



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

November 02, 2010

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 2009. 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 July 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



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 7.30% for 2009.

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
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	Oct-09	\$0.1553	8	\$0.1931	9	\$0.2099	6	-	--
Jan-Dec 2009	Oct-10	\$0.1811	8	\$0.1984	9	\$0.1966	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 2009
With Comparison to the same time period PRIOR YEAR (2008)

- Manufacturing cost data were collected and summarized from eight California butter plants. The eight plants processed 512.5 million pounds of butter during the 12-month study period, January through December 2009, representing 98.5% 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 0% 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 2009

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2009	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2008	Actual Difference Current Less Prior Year
			Minimum	Maximum			
<i>Dollars Per Pound of Butter</i>							
Number of Plants	4	4	8	8	8	8	0
Processing Labor	\$0.0604	\$0.0641	\$0.0459	\$0.1061	\$0.0620	\$0.0485	\$0.0135
Processing Non-Labor	\$0.0699	\$0.0742	\$0.0517	\$0.1609	\$0.0718	\$0.0656	\$0.0062
Packaging	\$0.0114	\$0.0137	\$0.0107	\$0.0160	\$0.0124	\$0.0136	-\$0.0012
Other Ingredients	\$0.0025	\$0.0022	\$0.0019	\$0.0031	\$0.0024	\$0.0023	\$0.0001
General & Administrative	\$0.0159	\$0.0210	\$0.0129	\$0.0480	\$0.0182	\$0.0167	\$0.0015
Return on Investment	\$0.0076	\$0.0227	\$0.0034	\$0.0633	\$0.0143	\$0.0086	\$0.0057
Average Total Cost	\$0.1677	\$0.1979	--	--	\$0.1811	\$0.1553	\$0.0258
Volume in Group (Lbs.)	283,885,140	228,658,965	--	--	512,544,105	550,697,392	-38,153,287
% Volume by Group	55.4%	44.6%	--	--	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.

	2008 WEIGHTED AVERAGE COSTS	2009 WEIGHTED AVERAGE COSTS	% CHANGE
Total Lbs - All Butter	550,697,392	512,544,105	-6.93%
Total Lbs - Bulk Butter	306,806,893	204,172,879	-33.45%

SUMMARY OF COSTS PER LB.

Other Ingredients	0.0023	0.0024	4.35%
Packaging Expense	0.0136	0.0124	-8.82%
Processing Labor	0.0485	0.0620	27.84%
Processing Non-Labor	0.0656	0.0718	9.45%
Gen & Admin Expenses	0.0167	0.0182	8.98%
Return On Investment	0.0086	0.0143	66.28%
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Manufact Costs - per Lb.	0.1553	0.1811	16.61%

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

Natural Gas & Fuel Oil	0.0027	0.0028	3.70%
Electricity	0.0102	0.0098	-3.92%
Sewer,Water,Garbage	0.0035	0.0042	20.00%
Depreciation	0.0087	0.0118	35.63%
Property Taxes	0.0012	0.0020	66.67%
Insurance	0.0015	0.0015	0.00%
Repairs & Maintenance	0.0071	0.0073	2.82%
Plant Supplies	0.0142	0.0145	2.11%
Outside Storage	0.0105	0.0079	-24.76%
Rent-Plant & Equip	0.0011	0.0018	63.64%
Outside Testing & Grading	0.0023	0.0030	30.43%
Gen & Admin Payroll	0.0058	0.0060	3.45%
Short-Term Interest	0.0040	0.0036	-10.00%
Professional Services	0.0023	0.0030	30.43%
Headquarter Expenses	0.0043	0.0053	23.26%
Other Misc.Expenses	0.0030	0.0055	83.33%
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Total Non-Labor & G&A Costs	0.0824	0.0900	9.22%

NONFAT DRY MILK MANUFACTURING COSTS
 CURRENT Study Period: January through December 2009
 With Comparison to the same time period PRIOR YEAR (2008)

- Manufacturing cost data were collected and summarized from nine California NFDM plants. The nine plants processed 815.1 million pounds of NFDM during the 12-month study period, January through December 2009, representing 97.6% of the NFDM processed in California.
- The 97.6% includes both animal and human consumption. Human consumption representing 99.69% of the 815.1 million pounds of NFDM processed, and animal representing 0.31%.
- 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 38.3% 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 2009

