year, in addition to a wide array of other quality products. Most of our products are transported in climate-controlled vehicles directly to our customers' doors. Service is key in our business, and we are committed to meeting our customers' service needs day in and day out, 365 days a year. We operate continuously in 83 manufacturing facilities with more than 18,000 employees across the country. This manufacturing network, combined with our extensive distribution system and product lines, enables us to service our customers like no one else can. The retail grocery industry and other food retail and service providers are consolidating their operations, and we are committed to remaining able to fulfill their needs. As Suiza Foods has grown, we have established economies of scale and we have concentrated production in specialized plants, allowing us to further improve the product quality, service and value we offer our customers.

We're proud to be Wal-Mart's 2000 Dairy Supplier of the Year. We earned the award because of a 21.5% sales increase, a 99.5% on-time delivery rating and use of innovative marketing and promotional programs. We also scored high in service, with our employees ranking on top for providing exceptional service to drive sales.

Our customer base continues to grow by virtue of our ability to serve each customer consistently from region to region across the country. We have successfully integrated over 43 dairy companies, and now our array of products and distribution capabilities allows us to supply large national customers with virtually any dairy product anywhere they do business. Our smaller customers continue to receive the quality, service and value they have come to expect through relationships built over the years with local and regional dairies. We know that the face-to-face, personal contact our sales and delivery employees have with our customers is critical to our success, and we believe we have the strongest management and employee base in the industry.

Consistent Grade A Quality

Kapila Devkota

Quality Assurance Manager – Morningstar Foods, Arlington, Tennessee

“My job is to make sure we’re putting the highest quality products in the market. We have many systems in place to test raw materials and finished products, and will not compromise product quality for anything. Here, quality and safety are our first priority, and I’m proud of this commitment.”

Perhaps nothing is more important in our industry than ensuring that our food products are safe. Our reputation and the reputations of our customers depend on it.

We pride ourselves on a quality assurance program we believe is the best in the business. Our products are tested continuously to ensure that they meet or exceed all federal and state requirements. Each of our plants has a quality control laboratory staffed with certified quality control specialists on site. Raw milk is tested upon arrival at each plant for temperature, added water, bacteria and antibiotics. A test result outside the acceptable limits causes the entire raw milk tanker to be rejected. Products are tested throughout production and after packaging for flavor, fat content and other requirements, and we conduct shelf-life tests to ensure that each product maintains its quality.

***Mountain High*® yogurt, produced at Meadow Gold's plant in Englewood, Colorado, has "peaked" the interest of customers in the western United States. The yogurts are available in Original, Lowfat and Fat Free varieties and feature unique fruit blends as well as popular Fruit on the Bottom flavors.**

We impose similarly strict quality standards on our suppliers to ensure that our finished products are of the highest quality. We are very proud of our quality assurance programs, from our equipment and facilities to the technicians who run them.

A large portion of our business comes from the private label category, which accounts for approximately one-third of our overall sales. Our strong presence in this category attests to our extraordinary commitment to quality. Our retail customers demand that private label products be of the highest quality because their own brand names are on the labels, and we are committed to manufacturing and delivering these products with the same commitment to quality that we have with our own brands.

Delivering

Ann Shaw

Food Scientist – Morningstar Foods, Gustine, California

"I really enjoy my job because I work on all types of projects. I developed *Sun Soy*® with the help of many talented people. I am proud of our commitment to creating new, innovative products."

Innovation

We see innovation as an important part of our continued success. From packaging enhancements to new product lines, we are committed to bringing excitement to the dairy case with fresh product concepts that are created with today's time-, health- and value-conscious consumer in mind.

How do we make a product like milk more interesting and more marketable for the 21st century consumer? We believe one way is with our Milk Made Better line. We created these value-added milks to fill specific lifestyle needs while providing more nutritional value than regular milk. *kidsmilk*™ and new Chocolate *kidsmilk*™ give children more of the nutrients they need for growth of strong bones with 38% less fat than whole milk. For older milk drinkers, *fitmilk*™ is fat-free milk that is fortified with 67% more calcium than regular milk. We look forward to introducing these products to more customers and consumers in 2001.

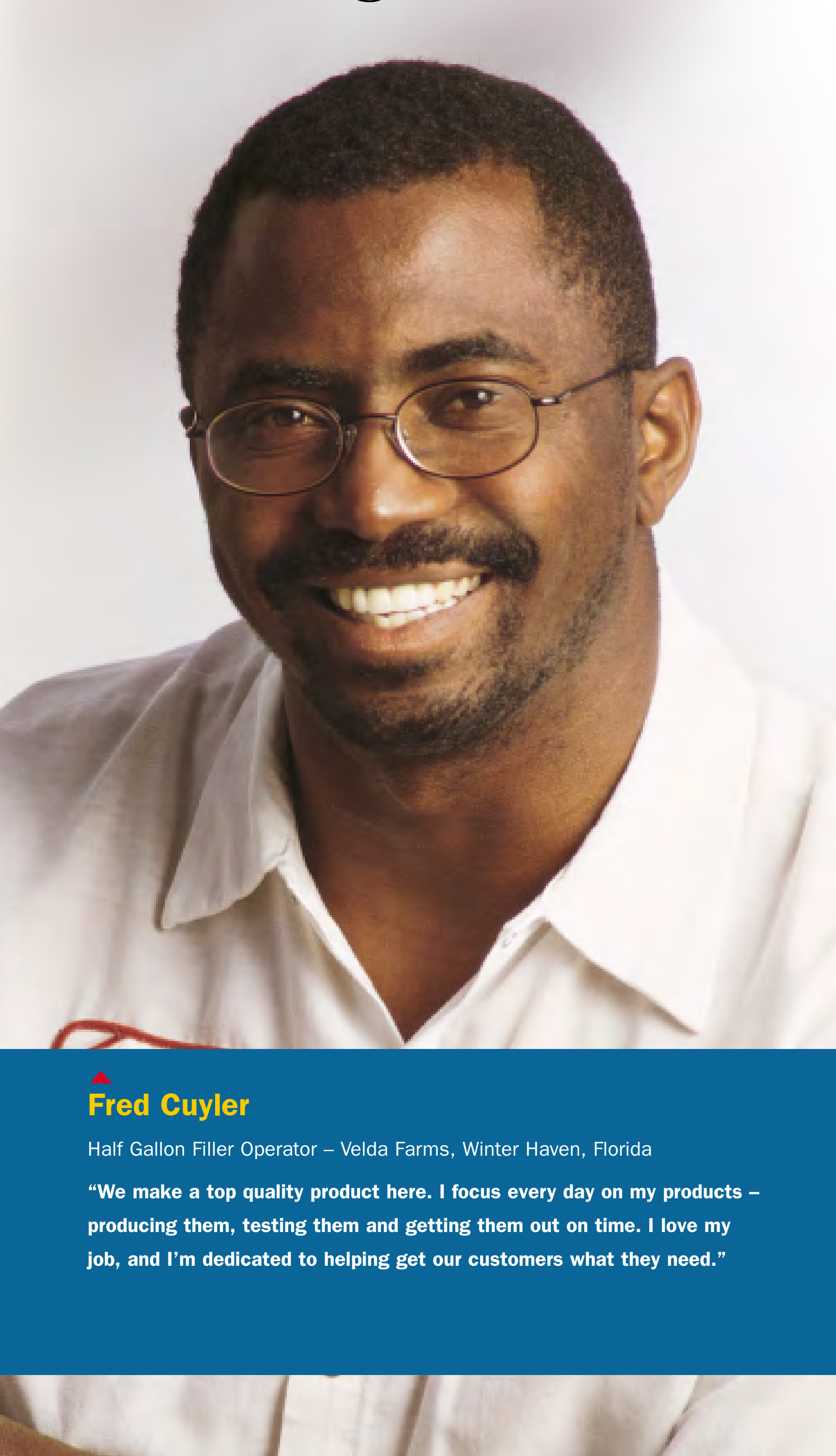
The Dairy Group continues to bring innovation to the category by adding unique twists on standard products through packaging or with new flavors and varieties. We provide plain and flavored milks in single-serve packaging to appeal to fast-paced consumers and to compete with soft drinks and sport drinks.

Oak Farms introduced *Cheese 'n Stuff*™, blending cottage cheese with fruit in one package. It's a healthy snack for adults, and its convenience and sweet flavor make it great for kids too.

We also are proud of the success of Morningstar's *Sun Soy*® line, introduced early in 2000. Soy milk is a new and exploding category because of its health benefits, and *Sun Soy* offers these nutritional aspects in addition to great taste and flavor variety. We recently introduced Coffee Latte, a new flavor popular with coffee lovers. Research studies show that soy intake may reduce risk for cancer and heart disease, and may be potent in the fight against hormone-dependent tumors such as breast cancer tumors. We are proud to have supported the Susan G. Komen Foundation's *Race for the Cure*® in five cities nationwide by providing race participants and spectators with *Sun Soy* samples, coupons and education on the health benefits of soy milk.

International Delight® continues to be Morningstar's flagship product, and in 2000 we re-positioned the line with updated packaging and an exciting advertising campaign. *International Delight* also launched a new flavor early this year, adding Vanilla Hazelnut to the mix, and replaced Swiss Chocolate with the new Chocolate Cream variety.

Taking a Different Route



At Suiza Foods, we believe it is not a single aspect of how we do business that sets us apart from our industry counterparts, but a combination of many factors that contribute to our success. Our decentralized management philosophy, our commitment to innovation, our willingness to "think outside the box" and our outstanding record of delivering on our commitments, not to mention our passion for providing our customers with unmatched quality and service, have made us the leader in our field.

We are committed to taking steps to grow value in the industry as a whole – not only for ourselves, but for our customers and suppliers as well. We see the importance in furthering the interests of the dairy business, and understand that our role as an industry leader brings with it responsibility. In July 2000, we joined several other dairy companies in founding *Dairy.com*, the first and only business-to-business Internet site designed to provide a full set of tools and services specifically tailored to the U.S. dairy industry.

Fred Cuyler

Half Gallon Filler Operator – Velda Farms, Winter Haven, Florida

"We make a top quality product here. I focus every day on my products – producing them, testing them and getting them out on time. I love my job, and I'm dedicated to helping get our customers what they need."

Our innovative style resulted in another exciting development in September 2000, when Morningstar Foods announced a strategic alliance with Hershey Foods Corporation. Previously, *Hershey®'s* chocolate milk was produced locally by various dairy companies across the country. With this new alliance, Morningstar Foods is the first company to manufacture, sell and distribute *Hershey's* brand name dairy products nationally. The products – fat-free and reduced-fat chocolate milks and reduced-fat strawberry milk – achieved nationwide distribution early this year. Morningstar offers Hershey state-of-the-art manufacturing capabilities and an extensive warehouse system to distribute and market the products on a nationwide basis. Hershey offered new formulations for the chocolate milks as well as strong brand recognition. This partnership demonstrates our commitment to developing relationships with other food industry leaders to create new, exciting products for the dairy category.

The dairy industry is steeped in traditions of wholesome, fresh products, strong local and regional brand names and personal interaction with customers. While Suiza Foods seeks to bring a new face to the dairy industry, these aspects of the business will remain unchanged as we look toward the future. While we are committed to introducing new products and bringing change to the industry, we remain focused on our primary objectives of customer service and high quality products. We will continue looking for effective ways to bring innovative products to consumers, while satisfying their basic needs for nutrition, convenience and value. We also will continue seeking and supporting initiatives that better the dairy industry altogether, because a stronger, more profitable industry means a better place for us, our customers, suppliers, employees and communities. We hope our national partnership with Hershey is the first of many of its kind that will allow other companies to take advantage of our service, processing and distribution capabilities. We are proud of the company we have built, and of the accomplishments to come.

Suiza Foods is proud to have helped create *Dairy.com*, the first and only business-to-business online vertical exchange focused on serving the entire U.S. dairy industry. The site includes a dairy commodity exchange, farmer services, information and supply chain management tools and industry focused community and content. *Dairy.com's* first live trading occurred in January 2001.

Delivering Results

Suiza Foods entered the 21st century as the leader of the U.S. dairy industry, and we continue to set ourselves apart from our competitors through consistent delivery on our goals. Our achievements demonstrate the continuing dedication of our more than 18,000 employees who are committed to producing the highest quality products possible, delivering them with outstanding service and continually working to find new and innovative ways to serve our customers.

We have a tremendous record of success and growth. We continually meet our goals – financially and operationally – and are proud of the reputation we have built with our customers and our shareholders. We are driven by results. Results are driven by performance, and our employees perform consistently to meet the needs of each of our valued customers, day after day, from coast to coast and beyond.

Over 1.5 billion gallons of milk a year… and much, much more.

We deliver the goods to our customers… and the numbers to the Street

Selected Financial Data

The following selected financial data as of and for each of the five years in the period ended December 31, 2000 has been derived from our audited consolidated financial statements. The selected financial data do not purport to indicate results of operations as of any future date or for any future period. The selected financial data should be read in conjunction with our Consolidated Financial Statements and related Notes.

