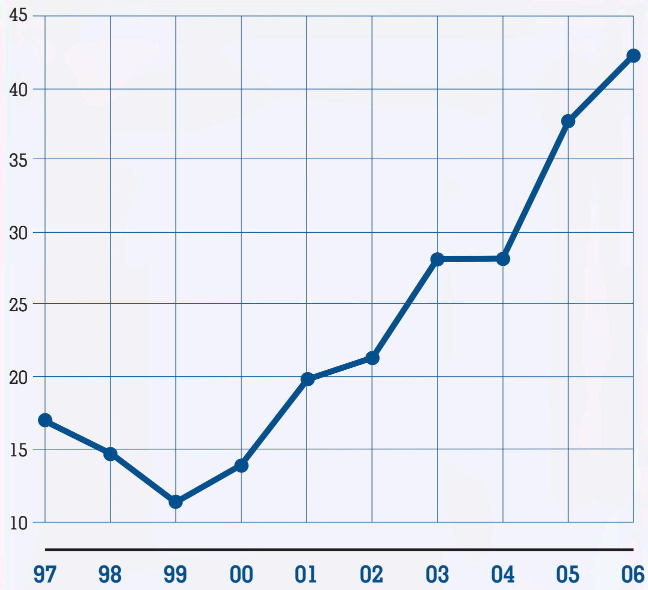
Dean Foods Company 2006 Annual Report

What Makes Dean, Dean

We're Focused on Value

Delivering Outstanding Shareholder Value



The values shown in the table are closing stock prices at December 31 of each year, adjusted for stock splits and stock dividends that have occurred during the period shown. Historical performance is not necessarily indicative of future performance.

About Our Company

The Nation's Leading Dairy Beverage Company

We are the largest processor and distributor of fresh milk and other dairy products in the country. We proudly sell a broad variety of high quality, wholesome dairy products to customers across the nation, under more than 50 well-respected local and regional brands, several leading national brands – such as *Horizon Organic®*, *LAND O LAKES®* and *International Delight®* – and a broad array of private labels. We're also proud to be the makers of *Silk®*, the nation's leading brand of soymilk.

What Makes Dean, Dean?
Our Focus on Value

At Dean Foods Company, delivering unparalleled value is our primary focus. Year in and year out, our 26,000 employees from coast to coast work with focused determination to bring value to our consumers and customers. We take great pride in providing high quality, healthy and delicious dairy and soy products for families across the country – under a portfolio of brands that they know and trust.

As the nation's largest dairy company, we enjoy some valuable advantages. Our extensive refrigerated distribution network enables us to deliver more products to more places than any of our competitors. By leveraging our size to reduce costs, we can sell our products at an even greater value. By focusing on providing the best products for our customers and consumers, we've also been able to create terrific value for our shareholders.

2006 was another successful year. We saw strong growth across all our businesses, and we delivered increased profits, as our improving efficiency began to deliver results. We also launched multi-year enhancement initiatives designed to maximize the benefits of our scale, allowing us to continue to grow and deliver outstanding value to all of our stakeholders, including our customers, our consumers, our employees, our communities and our shareholders.

As always, we're focused on creating and delivering value.

GREGG L. ENGLES

Dear Fellow Shareholders:

I am pleased to report that 2006 was another year of strong growth at Dean Foods Company. Both of our operating units turned in solid performances, and we finished the year with double-digit EPS growth from continuing operations. At the same time, we made important progress in the execution of our long-term profit maximizing strategies. Overall, I am very pleased with our 2006 results and believe we have entered 2007 with significant momentum.

Focused Execution

In 2006, our Dairy Group continued a consistent trend of growing volumes and increasing market share. Fluid milk volumes were up 2%, compared to USDA data showing a 1% increase in consumption. 2006 marked the fourth consecutive year that the Dairy Group won market share, which we believe indicates the success of our strategy of leveraging our size to be the lowest cost, highest value dairy supplier. Dairy Group operating income increased by 6% to $678 million in 2006, as a result of volume gains, lower raw material costs and improved efficiencies.

Early in the year, we launched a comprehensive capability and productivity enhancement program in the Dairy Group. This multi-year effort is intended to enable us to fully capture the benefits of our scale in order to generate sustained, meaningful operating profit growth over time. First, we established a centralized procurement program designed to leverage our considerable purchasing power across the company. We have completed the foundational work for implementing rigorous and disciplined procurement procedures and in December we were successful in recruiting a first-rate Chief Procurement Officer. We have already begun to employ our new procedures, which will result in substantial savings over the next several years.

The second phase of this program is the restructuring of our Dairy Group's accounting and finance organization. Historically, as we focused on growing the Dairy Group through a rapid series of acquisitions, these functions have been performed in a decentralized fashion at over 60 locations across the country. We now have the opportunity to significantly reduce our costs and upgrade our capabilities by transitioning our accounting and finance organization into a more focused and specialized group. We began the transition in the fourth quarter of 2006 and will move forward with a staged implementation throughout 2007 and into early 2008.

With these initiatives, the Dairy Group has entered a challenging and exciting period of transformation. These strategies and those that will follow support our commitment to lead the industry in low-cost production, superior customer service and return on investment. I am confident that these efforts will result in a more efficient and profitable dairy business model over time.

WhiteWave Foods also continued its record of strong operating performance in 2006. We saw impressive growth in our key brands, with sales of *Horizon Organic*® milk up 24% and sales of *Silk*® soymilk up 12% on a continuing basis. Despite a $40 million reduction in sales due to the impact of our SKU reduction initiative, total sales increased by 6.4%. This sales growth and savings related to improved efficiency more than offset a $30 million increase in commodity costs and a sizable infrastructure investment, resulting in operating income growth of 21%.

We made considerable progress during the year toward optimizing the performance of WhiteWave Foods. We continued to streamline our supply chain, which yielded incremental benefits as the year progressed, and we took initial steps in the execution of our strategy to strengthen our selling systems. We also made significant investments during the year to upgrade our talent base and our information systems. We successfully completed the first phase of the implementation of SAP, WhiteWave's new enterprise resource system, and we expect to complete the conversion during 2007. This system will enable us to more effectively manage our business, and should result in meaningful profitability improvements in the future.

I am pleased with the progress we have made toward our goal of transforming WhiteWave Foods into a world-class, scalable consumer packaged goods company. With leading brands in key health and wellness categories and continuously improving capabilities, WhiteWave Foods is a unique platform for sustainable growth and superior returns.

A Focused Portfolio of Assets

In 2005, we embarked on a strategy of refining our portfolio of assets to focus on our most promising opportunities. We began with the spin-off of TreeHouse Foods in June 2005, followed by the sale of our *Marie's*® dressings and *Dean's*® dips businesses. In the third quarter of 2006, we took another important step with the sale of our Iberian dairy operations. In the future, we will continue to analyze our portfolio to ensure that we are always focused on our greatest opportunities.

Focusing on Shareholder Value

At Dean Foods Company, we are always intently focused on cash flow as a critical part of our strategy for maximizing shareholder value. In 2006, we used our strong free cash flow to repurchase 10 million shares of our common stock for an aggregate purchase price of $400 million, and to reduce our outstanding debt by $31 million. Over the past three years, we returned almost $1.4 billion to our shareholders through the repurchase of 38.2 million shares.

Based on our projections of continued strong cash flows, the positive outlook for our businesses and our transitioned strategic focus, our Board of Directors took an even more proactive approach in 2007 by returning $15 per share, or approximately $2 billion, to our shareholders in the form of a one-time cash dividend. We funded the dividend, paid on April 2, with proceeds from a new credit facility, which enabled us to take advantage of attractive market conditions and lower our weighted-average cost of capital. This transaction created a capital structure that is more closely aligned with the characteristics of our business, and leaves us with sufficient cushion to manage unforeseen developments or pursue highly compelling tuck-in acquisitions or stock buybacks. We intend to use our free cash flow to reduce our debt, with the ability to return to our pre-dividend debt level within three to four years. We believe this transaction demonstrates our long-standing commitment to delivering outstanding value to our shareholders.

The New Dean Foods: Focused on Tomorrow

As we look to the future, we continue to see many opportunities to deliver increased value. We believe we have a uniquely advantaged position with a leading portfolio of products in better-for-you categories, including not only traditional dairy products but also organic milk, soymilk, yogurts and a variety of other wholesome, delicious products. As we move forward, our primary focus will continue to be on providing consumers with the high quality nutritious food and beverage choices that they increasingly demand.

Heading into 2007, our Dairy Group is in the early stages of a multi-year capability and productivity enhancement program that we believe will result in notably improved profitability. In 2007, we will substantially finalize the realignment of the Dairy Group's accounting and finance organization. We also will begin work on the next three phases of the program: optimizing manufacturing, strengthening our selling systems to take full advantage of our unique DSD system, and brand-building and innovation.

At WhiteWave Foods, we will complete the conversion to SAP and continue to enhance our selling systems. We also will place an increased emphasis on brand-building and innovation, as we continue on the path toward becoming a top-tier consumer packaged goods company.

I want to thank our 26,000 employees for the role each of them plays in our success. Our people are our most valuable asset – and what truly makes Dean, Dean.

And thank you to our shareholders for your continued support. I believe we are well-positioned for sustained long-term growth, and I look forward to reporting another year of outstanding results.

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

Dean Foods Company
2006 Scorecard

2006 was another year of strong performance at Dean Foods Company. Both of our operating units saw a healthy increase in operating profits, and we made important progress on our long-term productivity and efficiency enhancement initiatives. Here are some of our key successes in 2006:

Dairy Group Operating Profit	up 6%
WhiteWave Operating Profit	up 21%
Fluid Milk Volume Sales	up 2%
Silk® Soymilk Continuing Sales	up 12%
Horizon Organic® Milk Sales	up 24%
International Delight® Sales	up 7%
Cash from Operations	up 4%
Shares Repurchased	10 million

What Makes Dean, Dean

Our nationwide manufacturing network is one of the many competitive advantages that we enjoy. With the broadest and most flexible manufacturing capabilities in the industry, we produce a full range of wholesome, delicious dairy products.

We're Focused on Value: a One-of-a-Kind Nationwide Distribution Network

We operate the most extensive refrigerated direct store delivery network in the country. Everyday, we put more than 7,000 refrigerated trucks and trailers onto America's roads and highways to deliver our fresh products to over 150,000 locations from coast to coast.

An Irreplaceable Asset

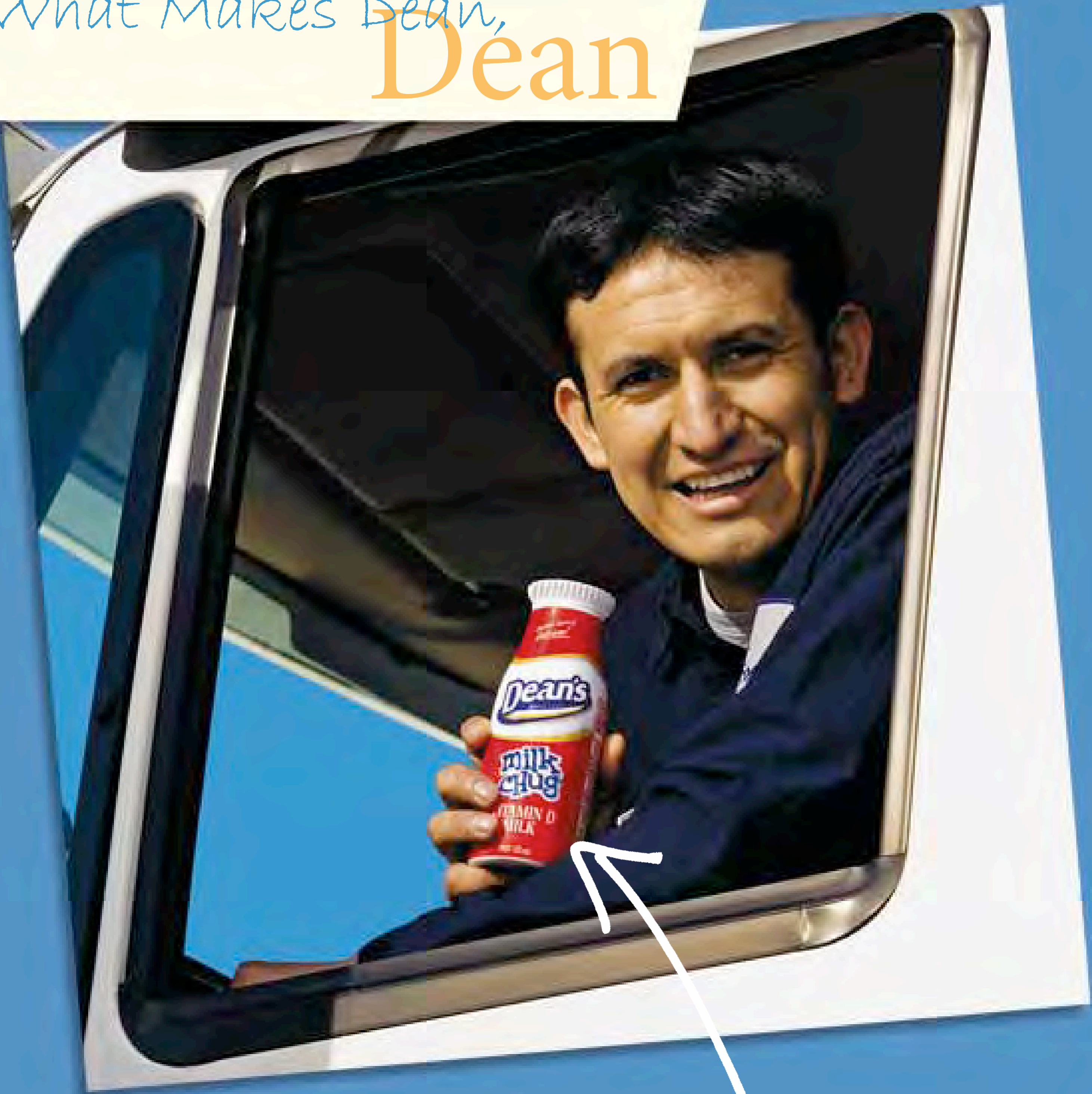
We are the only company that can deliver a complete assortment of dairy products to virtually anywhere in the country, from California to Maine. Our robust and efficient warehouse distribution system for our longer shelf-life products rounds out our unrivaled ability to provide cost-effective, full-service solutions for our customers. Our unparalleled distribution system is one of our most valuable assets, especially when combined with our vast and unique network of strategically located manufacturing plants.

Nothing is more important than getting our products to our customers' shelves on time and at the right price – and nobody can deliver like we can.

A winning combination

- *Leading brands, wholesome products*
- *Strategically located plants*
- *Superior distribution*
- *Experienced, customer-focused people*

What Makes Dean, Dean



Valued Local and Regional Brands

We sell nutritious dairy products under more than 50 well-known local and regional brands that have been serving their communities for generations. In virtually every corner of America, we sell the brands consumers trust to nourish their families. Erik Arana, pictured above, has been delivering fresh Dean's® *products to customers in the Chicago area since 2001.*

From milk and cream to yogurt, cottage cheese, ice cream and juice, we sell the high quality dairy products consumers reach for across the country. And we've been doing it for decades. Each of our time-proven brands pictured here has delivered delicious dairy products to consumers' tables for more than 70 years.

What makes Dean, Dean? First, it's our regional dairy brands. Sales of our locally and regionally branded products represent the majority of our total company sales – over 55% in 2006. The name Dean Foods Company may not sound familiar to a lot of people, but our regional brands are names people know and trust.

From *Garelick Farms*® and *Tuscan*® in the Northeast, to *Meadow Gold*® and *Dean's*® in the Midwest to *Alta Dena*® in California and *Oak Farms*® in Texas, our regional dairy brands are well-respected names in the places they call home.

Power in Numbers

Together, our family of regional dairy brands purchases raw milk from over 11,000 American dairy farmers to produce over three billion gallons of dairy products each year – and that's almost five times more than our closest dairy competitor.

More Dairy Products, More Healthy People

One of the reasons we're proud of our position as the nation's largest dairy company is because we believe in the natural goodness of our products. Dairy products are packed with vitamins and minerals, and they are an excellent source of calcium, which helps to build strong bones. Dairy products have been shown to promote weight loss. They also decrease the risk of certain diseases, like osteoporosis and colon cancer. Health professionals agree that dairy products are an important part of every healthy diet.

Healthy products, trusted brands. A powerful combination.

Dean Dairy Group

Farm-to-Table Value

America's Leading Dairy Company

With 2006 sales of $8.8 billion, or over 87% of our total sales, our Dairy Group is our largest business unit. Dean Dairy Group produces and sells a broad variety of delicious dairy products, including milk, cream, yogurt, cottage cheese, sour cream, ice cream and juice. In addition to our many local and regional brands, we also produce products under more than 30 of our customers' private labels. Here's how Dean Dairy Group stacked up in 2006:

2006 Sales	$8.8 billion
2006 Operating Income	$678 million
Growth in Operating Income	6%
Customers Served	150,000
Equivalent Gallons Sold	3.3 billion
Plants at Year End	98
Employees at Year End	26,348

Right now, maximizing our scale advantage is one of our core strategies. We have several initiatives underway designed to improve our performance by reducing our costs and increasing our productivity. Over the next few years, we will continue our strategy of fully optimizing the efficiency and productivity of our manufacturing and distribution systems. Shown at right is Garelick Farms driver Ron Beauregard, who has been a valued employee for more than 42 years.

For almost 90 years, our Tuscan® *brand has provided fresh, high quality milk to families in the New York City metropolitan area.*

We're Focused on Value:
Leveraging Scale, Maximizing Efficiency

From the time our company was founded in 1993, our primary strategic focus was building our company through targeted acquisitions of the highest quality dairies and dairy brands. After more than 40 acquisitions, we have grown to be the industry leader. We have an exceptional portfolio of leading brands and we are the only dairy company with a national presence.

An Evolving Strategy

We are now entering the next phase of our strategic development. We have some important initiatives underway, both in our Dairy Group and at WhiteWave Foods, that are intended to allow us to further extend our competitive advantage by maximizing the benefits of our scale. These multi-year projects range from streamlining manufacturing, optimizing distribution and enhancing our selling systems to increasing our emphasis on brand-building and innovation.

Enhanced Value

At Dean Foods Company, we have always been committed to delivering outstanding value, and we believe these initiatives will enable us to deliver even greater value in the years to come.

Country Fresh® *has been a favorite brand in Michigan since 1946.*

Our Mayfield Dairy Farms® *brand serves up wholesome dairy products to families across Tennessee, Alabama and Georgia.*

Mark Ezell, pictured at left, went to work at his grandfather's dairy – Purity Dairies, based in Nashville – at age 15 as a Milk Dock Loader. Today he is President of our Purity Dairies subsidiary. Under his leadership, Purity Dairies finished 2006 with four consecutive years of record-breaking growth. Pictured with Mark are Kenn Johnson (center) and Mike Alexander (right), Purity Dairies Milk Dock Leadpersons. Pictured above is Peggy Jones, Purity Dairies Gallon Filler Operator since 2000. Purity Dairies bottles its milk in distinctive yellow "light-block" plastic containers to maintain its freshness, flavor and vitamin potency.

The highly popular line of Swiss Premium *teas and fruit drinks has expanded far beyond its home market. Originally produced by Wengerts Dairy in Lebanon, Pennsylvania,* Swiss Premium *Iced Tea is now the fourth largest brand of refrigerated iced tea in the country. In 2007, we plan to leverage our nationwide manufacturing and distribution network to expand the distribution of* Swiss Premium *beverages.*

We sell fresh dairy products under the well-known Meadow Gold® *brand across a six-state area spanning from Montana to Oklahoma, and also in Hawaii.*

We're Focused on Value:
Dedicated People, Smooth Operations

Our Most Valuable Asset

It's a well-known fact that any business is only as good as its people.

At Dean Foods Company, we are fortunate to have an outstanding team of hard-working, dedicated employees who take great pride in their operations and their daily contributions to our success. It is only through their deep and unmatched industry experience and customer-oriented focus that we've been able to deliver consistently strong results.

Expanded Capabilities

Over the past year we added new capabilities in several key positions, adding to our strong leadership team. We are pleased to welcome them into the fold, and we are confident that they will be valuable additions to our already winning team.

Best in Class

We know that our future success will depend on the efforts and talents of our employees, and we are committed to an unbeatable team with best-in-class dairy and consumer products expertise.

We are proud to offer consumers milk from cows not treated with artificial growth hormones under several of our leading regional brands – another high quality and nutritious dairy choice.

What Makes Dean, Dean

WhiteWave™ FOODS

Leading National Brands

Through our WhiteWave Foods division, we proudly sell a delicious collection of leading dairy-case products under some of the nation's most popular brands, including Horizon Organic®, Silk®, LAND O LAKES® *and* International Delight®.

International Delight® is expanding its product offerings with fabulous new seasonal flavors that come in delightfully decorated bottles. Pictured here are our Spring seasonal bottles and our new French Vanilla packaging.

Our LAND O LAKES® offerings include a full range of creamers and dairy toppings, including consumer favorites like Traditional and Fat Free Half and Half.

Our portfolio of leading national brands is an important part of what makes Dean, Dean. Our *Horizon Organic®* and *Silk®* brands both have leading market shares in rapidly growing categories. Our other national brands, like *International Delight®* and *LAND O LAKES®* coffee creamers, are classic consumer favorites. With our national brands, we deliver premium value.

Sales of our national brands at WhiteWave Foods made up 11% of our total company sales in 2006, and WhiteWave contributed 21% of our total company operating profit. This means our leading national brands are delivering premium value not only to our consumers, but also to our bottom line.

Creamy Delicious

Our *International Delight®* coffee creamer business continued its record of steady growth in 2006, with sales up 7%. In the past year, we've placed an increased focus on the growing away-from-home market. Now, we're pleased to report that International Delight is the clear leader in this channel, with an 80% share. Sales of *LAND O LAKES®* creams and creamers increased 6%, and *LAND O LAKES* Half & Half finished the year with an all-time high market share of 20%.

Organic Growth

Our *Rachel's Organic®* brand, the leading brand of organic milk in the United Kingdom, had another outstanding year in 2006, with sales up an impressive 27%. We're currently planning to introduce *Rachel's* yogurt in the United States, making *Rachel's* an increasingly important part of our valuable collection of leading national brands.