Categories	Low Cost Group	Medium Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2009	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2008	Actual Difference Current Less Prior Year
				Minimum	Maximum			
<i>Dollars Per Pound of NFDM</i>								
Number of Plants	3	3	3	9	9	9	9	0
Processing Labor	\$0.0335	\$0.0457	\$0.0323	\$0.0267	\$0.0977	\$0.0366	\$0.0340	\$0.0026
Processing Non-Labor	\$0.0997	\$0.1326	\$0.1338	\$0.0907	\$0.2028	\$0.1156	\$0.1175	-\$0.0019
Packaging	\$0.0144	\$0.0154	\$0.0138	\$0.0127	\$0.0162	\$0.0145	\$0.0147	-\$0.0002
General & Administrative	\$0.0088	\$0.0125	\$0.0272	\$0.0074	\$0.0280	\$0.0135	\$0.0128	\$0.0007
Return on Investment	\$0.0092	\$0.0200	\$0.0393	\$0.0050	\$0.0424	\$0.0182	\$0.0141	\$0.0041
Average Total Cost	\$0.1656	\$0.2262	\$0.2464	--	--	\$0.1984	\$0.1931	\$0.0053
Volume in Group (Lbs.)	427,738,608	222,649,688	164,760,147	--	--	815,148,443	774,458,542	40,689,901
% Volume by Group	52.5%	27.3%	20.2%	--	--	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.

	2008 WEIGHTED AVERAGE COSTS	2009 WEIGHTED AVERAGE COSTS	% CHANGE
NFDM Powder Pounds	774,458,542	815,148,443	5.25%
SUMMARY OF COSTS PER LB.			
Other Ingredients	0.0000	0.0000	0.00%
Packaging Expense	0.0147	0.0145	-1.36%
Processing Labor	0.0340	0.0366	7.65%
Processing Non-Labor	0.1175	0.1156	-1.62%
Gen & Admin Expenses	0.0128	0.0135	5.47%
Return On Investment	0.0141	0.0182	29.08%
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Manufact Costs - per Lb.	0.1931	0.1984	2.74%
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BREAKDOWN OF COMMON NON-LABOR AND G&A COSTS PER LB.

Natural Gas & Fuel Oil	0.0383	0.0313	-18.28%
Electricity	0.0177	0.0179	1.13%
Sewer, Water, Garbage	0.0044	0.0053	20.45%
Depreciation	0.0121	0.0143	18.18%
Property Taxes	0.0018	0.0026	44.44%
Insurance	0.0011	0.0012	9.09%
Repairs & Maintenance	0.0083	0.0074	-10.84%
Plant Supplies	0.0174	0.0178	2.30%
Outside Storage	0.0075	0.0058	-22.67%
Rent-Plant & Equip	0.0016	0.0015	-6.25%
Outside Testing & Grading	0.0041	0.0060	46.34%
Gen & Admin Payroll	0.0040	0.0039	-2.50%
Short-Term Interest	0.0045	0.0044	-2.22%
Professional Services	0.0015	0.0003	-80.00%
Headquarter Expenses	0.0029	0.0034	17.24%
Other Misc. Expenses	0.0030	0.0060	100.00%
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Total Non-Labor & G&A Costs	0.1303	0.1291	-0.92%

CHEESE MANUFACTURING COSTS

CURRENT Study Period: January through December 2009
 With Comparison to the same time period PRIOR YEAR (2008)

- Manufacturing cost data were collected and summarized from six California cheese plants. The six plants processed 614.7 million pounds of cheese during the 12-month study period, January through December 2009, representing 95.6% of the Chedd
- 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 13.28 lbs. of cheese per hundredweight of milk. The weighted average moisture was 38.03% and weighted average vat tests were 4.62% fat and 9.58% SNF.
 - For 40-lb. blocks: the weighted average yield was 13.93 lbs. of cheese per hundredweight of milk. The weighted average moisture was 38.30% and weighted average vat tests were 4.74% fat and 9.66% SNF.
- For this study period, approximately 83.1% 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 2009

