



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

October 1, 2009

TO ALL INTERESTED PARTIES:

Enclosed are copies of the latest nonfat dry milk, bulk butter, and Cheddar cheese Manufacturing Cost Exhibit for the period of January through December 2008. 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 three 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 February 2000. In addition, included in this package is a comparative analysis of common line item costs. Cost includes packaging, processing labor, processing non-labor, general and administrative cost, and return on investment and, for butter and Cheddar cheese, miscellaneous ingredients.

We continue to appreciate the assistance of those plants that are providing the Manufacturing Cost Unit with data to complete our studies.

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

Sincerely,

Original Signed by

Venetta Reed
Supervising Auditor I

Enclosures



Release Date: October 1, 2009

**Summary of Weighted Average Manufacturing Costs
Butter, Nonfat Dry Milk, and Cheddar Cheese**

Costs include processing labor, non-labor processing, packaging, other ingredients (for butter and Cheddar cheese only), general and administrative, and return on investments at 7.45% for 2008.

Study Period	Release Date	BUTTER		NONFAT DRY MILK		CHEDDAR CHEESE		DRY WHEY POWDER	
		Cost Per Pound	Number of Plants	Cost Per Pound	Number of Plants	Cost Per Pound	Number of Plants	Cost Per Pound	Number of Plants
Study Periods Varied	Feb-00	\$0.0957	8	\$0.1356	10	\$0.1693	9	--	--
July 2000-Dec 2001	Nov-02	\$0.1208	7	\$0.1619	11	\$0.1775	9	--	--
Jan-Dec 2002	Nov-03	\$0.1235	7	\$0.1464	10	\$0.1632	9	--	--
Jan-Dec 2003	Nov-04	\$0.1299	7	\$0.1560	10	\$0.1706	9	\$0.2675	4
Jan-Dec 2004	Nov-05	\$0.1368	8	\$0.1543	10	\$0.1769	7	\$0.2673	3
Jan-Dec 2005	Nov-06	\$0.1408	8	\$0.1659	9	\$0.1914	7	\$0.2851	3
Jan-Dec 2006	Sep-07	\$0.1373	7	\$0.1664	8	\$0.1988	7	\$0.3099	3
Jan-Dec 2007	Sep-08	\$0.1316	7	\$0.1568	8	\$0.2003	6	-	--
Jan-Dec 2008	Sep-09	\$0.1553	8	\$0.1931	9	\$0.2099	6	-	--

Notes:

- Since 1996, the Cheddar cheese cost studies 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-lb. block plants.
- No cost studies performed for Dry Whey Powder plants starting January 2007 due to less than 3 plants manufacturing Dry Whey Powder.

BUTTER MANUFACTURING COSTS

CURRENT Study Period: January through December 2008
With Comparison to the same time period PRIOR YEAR (2007)

- Manufacturing cost data were collected and summarized from eight California butter plants. The eight plants processed 550.7 million pounds of butter during the 12-month study period, January through December 2008, representing 99.1% of the butter processed in California.
- 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).
- 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 included in the cost study.
- For this study period, approximately 54% of the butter was processed at a cost less than the current manufacturing cost allowance for butter of \$0.1560 per pound.

Breakdown of Butter Manufacturing Costs - January through December 2008

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2008	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2007	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Butter</i>							
Number of Plants	4	4	8	8	8	7	1
Processing Labor	\$0.0445	\$0.0541	\$0.0321	\$0.0905	\$0.0485	\$0.0467	\$0.0018
Processing Non-Labor	\$0.0573	\$0.0773	\$0.0454	\$0.1432	\$0.0656	\$0.0515	\$0.0141
Packaging	\$0.0134	\$0.0139	\$0.0120	\$0.0171	\$0.0136	\$0.0127	\$0.0009
Other Ingredients	\$0.0022	\$0.0023	\$0.0019	\$0.0029	\$0.0023	\$0.0022	\$0.0001
General & Administrative	\$0.0151	\$0.0191	\$0.0054	\$0.0628	\$0.0167	\$0.0125	\$0.0042
Return on Investment	\$0.0064	\$0.0117	\$0.0035	\$0.0741	\$0.0086	\$0.0060	\$0.0026
Average Total Cost	\$0.1389	\$0.1784	--	--	\$0.1553	\$0.1316	\$0.0237
Volume in Group (Lbs.)	321,883,180	228,814,212	--	--	550,697,392	492,471,306	58,226,086
% Volume by Group	58.5%	41.6%	--	--	100.0%	100.0%	--

Processing Labor: Labor costs associated with processing of product, including wages, payroll taxes and fringe benefits.