WhiteWave Foods

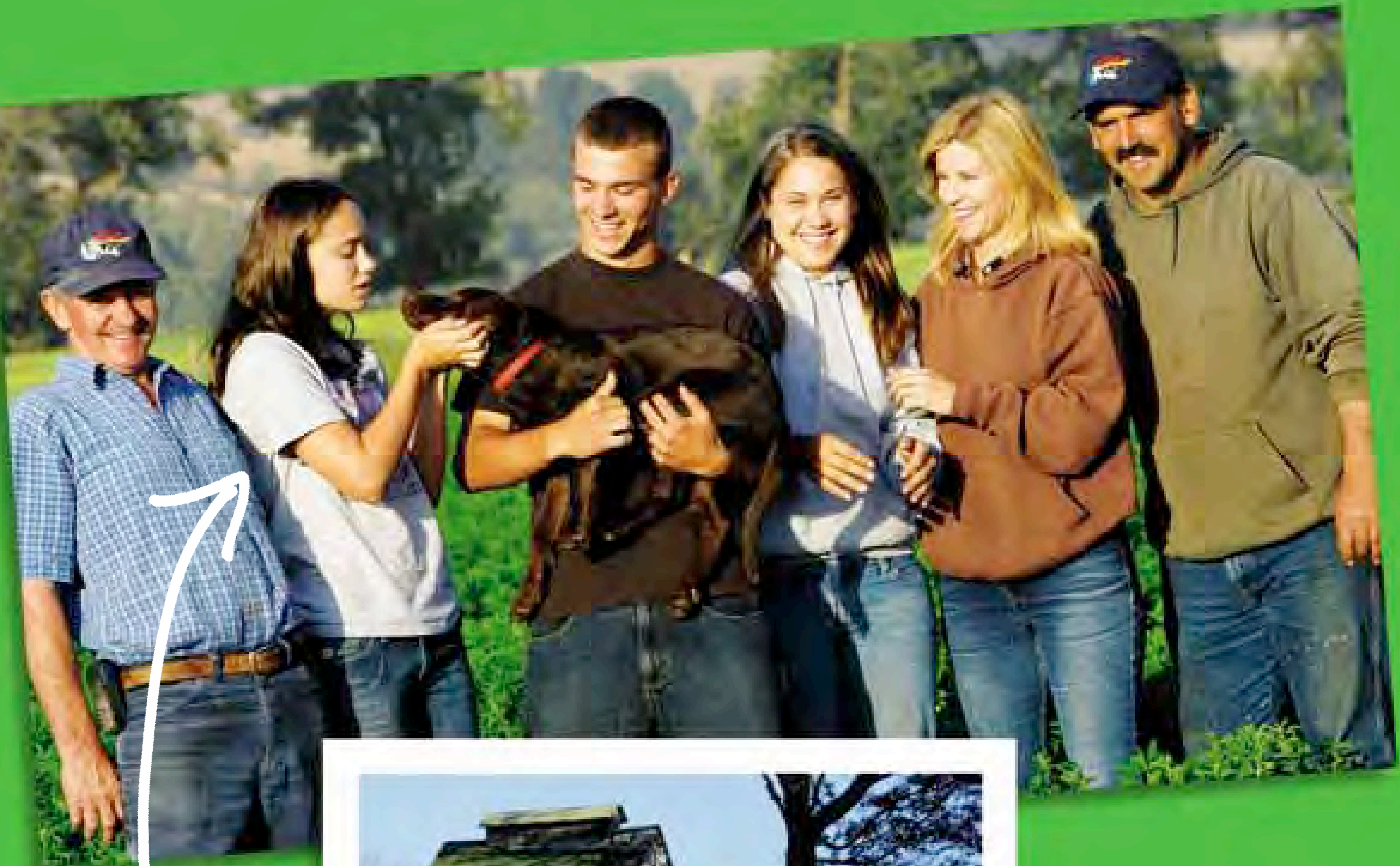
Name Brands, Premium Value

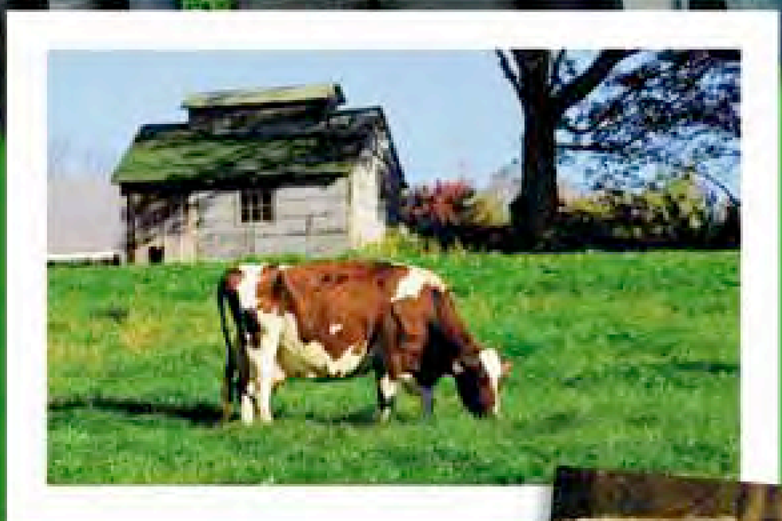
Sustainable Growth, Superior Return

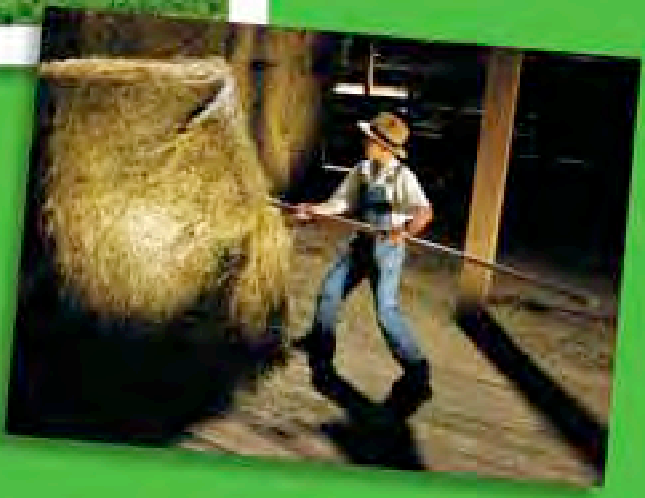
Our WhiteWave Foods subsidiary is the home of our collection of national brands. 2006 was another successful year at WhiteWave Foods. Sales of WhiteWave Foods' four core brands increased by 12%, while total sales were up 6%. Operating income increased by 21%, despite a challenging commodity environment and a significant investment in infrastructure.

Here's how WhiteWave Foods' key brands stacked up in 2006:

Market Positions:	
Silk® Soymilk	#1
Horizon Organic® Milk	#1
International Delight®, away from home	#1
International Delight, retail	#2
LAND O LAKES® Half and Half	#1
Rachel's Organic® Milk (in UK)	#1
Rachel's Organic Yogurt (in UK)	#2







Horizon Organic purchases raw organic milk from over 350 family farms and is assisting another 200+ in their transition to organic. Pictured above with his family is Tim Miranda (right) of Miranda Family Organic Dairy in Ferndale, California. Tim and his wife, Dorice, were among the first dairy farmers in the region to make the switch to organic. Also pictured here are Hardy Farms in Farmington, Maine (center) and Wenger Farm in Harrisonburg, Virginia.

We offer a full line of delicious organic products under the Horizon Organic® *brand. In 2007, Horizon Organic will introduce a super-premium organic ice cream, made with 100% organic milk and available in six mouth-watering flavors. We also plan to introduce* Horizon Organic Milk Plus DHA *– an Omega-3 fatty acid that promotes heart health and healthy development of the brain, nervous system and retina.*

We're Focused on Value:
Leading the Organic Evolution

Horizon Organic enjoyed another year of outstanding growth in 2006. Sales of *Horizon Organic®* milk increased 24%. With a 45% market share, *Horizon Organic* remains the category leader.

Growing Demand

Demand for organic dairy products continues to grow at a rapid pace, and we think there is plenty of opportunity for significant additional growth. According to industry research, only about 3% of American households currently buy organic milk, but another 29% have expressed interest. In 2007, we plan to focus our efforts on growing demand for our *Horizon Organic* products, in part through new product offerings and expanded distribution. We also will continue our efforts to educate consumers about the benefits of certified organic products through increased marketing and through our support of organizations that promote the organic mission.

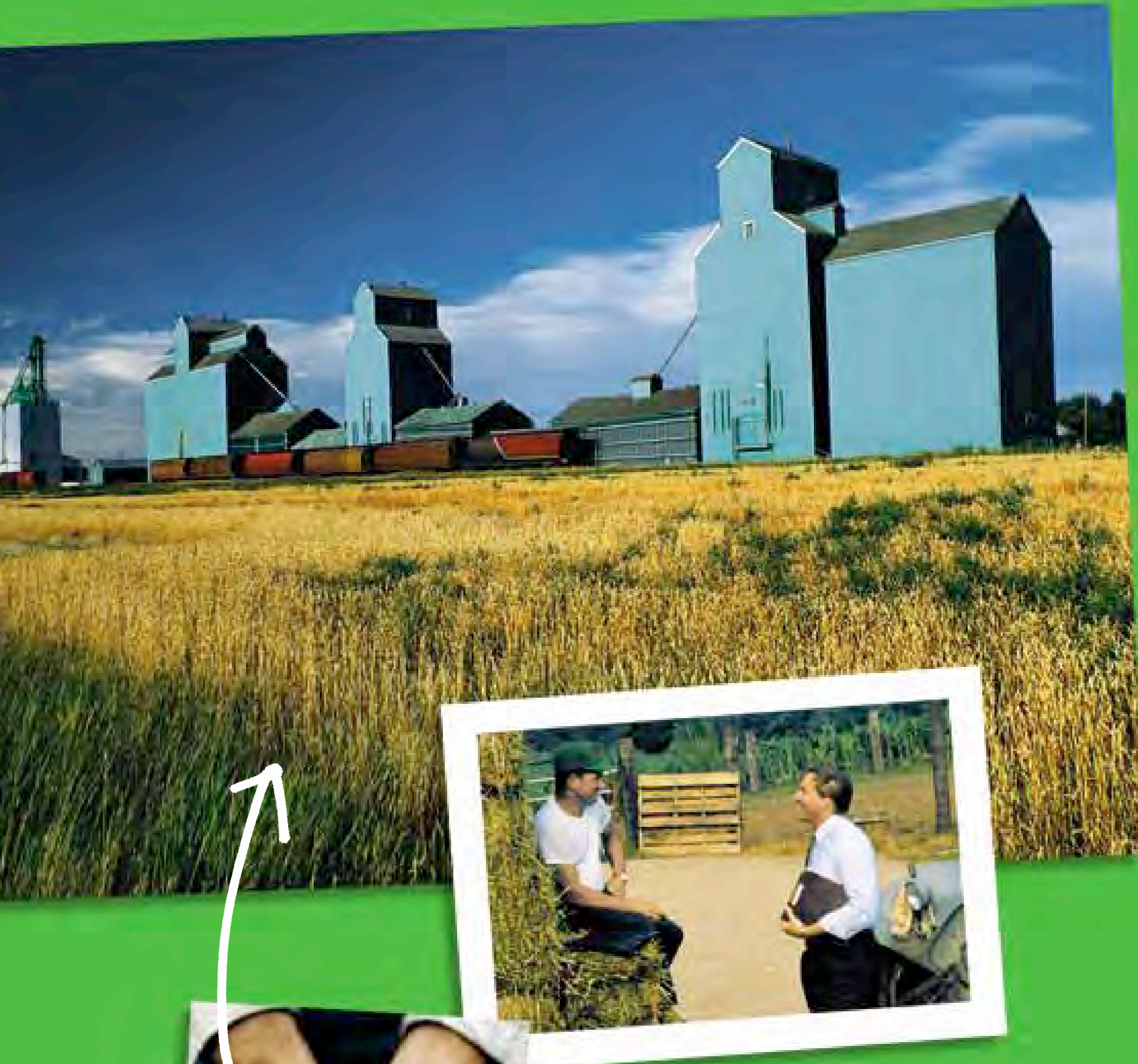
We're committed to growing the organic industry responsibly – one consumer at a time.

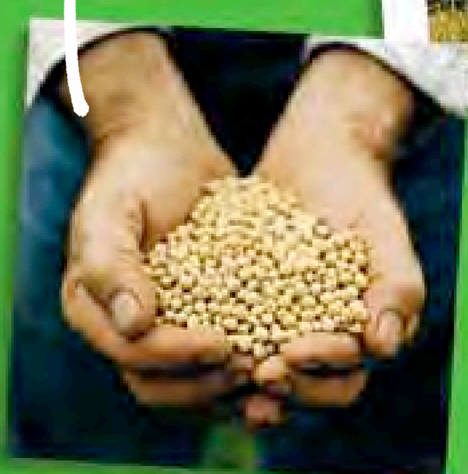
HOPE™
HORIZON ORGANIC PRODUCER EDUCATION

Our HOPE program helps family farms convert to organic by providing financial assistance and training. We have helped hundreds of American farms transition to organic, ensuring their continued livelihoods and improving our environment.

The Organic Center

We are proud to support The Organic Center, whose goal is to build greater awareness of and demand for organic products by providing scientific research on the benefits of organic to our health and the environment.





Silk® *products are made from non-genetically modified organic and natural soy beans. Organic soy beans are grown using environmentally-friendly farming practices that reduce the amount of pesticides in our air, soil and water, and actually return nutrients to the soil over time. Silk uses more than 700,000 bushels of organic soy beans each year, farmed on more than 3,000 acres of organic American farmland.*

We sell a full line of tasty Silk® *soy products, including plain and flavored soymilk, enhanced and light soymilks, soy creamers, and fruity delicious soy smoothies and yogurts. In 2006, we expanded* Silk *single-serve offerings, so today's on-the-go consumers can enjoy our rich and healthy* Silk *products whenever the craving hits.*

We're Focused on Value:
Delivering America's Leading Soy Brand

Over the past several years, we have seen enormous growth in sales of our *Silk*® soymilk products and in the overall soymilk category.

Healthy Growth

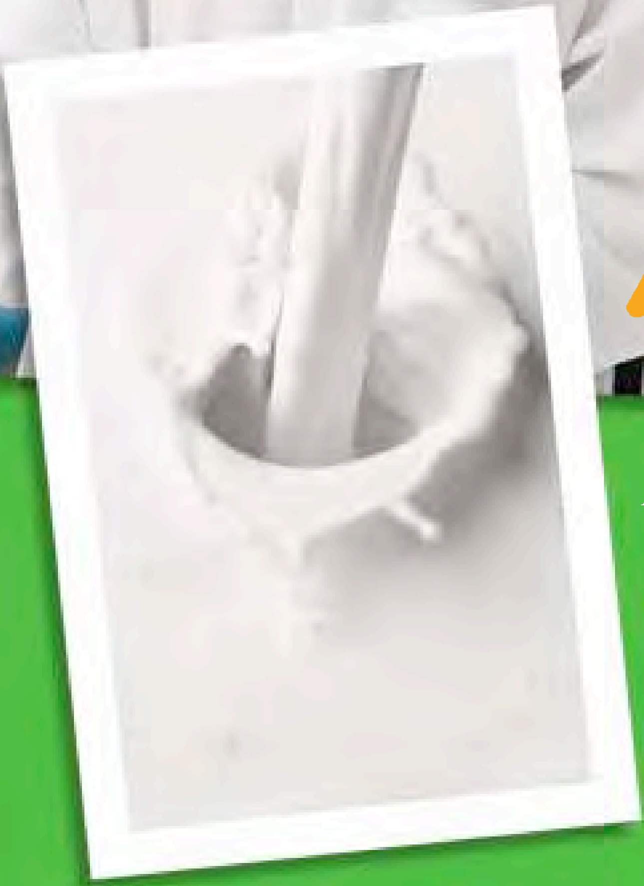
Each year, more and more consumers are turning to the health benefits of soy. According to the FDA, a diet low in saturated fat and cholesterol that includes 25 grams of soy protein a day may reduce the risk of heart disease. Soy protein may help promote bone health, alleviate symptoms of menopause and reduce risks of certain types of cancer.

We believe that there is considerably more growth potential for our *Silk* products – and we're not alone. Independent research firms have estimated that the soymilk category could increase to more than $1 billion in annual sales by 2008. This year we plan to build on our momentum as the overwhelming category leader with an increased emphasis on stimulating trial and adoption through continued targeted marketing and line extensions.

Silk is a great success story, and we think the story has only just begun.

Silk® *has been the title sponsor of the annual Farm Aid concert since 2003. Through public education and direct grants, Farm Aid supports national, regional and local efforts to build and strengthen family farms and support sustainable agriculture.*

In 2006, WhiteWave Foods again won the prestigious Green Power award from the U.S. Department of Energy and the Environmental Protection Agency for its use of renewable wind power.



David Cai, pictured above, has been a principal scientist in WhiteWave Foods' Research and Development Department since 2002. David played a key role in the development of our new Silk® Plus *line, introduced in early 2007. Laura Tewnion, pictured at left, is Director of Research and Development for Horizon Organic. Laura has been hard at work developing new products for us since 1993.*

Our Rachel's Organic® *brand was Britain's first certified organic dairy brand. Today,* Rachel's *is the fastest growing line of organic dairy products in the United Kingdom. In 2007, we look forward to introducing* Rachel's *natural line of delicious yogurts to American consumers.*

We're Focused on Value: Innovating for Your Health

As the nation's largest producer of dairy and soymilk beverages, we have a unique opportunity to meaningfully improve our profitability through brand-building and innovation. With our broad manufacturing capabilities, one-of-a-kind distribution system and leading better-for-you brands, we have the opportunity to innovate across the entire category to bring consumers the healthy food and beverage alternatives they increasingly seek.

Innovation Focus

In the past year, we have begun to take important steps toward strengthening our innovation center to benefit both the Dairy Group and WhiteWave. We have added new talent and developed an improved, more disciplined innovation strategy. We intend to further expand these capabilities to lead the charge in innovation in our categories.

We will continue to listen closely to our consumers to ensure that we deliver the wholesome, delicious products they want. By offering more winning products to our consumers, we can deliver healthier returns to our shareholders.

In 2007, we introduced two new delicious varieties of Silk® *soymilk:* Silk Plus Omega-3 DHA *and* Silk Plus Fiber. *These are the latest examples of our commitment to continuously provide consumers with more healthy choices for their healthy lifestyles.*

What Makes Dean, Dean

Millions of Happy Consumers

Financial Review

Dean Foods 2006 Annual Report

We're Focused on Our Numbers.

SELECTED FINANCIAL DATA

The following selected financial data as of and for each of the five years in the period ended December 31, 2006 has been derived from our audited Consolidated Financial Statements. Balances for 2002 through 2006 have been adjusted to remove our Leche Celta operations which have been reclassified as discontinued operations. 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)	2006	2005	2004	2003	2002
Operating data[1]:					
Net sales	$10,098,555	$10,174,718	$9,725,548	$8,146,103	$8,002,677
Cost of sales[2]	7,358,676	7,591,548	7,338,138	5,985,527	5,895,645
Gross profit	2,739,879	2,583,170	2,387,410	2,160,576	2,107,032
Operating costs and expenses:					
Selling and distribution[2]	1,648,860	1,581,028	1,472,112	1,309,498	1,262,492
General and administrative	409,225	380,490	355,772	330,751	343,355
Amortization of intangibles	5,983	6,106	5,105	3,576	6,229
Facility closing and reorganization costs	25,116	35,451	24,575	11,787	19,050
Other operating income[3]	–	–	(5,899)	(68,719)	–
Total operating costs and expenses	2,089,184	2,003,075	1,851,665	1,586,893	1,631,126
Operating income	650,695	580,095	535,745	573,683	475,906
Other (income) expense:					
Interest expense[4]	194,547	160,230	191,788	166,897	181,795
Financing charges on trust issued preferred securities	–	–	–	14,164	33,578
Equity in (earnings) losses of unconsolidated affiliates	–	–	–	(244)	7,899
Other (income) expense, net	435	(683)	(722)	(2,708)	2,953
Total other expense	194,982	159,547	191,066	178,109	226,225
Income from continuing operations before income taxes	455,713	420,548	344,679	395,574	249,681
Income taxes	175,450	163,898	138,472	159,386	94,623
Minority interest in earnings	–	–	–	–	30
Income from continuing operations	280,263	256,650	206,207	236,188	155,028
Gain (loss) on sale of discontinued operations, net of tax	(1,978)	38,763	–	–	(8,231)
Income (loss) from discontinued operations, net of tax	(52,871)	14,793	47,514	85,297	58,888
Income before cumulative effect of accounting change	225,414	310,206	253,721	321,485	205,685
Cumulative effect of accounting change, net of tax[5]	–	(1,552)	–	–	(61,519)
Net income	$ 225,414	$ 308,654	$ 253,721	$ 321,485	$ 144,166
Basic earnings per common share					
Income from continuing operations	$ 2.09	$ 1.75	$ 1.33	$ 1.63	$ 1.15
Income (loss) from discontinued operations	(0.41)	0.36	0.31	0.58	0.39
Cumulative effect of accounting change	–	(0.01)	–	–	(0.47)
Net income	$ 1.68	$ 2.10	$ 1.64	$ 2.21	$ 1.07
Diluted earnings per common share:					
Income from continuing operations	$ 2.01	$ 1.67	$ 1.28	$ 1.53	$ 1.08
Income (loss) from discontinued operations	(0.40)	0.35	0.30	0.53	0.31
Cumulative effect of accounting change	–	(0.01)	–	–	(0.38)
Net income	$ 1.61	$ 2.01	$ 1.58	$ 2.06	$ 1.01
Average common shares:					
Basic	133,938,777	146,673,322	154,635,979	145,201,412	135,031,274
Diluted	139,762,104	153,438,636	160,704,576	160,695,670	163,163,904
Other data:					
Ratio of earnings to fixed charges[6]	2.87x	3.01x	2.69x	2.89x	2.16x
Balance sheet data (at end of period):					
Total assets	$ 6,770,173	$ 7,050,884	$7,756,368	$6,992,536	$6,582,265
Long-term debt[7]	3,355,851	3,386,848	3,214,269	2,777,928	2,674,122
Other long-term liabilities	238,682	225,479	321,252	256,371	287,567
Mandatorily redeemable convertible trust issued preferred securities	–	–	–	–	585,177
Total stockholders' equity[8]	1,809,399	1,902,213	2,692,985	2,567,390	1,665,512

(1) On January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment", which requires, among its provisions, that compensation expense for equity awards be recognized over the vesting period based on their grant date fair values. In order to enhance comparability among all periods presented, we elected to adopt SFAS No. 123(R) using the modified retrospective approach. Under this transition method, the results for prior periods reflect the recognition of the compensation expense and related income tax benefit historically disclosed in our financial statements. For financial reporting purposes, share-based compensation expense is included within the same financial statement caption where the recipient's cash compensation is reported. As a result of adopting SFAS No. 123(R) using the modified retrospective approach, our net income was reduced by $18.9 million, $31.7 million, $34.2 million and $31.2 million in 2005, 2004, 2003 and 2002, respectively.

(2) In 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in the distribution of our products from cost of sales to distribution expense. The reclassification reduced cost of sales and increased distribution expense by $42.0 million, $36.2 million, $27.5 million and $22.1 million in 2005, 2004, 2003 and 2002, respectively. The reclassification had no impact on net income.

(3) Results for 2004 include a gain of $5.9 million primarily related to the settlement of litigation. Results for 2003 include a gain of $66.2 million on the sale of our frozen pre-whipped topping and frozen creamer operations and a gain of $2.5 million related to the divestiture of 11 facilities in 2001 in connection with our acquisition of Dean Holding Company.

(4) Results for 2004 include a charge of $32.6 million to write-off deferred financing costs related to the refinancing of our senior credit facility.

(5) In the fourth quarter of 2005, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 47 "Accounting for Conditional Asset Retirement Obligations". If FIN 47 had always been in effect, we would have expensed this amount for depreciation in periods prior to January 1, 2005.

(6) For purposes of calculating the ratio of earnings to fixed charges, "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.

(7) Includes the current portion of long-term debt.

(8) The balance at December 31, 2006 reflects a $14.8 million reduction related to the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)". The reduction had no impact on net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

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

Dairy Group – Our Dairy Group segment is our largest segment, with approximately 87% of our consolidated net sales in 2006. Our Dairy Group manufactures, markets and distributes a wide variety of branded and private label dairy case products, such as milk, cream, ice cream, cultured dairy products and juices to retailers, distributors, foodservice outlets, schools and governmental entities across the United States. Due to the perishable nature of the Dairy Group's products, our Dairy Group delivers the majority of its products directly to its customers' stores in refrigerated trucks or trailers that we own or lease. This form of delivery is called a "direct store delivery" or "DSD" system and we believe we have one of the most extensive refrigerated DSD systems in the United States. The Dairy Group sells its products primarily on a local or regional basis through its local and regional sales forces, although some national customer relationships are coordinated by the Dairy Group's corporate sales department. Most of the Dairy Group's customers, including its largest customer, purchase products from the Dairy Group either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

The dairy industry is a mature industry that has traditionally been characterized by slow to flat growth, low profit margins, fragmentation and excess capacity. Excess capacity resulted from the development of more efficient manufacturing techniques, the establishment of captive dairy manufacturing operations by some grocery retailers and declining demand for fluid milk products. From 1990 through 2001, the dairy industry experienced significant consolidation, led by us. Consolidation has resulted in lower operating costs, less excess capacity and greater efficiency. According to the United States Department of Agriculture ("USDA"), per capita consumption of fluid milk and cream decreased by over 10% from 1990 to the end of 2005, although total consumption has remained relatively flat over the same period due to population increases. Therefore, volume sales growth across the industry generally remains flat to modest, profit margins generally remain low and excess manufacturing capacity continues to exist. In this environment, price competition is particularly intense, as smaller processors struggle to retain enough volume to cover their fixed costs. In response to this dynamic and significant competitive pressure caused by the ongoing consolidation among food retailers, many processors, including us, are now placing an increased emphasis on product differentiation, and cost reduction in an effort to increase consumption, sales and margins.

