

**United States
Department of
Agriculture**

Report to Congress



National Dairy
Promotion and Research
Program

National Fluid Milk
Processor Promotion
Program

2010 Program Activities

**U.S. Department of Agriculture
Report to Congress**

**on the
National Dairy Promotion
and Research Program**

**and the
National Fluid Milk
Processor Promotion Program**

2010 Program Activities

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Executive Summary

The enabling legislation of the dairy producer and fluid milk processor promotion programs requires the Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. The producer and processor programs are conducted under the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4501 *et seq.*) (Dairy Act); the Dairy Promotion and Research Order (7 CFR § 1150) (Dairy Order); the Fluid Milk Promotion Act of 1990 (7 U.S.C. 6401 *et seq.*) (Fluid Milk Act); and the Fluid Milk Promotion Order (7 CFR § 1160) (Fluid Milk Order), respectively. This report includes summaries of the activities for the producer and processor programs, including an accounting of funds collected and spent; USDA activities; and an independent analysis of the effectiveness of the advertising campaigns of the two programs. Unless otherwise noted, this report addresses program activities for the fiscal period January 1 through December 31, 2010, of the Dairy Promotion and Research Program and the Fluid Milk Processor Promotion Program.

National Dairy Promotion and Research Program

Mandatory assessments collected under the Dairy Act totaled \$289.9 million in 2010. The National Dairy Promotion and Research Board (Dairy Board) portion of the revenue from the 15-cent per hundredweight producer assessment was \$95.9 million for 2010, and Qualified Programs revenue from the producer assessment was \$194 million. Expenditures by the Dairy Board and many of the Qualified Programs are integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation, product positioning with consumers, and new places for dairy product consumption.

The Dairy Board continued its support for Fuel Up to Play 60, a partnership between the National Dairy Council, the National Football League, and in collaboration with the USDA, to combat childhood obesity in schools. Working through the Innovation Center for U.S. Dairy, the dairy industry completed a carbon footprint study that measured the greenhouse gas emissions associated with producing a gallon of milk. Results of the study showed that the U.S. dairy industry accounts for approximately 2 percent of total U.S. greenhouse gas emissions. Keeping a focus on research in 2010, the Dairy Board, through Dairy Management, Inc. (DMI) created the Dairy Research Institute to expand and create greater research investment efficiencies for nutrition and product research. Details of the activities of the Dairy Board are presented in Chapter 1.

National Fluid Milk Processor Promotion Program

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America's fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the 48 States and the District of Columbia. During 2010, the Fluid Milk Board evolved its messaging to

support “Building Strong Families.” Messaging centered on reminding consumers about family occasions that can include milk. Additionally, serving as a central theme, the Fluid Milk Board continued its’ successful exercise and refuel messaging.

The Fluid Milk Board’s messaging in 2010 kicked off with the “Great Gallon Give,” and continued through the year with the “Milk the Moment” campaign. This promotion reminded moms to encourage drinking milk as a family during mealtimes. For teens, the Fluid Milk Board continued messaging for the “Refuel With Chocolate Milk” campaign to continue to stress the importance of muscle recovery and rehydration post-exercise by drinking a glass of low-fat or fat-free chocolate milk.

Assessments generated \$106.9 million in 2010. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from the 2010 assessments was \$10.0 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the *got milk?*® advertising campaign. The fluid milk marketing programs are research based and message focused. The 2010 activities of the National Fluid Milk Processor Promotion Program are presented in Chapter 1 of this report.

USDA Oversight

USDA has oversight responsibility for the dairy producer and fluid milk promotion programs. The oversight objectives ensure that the boards and qualified programs properly account for all program funds and that they administer the programs in accordance with the respective acts and orders. All advertising, promotional, research, and educational materials are developed under established guidelines. All board budgets, contracts, and advertising materials are reviewed and approved by USDA. USDA employees attend all board and committee meetings, monitor all board activities, and have responsibility for obtaining an independent evaluation of the programs. Additional USDA responsibilities relate to nominating and appointing board members, amending the Orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program audits. The boards reimburse the Secretary of Agriculture (Secretary), as required by the acts, for all of USDA’s costs of program oversight and for the independent analysis. In 2010 the Secretary appointed 12 members to the Dairy Board and 7 members to the Fluid Milk Board. Chapter 2 details USDA’s oversight activities.

Independent Analysis

Chapter 3 presents the results of the independent econometric analysis, conducted by Cornell University (Cornell), of the effectiveness of the dairy producer and fluid milk promotion programs. It is estimated that the generic fluid milk marketing efforts activities sponsored by fluid milk processors and dairy producers have helped mitigate the decline of fluid milk consumption. Had there not been a generic fluid milk marketing conducted by the two programs, fluid milk consumption would have been 13.9 percent less than it actually was over the period of 1995–2010. Cornell concluded that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Details of Cornell’s independent evaluation are presented in Chapter 3.

Chapter 1

The Dairy Producer and Fluid Milk Promotion Programs

The Dairy Board and the Fluid Milk Board continued to develop and implement programs to expand the human consumption of dairy products and fluid milk. This chapter details the activity of each board.