Processing Non-Labor: Includes costs such as utilities, repairs and maintenance, laundry, supplies, depreciation, plant insurance, outside storage, and rent.

Packaging: Includes all non-reusable items used in the packaging of the product, such as boxes, bags, cartons, liners, tape, glue and stretch wrap.

Other Ingredients: Includes salt, and color.

General & Administrative: Includes expenses in the management of the company, such as: office supplies, short-term interest, dues and subscriptions, accounting fees, headquarter charges, office clerical wages and executive salaries.

Return on Investment: Calculated by subtracting accumulated depreciation from the original cost of assets, with the remaining book value multiplied by Moody's "BAA" corporate bond index.

COMPARATIVE ANALYSIS - BUTTER 2008

	1/07-12/07 WEIGHTED AVERAGE COSTS	1/08-12/08 WEIGHTED AVERAGE COSTS	% DIFFERENCE
Total Lbs - All Butter	492,471,306	550,697,392	11.82%
Total Lbs - Bulk Butter	245,250,018	306,806,893	25.10%

SUMMARY OF COSTS PER LB.

Misc. Ingredient Costs	0.0022	0.0023	4.55%
Packaging Expense	0.0127	0.0136	7.09%
Processing Labor	0.0467	0.0485	3.85%
Processing Non-Labor	0.0515	0.0656	27.38%
Gen & Admin Expenses	0.0125	0.0167	33.60%
Return On Investment	0.0060	0.0086	43.33%
	<hr/>	<hr/>	
Manufact Costs - per Lb.	0.1316	0.1553	18.01%

BREAKDOWN OF COMMON NON-LABOR AND G&A COSTS PER LB.

Natural Gas & Fuel Oil	0.0020	0.0027	35.00%
Electricity	0.0064	0.0102	59.38%
Sewer,Water,Garbage	0.0030	0.0035	16.67%
Depreciation	0.0082	0.0087	6.10%
Property Taxes	0.0011	0.0012	9.09%
Insurance	0.0014	0.0015	7.14%
Repairs & Maintenance	0.0060	0.0071	18.33%
Plant Supplies	0.0119	0.0142	19.33%
Outside Storage	0.0036	0.0105	191.67%
Rent-Plant & Equip	0.0010	0.0011	10.00%
Outside Testing & Grading	0.0006	0.0023	283.33%
Gen & Admin Payroll	0.0050	0.0058	16.00%
Short-Term Interest	0.0020	0.0040	100.00%
Professional Services	0.0018	0.0023	27.78%
Headquarter Expenses	0.0039	0.0043	10.26%
Other Misc.Expenses	0.0060	0.0030	-50.00%
	<hr/>	<hr/>	
Total Non-Labor & G&A Costs	0.0640	0.0824	28.75%

NONFAT DRY MILK MANUFACTURING COSTS
 CURRENT Study Period: January through December 2008
 With Comparison to the same time period PRIOR YEAR (2007)

- Manufacturing cost data were collected and summarized from nine California NFDM plants. The nine plants processed 774.4 million pounds of NFDM during the 12-month study period, January through December 2008, representing 94.5% of the NFDM processed in California.
- The 94.5% includes both animal and human consumption. Human consumption representing 99.66% of the 774.4 million pounds of NFDM processed, and animal representing 0.34%.
- The volume total includes all grades of NFDM packaged in any container size, but the costs reflect only costs for 25 kg and 50 lb. bags of NFDM.
- To obtain the weighted average, individual plant costs were weighted by their NFDM processing volume relative to the total volume of NFDM processed by all plants included in the cost study.
- For this study period, approximately 56.4% of the NFDM was processed at a cost less than the current manufacturing cost allowance for NFDM of \$0.1698 per pound.