Our Dairy Group has several competitors in each of our major product and geographic markets. Competition between dairy processors for shelf-space with retailers is based primarily on price, service and quality, while competition for consumer sales is based on a variety of factors such as brand recognition, price, taste preference and quality. Dairy products also compete with many other beverages and nutritional products for consumer sales.

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

WhiteWave Foods Company sells its products to a variety of customers, including grocery stores, club stores, natural foods stores, mass merchandisers, convenience stores and foodservice outlets. WhiteWave Foods Company sells its products through its internal sales force and through independent brokers. Most of the WhiteWave Foods Company's customers, including its largest customer, purchase products from WhiteWave Foods Company either by purchase order or pursuant to contracts that are generally terminable at will by the customer.

WhiteWave Foods Company has several competitors in each of its product markets. Competition to obtain shelf-space with retailers for a particular product is based primarily on the expected or historical sales performance of the product compared to its competitors. In some cases, WhiteWave Foods Company pays fees to retailers to obtain shelf-space for a particular product. Competition for consumer sales is based on many factors, including brand recognition, price, taste preferences and quality. Consumer demand for soy and organic foods has grown rapidly in recent years due to growing consumer confidence in the health benefits of soy and organic foods, and WhiteWave Foods Company has a leading position in the soy and organic foods category. However, our soy and organic food products compete with many other beverages and nutritional products for consumer sales.

Recent Developments

Discontinued Operations

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

On September 14, 2006, we completed the sale of our operations in Spain for net cash proceeds of approximately $96.0 million. In addition to customary indemnifications of the purchaser of the business, we retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately $19.8 million as of December 31, 2006) if certain regulatory approvals are not received with respect to a specific facility. A loss on the sale of our operations in Spain of $6.8 million (net of tax) was recognized during 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (that comprised the remainder of our Iberian operations) for approximately $11.4 million subject to regulatory approvals and working capital settlements. We completed the sale of our Portuguese operations in January 2007. No significant loss is expected on the sale.

The Iberian operations have been reclassified as discontinued operations for all periods presented.

Acquisitions

In February 2007, our Dairy Group entered into an agreement to acquire Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction will expand our cultured dairy product capabilities and add a strong regional brand. The purchase price will be approximately $130 million, including the costs of the acquisition. We expect to complete the transaction by the second quarter of 2007, subject to regulatory approval.

Management Changes

On April 27, 2006, we announced Jack F. Callahan Jr. as our Executive Vice President and Chief Financial Officer. He began his employment in May 2006. Previously, Mr. Callahan served as Senior Vice President of Corporate Strategy and Development at PepsiCo, where he oversaw all corporate strategy and merger and acquisition activity.

On November 21, 2006, we announced Harrald Kroeker as our Senior Vice President and Chief Operating Officer, Dairy Group. Previously, Mr. Kroeker served in multiple executive capacities at Pepsi Bottling Group – most recently as Vice President and General Manager, Great West Business Unit.

On December 12, 2006, we announced Bradley J. Holcomb as our Senior Vice President and Chief Procurement Officer, Dairy Group. Previously, Mr. Holcomb served as Senior Vice President of Global Materials and Supply at Royal Group Technologies Limited.

On February 22, 2007, we announced Blaine E. McPeak as our President, Horizon Organic. Previously, Mr. McPeak served as President of Kellogg Company's Wholesome Portable Breakfast and Snacks division.

Stock Repurchases

Between February 1 and December 31, 2006, we spent approximately $399.9 million to repurchase 10.0 million shares of our common stock for an average price of $39.90 per share, excluding commissions and fees. On May 3, 2006, and again on November 29, 2006 our Board of Directors authorized increases in our stock repurchase program in the aggregate amount of $600 million. At February 23, 2007, approximately $218.7 million remained available under our stock repurchase authorization.

Facility Closing and Reorganization Activities

In 2006, we recorded a charge of $25.1 million as part of our ongoing costs savings initiative. We recorded a charge of $23.0 million related to our Dairy Group operations for the closing of three Dairy Group facilities and other previously announced plans. We also recorded a charge of $2.1 million related to the previously announced reorganization of WhiteWave Foods Company. We expect to incur additional charges related to all of these restructuring plans of approximately $15.4 million, primarily in 2007. A significant portion of the 2007 charges relate to the realignment of our Dairy Group's finance and accounting organization. These charges include the following costs:

- Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions;
- Shutdown costs, including those costs necessary to prepare abandoned facilities for closure;
- Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes;
- Costs associated with the reorganization of WhiteWave Foods Company's supply chain and distribution activities; and
- Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale.

Dean Foods Company Senior Notes

On May 17, 2006, we issued $500 million aggregate principal amount of 7.0% senior unsecured notes. The senior unsecured notes mature on June 1, 2016 and interest is payable on June 1 and December 1 of each year, beginning December 1, 2006. The indenture under which we issued the senior unsecured notes does not contain financial covenants but does contain covenants that, among other things, limit our ability to incur secured indebtedness, enter into sale-leaseback transactions and engage in mergers, consolidations and sales of all or substantially all of our assets. The notes are senior unsecured obligations and are effectively subordinated to the indebtedness outstanding under our senior credit facility and any other secured debt we may incur. The notes are fully and unconditionally guaranteed by the subsidiaries that are guarantors under our senior credit facility, which are substantially all of our wholly owned U.S. subsidiaries other than our receivables securitization subsidiaries. We used all of the net proceeds from the sale of the notes to reduce a corresponding amount of borrowings under our senior credit facility.

Results of Operations

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

	Year Ended December 31					
	2006		2005		2004	
(Dollars in millions)	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	$10,098.6	100.0%	$10,174.7	100.0%	$9,725.5	100.0%
Cost of sales	7,358.7	72.9	7,591.5	74.6	7,338.1	75.5
Gross profit	2,739.9	27.1	2,583.2	25.4	2,387.4	24.5
Operating costs and expenses:						
Selling and distribution	1,648.9	16.3	1,581.0	15.5	1,472.1	15.1
General and administrative	409.2	4.1	380.5	3.7	355.8	3.7
Amortization of intangibles	6.0	0.1	6.1	0.1	5.1	0.1
Facility closing and reorganization costs	25.1	0.2	35.5	0.4	24.6	0.2
Other operating income	–	–	–	–	(5.9)	(0.1)
Total operating costs and expenses	2,089.2	20.7	2,003.1	19.7	1,851.7	19.0
Total operating income	$ 650.7	6.4%	$ 580.1	5.7%	$ 535.7	5.5%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 – Consolidated Results

Net Sales – Consolidated net sales decreased approximately 0.7% to $10.10 billion during 2006 from $10.17 billion in 2005. Net sales by segment are shown in the table below.

	Net Sales			
(Dollars in millions)	2006	2005	$ Increase/ (Decrease)	% Increase/ (Decrease)
Dairy Group	$ 8,821.0	$ 8,973.4	$(152.4)	(1.7)%
WhiteWave Foods Company	1,277.6	1,201.3	76.3	6.4
Total	$10,098.6	$10,174.7	$ (76.1)	(0.7)

The change in net sales was due to the following:

	Change in Net Sales 2006 vs. 2005		
(In millions)	Acquisitions	Pricing, Volume and Product Mix Changes	Total Increase/ (Decrease)
Dairy Group	$8.0	$(160.4)	$(152.4)
WhiteWave Foods Company	–	76.3	76.3
Total	$8.0	$ (84.1)	$ (76.1)

Net sales decreased approximately $76.1 million during 2006 compared to the prior year primarily due to lower raw milk costs in our Dairy Group, partly offset by volume growth at the Dairy Group and WhiteWave Foods Company and increased pricing at WhiteWave Foods Company.

Cost of Sales – All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs; labor costs; and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting our finished products from our manufacturing facilities to our own distribution facilities. Cost of sales decreased by approximately 3.1% to $7.36 billion in 2006 from $7.59 billion in 2005 primarily due to lower raw milk costs in our Dairy Group, partly offset by increased volumes at the Dairy Group and WhiteWave Foods Company and higher commodity costs at WhiteWave Foods Company. Our cost of sales as a percentage of net sales decreased to 72.9% in 2006 compared to 74.6% in 2005 primarily due to the impact of lower raw milk prices and higher volumes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Costs and Expenses – Our operating expenses increased approximately $86.1 million, or approximately 4.3%, during 2006 versus the prior year. Significant changes to operating expenses include the following:

- Distribution costs increased approximately $60.1 million due to increased volumes and higher fuel costs partly offset by distribution efficiencies at WhiteWave Foods Company;
- General and administrative expenses at our Dairy Group were approximately $24.2 million higher than last year, primarily due to higher information technology spending and higher salaries and benefits;
- Marketing costs increased approximately $10.2 million due to higher spending at WhiteWave Foods Company and our Dairy Group;
- Bad debt expense decreased $10.6 million compared to 2005. The expense in 2005 was higher due to the impact of Hurricane Katrina and the write-off of a receivable from a large customer; and
- Net facility closing and reorganization costs that were approximately $10.3 million lower than 2005. See Note 15 to our Consolidated Financial Statements for further information on our facility closing and reorganization activities.

Our operating expense as a percentage of net sales increased to 20.7% for 2006 as compared to 19.7% for 2005, partly due to lower net sales resulting from lower raw milk costs.

Operating Income – For the reasons noted above, operating income was $650.7 million in 2006, an increase of $70.6 million from 2005 operating income of $580.1 million. Our operating margin was 6.4% in 2006 compared to 5.7% in 2005.

Other (Income) Expense – Interest expense increased to $194.5 million in 2006 from $160.2 million in 2005 primarily due to higher interest rates, including higher interest rates on our $500 million aggregate principal amount of senior notes issued on May 17, 2006, and higher average debt outstanding.

Income Taxes – Income tax expense was recorded at an effective rate of 38.5% in 2006 compared to 39.0% in 2005. Our effective tax rate varies based on the relative earnings of our business units. In 2006, our income tax rate was positively impacted by the settlement of certain state and federal tax matters.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 – Results by Segment

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

	Year Ended December 31			
	2006		2005	
(Dollars in millions)	Dollars	Percent	Dollars	Percent
Net sales	$8,821.0	100.0%	$8,973.4	100.0%
Cost of sales	6,529.3	74.0	6,809.5	75.9
Gross profit	2,291.7	26.0	2,163.9	24.1
Operating costs and expenses	1,613.7	18.3	1,521.9	16.9
Total operating income	$ 678.0	7.7%	$ 642.0	7.2%

Our Dairy Group's net sales decreased approximately $152.4 million, or 1.7%, in 2006 versus 2005. The change in net sales from 2005 to 2006 was due to the following:

(Dollars in millions)	Dollars	Percent
2005 Net sales	$8,973.4	
Acquisitions	8.0	0.1 %
Volume	133.0	1.5
Pricing and product mix	(293.4)	(3.3)
2006 Net sales	$8,821.0	(1.7)%

The decrease in the Dairy Group's net sales was due to lower raw milk costs, partly offset by increased volumes.

The decrease in the Dairy Group's net sales due to pricing and product mix shown in the above table primarily resulted from decreased pricing due to the pass through of lower raw milk costs in 2006. In general, our Dairy Group changes the prices it charges customers for fluid dairy products on a monthly basis, as the costs of raw materials and other variable costs fluctuate. Because of competitive pressures, the price increases do not always reflect the entire increase in raw material and other input costs that we may experience. The following table sets forth the average monthly Class I "mover" and average monthly Class II minimum prices for raw skim milk and butterfat for 2006 compared to 2005:

	Year Ended December 31*		
	2006	2005	% Change
Class I raw skim milk mover(1),(2)	$7.47	$8.54	(13)%
Class I butterfat mover(1),(3)	1.34	1.76	(24)
Class II raw skim milk minimum(2),(4)	7.35	7.74	(5)
Class II butterfat minimum(3),(4)	1.33	1.72	(23)

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

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

Volume sales of all Dairy Group products, excluding the impact of acquisitions, increased 1.5% in 2006 compared to 2005. Volume sales of fresh milk, which were approximately 69% of the Dairy Group's 2006 volumes, were up approximately 1.9% for the year compared to USDA data showing a 1.0% increase in total consumption of milk in the U.S. during the year.

Our Dairy Group acquired Jilbert Dairy in July 2006, which we estimate contributed an additional $8.0 million in net sales during 2006.

Our Dairy Group's cost of sales decreased to $6.53 billion in 2006 compared to $6.81 billion in 2005 primarily due to lower raw milk costs, partly offset by increased volumes. The Dairy Group's cost of sales as a percentage of net sales decreased to 74.0% in 2006 compared to 75.9% in 2005 primarily due to the impact of lower raw milk costs and higher volumes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Dairy Group's operating expenses increased approximately $91.8 million during 2006 compared to 2005 primarily due to: (1) higher distribution costs of $64.2 million, approximately $15 million of which was due to increased fuel prices and the remaining increase was due to increased volumes, higher salaries and benefits and higher repairs and maintenance costs; (2) higher general and administrative costs of $24.2 million due to higher information technology spending and higher compensation costs and (3) higher marketing costs of $4.1 million. Increases in selling costs were more than offset by lower bad debt expense of $8.1 million compared to 2005 due to higher bad debt expense in 2005 related to the impact of Hurricane Katrina and the write-off of a receivable from a large customer. Our Dairy Group's operating expense as a percentage of net sales increased to 18.3% in 2006 from 16.9% in 2005.

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

	Year Ended December 31			
	2006		2005	
(Dollars in millions)	Dollars	Percent	Dollars	Percent
Net sales	$1,277.6	100.0%	$1,201.3	100.0%
Cost of sales	828.2	64.8	780.4	65.0
Gross profit	449.4	35.2	420.9	35.0
Operating costs and expenses	310.0	24.3	306.0	25.4
Total operating income	$ 139.4	10.9%	$ 114.9	9.6%

WhiteWave Foods Company's net sales increased by approximately $76.3 million, or 6.4%, in 2006 versus 2005. The change in net sales from 2005 to 2006 was due to the following:

(Dollars in millions)	Dollars	Percent
2005 Net sales	$1,201.3	
Volume	24.6	2.1%
Pricing and product mix	51.7	4.3
2006 Net sales	$1,277.6	6.4%

The increase in WhiteWave Foods Company's net sales was largely due to higher pricing. The two primary drivers of this increase were (1) increased selling prices in response to increased commodity costs and (2) a decline in slotting fees, couponing and certain other promotional costs that are required to be recorded as reductions of net sales.

Volume growth in our *Silk*, *Horizon Organic*, *International Delight*, *LAND O'LAKES* and *Rachel's Organic* brands was partly offset by the elimination of certain product offerings in late 2005 and early 2006. We believe increased Horizon Organic and Silk volumes were due primarily to increased consumer acceptance and increased marketing efforts.

Cost of sales for WhiteWave Foods Company increased to $828.2 million in 2006 from $780.4 million in 2005 primarily due to the impact of higher raw material costs, particularly organic raw milk and sugar, which increased cost of sales by approximately $41 million and increased volumes. The cost of sales as a percentage of net sales declined to 64.8% in 2006 from 65.0% in 2005 due to increased selling prices and improved product mix, principally driven by the product rationalization in 2006.

Operating expenses increased approximately $4.0 million in 2006 compared to the prior year primarily due to higher marketing spending of $6.1 million, higher fuel costs of $3.5 million and SAP related costs of $2.9 million, partly offset by increased distribution efficiencies.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 – Consolidated Results

Net Sales – Consolidated net sales increased approximately 4.6% to $10.17 billion during 2005 from $9.73 billion in 2004. Net sales by segment are shown in the table below.

	Net Sales			
(Dollars in millions)	2005	2004	$ Increase	% Increase
Dairy Group	$ 8,973.4	$8,683.1	$290.3	3.3%
WhiteWave Foods Company	1,201.3	1,042.4	158.9	15.2
Total	$10,174.7	$9,725.5	$449.2	4.6

The change in net sales was due to the following:

	Change in Net Sales 2005 vs. 2004		
(Dollars in millions)	Acquisitions	Pricing, Volume and Product Mix Changes	Total Increase
Dairy Group	$35.4	$254.9	$290.3
WhiteWave Foods Company	9.2	149.7	158.9
Total	$44.6	$404.6	$449.2

Net sales increased approximately $449.2 million during 2005 compared to the prior year primarily due to strong volume growth and increased pricing in the Dairy Group and WhiteWave Foods Company segments.

Cost of Sales – All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs; labor costs; and plant and equipment costs, including costs to operate and maintain our coolers and freezers. In addition, our Dairy Group includes costs associated with transporting our finished products from our manufacturing facilities to our own distribution facilities. Cost of sales increased by approximately 3.5% to $7.59 billion in 2005 from $7.34 billion in 2004 primarily due to increased volumes and increased resin and other commodity costs, partly offset by lower raw milk costs in our Dairy Group. Our cost of sales as a percentage of net sales decreased to 74.6% in 2005 compared to 75.5% in 2004 primarily due to the impact of higher volumes and efficiencies gained through our facility rationalization activities.

Operating Costs and Expenses – Our operating expenses increased approximately $151.4 million, or approximately 8.2%, during 2005 versus the prior year. Operating expenses increased primarily due to the following:

- Distribution costs increased approximately $95.2 million due to higher fuel costs and increased volumes at our Dairy Group and WhiteWave Foods Company segments;
- Incentive compensation costs at our Dairy Group increased approximately $12 million due to improved operating results;
- Bad debt expense at our Dairy Group increased approximately $9 million in 2005 due to the impact of Hurricane Katrina, the write-off of a receivable from a large customer, as well as the relatively higher level of bad debt recoveries recognized in 2004;
- Corporate expenses were approximately $10.1 million higher than in 2004, primarily due to higher professional fees of approximately $11 million, primarily related to the reorganization of our WhiteWave Foods Company, and higher compensation costs, partly offset by lower share-based compensation expense;
- Net facility closing and reorganization costs that were approximately $10.9 million higher than 2004. See Note 15 to our Consolidated Financial Statements for further information on our facility closing and reorganization activities; and
- Other operating income declined by approximately $5.9 million in 2005 compared to 2004 due to a gain recorded in 2004 related to the settlement of litigation.

Our operating expense as a percentage of net sales increased to 19.7% for 2005 as compared to 19.0% for 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Income – Operating income was $580.1 million in 2005, an increase of $44.4 million from 2004 operating income of $535.7 million. Our operating margin was 5.7% in 2005 compared to 5.5% in 2004.

Other (Income) Expense – Interest expense decreased to $160.2 million in 2005 from $191.8 million in 2004, primarily due to a charge of $32.6 million in 2004 to write-off deferred financing costs related to our senior credit facility amendment in August 2004.

Income Taxes – Income tax expense was recorded at an effective rate of 39.0% in 2005 compared to 40.2% in 2004. Our effective tax rate varies based on the relative earnings of our business units. In 2005, our income tax rate was positively impacted by a favorable tax settlement and the change in expected realization of net operating loss carryforwards. In 2004, our tax rate was negatively impacted by the write-off of deferred financing costs that were incurred in a business unit with a lower relative effective tax rate.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 – Results by Segment

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

	Year Ended December 31			
	2005		2004	
(Dollars in millions)	Dollars	Percent	Dollars	Percent
Net sales	$8,973.4	100.0%	$8,683.1	100.0%
Cost of sales	6,809.5	75.9	6,646.5	76.5
Gross profit	2,163.9	24.1	2,036.6	23.5
Operating costs and expenses	1,521.9	16.9	1,438.6	16.6
Total operating income	$ 642.0	7.2%	$ 598.0	6.9%

The Dairy Group's net sales increased approximately $290.3 million, or 3.3%, in 2005 versus 2004. The change in net sales from 2004 to 2005 was due to the following:

(Dollars in millions)	Dollars	Percent
2004 Net sales	$8,683.1	
Acquisitions	35.4	0.4%
Volume	159.4	1.8
Pricing and product mix	95.5	1.1
2005 Net sales	$8,973.4	3.3%

The increase in the Dairy Group's net sales was driven primarily by increased volumes. Volume sales of all Dairy Group products, excluding the impact of acquisitions, increased 1.8% in 2005 compared to 2004. Volume sales of fresh milk, which were approximately 68% of the Dairy Group's 2005 volumes, were up approximately 2.5% for the year compared to USDA data showing a relatively flat total consumption of milk in the U.S. during the year.

The increase in the Dairy Group's net sales due to pricing and product mix shown in the above table primarily resulted from increased pricing due to the pass through of increased fuel and packaging costs, partly offset by lower raw milk costs in 2005. In general, our Dairy Group changes the prices it charges customers for fluid dairy products on a monthly basis, as the costs of raw materials and other variable costs fluctuate. Because of competitive pressures, the price increases do not always reflect the entire increase in raw material and other input costs that we may experience. The following table sets forth the average monthly Class I "mover" and average monthly Class II minimum prices for raw skim milk and butterfat for 2005 compared to 2004:

	Year Ended December 31*		
	2005	2004	% Change
Class I raw skim milk mover(1),(2)	$8.54	$8.44	1%
Class I butterfat mover(1),(3)	1.76	1.95	(10)
Class II raw skim milk minimum(2),(4)	7.74	6.90	12
Class II butterfat minimum(3),(4)	1.72	2.06	(17)

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

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

The Dairy Group acquired Milk Products of Alabama in October 2004, which we estimate contributed an additional $35.4 million in sales during 2005.

The Dairy Group's cost of sales increased to $6.81 billion in 2005 compared to $6.65 billion in 2004 primarily due to increased volumes and an approximately $43 million increase in resin costs, partly offset by lower raw milk costs. Resin prices increased primarily due to significant supply constraints resulting from the Gulf Coast hurricanes. Resin is the primary raw material in our plastic bottles. The Dairy Group's cost of sales as a percentage of net sales decreased to 75.9% in 2005 compared to 76.5% in 2004 primarily due to the impact of higher volumes and efficiencies gained through our facility rationalization activities.

The Dairy Group's operating expenses increased approximately $83.3 million during 2005 compared to 2004 primarily due to (1) higher distribution costs of $66.7 million, $31 million of which was due to increased fuel prices and the remaining increase was driven by increased volumes; (2) higher incentive compensation costs of approximately $12 million due to improved operating results and (3) higher bad debt expense. Bad debt expense increased approximately $9 million in 2005 compared to the prior year due to the impact of Hurricane Katrina, the write-off of a receivable from a large customer, as well as the relatively higher level of bad debt recoveries recognized in 2004. The Dairy Group's operating expense as a percentage of net sales increased to 16.9% in 2005 from 16.6% in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

	Year Ended December 31			
	2005		2004	
(Dollars in millions)	Dollars	Percent	Dollars	Percent
Net sales	$1,201.3	100.0%	$1,042.4	100.0%
Cost of sales	780.4	65.0	684.8	65.7
Gross profit	420.9	35.0	357.6	34.3
Operating costs and expenses	306.0	25.4	269.9	25.9
Total operating income	$ 114.9	9.6%	$ 87.7	8.4%

WhiteWave Foods Company's net sales increased by approximately $158.9 million, or 15.2%, in 2005 versus 2004. The change in net sales from 2004 to 2005 was due to the following:

(Dollars in millions)	Dollars	Percent
2004 Net sales	$1,042.4	
Acquisitions	9.2	0.9%
Volume	100.2	9.6
Pricing and product mix	49.5	4.7
2005 Net sales	$1,201.3	15.2%

Double digit volume growth in our *Silk* and *Horizon Organic* brands, combined with somewhat slower growth in *International Delight* and *LAND O'LAKES*, was partly offset by the elimination of certain product offerings. We believe increased *Silk* and *Horizon Organic* volumes were due primarily to increased consumer acceptance and increased marketing efforts.