Categories	Low Cost Group	High Cost Group	Range of Costs		CURRENT Weighted Average Cost All Plants Jan-Dec 2009	PRIOR YEAR Weighted Average Cost All Plants Jan-Dec 2008	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	\$0.0436	\$0.0694	\$0.0423	\$0.0812	\$0.0491	\$0.0550	-\$0.0059
Processing Non-Labor	\$0.0694	\$0.0858	\$0.0666	\$0.0918	\$0.0729	\$0.0821	-\$0.0092
Packaging	\$0.0261	\$0.0254	\$0.0134	\$0.0269	\$0.0260	\$0.0260	\$0.0000
Other Ingredients	\$0.0250	\$0.0242	\$0.0102	\$0.0309	\$0.0248	\$0.0140	\$0.0108
General & Administrative	\$0.0168	\$0.0238	\$0.0166	\$0.0269	\$0.0183	\$0.0269	-\$0.0086
Return on Investment	\$0.0050	\$0.0073	\$0.0034	\$0.0091	\$0.0055	\$0.0059	-\$0.0004
Average Total Cost	\$0.1859	\$0.2359	--	--	\$0.1966	\$0.2099	-\$0.0133
Volume in Group (Lbs.)	483,085,670	131,594,818	--	--	614,680,488	603,278,420	11,402,068
% Volume by Group	78.6%	21.4%	--	--	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, 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 assets, with the remaining book value multiplied by Moody's "BAA" corporate bond index.

	2008 WEIGHTED AVERAGE COSTS	2009 WEIGHTED AVERAGE COSTS	% CHANGE
CHEDDAR CHEESE POUNDS	603,278,420	614,680,488	1.89%
SUMMARY OF COSTS PER LB.			
Other Ingredients	0.0140	0.0248	77.14%
Packaging Expense	0.0260	0.0260	0.00%
Processing Labor	0.0550	0.0491	-10.73%
Processing Non-Labor	0.0821	0.0729	-11.21%
Gen & Admin Expenses	0.0269	0.0183	-31.97%
Return On Investment	0.0059	0.0055	-6.78%
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Manufact Costs - per Lb.	0.2099	0.1966	-6.34%
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BREAKDOWN OF COMMON NON-LABOR AND G&A COSTS PER LB.

Natural Gas & Fuel Oil	0.0110	0.0070	-36.36%
Electricity	0.0068	0.0065	-4.41%
Sewer & Whey Disposal	0.0089	0.0077	-13.48%
Depreciation	0.0104	0.0100	-3.85%
Property Taxes	0.0026	0.0020	-23.08%
Insurance	0.0017	0.0018	5.88%
Repairs & Maintenance	0.0112	0.0101	-9.82%
Plant Supplies	0.0132	0.0119	-9.85%
Outside Storage	0.0009	0.0009	0.00%
Rent - Plant & Equipment	0.0130	0.0132	1.54%
Outside Testing & Grading	0.0008	0.0010	25.00%
Gen & Admin Payroll	0.0133	0.0098	-26.32%
Short-Term Interest	0.0020	0.0003	-85.00%
Professional Services	0.0053	0.0022	-58.49%
Headquarter Expenses	0.0021	0.0017	-19.05%
Other Misc. Expenses	0.0057	0.0051	-10.53%
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Total Non-Labor & G&A Costs	0.1090	0.0912	-16.33%

Comparison: CME Butter Prices / Audited California Butter Sales

24-Month Period: July 2008 through June 2010

- Data were collected and audited from seven California butter plants. The plants reported monthly sales volume and sales revenue for salted bulk butter for the 24-month period, representing 100% of the salted bulk butter sold by these audited California plants.
- The Chicago Mercantile Exchange (CME) butter prices are the simple average of the daily butter price per pound, released by the CME, using the 26th of the prior month through the 25th of the current month.
- The weighted average California butter prices represent the calendar monthly price per pound received by each plant and then weighted by sales volume.

Breakdown of CME Butter Prices and Audited California Butter Sales July 2008 through June 2010