Breakdown of Nonfat Dry Milk Manufacturing Costs - January through December 2008

Categories	Low Cost Group	Medium Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2008	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2007	Actual Difference Current Less Prior Year
				Minimum	Maximum			
<i>Dollars Per Pound of NFDM</i>								
Number of Plants	3	3	3	9	9	9	8	1
Processing Labor	\$0.0295	\$0.0386	\$0.0417	\$0.0272	\$0.0933	\$0.0340	\$0.0333	\$0.0007
Processing Non-Labor	\$0.1001	\$0.1238	\$0.1647	\$0.0924	\$0.2364	\$0.1175	\$0.0922	\$0.0253
Packaging	\$0.0157	\$0.0130	\$0.0142	\$0.0123	\$0.0161	\$0.0147	\$0.0148	-\$0.0001
General & Administrative	\$0.0090	\$0.0113	\$0.0277	\$0.0080	\$0.0313	\$0.0128	\$0.0087	\$0.0041
Return on Investment	\$0.0085	\$0.0078	\$0.0421	\$0.0032	\$0.0527	\$0.0141	\$0.0078	\$0.0063
Average Total Cost	\$0.1628	\$0.1945	\$0.2904	--	--	\$0.1931	\$0.1568	\$0.0363
Volume in Group (Lbs.)	436,801,407	204,203,488	133,453,647	--	--	774,458,542	701,322,354	73,136,188
% Volume by Group	56.4%	26.4%	17.2%	--	--	100.0%	100.0%	--

Processing Labor: Labor costs associated with processing of product, including wages, payroll taxes and fringe benefits.

Processing Non-Labor: Includes costs such as utilities, repairs and maintenance, laundry, supplies, depreciation, plant insurance, outside storage, and rent.

Packaging: Includes all non-reusable items used in the packaging of the product, such as boxes, bags, cartons, liners, tape, glue and stretch wrap.

General & Administrative: Includes expenses in the management of the company, such as: office supplies, short-term interest, dues and subscriptions, accounting fees, headquarter charges, office clerical wages and executive salaries.

Return on Investment: Calculated by subtracting accumulated depreciation from the original cost of assets, with the remaining book value multiplied by Moody's "BAA" corporate bond index.

COMPARATIVE ANALYSIS - POWDER 2008

	2007 WEIGHTED AVERAGE COSTS	2008 WEIGHTED AVERAGE COSTS	% CHANGE
NFDM Powder Pounds	701,322,354	774,458,542	10.43%
SUMMARY OF COSTS PER LB.			
Misc. Ingredients Cost	0.0000	0.0000	0.00%
Packaging Expense	0.0148	0.0147	-0.68%
Processing Labor	0.0333	0.0340	2.10%
Processing Non-Labor	0.0922	0.1175	27.44%
Gen & Admin Expenses	0.0087	0.0128	47.13%
Return On Investment	0.0078	0.0141	80.77%
	<hr/>		
Manufact Costs - per Lb.	0.1568	0.1931	23.15%

BREAKDOWN OF COMMON NON-LABOR AND G&A COSTS PER LB.

Natural Gas & Fuel Oil	0.0285	0.0383	34.39%
Electricity	0.0139	0.0177	27.34%
Sewer, Water, Garbage	0.0034	0.0044	29.41%
Depreciation	0.0096	0.0121	26.04%
Property Taxes	0.0015	0.0018	20.00%
Insurance	0.0011	0.0011	0.00%
Repairs & Maintenance	0.0065	0.0083	27.69%
Plant Supplies	0.0141	0.0174	23.40%
Outside Storage	0.0051	0.0075	47.06%
Rent-Plant & Equip	0.0018	0.0016	-11.11%
Outside Testing & Grading	0.0021	0.0041	95.24%
Gen & Admin Payroll	0.0035	0.0040	14.29%
Short-Term Interest	0.0014	0.0045	221.43%
Professional Services	0.0014	0.0015	7.14%
Headquarter Expenses	0.0028	0.0029	3.57%
Other Misc. Expenses	0.0041	0.0030	-26.83%
	<hr/>		
Total Non-Labor & G&A Costs	0.1009	0.1303	29.14%

CHEESE MANUFACTURING COSTS

CURRENT Study Period: January through December 2008
With Comparison to the same time period PRIOR YEAR (2007)

- Manufacturing cost data were collected and summarized from six California cheese plants. The six plants processed 603.3 million pounds of cheese during the 12-month study period, January through December 2008, representing 93.39% of the Cheddar and Monterey Jack cheese processed in California.
- The volume total includes both Cheddar and Monterey Jack cheeses, but the costs reflect only costs for 40 lb. blocks of Cheddar.
- Three plants processed 500-lb. barrels or 640-lb. blocks. Packaging costs and packaging labor for 40-lb. blocks were substituted for these plants.
- 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 included in the cost study.
- For all cheese: the weighted average yield was 13.58 lbs. of cheese per hundredweight of milk. The weighted average moisture was 37.86% and weighted average vat tests were 4.21% fat and 10.23% SNF.
 - For 40-lb. blocks: the weighted average yield was 13.64 lbs. of cheese per hundredweight of milk. The weighted average moisture was 38.09% and weighted average vat tests were 4.13% fat and 10.22% SNF.
- For this study period, approximately 4.6% of the cheese was processed at a cost less than the current manufacturing cost allowance for cheese of \$0.1988 per pound.