Higher pricing also contributed to the increase in sales. The two primary drivers of this increase were (1) increased selling prices in response to increased commodity costs and (2) a decline in slotting fees, couponing and certain other promotional costs that are required to be recorded as reductions of net sales. We also benefited from the 2004 acquisition of the *LAND O'LAKES* cream, sour cream, and whipping cream business in the Eastern part of the U.S., which we estimate added $9.2 million to our sales growth.

Cost of sales for WhiteWave Foods Company increased to $780.4 million in 2005 from $684.8 million in 2004 primarily due to increased volumes and the impact of higher raw material costs, particularly organic raw milk and organic soybeans, which increased cost of sales by approximately $26 million. Cost of sales as a percentage of net sales declined to 65.0% in 2005 from 65.7% in 2004 due to the impact of supply chain changes and product rationalization in 2005.

Operating expenses increased approximately $36.1 million in 2005 compared to the prior year primarily due to increased volumes and higher fuel costs which together contributed approximately $22 million to distribution expenses. Compensation expense also increased as a result of increased staffing levels to support the growth of our organization.

Liquidity and Capital Resources

Historical Cash Flow

During 2006, we met our working capital needs with cash flow from operations. Net cash provided by operating activities from continuing operations was $561.6 million for 2006 as compared to $541.9 million for 2005, an increase of $19.7 million. Net cash provided by operating activities from continuing operations was impacted by an increase in our working capital of $86.4 million in 2006 compared to a decrease of $23.4 million in 2005 due primarily to several large obligations that were accrued at the end of 2005 and paid early in 2006. In addition, income taxes payable decreased $11.3 million in 2006 compared to an increase of $37.1 million in 2005 due to the timing of tax payments.

Net cash used in investing activities from continuing operations was $152.3 million in 2006 compared to $90.3 million in 2005, an increase of $62.0 million. We used approximately $17.2 million for acquisitions and $237.2 million for capital expenditures in 2006 compared to $1.4 million and $287.1 million in 2005, respectively. We received cash proceeds from the sale of operations of $96.0 million in 2006 compared to $189.9 million in 2005.

We used approximately $400.1 million to repurchase our stock during 2006. Set forth in the chart below is a summary of the stock we repurchased in 2006:

Period	No. of Shares of Common Stock Repurchased	Aggregate Purchase Price[1]	Average Purchase Price per Share[1]
(Dollars in millions, except share data)			
February 2006	400,000	$ 15.4	$38.39
May 2006	2,050,800	74.4	36.27
June 2006	1,286,400	45.9	35.71
October 2006	716,100	29.8	41.65
November 2006	3,493,600	145.2	41.55
December 2006	2,075,300	89.4	43.08
	10,022,200	$400.1	39.92

(1) Includes commissions and fees.

We repaid $53.5 million of debt in 2006 compared to a net borrowing of $157.3 million in 2005.

We received approximately $32.3 million in 2006, net of minimum withholding taxes paid from cash proceeds, compared to $57.7 million in 2005 as a result of stock option exercises and employee stock purchases through our employee stock purchase plan.

Current Debt Obligations

Senior Credit Facility – Our senior credit facility provides for a $1.5 billion revolving credit facility and a $1.5 billion term loan. Both the revolving credit facility and term loan bear interest, at our election, at the base rate plus a margin that varies from 0 to 25 basis points depending on our credit ratings (as issued by Standard & Poor's and Moody's), or LIBOR plus a margin that varies from 50 to 150 basis points, depending on our credit ratings (as issued by Standard & Poor's and Moody's). The blended interest rate in effect on borrowings under the senior credit facility, including the applicable interest rate margin, was 5.99% at December 31, 2006. However, we had interest rate swap agreements in place that hedged $950.0 million of our borrowings under the senior credit facility at an average rate of 4.53%, plus the applicable interest rate margin. Interest is payable quarterly or at the end of the applicable interest period.

Principal payments are required on the term loan as follows:

- $56.3 million quarterly beginning on December 31, 2006 through September 30, 2008;
- $262.5 million quarterly beginning on December 31, 2008 through June 30, 2009; and
- A final payment of $262.5 million on the maturity date of August 13, 2009.

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

At December 31, 2006, we had outstanding borrowings of $1.76 billion under our senior credit facility (compared to $2.26 billion at December 31, 2005), including $1.44 billion in term loan borrowings and $313.5 million outstanding under the revolving line of credit. At December 31, 2006, there were $136.6 million of letters of credit under the revolving line that were issued but undrawn. As of February 23, 2007, approximately $1.20 billion was outstanding under our senior credit facility.

In addition to our senior credit facility, we also have a $600 million receivables-backed facility subject to a borrowing base formula. The receivables-backed facility had $512.5 million available and drawn at December 31, 2006. The average interest rate on this facility at December 31, 2006 was 5.68%. Approximately $488.4 million was outstanding under this facility at February 23, 2007.

Our outstanding borrowings under the senior credit facility decreased from 2005 to 2006 primarily due to our paydown of this facility as a result of our issuance of $500 million aggregate principal amount of senior notes on May 17, 2006, the proceeds of which were used to repay borrowings under our senior credit facility.

Other indebtedness outstanding at December 31, 2006 also included $600 million face value of outstanding indebtedness under Dean Holding Company's senior notes, $500 million face value of outstanding indebtedness under Dean Foods Company's senior notes and approximately $16.0 million of capital lease and other obligations.

See Note 9 to our Consolidated Financial Statements for more information about our indebtedness.

The table below summarizes our obligations for indebtedness, purchase and lease obligations at December 31, 2006. See Note 18 to our Consolidated Financial Statements for more detail about our lease and purchase obligations.

Indebtedness, Purchase and Lease Obligations	Payments Due by Period						
	Total	2007	2008	2009	2010	2011	Thereafter
(In millions)							
Senior credit facility	$1,757.3	$ 225.0	$431.3	$1,101.0	$ –	$ –	$ –
Dean Foods Company senior notes(1)	500.0	–	–	–	–	–	500.0
Subsidiary senior notes(1)	600.0	250.0	–	200.0	–	–	150.0
Receivables-backed facility	512.5	–	–	512.5	–	–	–
Capital lease obligations and other	16.0	8.6	1.6	1.6	1.7	1.7	0.8
Purchasing obligations(2)	602.3	310.4	106.2	60.0	41.7	8.2	75.8
Operating leases	489.4	107.0	95.7	85.7	68.1	49.5	83.4
Interest payments(3)	762.2	201.5	169.6	85.5	45.3	45.3	215.0
Total	$5,239.7	$1,102.5	$804.4	$2,046.3	$156.8	$104.7	$1,025.0

(1) Represents face value.
(2) Primarily represents commitments to purchase minimum quantities of raw materials used in our production processes, including organic soybeans and organic raw milk. We enter into these contracts from time to time to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.
(3) Includes fixed rate interest obligations as well as interest on our variable rate debt based on the rates and balances in effect at December 31, 2006. Interest that may be due in the future on the variable rate portion of our senior credit facility and receivables-backed facility will vary based on the interest rate in effect at the time and the borrowings outstanding at the time.

Other Long-Term Liabilities

We offer pension benefits through various defined benefit pension plans and also offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing non-contributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates. For example, these costs are impacted by actual employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plan and earnings on plan assets. Our pension plan assets are primarily made up of equity and fixed income investments. Changes made to the provisions of the plan also may impact current and future pension costs. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased or decreased pension costs in future periods.

Pension and postretirement costs also may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the benefit obligation and annual periodic pension costs.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employer's Accounting for Postretirement Benefits", changes in obligations associated with these factors may not be immediately recognized as pension costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. As such, significant portions of pension costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants. In 2006, we recorded non-cash pension expense of $8.1 million, of which $7.7 million was attributable to periodic expense and $350,000 was attributable to settlements compared to a total of $11.5 million in 2005, of which $3.5 million was attributable to settlements. These amounts were determined in accordance with the provisions of SFAS No. 87, SFAS No. 106 and SFAS No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

The assumed discount rate used to determine plan obligations was 5.85% and 5.75% at December 31, 2006 and 2005, respectively. In order to select a discount rate for purposes of valuing the plan obligations and fiscal year-end disclosure, an analysis is performed in which the duration of projected cash flows from defined benefit and retiree health care plans are matched with a yield curve based on an appropriate universe of high-quality corporate bonds that are available. We use the results of the yield curve analysis to select the discount rate that matches the duration and payment stream of the benefits in each plan. In selecting the assumed rate of return on plan assets, we consider past performance and economic forecasts for the types of investments held by the plan, as well as our investment allocation policy and the effect of periodic target asset allocation rebalancing. We rebalance the investments when the allocation is not within the target range. The results are adjusted for the payment of reasonable expenses of the plan from plan assets. We believe these assumptions are appropriate based upon the mix of investments and the long-term nature of the plans' investments. Plan asset returns were $24.3 million in 2006, a $10.2 million increase from plan asset returns of $14.1 million in 2005. Net periodic pension expense for our plans is expected to increase in 2007 to approximately $9.5 million. Based on current projections, 2007 funding requirements will be approximately $23.2 million as compared to $37.5 million for 2006. The postretirement benefit plans are not funded. Based on current projections, 2007 cash requirements to pay benefits for our other postretirement benefit obligations will remain at approximately $2.4 million, the same as the 2006 cash requirements.

See Notes 13 and 14 to our Consolidated Financial Statements for information regarding retirement plans and other postretirement benefits.

Other Commitments and Contingencies

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

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

- certain indemnification obligations related to businesses that we have divested;
- certain lease obligations, which require us to guarantee the minimum value of the leased asset at the end of the lease; and
- selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses.

See Note 18 to our Consolidated Financial Statements for more information about our commitments and contingent obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Future Capital Requirements

During 2007, we intend to invest a total of approximately $250 million in capital expenditures primarily for our existing manufacturing facilities and distribution capabilities. We intend to fund these expenditures using cash flow from operations and borrowings under our senior credit facility. We intend to spend this amount approximately as follows:

Operating Division *(In millions)*	Amount
Dairy Group	$165
WhiteWave Foods Company	80
Corporate	5
Total	$250

We expect that cash flow from operations and borrowings under our senior credit facility will be sufficient to meet our requirements for our existing businesses for the foreseeable future. As of February 23, 2007, approximately $1.20 billion was available for future borrowings under our senior credit facility.

Known Trends and Uncertainties

Prices of Raw Materials and Other Inputs

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

Another significant raw material used by our Dairy Group is resin, which is used to make plastic bottles. We purchase approximately 27 million pounds of resin and bottles per month. Resin is a petroleum-based product and the price of resin is subject to fluctuations based on changes in crude oil prices. Our Dairy Group purchases approximately four million gallons of diesel fuel per month to operate our extensive direct store delivery system.

In general, our Dairy Group changes the prices that it charges for Class I dairy products on a monthly basis, as the costs of raw milk, packaging, fuel and other materials fluctuate. Prices for some Class II products are also changed monthly while others are changed from time to time as circumstances warrant. However, there can be a lag between the time of a raw material cost increase or decrease and the effectiveness of a corresponding price change to our customers, especially in the case of Class II butterfat because Class II butterfat prices for each month are not announced by the government until after the end of that month. Also, in some cases we are competitively or contractually constrained with the means and timing of implementing price changes. These factors can cause volatility in our earnings. Our sales and operating profit margin fluctuate with the price of our raw materials and other inputs.

In 2005, prices for raw skim milk, butterfat and cream remained high. In 2006, prices for raw skim milk, butterfat and cream declined. We expect raw milk, butterfat and cream prices to increase in 2007. However, raw milk, butterfat and cream prices are difficult to predict and we change our forecasts frequently based on current market activity.

During the first nine months of 2006, the prices of resin and fuel increased before decreasing over the last three months of the year. As resin supplies have from time to time been insufficient to meet demand, we are undertaking all reasonable measures to attempt to secure an adequate resin supply; however, there can be no assurance that we will always be successful in our attempts. We expect prices of both resin and diesel fuel to fluctuate throughout 2007.

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

Significant raw materials used in our products include organic raw milk and sugar. We obtain our supply of organic raw milk by entering into one to two year agreements with farmers pursuant to which the farmers agree to sell us specified quantities of organic raw milk for fixed prices for the duration of the agreement. We also source approximately 20% of our organic raw milk supply from our own farms. In the recent past, the industry-wide demand for organic raw milk has generally exceeded supply, resulting in our inability to fully meet customer demand. However, we expect that our efforts to foster increased supply and overall industry supply growth will ease the historical shortfall in supply over the near term. We are currently taking steps to increase consumer demand for our products to avoid a meaningful oversupply of raw organic milk; however, there can be no assurance that the supply of raw organic milk in the market will not exceed demand in an amount that could exert downward pricing pressure on the sale of our products and negatively impact our profitability. We also experienced an increase in organic sugar costs in 2006. We have entered into supply agreements for organic sugar, which we believe will meet our needs in 2007.

Competitive Environment

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

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

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

Tax Rate

In 2006, our tax rate on continuing operations was 38.5%. We estimate the effective tax rate for 2007 will be approximately 39%. Changes in the relative profitability of our operating segments, as well as changes to federal and state tax laws may cause the rate to change from historical rates.

Critical Accounting Policies

"Critical accounting policies" are defined as those that are both most important to the portrayal of a company's financial condition and results, and that require our most difficult, subjective or complex judgments. In many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles with no need for the application of our judgment. In certain circumstances, however, the preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles requires us to use our judgment to make certain estimates and assumptions. These estimates 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 net sales and expenses during the reporting period. We have identified the policies described below as our critical accounting policies. See Note 1 to our Consolidated Financial Statements for a detailed discussion of these and other accounting policies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Accounts Receivable – We provide credit terms to customers generally ranging up to 30 days, perform ongoing credit evaluations of our customers and maintain allowances for estimated credit losses. As these factors change, our estimates change and we could accrue different amounts for doubtful accounts in different accounting periods. At December 31, 2006, our allowance for doubtful accounts was approximately $17.1 million, or approximately 2.1% of the accounts receivable balance at December 31, 2006. The allowance for doubtful accounts, expressed as a percent of accounts receivable, was approximately 2.6% at December 31, 2005. Each 0.10% change in the ratio of allowance for doubtful accounts to accounts receivable would impact bad debt expense by approximately $816,000.

Employee Benefit Plan Costs – We provide a range of benefits including pension and postretirement benefits to our eligible employees and retirees. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, such as discount rates, assumed investment rates of return, compensation increases, employee turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate. As required by generally accepted accounting principles, the effect of the modifications is generally recorded and amortized over future periods. Different assumptions could result in the recognition of different amounts of expense over different periods of time.

Substantially all of our qualified pension plans are consolidated into one master trust. We retained investment consultants to assist our Investment Committee with the transition of the plans' assets to the master trust and to help our Investment Committee formulate a long-term investment policy for the master trust. Our current asset mix guidelines under the investment policy target equities at 65% to 75% of the portfolio and fixed income at 25% to 35%. At December 31, 2006, our master trust was invested as follows: equity securities and limited partnerships – 71%; fixed income securities – 26%; and cash and cash equivalents – 3%.

We determine our expected long-term rate of return based on our expectations of future returns for the pension plan's investments based on target allocations of the pension plan's investments. Additionally, we consider the weighted-average return of a capital markets model that was developed by the plans' investment consultants and historical returns on comparable equity, debt and other investments. The resulting weighted-average expected long-term rate of return on plan assets is 8.0% for the year ended December 31, 2006 compared to 8.5% for the year ended December 31, 2005.

While a number of the key assumptions related to our qualified pension plans are long-term in nature, including assumed investment rates of return, compensation increases, employee turnover rates and mortality rates, generally accepted accounting principles require that our discount rate assumption reflect current market conditions. As such, our discount rate likely will change more frequently than in prior years. The discount rate utilized to determine our estimated future benefit obligations increased from 5.75% at December 31, 2005 to 5.85% at December 31, 2006.

A 0.25% reduction in the assumed rate of return on plan assets or a 0.25% reduction in the discount rate would increase our annual pension expense by approximately $585,000 and $363,000, respectively. In addition, a 1% increase in assumed healthcare costs trends would increase the aggregate annual post retirement medical expense by approximately $419,000.

Goodwill and Intangible Assets – Our goodwill and intangible assets totaled $3.51 billion as of December 31, 2006 resulting primarily from acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including trademarks and customer-related intangible assets, with any remaining purchase price recorded as goodwill. Goodwill and trademarks with indefinite lives are not amortized.

We believe that a trademark has an indefinite life if it has sufficient market share and a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. If these perpetual trademark criteria are not met, the trademarks are amortized over their expected useful lives, which generally range from five to 40 years. Determining the expected life of a trademark requires considerable management judgment and is based on an evaluation of a number of factors including the competitive environment, market share, trademark history and anticipated future trademark support.

Perpetual trademarks and goodwill are evaluated for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual trademark is impaired if its book value exceeds its estimated fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its estimated fair value. Currently, our reporting units are our two segments. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value based on its discounted future cash flows.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows.

Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

We did not recognize any impairment charges in continuing operations for goodwill during 2006. As a result of the decision to close a facility and shift customers from one regional brand to another, we recognized an impairment charge of approximately $700,000 on a perpetual trademark for a regional brand during 2006.

Income Taxes – Deferred taxes are recognized for future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Future business results may affect deferred tax liabilities or the valuation of deferred tax assets over time. We estimate our probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretations of tax regulations in the jurisdictions in which we operate. These judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to or further interpretations of regulations. If such changes take place, there is a risk that our tax rate may increase or decrease in any period, which could have an impact on our earnings.

Insurance Accruals – We retain selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third-party carriers with high deductible limits. In other areas, we are self-insured with stop-loss coverages. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of variables including claims history and expected trends. These loss development factors are developed by us in consultation with external insurance brokers and actuaries. At December 31, 2006 and 2005, we recorded accrued liabilities related to these retained risks of $172.9 million and $161.2 million, respectively, including both current and long-term liabilities.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements – Effective October 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)". SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the overfunded or underfunded status of its postretirement benefit plans (other than multiemployer plans) as an asset or liability in its statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of its year-end statement of financial position, and provide additional disclosures. The effect of adopting SFAS No. 158 on our financial condition at December 31, 2006 has been included in our Consolidated Financial Statements. SFAS No. 158 did not have an effect on our financial condition at December 31, 2005 or 2004. SFAS No. 158's provisions regarding the change in measurement date of postretirement benefit plans are not applicable as we already use a measurement date of December 31 for our postretirement benefit plans. See Notes 1, 13 and 14 to our Consolidated Financial Statements for further discussion of our postretirement benefit plans and the effect of adopting SFAS No. 158 on our Consolidated Financial Statements.

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

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

In order to enhance comparability among all periods presented, we elected to adopt SFAS No. 123(R) using the modified retrospective approach. Under this transition method, the results for prior periods reflect the recognition of the compensation expense and related income tax benefit historically disclosed in our financial statements.

For financial reporting purposes, share-based compensation expense is included within the same financial statement caption where the recipient's cash compensation is reported, and is classified as a corporate item for business segment reporting. See Notes 1 and 10 to our Consolidated Financial Statements for further discussion of our share-based compensation plans and the effect of adopting SFAS No. 123(R) on our Consolidated Financial Statements.

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

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

Recently Issued Accounting Pronouncements – The Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes" in June 2006. This interpretation clarifies the accounting for income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We are currently evaluating the impact of FIN No. 48 on our Consolidated Financial Statements. This interpretation will become effective for us in the first quarter of 2007.

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

The FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" in February 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Fluctuations

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

The following table summarizes our various interest rate swap agreements as of December 31, 2006:

Fixed Interest Rates	Expiration Date	Notional Amounts
(In millions)		
4.81% to 4.84%	December 2007	$500
4.07% to 4.27%	December 2010	450

The following table summarizes our various interest rate swap agreements as of December 31, 2005:

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

We are exposed to market risk under these arrangements due to the possibility of interest rates on our senior credit facility falling below the rates on our interest rate derivative agreements. We recorded $7.5 million of interest income, net of taxes, during 2006 as a result of interest rates on our variable rate debt rising above the agreed-upon interest rate on our existing swap agreements. Credit risk under these arrangements is remote because the counter parties to our interest rate derivative agreements are major financial institutions.

A majority of our debt obligations are currently at variable rates. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in interest rates. As of December 31, 2006, the analysis indicated that such interest rate movement would not have a material effect on our financial position, results of operations or cash flows. However, actual gains and losses in the future may differ materially from that analysis based on changes in the timing and amount of interest rate movement and our actual exposure and hedges.

Foreign Currency

We are exposed to foreign currency risk due to operating cash flows that are denominated in foreign currencies. Our most significant foreign currency exposure relates to the British pound. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates. As of December 31, 2006 and 2005, the analysis indicated that such foreign currency exchange rate change would not have a material effect on our financial position, results of operations or cash flows.