Date	CME Butter Prices	California Weighted Average Prices	Difference: Calif. Weighted Less CME
	<i>In Dollars Per Pound</i>		
Jul-08	\$1.5394	\$1.4860	-\$0.0534
Aug-08	\$1.6148	\$1.5306	-\$0.0842
Sep-08	\$1.6727	\$1.6278	-\$0.0449
Oct-08	\$1.7389	\$1.6864	-\$0.0525
Nov-08	\$1.6451	\$1.5839	-\$0.0612
Dec-08	\$1.2266	\$1.1727	-\$0.0539
Jan-09	\$1.1165	\$1.0617	-\$0.0548
Feb-09	\$1.1047	\$1.0603	-\$0.0444
Mar-09	\$1.1728	\$1.1250	-\$0.0478
Apr-09	\$1.1961	\$1.1516	-\$0.0445
May-09	\$1.2449	\$1.1754	-\$0.0695
Jun-09	\$1.2337	\$1.1907	-\$0.0430
Jul-09	\$1.2263	\$1.1816	-\$0.0447
Aug-09	\$1.2172	\$1.1691	-\$0.0481
Sep-09	\$1.2068	\$1.1680	-\$0.0388
Oct-09	\$1.2575	\$1.2260	-\$0.0315
Nov-09	\$1.4700	\$1.3765	-\$0.0935
Dec-09	\$1.4182	\$1.3738	-\$0.0444
Jan-10	\$1.3871	\$1.3449	-\$0.0422
Feb-10	\$1.3555	\$1.3202	-\$0.0353
Mar-10	\$1.4559	\$1.4186	-\$0.0373
Apr-10	\$1.5239	\$1.4963	-\$0.0276
May-10	\$1.5947	\$1.5558	-\$0.0389
Jun-10	\$1.6139	\$1.5854	-\$0.0285

Summary of Comparison: California Weighted Less CME

Time Period	Simple Average Difference
All 24 months	-\$0.0485
12 months ending June 2009	-\$0.0545
12 months ending June 2010	-\$0.0426



Revised

Comparison: CME Cheddar Cheese Prices / Audited California Cheddar Cheese Sales

24-Month Period: July 2008 through June 2010

- Data were collected and audited from three California Cheddar cheese plants. The plants reported monthly sales volume and sales revenue for 40-pound block Cheddar cheese for the 24-month period, representing 100% of the 40-pound block Cheddar cheese sold by these audited California plants.
- The Chicago Mercantile Exchange (CME) Cheddar cheese prices are the simple average of the daily block Cheddar cheese price per pound, released by the CME, using the 26th of the prior month through the 25th of the current month.
- The weighted average California Cheddar cheese prices represent the calendar monthly price per pound received by each plant and then weighted by sales volume.

**Breakdown of CME Cheddar Cheese Prices and Audited California Cheddar Cheese Sales
July 2008 through June 2010**

Date	CME Cheese Prices	California Weighted Average Prices	Difference: Calif. Weighted Less CME
<i>In Dollars Per Pound</i>			
Jul-08	\$1.9561	\$1.9430	-\$0.0131
Aug-08	\$1.7943	\$1.9038	\$0.1095
Sep-08	\$1.8430	\$1.7554	-\$0.0876
Oct-08	\$1.8418	\$1.8793	\$0.0375
Nov-08	\$1.6950	\$1.7084	\$0.0134
Dec-08	\$1.5788	\$1.7126	\$0.1338
Jan-09	\$1.0907	\$1.2088	\$0.1181
Feb-09	\$1.1992	\$1.1067	-\$0.0925
Mar-09	\$1.2321	\$1.2230	-\$0.0091
Apr-09	\$1.2279	\$1.2464	\$0.0185
May-09	\$1.1418	\$1.1446	\$0.0028
Jun-09	\$1.1397	\$1.1272	-\$0.0125
Jul-09	\$1.1268	\$1.1056	-\$0.0212
Aug-09	\$1.3157	\$1.2114	-\$0.1043
Sep-09	\$1.3261	\$1.3189	-\$0.0072
Oct-09	\$1.4541	\$1.3925	-\$0.0616
Nov-09	\$1.5588	\$1.4912	-\$0.0676
Dec-09	\$1.6867	\$1.6395	-\$0.0472
Jan-10	\$1.4462	\$1.5198	\$0.0736
Feb-10	\$1.4691	\$1.4736	\$0.0045
Mar-10	\$1.2883	\$1.3348	\$0.0465
Apr-10	\$1.4144	\$1.3606	-\$0.0538
May-10	\$1.4231	\$1.3809	-\$0.0422
Jun-10	\$1.4065	\$1.4240	\$0.0175

Summary of Comparison: California Weighted Less CME

Time Period	Simple Average Difference
All 24 months	-\$0.0018
12 months ending June 2009	\$0.0182
12 months ending June 2010	-\$0.0219