



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

September 18, 2007

TO ALL INTERESTED PARTIES:

Enclosed are copies of the latest nonfat dry milk, bulk butter, Cheddar cheese and dry whey powder processing costs for the period of January through December 2006. 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 February 2000. In addition, the weighted average manufacturing for whey is shown for 2004 - 2006. 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 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



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

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 2006.

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

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.
- The cost studies for Dry Whey Powder originated with the study period January-December 2003.

BUTTER MANUFACTURING COSTS

CURRENT Study Period: January through December 2006
With Comparison to the same time period PRIOR YEAR (2005)

- Manufacturing cost data were collected and summarized from seven California butter plants. The seven plants processed 424.6 million pounds of butter during the 12-month study period, January through December 2006, representing 95% 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 61% of the butter was processed at a cost less than the current manufacturing cost allowance for butter of \$0.156 per pound.

Breakdown of Butter Manufacturing Costs - January through December 2006

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2006	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2005	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Butter</i>							
Number of Plants	3	4	7	7	7	8	-1
Processing Labor	\$0.0417	\$0.0612	\$0.0345	\$0.1148	\$0.0498	\$0.0528	-\$0.0030
Processing Non-Labor	\$0.0423	\$0.0627	\$0.0364	\$0.0695	\$0.0508	\$0.0514	-\$0.0006
Packaging	\$0.0103	\$0.0116	\$0.0095	\$0.0122	\$0.0108	\$0.0104	\$0.0004
Other Ingredients	\$0.0024	\$0.0039	\$0.0017	\$0.0045	\$0.0030	\$0.0041	-\$0.0011
General & Administrative	\$0.0134	\$0.0193	\$0.0059	\$0.0239	\$0.0159	\$0.0147	\$0.0012
Return on Investment	\$0.0064	\$0.0079	\$0.0018	\$0.0096	\$0.0070	\$0.0074	-\$0.0004
Average Total Cost	\$0.1165	\$0.1666	--	--	\$0.1373	\$0.1408	-\$0.0035
Volume in Group (Lbs.)	247,655,028	176,965,541	--	--	424,620,569	396,627,948	27,992,621
% Volume by Group	58.3%	41.7%	--	--	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, 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 2006
 With Comparison to the same time period PRIOR YEAR (2005)

- Manufacturing cost data were collected and summarized from eight California NFDM plants. The eight plants processed 536.3 million pounds of NFDM during the 12-month study period, January through December 2006, representing 95% of the NFDM processed in California. The 95% includes both animal and human consumption.
- 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 28% of the NFDM was processed at a cost less than the current manufacturing cost allowance for NFDM of \$0.160 per pound.

Breakdown of Nonfat Dry Milk Manufacturing Costs - January through December 2006

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2006	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2005	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of NFDM</i>							
Number of Plants	4	4	8	8	8	9	-1
Processing Labor	\$0.0339	\$0.0459	\$0.0258	\$0.0780	\$0.0362	\$0.0377	-\$0.0015
Processing Non-Labor	\$0.0925	\$0.1132	\$0.0826	\$0.2337	\$0.0965	\$0.0961	\$0.0004
Packaging	\$0.0149	\$0.0138	\$0.0112	\$0.0151	\$0.0147	\$0.0143	\$0.0004
General & Administrative	\$0.0100	\$0.0156	\$0.0091	\$0.0334	\$0.0111	\$0.0096	\$0.0015
Return on Investment	\$0.0070	\$0.0118	\$0.0040	\$0.0116	\$0.0079	\$0.0082	-\$0.0003
Average Total Cost	\$0.1583	\$0.2003	--	--	\$0.1664	\$0.1659	\$0.0005
Volume in Group (Lbs.)	433,519,945	102,850,525	--	--	536,370,470	471,894,459	64,476,011
% Volume by Group	80.8%	19.2%	--	--	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, 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.