	Year Ended December 31,				
(Dollars in thousands except share data)	**2000**	**1999**	**1998**	**1997**	**1996**
Operating Data:					
Net sales	$5,756,303	$4,481,999	$3,320,940	$1,795,868	$1,207,565
Cost of sales	4,330,067	3,487,075	2,557,908	1,381,084	970,796
Gross profit	1,426,236	994,924	763,032	414,784	236,769
Operating costs and expenses:					
Selling and distribution	812,274	518,962	376,928	209,271	123,161
General and administrative	182,570	148,009	112,169	58,708	44,352
Amortization of intangibles	52,441	38,513	31,479	14,916	7,675
Plant closing, merger and other costs	3,388	12,566		37,003	571
Litigation settlement costs	7,500				
Total operating costs and expenses	1,058,173	718,050	520,576	319,898	175,759
Operating income	368,063	276,874	242,456	94,886	61,010
Other (income) expense:					
Interest expense, net	112,586	49,233	52,082	36,664	15,707
Financing charges on trust issued preferred securities	33,595	38,584	30,213		
Equity in earnings of unconsolidated affiliates	(11,453)	(2,630)	(78)		
Other income, net	(630)	(1,416)	(4,212)	(24,483)	(4,499)
Total other expense	134,098	83,771	78,005	12,181	11,208
Income from continuing operations before income taxes	233,965	193,103	164,451	82,705	49,802
Income taxes	90,303	75,463	59,823	43,375	2,939
Minority interest in earnings	29,911	8,813	1,559		
Income from continuing operations	113,751	108,827	103,069	39,330	46,863
Income (loss) from discontinued operations			(3,161)	717	2,315
Income before extraordinary gain (loss)	113,751	108,827	99,908	40,047	49,178
Extraordinary gain (loss)	4,968	904	31,698	(11,283)	(2,215)
Net income	$ 118,719	$ 109,731	$ 131,606	$ 28,764	$ 46,963
Net income applicable to common stock	$ 118,719	$ 109,731	$ 131,369	$ 28,464	$ 46,661
Basic earnings per common share:					
Income from continuing operations	$ 4.03	$ 3.31	$ 3.12	$ 1.32	$ 1.99
Income (loss) from discontinued operations			(0.10)	0.02	0.10
Extraordinary gain (loss)	.18	.03	0.96	(0.38)	(0.10)
Net income	$ 4.21	$ 3.34	$ 3.98	$ 0.96	$ 1.99
Diluted earnings per common share:					
Income from continuing operations	$ 3.68	$ 3.11	$ 2.90	$ 1.25	$ 1.90
Income (loss) from discontinued operations			(0.08)	0.02	0.10
Extraordinary gain (loss)	.14	.02	0.76	(0.36)	(0.09)
Net income	$ 3.82	$ 3.13	$ 3.58	$ 0.91	$ 1.91
Average common shares:					
Basic	28,195,043	32,861,218	32,953,290	29,508,791	23,424,322
Diluted	36,671,264	42,858,492	41,965,564	31,348,591	24,491,899
Other Data:					
Ratio of earnings to combined fixed charges and preferred stock dividends(1)	2.58x	3.75x	3.36x	2.89x	3.38x
Balance Sheet Data (at end of period):					
Total assets	$3,780,478	$2,658,922	$3,013,783	$1,403,462	$ 833,624
Long-term debt(2)	1,353,269	712,068	932,969	828,659	455,880
Mandatorily redeemable convertible trust issued preferred securities	584,032	683,505	682,938		
Total stockholders' equity	598,832	583,972	655,771	359,310	213,854

(1) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, "earnings" represents income before income taxes plus fixed charges. "Fixed charges" consist of interest on all debt, amortization of deferred financing costs and the portion of rental expense that we believe is representative of the interest component of rent expense. Preferred stock dividends consist of dividends, adjusted to a pre-tax basis, on our Series A Preferred Stock, which we redeemed in 1998.

(2) Includes amounts outstanding under subsidiary lines of credit and the current portion of long-term debt.

We are the nation's leading dairy processor and distributor, producing a full line of company-branded and customer-branded dairy products such as fluid milk, ice cream and novelties, coffee creamers, half-and-half, whipping cream, sour cream, cottage cheese and yogurt. We also manufacture and distribute fruit juices and other flavored drinks, bottled water and coffee, and have holdings in the consumer goods packaging industry. We currently have two reportable business segments, including Suiza Dairy Group and Morningstar Foods.

Results of Operations

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

	Year Ended December 31,					
	2000		1999		1998	
(Dollars in thousands)	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	$5,756,303	100.0%	$4,481,999	100.0%	$3,320,940	100.0%
Cost of sales	4,330,067	75.2	3,487,075	77.8	2,557,908	77.0
Gross profit	1,426,236	24.8	994,924	22.2	763,032	23.0
Operating costs and expenses:						
Selling and distribution	812,274	14.1	518,962	11.5	376,928	11.4
General and administrative	182,570	3.2	148,009	3.3	112,169	3.4
Amortization of intangibles	52,441	0.9	38,513	0.9	31,479	0.9
Plant closing and other costs	3.388	0.1	12,566	0.3		
Litigation settlement costs	7,500	0.1				
Total operating costs and expenses	1,058,173	18.4	718,050	16.0	520,576	15.7
Operating income	$ 368,063	6.4%	$ 276,874	6.2%	$ 242,456	7.3%

During the first half of 2000 we sold our European packaging business. On July 2, 1999 we sold our U.S. plastic packaging operations to Consolidated Container Company, in exchange for cash and a 43.1% interest in Consolidated Container. This is our only remaining packaging investment. We account for our investment in Consolidated Container under the equity method of accounting. As a result, the sales and operating expenses of Consolidated Container subsequent to July 2, 1999 are not included in the table presented above, but are instead condensed onto a single line below operating income (see discussion below under "Other Income and Expense").

Year Ended December 31, 2000 Compared To Year Ended December 31, 1999

Net Sales – Net sales increased 28.4% to $5.76 billion during 2000 from $4.48 billion in 1999. Excluding the effect of our packaging operations, sales increased by $1.72 billion, or 43.1%, in 2000. Net sales for Suiza Dairy Group increased by $1.56 billion, or 50.2%, in 2000 compared to 1999 mainly due to acquisitions, particularly the acquisition of Southern Foods Group. Net sales for Morningstar Foods increased by $49.1 million, or 7.5%, in 2000 due to increased sales of higher priced products.

Cost of Sales – Our cost of sales ratio was 75.2% in 2000 compared to 77.8% in 1999. The cost of sales ratio for Suiza Dairy Group decreased to 75.9% in 2000 from 79.6% in 1999. This ratio improved due to improved performance at dairies owned more than twelve months, lower raw material costs and because Southern Foods Group, which we acquired effective January 1, 2000, has a lower cost of sales ratio than our existing dairies. The customer base of Southern Foods Group is somewhat different from our other dairies, which requires Southern Foods Group to charge higher prices to cover higher distribution costs. The cost of sales ratio for Morningstar

Foods improved to 66.8% in 2000 from 69.0% in 1999 due to an increased emphasis on cost-savings initiatives, as well as increased sales of higher margin products.

Operating Costs and Expenses – Our operating expense ratio was 18.4% in 2000 compared to 16.0% in 1999. The operating expense ratio at Suiza Dairy Group was 17.9% in 2000 compared to 15.1% in 1999. This ratio increased due to higher distribution costs at Southern Foods Group as a result of their extensive direct store delivery routes in rural areas and due to increased distribution costs in 2000 because of higher fuel costs. These cost increases were partly offset by a $3.6 million pre-tax gain in the second quarter of 2000 related to the curtailment of certain defined benefit plans. Included in operating costs in Suiza Dairy Group in 2000 are plant closing costs of $2.1 million and litigation settlement costs of $7.5 million. For more information regarding the litigation settlement costs, see Note 3 to our Consolidated Financial Statements. In 1999, plant closing costs amounted to $8.7 million.

The operating expense ratio at Morningstar Foods was 18.9% in 2000 compared to 18.2% in 1999. This ratio increased due to higher marketing expenses in 2000 related to new products. In 1999, plant closing costs amounted to $0.5 million.

Operating Income – Operating income in 2000 was $368.1 million, an increase of 32.9% from 1999 operating income of $276.9 million. Excluding the effect of our packaging operations, our operating income in 2000 increased $141.2 million or 62.3%. Our operating income margin increased to 6.4% in 2000 compared to 6.2% in 1999 (5.7% excluding the contribution of our packaging operations in 1999). Operating margin in Suiza Dairy Group improved to 6.2% in 2000 from 5.3% in 1999. This increase is due primarily to improved performance at dairies owned more than twelve months. Morningstar Foods' operating margin improved to 14.3% in 2000 from 12.8% in 1999 due to increased sales of higher margin products.

Other Income and Expense – Total other expense increased in 2000 by $50.3 million. Interest expense increased to $112.6 million in 2000 from $49.2 million in 1999. This increase is due to additional debt used to finance acquisitions and also as a result of higher interest rates. Financing charges on preferred securities decreased to $33.6 million in 2000 from $38.6 million in 1999 as a result of the redemption of $100.0 million of 5.0% preferred securities held by Dairy Farmers of America on January 1, 2000 in connection with our acquisition of Southern Foods Group.

Income from investments in unconsolidated affiliates, which is primarily related to our minority interest in Consolidated Container Company, amounted to $11.5 million in 2000. These earnings included $0.8 million, representing our proportional share of a favorable adjustment to previously recorded restructuring charges at Consolidated Container Company. During 1999 we reported $2.6 million in income from investments in unconsolidated subsidiaries, primarily Consolidated Container Company.

Income Taxes – Income tax expense was recorded at an effective rate of 38.6% in 2000 compared to 39.1% during 1999. This decrease was a result of the sale of our U.S. packaging operations, which had a higher effective tax rate than our dairy operations, and certain tax saving initiatives implemented during 2000.

Minority Interest – Minority interest in earnings increased to $29.9 million in 2000 from $8.8 million in 1999. Effective January 1, 2000 we entered into a joint venture with Dairy Farmers of America into which we contributed our domestic fluid dairy operations and Dairy Farmers of America contributed the operations of Southern Foods Group and their interests in certain other joint ventures with us. Dairy Farmers of America received a 33.8% ownership interest in the joint venture, which is shown as a minority interest on our consolidated financial statements. During 1999, minority interest in earnings consisted primarily of Dairy Farmers of America's ownership interests in our joint ventures with them.

Extraordinary Gain – During the first quarter of 2000 we recognized a $5.0 million extraordinary gain, net of income tax expense of $2.8 million, which included the following items related to the early extinguishment of our previous senior credit facility:

- A $6.5 million gain, net of income tax expense of $3.6 million, for interest rate derivatives which became unhedged and were marked to fair market value, and
- A $1.5 million loss, net of an income tax benefit of $0.8 million, for the write-off of deferred financing costs.

Year Ended December 31, 1999 Compared To Year Ended December 31, 1998

Net Sales – Our net sales increased by $1.16 billion or 35% in 1999 compared to 1998, primarily as a result of acquisitions. Excluding $244.9 million and $325.0 million in revenues recorded by our U.S. packaging operations in 1999 and 1998, respectively, sales increased $1.24 billion or 41.5%. Net sales for Suiza Dairy Group increased by $1.14 billion, or 58.2%, in 1999 compared to 1998 mainly due to acquisitions in the northeastern United States and to growth in our existing businesses. Net sales for Morningstar Foods increased by $43.4 million, or 7.1%, in 1999 primarily due to increased sales of higher priced products such as branded coffee creamers.

Cost of Sales – Our cost of sales ratio was 77.8% in 1999 compared to 77.0% in 1998. This ratio increased due to the sale of our U.S. packaging operations, which had a lower cost of sales ratio. The cost of sales ratio for Suiza Dairy Group was 79.6% in 1999 compared to 78.5% in 1998. This increase was due to higher costs of sales in newly acquired businesses. The cost of sales ratio for Morningstar Foods improved to 69.0% in 1999 from 72.4% in 1998 due to increased volume of higher margin branded products.

Operating Costs and Expenses – Our operating expense ratio was 16.0% in 1999 compared to 15.7% in 1998. The operating expense ratio at Suiza Dairy Group was 15.1% in 1999 compared to 14.2% in 1998. This increase was primarily the result of $8.7 million in plant closing and other costs. We incurred these plant closing and other costs in order to operate more efficiently. Excluding these charges, our operating expense ratio was equivalent to 1998 levels. The operating expense ratio at Morningstar Foods was 18.2% in 1999 compared to 16.6% in 1998. This ratio increased due to higher distribution and marketing expenses in 1999 and to plant closing costs of $0.5 million.

Operating Income – Our operating income in 1999 was $276.9 million, an increase of $34.4 million or 14.2% from 1998 operating income of $242.5 million. Our operating income margin decreased to 6.2% in 1999 from 7.3% in 1998. On a comparable basis, excluding:

- $12.6 million in plant closing and other nonrecurring charges in 1999, and
- operating income of $36.2 million and $45.2 million generated by our U.S. packaging operations in 1999 and 1998, respectively,

our operating income in 1999 was $253.3 million, an increase of $56.0 million or 28.4% compared to 1998 operating income of $197.3 million. Making the same adjustments, our operating margin was 6.0% in 1999 compared to 6.6% in 1998. Operating margin in Suiza Dairy Group decreased to 5.3% in 1999 from 6.2% in 1998 due to the plant closing costs noted above and due to lower operating income margins at newly acquired companies. Dairies owned more than 12 months increased operating margins by 0.57%. Morningstar Foods' operating margin improved to 12.8% in 1999 from 11.0% in 1998 due to increased sales of higher margin products.

Other Income and Expense – Our interest expense decreased to $49.2 million in 1999 from $52.1 million in 1998 due to the elimination of approximately $500 million of debt following the sale of our U.S. packaging operations, partially offset by additional debt incurred to pay for acquisitions and stock repurchases totaling approximately $428.8 million. Financing charges on our trust issued preferred securities amounted to $38.6 million in 1999 compared to $30.2 million in 1998, reflecting a full year of these charges in 1999 as compared to only part of the year in 1998.