Butterfat

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dean Foods Company
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Dean Foods Company and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, such consolidated financial statements present fairly, in all material respects, the financial position of Dean Foods Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2006 the Company changed its method of accounting for share based compensation to adopt Statement of Financial Accounting Standards No. 123(R) and its method of accounting for defined benefit pension and other postretirement plans to adopt Statement of Financial Accounting Standards No. 158. As discussed in Note 1 to the consolidated financial statements, in 2005 the Company changed its method of accounting for conditional asset retirement obligations to adopt Financial Accounting Standards Board Interpretation No. 47.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Dallas, Texas
February 28, 2007

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	December 31 2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 31,140	$ 24,456
Receivables, net of allowance for doubtful accounts of $17,070 and $22,065	799,038	818,431
Inventories	360,754	355,004
Deferred income taxes	117,991	137,776
Prepaid expenses and other current assets	70,367	65,526
Total current assets	1,379,290	1,401,193
Property, plant and equipment, net	1,786,907	1,776,801
Goodwill	2,943,139	2,922,940
Identifiable intangible and other assets	640,857	648,223
Assets of discontinued operations	19,980	301,727
Total	$6,770,173	$7,050,884
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 822,122	$ 926,067
Income taxes payable	30,776	34,541
Current portion of long-term debt	483,658	65,326
Total current liabilities	1,336,556	1,025,934
Long-term debt	2,872,193	3,321,522
Deferred income taxes	504,552	449,707
Other long-term liabilities	238,682	225,479
Liabilities of discontinued operations	8,791	126,029
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, none issued		
Common stock 128,371,104 and 134,209,190 shares issued and outstanding, with a par value of $0.01 per share	1,284	1,342
Additional paid-in capital	624,475	922,791
Retained earnings	1,229,427	1,004,013
Accumulated other comprehensive loss	(45,787)	(25,933)
Total stockholders' equity	1,809,399	1,902,213
Total	$6,770,173	$7,050,884

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)	Year Ended December 31 2006	2005	2004
Net sales	$10,098,555	$10,174,718	$9,725,548
Cost of sales	7,358,676	7,591,548	7,338,138
Gross profit	2,739,879	2,583,170	2,387,410
Operating costs and expenses:			
Selling and distribution	1,648,860	1,581,028	1,472,112
General and administrative	409,225	380,490	355,772
Amortization of intangibles	5,983	6,106	5,105
Facility closing and reorganization costs	25,116	35,451	24,575
Other operating income	–	–	(5,899)
Total operating costs and expenses	2,089,184	2,003,075	1,851,665
Operating income	650,695	580,095	535,745
Other (income) expense:			
Interest expense	194,547	160,230	191,788
Other (income) expense, net	435	(683)	(722)
Total other expense	194,982	159,547	191,066
Income from continuing operations before income taxes	455,713	420,548	344,679
Income taxes	175,450	163,898	138,472
Income from continuing operations	280,263	256,650	206,207
Gain (loss) on sale of discontinued operations, net of tax	(1,978)	38,763	–
Income (loss) from discontinued operations, net of tax	(52,871)	14,793	47,514
Income before cumulative effect of accounting change	225,414	310,206	253,721
Cumulative effect of accounting change, net of tax	–	(1,552)	–
Net income	$ 225,414	$ 308,654	$ 253,721
Average common shares:			
Basic	133,938,777	146,673,322	154,635,979
Diluted	139,762,104	153,438,636	160,704,576
Basic earnings per common share:			
Income from continuing operations	$ 2.09	$ 1.75	$ 1.33
Income (loss) from discontinued operations	(0.41)	0.36	0.31
Cumulative effect of accounting change	–	(0.01)	–
Net income	$ 1.68	$ 2.10	$ 1.64
Diluted earnings per common share:			
Income from continuing operations	$ 2.01	$ 1.67	$ 1.28
Income (loss) from discontinued operations	(0.40)	0.35	0.30
Cumulative effect of accounting change	–	(0.01)	–
Net income	$ 1.61	$ 2.01	$ 1.58

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance, January 1, 2004	154,993,214	$1,550	$1,661,443	$ 934,251	$(29,854)	$2,567,390	
Issuance of common stock	3,539,783	35	75,872	–	–	75,907	
Horizon Organic stock option conversion	–	–	20,635	–	–	20,635	
Share-based compensation expense	–	–	48,193	–	–	48,193	
Purchase and retirement of treasury stock	(9,310,000)	(93)	(296,925)	–	–	(297,018)	
Net income	–	–	–	253,721	–	253,721	$253,721
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments	–	–	–	–	(717)	(717)	(717)
Amounts reclassified to income statement related to derivatives	–	–	–	–	20,723	20,723	20,723
Cumulative translation adjustment	–	–	–	–	17,313	17,313	17,313
Minimum pension liability adjustment	–	–	–	–	(13,162)	(13,162)	(13,162)
Comprehensive income							$277,878
Balance, December 31, 2004	149,222,997	1,492	1,509,218	1,187,972	(5,697)	2,692,985	
Issuance of common stock	3,867,493	39	73,195	–	–	73,234	
Share dividend of TreeHouse common stock	–	–	–	(492,613)	–	(492,613)	
Share-based compensation expense	–	–	40,067	–	–	40,067	
Purchase and retirement of treasury stock	(18,881,300)	(189)	(699,689)	–	–	(699,878)	
Net income	–	–	–	308,654	–	308,654	$308,654
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments	–	–	–	–	11,290	11,290	11,290
Amounts reclassified to income statement related to derivatives	–	–	–	–	8,510	8,510	8,510
Cumulative translation adjustment	–	–	–	–	(28,220)	(28,220)	(28,220)
Minimum pension liability adjustment	–	–	–	–	(11,816)	(11,816)	(11,816)
Comprehensive income							$288,418
Balance, December 31, 2005	134,209,190	1,342	922,791	1,004,013	(25,933)	1,902,213	
Issuance of common stock	4,184,114	42	64,775	–	–	64,817	
Share-based compensation expense	–	–	36,871	–	–	36,871	
Purchase and retirement of treasury stock	(10,022,200)	(100)	(399,962)	–	–	(400,062)	
Net income	–	–	–	225,414	–	225,414	$225,414
Other comprehensive income (Note 12):							
Change in fair value of derivative instruments	–	–	–	–	8,737	8,737	8,737
Amounts reclassified to income statement related to derivatives	–	–	–	–	(7,455)	(7,455)	(7,455)
Cumulative translation adjustment	–	–	–	–	(10,336)	(10,336)	(10,336)
Minimum pension liability adjustment	–	–	–	–	4,003	4,003	4,003
Comprehensive income							$220,363
Adjustment to pension and other postretirement liabilities related to adoption of SFAS No. 158	–	–	–	–	(14,803)	(14,803)	
Balance, December 31, 2006	128,371,104	$1,284	$ 624,475	$1,229,427	$(45,787)	$1,809,399	

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31 2006	2005	2004
Cash flows from operating activities:			
Net income	$ 225,414	$ 308,654	$ 253,721
Loss (income) from discontinued operations	52,871	(14,793)	(47,514)
Loss (gain) on sale of discontinued operations	1,978	(38,763)	–
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	227,682	214,630	202,289
Share-based compensation expense	36,871	40,067	48,193
Loss on disposition of assets	7,841	1,525	4,093
Cumulative effect of accounting change	–	1,552	–
Write-down of impaired assets	13,589	11,297	5,385
Deferred income taxes	66,994	34,141	124,641
Costs related to early extinguishment of debt	–	–	32,613
Other	3,401	(2,700)	236
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	23,317	(53,618)	(64,816)
Inventories	(5,226)	(10,427)	(49,863)
Prepaid expenses and other assets	12,442	24,359	(2,769)
Accounts payable and accrued expenses	(116,945)	63,068	(80,900)
Income taxes payable	11,323	(37,054)	(11,694)
Net cash provided by continuing operations	561,552	541,938	413,615
Net cash provided by (used in) discontinued operations	(334)	13,838	115,111
Net cash provided by operating activities	561,218	555,776	528,726
Cash flows from investing activities:			
Additions to property, plant and equipment	(237,242)	(287,129)	(301,186)
Cash outflows for acquisitions	(17,244)	(1,378)	(378,164)
Net proceeds from divestitures	95,982	189,862	–
Proceeds from sale of fixed assets	6,190	8,357	10,028
Net cash used in continuing operations	(152,314)	(90,288)	(669,322)
Net cash used in discontinued operations	(15,151)	(27,432)	(77,249)
Net cash used in investing activities	(167,465)	(117,720)	(746,571)
Cash flows from financing activities:			
Proceeds from issuance of debt	498,020	275,900	1,642,000
Repayment of debt	(551,473)	(118,554)	(1,222,630)
Payments of deferred financing costs	(6,974)	(4,279)	(9,801)
Issuance of common stock	32,311	57,718	61,969
Tax savings on share-based compensation	31,211	20,614	18,527
Redemption of common stock	(400,062)	(699,878)	(297,018)
Net cash provided by (used in) continuing operations	(396,967)	(468,479)	193,047
Net cash provided by discontinued operations	9,898	29,522	18,847
Net cash provided by (used in) financing activities	(387,069)	(438,957)	211,894
Increase (decrease) in cash and cash equivalents	6,684	(901)	(5,951)
Cash and cash equivalents, beginning of period	24,456	25,357	31,308
Cash and cash equivalents, end of period	$ 31,140	$ 24,456	$ 25,357

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

1. Summary of Significant Accounting Policies

Nature of Our Business – We are a leading food and beverage company. Our Dairy Group is the largest processor and distributor of milk and various other dairy products in the United States. The Dairy Group sells its products under a variety of local and regional brands and under private labels. Our WhiteWave Foods Company manufactures, develops, markets and sells a variety of nationally branded soy, dairy and dairy-related products, such as *Silk*® soymilk and cultured soy products, *Horizon Organic*® dairy products, *International Delight*® coffee creamers, *LAND O'LAKES*® creamers and fluid dairy products and *Rachel's Organic*® dairy products.

Basis of Presentation – Our Consolidated Financial Statements include the accounts of our wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

On September 14, 2006, we completed the sale of our operations based in Spain. The sale of our remaining Iberian operations was completed in January 2007 following the completion of Portuguese regulatory proceedings. In our Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004, the Iberian operations have been reclassified as discontinued operations.

On June 27, 2005, we completed the spin-off ("Spin-off") of our indirect majority-owned subsidiary TreeHouse Foods, Inc. ("TreeHouse"). Immediately prior to the Spin-off, we transferred to TreeHouse (1) the businesses previously conducted by our Specialty Foods Group segment, (2) the *Mocha Mix*® and *Second Nature*® businesses previously conducted by WhiteWave Foods Company and (3) the foodservice salad dressings businesses previously conducted by the Dairy Group and WhiteWave Foods Company. In August 2005, we completed the sale of our *Marie's*® dips and dressings and *Dean's*® dips businesses to Ventura Foods. In our Consolidated Financial Statements for the years ended December 31, 2005 and 2004, the businesses transferred to TreeHouse and the Marie's dips and dressings and Dean's dips businesses have been reclassified as discontinued operations.

Use of Estimates – The preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles ("GAAP") requires us to use our judgment 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 net sales and expenses during the reporting period. Actual results could differ from these estimates under different assumptions or conditions.

Cash Equivalents – We consider temporary cash investments with an original maturity of three months or less to be cash equivalents.

Inventories – Inventories are stated at the lower of cost or market. Our products are valued using the first-in, first-out ("FIFO") method. 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, plus 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 calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Asset	Useful Life
Buildings and improvements	7 to 40 years
Machinery and equipment	3 to 20 years

We perform impairment tests when circumstances indicate that the carrying value may not be recoverable. Capitalized leases 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Intangible and Other Assets – Identifiable intangible assets are amortized over their estimated useful lives as follows:

Asset	Useful Life
Customer relationships	Straight-line method over 5 to 15 years
Customer supply contracts	Straight-line method over the terms of the agreements
Trademarks/trade names	Straight-line method over 10 to 40 years
Noncompetition agreements	Straight-line method over the terms of the agreements
Deferred financing costs	Interest method over the terms of the related debt

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill and other intangible assets determined to have indefinite useful lives are not amortized. Instead, we conduct impairment tests on our goodwill, trademarks and other intangible assets with indefinite lives annually and when circumstances indicate that the carrying value may not be recoverable. To determine whether an impairment exists, we use present value techniques.

Foreign Currency Translation – The financial statements of our foreign subsidiaries are translated to U.S. dollars in accordance with the provisions of 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 that 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.

Share-Based Compensation – In accordance with SFAS No. 123(R), "Share-Based Payment", share-based compensation expense is recognized for equity awards over the vesting period based on their grant date fair value. The fair value of option awards is estimated at the date of grant using the Black-Scholes valuation model. The fair value of restricted stock unit awards is equal to the closing price of our stock on the date of grant. Compensation expense is recognized only for equity awards expected to vest. We estimate forfeitures at the date of grant based on the Company's historical experience and future expectations. Share-based compensation expense is included within the same financial statement caption where the recipient's cash compensation is reported and is classified as a corporate item for business segment reporting.

Sales Recognition and Accounts Receivable – Sales are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been shipped to the customer and there is a reasonable assurance of collection of the sales proceeds. In accordance with Emerging Issues Task Force ("EITF") 01-09, "Accounting for Consideration Given by a Vendor to a Customer," sales are reduced by certain sales incentives, some of which are recorded by estimating expense based on our historical experience. 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. Estimated product returns, which have not been material, are deducted from sales at the time of shipment.

Income Taxes – All of our wholly-owned U.S. operating subsidiaries are included in our U.S. federal consolidated tax return. In addition, our proportional share of the operations of our former majority-owned subsidiaries and certain of our equity method affiliates, all of which are organized as limited liability companies or limited partnerships, are included in our consolidated tax return. Our 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. Other foreign earnings are expected to be reinvested indefinitely. At December 31, 2006, no provision had been made for U.S. federal or state income tax on approximately $11 million of accumulated foreign earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Deferred income taxes are provided for temporary differences between amounts recorded 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 carry forwards, are evaluated based on the guidelines for realization and are reduced by a valuation allowance if deemed necessary.

Advertising Expense – Advertising expense is comprised of media, agency, coupon, trade shows and other promotional expenses. 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 $113.5 million in 2006, $93.6 million in 2005 and $114.1 million in 2004. Additionally, prepaid advertising costs were $3.3 million and $4.9 million at December 31, 2006 and 2005, respectively.

Shipping and Handling Fees – Our shipping and handling costs are included in both cost of sales and selling and distribution expense, depending on the nature of such costs. Shipping and handling costs included in cost of sales reflect inventory warehouse costs and product loading and handling costs. Our Dairy Group includes costs associated with transporting finished products from our manufacturing facilities to our own distribution warehouses within cost of sales while WhiteWave Foods Company includes these costs in selling and distribution expense. Shipping and handling costs included in selling and distribution expense consist primarily of route delivery costs for both company-owned delivery routes and independent distributor routes, to the extent that such independent distributors are paid a delivery fee, and the cost of shipping products to customers through third party carriers. Shipping and handling costs that were recorded as a component of selling and distribution expense were approximately $1.28 billion, $1.22 billion and $1.13 billion during 2006, 2005 and 2004, respectively.

Insurance Accruals – We retain selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third party carriers with high deductible limits. In other areas, we are self-insured with stop-loss coverages. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of factors including claims history and expected trends. These loss development factors are developed by us in consultation with external insurance brokers and actuaries.

Facility Closing and Reorganization Costs – We have an on-going facility closing and reorganization strategy. We record facility closing and reorganization charges when we have identified a facility for closure or other reorganization opportunity, developed a plan and notified the affected employees.

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.

Recently Adopted Accounting Pronouncements – In 2006, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)". SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the overfunded or underfunded status of its postretirement benefit plans (other than multiemployer plans) as an asset or liability in its statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of its year-end statement of financial position, and provide additional disclosures.

The incremental effects of adopting the provisions of SFAS No. 158 on our Consolidated Balance Sheet at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 did not have an effect on our Consolidated Balance Sheets at December 31, 2005 or 2004 and our Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004, and it will not effect our Consolidated Statements of Income in future periods. Had we not been required to adopt SFAS No. 158 at December 31, 2006, we would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in table below in the column labeled "Prior to Adopting SFAS No. 158."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

	December 31, 2006		
(In thousands)	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at December 31, 2006
Non-current pension asset	$ 10,383	$(10,383)	$ –
Pension and other postretirement plan liabilities	82,885	13,492	96,377
Deferred income taxes	26,195	9,072	35,267
Accumulated other comprehensive loss	(43,433)	(14,803)	(58,236)

SFAS No. 158's provisions regarding the change in measurement date of postretirement benefit plans are not applicable as we already use a measurement date of December 31 for our postretirement benefit plans. See Notes 13 and 14 for further discussion of our postretirement benefit plans.

Effective January 1, 2006, we adopted SFAS No. 123(R), "Share-Based Payment". Among its provisions, SFAS No. 123(R) requires the Company to recognize compensation expense for equity awards over the vesting period based on their grant-date fair value. Prior to the adoption of SFAS No. 123(R), we utilized the intrinsic-value based method of accounting under APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation."

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

(In thousands, except share data)	Year Ended December 31, 2005	Year Ended December 31, 2004
Decrease in:		
Income before taxes	$24,723	$42,216
Net income	18,877	31,654
Basic EPS	$ 0.13	$ 0.20
Diluted EPS	0.12	0.20

See Note 10 for information regarding our share-based compensation programs.

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

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

Effective in the fourth quarter of 2005, we adopted Financial Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations." See Note 5 for additional information.

Recently Issued Accounting Pronouncements – The Financial Accounting Standards Board ("FASB") issued FIN 48, "Accounting for Uncertainty in Income Taxes" in June 2006. This interpretation clarifies the accounting for income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We are currently evaluating the impact of FIN 48 on our Consolidated Financial Statements. This interpretation will become effective for us in the first quarter of 2007.

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

The FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" in February 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements. This standard will become effective for us in the first quarter of 2008.

Reclassifications – Certain reclassifications have been made to conform the prior year's Consolidated Financial Statements to the current year's classifications. During the year ended December 31, 2006, we reclassified the presentation of expense recognition for reusable packaging utilized in the distribution of our products from cost of sales to distribution expense. The reclassification reduced cost of sales and increased distribution expense by $42.0 million and $36.2 million for the years ended December 31, 2005 and 2004, respectively. The reclassification had no impact on net income.

2. Acquisitions and Discontinued Operations

Acquisitions

We completed the acquisitions of 15 businesses during 2006, 2005 and 2004. All of these acquisitions were funded with cash flows from operations and borrowings under our senior credit facility and our receivables-backed facility. The results of operations of the acquired companies are included in our Consolidated Financial Statements subsequent to their respective acquisition dates. 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 as follows:

	Year Ended December 31		
(In thousands)	2006	2005	2004
Purchase prices:			
Cash paid, net of cash acquired(1)	$17,244	$2,312	$ 378,164
Forgiveness of debt	–	1,051	–
Total purchase prices	17,244	3,363	378,164
Fair value of net assets acquired:			
Assets acquired	11,207	2,114	244,690
Liabilities assumed	(4,836)	(782)	(160,354)
Total fair value of net assets acquired	6,371	1,332	84,336
Goodwill	$10,873	$2,031	$ 293,828

(1) In 2005, excludes $934,000 received in 2005 related to a 2004 acquisition.

Our Dairy Group completed several small acquisitions for an aggregate purchase price of $17.2 million and $3.4 million in 2006 and 2005, respectively.

Milk Products of Alabama – On October 15, 2004, our Dairy Group acquired Milk Products of Alabama, a dairy manufacturer based in Decatur, Alabama. Milk Products of Alabama had net sales of approximately $34 million in 2003. As a result of this acquisition, we expanded our production capabilities in the southeastern United States, allowing us to better serve our customers. Milk Products of Alabama's results of operations are now included in our Dairy Group. We paid approximately $23.2 million for the purchase of Milk Products of Alabama, including costs of acquisition, and funded the purchase price with borrowings under our senior credit facility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Soy Processing Facility – On April 5, 2004, our WhiteWave Foods Company acquired a soy processing and packaging plant located in Bridgeton, New Jersey. Prior to the acquisition, the previous owner of the facility co-packed Silk products for us at the facility. As a result of the acquisition, we increased our in-house processing and packaging capabilities for our soy products, resulting in cost reductions. We paid approximately $25.7 million for the purchase of the facility, all of which was funded using borrowings under our senior credit facility.

***LAND O'LAKES* East** – In 2002, we purchased a perpetual license to use the *LAND O'LAKES*® brand on certain dairy products nationally, excluding cheese and butter. This perpetual license was subject, however, to a pre-existing sublicense entitling a competitor to manufacture and sell cream, sour cream and whipping cream in certain channels in the eastern United States. Effective March 31, 2004, WhiteWave Foods Company acquired that sublicense and certain customer relationships of the sublicensee ("*LAND O'LAKES East*") for an aggregate purchase price of approximately $17 million, all of which was funded using borrowings under our senior credit facility. We now have the exclusive right to use the *LAND O'LAKES* brand on certain dairy products (other than cheese and butter) throughout the entire United States.

Ross Swiss Dairies – On January 26, 2004, our Dairy Group acquired Ross Swiss Dairies, a dairy distributor based in Los Angeles, California, which had net sales of approximately $120 million in 2003. As a result of this acquisition, we increased the distribution capability of our Dairy Group in southern California, allowing us to better serve our customers. Ross Swiss Dairies historically purchased a significant portion of its products from other processors. The fluid dairy products distributed by Ross Swiss Dairies are now manufactured in our southern California facilities. We paid approximately $21.8 million, including transaction costs, for the purchase of Ross Swiss Dairies and funded the purchase price with borrowings under our receivables-backed facility.

Horizon Organic – On January 2, 2004, we completed the acquisition of the 87% of Horizon Organic Holding Corporation ("Horizon Organic") that we did not already own. Horizon Organic had sales of over $200 million during 2003. We already owned approximately 13% of the outstanding common stock of Horizon Organic as a result of investments made in 1998. Third-party co-packers, including us, historically manufactured all of Horizon Organic's products. During 2003, we produced approximately 27% of Horizon Organic's fluid dairy products. We also distributed Horizon Organic's products in several parts of the country. Horizon Organic is a leading branded organic foods company in the United States. Because organic foods are gaining popularity with consumers and because Horizon Organic's products offer consumers an alternative to our Dairy Group's traditional dairy products, we believe Horizon Organic is an important addition to our portfolio of brands. The aggregate purchase price for the 87% of Horizon Organic that we did not already own was approximately $287 million, including approximately $217 million of cash paid to Horizon Organic's stockholders, the repayment of approximately $40 million of borrowings under Horizon Organic's former credit facilities, and transaction expenses of approximately $9 million, all of which was funded using borrowings under our senior credit facility and our receivables-backed facility. In addition, each of the options to purchase Horizon Organic's common stock outstanding on January 2, 2004 was converted into an option to purchase .7301 shares of our stock, with an aggregate fair value of approximately $21 million. Beginning with the first quarter of 2004, Horizon Organic's financial results are reported in our WhiteWave Foods Company segment.

Other – During 2004, our Dairy Group completed four smaller acquisitions for an aggregate purchase price of $23.3 million.

Discontinued Operations

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

Iberian Operations – Our former Iberian operations included the manufacture and distribution of private label and branded milk across Spain and Portugal. In the second quarter of 2006, we committed to a plan to sell our Iberian operations with the expectation that such sale could be completed within one year. The decision to sell such operations is part of our strategy to focus on our core dairy and branded businesses. At that time, we recognized a non-cash impairment charge of $46.4 million, net of an income tax benefit of $8.1 million, representing our best estimate as of June 30, 2006 of the impairment required based on our expected proceeds upon sale of the Iberian operations.

On September 14, 2006, we completed the sale of our operations in Spain for net cash proceeds of approximately $96.0 million. In addition to customary indemnifications of the purchaser of the business, we retained contingent obligations related to regulatory compliance, including an obligation to pay the purchaser a maximum of 15 million euros (approximately $19.8 million as of December 31, 2006) if certain regulatory approvals are not received with respect to a specific facility. A loss on the sale of our operations in Spain of $6.8 million (net of tax) was recognized during 2006.

In connection with the sale of our operations in Spain, we entered into an agreement to sell our Portuguese operations (that comprised the remainder of our Iberian operations) for approximately $11.4 million subject to regulatory approvals and working capital settlements. We completed the sale of our Portuguese operations in January 2007. No significant loss is expected on the sale.

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

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

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

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

Other – In 2006, we recognized a $4.8 million gain from the favorable resolution of contingencies related to prior discontinued operations.

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

	Year Ended December 31		
(In thousands)	2006[1]	2005[1]	2004[1]
Net sales	$240,470	$725,602	$1,096,737
Income (loss) before taxes[2]	(52,842)	25,524	75,480

(1) *All intercompany sales and expenses have been appropriately eliminated in the table.*
(2) *Interest expense of $4.8 million in the year ended December 31, 2006 was allocated to our Iberian discontinued operations based on the net assets of our discontinued operations relative to our total net assets. Interest expense of $9.2 million and $10.6 million in the years ended December 31, 2005 and 2004, respectively, was allocated to our Iberian operations and* Marie's *dips and dressings and* Dean's *dips discontinued operations based on the net assets of our discontinued operations relative to our total net assets.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Major classes of assets and liabilities of discontinued operations included in our Consolidated Balance Sheets at December 31, 2006 and 2005 are as follows:

	Year Ended December 31	
(In thousands)	2006	2005
Current assets	$14,255	$ 75,774
Goodwill	–	91,938
Other non-current assets	5,725	134,015
Current liabilities	8,791	111,397
Non-current liabilities	–	14,632

3. Investments in Unconsolidated Affiliates

Investment in Consolidated Container Company – We own an approximately 25% minority interest, on a fully diluted basis, in Consolidated Container Company ("CCC"), one of the nation's largest manufacturers of rigid plastic containers and our largest supplier of plastic bottles and bottle components. We have owned our minority interest since July 2, 1999, when we sold our U.S. plastic packaging operations to CCC.

Since July 2, 1999, our investment in CCC has been accounted for under the equity method of accounting. During 2001, due to a variety of operational difficulties, CCC consistently reported operating results that were significantly weaker than expected, which resulted in significant losses in the third and fourth quarters of 2001. As a result, by late 2001 CCC had become unable to comply with the financial covenants contained in its credit facility. We concluded that our investment was impaired and that the impairment was not temporary so we wrote off our remaining investment during the fourth quarter of 2001. Our investment in CCC has been recorded at $0 since we wrote-off our remaining investment in 2001. As the tax basis of our investment in CCC is less than the carrying value of the investment recognized in our Consolidated Financial Statements, the sale or liquidation of our investment could result in a disproportionate tax obligation.

