November 18, 2005

TO ALL INTERESTED PARTIES:

Enclosed are copies of the latest nonfat powder, bulk butter, Cheddar cheese and whey processing costs for the period of January through December 2004. The processing cost data does not include the cost of raw product nor does it include any cost of marketing finished product.

For each of the four manufactured products, the cost data are presented in a table that shows actual weighted-average cost of plants grouped by efficiency. Also enclosed is a summary table showing the weighted-average manufacturing cost for nonfat powder, butter and Cheddar cheese as published since May 1989. In addition, the weighted average manufacturing for whey is shown for 2004 and 2005. Cost includes packaging, processing labor, processing non-labor, general and administrative cost, return on investment and, for butter and Cheddar cheese, miscellaneous ingredients.

Should you have any question regarding this material, please contact me at the telephone number or e-mail address listed above.

Sincerely,

Original Signed by

Venetta Reed
Supervising Auditor I

Enclosures
### Weighted Average Manufacturing Costs
for Butter, Nonfat Powder, Skim Whey Powder and Cheddar Cheese
1989 - 2005

Costs include processing labor, non-labor processing, packaging, other ingredients (for butter and Cheddar cheese only), general and administrative and return on investments.

<table>
<thead>
<tr>
<th>Date of Release</th>
<th>Butter Cost per Pound</th>
<th>Number of Plants</th>
<th>Nonfat Powder Cost per Pound</th>
<th>Number of Plants</th>
<th>Cheddar Cheese Cost per Pound</th>
<th>Number of Plants</th>
<th>Skim Whey Powder Cost per Pound</th>
<th>Number of Plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Month</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989 March</td>
<td>$0.0879</td>
<td>11</td>
<td>$0.1370</td>
<td>11</td>
<td>$0.2251</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992 July</td>
<td>$0.0969</td>
<td>12</td>
<td>$0.1443</td>
<td>12</td>
<td>$0.2010</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995 November</td>
<td>$0.0928</td>
<td>9</td>
<td>$0.1328</td>
<td>9</td>
<td>$0.1981</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996 December</td>
<td>$0.0970</td>
<td>9</td>
<td>$0.1333</td>
<td>9</td>
<td>$0.1898</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997 July</td>
<td>$0.0958</td>
<td>8</td>
<td>$0.1327</td>
<td>9</td>
<td>$0.1840</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999 February</td>
<td>$0.0930</td>
<td>8</td>
<td>$0.1356</td>
<td>10</td>
<td>$0.1693</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000 February</td>
<td>$0.0957</td>
<td>8</td>
<td>$0.1590</td>
<td>11</td>
<td>$0.1802</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001 October²</td>
<td>$0.1001</td>
<td>8</td>
<td>$0.1619</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002 November³</td>
<td>$0.1208</td>
<td>7</td>
<td>$0.1512</td>
<td>10</td>
<td>$0.1775</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003 November⁴</td>
<td>$0.1235</td>
<td>7</td>
<td>$0.1464</td>
<td>10</td>
<td>$0.1632</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004 November⁵</td>
<td>$0.1299</td>
<td>7</td>
<td>$0.1560</td>
<td>10</td>
<td>$0.1706</td>
<td>9</td>
<td>$0.2675</td>
<td>4</td>
</tr>
<tr>
<td>2005 November⁶</td>
<td>$0.1368</td>
<td>8</td>
<td>$0.1571</td>
<td>10</td>
<td>$0.1769</td>
<td>7</td>
<td>$0.2673</td>
<td>3</td>
</tr>
</tbody>
</table>

¹ For the 1996 Cheddar cheese cost study and subsequent cost studies, we have included costs associated with Cheddar cheese plants producing 500 pound barrels and 640 pound blocks. However, costs for packaging labor and packaging expenses were replaced with the average of those costs associated with 40 pound block plants.

² Includes the cost studies completed for periods between January 1998 and December 1999 and adjusted for utility costs. The utility cost adjustments were made using each plant’s invoices for energy costs for August 2001.

³ Includes the unadjusted cost studies for periods between July 2000 and December 2001.

⁴ Includes the cost studies for periods between July 2000 and December 2001 and adjusted for August 2002 utility invoices as well as 2002 data updating wages, payroll taxes and fringe benefits for all plants.

⁵ Includes the unadjusted cost studies for periods between January and December 2002.

⁶ Includes the unadjusted cost studies for periods between January and December 2003.