Income from investments in unconsolidated affiliates, which was primarily related to our minority interest in Consolidated Container Company during the last two quarters of 1999, amounted to $2.6 million. These earnings were net of $4.9 million representing our proportional share of restructuring and other non-recurring charges related to the integration and rationalization of Consolidated Container Company's operations.

Income Taxes – Income tax expense was recorded at an effective rate of 39.1% for 1999 compared with 36.4% in 1998. The increase in the rate was due primarily to a lower of level of earnings in Puerto Rico in 1999, where we have the benefit of lower tax rates and higher foreign taxes from a full year of Continental Can foreign operations in 1999 compared to only 7 months in 1998.

Discontinued Operations and Extraordinary Items – In 1998, we reported a loss from discontinued operations of $3.2 million, net of an income tax benefit of $2.1 million, related to our packaged ice operations which were sold on April 30, 1998.

Extraordinary items included:

- the sale of our packaged ice business in April 1998 resulting in a $35.5 million gain, net of income tax expense of $22.0 million, and
- the recording of a $3.8 million loss, net of an income tax benefit of $2.3 million, from the write-off of deferred financing costs and the recognition of interest rate swap losses in connection with the early extinguishment of the term portion of our credit facility in May 1998.
- the recording of an additional gain of $0.9 million, net of income taxes of $0.5 million, in the fourth quarter of 1999 when contingencies related to the sale of our packaged ice operations in 1998 were resolved favorably.

Liquidity and Capital Resources

Historical Cash Flow

During 2000, we met our working capital needs with cash flow from operations along with borrowings under the Suiza Dairy Group credit facility. Net cash provided by continuing operations was $297.7 million for 2000 as contrasted to $283.5 million for 1999, an increase of $14.2 million. Net income plus non-cash items increased by $83.5 million in 2000 compared to 1999, partially offset by changes in working capital components of $69.3 million in 2000 compared to the previous year. Net cash used in investing activities was $380.3 million in 2000 compared to $38.0 million in 1999. Cash paid for acquisitions was $336.0 million in 2000, an increase of $100.1 million over 1999, offset by $89.0 million of cash proceeds from divestitures as compared to $383.1 million in 1999.

During 2000, we spent a total of $148.5 million on stock repurchases under our open market stock repurchase program, which we funded with borrowings under our receivables-backed loan, cash flow from operations and cash flow from divestitures. From January 1, 2001 through March 5, 2001, we have repurchased and effectively retired 123,334 shares of our stock for a total purchase price of approximately $6.1 million, all of which has been funded with cash flow from operations. For more information about our stock repurchase program, please see Note 13 to our Consolidated Financial Statements.

We have not made any significant acquisitions during 2001 to date.

Current Debt Obligations

Effective January 1, 2000, in connection with our acquisition of Southern Foods Group, we entered into a joint venture with Dairy Farmers of America. We contributed our domestic fluid dairy operations (not including our Morningstar Foods and Puerto Rico operations) and Dairy Farmers of America contributed the operations of Southern Foods Group, as well as its interests in certain other joint ventures with us, to form Suiza Dairy Group. In exchange for our contribution we received a 66.2% ownership in Suiza Dairy Group. We report the results of Suiza Dairy Group in our Consolidated Financial Statements. Dairy Farmers of America's portion of Suiza Dairy Group's income, cash flows, assets and liabilities is shown as a minority interest on our Consolidated Financial Statements.

Simultaneously with the closing of this transaction, Suiza Dairy Group entered into a new $1.61 billion credit facility and borrowed approximately $1.1 billion under this new facility. Suiza Dairy Group distributed a portion of the borrowings under the new credit facility to DFA and to us.

We used our portion of the distributed funds to repay certain existing obligations, including our then existing senior credit facility which we terminated and replaced with a new $300 million parent-level credit facility. We also redeemed $100 million aggregate stated amount of mandatorily redeemable trust issued preferred securities held by Dairy Farmers of America, and assumed approximately $113.8 million of outstanding debt of Southern Foods Group. As a result of the acquisition, we were required to offer to repurchase these senior notes at 101% of face value. All senior notes were tendered and were redeemed on March 24, 2000.

As a result of these transactions, we now have two senior credit facilities, one at the parent level and one at the Suiza Dairy Group level.

At December 31, 2000, Suiza Dairy Group had outstanding borrowings of $1.10 billion under its senior credit facility. In addition, $17.8 million of letters of credit secured by the Suiza Dairy Group credit facility were issued but undrawn. As of December 31, 2000, approximately $497.2 million was available for future borrowings under this credit facility, subject to satisfaction of certain conditions contained in the loan agreement.

We had no debt outstanding under our parent-level credit facility; however, $4.0 million of letters of credit secured by that facility were issued but undrawn.

On June 30, 2000, we obtained a receivable-backed loan in the amount of $150 million. Pursuant to this transaction, we have pledged these receivables to a multi-seller asset-backed conduit sponsored by a major financial institution. In return, we obtained $150 million in proceeds which we distributed to our subsidiaries, Suiza Dairy Group and Morningstar Foods. Suiza Dairy Group used its proceeds to pay down higher cost borrowings under its credit facility. In February 2001 we increased the amount of this loan from $150 million to $175 million and again used the proceeds to pay down higher cost debt.

Future Capital Requirements

We intend to invest a total of approximately $150 million in capital expenditures for our existing manufacturing facilities and distribution capabilities during 2001, which we intend to fund using cash flow from operations.

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 may pursue additional acquisitions that are compatible with our core business strategy. Any acquisitions of fluid dairy businesses in the United States (excluding territories) will be purchased through Suiza Dairy Group, pursuant to our agreement with Dairy Farmers of America, except in certain unusual circumstances. Therefore, any such acquisitions will be funded under the Suiza Dairy Group credit facility. Working capital requirements for Suiza Dairy Group and its subsidiaries will also be funded through this facility. Any international acquisitions, or domestic acquisitions of non-fluid dairy businesses, as well as all stock repurchases, will be funded through cash flows from operations or the parent-level credit facility. We financed a portion of the purchase price for our acquisition of a majority interest in Leche Celta with low-cost borrowings in Spain. We may use similar types of financing in any future international acquisitions. We believe that we have the ability to secure additional financing for our future capital requirements.

Preferred Securities

On February 20, 1998, we issued $100 million of company-obligated 5% mandatorily redeemable convertible preferred securities of a subsidiary trust as part of the consideration paid to acquire Land-O-Sun. These securities were subsequently redeemed as part of the Southern Foods transaction on January 4, 2000.

On March 24, 1998, we issued $600 million of company-obligated 5.5% mandatorily redeemable convertible preferred securities of a subsidiary trust in a private placement transaction, the proceeds of which were primarily used to repay amounts outstanding under our senior credit facility. These preferred securities mature 30 years from the date of issue.

The remaining preferred securities have quarterly distributions payable at a rate of 5.5% per annum, and have a liquidation preference of $50 per security. Distributions may be deferred for up to 20 consecutive quarters. The preferred securities are convertible, at the option of the holder thereof, into an aggregate of approximately 7.7 million shares of our common stock.

The preferred securities are redeemable, at our option, at any time after March 24, 2001 at specified amounts and are mandatorily redeemable at their liquidation preference amount of $50 per share at maturity on March 24, 2028 or upon the occurrence of certain specified events.

We have fully guaranteed all of the subsidiary trust obligations under the preferred securities, to the extent the subsidiary trust has funds on hand available therefor. We also agreed to register the resale of the common stock issuable upon conversion of the preferred securities under certain circumstances.

Known Trends and Uncertainties

Tax Rate

Our 2000 tax rate was approximately 38.6%. We believe that our effective tax rate will range from 37% to 40% for the next several years. Our effective tax rate is affected by various tax advantages applicable to our Puerto Rico based operations, which will phase out in 2002. Any additional acquisitions could change this effective tax rate.

Rationalization Activities

As a result of our rapid growth in recent years, we have had, and we believe we will continue to have, many opportunities to lower costs and become more efficient in our operations by rationalizing our assets and work force. Our strategy has been to expand our dairy businesses primarily through acquisitions and then to consolidate these acquisitions into our existing dairies.

For more information about these activities to date, please see Note 17 to our Consolidated Financial Statements. In 2001 we intend to continue our emphasis on our rationalization activities. As we continue these activities, we may incur costs or other charges. Although we cannot estimate the amount of these costs or other charges at this time, we do not expect that these costs will have a material adverse impact on our earnings or results of operations. We also expect that our earnings from our 43.1% equity investment in Consolidated Container Company will continue to be reduced by our share of restructuring and other non-recurring charges recognized by Consolidated Container as they continue to integrate the operations of our former U.S. plastic packaging business and the business of Reid Plastics. Although we cannot estimate the effect of these charges on our earnings at this time, we do not expect these costs to have a material adverse impact on our earnings or results of operations.

Euro Currency Conversion

Companies conducting business in or having transactions denominated in certain European currencies are facing the European Union's conversion to a new common currency, the "euro." This conversion is expected to be implemented over a three year period ending December 31 of this year. On January 1, 1999, the euro became the official currency for accounting and tax purposes of several countries of the European Union and the exchange rate between the euro and local currencies was fixed. In 2002, the euro will replace the individual nation's currencies. Since we have operations in Europe, the conversion to the euro will have an effect on us. We currently believe that there will be no material adverse impact of the conversion on our operations or financial performance.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. We are exposed to market risk in the areas of interest rates and foreign currency exchange rates.

Interest Rate Fluctuations

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. We manage interest rate risk to reduce the potential volatility of earnings that may arise from changes in interest rates through the use of interest rate derivative agreements.

We have interest rate derivative agreements in place, including interest rate swaps and collars that have been designated as hedges against our variable interest rate exposure on our loans under the Suiza Dairy Group credit facility. The following table summarizes our various interest rate agreements as of December 31, 2000:

Type	Interest Rate Limits	Notional Amounts	Expiration Date
Swaps	6.07% to 6.14%	$250.0 million	December 2002
		25.0 million	December 2003
Collars	6.08% and 7.50%	100.0 million	December 2002 to June 2003

These derivative agreements provide hedges for loans under Suiza Dairy Group's credit facility by limiting or fixing the LIBOR interest rates specified in the Suiza Dairy Group credit facility at the interest rates noted above until the indicated expiration dates of these interest rate derivative agreements.

These derivative agreements were previously designated as hedges for borrowings under our terminated senior credit facility. In connection with the repayment of amounts owed under our terminated senior credit facility these derivative agreements were marked to fair market value, which resulted in a gain of $6.5 million, net of income taxes, which, along with a loss from the write-off of unamortized deferred loan costs related to this facility was reported as an extraordinary gain from the extinguishment of debt during the first quarter of 2000. These derivative agreements have been redesignated as hedges under the Suiza Dairy Group credit facility and their recorded asset value is being amortized on a straight-line basis over the remaining lives of the respective agreements. The amortization is reported as a component of total consolidated interest expense.

We also entered into certain additional interest rate swap agreements with a notional amount of $550.0 million in the fourth quarter of 2000, which are intended to provide hedges against variable interest rate exposure on loans under Suiza Dairy Group's credit facility. These agreements, which became effective January 2, 2001, are interest rate swaps with an interest range of 6.44% to 6.78% expiring between December 2001 and December 2006.

We have also entered into interest rate swap agreements that provide hedges for loans under Leche Celta's term loan. The following table summarizes these agreements:

Effective Date	Interest Rate Limits	Notional Amounts	Expiration Date
November 23, 2000	5.54%	1,500,000,000 pesetas (approximately $8.4 million)	November 2003
November 23, 2000	5.6%	2,000,000,000 pesetas (approximately $11.2 million)	November 2004

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. Credit risk under these arrangements is remote since the counterparties to our interest rate derivative agreements are major financial institutions.

A portion of our debt obligations are at variable rates. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in interest rates. As of December 31, 2000, 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 Spanish peseta and the euro. At this time, we believe that potential losses due to foreign currency fluctuations would not have a material impact on our consolidated financial position, results of operations or operating cash flow.

