Hello, My name is Jon Davis, I am the General Manager of Davisco Foods International. We are a $600 million company based in Southern Minnesota with cheese making facilities in Southern Minnesota, Eastern South Dakota and Southern Idaho. We currently process approximately # 10 million lbs of milk into #1 million lbs. of cheese per day. We make cheddar, mozzarella and varieties of hard Italian cheeses that are sold throughout the United States. We are currently operating in regulated milk marketing areas in the Midwest and have in the past managed regulated milk in Idaho.

We support proposal one in the hearing notice. In addition we wholeheartedly support the testimony of the National Cheese Institute.

Due to the nature of how our raw material, milk, is priced within the federal orders, we are completely at the mercy of the regulated milk pricing formulas currently in place. At the heart of those regulated milk pricing formulas are the make allowances that ultimately generate the Class III price, under which regulated cheese makers must operate. With or without the ever increasing costs inherent in producing cheese today, the regulated pricing system must develop a technique to quickly react to changes in the various cost inputs that cheese makers must deal with on a daily basis. We, as cheese makers, can't possibly be expected to absorb a multitude of cost increases, all the while being responsible for a milk price that is well above what we can get out of the marketplace, net of the costs of producing that pound of cheese.

Cheese makers, including Davisco, have been forced to absorb all of the increased costs of producing cheese. From 1998 to 2004 our packaging costs have increased 15% per lb. of cheese produced, our direct labor costs have increased 25% per man hour, indirect labor costs, which would include health care, and benefits have increased 92%. To put in actual dollars our average cost per employee for health care in 1998 was $2,800, in 2004 it was $5,400. This number would be even greater, save for the fact that we increased our employee numbers by 33% in the same time period which helped us mitigate some of the increases due to our size enabling to receive more competitive economics from the health care community. Our electrical costs have increased by 14% per kwh from 1998 to 2004. Our costs for natural gas from 1998 to 2004 have increased 149% per therm. None of these costs increases include the affect on all parts of our business of the events of 2005. The affects on our costs of the events of 2005 as it relates to the energy markets have only caused the formula based pricing to further cause hardship on our ability to survive in this energy and labor intensive business.

Thanks again for your time. I can't stress enough the need to quickly modify these cost structures that ultimately determine the formula pricing in order to allow the innovative folks in this industry to concentrate on producing and marketing our products. We can't possibly be expected to survive and further invest in this energy and labor intensive industry, all the while being economically tied down by cost structures not even remotely connected to reality.

Thank you.