⁷ Includes the unadjusted cost studies for periods between January and December 2004.
Butter Processing Costs  
*Released November 2005*

1. Manufacturing cost data were collected and summarized from eight California butter plants. The eight plants processed 382.9 million pounds of butter during the study period, representing 99.9% of the butter processed in California.

2. The processing costs summarized in this study were incurred during a 12-month period, starting in January 2004 and concluding in December 2004.

3. The “Processing Non-Labor” category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.

4. The volume total includes both bulk butter and cut butter, but the costs reflect only costs for bulk butter (25 kg and 68 lb. blocks).

5. To obtain the weighted average, individual plant costs were weighted by their butter processing volume relative to the total volume of butter processed by all plants involved in the cost study.

6. The current manufacturing cost allowance for butter is $0.156 per pound. About 75% of the butter was processed at a cost less than the manufacturing cost allowance.

<table>
<thead>
<tr>
<th>Cost Groups</th>
<th>Number of Plants</th>
<th>Processing Labor</th>
<th>Processing Non-Labor</th>
<th>Package</th>
<th>Other Ingredients</th>
<th>General &amp; Administrative</th>
<th>Return on Investment</th>
<th>Total Cost</th>
<th>Volume in Group</th>
<th>Percent in Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Cost</td>
<td>4</td>
<td>$0.0446</td>
<td>$0.0456</td>
<td>$0.0098</td>
<td>$0.0045</td>
<td>$0.0117</td>
<td>$0.0068</td>
<td>$0.1230</td>
<td>288,092,738</td>
<td>75.2%</td>
</tr>
<tr>
<td>High Cost</td>
<td>4</td>
<td>$0.0692</td>
<td>$0.0652</td>
<td>$0.0106</td>
<td>$0.0026</td>
<td>$0.0256</td>
<td>$0.0061</td>
<td>$0.1793</td>
<td>94,838,606</td>
<td>24.8%</td>
</tr>
</tbody>
</table>

**Summary Statistics**

**Weighted Average**

- $0.0507
- $0.0504
- $0.0100
- $0.0040
- $0.0151
- $0.0066
- $0.1368

**Range**

- Minimum: $0.0392
- Maximum: $0.1826

**Total**

- $0.1368
- 382,931,344
- 100%
1. Manufacturing cost data were collected and summarized from 10 California nonfat powder plants. The 10 plants processed 745 million pounds of nonfat powder during the study period, representing 99.17% of the nonfat powder processed in California.

2. The processing costs summarized in this study were incurred during a 12-month period, starting in January 2004 and concluding in December 2004.

3. The "Processing Non-Labor" category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.

4. The volume total includes all grades of nonfat powder packaged in any container size, but the costs reflect only costs for 25 kg and 50 lb. bags of nonfat powder.

5. To obtain the weighted average, individual plant costs were weighted by their nonfat powder processing volume relative to the total volume of nonfat powder processed by all plants involved in the cost study.

6. The current manufacturing cost allowance for nonfat powder is $0.152 per pound. About 63% of the nonfat powder was processed at a cost less than the manufacturing cost allowance.

<table>
<thead>
<tr>
<th>Cost Groups</th>
<th>Number of Plants</th>
<th>Processing Labor</th>
<th>Processing Non-Labor</th>
<th>Package</th>
<th>General &amp; Administrative</th>
<th>Return on Investment</th>
<th>Total Cost</th>
<th>Volume in Group</th>
<th>Percent in Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Cost</td>
<td>3</td>
<td>$0.0327</td>
<td>$0.0784</td>
<td>$0.0141</td>
<td>$0.0099</td>
<td>$0.0068</td>
<td>$0.1419</td>
<td>468,014,288</td>
<td>62.8%</td>
</tr>
<tr>
<td>Medium Cost</td>
<td>4</td>
<td>$0.0360</td>
<td>$0.0986</td>
<td>$0.0152</td>
<td>$0.0136</td>
<td>$0.0099</td>
<td>$0.1733</td>
<td>238,532,017</td>
<td>32.0%</td>
</tr>
<tr>
<td>High Cost</td>
<td>3</td>
<td>$0.0840</td>
<td>$0.1228</td>
<td>$0.0115</td>
<td>$0.0121</td>
<td>$0.0108</td>
<td>$0.2412</td>
<td>38,852,610</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

**Summary Statistics**

**Weighted Average**

- Processing Labor: $0.0364
- Processing Non-Labor: $0.0872
- Package: $0.0143
- General & Administrative: $0.0112
- Return on Investment: $0.0080
- Total Cost: $0.1571

**Range**

- Minimum: $0.0283
- Maximum: $0.1037

**Total**

- 745,398,915
- 100%
1. Manufacturing cost data were collected and summarized from seven California cheese plants. The seven plants processed 817 million pounds of cheese during the study period, representing 98.5% of the Cheddar and Monterey Jack cheese processed in California.

