My name is Matt Williams and I am the Senior Vice President for the West Region of Dean Foods Company. I am responsible for the P&L for sixteen fluid milk plants and two ice cream plants in the Western United States, including California. I have worked for Dean Foods for six years and have twenty years of experience in the dairy, consumer packaged goods and grocery industries. In California, Dean Foods operates three fluid milk plants – one in Hayward, CA and two in City of Industry, CA. Additionally, we operate one ice cream plant in Buena Park, CA. One of my responsibilities is to evaluate and approve pricing for private label milk contracts with customers in response to Requests for Proposals ("RFP").

Today, I am here to provide an example of how the Producer Handler regulated milk cost advantage creates an uneven playing field that significantly impacts Dean Foods' ability to compete in the private label Class 1 milk category. Over the last three years, due to the Producer Handler regulated milk cost advantage, Dean Foods' California plants have lost significant private label milk volume, requiring us to consolidate plants and lay-off sixty employees. In fact, since January 2013, Dean Foods has lost over twenty million gallons of annual private label milk volume to Producer Handler dairies in California through RFP processes. There should be no doubt that the reason for these losses is the substantial competitive advantage Producer Handlers receive from purchasing their largest input cost at a materially lower price than other processors pay.

In late 2012, Dean Foods' dairies in Northern and Southern California submitted a bid in response to an RFP issued by a national retailer. When the RFP results were announced we learned that we lost to Producer Handler dairies 111 retail stores that purchased an average volume of 160,000 gallons per store. In Southern California, a store that is located only 13.8

miles away from our Alta Dena Dairy (which was the then-current DSD supplier), was awarded to a Producer Handler dairy that is located 241 miles away from that same store for continued DSD delivery. In Northern California, our Berkeley Farms Dairy was the then-current DSD supplier to a store that is 21.1 miles away from the plant. However, that store was awarded to a Producer Handler dairy that is located 154 miles away from the store for continued DSD delivery. As discussed below, the only logical explanation for how a processor located over 150 miles further away from a delivery point than a competing processor could bid a competitive DSD price is because of the Producer Handler regulated milk cost advantage.

More specifically, the bid criteria outlined in the above-referenced national retailer RFP required two milk price quotes - one for dock pick-up and one for DSD delivery. I will focus my testimony on the DSD price quote. The DSD price was to be determined based on the bidders' cost per gallon to deliver product on a dedicated DSD route to the retailer's stores, taking into account each store's distance from the producing plant. For purposes of the DSD price quote, the distance radius ranged from 0 to 25 miles from the producing plant up to 351 to 400 miles from the producing plant in sequential increments. The RFP required bidders to use the following criteria in order to determine the DSD cost per gallon spread over an average payload of 4,000 gallons per trailer – truck cost/mile (to include labor and asset costs), four deliveries per week, per store and a diesel fuel rate based on actual diesel fuel costs for the month of April 2012. Simply put, the structure of the RFP DSD price criteria contemplated that the retailer's stores that were closest to the producing plant would have a lower delivered milk price than those stores that were further from the producing plant due to the higher distribution costs that would be incurred by the more distant plant.

However, despite the cost advantage built into the RFP to those producing plants that were located closer to the retailer's stores, the more distant producing plants were awarded the business. This result cannot credibly be explained by claiming that the Producer Handler plants have more efficient plant operations that enable them to overcome the materially higher distribution costs they incur for the business. First, because raw milk represents a substantial majority (over 70%) of the total costs of processing and packaging a gallon of milk, any cost advantage in those areas of operations that a Producer Handler may have would have a minimal impact on the overall bid price, and would not be nearly sufficient to offset the substantial disadvantage in its distribution costs. Second, based on my industry knowledge and familiarity with Dean Foods' processing costs throughout its more than 60 plant network, I know there is very little variability between operations in costs associated with long production runs of gallon and half-gallon private label white milk, which made up a substantial part of the RFP at issue. Therefore, the only reasonable conclusion is that the more distant Producer Handler plants were able to bid competitively with their competitors who are closer to the retailer's stores because Producer Handlers pay substantially less for the raw milk they purchase, and they use that substantial advantage to overcome a materially higher distribution cost.

It is no secret that a milk processor's material costs to process and deliver private label Class 1 milk to a retail store include raw milk, processing/packaging and distribution. It is indisputable that a processor that incurs substantially higher distribution costs than its competitor must achieve a material advantage in either its raw milk procurement or processing and packaging costs in order to compete on price. The RFP in this example only emphasizes this point because it required four deliveries per week, per store. Therefore, considering the minimal impact on overall price that can be attributed to the variability between operations in costs associated with processing and packaging gallon and half-gallon private label white milk, the only logical explanation for why a processor could offer a competitive sale price to a store that is 241 miles away from its producing plant compared to a competing processor's plant that is only 13.8 miles away from the same store is that the more distant processor must have a significant advantage on its raw milk cost that it uses to offset a significantly higher distribution cost.

Thank you for allowing me to testify.