Independent Auditors' Report

To the Board of Directors
Suiza Foods Corporation
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Suiza Foods Corporation and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suiza Foods Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Dallas, Texas
February 8, 2001
(March 30, 2001 as to Note 3)

Consolidated Balance Sheets

(Dollars in thousands, except share data)	December 31, 2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 31,110	$ 25,155
Receivables, net of allowance for doubtful accounts of $24,171 and $18,849	519,318	379,070
Inventories	186,713	182,321
Refundable income taxes	3,925	3,514
Deferred income taxes	54,634	27,005
Prepaid expenses and other current assets	22,231	22,342
Total current assets	817,931	639,407
Property, plant and equipment	1,003,769	758,485
Intangible and other assets	1,958,778	1,261,030
Total	$3,780,478	$2,658,922
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 567,342	$ 441,792
Income taxes payable	4,342	14,654
Current portion of long-term debt	128,224	22,671
Total current liabilities	699,908	479,117
Long-term debt	1,225,045	689,397
Other long-term liabilities	34,202	34,858
Deferred income taxes	123,614	46,323
Mandatorily redeemable convertible trust issued preferred securities (redemption value of $599,945 and $700,000 plus accrued dividends)	584,032	683,505
Minority interest in subsidiaries	514,845	141,750
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, none issued		
Common stock, 27,285,649 and 29,287,558 shares issued and outstanding, with a par value of $0.01 per share	273	293
Additional paid-in capital	166,361	275,527
Retained earnings	433,309	314,590
Accumulated other comprehensive loss	(1,111)	(6,438)
Total stockholders' equity	598,832	583,972
Total	$3,780,478	$2,658,922

See notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except share data)	Years Ended December 31, 2000	1999	1998
Net sales	$5,756,303	$4,481,999	$3,320,940
Cost of sales	4,330,067	3,487,075	2,557,908
Gross profit	1,426,236	994,924	763,032
Operating costs and expenses:			
Selling and distribution	812,274	518,962	376,928
General and administrative	182,570	148,009	112,169
Amortization of intangibles	52,441	38,513	31,479
Plant closing and other costs	3,388	12,566	
Litigation settlement costs	7,500		
Total operating costs and expenses	1,058,173	718,050	520,576
Operating income	368,063	276,874	242,456
Other (income) expense:			
Interest expense, net	112,586	49,233	52,082
Financing charges on trust issued preferred securities	33,595	38,584	30,213
Equity in earnings of unconsolidated affiliates	(11,453)	(2,630)	(78)
Other income, net	(630)	(1,416)	(4,212)
Total other expense	134,098	83,771	78,005
Income from continuing operations before income taxes	233,965	193,103	164,451
Income taxes	90,303	75,463	59,823
Minority interest in earnings	29,911	8,813	1,559
Income from continuing operations	113,751	108,827	103,069
Loss from discontinued operations			(3,161)
Income before extraordinary gain	113,751	108,827	99,908
Extraordinary gain	4,968	904	31,698
Net income	$ 118,719	$ 109,731	$ 131,606
Net income applicable to common stock	$ 118,719	$ 109,731	$ 131,369
Basic earnings per common share:			
Income from continuing operations	$ 4.03	$ 3.31	$ 3.12
Loss from discontinued operations			(0.10)
Extraordinary gain	.18	.03	0.96
Net income	$ 4.21	$ 3.34	$ 3.98
Diluted earnings per common share:			
Income from continuing operations	$ 3.68	$ 3.11	$ 2.90
Loss from discontinued operations			(0.08)
Extraordinary gain	.14	.02	0.76
Net income	$ 3.82	$ 3.13	$ 3.58
Average common shares – Basic	28,195,043	32,861,218	32,953,290
Average common shares – Diluted	36,671,264	42,858,492	41,965,564

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity	Comprehensive Income
Balance, January 1, 1998	$ 3,741	30,614,037	$306	$ 281,773	$ 73,490		$ 359,310	
Issuance of common stock		4,494,437	45	210,443			210,488	
Purchase and retirement of treasury stock		(1,510,400)	(15)	(45,986)			(46,001)	
Repurchase of 11,691 shares of preferred stock	(3,741)						(3,741)	
Dividends on preferred stock					(237)		(237)	
Net income					131,606		131,606	$131,606
Other comprehensive income (Note 14):								
Cumulative translation adjustment						$ 4,273	4,273	4,273
Minimum pension liability adjustment						73	73	73
Comprehensive income								$135,952
Balance, December 31, 1998	–	33,598,074	336	446,230	204,859	4,346	655,771	
Issuance of common stock		1,106,207	11	27,382			27,393	
Purchase and retirement of treasury stock		(5,416,723)	(54)	(198,085)			(198,139)	
Net income					109,731		109,731	$109,731
Other comprehensive income (Note 14):								
Cumulative translation adjustment						(10,784)	(10,784)	(10,784)
Comprehensive income								$ 98,947
Balance, December 31, 1999	–	29,287,558	293	275,527	314,590	(6,438)	583,972	
Issuance of common stock		1,279,956	13	39,327			39,340	
Purchase and retirement of treasury stock		(3,281,865)	(33)	(148,493)			(148,526)	
Net income					118,719		118,719	$118,719
Other comprehensive income (Note 14):								
Cumulative translation adjustment						5,327	5,327	5,327
Comprehensive income								$124,046
Balance, December 31, 2000	–	27,285,649	$273	$ 166,361	$433,309	$ (1,111)	$ 598,832	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
(Dollars in thousands)	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 118,719	$ 109,731	$ 131,606
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations			3,161
Depreciation and amortization	144,983	116,645	91,779
(Gain) loss on disposition of assets	768	5,352	(53)
Minority interest	52,187	14,614	1,559
Equity in earnings of unconsolidated affiliates	(11,453)	(2,630)	(78)
Extraordinary gain	(4,968)	(904)	(31,698)
Deferred income taxes	50,916	22,199	20,386
Other	1,265	3,863	(711)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(43,104)	41,878	(49,065)
Inventories	(18,977)	22,709	(4,600)
Prepaid expenses and other assets	2,321	(20,492)	(1,284)
Accounts payable and accrued expenses	6,344	(52,164)	24,481
Income taxes	(1,323)	22,704	22,998
Net cash provided by continuing operations	297,678	283,505	208,481
Net cash used in discontinued operations			(2,068)
Net cash provided by operating activities	297,678	283,505	206,413
Cash flows from investing activities:			
Net additions to property, plant, and equipment	(136,876)	(187,642)	(176,870)
Cash outflows for acquisitions and investments	(335,956)	(235,837)	(611,401)
Net proceeds from the sale of discontinued operations			172,732
Net proceeds from divestitures	89,037	383,112	
Other	3,542	2,383	1,369
Net cash used in continuing operations	(380,253)	(37,984)	(614,170)
Net cash used in discontinued operations			(14,022)
Net cash used in investing activities	(380,253)	(37,984)	(628,192)
Cash flows from financing activities:			
Proceeds from issuance of debt	1,284,492	538,995	965,820
Repayment of debt	(947,443)	(631,065)	(1,082,464)
Payments of deferred financing costs	(12,014)		(1,256)
Proceeds from issuance of minority interest		8,983	
Distributions to minority interest holders	(16,438)	(10,122)	
Issuance of common stock, net of expenses	28,514	16,060	37,808
Redemption of common and preferred stock	(148,526)	(198,139)	(49,742)
Issuance of trust issued preferred securities, net of expenses			582,500
Redemption of trust issued preferred securities	(100,055)		
Preferred dividends paid and other			(353)
Net cash provided by (used in) financing activities	88,530	(275,288)	452,313
Increase (decrease) in cash and cash equivalents	5,955	(29,767)	30,534
Cash and cash equivalents, beginning of period	25,155	54,922	24,388
Cash and cash equivalents, end of period	$ 31,110	$ 25,155	$ 54,922

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation – Our consolidated financial statements include the accounts of our wholly-owned and majority owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. We also own equity interests of less than 50% in certain companies that we do not control which are accounted for in the consolidated financial statements using either the equity or cost method of accounting depending on our ownership interest. Under the equity method of accounting, our investments in these affiliates are presented as a single amount in our consolidated balance sheets and our proportional share of their earnings are presented in our consolidated statements of income as a single line item in other income.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash Equivalents – We consider all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

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

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

Asset	Useful Life
Buildings and improvements	Seven to 40 years
Machinery and equipment	Three to 20 years

Capitalized lease assets are amortized over the shorter of their lease term or their estimated useful lives. Expenditures for repairs and maintenance which do not improve or extend the life of the assets are expensed as incurred.

Intangible and Other Assets – Intangible and other assets include the following intangibles, which are amortized over their related estimated useful lives:

Asset	Useful Life
Goodwill	Straight-line method over 25 to 40 years
Identifiable intangible assets:	
Customer lists	Straight-line method over seven to ten years
Customer supply contracts	Straight-line method over the terms of the agreements (primarily 15 years)
Trademarks/trade names	Straight-line method over ten to 40 years
Noncompetition agreements	Straight-line method over the terms of the agreements
Patents	Straight-line method over fifteen years
Deferred financing costs	Interest method over the terms of the related debt

We periodically assess the net realizable value of our long-lived assets, as well as all other assets, by comparing the expected future net operating cash flows, undiscounted and without interest charges, to the carrying amount of the underlying assets. We would evaluate a potential impairment if the recorded value of these assets exceeded the associated future net operating cash flows. Any potential impairment loss would be measured as the amount by which the carrying value exceeds the fair value of the asset. Fair value of assets would be measured by market value, if an active market exists, or by a forecast of expected future net operating cash flows, discounted at a rate commensurate with the risk involved.

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

Minority Interest in Subsidiaries – Minority interest in results of operations of consolidated subsidiaries represents the minority shareholders' share of the income or loss of various consolidated subsidiaries. The minority interest in the consolidated balance sheets reflect the original investment by these minority shareholders in these consolidated subsidiaries, along with their proportional share of the earnings or losses of these subsidiaries less any distributions made.

Employee Stock Options and Restricted Stock – We measure compensation expense for our stock-based employee compensation plans using the intrinsic value method and provide the required pro forma disclosures of the effect on net income and earnings per share as if the fair value-based method had been applied in measuring compensation expense.

Revenue – Revenue is recognized when the product is shipped to the customer. We provide credit terms to customers generally ranging up to 30 days, perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses based on historical experience.

Income Taxes – All of our wholly-owned U.S. operating subsidiaries are included in our consolidated tax return. In addition, our proportional share of the operations of our majority owned subsidiaries and certain of our equity method affiliates, which are organized as limited liability companies or limited partnerships are also included in our consolidated tax return. Our Puerto Rico and foreign subsidiaries are required to file separate income tax returns in their local jurisdictions. Certain distributions from these subsidiaries are subject to U.S. income taxes; however, available tax credits of these subsidiaries may reduce or eliminate these U.S. income tax liabilities.

Deferred income taxes are provided for temporary differences in the consolidated financial statements and tax bases of assets and liabilities using current tax rates. Deferred tax assets, including the benefit of net operating loss carryforwards, are evaluated based on the guidelines for realization and may be reduced by a valuation allowance if deemed necessary.

Advertising Expense – Advertising expense is comprised of media, agency and production expenses, along with coupon and custom advertising funds. Advertising expenses are charged to income during the period incurred, except for expenses related to the development of a major commercial or media campaign which are charged to income during the period in which the advertisement or campaign is first presented by the media. Advertising expenses charged to income totaled $63.1 million in 2000, $43.5 million in 1999 and $28.9 million in 1998. Additionally, there were no prepaid advertising costs at December 31, 2000 and such costs were $1.7 million at December 31, 1999.

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

Interest Rate Agreements – Interest rate swaps, caps and floors are entered into as hedges against interest exposure of our variable rate debt. Differences between amounts to be paid or received on these interest rate agreements designated as hedges are included in interest expense as payments are made or received. Gains or losses on agreements not designated as hedges are included in income as incurred. Amounts paid to acquire interest rate caps and amounts received for interest rate floors are amortized as an adjustment to interest expense over the life of the related agreement.

Recently Issued Accounting Pronouncements – Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended) became effective for us as of January 1, 2001. All derivatives, which currently consist of only our interest rate agreements, have been identified pursuant to SFAS No. 133 requirements. We have completed our documentation and assessment of those derivatives designated as accounting hedges, all of which were determined to be cash flow hedges. As of the effective date, we will record the derivative asset or liability related to these cash flow hedges on our consolidated balance sheet at fair value, with an offset to other comprehensive income to the extent the hedge is effective, as required by SFAS No. 133. Any ineffectiveness in cash flow hedges or fair value hedges will be recorded as an adjustment to earnings and not other comprehensive income. Our adoption of this accounting standard as of January 1, 2001 will result in the recognition of a liability related to our cash flow hedges of $16.3 million, a charge, net of income taxes, of $2.2 million to earnings as the cumulative effect of the adoption of this new standard and a cumulative effect charge, net of income taxes, of $9.6 million to other comprehensive income.

In September 2000, the Emerging Issues Task Force ("Task Force") of the Financial Accounting Standards Board reached a consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which became effective for us in the fourth quarter of 2000. This issue requires the disclosure of our accounting policies for shipping and handling costs and their income statement classification. Our shipping and handling costs are included in both costs of sales and selling and distribution expense, depending on the nature of such costs. Shipping and handling costs in costs of sales include the cost of shipping products to customers through third party carriers, inventory warehouse costs and product loading and handling costs. Shipping and handling costs 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. These shipping and handling costs that were recorded as a component of selling and distribution expense were approximately $614.1 million, $370.4 million and $268.1 million during 2000, 1999 and 1998 respectively.

The Task Force also reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives," which becomes effective for us in the second quarter of 2001. This issue addresses the recognition, measurement and income statement classification of sales incentives that have the effect of reducing the price of a product or service to a customer at the point of sale. Upon our adoption, certain sales incentives, which are currently classified as selling and distribution expenses, will be reclassified as a reduction of sales. Our current accounting policy for recording sales incentives within the scope of this issue is to record estimated coupon expense based on historical coupon redemption experience which is consistent with the requirements of this issue, and we estimate that the costs of these sales incentives that are recorded as selling and distribution expenses approximated $4.3 million, $2.1 million and $4.3 million during 2000, 1999 and 1998, respectively.

Reclassifications – Certain reclassifications have been made to conform the prior years' consolidated financial statements to the current year classifications.

