



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

September 26, 2008

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 2007. 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. Cost includes packaging, processing labor, processing non-labor, general and administrative cost, return on investment and, for butter and Cheddar cheese, miscellaneous ingredients.

The next anticipated release of the Manufacturing Cost Exhibit for January through December 2008 will be July 2009. Therefore, the Branch does not expect to perform any cost estimates (such as labor, energy and packaging) to this exhibit.

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: September 26, 2008

**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 6.48% for 2007.

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	-	-

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 2007
With Comparison to the same time period PRIOR YEAR (2006)

- Manufacturing cost data were collected and summarized from seven California butter plants. The seven plants processed 492.5 million pounds of butter during the 12-month study period, January through December 2007, representing 98.7% 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 57% 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 2007

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2007	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2006	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Butter</i>							
Number of Plants	3	4	7	7	7	7	0
Processing Labor	\$0.0390	\$0.0572	\$0.0311	\$0.0995	\$0.0467	\$0.0498	-\$0.0031
Processing Non-Labor	\$0.0410	\$0.0657	\$0.0335	\$0.0709	\$0.0515	\$0.0508	\$0.0007
Packaging	\$0.0116	\$0.0142	\$0.0109	\$0.0159	\$0.0127	\$0.0108	\$0.0019
Other Ingredients	\$0.0021	\$0.0024	\$0.0018	\$0.0025	\$0.0022	\$0.0030	-\$0.0008
General & Administrative	\$0.0110	\$0.0145	\$0.0075	\$0.0178	\$0.0125	\$0.0159	-\$0.0034
Return on Investment	\$0.0055	\$0.0068	\$0.0030	\$0.0090	\$0.0060	\$0.0070	-\$0.0010
Average Total Cost	\$0.1102	\$0.1608	--	--	\$0.1316	\$0.1373	-\$0.0057
Volume in Group (Lbs.)	282,532,722	209,938,584	--	--	492,471,306	424,620,569	67,850,737
% Volume by Group	57.4%	42.6%	--	--	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, 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.

NONFAT DRY MILK MANUFACTURING COSTS
 CURRENT Study Period: January through December 2007
 With Comparison to the same time period PRIOR YEAR (2006)

- Manufacturing cost data were collected and summarized from eight California NFDM plants. The eight plants processed 701.3 million pounds of NFDM during the 12-month study period, January through December 2007, representing 96.5% of the NFDM processed in California.
- The 96.5% includes both animal and human consumption. Human consumption representing 99.77% of the 701.3 million pounds of NFDM processed, and animal representing 0.23%.
- 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 92.6% 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 2007

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2007	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2006	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of NFDM</i>							
Number of Plants	4	4	8	8	8	8	0
Processing Labor	\$0.0306	\$0.0543	\$0.0233	\$0.0791	\$0.0333	\$0.0362	-\$0.0029
Processing Non-Labor	\$0.0904	\$0.1061	\$0.0798	\$0.1985	\$0.0922	\$0.0965	-\$0.0043
Packaging	\$0.0151	\$0.0128	\$0.0117	\$0.0161	\$0.0148	\$0.0147	\$0.0001
General & Administrative	\$0.0083	\$0.0117	\$0.0073	\$0.0214	\$0.0087	\$0.0111	-\$0.0024
Return on Investment	\$0.0077	\$0.0079	\$0.0035	\$0.0137	\$0.0078	\$0.0079	-\$0.0001
Average Total Cost	\$0.1521	\$0.1928	--	--	\$0.1568	\$0.1664	-\$0.0096
Volume in Group (Lbs.)	619,816,066	81,506,288	--	--	701,322,354	536,370,470	164,951,884
% Volume by Group	88.4%	11.6%	--	--	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, 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 assts, with the remaining book value multiplied by Moody's "BAA" corporate bond index.

CHEESE MANUFACTURING COSTS

CURRENT Study Period: January through December 2007
With Comparison to the same time period PRIOR YEAR (2006)

- Manufacturing cost data were collected and summarized from six California cheese plants. The six plants processed 645.2 million pounds of cheese during the 12-month study period, January through December 2007, representing 80.83% 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 13.71 lbs. of cheese per hundredweight of milk. The weighted average moisture was 37.97% and weighted average vat tests were 4.65% fat and 9.61% SNF.
 - For 40-lb. blocks: the weighted average yield was 13.72 lbs. of cheese per hundredweight of milk. The weighted average moisture was 38.31% and weighted average vat tests were 4.64% fat and 9.52% SNF.
- For this study period, approximately 30.1% 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 2007

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2007	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2006	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Cheese</i>							
Number of Plants	3	3	6	6	6	7	-1
Processing Labor	\$0.0416	\$0.0681	\$0.0393	\$0.0865	\$0.0467	\$0.0499	-\$0.0032
Processing Non-Labor	\$0.0901	\$0.0848	\$0.0682	\$0.0973	\$0.0891	\$0.0918	-\$0.0027
Packaging	\$0.0241	\$0.0195	\$0.0081	\$0.0242	\$0.0232	\$0.0192	\$0.0040
Other Ingredients	\$0.0097	\$0.0198	\$0.0084	\$0.0262	\$0.0116	\$0.0115	\$0.0001
General & Administrative	\$0.0232	\$0.0222	\$0.0178	\$0.0265	\$0.0230	\$0.0182	\$0.0048
Return on Investment	\$0.0071	\$0.0049	\$0.0028	\$0.0073	\$0.0067	\$0.0082	-\$0.0015
Average Total Cost	\$0.1958	\$0.2193	--	--	\$0.2003	\$0.1988	\$0.0015
Volume in Group (Lbs.)	519,746,222	125,453,513	--	--	645,199,735	826,820,198	-181,620,463
% Volume by Group	80.6%	19.4%	--	--	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, 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 assets, with the remaining book value multiplied by Moody's "BAA" corporate bond index.