2. The processing costs summarized in this study were incurred during a 12-month period, starting in January 2004 and concluding in December 2004.

3. The "Processing Non-Labor" category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.

4. The volume total includes both Cheddar and Monterey Jack cheeses, but the costs reflect only costs for 40 lb. blocks of Cheddar.

5. Three plants processed 500-lb. barrels or 640-lb. blocks. Packaging costs and packaging labor for 40 lb. blocks were substituted for these plants.

6. To obtain the weighted average, individual plant costs were weighted by their cheese processing volume relative to the total volume of cheese processed by all plants involved in the cost study.

7. The current manufacturing cost allowance for cheese is $0.171 per pound. About 62% of the cheese was processed at a cost less than the manufacturing cost allowance.

8. The weighted average yield was 11.08 lbs. of cheese per hundredweight of milk. The weighted average moisture was 37.84%, and weighted average vat tests were 4.02% fat and 9.05% SNF.

<table>
<thead>
<tr>
<th>Cost Groups</th>
<th>Number of Plants</th>
<th>Processing Labor</th>
<th>Processing Non-Labor</th>
<th>Package</th>
<th>Other Ingredient</th>
<th>General &amp; Administrative</th>
<th>Return on Investment</th>
<th>Total Cost</th>
<th>Volume in Group</th>
<th>Percent in Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Cost</td>
<td>3</td>
<td>$0.0397</td>
<td>$0.0759</td>
<td>$0.0180</td>
<td>$0.0089</td>
<td>$0.0191</td>
<td>$0.0094</td>
<td>$0.1710</td>
<td>628,560,303</td>
<td>76.9%</td>
</tr>
<tr>
<td>High Cost</td>
<td>4</td>
<td>$0.0709</td>
<td>$0.0584</td>
<td>$0.0206</td>
<td>$0.0178</td>
<td>$0.0243</td>
<td>$0.0042</td>
<td>$0.1962</td>
<td>188,508,025</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

**Summary Statistics**

**Weighted Average**

- $0.0469
- $0.0719
- $0.0186
- $0.0110
- $0.0203
- $0.0082
- $0.1769

**Range**

- Minimum: $0.0340
- Maximum: $0.0852

Total: $0.0128

Volume in Group: 817,068,328

Percent in Group: 100%
### Skim Whey Powder Processing Costs
*Released November 2005*

1. Manufacturing cost data was collected and summarized from three California skim whey powder plants. The three plants processed 93.2 million pounds of skim whey powder during the study period, representing 79% of the skim whey powder processed in California in 2004.

2. The processing costs summarized in this study were incurred during a 14-month period, starting in November 2003 and concluding in December 2004.

3. The “Processing Non-Labor” category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.

4. The volume total includes skim whey powder packaged in container sizes of 25 kg and 50 lb. bags.

5. To obtain the weighted average, individual plant costs were weighted by their skim whey powder processing volume relative to the total volume of skim whey powder processed by all plants involved in the cost study.

6. The current manufacturing cost allowance for skim whey powder is $0.20 per pound. All three plants processed skim whey powder at costs higher than the manufacturing cost allowance.

<table>
<thead>
<tr>
<th>Cost Groups</th>
<th>Number of Plants</th>
<th>Processing Labor</th>
<th>Processing Non-Labor</th>
<th>Package</th>
<th>General &amp; Administrative</th>
<th>Return on Investment</th>
<th>Total Cost per Group</th>
<th>Volume in Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weighted Average</strong></td>
<td>3</td>
<td>$0.0635</td>
<td>$0.1488</td>
<td>$0.0126</td>
<td>$0.0026</td>
<td>$0.0398</td>
<td>$0.2673</td>
<td>93,271,893</td>
</tr>
</tbody>
</table>

**Summary Statistics**

- **Range**
  - Minimum: $0.0487
  - Maximum: $0.0772

- **Summary Statistics**
  - Minimum: $0.0091
  - Maximum: $0.0199
  - Wilcoxon Signed Rank Test: $0.0049
  - Weighted Average: $0.0314
  - Median: $0.0514