2. Acquisitions

Effective January 1, 2000 we entered into a joint venture with Dairy Farmers of America in which we contributed certain of our domestic fluid dairy operations with certain of Dairy Farmers of America's operations into a newly formed venture, Suiza Dairy Group, L.P. Dairy Farmers of America is a large farmers' cooperative from which we purchase a significant portion of our raw milk. In connection with this transaction, Suiza Dairy Group, L.P. issued partnership interests to Dairy Farmers of America of approximately $326 million and made a cash payment to Dairy Farmers of America's partner in the amount of $100 million. Dairy Farmers of America received a 33.8% ownership interest in Suiza Dairy Group, L.P., in exchange for the contribution of the operations of Southern Foods Group, which had net sales of approximately $1.3 billion in 1999, and for the contribution of its investments in its other joint ventures with us: Suiza GTL, LLC and Suiza SoCal, LLC. We received a 66.2% ownership interest in Suiza Dairy Group, L.P. in exchange for the contribution of our domestic fluid dairy operations (excluding our Puerto Rican operations and our Morningstar Foods subsidiary). Our ownership interest as well as Dairy Farmers of America's was determined by negotiation between the parties. This transaction was accounted for as an acquisition by us of Southern Foods Group using the purchase method of accounting.

In total, we completed the acquisitions of 27 dairy businesses and eight packaging businesses during the last three years which included the following acquisitions which were significant at the time of completion:

Date	Company	Segment	Purchase Price (In Thousands)
January 2000	Southern Foods Group	Dairy	$435,606
February 1998	Land-O-Sun Dairies	Dairy	248,000
May 1998	Continental Can	Packaging	354,400

These acquisitions and the smaller dairy and packaging businesses acquired were funded primarily with borrowings under our credit facilities, along with the issuance in 1999 and 1998 of 77,233 and 2,050,635 shares of our common stock, respectively, with fair market values of $3.2 million and $138.5 million, respectively.

All acquisitions were accounted for using the purchase method of accounting as of their respective acquisition dates, and accordingly, only the results of operations of the acquired companies subsequent to their respective acquisition dates are included in our consolidated financial statements. At the acquisition date, the purchase price was allocated to assets acquired, including identifiable intangibles, and liabilities assumed based on their fair market values. The excess of the total purchase prices over the fair values of the net assets acquired represented goodwill. In connection with the acquisitions, assets were acquired and liabilities were assumed, subject to final purchase price adjustments, as follows:

	Year Ended December 31,		
(In thousands)	2000	1999	1998
Purchase prices:			
Cash paid, net of cash acquired	$331,543	$230,611	$599,197
Cash acquired in acquisitions	6,327	9,976	24,353
Common stock issued		3,193	138,547
Subsidiary preferred and common securities issued and minority partnership interests	340,336	18,500	201,447
Total purchase prices	678,206	262,280	963,544
Fair values of net assets acquired:			
Fair values of assets acquired	473,648	94,514	798,902
Liabilities assumed	(187,907)	(21,273)	(541,447)
Total net assets acquired	285,741	73,241	257,455
Goodwill	$392,465	$189,039	$706,089

The unaudited results of operations on a pro forma basis for the year ended December 31, 1999, as if the Southern Foods operations had been acquired as of the beginning of 1999 are as follows (in thousands, except per share data):

	Historical	Pro Forma
Net sales	$4,481,999	$5,782,896
Income from continuing operations before taxes	193,103	217,152
Net income from continuing operations	108,827	109,787
Earnings per share from continuing operations:		
Basic	$ 3.31	$ 3.34
Diluted	$ 3.11	$ 3.16

Since Southern Foods Group was acquired effective January 1, 2000, its full-year operating results are included in the consolidated financial statements. However, on a pro forma basis, the 1999 acquisitions, net of the sale in 1999 of a majority interest in our U.S. plastic packaging operations discussed in Note 5, do not have a material pro forma impact on net sales, income from continuing operations or net income for 1999.

Related Party Transactions – During 2000, 1999 and 1998, we paid fees to a former officer and director for acquisition consulting services related to certain completed acquisitions totaling $3.9 million, $0.5 million and $5.1 million, respectively, which have been capitalized as part of the purchase price of the acquisitions.

3. Subsequent Event

Prior to our acquisition of West Lynn Creamery in June 1998, West Lynn Creamery paid rebates to certain of its customers pursuant to a rebate program conducted by West Lynn Creamery between 1992 and 1997 (the "Rebate Program"). As a result of allegations made by one or more of West Lynn's customers that West Lynn conspired with or aided these customers in evading payment of such customers' federal income taxes through the use of the Rebate Program, the United States Department of Justice (the "DOJ"), conducted an investigation of this matter. On March 30, 2001, we reached a final settlement of this matter with the DOJ pursuant to which West Lynn Creamery will plead guilty to one charge of conspiracy to impede the collection of taxes by the Internal Revenue Service and will pay $7.2 million to the government. As a result, we have recorded a charge of $7.5 million ($5.0 million net of minority interest) in the fourth quarter of 2000, which includes certain professional fees and expenses incurred in connection with this matter. This charge is reflected as "Litigation Settlement Costs" in our 2000 Consolidated Income Statement, and in "Accounts Payable and Accrued Expenses" in our Consolidated Balance Sheet as of December 31, 2000.

4. Extraordinary Gains and Losses and Discontinued Operations

During the first quarter of 2000 we recognized a $5.0 million extraordinary gain, net of income tax expense of $2.8 million, which included the following items related to the early extinguishment of our previous senior credit facility:

- A $6.5 million gain, net of income tax expense of $3.6 million, for interest rate derivatives which became unhedged and were marked to fair market value, and
- A $1.5 million loss, net of an income tax benefit of $0.8 million, for the write-off of deferred financing costs.

In the fourth quarter of 1999 we recorded a gain of $0.9 million, net of income taxes of $0.5 million, when contingencies related to the sale of our packaged ice operations in 1998 were resolved favorably.

On April 30, 1998, we completed the sale of our packaged ice operations for net cash proceeds of approximately $172.7 million. We reported an extraordinary gain of $35.5 million from the sale of this operation, net of $22.0 million of income tax expense. Our packaged ice segment had revenues of approximately $17.9 million during the four months ended April 30, 1998. The results of discontinued operations includes interest expense of $2.4 million during 1998. Interest charges allocated to discontinued operations are based on debt specifically attributed to our packaged ice operations. The results of discontinued operations are presented net of the related income tax benefit of $2.1 million in 1998.

In 1998, an extraordinary loss of $3.8 million, net of a $2.3 million income tax benefit, was also recognized in connection with the early extinguishment of the term loan of our previous senior credit facility, and included losses from the write-off of deferred financing costs and interest rate swap losses.

5. Investments in Unconsolidated Affiliates

Investment in Consolidated Container Company LLC – On July 2, 1999, we sold a majority interest in our U.S. plastic packaging operations to Consolidated Container Company, which through a predecessor owned another plastic packaging business. Pursuant to this transaction, we received a 43.1% common equity interest in Consolidated Container Company in exchange for our common equity interest in our U.S. plastic packaging operations, along with cash of approximately $364.0 million in connection with Consolidated Container Company's refinancing of the intercompany debt and preferred stock investment that our U.S. plastic packaging operations owed us. As a part of this transaction the senior secured notes of Plastic Containers, Inc., a former subsidiary of Continental Can, were assumed by Consolidated Container Company.

With the consummation of this transaction, the assets and liabilities and results of operations of our formerly consolidated U.S. plastic packaging operations were combined with those of Consolidated Container Company and were eliminated from our consolidated financial statements. For all periods prior to this date, our U.S. plastic packaging operations continue to be included in our consolidated financial statements. Included in consolidated sales for the first six months of 1999 and for all of 1998 were sales of $245.0 million and $332.0 million, respectively, related to the U.S. plastic packaging operations.

Our investment in Consolidated Container Company after July 2, 1999 is accounted for under the equity method of accounting. Our investment in Consolidated Container Company was $23.7 million and $3.9 at December 31, 2000 and 1999, respectively. Our initial investment, as adjusted, was lower than our proportional share of Consolidated Container Company's net assets by $100.4 million which is being amortized over forty years. Earnings from our unconsolidated affiliates in our consolidated statements of income include $11.3 million and $2.4 million (net of restructuring and other non-recurring charges of ($0.8) million and $4.9 million) attributable to Consolidated Container Company, of which $2.6 million and $1.4 million are attributable to the amortization of the difference between the carrying amount of our investment and our proportional share of our underlying equity interest in their net assets for the years ended December 31, 2000 and 1999, respectively. Although the market value of our investment in Consolidated Container Company is not readily determinable, we believe that the fair value of this investment exceeds its carrying amount.

Summarized financial information for Consolidated Container Company at December 31, 2000 and 1999 and for the periods ended December 31, 2000 and 1999 is as follows:

	December 31,	
(In thousands)	2000	1999
Current assets	$ 148,243	$154,743
Total assets	1,001,625	990,589
Current liabilities	162,796	142,280
Debt	530,971	554,011
Total liabilities	723,184	733,761
Total equity	278,441	256,828

	For the Year ended December 31, 2000	For the Six Months ended December 31, 1999
Net sales	$754,649	$388,665
Operating income	81,081	27,470

Investment in Horizon Organic – As of December 31, 2000 and 1999 we had a 13.6% and 13.8% interest in Horizon Organic, respectively. We account for this investment under the equity method of accounting as we believe that we have the ability to influence the operating policies of Horizon. The quoted stock price ranged from $4.00 to $12.25 during 2000. The closing stock price on December 31, 2000 was $4.44 per share, resulting in a market value of our investment of $5.9 million. Our investment in Horizon Organic at December 31, 2000 and 1999 was $16.4 million and $16.2 million, respectively, and our equity in earnings included in our consolidated statement of income for both 2000 and 1999 was $0.2 million.

6. Inventories

(In thousands)	December 31, 2000	1999
Raw materials and supplies	$ 99,315	$100,044
Finished goods	87,398	82,277
Total	$186,713	$182,321

7. Property, Plant and Equipment

(In thousands)	December 31, 2000	1999
Land	$ 102,331	$ 64,063
Buildings and improvements	327,477	227,306
Machinery and equipment	863,740	703,984
	1,293,548	995,353
Less accumulated depreciation	(289,779)	(236,868)
Total	$1,003,769	$ 758,485

For 2000 and 1999, we capitalized $3.5 million and $3.6 million in interest, respectively, related to borrowings during the actual construction period of major capital projects, which is included as part of the cost of the related asset.

8. Intangible and Other Assets

(In thousands)	December 31, 2000	1999
Goodwill	$1,790,523	$1,207,756
Identifiable intangibles	224,129	103,798
Deposits and other	36,444	21,123
Investments in unconsolidated affiliates	44,831	20,137
Deferred income taxes	41	501
	2,095,968	1,353,315
Less accumulated amortization	(137,190)	(92,285)
Total	$1,958,778	$1,261,030

9. Accounts Payable and Accrued Expenses

(In thousands)	December 31, 2000	1999
Accounts payable	$370,355	$276,968
Payroll and benefits	71,219	70,076
Other accrued liabilities	125,768	94,748
	$567,342	$441,792

10. Income Taxes

The following table presents the 2000, 1999 and 1998 provisions for income taxes.

(In thousands)	Year Ended December 31, 2000(1)	1999(2)	1998(3)
Current taxes payable:			
Federal	$47,010	$31,480	$16,423
State	8,668	10,041	7,234
Foreign and other	2,151	6,433	4,612
Deferred income taxes	32,474	27,509	31,554
Total	$90,303	$75,463	$59,823

(1) Excludes a $2.8 million income tax expense related to extraordinary gains.

(2) Excludes a $0.5 million income tax expense related to extraordinary gains.

(3) Excludes a $2.1 million income tax benefit related to discontinued operations and a $19.9 million income tax expense related to net extraordinary gains.

The following is a reconciliation of income taxes reported in the consolidated statements of income:

(In thousands)	Year Ended December 31, 2000	1999	1998
Tax expense at statutory rates	$81,888	$67,586	$57,557
State income taxes	9,315	7,795	7,967
Tax effect of tax-exempt earnings	(2,687)	(2,612)	(4,765)
Nondeductible goodwill	4,229	1,968	1,423
Other	(2,442)	726	(2,359)
Total	$90,303	$75,463	$59,823

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

(In thousands)	December 31, 2000	1999
Deferred income tax assets:		
Net operating loss carryforwards	$ 20,007	$ 14,363
Asset valuation reserves	5,493	7,141
Nondeductible accruals	41,894	46,209
Tax credits	3,381	3,311
Other	6,469	2,158
	77,244	73,182
Deferred income tax liabilities:		
Depreciation and amortization	(118,886)	(69,509)
Tax credit basis differences	(6,251)	(6,251)
Basis differences in unconsolidated affiliates	(21,046)	(16,239)
	(146,183)	(91,999)
Net deferred income tax liability	$ (68,939)	$(18,817)

These net deferred income tax assets (liabilities) are classified in our consolidated balance sheet as follows:

(In thousands)	December 31, 2000	1999
Current assets	$ 54,634	$ 27,005
Noncurrent assets	41	501
Noncurrent liabilities	(123,614)	(46,323)
Total	$ (68,939)	$(18,817)

At December 31, 2000, we had approximately $45.0 million of net operating losses and approximately $7.9 million of tax credits available for carry over to future years. The losses are subject to certain limitations and will expire beginning in 2008.

No valuation allowance has been recorded as management believes it is more likely than not that all of the deferred tax assets will be realized.