In 2002, we agreed to loan CCC $10 million of their $35 million financing requirements in exchange for cancellation of a pre-existing $10 million loan guaranty we provided to them, as well as for the receipt of additional equity. Vestar Capital Partners, majority owner of CCC, loaned CCC the remaining $25 million. We were required to recognize a portion of CCC's 2002 losses, up to the amount of the loan. The loan was written off in its entirety in the fourth quarter of 2002. In 2004, in connection with a refinancing of CCC, our $10 million loan plus $1.9 million in accrued interest was repaid through the issuance of 11,938,056 Series B Preferred Units from CCC. The Series B Units are convertible into common shares or a combination of common shares and Series C Preferred Units, at various times and subject to certain conditions. This transaction had no impact on our 2004 Consolidated Statement of Income.

Less than 1% of CCC is owned indirectly by Alan Bernon, President of our Dairy Group, and his brother Peter Bernon. Pursuant to our agreements with Vestar, we control two of the eight seats on CCC's Management Committee. We have supply agreements with CCC to purchase certain of our requirements for plastic bottles and bottle components from CCC. We spent approximately $284.4 million, $324.1 million and $235.5 million on products purchased from CCC for the years ended December 31, 2006, 2005 and 2004, respectively. In the third quarter of 2006, we reached a favorable resolution of a dispute with CCC resulting in a $7.0 million reduction in cost of sales. In the fourth quarter of 2004, we purchased equipment previously owned and operated by CCC totaling $3.2 million.

Investment in Momentx – As of December 31, 2006 and 2005, we had an approximately 16% voting interest in Momentx, Inc. Our investment in Momentx at both December 31, 2006 and 2005 was $1.2 million. Momentx is the owner and operator of *dairy.com*, an online vertical exchange dedicated to the dairy industry. We account for this investment under the cost method of accounting. We spent approximately $600,000, $444,000 and $664,000 on products purchased from *dairy.com* for the years ended December 31, 2006, 2005 and 2004, respectively.

4. Inventories

(In thousands)	December 31 2006	December 31 2005
Raw materials and supplies	$173,208	$151,442
Finished goods	187,546	203,562
Total	$360,754	$355,004

5. Property, Plant and Equipment

(In thousands)	December 31 2006	December 31 2005
Land	$ 176,425	$ 166,750
Buildings and improvements	749,163	709,159
Machinery and equipment	1,892,028	1,758,755
	2,817,616	2,634,664
Less accumulated depreciation	(1,030,709)	(857,863)
Total	$ 1,786,907	$1,776,801

For 2006 and 2005, we capitalized $3.4 million and $3.8 million in interest related to borrowings during the actual construction period of major capital projects, which is included as part of the cost of the related asset.

In the fourth quarter of 2005 we adopted FIN No. 47, "Accounting for Conditional Asset Retirement Obligations". As a result of the adoption we increased the carrying value of our assets by $285,000, net of accumulated depreciation, and recognized asset retirement obligations of $2.8 million at December 31, 2005. We recognized $2.5 million ($1.6 million, net of tax) as a cumulative change in accounting principal in 2005 for depreciation expense on the increase in property, plant and equipment related to the anticipated removal costs of underground fuel storage tanks.

6. Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 are as follows:

(In thousands)	Dairy Group	WhiteWave Foods Company	Total
Balance at December 31, 2004	$2,442,968	$551,472	$2,994,440
Purchase accounting adjustments	(44,156)	(29,375)	(73,531)
Acquisitions	2,031	–	2,031
Balance at December 31, 2005	2,400,843	522,097	2,922,940
Purchase accounting adjustments	(3,303)	12,629	9,326
Acquisitions	10,873	–	10,873
Balance at December 31, 2006	$2,408,413	$534,726	$2,943,139

Purchase accounting adjustments generally represent adjustments of the preliminary allocation of the purchase price to the fair values of assets and liabilities purchased in recent acquisitions. Included in the Dairy Group 2006 purchase accounting adjustments is $3.5 million related to a reduction in tax reserves from the Dean Holding Company acquisition and the revision of deferred tax assets on other acquisitions. Included in the Dairy Group 2005 purchase accounting adjustments is $35.6 million related to the revision of tax attributes of assets from the Dean Holding Company acquisition. Deferred tax liabilities were reduced by a similar amount. The adjustments to WhiteWave Foods Company in 2006 represent a reduction in deferred tax assets due to an adjustment in the tax basis of liabilities related to the Horizon Organic acquisition. The adjustments to WhiteWave Foods Company in 2005 primarily represent the difference between the cost of eliminating certain contractual obligations entered into by Horizon prior to our acquisition of that company and the estimated costs to exit entirely from such activities and related obligations as originally estimated in the purchase price allocation. These adjustments have no impact on the Consolidated Statements of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

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

	December 31					
	2006			2005		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Trademarks	$511,294	$ (5,877)	$505,417	$511,662	$ (5,877)	$505,785
Intangible assets with finite lives:						
Customer-related and other	87,616	(28,474)	59,142	86,525	(21,358)	65,167
Total	$598,910	$(34,351)	$564,559	$598,187	$(27,235)	$570,952

Amortization expense on intangible assets for the years ended December 31, 2006, 2005 and 2004 was $7.7 million, $7.2 million and $5.4 million, respectively. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

2007	$7.6 million
2008	7.4 million
2009	7.1 million
2010	7.0 million
2011	5.2 million

Our goodwill and intangible assets have resulted primarily from acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including trademarks and customer-related intangible assets, with any remaining purchase price recorded as goodwill. Goodwill and trademarks with indefinite lives are not amortized.

A trademark is recorded with an indefinite life if it has sufficient market share and a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. If these perpetual trademark criteria are not met, the trademarks are amortized over their expected useful lives, which range from five to 40 years. Determining the expected life of a trademark is based on a number of factors including the competitive environment, market share, trademark history and anticipated future trademark support.

In accordance with SFAS No. 142, we conduct impairment tests of goodwill and intangible assets with indefinite lives annually in the fourth quarter or when circumstances arise that indicate a possible impairment might exist. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value based on its discounted future cash flows. Our 2006, 2005 and 2004 annual impairment tests of goodwill indicated no impairments. Our 2006 annual impairment tests of intangibles with indefinite lives indicated an impairment on a perpetual trademark for a regional brand in our Dairy Group as a result of the decision to close a facility and shift customers from one regional brand to another. In 2006, we recognized an impairment charge of approximately $700,000 related to this trademark. Our 2005 and 2004 annual impairment tests of intangibles with indefinite lives indicated no impairment.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows.

7. Accounts Payable and Accrued Expenses

	December 31	
(In thousands)	2006	2005
Accounts payable	$463,965	$498,331
Payroll and benefits	123,507	148,548
Health insurance, workers' compensation and other insurance costs	84,988	85,250
Other accrued liabilities	149,662	193,938
Total	$822,122	$926,067

8. Income Taxes

The following table presents the 2006, 2005 and 2004 provisions for income taxes:

(In thousands)	Year Ended December 31 2006(1)	2005(2)	2004(3)
Federal	$ 96,245	$113,025	$ 5,505
State	12,183	14,514	3,240
Foreign and other	517	853	2,250
Deferred income taxes	66,505	35,506	127,477
Total	$175,450	$163,898	$138,472

(1) Excludes $12.0 million income tax benefit related to discontinued operations.
(2) Excludes $53.1 million income tax expense related to discontinued operations and $900,000 income tax benefit related to cumulative effect of accounting change.
(3) Excludes $28.0 million income tax expense related to discontinued operations.

The following is a reconciliation of income taxes computed at the U.S. federal statutory tax rate to income taxes reported in the Consolidated Statements of Income:

(In thousands)	Year Ended December 31 2006	2005	2004
Tax expense at statutory rates	$159,500	$147,192	$120,638
State income taxes	11,419	11,422	8,581
Change in valuation allowance	(1,036)	(481)	1,208
Nondeductible compensation	3,446	4,603	512
Favorable tax settlement	(259)	(1,709)	–
Other	2,380	2,871	7,533
Total	$175,450	$163,898	$138,472

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

(In thousands)	December 31 2006	2005
Deferred income tax assets:		
Accrued liabilities	$ 162,805	$ 182,715
Stock options	27,026	30,133
Asset valuation reserves	16,910	11,121
Net operating loss carryforwards	12,797	11,528
State and foreign tax credits	10,173	15,193
Valuation allowances	(9,671)	(14,280)
	220,040	236,410
Deferred income tax liabilities:		
Depreciation and amortization	(566,521)	(508,836)
Basis differences in unconsolidated affiliates	(23,214)	(25,821)
Derivative instruments	(9,951)	(8,333)
Other	(6,915)	(5,351)
	(606,601)	(548,341)
Net deferred income tax liability	$(386,561)	$(311,931)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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These net deferred income tax assets (liabilities) are classified in our Consolidated Balance Sheets as follows:

(In thousands)	December 31 2006	December 31 2005
Current assets	$ 117,991	$ 137,776
Noncurrent liabilities	(504,552)	(449,707)
Total	$(386,561)	$(311,931)

At December 31, 2006, we had approximately $10.2 million of state and foreign tax credits available for carryover to future years. The credits are subject to certain limitations and begin to expire in 2010.

A valuation allowance of $9.7 million has been established because we do not believe it is more likely than not that all of the deferred tax assets related to state net operating loss and credit carryforwards and foreign tax credit carryforwards will be realized prior to expiration. Our valuation allowance decreased $4.6 million in 2006 including $3.6 million related to a previously discontinued operation and the expected realization of state net operating loss carryforwards not previously recognized.

9. Long-Term Debt

	December 31			
	2006		2005	
(Dollars in thousands)	Amount Outstanding	Interest Rate	Amount Outstanding	Interest Rate
Dean Foods Company debt obligations:				
Senior credit facility	$1,757,250	5.99%	$2,258,600	5.16%
Senior notes	498,112	7.00	–	–
	2,255,362		2,258,600	
Subsidiary debt obligations:				
Senior notes	572,037	6.625-8.15	568,493	6.625-8.15
Receivables-backed facility	512,500	5.68	548,400	4.60
Capital lease obligations and other	15,952		11,355	
	1,100,489		1,128,248	
	3,355,851		3,386,848	
Less current portion	(483,658)		(65,326)	
Total long-term portion	$2,872,193		$3,321,522	

The scheduled maturities of long-term debt, at December 31, 2006, were as follows (in thousands):

2007	$ 483,576
2008	432,891
2009	1,815,121
2010	1,643
2011	1,689
Thereafter	650,782
Subtotal	3,385,702
Less discounts	(29,851)
Total outstanding debt	$3,355,851

Senior Credit Facility – Our senior credit facility provides for a $1.5 billion revolving credit facility and a $1.5 billion term loan. At December 31, 2006, there were outstanding term loan borrowings of $1.44 billion under the senior credit facility and $313.5 million outstanding under the revolving line of credit. Letters of credit in the aggregate amount of $136.6 million were issued but undrawn. At December 31, 2006, approximately $1.05 billion was available for future borrowings under the revolving credit facility, subject to satisfaction of certain ordinary course conditions contained in the credit agreement.

Both the revolving credit facility and term loan bear interest, at our election, at the base rate plus a margin that varies from zero to 25 basis points depending on our credit ratings (as issued by Standard & Poor's and Moody's), or LIBOR plus a margin that varies from 50 to 150 basis points, depending on our credit ratings (as issued by Standard & Poor's and Moody's). The blended interest rate in effect on borrowings under the senior credit facility, including the applicable interest rate margin, was 5.99% at December 31, 2006. However, we had interest rate swap agreements in place that hedged $950.0 million of our borrowings under the senior credit facility at an average rate of 4.53%, plus the applicable interest rate margin. Interest is payable quarterly or at the end of the applicable interest period.

Principal payments are required on the term loan as follows:

- $56.3 million quarterly beginning on December 31, 2006 through September 30, 2008;
- $262.5 million quarterly beginning on December 31, 2008 through June 30, 2009; and
- A final payment of $262.5 million on the maturity date of August 13, 2009.

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Dean Foods Company Senior Notes – On May 17, 2006, we issued $500 million aggregate principal amount of 7.0% senior unsecured notes. The senior unsecured notes mature on June 1, 2016 and interest is payable on June 1 and December 1 of each year, beginning December 1, 2006. The outstanding balance at December 31, 2006 was $498.1 million net of discount.

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

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

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

- 100% of the principal amount of the notes being redeemed; and
- The sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (excluding interest accrued to the redemption date) from the redemption date to the maturity date discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury rate plus 50 basis points,

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

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

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

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

- $250.1 million ($250 million face value), at 8.15% interest, maturing in August 2007;
- $192.7 million ($200 million face value), at 6.625% interest, maturing in May 2009; and
- $129.2 million ($150 million face value), at 6.9% interest, maturing in October 2017.

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

Receivables-Backed Facility – We have entered into a $600 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to three wholly-owned special purpose entities intended to be bankruptcy-remote. The special purpose entities then transfer the receivables to third party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these three special purpose entities are fully reflected on our Consolidated Balance Sheets, and the securitization is treated as a borrowing for accounting purposes. During 2006, we had net payments of $35.9 million on this facility leaving an available and drawn balance of $512.5 million at December 31, 2006. The receivables-backed facility bears interest at a variable rate based on the commercial paper yield as defined in the agreement. The average interest rate on this facility was 5.68% at December 31, 2006. Our ability to re-borrow under this facility is subject to a borrowing base formula.

Capital Lease Obligations and Other – Capital lease obligations and other subsidiary debt includes various promissory notes for 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

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

The following table summarizes our various interest rate agreements in effect as of December 31, 2006:

Fixed Interest Rates	Expiration Date	Notional Amounts
(In millions)		
4.81% to 4.84%	December 2007	$500
4.07% to 4.27%	December 2010	450

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

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

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

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

	December 31	
(In thousands)	2006	2005
Current derivative asset	$ 6,525	$ 5,877
Long-term derivative asset	8,322	10,028
Total derivative asset	$14,847	$15,905
Current derivative liability	$ –	$ 1,926
Long-term derivative liability	–	400
Total derivative liability	$ –	$ 2,326

There was no hedge ineffectiveness for the years ended 2006, 2005 and 2004. Approximately $7.5 million of gains (net of tax) and $8.5 million and $20.7 million of losses (net of tax) were reclassified to interest expense from other comprehensive income during the years ended 2006, 2005 and 2004, respectively. We estimate that approximately $4.1 million of net derivative gains (net of tax) included in other comprehensive income will be reclassified into earnings within the next 12 months. These gains will decrease the interest expense recorded on our variable rate debt.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

	Condensed Consolidating Balance Sheet as of December 31, 2006				
(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets:					
Cash and cash equivalents	$ 579	$ 26,254	$ 4,307	$ –	$ 31,140
Receivables, net	301	32,720	766,017	–	799,038
Intercompany receivables	126,707	2,702,858	309,747	(3,139,312)	–
Other current assets	105,882	443,210	20	–	549,112
Total current assets	233,469	3,205,042	1,080,091	(3,139,312)	1,379,290
Property, plant and equipment, net	608	1,767,734	18,565	–	1,786,907
Goodwill	–	2,943,048	91	–	2,943,139
Identifiable intangible and other assets	54,410	586,443	4	–	640,857
Investment in subsidiaries	6,507,028	–	–	(6,507,028)	–
Assets of discontinued operations	–	–	19,980	–	19,980
Total	$6,795,515	$8,502,267	$1,118,731	$(9,646,340)	$6,770,173
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 39,077	$ 782,507	$ 538	$ –	$ 822,122
Income taxes payable	28,347	2,295	134	–	30,776
Intercompany notes	2,194,952	437,725	506,635	(3,139,312)	–
Current portion of long-term debt	225,000	258,658	–	–	483,658
Total current liabilities	2,487,376	1,481,185	507,307	(3,139,312)	1,336,556
Long-term debt	2,030,362	329,331	512,500	–	2,872,193
Other long-term liabilities	468,378	274,856	–	–	743,234
Liabilities of discontinued operations	–	–	8,791	–	8,791
Total stockholders' equity	1,809,399	6,416,895	90,133	(6,507,028)	1,809,399
Total	$6,795,515	$8,502,267	$1,118,731	$(9,646,340)	$6,770,173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Condensed Consolidating Balance Sheet as of December 31. 2005

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets:					
Cash and cash equivalents	$ 249	$ 18,677	$ 5,530	$ –	$ 24,456
Receivables, net	21	41,962	766,448	–	818,431
Intercompany receivables	281,842	2,217,898	373,488	(2,873,228)	–
Other current assets	106,684	451,378	244	–	558,306
Total current assets	388,796	2,729,915	1,155,710	(2,873,228)	1,401,193
Property, plant and equipment, net	613	1,761,208	14,980	–	1,776,801
Goodwill	–	2,922,849	91	–	2,922,940
Identifiable intangible and other assets	54,468	593,746	9	–	648,223
Investment in subsidiaries	6,105,506	–	–	(6,105,506)	–
Assets of discontinued operations	–	–	301,727	–	301,727
Total	$6,549,383	$8,007,718	$1,472,517	$(8,978,734)	$7,050,884
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 55,354	$ 870,336	$ 377	$ –	$ 926,067
Income taxes payable	233,928	(199,518)	131	–	34,541
Intercompany notes	1,674,132	655,000	544,096	(2,873,228)	–
Current portion of long-term debt	56,250	4,465	4,611	–	65,326
Total current liabilities	2,019,664	1,330,283	549,215	(2,873,228)	1,025,934
Long-term debt	2,202,350	570,772	548,400	–	3,321,522
Other long-term liabilities	425,156	250,030	–	–	675,186
Liabilities of discontinued operations	–	–	126,029	–	126,029
Total stockholders' equity	1,902,213	5,856,633	248,873	(6,105,506)	1,902,213
Total	$6,549,383	$8,007,718	$1,472,517	$(8,978,734)	$7,050,884

Condensed Consolidating Statement of Income for the Year Ended December 31, 2006

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Net sales	$ –	$10,088,080	$ 10,475	$ –	$10,098,555
Cost of sales	–	7,350,026	8,650	–	7,358,676
Gross profit	–	2,738,054	1,825	–	2,739,879
Selling and distribution	–	1,648,191	669	–	1,648,860
General and administrative	5,725	407,225	2,258	–	415,208
Facility closing and reorganization costs	–	25,116	–	–	25,116
Interest expense	120,679	74,308	(440)	–	194,547
Other (income) expense, net	(14)	377	72	–	435
Income from subsidiaries	(582,103)	–	–	582,103	–
Income (loss) from continuing operations before income taxes	455,713	582,837	(734)	(582,103)	455,713
Income taxes	175,450	222,732	(293)	(222,439)	175,450
Income (loss) from continuing operations	280,263	360,105	(441)	(359,664)	280,263
Loss on sale of discontinued operations, net of tax	–	(379)	(1,599)	–	(1,978)
Loss from discontinued operations, net of tax	–	(2,440)	(50,431)	–	(52,871)
Net income (loss)	$ 280,263	$ 357,286	$(52,471)	$(359,664)	$ 225,414

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Condensed Consolidating Statement of Income for the Year Ended December 31, 2005

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Net sales	$ –	$10,168,883	$ 5,835	$ –	$10,174,718
Cost of sales	–	7,586,940	4,608	–	7,591,548
Gross profit	–	2,581,943	1,227	–	2,583,170
Selling and distribution	–	1,580,458	570	–	1,581,028
General and administrative	1,337	384,249	1,010	–	386,596
Facility closing and reorganization costs	–	35,451	–	–	35,451
Interest expense	81,594	76,835	1,801	–	160,230
Other (income), net	(8)	(263)	(412)	–	(683)
Income from subsidiaries	(503,471)	–	–	503,471	–
Income (loss) from continuing operations before income taxes	420,548	505,213	(1,742)	(503,471)	420,548
Income taxes	163,898	194,630	(658)	(193,972)	163,898
Income (loss) from continuing operations	256,650	310,583	(1,084)	(309,499)	256,650
Gain on sale of discontinued operations, net of tax	–	38,763	–	–	38,763
Gain (loss) from discontinued operations, net of tax	–	17,847	(3,054)	–	14,793
Cumulative effect of accounting change, net of tax	–	(1,552)	–	–	(1,552)
Net income (loss)	$ 256,650	$ 365,641	$(4,138)	$(309,499)	$ 308,654

Condensed Consolidating Statement of Income for the Year Ended December 31, 2004

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Net sales	$ –	$9,712,991	$12,557	$ –	$9,725,548
Cost of sales	–	7,328,528	9,610	–	7,338,138
Gross profit	–	2,384,463	2,947	–	2,387,410
Selling and distribution	–	1,471,475	637	–	1,472,112
General and administrative	2,079	359,633	(835)	–	360,877
Facility closing and reorganization costs	–	24,575	–	–	24,575
Other operating income	–	(5,899)	–	–	(5,899)
Interest expense	108,619	82,630	539	–	191,788
Other (income) expense, net	(13)	461	(1,170)	–	(722)
Income from subsidiaries	(455,364)	–	–	455,364	–
Income (loss) from continuing operations before income taxes	344,679	451,588	3,776	(455,364)	344,679
Income taxes	138,472	177,147	1,373	(178,520)	138,472
Income (loss) from continuing operations	206,207	274,441	2,403	(276,844)	206,207
Gain (loss) on sale of discontinued operations, net of tax	–	–	–	–	–
Gain from discontinued operations, net of tax	–	46,213	1,301	–	47,514
Net income (loss)	$ 206,207	$ 320,654	$ 3,704	$(276,844)	$ 253,721

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2006

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
Net cash provided by (used in) operating activities	$(488,275)	$1,038,833	$ 10,660	$ 561,218
Additions to property, plant and equipment	(2,435)	(229,721)	(5,086)	(237,242)
Cash outflows for acquisitions	(17,244)	–	–	(17,244)
Net proceeds from divestitures	95,982	–	–	95,982
Proceeds from sale of fixed assets	–	6,190	–	6,190
Other	–	–	(15,151)	(15,151)
Net cash provided by (used in) investing activities	76,303	(223,531)	(20,237)	(167,465)
Proceeds from issuance of debt	498,020	–	–	498,020
Repayment of debt	(501,350)	(9,612)	(40,511)	(551,473)
Payments of deferred financing costs	(6,974)	–	–	(6,974)
Issuance of common stock	32,311	–	–	32,311
Tax savings on share-based compensation	31,211	–	–	31,211
Redemption of common stock	(400,062)	–	–	(400,062)
Other	–	–	9,898	9,898
Net cash used in financing activities	(346,844)	(9,612)	(30,613)	(387,069)
Net change in intercompany balances	759,145	(798,112)	38,967	–
Increase (decrease) in cash end cash equivalents	329	7,578	(1,223)	6,684
Cash and cash equivalents, beginning of period	249	18,677	5,530	24,456
Cash and cash equivalents, end of period	$ 578	$ 26,255	$ 4,307	$ 31,140

Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2005

(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
Net cash provided by (used in) operating activities	$ (49,675)	$ 671,635	$(66,184)	$ 555,776
Additions to property, plant and equipment	(681)	(282,697)	(3,751)	(287,129)
Cash outflows for acquisitions	(1,378)	–	–	(1,378)
Net proceeds from divestitures	189,862	–	–	189,862
Proceeds from sale of fixed assets	–	6,157	2,200	8,357
Other	–	(7,875)	(19,557)	(27,432)
Net cash provided by (used in) investing activities	187,803	(284,415)	(21,108)	(117,720)
Proceeds from issuance of debt	227,500	–	48,400	275,900
Repayment of debt	(1,250)	(114,413)	(2,891)	(118,554)
Payments of deferred financing costs	(4,279)	–	–	(4,279)
Issuance of common stock	57,718	–	–	57,718
Tax savings on share-based compensation	20,614	–	–	20,614
Redemption of common stock	(699,878)	–	–	(699,878)
Other	–	11,153	18,369	29,522
Net cash provided by (used in) financing activities	(399,575)	(103,260)	63,878	(438,957)
Net change in intercompany balances	261,522	(289,609)	28,087	–
Increase (decrease) in cash and cash equivalents	75	(5,649)	4,673	(901)
Cash and cash equivalents, beginning of period	174	24,326	857	25,357
Cash and cash equivalents, end of period	$ 249	$ 18,677	$ 5,530	$ 24,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

	Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2004			
(In thousands)	Parent	Guarantor Entities	Non-Guarantor Subsidiaries	Consolidated Totals
Net cash provided by (used in) operating activities	$ (99,943)	$ 713,590	$(84,921)	$ 528,726
Additions to property, plant and equipment	(641)	(300,485)	(60)	(301,186)
Cash outflows for acquisitions	(378,164)	–	–	(378,164)
Proceeds from sale of fixed assets	–	10,028	–	10,028
Other	–	(23,349)	(53,900)	(77,249)
Net cash used in investing activities	(378,805)	(313,806)	(53,960)	(746,571)
Proceeds from issuance of debt	1,444,500	–	197,500	1,642,000
Repayment of debt	(1,198,286)	(23,378)	(966)	(1,222,630)
Payments of deferred financing costs	(9,801)	–	–	(9,801)
Issuance of common stock	61,969	–	–	61,969
Tax savings on share-based compensation	(297,018)	–	–	(297,018)
Redemption of common stock	18,527	–	–	18,527
Other	–	18,847	–	18,847
Net cash provided by (used in) financing activities	19,891	(4,531)	196,534	211,894
Net change in intercompany balances	458,037	(400,481)	(57,556)	–
Increase (decrease) in cash and cash equivalents	(820)	(5,228)	97	(5,951)
Cash and cash equivalents, beginning of period	994	29,554	760	31,308
Cash and cash equivalents, end of period	$ 174	$ 24,326	$ 857	$ 25,357

10. Common Stock and Share-Based Compensation

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

Stock Award Plans – We currently have two stock award plans with shares remaining available for issuance. These plans, which are our 1997 Stock Option and Restricted Stock Plan and the 1989 Dean Foods Company Stock Awards Plan (which we adopted upon completion of our acquisition of Dean Holding Company), provide for grants of stock options, stock units, restricted stock and other stock-based awards to employees, officers, directors and, in some cases, consultants, up to a maximum of 37.5 million and approximately 5.7 million shares, respectively. Options and other stock-based awards vest in accordance with provisions set forth in the applicable award agreements.