Breakdown of Cheese Manufacturing Costs - January through December 2008

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2008	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2007	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Cheese</i>							
Number of Plants	3	3	6	6	6	6	0
Processing Labor	\$0.0518	\$0.0665	\$0.0506	\$0.0739	\$0.0550	\$0.0467	\$0.0083
Processing Non-Labor	\$0.0823	\$0.0812	\$0.0699	\$0.0874	\$0.0821	\$0.0891	-\$0.0070
Packaging	\$0.0267	\$0.0236	\$0.0154	\$0.0268	\$0.0260	\$0.0232	\$0.0028
Other Ingredients	\$0.0120	\$0.0214	\$0.0096	\$0.0247	\$0.0140	\$0.0116	\$0.0024
General & Administrative	\$0.0268	\$0.0273	\$0.0235	\$0.0302	\$0.0269	\$0.0230	\$0.0039
Return on Investment	\$0.0060	\$0.0054	\$0.0039	\$0.0062	\$0.0059	\$0.0067	-\$0.0008
Average Total Cost	\$0.2056	\$0.2254	--	--	\$0.2099	\$0.2003	\$0.0096
Volume in Group (Lbs.)	472,245,512	131,032,908	--	--	603,278,420	645,199,735	-41,921,315
% Volume by Group	78.3%	21.7%	--	--	100.0%	100.0%	--

Processing Labor: Labor costs associated with processing of product, including wages, payroll taxes and fringe benefits.

Processing Non-Labor: Includes costs such as utilities, repairs and maintenance, laundry, supplies, depreciation, plant insurance, outside storage, and rent.

Packaging: Includes all non-reusable items used in the packaging of the product, such as boxes, bags, cartons, liners, tape, glue and stretch wrap.

Other Ingredients: Includes salt, color, and rennet.

General & Administrative: Includes expenses in the management of the company, such as: office supplies, short-term interest, dues and subscriptions, accounting fees, headquarter charges, office clerical wages and executive salaries.

Return on Investment: Calculated by subtracting accumulated depreciation from the original cost of asse+A11ts, with the remaining book value multiplied by Moody's "BAA" corporate bond index.

COMPARATIVE ANALYSIS - CHEESE 2008

	2007 WEIGHTED AVERAGE COSTS	2008 WEIGHTED AVERAGE COSTS	% DIFFERENCE
CHEDDAR CHEESE POUNDS	645,199,735	603,278,420	-6.50%
SUMMARY OF COSTS PER LB.			
Misc. Ingredient Costs	0.0116	0.0140	20.69%
Packaging Expense	0.0232	0.0260	12.07%
Processing Labor	0.0467	0.0550	17.77%
Processing Non-Labor	0.0891	0.0821	-7.86%
Gen & Admin Expenses	0.0230	0.0269	16.96%
Return On Investment	0.0067	0.0059	-11.94%
	<hr/>		
Manufact Costs - per Lb.	0.2003	0.2099	4.79%
	<hr/> <hr/>		

BREAKDOWN OF COMMON NON-LABOR AND G&A COSTS PER LB.

Natural Gas & Fuel Oil	0.0089	0.0110	23.60%
Electricity	0.0080	0.0068	-15.00%
Sewer & Whey Disposal	0.0163	0.0089	-45.40%
Depreciation	0.0126	0.0104	-17.46%
Property Taxes	0.0026	0.0026	0.00%
Insurance	0.0014	0.0017	21.43%
Repairs & Maintenance	0.0110	0.0112	1.82%
Plant Supplies	0.0111	0.0132	18.92%
Outside Storage	0.0010	0.0009	-10.00%
Rent - Plant & Equipment	0.0131	0.0130	-0.76%
Outside Testing & Grading	0.0007	0.0008	14.29%
Gen & Admin Payroll	0.0104	0.0133	27.88%
Short-Term Interest	0.0028	0.0020	-28.57%
Professional Services	0.0039	0.0053	35.90%
Headquarter Expenses	0.0018	0.0021	16.67%
Other Misc. Expenses	0.0065	0.0057	-12.31%
	<hr/>		
Total Non-Labor & G&A Costs	0.1121	0.1090	-2.77%
	<hr/> <hr/>		