11. Long-Term Debt

(In thousands)	December 31, 2000	1999
Parent-level credit facility	$ –	$635,500
Subsidiary debt obligations:		
Suiza Dairy Group credit facility	1,095,000	
Receivable-backed loan	150,000	
Foreign subsidiary term loan	39,519	
Uncommitted line of credit	20,000	
Other lines of credit		24,655
Industrial development revenue bonds	8,845	9,330
Capital lease obligations and other	39,905	42,583
	1,353,269	712,068
Less current portion	(128,224)	(22,671)
Total	$1,225,045	$689,397

Terminated Senior Credit Facility – In connection with our acquisition of Southern Foods Group effective January 1, 2000, we replaced our then existing senior credit facility with two new facilities, as described under "Parent-Level Credit Facility" and "Suiza Dairy Group Credit Facility" below.

Parent-Level Credit Facility – Effective January 1, 2000 we entered into a new parent credit facility, which replaced our then existing senior credit facility. The new facility, which expires in January 2005, provides us with a revolving line of credit of up to $300 million to be used for general corporate and working capital purposes, including the financing of future acquisitions. As of December 31, 2000, no funds were borrowed under this facility, but there were $4.0 million of issued but undrawn letters of credit outstanding. See "Credit Facility Terms" below for a description of the terms of the parent credit facility.

Suiza Dairy Group Credit Facility – Simultaneous with the closing of our acquisition of Southern Foods Group, Suiza Dairy Group entered into a new $1.61 billion credit facility with a group of lenders which expires in January 2005. The Suiza Dairy Group credit facility provides an $805 million revolving line of credit, a $625 million term loan and a $180 million term loan. At closing, Suiza Dairy Group borrowed approximately $1.1 billion under this facility and distributed a portion of the borrowings to us and to Dairy Farmers of America. We used our portion of the distribution to repay our then existing senior credit facility and certain other obligations. At December 31, 2000 there were outstanding borrowings of $1.095 billion under this facility, in addition to $17.8 million of issued but undrawn letters of credit. See "Credit Facility Terms" below for a description of the terms of the Suiza Dairy Group credit facility.

Credit Facility Terms – Amounts outstanding under the Suiza Dairy Group credit facility and our parent-level credit facility bear interest at a rate per annum equal to one of the following rates, at our option:

- a base rate equal to the higher of the Federal Funds rate plus 50 basis points or the prime rate, plus a margin that varies from 25 to 125 basis points for the Suiza Dairy Group credit facility and 0 to 75 basis points on the new parent credit facility, depending on our ratio of defined indebtedness to EBITDA or
- the London Interbank Offering Rate ("LIBOR") computed as LIBOR divided by the product of one minus the Eurodollar Reserve Percentage, plus a margin that varies from 125 to 225 basis points for the Suiza Dairy Group credit facility and 75 to 175 basis points on the new parent credit facility, depending on our ratio of defined indebtedness to EBITDA.

The interest rate in effect on the Suiza Dairy Group credit facility, including the applicable interest rate margin, was 8.50% at December 31, 2000. Interest is payable quarterly or at the end of the applicable interest period. Scheduled principal payments on the $625 million term loan are due in the following installments:

- $25.0 million quarterly from March 31, 2001 through December 31, 2001;
- $31.25 million quarterly from March 31, 2002 through December 31, 2002;
- $37.5 million quarterly from March 31, 2003 through December 31, 2003;
- 25% of the outstanding balance (up to $50 million) quarterly on each of March 31, 2004, June 30, 2004 and September 30, 2004; and the
- Remaining balance on January 4, 2005.

No principal payments are due on the $805 million line of credit and the $180 million term loan until maturity on January 4, 2005.

In consideration for the revolving commitments, we pay a commitment fee on unused amounts of the Suiza Dairy Group credit facility and the parent-level credit facility that ranges from 25 to 50 basis points, based on our ratio of indebtedness to EBITDA (as defined in the agreement).

The Suiza Dairy Group credit facility and the parent-level credit facility contain various financial and other restrictive covenants and requirements that we maintain certain financial ratios, including a leverage ratio (computed as the ratio of the aggregate outstanding principal amount of defined indebtedness to EBITDA, as defined separately by each agreement) and an interest coverage ratio (computed as the ratio of EBITDA to interest expense as defined separately by each agreement). In addition, both facilities require that we maintain a minimum level of net worth as defined separately by each agreement. The facilities also contain limitations on liens, investments, the incurrence of additional indebtedness and acquisitions, and prohibit certain dispositions of property and restrict certain payments, including dividends. The credit facilities are secured by capital stock of certain of our subsidiaries.

Receivable-Backed Loan – On June 30, 2000 we entered into a $150 million credit facility secured by certain subsidiary accounts receivable. Pursuant to this transaction, we pledged receivables to a multi-seller asset-backed conduit sponsored by a major financial institution. We used the portion of the proceeds attributable to Suiza Dairy Group and its subsidiaries to pay down higher cost borrowings under the Suiza Dairy Group credit facility. The loan bears interest at a variable rate based on the commercial paper yield as defined in the agreement. The interest rate on the receivable-backed loan at December 31, 2000 was 7.13%. In February 2001, we increased our receivable-backed loan from $150 million to $175 million, and used the proceeds to pay down higher-cost borrowings under the Suiza Dairy Group credit facility.

Foreign Subsidiary Term Loan – In connection with our acquisition of Leche Celta, in February 2000, our Spanish subsidiary obtained a 7 billion peseta non-recourse loan from a Spanish lender, all of which was borrowed at closing and used to finance a portion of the purchase price. The loan, which is secured by the stock of Leche Celta, will expire on February 21, 2007, bears interest at a variable rate based on the ratio of Leche Celta's debt to EBITDA (as defined in the corresponding loan agreement), and requires semi-annual principal payments beginning in August 2001. The interest rate in effect on this loan at December 31, 2000 was 7.13%.

Uncommitted Line of Credit – On October 4, 2000, Suiza Dairy Group entered into an agreement with First Union National Bank pursuant to which Suiza Dairy Group may borrow up to $20.0 million from time to time on an uncommitted basis. Loans outstanding under the agreement are unsecured and bear interest at a floating rate of interest, adjusted daily. There is no commitment fee associated with this facility. Principal amounts borrowed under this agreement will mature one year from the date of the agreement. On December 31, 2000, Suiza Dairy Group had an outstanding balance of $20.0 million under this line of credit at an interest rate of 8.56%.

Other Lines of Credit – Leche Celta, our Spanish subsidiary, is our only subsidiary with a currently outstanding line of credit separate from the credit facilities described above. Leche Celta's existing line of credit, which is in the principal amount of 2.5 billion pesetas, was obtained on July 12, 2000 in replacement of a pre-existing line of credit, bears interest at a variable interest rate based on the ratio of Leche Celta's debt to EBITDA (as defined in the corresponding loan agreement), is secured by our stock in Leche Celta and will expire in June 2007. No funds were drawn on this line of credit at December 31, 2000. Our French and German subsidiaries, which we sold in March and May 2000, respectively, also had lines of credit. Those lines of credit were terminated upon completion of the divestitures.

Industrial Development Revenue Bonds – Certain of our subsidiaries have revenue bonds outstanding which require annual sinking fund redemptions aggregating $0.7 million and are secured by irrevocable letters of credit issued by financial institutions, along with first mortgages on certain real property and equipment. Interest on these bonds is due semiannually at interest rates that vary based on market conditions which, at December 31, 2000 ranged from 5.20% to 5.45%.

Other Subsidiary Debt – 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.

Southern Foods Group, which we acquired in January 2000, had $113.8 million principal amount of 9⅞% senior notes outstanding when we completed our acquisition. As a result of the acquisition, we were required to offer to repurchase these senior notes at 101% of face value. All senior notes were tendered and were redeemed on March 24, 2000.

Scheduled Maturities – The scheduled maturities of long-term debt, which include capitalized lease obligations, at December 31, 2000, were as follows (in thousands):

2001	$ 128,224
2002	142,710
2003	309,447
2004	175,568
2005	579,457
Thereafter	17,863
Total	$1,353,269

Interest Rate Agreements – We have interest rate derivative agreements in place, including interest rate swaps and collars, that have been designated as hedges against our variable interest rate exposure on our loans under the Suiza Dairy Group credit facility.

These derivative agreements provided hedges for loans under our Suiza Dairy Group credit facility by limiting or fixing the LIBOR interest rates specified in the Suiza Dairy Group credit facility at the interest rates noted below until the indicated expiration dates of these interest rate derivative agreements.

The following table summarizes our various interest rate agreements as of December 31, 2000 and 1999:

	Notional Amount	
(In thousands)	**2000**	**1999**
Interest rate caps with an interest limit of 8% expiring March 2000	$ –	$ 60,000
Interest rate swaps with an interest range of 6.03% to 6.14% expiring between September 2000 and December 2003	275,000	435,000
Interest rate collars with an interest range of 6.08% to 7.50% expiring between December 2002 and June 2003	100,000	100,000

These derivative agreements were previously designated as hedges for borrowings under our terminated senior credit facility. In connection with the repayment of amounts owed under our terminated senior credit facility these derivative agreements were marked to fair market value, which resulted in a gain of $6.5 million, net of income taxes, which, along with a loss from the write-off of unamortized deferred loan costs related to this facility was reported as an extraordinary gain from the extinguishment of debt during the first quarter of 2000. These derivative agreements have been redesignated as hedges under the Suiza Dairy Group credit facility and their recorded asset value is being amortized on a straight-line basis over the remaining lives of the respective agreements. The amortization is reported as a component of total consolidated interest expense. For a discussion of the treatment of derivative agreements effective January 1, 2001 see Note 1 – Recently Issued Accounting Pronouncements.

We have also entered into certain additional interest rate swap agreements with a notional amount of $550.0 million in the fourth quarter of 2000, which are intended to provide hedges against variable interest rate exposure on loans under Suiza Dairy Group's credit facility. These agreements, which became effective January 2, 2001, are interest rate swaps with an interest range of 6.44% to 6.78% expiring between December 2001 and December 2006.

We have also entered into interest rate swap agreements that provide hedges for loans under Leche Celta's term loan. The following table summarizes these agreements:

Effective Date	EURIBOR Interest Rate Limits	Notional Amounts	Expiration Date
November 23, 2000	5.54%	1,500,000,000 pesetas (approximately $8.4 million)	November 2003
November 23, 2000	5.6%	2,000,000,000 pesetas (approximately $11.2 million)	November 2004

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 derivative agreements. Credit risk under these arrangements is remote since the counterparties to our interest rate derivative agreements are major financial institutions.

12. Mandatorily Redeemable Trust Issued Preferred Securities

In connection with our acquisition of Land-O-Sun in February 1998, we issued $100 million of company-obligated 5% mandatorily redeemable convertible preferred securities of a Delaware business trust. On January 4, 2000, in connection with the Southern Foods transaction, we redeemed the 5% mandatorily redeemable convertible preferred securities in the amount of $100,638,889, which includes the principal repayment and accrued interest.

On March 24, 1998, we also completed the sale of $600 million of company-obligated 5.5% mandatorily redeemable convertible preferred securities of a Delaware business trust in a private placement to "qualified institutional buyers" under Rule 144A under the Securities Act of 1933, as amended. The 5.5% preferred securities mature 30 years from the date of issue. These trust issued preferred securities, which are recorded net of related fees and expenses, are convertible at the option of the holders into an aggregate of approximately 7.7 million shares of our common stock, subject to adjustment in certain circumstances. These preferred securities are also redeemable, at our option, at any time after three years from their issue date at specified amounts and are mandatorily redeemable at their liquidation preference amount of $50 per share at maturity or upon occurrence of certain specified events.

13. Stockholders' Equity

Our authorized shares of capital stock include 1,000,000 shares of preferred stock and 500,000,000 shares of common stock with a par value of $.01 per share.

Preferred Stock – The rights and preferences of preferred stock are established by our Board of Directors upon issuance. The Series A preferred stock previously outstanding represented 11,691 shares of preferred stock with a stated and redemption value of $320.00 per share, provided for cumulative dividends at a rate of 8% and was redeemable only at our option. On September 29, 1998, we redeemed all outstanding shares of Series A preferred stock for the stated value of $320.00 per share, plus accumulated unpaid dividends, for a total cost of $3.8 million.

Stock Option and Restricted Stock Plans – We have stock options and shares of restricted stock outstanding under three plans. Only one of these plans has shares remaining available for issuance. This plan, the Suiza Foods Corporation 1997 Stock Option and Restricted Stock Plan, provides for grants of stock options and restricted stock to employees, officers, directors and consultants to acquire 7.5 million shares. Exercise prices of stock options will approximate or be above fair market value on the grant date. The options vest in accordance with provisions as set forth in the applicable option agreements.