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

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

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

	Year Ended December 31		
	2006	2005	2004
Expected volatility	25%	25%	25%
Expected dividend yield	0%	0%	0%
Expected option term	4.5 years	4.5 years	5 years
Risk-free rate of return	4.28 to 5.10%	3.63 to 4.27%	2.98 to 3.81%

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to contractual terms (generally 10 years), vesting schedules and expectations of future employee and director behavior. Expected stock price volatility is based on a combination of historical volatility of the Company's stock and expectations with regard to future volatility. The risk-free rates are based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. Historically, we have not paid dividends.

The following table summarizes stock option activity during the years ended December 31, 2006, 2005 and 2004:

	Options	Weighted-Average Exercise Price	Weighted-Average Contractual Life	Aggregate Intrinsic Value
Options outstanding at January 1, 2004	16,599,126	$18.50		
Granted	2,392,658	31.37		
Options issued to Horizon Organic Option Holders[1]	1,137,308	16.37		
Cancelled[2]	(208,152)	22.56		
Exercised	(3,073,219)	17.12		
Options outstanding at December 31, 2004	16,847,721	20.32		
Granted[3]	2,466,594	28.90		
Adjustment to options granted prior to December 31, 2004 and outstanding at the time of the Spin-off[3]	2,016,291	18.14		
Cancelled[2]	(343,241)	28.22		
Exercised	(3,128,082)	18.16		
Options outstanding at December 31, 2005	17,859,283	18.87		
Granted	2,686,305	37.77		
Cancelled[2]	(857,571)	19.17		
Exercised	(4,365,619)	15.63		
Options outstanding at December 31, 2006	15,322,398	23.09	6.05	$294,030,230
Options exercisable at December 31, 2004	10,642,287	17.16		
Options exercisable at December 31, 2005	12,935,984	16.07		
Options exercisable at December 31, 2006	10,780,307	18.75	5.05	253,619,324

(1) In connection with our acquisition of Horizon Organic in January 2004, all options to purchase Horizon Organic stock outstanding at the time of the acquisition were converted into options to purchase our stock, most of which were automatically vested when we completed the acquisition.
(2) Pursuant to the terms of our stock option plans, options that are canceled or forfeited become available for future grants.
(3) The number and exercise prices of certain options outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the options before and after the Spin-off.

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The following table summarizes information about options outstanding and exercisable at December 31, 2006:

	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
$0.45 to $12.14	2,044,553	2.82	$10.90	2,044,553	$10.90
$12.28 to $16.87	862,774	2.69	15.01	862,774	15.01
$17.18	3,369,258	5.02	17.18	3,369,258	17.18
$17.29 to $20.92	386,597	4.84	20.52	386,597	20.52
$20.94	2,027,869	5.98	20.94	2,027,869	20.94
$21.85 to $25.73	107,812	6.42	25.24	84,533	25.28
$26.32	1,646,297	6.85	26.32	1,012,661	26.32
$26.60 to $26.89	1,556,922	7.90	26.88	541,896	26.84
$27.38 to $37.39	819,941	8.40	33.80	365,165	33.09
$37.74 to $42.75	2,500,375	8.99	37.87	85,001	38.01

The weighted-average grant date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was $11.00 per share, $8.13 per share and $8.87 per share, respectively, and the total intrinsic value of options exercised during the same periods was $100.6 million, $58.6 million and $52.7 million, respectively. The fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was $24.9 million, $42.3 million and $45.3 million, respectively.

During the years ended December 31, 2006, 2005 and 2004, we recognized stock option expense of $21.5 million, $24.7 million and $42.2 million, respectively, and an income tax benefit related to stock option expense of $8.2 million, $5.8 million and $10.6 million, respectively.

During the year ended December 31, 2006, we recognized a pre-tax cumulative non-cash charge of approximately $500,000 resulting from administrative errors associated with historical stock option compensation expense related to a few stock option grants in 1997 and 2000. As the aggregate differences were not deemed material, no restatement of our historical financial statements is necessary and the full impact of the cumulative non-cash charge was recognized in 2006.

During the year ended December 31, 2006, cash received from stock option exercises was $50.9 million and the total tax benefit for tax deductions to be realized for these option exercises was $41.3 million. In addition, we received 610,757 shares of common stock in lieu of cash for stock option exercises.

At December 31, 2006, there was $25.1 million of total unrecognized stock option expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining period of 1.1 years.

Stock Units – We issue restricted stock units to certain senior employees and non-employee directors as part of our long-term incentive program. A stock unit represents the right to receive one share of common stock in the future. Stock units have no exercise price. Each employee's stock unit grant typically vests ratably over five years, subject to certain accelerated vesting provisions based primarily on our stock price. Stock units granted to non-employee directors vest ratably over three years. All unvested stock units vest immediately upon a change of control. The following table summarizes stock unit activity during the years ended December 31, 2006, 2005 and 2004:

	Employees	Directors	Total
Stock units outstanding at January 1, 2004	653,500	28,050	681,550
Stock units issued	447,700	28,050	475,750
Shares issued	(101,402)	(5,950)	(107,352)
Stock units cancelled or forfeited(1)	(49,298)	–	(49,298)
Stock units outstanding at December 31, 2004	950,500	50,150	1,000,650
Stock units issued	433,550	25,500	459,050
Shares issued	(461,809)	(17,117)	(478,926)
Adjustment to stock units outstanding at the time of the Spin-off(2)	198,411	9,241	207,652
Stock units cancelled or forfeited(1)	(295,404)	–	(295,404)
Stock units outstanding at December 31, 2005	825,248	67,774	893,022
Stock units issued	460,750	25,500	486,250
Shares issued	(334,023)	(23,598)	(357,621)
Stock units cancelled or forfeited(1)	(177,714)	–	(177,714)
Stock units outstanding at December 31, 2006	774,261	69,676	843,937
Weighted-average grant date fair value	$33.55	$35.47	$33.68

(1) Pursuant to the terms of our stock unit plans, employees have the option of forfeiting stock units to cover their minimum statutory tax withholding when shares are issued. Stock units that are cancelled or forfeited become available for future grants.

(2) Stock units outstanding at the time of the Spin-off were proportionately adjusted to maintain the aggregate fair value of the stock units before and after the Spin-off.

During the years ended December 31, 2006, 2005 and 2004, we recognized stock unit expense of $15.3 million, $15.3 million and $6.0 million, respectively, including certain accelerated vestings in 2006 and 2005, and an income tax benefit related to stock unit expense of $4.4 million, $2.5 million and $1.5 million, respectively.

The weighted-average grant date fair value of stock units granted during the years ended December 31, 2006, 2005 and 2004 was $37.78 per share, $28.24 per share and $27.54 per share, respectively. At December 31, 2006, there was $19.8 million of total unrecognized stock unit expense, all of which is related to nonvested awards. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.9 years.

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

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2004	28,286	$29.95
Restricted shares granted	31,374	33.39
Restricted shares vested	(27,005)	30.87
Nonvested at December 31, 2004	32,655	32.49
Restricted shares granted	28,586	36.31
Restricted shares vested	(31,725)	33.35
Nonvested at December 31, 2005	29,516	35.27
Restricted shares granted	28,098	39.97
Restricted shares vested	(30,029)	36.39
Nonvested at December 31, 2006	27,585	38.83

Rights Plan – On February 27, 1998, our Board of Directors declared a dividend of the right to purchase one half of one common share for each outstanding share of common stock to the stockholders of record on March 18, 1998. The rights are not exercisable until ten days subsequent to the announcement of the acquisition of or intent to acquire a beneficial ownership of 15% or more in Dean Foods Company. At such time, each right entitles the registered holder to purchase from us that number of shares of common stock at an exercise price of $145.00, with a market value of up to two times the exercise price. At any time prior to such date, we may, by action of a majority of our Board of Directors, 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 earlier redeems, the rights.

Stock Repurchases – A summary of the increases in our stock repurchase program, as authorized by our Board of Directors, is shown below.

Date of Authorization	Authorized Increase in Stock Repurchase Program	Cumulative Authorized Stock Repurchase Program
(In millions)		
September 15, 1998	$100	$ 100
September 28, 1999	100	200
November 17, 1999	100	300
May 19, 2000	100	400
November 2, 2000	100	500
January 8, 2003	150	650
February 12, 2003	150	800
September 7, 2004	200	1,000
November 2, 2004	100	1,100
August 10, 2005	300	1,400
November 2, 2005	300	1,700
May 3, 2006	300	2,000
November 29, 2006	300	2,300

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Set forth in the chart below is a summary of the stock we repurchased pursuant to this program through December 31, 2006.

Year	Quarter	No. of Shares of Common Stock Repurchased	Purchase Price
(Dollars in millions)			
1998	Third	3,000,000	$ 30.4
	Fourth	1,531,200	15.6
1999	Second	239,100	3.0
	Third	5,551,545	66.7
	Fourth	10,459,524	128.4
2000	First	2,066,400	27.2
	Second	2,898,195	42.2
	Third	4,761,000	77.0
	Fourth	120,000	2.1
2001	First	370,002	6.1
2002	Fourth	4,126,200	101.2
2003	First	4,854,900	128.5
	Third	360,000	9.9
	Fourth	1,453,400	47.1
2004	First	150,000	5.1
	Third	7,825,000	251.9
	Fourth	1,335,000	39.6
2005	Third	9,926,000	361.1
	Fourth	8,955,300	338.4
2006	First	400,000	15.3
	Second	3,337,200	120.3
	Fourth	6,285,000	264.2
	Total	80,004,966	$2,081.3

As of December 31, 2006, $218.7 million was available for repurchases under this program (excluding fees and commissions). Repurchased shares are treated as effectively retired in the Consolidated Financial Statements.

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11. 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:

	Year Ended December 31		
(Dollars in thousands, except share data)	2006	2005	2004
Basic EPS computation:			
Numerator:			
Income from continuing operations	$280,263	$256,650	$206,207
Denominator:			
Average common shares	133,938,777	146,673,322	154,635,979
Basic EPS from continuing operations	$ 2.09	$ 1.75	$ 1.33
Diluted EPS computation:			
Numerator:			
Income from continuing operations	$280,263	$256,650	$206,207
Denominator:			
Average common shares – basic	133,938,777	146,673,322	154,635,979
Stock option conversion(1)	5,463,791	5,736,543	5,125,070
Stock units	359,536	1,028,771	943,527
Average common shares – diluted	139,762,104	153,438,636	160,704,576
Diluted EPS from continuing operations	$ 2.01	$ 1.67	$ 1.28

(1) Stock option conversion excludes anti-dilutive shares of 2,708,364, 123,560 and 49,742 at December 31, 2006, 2005 and 2004, respectively.

12. 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 for December 31, 2006 and 2005 are included below.

(In thousands)	Pre-Tax Income (Loss)	Tax Benefit (Expense)	Net Amount
Accumulated other comprehensive income, December 31, 2004	$(33,482)	$27,785	$ (5,697)
Cumulative translation adjustment	(28,220)	–	(28,220)
Net change in fair value of derivative instruments	17,538	(6,248)	11,290
Amounts reclassified to income statement related to derivatives	13,093	(4,583)	8,510
Minimum pension liability adjustment	(18,476)	6,660	(11,816)
Accumulated other comprehensive income, December 31, 2005	(49,547)	23,614	(25,933)
Cumulative translation adjustment	(10,336)	–	(10,336)
Net change in fair value of derivative instruments	14,002	(5,265)	8,737
Amounts reclassified to income statement related to derivatives	(11,854)	4,399	(7,455)
Minimum pension liability adjustment	6,454	(2,451)	4,003
Adjustment to pension and other postretirement liability related to adoption of SFAS No. 158	(23,875)	9,072	(14,803)
Accumulated other comprehensive income, December 31, 2006	$(75,156)	$29,369	$(45,787)

The components of accumulated other comprehensive income (loss) at December 31, 2006 and 2005 are as follows:

(In thousands)	December 31 2006	December 31 2005
Cumulative translation adjustment	$ 1,922	$ 12,258
Fair value of derivative instruments, net of tax	10,527	9,245
Pension and other postretirement liability adjustment, net of tax	(58,236)	(47,436)
Total accumulated other comprehensive income (loss)	$(45,787)	$(25,933)

13. 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 one or more of these plans. During 2006, 2005 and 2004, our retirement and profit sharing plan expenses were as follows:

(In thousands)	Year Ended December 31 2006	2005	2004
Defined benefit plans	$ 8,074	$11,506	$ 9,833
Defined contribution plans	23,806	22,219	18,006
Multi-employer pension and certain union plans	27,231	23,939	22,712
Total	$59,111	$57,664	$50,551

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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 plus additional amounts as we deem appropriate.

Effective October 1, 2006, we adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required us to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of our defined benefit plans in the December 31, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, "Employer's Accounting for Pensions", all of which were previously netted against the plans' funded status in our Consolidated Balance Sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to our historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition obligation of $675,000 ($420,000 net of tax), unrecognized prior service costs of $9.7 million ($6.1 million net of tax) and unrecognized actuarial losses of $73.1 million ($45.6 million net of tax). The transition obligation, prior service cost, and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the year ended December 31, 2007 is $112,000 ($70,000 net of tax), $843,000 ($525,000 net of tax), and $2.9 million ($1.8 million net of tax), respectively.

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plans assets for the years ended December 31, 2006 and 2005 and the funded status of the plans at December 31, 2006 and 2005 is as follows:

	December 31	
(In thousands)	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$295,106	$ 274,993
Service cost	2,530	2,909
Interest cost	16,573	17,003
Plan participants' contributions	–	65
Plan amendments	–	2,459
Actuarial loss	5,215	20,300
Divestiture	–	1,818
Benefits paid	(21,149)	(24,441)
Benefit obligation at end of year	298,275	295,106
Change in plan assets:		
Fair value of plan assets at beginning of year	190,568	165,254
Actual return on plan assets	24,343	14,090
Employer contribution	37,453	34,113
Plan participants' contributions	–	65
Divestiture	–	1,487
Benefits paid	(21,149)	(24,441)
Fair value of plan assets at end of year	231,215	190,568
Funded status at end of year	$(67,060)	$(104,538)

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At December 31, 2005, the plans included unrecognized transition obligations of $785,000, unrecognized prior service costs of $10.6 million, and unrecognized net losses of $80.6 million, resulting in a net unfunded accrued pension cost of $12.6 million. Our Consolidated Balance Sheet at December 31, 2005 included an accrued pension liability of $100.1 million, an intangible pension asset of $11.3 million and an accumulated other comprehensive loss of $76.1 million determined in accordance with SFAS No. 87.

The underfunded status of the plans of $67.1 million at December 31, 2006 is recognized in our Consolidated Balance Sheet and includes $920,000 classified as a current accrued pension liability. No plan assets are expected to be returned to us during the year ended December 31, 2007.

A summary of our key actuarial assumptions used to determine benefit obligations as of December 31, 2006 and 2005 was:

	December 31	
	2006	2005
Discount rate	5.85%	5.75%
Expected return on plan assets	8.00%	8.50%
Rate of compensation increase	4.00%	4.00%

A summary of our key actuarial assumptions used to determine net periodic benefit cost for 2006, 2005 and 2004 follows:

	Year Ended December 31		
	2006	2005	2004
Discount rate	5.75%	5.75%	6.00 to 6.50%
Expected return on plan assets	8.00%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

	Year Ended December 31		
(In thousands)	2006	2005	2004
Components of net periodic pension cost:			
Service cost	$ 2,530	$ 2,909	$ 2,364
Interest cost	16,573	17,003	16,231
Expected return on plan assets	(15,783)	(15,698)	(12,899)
Amortizations:			
Unrecognized transition obligation	111	107	107
Prior service cost	850	628	628
Unrecognized net loss	3,443	3,010	1,652
Effect of settlement	350	3,547	1,750
Net periodic benefit cost	$ 8,074	$ 11,506	$ 9,833

Pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	December 31	
(In millions)	2006	2005
Projected benefit obligation	$296.7	$293.3
Accumulated benefit obligation	292.3	287.6
Fair value of plan assets	229.6	189.1

Substantially all of our qualified pension plans maintain their plan assets in a single master trust. We retained investment consultants to assist our Investment Committee with the transition of the plans' assets to the master trust and to help our Investment Committee formulate a long-term investment policy for the newly established master trust. Our current asset mix guidelines under our investment policy target equities at 65% to 75% of the portfolio and fixed income at 25% to 35%.

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We determine our expected long-term rate of return based on our expectations of future returns for the pension plan's investments based on target allocations of the pension plan's investments and the effect of periodic target asset allocation rebalancing. It is intended that the investments will be rebalanced when the allocation is not within the target range. The results are adjusted for the payment of reasonable expenses of the plan from plan assets. Additionally, we consider the weighted-average return of a capital markets model that was developed by the plans' investment consultants and historical returns on comparable equity, debt and other investments. The resulting weighted-average expected long-term rate of return on plan assets is 8.00%. We believe these assumptions are appropriate based upon the mix of investments and the long-term nature of the plans' investments.

Our pension plan weighted-average asset allocations at December 31, 2006 and 2005 by asset category were as follows:

	December 31	
Asset Category	**2006**	**2005**
Equity securities and limited partnerships	71%	71%
Fixed income securities	26	27
Cash and cash equivalents	3	2
Total	100%	100%

Equity securities of the plan did not include any investment in our common stock at December 31, 2006 or 2005.

We expect to contribute $23.2 million to the pension plans for 2007. Estimated pension plan benefit payments for the next ten years are as follows:

2007	$ 15.9 million
2008	16.1 million
2009	16.5 million
2010	16.8 million
2011	16.5 million
Next five years	102.7 million

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% and 20% 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 $24 to $91 per pay period per participant.

Multi-Employer Pension and Certain Union Plans – Certain of our subsidiaries contribute to various multi-employer pension and certain union 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 significant liabilities because withdrawal from these plans is not probable or reasonably possible.

14. 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 co-insurance provisions subject to certain lifetime maximums.

Effective October 1, 2006, we adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required us to recognize the unfunded portion (i.e., the difference between the fair value of plan assets and the accumulated postretirement benefit obligations) of our defined benefit plans in the December 31, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Prior to our adoption of SFAS No. 158, no other comprehensive income was recognized in our Consolidated Balance Sheets for our postretirement benefits other than pensions. Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic benefit cost: negative unrecognized prior service costs of $512,000 ($319,000 net of tax) and unrecognized actuarial losses of $10.5 million ($6.5 million net of tax). The negative prior service cost and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic benefit cost during the year ended December 31, 2007 is negative $69,000 ($43,000 net of tax) and $1.1 million ($663,000 net of tax), respectively.

The following table sets forth the funded status of these plans:

(In thousands)	December 31 2006	December 31 2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 27,397	$ 22,677
Service cost	1,062	1,004
Interest cost	1,496	1,107
Actuarial loss	1,788	5,241
Benefits paid	(2,426)	(2,633)
Benefit obligation at end of year	29,317	27,396
Fair value of plan assets at end of year	–	–
Funded status	$(29,317)	$(27,396)

At December 31, 2005, the plans included unrecognized negative prior service costs of $581,000 and unrecognized net losses of $9.6 million, resulting in a net unfunded accrued postretirement cost of $18.3 million determined in accordance with SFAS No. 87.

The unfunded portion of the liability of $29.3 million at December 31, 2006 is recognized in our Consolidated Balance Sheet and includes $2.4 million classified as a current accrued postretirement liability.

A summary of our key actuarial assumptions used to determine the benefit obligation as of December 31, 2006 and 2005 as follows:

	December 31 2006	December 31 2005
Healthcare inflation:		
Initial rate	12.00%	12.00%
Ultimate rate	5.05%	5.05%
Year of ultimate rate achievement	2011	2010
Discount rate	5.85%	5.75%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The weighted-average discount rate used to determine net periodic benefit cost was 5.75%, 5.75% and 6.0% to 6.5% for 2006, 2005 and 2004, respectively.

(In thousands)	December 31 2006	2005	2004
Components of net periodic benefit cost:			
Service and interest cost	$2,558	$2,111	$2,034
Amortizations:			
Prior service cost	(69)	(69)	(69)
Unrecognized net loss	941	284	291
Net periodic benefit cost	$3,430	$2,326	$2,256

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent 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	$ 224	$ (195)
Effect on postretirement obligation	2,139	(1,912)

We expect to contribute $2.4 million to the postretirement health care plans for 2007. Estimated postretirement health care plan benefit payments for the next ten years are as follows:

2007	$ 2.4 million
2008	2.7 million
2009	2.9 million
2010	3.1 million
2011	3.1 million
Next five years	18.3 million

15. Facility Closing and Reorganization Costs

Facility Closing and Reorganization Costs – We recorded net facility closing and reorganization costs of $25.1 million, $35.5 million and $24.6 million during 2006, 2005 and 2004, respectively. Our facility closing and reorganization costs are not allocated to our segments as we evaluate segment performance before such costs.

The charges recorded during 2006 are primarily related to the following:

- The closing of Dairy Group facilities in Akron, Ohio and Madison, Wisconsin; and
- Previously announced plans including reorganizing WhiteWave Foods Company and closing Dairy Group manufacturing facilities.

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

- The closing of Dairy Group manufacturing facilities in Union, New Jersey and Albuquerque, New Mexico; and
- Previously announced plans including reorganizing WhiteWave Foods Company and closing Dairy Group manufacturing facilities.