CHEESE MANUFACTURING COSTS

CURRENT Study Period: January through December 2006
With Comparison to the same time period PRIOR YEAR (2005)

- Manufacturing cost data were collected and summarized from seven California cheese plants. The seven plants processed 826.8 million pounds of cheese during the 12-month study period, January through December 2006, representing 98% 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 12.24 lbs. of cheese per hundredweight of milk. The weighted average moisture was 37.03% and weighted average vat tests were 4.40% fat and 9.33% SNF.
 - For 40-lb. blocks: the weighted average yield was 12.62 lbs. of cheese per hundredweight of milk. The weighted average moisture was 38.08% and weighted average vat tests were 4.24% fat and 9.10% SNF.
- For this study period, approximately 0% of the cheese was processed at a cost less than the current manufacturing cost allowance for cheese of \$0.178 per pound.

Breakdown of Cheese Manufacturing Costs - January through December 2006

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2006	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2005	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Cheese</i>							
Number of Plants	3	4	7	7	7	7	0
Processing Labor	\$0.0403	\$0.0648	\$0.0391	\$0.0907	\$0.0499	\$0.0498	\$0.0001
Processing Non-Labor	\$0.0882	\$0.0975	\$0.0624	\$0.1228	\$0.0918	\$0.0850	\$0.0068
Packaging	\$0.0210	\$0.0165	\$0.0114	\$0.0231	\$0.0192	\$0.0193	-\$0.0001
Other Ingredients	\$0.0085	\$0.0162	\$0.0070	\$0.0439	\$0.0115	\$0.0117	-\$0.0002
General & Administrative	\$0.0206	\$0.0145	\$0.0080	\$0.0239	\$0.0182	\$0.0174	\$0.0008
Return on Investment	\$0.0076	\$0.0091	\$0.0034	\$0.0131	\$0.0082	\$0.0082	\$0.0000
Average Total Cost	\$0.1862	\$0.2186	--	--	\$0.1988	\$0.1914	\$0.0074
Volume in Group (Lbs.)	503,547,827	323,272,371	--	--	826,820,198	826,583,500	236,698
% Volume by Group	60.9%	39.1%	--	--	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.

DRY WHEY POWDER MANUFACTURING COSTS
 CURRENT Study Period: January through December 2006
 With Comparison to the same time period PRIOR YEAR (2005)

- One of the three participating dry whey operations experienced a significant reduction in the total annual volume of dry whey processed in 2006 compared to 2005. This volume reduction resulted in a significant increase in the per unit dry whey cost for this processing operation that has elevated the weighted average total cost of all three participating plants. As a result, the cost range between the highest cost plant and the lowest cost plant was significantly larger in 2006 compared with 2005.
- Manufacturing cost data were collected and summarized from three California dry whey powder plants. The three plants processed 84.89 million pounds of dry whey powder during the 12-month study period, January through December 2006, representing 73% of the dry whey powder processed in California. The 73% includes both animal and human consumption.
- The volume total includes dry whey powder packaged in container sizes of 25 kg and 50 lb. bags.
- To obtain the weighted average, individual plant costs were weighted by their dry whey powder processing volume relative to the total volume of dry whey powder processed by all plants included in the cost study.
- For this study period, one of the three plants processed dry whey powder at costs lower than the current manufacturing cost allowance for dry whey powder of \$0.267 per pound.

Breakdown of Dry Whey Powder Manufacturing Costs - January through December 2006

Categories	Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2006	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2005	Actual Difference Current Less Prior Year
		Minimum	Maximum			
<i>Dollars Per Pound of Dry Whey Powder</i>						
Number of Plants	3	3	3	3	3	0
Processing Labor	\$0.0580	\$0.0447	\$0.0901	\$0.0580	\$0.0562	\$0.0018
Processing Non-Labor	\$0.1943	\$0.1448	\$0.5293	\$0.1943	\$0.1735	\$0.0208
Packaging	\$0.0150	\$0.0105	\$0.0227	\$0.0150	\$0.0132	\$0.0018
General & Administrative	\$0.0020	\$0.0012	\$0.0025	\$0.0020	\$0.0029	-\$0.0009
Return on Investment	\$0.0406	\$0.0324	\$0.0896	\$0.0406	\$0.0393	\$0.0013
Average Total Cost	\$0.3099	--	--	\$0.3099	\$0.2851	\$0.0248
Volume in Group (Lbs.)	84,898,909	--	--	84,898,909	97,953,043	-13,054,134
% Volume by Group	100.0%	--	--	100.0%	100.0%	--

Processing Labor: All labor costs associated with processing of product.

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 assets, with the remaining book value multiplied by Moody's "BAA" corporate bond index.