The following table summarizes the status of our stock-based compensation programs:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 1997	5,688,241	$19.70
Granted	1,444,412	49.40
Canceled	(75,447)	39.99
Exercised	(2,349,335)	15.72
Outstanding at December 31, 1998	4,707,871	30.56
Granted	1,078,169	35.22
Canceled	(208,021)	42.70
Exercised	(980,768)	15.13
Outstanding at December 31, 1999	4,597,251	34.68
Granted	1,366,900	38.27
Canceled	(206,701)	42.21
Exercised	(1,231,179)	20.79
Outstanding at December 31, 2000	4,526,271	$38.96
Exercisable at December 31, 1998	3,157,266	$21.80
Exercisable at December 31, 1999	2,927,217	30.17
Exercisable at December 31, 2000	2,400,853	38.50

The following table summarizes information about options outstanding and exercisable at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted average Remaining Contractual Life	Weighted average Exercise Price	Number Exercisable	Weighted average Exercise Price
$0 to $16.75	201,281	4.60	$11.16	201,281	$11.16
17.25 to 34.50	1,157,522	6.48	30.00	976,590	29.25
35.38 to 65.25	3,167,468	7.82	44.00	1,222,982	50.38

We have elected to follow Accounting Principles Board Opinion No. 25 and related interpretations in accounting for our stock options. All options granted to date have been to employees, officers or directors. Accordingly, no compensation expense has been recognized since stock options granted under these plans were at exercise prices which approximated or exceeded market value at the grant date. Had compensation expense been determined for stock option grants using fair value methods provided for in 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:

	Year Ended December 31,		
(In thousands, except share data)	2000	1999	1998
Compensation cost	$ 27,278	$ 18,861	$ 34,198
Net income:			
As reported	118,719	109,731	131,606
Pro forma	104,272	98,245	110,745
Net income per share:			
As reported – basic	4.21	3.34	3.98
As reported – diluted	3.82	3.13	3.58
Pro forma – basic	3.70	2.99	3.36
Pro forma – diluted	3.43	2.86	3.08
Stock option share data:			
Stock options granted during period	1,366,900	1,078,169	1,444,412
Weighted average option fair value	$ 20.57[(a)]	$ 18.00[(b)]	$ 29.23[(c)]

(a) Calculated in accordance with the Black-Scholes option pricing model, using the following assumptions: expected volatility of 40%; expected dividend yield of 0%; expected option term of four to ten years and risk-free rates of return as of the date of grant ranging from 6.03% to 6.74% based on the yield of seven-year U.S. Treasury securities.

(b) Calculated in accordance with the Black-Scholes option pricing model, using the following assumptions: expected volatility of 40%; expected dividend yield of 0%; expected option term of four to ten years and risk-free rates of return as of the date of grant of 5.1% based on the yield of ten-year U.S. Treasury securities.

(c) Calculated in accordance with the Black-Scholes option pricing model, using the following assumptions: expected volatility of 40%, expected dividend yield of 0%, expected option term of four to ten years and risk-free rates of return as of the date of grant of 5.5% based on the yield of ten-year U.S. treasury securities.

Rights Agreement – On February 27, 1998, our board of directors declared a dividend distribution of the right to purchase one share of our common stock, on the terms and conditions set forth in the Rights Agreement (a "Right"), for each share of our common stock outstanding ten days subsequent to the announcement by any person of such person's acquisition of or intent to acquire a beneficial ownership of 15% or more in Suiza Foods Corporation. At any time prior to such date, a required majority may redeem the Rights in whole, but not in part, at a price of $0.01 per Right. The Rights will expire on March 18, 2008, unless our board of directors extends the term of, or redeems, the Rights.

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

(In thousands, except share data)	Year Ended December 31, 2000	1999	1998
Basic EPS computation:			
Numerator:			
Income from continuing operations	$113,751	$108,827	$103,069
Less preferred stock dividends			(237)
Income applicable to common stock	$113,751	$108,827	$102,832
Denominator:			
Average common shares	28,195,043	32,861,218	32,953,290
Basic EPS from continuing operations	$ 4.03	$ 3.31	$ 3.12
Diluted EPS computation:			
Numerator:			
Income from continuing operations	$113,751	$108,827	$103,069
Less preferred stock dividends			(237)
Net effect on earnings from conversion of mandatorily redeemable convertible preferred securities	21,334	24,501	18,732
Income applicable to common stock	$135,085	$133,328	$121,564
Denominator:			
Average common shares – basic	28,195,043	32,861,218	32,953,290
Stock option conversion	793,680	901,151	1,838,193
Dilutive effect of conversion of mandatorily redeemable convertible preferred securities	7,682,541	9,096,123	7,174,081
Average common shares – diluted	36,671,264	42,858,492	41,965,564
Diluted EPS from continuing operations	$ 3.68	$ 3.11	$ 2.90

Share Repurchases – On September 15, 1998, our Board of Directors authorized an open market share repurchase program of up to $100 million of our common stock. On September 28, 1999, the Board increased the program by $100 million to $200 million and on November 17, 1999 authorized a further increase to $300 million. We fulfilled the $300 million authorization during the second quarter of 2000, and on May 19, 2000, the Board increased the program by $100 million to $400 million and on November 2, 2000 authorized a further increase to $500 million. Set forth in the chart below is a summary of the stock we have repurchased pursuant to this program through December 31, 2000.

Period	No. of Shares Repurchased	Purchase Price
Third Quarter 1998	1,000,000	$ 30.4 million
Fourth Quarter 1998	510,400	15.6 million
Second Quarter 1999	79,700	3.0 million
Third Quarter 1999	1,850,515	66.7 million
Fourth Quarter 1999	3,486,508	128.4 million
First Quarter 2000	688,800	27.2 million
Second Quarter 2000	966,065	42.2 million
Third Quarter 2000	1,587,000	77.0 million
Fourth Quarter 2000	40,000	2.1 million
Total	10,208,988	$392.6 million

Subsequent to December 31, 2000, we have repurchased an additional $6.1 million or 123,334 shares and $101.3 million remains available for spending under this program.

These repurchased shares were treated as effectively retired in the consolidated financial statements.

14. Other Comprehensive Income

Comprehensive income comprises net income plus all other changes in equity from non-owner sources. The amount of income tax (expense) benefit allocated to each component of other comprehensive income during the year ended December 31, 2000 and 1999 are included below.

(In thousands)	Pre-Tax Income (Loss)	Tax Benefit (Expense)	Net Amount
Cumulative translation adjustment	$ 7,005	$(2,732)	$ 4,273
Minimum pension liability adjustment	120	(47)	73
Accumulated other comprehensive income, December 31, 1998	7,125	(2,779)	4,346
Cumulative translation adjustment	(18,277)	7,493	(10,784)
Accumulated other comprehensive income, December 31, 1999	$(11,152)	$ 4,714	$ (6,438)
Cumulative translation adjustment	(2,381)	931	(1,450)
Reclassification adjustment for disposal	11,139	(4,362)	6,777
Accumulated other comprehensive income, December 31, 2000	$ (2,394)	$ 1,283	$ (1,111)

15. Employee Retirement and Profit Sharing Plans

We sponsor various defined benefit and defined contribution retirement plans, including various employee savings and profit sharing plans, and contribute to various multi-employer pension plans on behalf of our employees. Substantially all full-time union and non-union employees who have completed one or more years of service and have met other requirements pursuant to the plans are eligible to participate in these plans. During 2000, 1999 and 1998, our retirement and profit sharing plan expenses were as follows:

	Year Ended December 31,		
(In thousands)	2000	1999	1998
Defined benefit plans	$ 2,482	$ 3,994	$ 3,176
Defined contribution plans	6,792	7,572	7,077
Multi-employer pension plans	5,599	4,937	3,987
	$14,873	$16,503	$14,240

Defined Benefit Plans – The benefits under our defined benefit plans are based on years of service and employee compensation. Our funding policy is to contribute annually the minimum amount required under ERISA regulations. Plan assets consist principally of investments made with insurance companies under a group annuity contract.

The following table sets forth the funded status of our defined benefit plans and the amounts recognized in our consolidated balance sheets:

(In thousands)	December 31, 2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$71,673	$148,219
Service cost	2,274	4,140
Interest cost	6,573	5,052
Assumption change		(1,498)
Plan amendments	1,381	
Actuarial (gain) loss	1,802	(6,878)
Acquisitions	18,724	4,944
Disposition of packaging operations	(1,412)	(76,134)
Benefits paid	(7,994)	(6,279)
Plan curtailments	(3,727)	
Other	76	107
Benefit obligation at end of year	89,370	71,673
Change in plan assets:		
Fair value of plan assets at beginning of year	79,166	136,577
Actual return on plan assets	1,221	10,033
Acquisitions	18,644	5,577
Disposition of US plastic packaging operations		(68,639)
Employer contribution	1,679	1,809
Benefits paid	(7,994)	(6,279)
Other	37	88
Fair value of plan assets at end of year	92,753	79,166
Funded status	3,383	7,494
Unrecognized net transition obligation	1,317	1,931
Unrecognized prior service cost	2,596	1,517
Unrecognized net (gain)loss	(7,799)	(17,186)
Minimum liability adjustment	(1,651)	
Net amount recognized	$ (2,154)	$ (6,244)
Amounts recognized in the consolidated balance sheets at December 31 of each year consist of:		
Prepaid benefit cost	$ 2,125	$ 1,775
Accrued benefit liability	(4,279)	(8,364)
Intangible asset		345
Net amount recognized	$ (2,154)	$ (6,244)
Weighted average assumptions as of December 31:		
Discount rate	7.75%	7.75%
Expected return on plan assets	6.75-9.50%	6.75-9.00%
Rate of compensation increase	0-5.00%	0-4.00%

	Year Ended December 31,		
(In thousands)	2000	1999	1998
Components of net periodic benefit cost (income)			
Service cost	$ 2,274	$ 4,151	$ 4,057
Interest cost	6,573	5,052	5,842
Expected return on plan assets	(8,204)	(6,157)	(6,890)
Amortization of unrecognized transition obligation	140	188	194
Amortization of prior service cost	147	138	109
Amortization of unrecognized net gain	(622)	(3)	(13)
Recognized net actuarial gain from curtailment	(3,899)		(670)
Net periodic benefit cost (income)	$(3,591)	$ 3,369	$ 2,629

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $32.7 million, $32.7 million, and $30.4 million, respectively, as of December 31, 2000, and $7.6 million, $6.1 million and $4.9 million, respectively, as of December 31, 1999, excluding pension plans related to the disposed U.S. packaging operations.

Defined Contribution Plans – Certain of our non-union personnel may elect to participate in savings and profit sharing plans sponsored by us. These plans generally provide for salary reduction contributions to the plans on behalf of the participants of between 1.0% and 17.0% of a participant's annual compensation and provide for employer matching and profit sharing contributions as determined by our Board of Directors. In addition, certain union hourly employees are participants in company-sponsored defined contribution plans which provide for employer contributions in various amounts ranging from $21 to $39 per pay period per participant.

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

16. Postretirement Benefits Other Than Pensions

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

The following table sets forth the funded status of these plans and the amounts recognized in our consolidated balance sheets:

(In thousands)	December 31, 2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,156	$ 3,948
Service cost	29	44
Interest cost	450	235
Actuarial loss	1,340	84
Plan amendments	(566)	
Acquisition	1,110	1,179
Benefits paid	(627)	(334)
Benefit obligation at end of year	$ 6,892	$ 5,156
Fair value of plan assets at end of year	–	–
Funded status	(6,892)	(5,156)
Unrecognized prior service cost	(566)	
Unrecognized net (gain)/loss	218	(772)
Net amount recognized – accrued benefit liability	$(7,240)	$(5,928)
Weighted average assumptions as of December 31:		
Discount rate	7.75%	7.50%
Health Care Inflation:		
Initial rate	7.12-9.50%	7.68%
Ultimate rate	5.00-6.00%	4.75%
Year of ultimate rate achievement	2005-2015	2005

(In thousands)	December 31, 2000	1999	1998
Components of Net Periodic Benefit Cost:			
Service and interest cost	$479	$278	$289
Amortization of unrecognized net gain	(51)	(40)	(21)
Recognized net actuarial loss	65		
Net periodic benefit cost	$493	$238	$268

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

(In thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 24	$ (21)
Effect on post-retirement obligation	$536	$(466)

17. Plant Closing and Other Costs

Plant closing costs – As part of an overall integration and cost reduction strategy, we recorded plant closing and other non-recurring costs during 2000 and 1999 in the amount of $3.4 million and $12.6 million, respectively. In addition, our share of Consolidated Container's restructuring charges were income of $0.8 million in 2000 and expenses of $4.9 million during 1999. These amounts were reported as an adjustment to equity in earnings of unconsolidated affiliates.

The charges recorded for our integration and cost reduction programs in 2000 reflect several approved efficiency and integration efforts including restructuring of our corporate office departments, elimination of a production shift and certain maintenance activities at our Puerto Rican operation, and closing of our Hartford, Connecticut plant.

During 1999, we recorded charges related to the closing of four plants with consolidation of production into other plants, the disposition of a small cheese processing plant, consolidation of administrative offices within one of our regions and severance costs incurred at the corporate office as well as the European and Puerto Rican operations.

The principal components of the plans approved during 2000 and 1999 include the following:

- Workforce reduction as a result of plant closings, plant rationalizations and consolidation of administrative functions. The plans included an overall reduction of 205 people in 2000 and 315 people in 1999, primarily plant employees associated with the plant closings and rationalization. The costs were charged to our earnings in the period that the plan was established in detail and employee severance and benefits had been appropriately communicated. All except six employees had been severed as of December 31, 2000.
- Shutdown costs include those costs that are necessary to prepare the plant facilities for closure.
- Additional costs to be incurred after shutdown included lease obligations or termination costs, utilities and property taxes after shutdown of the plant.
- Write-downs of property, plant and equipment and other assets are primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned building, land and equipment at the facilities which are being sold and were written down to their estimated fair value.