The charges recorded during 2004 are primarily related to the following:

- Closing Dairy Group manufacturing facilities in Madison, Wisconsin; San Leandro and South Gate, California; Westwego, Louisiana; Pocatello, Idaho and Wilkesboro, North Carolina;
- Reorganizing our WhiteWave Foods Company including consolidating the operations of the three distinct operating units: WhiteWave, Horizon Organic, and Dean National Brand Group; and
- Transferring Morningstar Foods' private label and manufacturing operations to the Dairy Group.

These charges were accounted for in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which became effective for us in January 2003. We expect to incur additional charges related to these restructuring plans of approximately $15.4 million, including an additional $10.0 million in work force reduction costs and approximately $5.4 million in shut down and other costs. Approximately $14.9 million and $500,000 of these additional charges are expected to be completed by December 2007 and December 2008, respectively. A significant portion of the 2007 charges relate to the realignment of our Dairy Group's finance and accounting organization.

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

- Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions;
- Shutdown costs, including those costs necessary to prepare abandoned facilities for closure;
- Costs incurred after shutdown, such as lease obligations or termination costs, utilities and property taxes;
- Costs associated with the reorganization of WhiteWave Foods Company's supply chain and distribution activities, including termination of certain contractual agreements; and
- Write-downs of property, plant and equipment and other assets, primarily for asset impairments as a result of facilities that are no longer used in operations. The impairments relate primarily to owned buildings, land and equipment at the facilities, which are written down to their estimated fair value and held for sale. The effect of suspending depreciation on the buildings and equipment related to the closed facilities was not significant. The carrying value of closed facilities and related equipment at December 31, 2006 was approximately $15.8 million. We are marketing these properties for sale.

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

Activity for 2006 and 2005 with respect to facility closing and reorganization costs is summarized below and includes items expensed as incurred:

(In thousands)	Accrued Charges at December 31, 2004	Charges	Payments	Accrued Charges at December 31, 2005	Charges	Payments	Accrued Charges at December 31, 2006
Cash charges:							
Workforce reduction costs	$5,568	$14,373	$(11,639)	$ 8,302	$ 4,954	$ (8,934)	$4,322
Shutdown costs	287	2,644	(2,722)	209	4,895	(5,088)	16
Lease obligations after shutdown	74	2,559	(561)	2,072	1,123	(1,882)	1,313
Settlement of contracts	–	724	–	724	45	(769)	–
Other	236	4,084	(3,850)	470	1,991	(2,245)	216
Subtotal	$6,165	$24,384	$(18,772)	$11,777	$13,008	$(18,918)	$5,867
Noncash charges:							
Write-down of assets		11,067			12,108		
Total charges		$35,451			$25,116		

Acquired Facility Closing and Other Exit Costs – As part of our purchase price allocations, we accrue costs from time to time pursuant to plans to exit certain facilities and activities of acquired businesses in order to rationalize production and reduce costs and inefficiencies. During 2004, we accrued costs to close two Dairy Group facilities acquired in 2003 and the Horizon Organic Farm and Education Center acquired in 2004, as well as to exit certain acquired contractual obligations. During 2005, we resolved a contractual obligation for less than we had previously reserved. The accruals and subsequent adjustments, if any, are reflected within the determination of the purchase price. The accruals and subsequent adjustments had no impact on our Consolidated Statements of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

The principal components of the plans include the following:

- Workforce reductions as a result of facility closings, facility reorganizations and consolidation of administrative functions and offices;
- Shutdown costs, including those costs necessary to clean and prepare abandoned facilities for closure; and
- Costs incurred after shutdown, such as lease or termination costs, utilities and property taxes after shutdown of the facility, as well as costs to exit certain contractual obligations.

Activity with respect to these acquisition liabilities for 2006 and 2005 is summarized below:

(In thousands)	Accrued Charges at December 31, 2004	Accruals	Payments	Adjustments	Accrued Charges at December 31, 2005	Payments	Accrued Charges at December 31, 2006
Workforce reduction costs	$ 2,135	$431	$ (876)	$ (1,324)	$ 366	$ (296)	$ 70
Shutdown and exit costs	81,766	–	(11,164)	(30,123)	40,479	(38,905)	1,574
Total	$83,901	$431	$(12,040)	$(31,447)	$40,845	$(39,201)	$1,644

16. Other Operating Income

In the fourth quarter of 2004, we recognized a $5.9 million gain primarily related to the settlement of litigation.

17. Supplemental Cash Flow Information

	Year Ended December 31		
(In thousands)	2006	2005	2004
Cash paid for interest and financing charges, net of capitalized interest	$184,902	$ 161,580	$155,015
Cash paid for taxes	63,037	166,224	27,453
Noncash transactions:			
Stock dividend related to the Spin-off	–	(492,613)	–

18. Commitments and Contingencies

Contingent Obligations Related to Divested Operations – We have sold several businesses in recent years. In each case, we have retained certain known contingent obligations related to those businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities, including environmental liabilities. We have established reserves for estimated probable liabilities related to our divested businesses.

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

Leases and Purchase Obligations – We lease certain property, plant and equipment used in our operations under both capital and operating lease agreements. Such leases, which are primarily for machinery, equipment and vehicles, have lease terms ranging from one to 20 years. Certain of the operating lease agreements require the payment of additional rentals for maintenance, along with additional rentals based on miles driven or units produced. Certain leases require us to guarantee a minimum value of the leased asset at the end of the lease. Our maximum exposure under those guarantees is not a material amount. Rent expense, including additional rent, was $132.3 million, $129.0 million and $119.7 million for 2006, 2005 and 2004, 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)	2006	2005
Machinery and equipment	$7,509	$2,550
Less accumulated amortization	(785)	(163)
	$6,724	$2,387

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

Future minimum payments at December 31, 2006, under non-cancelable capital leases and operating leases with terms in excess of one year and purchase obligations are summarized below:

(In thousands)	Capital Leases	Operating Leases	Purchase Obligations
2007	$ 918	$107,021	$310,416
2008	1,299	95,739	106,222
2009	1,278	85,725	59,997
2010	1,300	68,134	41,667
2011	1,375	49,488	8,259
Thereafter	393	83,323	75,780
Total minimum lease payments	6,563	$489,430	$602,341
Less amount representing interest	(656)		
Present value of capital lease obligations	$5,907		

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

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

We also have been informed by the staff of the Securities and Exchange Commission (the "SEC") that it is conducting an informal inquiry into our stock option practices. We are cooperating fully with the SEC's inquiry.

Insurance – We retain selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third party carriers with high deductible limits. In other areas, we are self-insured with stop-loss coverages. These deductibles range from $350,000 for medical claims to $2 million for casualty claims. We believe we have established adequate reserves to cover these claims. At December 31, 2006 and 2005, we recorded accrued liabilities related to these retained risks of $172.9 million and $161.2 million, respectively, including both current and long-term liabilities.

During 2005, we experienced operational disruptions in our Dairy Group segment caused by Hurricanes Katrina and Rita. Our insurance policies cover a portion of our business interruption losses for 12 months following the restoration of our property. During 2006, we received approximately $5.8 million in settlement of a portion of our business interruption claim for the period of August 29, 2005 through June 30, 2006. The insurance proceeds are recorded within cost of sales. We will continue to submit additional business interruption claims during 2007, and we will recognize these amounts upon settlement of the claims.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

19. 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, 2006 and 2005. 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 certain other debt are variable, their fair values approximate their carrying values.

We have senior notes with an aggregate face value of $600 million with fixed interest rates ranging from 6.625% to 8.15% at December 31, 2006. These notes were issued by Dean Holding Company prior to our acquisition of Dean Holding Company. On May 17, 2006, we issued $500 million aggregate principal amount of senior notes with a fixed interest rate of 7.0%.

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 and our senior notes were determined based on fair values for similar instruments with similar terms. The following table presents the carrying value and fair value of our senior notes and interest rate agreements at December 31:

	2006		2005	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Subsidiary senior notes	$(572,037)	$(604,500)	$(568,493)	$(615,625)
Dean Foods Company senior notes	(498,112)	(508,750)	–	–
Interest rate agreements	14,847	14,847	13,579	13,579

20. Segment, Geographic and Customer Information

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

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

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

On January 1, 2006, we transferred Rachel's Organic from our former International division to WhiteWave Foods Company. Our results have been restated for this transfer for all periods presented.

We evaluate the performance of our segments based on operating profit or loss before other operating income, gains and losses on the sale of assets, facility closing and reorganization costs and foreign exchange gains and losses. In addition, the expense related to share-based compensation has not been allocated to our segments and is reflected entirely within the caption "Corporate". Therefore, the measure of segment profit or loss presented below is before such items.

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

(In thousands)	2006	2005	2004
Net sales to external customers:			
Dairy Group	$ 8,820,950	$ 8,973,442	$8,683,135
WhiteWave Foods Company	1,277,605	1,201,276	1,042,413
Total	$10,098,555	$10,174,718	$9,725,548
Intersegment sales:			
Dairy Group	$ 13,208	$ 76,324	$ 56,844
WhiteWave Foods Company	96,322	101,459	58,541
Total	$ 109,530	$ 177,783	$ 115,385
Operating income:			
Dairy Group	$ 678,011	$ 642,043	$ 598,013
WhiteWave Foods Company	139,352	114,950	87,723
Corporate	(141,552)	(141,447)	(131,315)
Segment operating income	675,811	615,546	554,421
Facility closing and reorganization costs	(25,116)	(35,451)	(24,575)
Other operating income	–	–	5,899
Total	650,695	580,095	535,745
Other (income) expense:			
Interest expense	194,547	160,230	191,788
Other (income) expense, net	435	(683)	(722)
Consolidated income from continuing operations before tax	$ 455,713	$ 420,548	$ 344,679
Depreciation and amortization:			
Dairy Group	$ 179,304	$ 190,849	$ 177,649
WhiteWave Foods Company	37,361	12,224	8,685
Corporate	11,017	11,557	15,955
Total	$ 227,682	$ 214,630	$ 202,289
Assets:			
Dairy Group	$ 5,141,662	$ 5,197,092	$5,389,258
WhiteWave Foods Company	1,372,946	1,308,388	1,108,181
Corporate	235,585	243,677	198,879
Discontinued operations	19,980	301,727	1,060,050
Total	$ 6,770,173	$ 7,050,884	$7,756,368
Capital expenditures:			
Dairy Group	$ 149,381	$ 181,400	$ 270,255
WhiteWave Foods Company	77,275	99,994	27,969
Corporate	10,586	5,735	2,962
Total	$ 237,242	$ 287,129	$ 301,186

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

Major Customers – Our WhiteWave Foods Company and Dairy Group segments each had a single customer that represented greater than 10% of their net sales. Approximately 17.7%, 15.4% and 14.0%, respectively, of our consolidated net sales were to that same customer in 2006, 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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21. Related Party Transactions

Real Property Lease – We lease the land for our Franklin, Massachusetts facility from a partnership in which Alan Bernon, President of our Dairy Group and a member of our Board of Directors, owns a 13.45% minority interest. (The remaining interests are owned by members of Mr. Bernon's family.) Our lease payments were approximately $700,000 in 2006, 2005 and 2004.

Minority Interest in Consolidated Container Holding Company – We hold our minority interest in Consolidated Container Company through our subsidiary Franklin Plastics, Inc., in which we own an approximately 99% interest. Alan Bernon, President of our Dairy Group and a member of our Board of Directors, and his brother, Peter Bernon, collectively own less than 1% of Franklin Plastics, Inc.

22. Quarterly Results of Operations (unaudited)

The following is a summary of our unaudited quarterly results of operations for 2006 and 2005.

	Quarter			
(In thousands, except share data)	First	Second	Third	Fourth
2006				
Net sales	$2,509,041	$2,477,884	$2,517,792	$2,593,838
Gross profit	651,346	683,847	694,006	710,680
Income from continuing operations	54,694	74,795	74,498	76,276
Net income(1)	52,792	28,868	70,793	72,961
Earnings per common share(2):				
Basic	0.39	0.21	0.53	0.55
Diluted	0.37	0.21	0.51	0.53
2005				
Net sales	$2,474,571	$2,515,130	$2,569,405	$2,615,612
Gross profit	611,223	647,235	651,049	673,663
Income from continuing operations	50,692	74,026	62,181	69,751
Net income(3)	61,469	81,626	99,384	66,175
Earnings per common share(2):				
Basic	0.41	0.54	0.67	0.48
Diluted	0.39	0.52	0.64	0.45

(1) *The results for the first, second, third and fourth quarters include facility closing and reorganization costs, net of tax, of $2.7 million, $1.8 million, $3.4 million and $7.6 million, respectively.*
(2) *Earnings per common share calculations for each of the quarters were based on the basic and diluted weighted-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.*
(3) *The results for the first, second, third and fourth quarters include facility closing and reorganization costs, net of tax, of $3.9 million, $1.5 million, $11.3 million and $5.3 million, respectively.*

23. Subsequent Events (unaudited)

Sale of Iberian Operations – On January 18, 2007, we completed the sale of our Portuguese operations (that comprised the remainder of our Iberian operations). Our net cash proceeds were approximately $11.0 million subject to final working capital settlements. No significant loss was recorded on the sale. The sale of these operations is part of our strategy to focus on our core dairy and branded business.

Acquisition of Friendship Dairies, Inc. – In February 2007, our Dairy Group entered into an agreement to acquire Friendship Dairies, Inc., a manufacturer, marketer and distributor of cultured dairy products primarily in the northeastern United States. This transaction will expand our cultured dairy product capabilities and add a strong regional brand. The purchase price will be approximately $130 million, including the costs of the acquisition. We expect to complete the transaction by the second quarter of 2007, subject to regulatory approval.

CONTROLS AND PROCEDURES

Controls Evaluation and Related Certifications

We conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" ("Disclosure Controls") as of December 31, 2006. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

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

Definition of Disclosure Controls

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

Limitations on the Effectiveness of Controls

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

Scope of the Controls Evaluation

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

Changes in Internal Control over Financial Reporting

During the third quarter of 2006, WhiteWave Foods Company implemented SAP as its primary financial reporting and resource planning system. As a result, we made changes to our internal control over financial reporting. SAP was implemented at all locations of WhiteWave Foods Company in the United States except for the manufacturing facilities located in City of Industry, CA, Jacksonville, FL and Mt. Crawford, VA. WhiteWave Foods Company will implement SAP at these facilities during 2007.

CONTROLS AND PROCEDURES

Conclusions

Based upon our most recent controls evaluation, our CEO and CFO have concluded that as of December 31, 2006, our Disclosure Controls were effective at the reasonable assurance level. In the fourth quarter of 2006, other than the ongoing implementation of SAP as discussed above, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We have assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment we believe that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an audit report on our assessment of our internal control over financial reporting. This report appears on page 88.

February 28, 2007

Common Stock and Dividends

Our common stock began trading on the NASDAQ National Market on April 17, 1996, and continued trading on the NASDAQ until March 5, 1997, when it began trading on the New York Stock Exchange under the symbol "SZA." We changed our trading symbol to "DF" effective December 24, 2001. The following table sets forth the high and low sales prices of our common stock as quoted on the New York Stock Exchange for the last two fiscal years. At February 23, 2007, there were approximately 4,854 record holders of our common stock.

	High	Low
2005		
First Quarter	$35.60	$31.74
Second Quarter	41.07	33.87
Third Quarter	38.86	34.80
Fourth Quarter	39.45	34.45
2006		
First Quarter	39.69	37.02
Second Quarter	39.79	34.70
Third Quarter	42.81	35.97
Fourth Quarter	43.51	39.36

On June 27, 2005, we declared a stock dividend related to the Spin-off of TreeHouse Foods, which decreased our stock price. No adjustment has been made to the historical stock prices related to the impact of the stock dividend.

We have not historically declared or paid a cash dividend on our common stock.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Dean Foods Company
Dallas, Texas

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Dean Foods Company and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of new accounting standards.

Deloitte + Touche LLP

Deloitte & Touche LLP
Dallas, Texas
February 28, 2007

CONTROLS AND PROCEDURES

CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Gregg L. Engles, certify that:

1. I have reviewed this annual report on Form 10-K of Dean Foods Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Dean Foods Company as of, and for, the periods presented in this annual report;
4. Dean Foods Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Dean Foods Company and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Dean Foods Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of Dean Foods Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in Dean Foods Company's internal control over financial reporting that occurred during Dean Foods Company's most recent fiscal quarter (Dean Foods Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Dean Foods Company's internal control over financial reporting.
5. Dean Foods Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Dean Foods Company's auditors and the audit committee of Dean Foods Company's board of directors:
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Dean Foods Company's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in Dean Foods Company's internal control over financial reporting.

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

February 28, 2007

CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Jack F. Callahan, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Dean Foods Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Dean Foods Company as of, and for, the periods presented in this annual report;
4. Dean Foods Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Dean Foods Company and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Dean Foods Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of Dean Foods Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in Dean Foods Company's internal control over financial reporting that occurred during Dean Foods Company's most recent fiscal quarter (Dean Foods Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Dean Foods Company's internal control over financial reporting.
5. Dean Foods Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Dean Foods Company's auditors and the audit committee of Dean Foods Company's board of directors:
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Dean Foods Company's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in Dean Foods Company's internal control over financial reporting.

Jack F. Callahan, Jr.

Jack F. Callahan, Jr.
Executive Vice President and
Chief Financial Officer

February 28, 2007

CONTROLS AND PROCEDURES

CEO Certification Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-K of Dean Foods Company (the “Company”) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregg L. Engles, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents in all material respects, the financial condition and results of operations of the Company.

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

February 28, 2007

CFO Certification Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-K of Dean Foods Company (the “Company”) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jack F. Callahan, Jr., Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents in all material respects, the financial condition and results of operations of the Company.

Jack F. Callahan, Jr.
Executive Vice President and
Chief Financial Officer

February 28, 2007

OTHER SHAREHOLDER INFORMATION

Transfer Agent

The Bank of New York

Shareowner Inquiries:
The Bank of New York,
Shareholder Relations
PO Box 11258
Church Street Station
New York, New York 10286-1258

Certificate, DRS or
Legal Transfer:
The Bank of New York
Receive/Deliver Department
PO Box 11002
New York, New York 10286-1002

Lost Securities:
The Bank of New York
Lost Securities Department
PO Box 11281
New York, New York 10286-1281

Change of Address:
The Bank of New York
Account Maintenance Department
PO Box 11023
New York, New York 10286-1023
Telephone: 866.557.8698
E-Mail: Shareownersvcs@bankofny.com
Website: www.stockbny.com

Auditor

Deloitte & Touche LLP
2200 Ross Avenue
Suite 1600
Dallas, Texas 75201
Telephone: 214.840.7000

Market Information

NYSE: DF

Annual Meeting

May 18, 2007, 10:00 a.m.
Dallas Museum of Art
1717 North Harwood
Dallas, Texas 75201

Corporate Headquarters

Dean Foods Company
2515 McKinney Avenue
Suite 1200
Dallas, Texas 75201
Telephone: 214.303.3400
Facsimile: 214.303.3499
Website: www.deanfoods.com

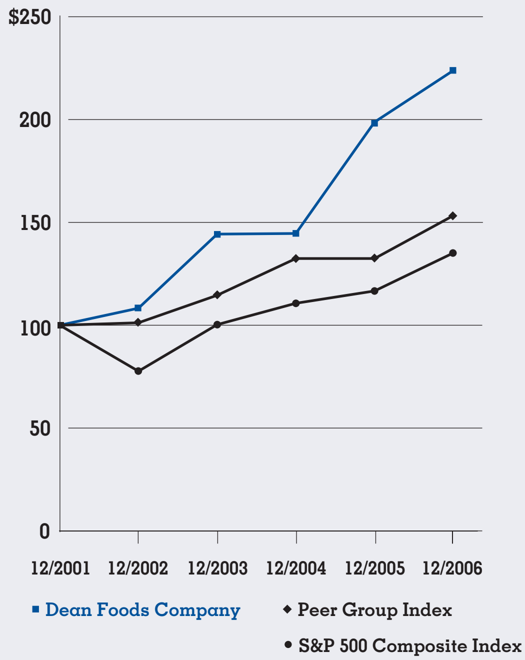
Forward-Looking Statement Disclosure

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 on pages 1 through 21, 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 this report, and in any subsequent reports we may file after the date hereof 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 through our corporate website at www.deanfoods.com, or on the SEC's website at www.sec.gov.

How Has Our Stock Performed?

The following graph compares the cumulative total return of our common stock since December 31, 2001, with the Standard & Poor's 500 Stock Index, and a peer group index of United States consumer products companies, assuming a $100 investment on January 1, 2002. Points plotted are as of December 31 of each year.

The peer group that we have selected includes 24 manufacturers of food, beverages and other consumer packaged goods. This group includes Archer-Daniels-Midland Company, Campbell Soup Company, The Clorox Company, Coca-Cola Enterprises Inc., Colgate-Palmolive Company, ConAgra Foods, Inc., Cott Corporation, Del Monte Foods Company, General Mills, Inc., H.J. Heinz Company, Hershey Foods Corporation, Hormel Foods Corporation, The J.M. Smucker Company, Kellogg Company, Kimberly-Clark Corporation, McCormick & Co., Inc., The Pepsi Bottling Group, Inc., The Procter & Gamble Company, Sara Lee Company, Smithfield Foods, Inc., Tyson Foods, Inc. and The Wrigley Company. This is the same peer group that the Compensation Committee of our Board of Directors has selected to compare us to for purposes of determining our executive compensation.



Assumes $100 invested on January 1, 2002
Assumes dividend reinvested for all periods

Notes
A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
C. If the monthly interval, based on the fiscal year-end is not a trading day, the preceding trading day is used.
D. The index level for all series was set to $100 on December 31, 2001.

BOARD OF DIRECTORS AND OFFICERS

Board of Directors

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

Alan J. Bernon
President
Dean Dairy Group

Lewis M. Collens
President
Illinois Institute of Technology and
Chairman, IIT Research Institute

Tom C. Davis
Chief Executive Officer
The Concorde Group, Ltd.

Stephen L. Green
General Partner
Canaan Capital Partners

Joseph S. Hardin, Jr.
Retired

Janet Hill
Vice President
Alexander & Associates

Ronald Kirk
Partner
Vinson & Elkins

John S. Llewellyn, Jr.
Retired

John R. Muse
Chairman
HM Capital Partners LLC

Hector M. Nevares
President
Neva Management

Pete Schenkel
Vice Chairman of the Board
Dean Foods Company

Jim L. Turner
Principal
JLT Beverages

Corporate Officers

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

Pete Schenkel
Vice Chairman of the Board

Michelle P. Goolsby
Executive Vice President,
Chief Administrative Officer, General
Counsel and Corporate Secretary

Jack F. Callahan, Jr.
Executive Vice President and
Chief Financial Officer

Alan J. Bernon
President
Dean Dairy Group

Joseph E. Scalzo
President and
Chief Executive Officer
WhiteWave Foods Company

Robert D. Dunn
Senior Vice President –
Human Resources

Art Fino
Senior Vice President and
Chief Information Officer

Steven J. Kemps
Senior Vice President,
Deputy General Counsel and
Assistant Secretary

Ronald H. Klein
Senior Vice President –
Corporate Development

Ronald L. McCrummen
Senior Vice President –
Chief Accounting Officer

William C. Tinklepaugh
Senior Vice President –
Government Relations

Design: Benoit Design, Inc. | Writing: Lisa Tyson and Bill Baldwin | Photography: Gary Blockley, Pat Haverfield and Keri Pickett | Printing: ColorDynamics

Environmental Benefits Statement

This Dean Foods Company 2006 Annual Report is printed on Neenah Environment Papers – PC 100, made of 100 percent post-consumer waste material. It is Forest Stewardship Council™ certified, process chlorine free, alkaline pH, and meets the American National Standards Institute standards for longevity.

By using Neenah Environment PC 100, Dean Foods Company saved the following resources:

Trees	2,983 fully grown
Water	516,102 gallons
Energy	699.4 million BTU
Solid Waste	54,756 pounds
Water Borne Wastes	3,508 pounds
Atmospheric Emissions	106,191 pounds

Environmental impact estimates were made using the Environmental Defense Paper Calculator.

For more information visit http://www.papercalculator.org.

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