Activity with respect to the plant closing and other non-recurring costs for 2000 is summarized below:

(In thousands)	Balance at December 31, 1999	Charges	Payments	Balance at December 31, 2000
Cash Charges:				
Workforce reduction costs	$3,073	$2,176	$(4,070)	$1,179
Shutdown costs	468	564	(669)	363
Lease obligations after shutdown	438	95	(415)	118
Other	40	159	(199)	
Subtotal	$4,019	2,994	$(5,353)	$1,660
Noncash charges:				
Write-down of property, plant and equipment		394		
Total charges		$3,388		

Activity with respect to the plant closing and other non-recurring costs for 1999 is summarized below:

(In thousands)	Charges	Payments	Balance at December 31, 1999
Cash Charges:			
Workforce reduction costs	$ 4,188	$(1,115)	$3,073
Shutdown costs	779	(311)	468
Lease obligations after shutdown	575	(137)	438
Other	234	(194)	40
Subtotal	5,776	$(1,757)	$4,019
Noncash charges:			
Write-down of property, plant and equipment	6,790		
Total charges	$12,566		

There have not been significant adjustments to the plan and the majority of future cash requirements to reduce the liability at December 31, 2000 are expected to be completed within a year.

Acquired facility closing costs – As part of our purchase price allocations, we accrued costs in 2000 and 1999 pursuant to plans to exit certain activities and operations of acquired businesses in order to rationalize production and reduce costs and inefficiencies. Several plants were closed in connection with our acquisitions of Broughton Foods, New England Dairies and Southern Foods. Production from these plants was moved to our other facilities.

The principal components of the plans include the following:

- Workforce reduction as a result of plant closings included an overall reduction of 282 and 340 plant personnel during 2000 and 1999, respectively. The costs incurred were charged against our acquisition liabilities for these costs. All except 35 employees had been terminated as of December 31, 2000.
- Shutdown costs include those costs that are necessary to clean and prepare the plant facilities for closure.
- Additional costs to be incurred after shutdown included lease obligations or termination costs, utilities and property taxes after shutdown of the plant.

Activity with respect to these acquisition liabilities for 2000 is summarized below:

(In thousands)	Accrued Charges at December 31, 1999	Accruals	Payments	Accrued Charges at December 31, 2000
Workforce reduction costs	$624	$ 1,268	$ (895)	$ 997
Shutdown costs	332	9,735	(2,796)	7,271
Total	$956	$11,003	$(3,691)	$8,268

Activity with respect to these acquisition liabilities for 1999 is summarized below:

(In thousands)	Accruals	Payments	Accrued Charges at December 31, 1999
Workforce reduction costs	$3,888	$(3,264)	$624
Shutdown costs	1,035	(703)	332
Other	112	(112)	0
Total	$5,035	$(4,079)	$956

18. Supplemental Cash Flow Information

	Year Ended December 31,		
(In thousands)	2000	1999	1998
Cash paid for interest and financing charges, net of capitalized interest	$142,205	$87,548	$ 74,989
Cash paid for taxes	31,883	40,003	17,908
Noncash transactions:			
Issuance of notes payable and common and preferred stock in connection with business and property acquisitions	–	3,193	138,547
Issuance of mandatorily redeemable preferred securities, minority partnership interests and subsidiary preferred and common securities in connection with acquisitions	340,336	18,500	201,447

19. Commitments and Contingencies

Leases – 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 and 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. Rent expense, including additional rent, was $66.9 million, $45.1 million and $48.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The composition of capital leases which are reflected as property, plant and equipment in our consolidated balance sheets are as follows:

	December 31,	
(In thousands)	2000	1999
Buildings and improvements	$ 2,102	$12,115
Machinery and equipment	10,770	13,549
Less accumulated amortization	(4,267)	(9,160)
	$ 8,605	$16,504

Future minimum payments at December 31, 2000, under noncancelable capital and operating leases with terms in excess of one year are summarized below:

(In thousands)	Capital Leases	Operating Leases
2001	$1,312	$ 52,950
2002	1,160	44,819
2003	1,113	38,168
2004	988	30,807
2005	814	25,844
Thereafter	244	52,098
Total minimum lease payments	5,631	$244,686
Less amount representing interest	(597)	
Present value of capital lease obligations	$5,034	

Litigation – We and our subsidiaries are parties, in the ordinary course of business, to certain claims and litigation. In our opinion, the settlement of such matters is not expected to have a material adverse impact on our financial position, results of operations or cash flows.

Employment Agreements – We have entered into employment agreements with certain key management personnel which provide for minimum compensation levels and incentive bonuses, along with provisions for termination benefits in certain circumstances and for certain severance payments in the event of a change in control.

20. Fair Value of Financial Instruments

Pursuant to SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," we are required to disclose an estimate of the fair value of our financial instruments as of December 31, 2000 and 1999. SFAS No. 107 defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties.

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

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

	2000		1999	
(In thousands)	Carrying Value of Asset	Fair Value Liability	Carrying Value of Liability	Fair Value Asset
Interest rate agreements effective in 2000	$3,696	$ (3,967)	$(4,313)	$5,745
Interest rate agreements effective in 2001		(12,311)		

Included in Note 1 – Recently Issued Accounting Pronouncements is a discussion of the treatment of interest rate agreements effective January 1, 2001.

21. Business and Geographic Information and Major Customers

Prior to the third quarter of 1999, we had two reportable segments, including "dairy" and "packaging." As a result of the sale of a majority interest in our U.S. plastic packaging operations effective July 2, 1999, as discussed in Note 5, we no longer have a reportable packaging segment under current accounting rules. Our two European packaging businesses have been included in the packaging segment until their disposition in March and May 2000.

Effective with the acquisition of Southern Foods Group and the formation of Suiza Dairy Group we began a realignment of our businesses which has resulted in the separation of our previous dairy segment into two reportable segments: Suiza Dairy Group and Morningstar Foods. Our Suiza Dairy Group segment, which consists of Suiza Dairy Group, L.P., manufactures and distributes fluid milk, ice cream and novelties, half-and-half and whipping cream, sour cream, cottage cheese, and yogurt as well as fruit juices and other flavored drinks and bottled water. Morningstar Foods, which consists of our wholly-owned subsidiary Morningstar Foods Inc., manufactures dairy and non-dairy coffee creamers, whipping cream and pre-whipped toppings, specialty products such as lactose-reduced milk and soy milk, as well as certain refrigerated and extended shelf-life products. Our Puerto Rico and Spanish operations do not meet the definition of a segment and are reported in "Corporate/Other." All periods presented have been reclassified to conform with these changes.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on operating profit not including nonrecurring gains and losses and foreign exchange gains and losses.

We do not allocate income taxes or management fees to segments. In addition, there are no significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in the following tables are the amounts obtained from reports used by our executive management team for the year ended December 31:

(In thousands)	2000	1999	1998
Net sales from external customers:			
Suiza Dairy Group	$4,660,329	$3,101,800	$1,960,611
Morningstar Foods	704,246	655,159	611,714
Packaging	42,286	489,814	504,745
Corporate/Other	349,442	235,226	243,870
Total	$5,756,303	$4,481,999	$3,320,940
Intersegment sales:			
Suiza Dairy Group	$ 14,680	$ 8,838	$ 8,223
Morningstar Foods	60,213	19,370	9,768
Packaging	—	18,674	29,379
Corporate/Other	—	—	—
Total	$ 74,893	$ 46,882	$ 47,370
Operating income:			
Suiza Dairy Group (1)	$ 289,630	$ 164,575	$ 121,888
Morningstar Foods (2)	100,944	83,641	67,298
Packaging (3)	415	50,402	56,030
Corporate/Other (4)	(22,926)	(21,744)	(2,760)
Subtotal	368,063	276,874	242,456
Other items:			
Interest expense and financing charges	(146,181)	(87,817)	(82,295)
Equity in earnings of investees	11,453	2,630	78
Other, net	630	1,416	4,212
Income before income tax	$ 233,965	$ 193,103	$ 164,451
Depreciation and amortization:			
Suiza Dairy Group	$ 105,717	$ 64,046	$ 44,157
Morningstar Foods	22,849	19,644	16,336
Packaging	1,529	23,020	22,309
Corporate/Other	14,888	9,935	8,977
Total	$ 144,983	$ 116,645	$ 91,779
Assets:			
Suiza Dairy Group	$2,912,231	$1,750,389	$1,551,493
Morningstar Foods	424,819	458,450	400,561
Packaging	–	196,792	825,455
Corporate/Other	443,428	253,291	236,274
Total	$3,780,478	$2,658,922	$3,013,783
Capital expenditures:			
Suiza Dairy Group	$ 90,901	$ 104,023	$ 66,927
Morningstar Foods	28,162	20,344	25,288
Packaging	1,313	23,650	72,323
Corporate/Other	16,500	39,625	12,332
Total	$ 136,876	$ 187,642	$ 176,870

(1) Operating income includes plant closing and other nonrecurring charges of $2.1 million and $8.7 million in 2000 and 1999, respectively. Operating income in 2000 includes litigation settlement costs of $7.5 million.

(2) Operating income includes plant closing and other nonrecurring charges of $0.5 million in 1999.

(3) Operating income includes plant closing and other nonrecurring charges of $0.2 million in 1999.

(4) Operating income includes corporate office severance, plant closing and other nonrecurring charges of $1.3 million and $3.2 million in 2000 and 1999, respectively.

(In thousands)	Revenues 2000	1999	1998	Long-Lived Assets 2000	1999
Geographic Information					
United States	$5,364,575	$4,002,144	$2,904,498	$2,723,408	$1,810,874
Puerto Rico	226,661	235,226	243,870	127,487	124,199
Europe	165,067	244,629	172,572	111,611	83,941
Total	$5,756,303	$4,481,999	$3,320,940	$2,962,506	$2,019,014

We have no one customer within any segment which represents greater than ten percent of our consolidated revenues.

22. Quarterly Results of Operations (Unaudited)

The table set forth below is a summary of the unaudited quarterly results of operations for 2000 and 1999 (in thousands, except per share data). As a result of the sale of our U.S. plastic packaging operations to Consolidated Container Company on July 2, 1999 in exchange for cash and a 43.1% interest in Consolidated Container Company, the sales, gross profit and operating expenses of this operation subsequent to July 2, 1999 are not included in the table but are instead consolidated onto a single line, "equity in earnings of unconsolidated affiliates" within income from continuing operations.

Quarter	First	Second	Third	Fourth
2000				
Net sales	$1,394,141	$1,434,354	$1,439,947	$1,487,861
Gross profit	340,158	360,218	354,320	371,540
Income before extraordinary gain(1)	20,594	33,533	31,189	28,435
Net income(1)	25,562(2)	33,533	31,189	28,435
Basic earnings per common share:(3)				
Income before extraordinary gain	0.71	1.16	1.13	1.05
Net income	0.88	1.16	1.13	1.05
Diluted earnings per common share:(3)				
Income before extraordinary gain	0.69	1.04	1.01	.95
Net income	0.82	1.04	1.01	.95
1999				
Net sales	$1,153,186	$1,118,844	$1,082,060	$1,127,909
Gross profit	232,559	262,949	247,650	251,766
Income before extraordinary gain(4)	20,873	32,147	30,449	25,358
Net income(4)	20,873	32,147	30,449	26,262(5)
Basic earnings per common share:(3)				
Income before extraordinary gain	0.62	0.95	0.90	0.83
Net income	0.62	0.95	0.90	0.86
Diluted earnings per common share:(3)				
Income before extraordinary gain	0.60	0.87	0.83	0.78
Net income	0.60	0.87	0.83	0.80

(1) The results for the first, second, and third quarters of 2000 include plant closing and other non-recurring charges of $0.7 million, $0.8 million and $0.3 million, respectively. Results in the second quarter include defined benefit plan curtailment gains of $3.6 million. Results in the fourth quarter include a charge of $5.0 million for litigation settlement costs and a gain of $0.4 million related to plant closing credits at Consolidated Container. All amounts are net of income taxes and minority interest.

(2) Results for the first quarter of 2000 include an extraordinary gain related to interest rate derivatives which became unhedged, net of an extraordinary loss for the write-off of deferred financing costs.

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

(4) The results for the second, third and fourth quarters of 1999 include plant closing and other non-recurring charges of $2.9 million, $3.2 million (including $0.9 million related to Consolidated Container), and $5.0 million (including $2.0 million related to Consolidated Container), respectively. All amounts are net of income taxes.

(5) The results for the fourth quarter of 1999 include an extraordinary gain from the resolution of contingencies related to the sale of our packaged ice business in 1998.

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Annual Meeting
May 17, 2001, 10:00 a.m.
Dallas Museum of Art
Horchow Auditorium
1717 North Harwood
Dallas, Texas 75201

Market Information
The NYSE trading symbol for our common stock is SZA.

Forward-Looking Statement Disclosure
This report contains statements about the future that are not statements of historical fact. These statements, which are sometimes predictions and sometimes statements of our plans for the future, are found in the Chairman's letter to shareholders, and pages 6, 9, 11 and 13 as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations. In most cases, you can identify these statements by terminology such as "may," "will," "should," "could," "expect," "seek to," "anticipate," "plan," "believe," "estimate," "intend," "predict," "potential," "hope" or "continue," or the negative of such terms and other comparable terminology. In evaluating these statements you should carefully consider the risks outlined in our Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission on April 2, 2001, and in any subsequent reports that we file with the Securities and Exchange Commission. You may obtain copies of these reports without charge by writing to our corporate headquarters, Attention: Investor Relations, or on the SEC's website at www.sec.gov.

Board of Directors

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Pete Schenkel
President, Suiza Dairy Group

Hector M. Nevares
President, Neva Management

Alan J. Bernon
Chief Operating Officer, Northeast Region, Suiza Dairy Group

Tom Davis
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Chief Operating Officer, Hicks, Muse, Tate & Furst Incorporated

P. Eugene Pender
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