National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Order, developing plans and programs, and approving budgets. Its dairy producer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture (Secretary) appoints 36 dairy producers to administer the Dairy Order. The appointments are made from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy products promotion, research or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary (7 CFR §1150.133(a)). Dairy Board members serve 3-year terms and represent 1 of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice Chair, Treasurer, and Secretary. Dairy Board members are listed in Appendix A–1. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix H–1.

Total Dairy Board revenue for 2010 was \$95.9 million (including assessments and interest). The Dairy Board amended its budget to \$105.8 million by incorporating program development funds not budgeted previously and carry-forward from their 2009 budget. The Dairy Board budget for 2011 projects total revenue of \$96.2 million from assessments and interest. The Dairy Board's administrative budget continued to be within the 5–percent–of–revenue limitation required by the Dairy Order (7 CFR §1150.151(a)). A list of actual income and expenses for 2010 is provided in Appendix B–1. USDA's oversight and evaluation expenses for 2010 are listed in Appendix B–2. Appendix B–3 displays the Dairy Board's approved budget for 2010. An independent auditor's report for 2010 is provided in Appendix C–1.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the chair of the F&A Committee, and the full Dairy Board serves as the Executive Committee. The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).

Dairy Management Inc. (DMI), a management and staffing corporation, is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 58 Qualified Programs under the direction of a board of directors. DMI manages the Dairy Board programs as well as

those of the American Dairy Association® and National Dairy Council®. The mission of DMI is to drive increased sales of and demand for U.S. dairy products and ingredients, on behalf of U.S. dairy farmers. DMI works proactively in partnership with leaders and innovators to increase and apply knowledge that leverages opportunities to expand dairy markets. The DMI Board of Directors comprises all Dairy Board (36) and all UDIA (44) members. Voting is equalized between the Dairy Board and UDIA.

DMI serves both boards and facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board and UDIA Board separately must approve the DMI budget and annual plan before they can be implemented. In December 2009, both boards approved the 2010 unified dairy promotion plan budget and national implementation programs. During 2010, DMI continued to implement a national staffing structure which utilizes personnel throughout DMI and the UDIA federation to plan and execute the national programs.

DMI funds 1 to 3-year research projects that support marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provide much of the research. Their locations and the research objectives are listed in Appendix E-1. DMI's dairy foods competitive research activities and nutrition competitive research projects can be found in Appendices E-2 and E-3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Research and Insights; Health and Wellness; Export and Ingredients; and Producer Relations and Consumer Confidence. Each committee elects a Chair and Vice-Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. During 2010, the Dairy Board and UDIA Board met jointly six times.

DMI again hosted dairy director regional planning forums across the country to review and create marketing strategies for development of the unified dairy promotion plan. These forums are designed to create one unified dairy promotion plan and allow opportunity for grass roots dairy producers to ask questions, raise concerns, and offer their thinking on the plan's direction and development.

The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2010.

National Dairy Council®

The National Dairy Council® <http://www.nationaldairycouncil.org> (NDC), the nutrition marketing arm of DMI, has been the leader in dairy nutrition research, education, and communication since 1915. NDC provides timely, scientifically sound nutrition information to the media, physicians, dieticians, nurses, educators, consumers, and other health professionals.

Additionally, NDC funds independent research to aid in the ongoing discovery of information about dairy foods' important role in a healthy lifestyle. This research provides insights to industry for new dairy product innovation.

Health professional outreach remained a critical component of NDC and the 3-Every-DayTM program. The American Academy of Family Physicians, the American Academy of Pediatrics, the American Dietetic Association, the National Medical Association, the School Nutrition Association, and the National Hispanic Medical Association all continued their support and partnership with DMI and 3-Every-DayTM. By working with key health professional partners like these, DMI continued to provide a clear, practical message to the public on the importance of consuming three daily servings of low-fat and fat-free dairy. Combined, these organizations represent more than 250,000 health professionals nationwide.

As an extension of its online engagement of health professionals, NDC continued its blog, "The Dairy Report" (www.thedairyreport.com). Blog contributors include NDC registered dietitians, Ph.D. nutritionists and communication experts, as well as guest experts. Through the blog, NDC provides the latest news, analysis, and opinion on nutrition and health research related to dairy.

NDC continued its active support and participation in the Action For Healthy Kids[®] (AFHK) initiative. AFHK (www.actionforhealthykids.org) was created in response to the Healthy Schools Summit in 2002 and its mission is to inform, motivate, and mobilize schools, school districts, and States to chart a healthier course for the Nation's children and adolescents. AFHK is comprised of 51 State teams (including all 50 States and the District of Columbia) and a partnership of more than 40 national organizations and Government agencies spanning education, health, fitness, and nutrition arenas.



Child Nutrition and Fitness Initiative

The Child Nutrition and Fitness Initiative (CNFI) is a platform of health and wellness initiatives designed to improve the health and wellness of the Nation's youth, many of whom are overweight and undernourished. CNFI's initiatives are focused on reaching youth in schools and build on existing producer-funded programs, including New Look of School Milk and Expanding Breakfast. The programs use youth-focused messaging to educate and motivate children to consume a healthy diet that includes milk and dairy products and get daily physical activity. Additionally, CNFI's priorities align with the strategies of the Health and Wellness Committee of the Innovation Center for U.S. Dairy.

Fuel Up to Play 60

Fuel Up to Play 60 (FUTP60) is the centerpiece of CNFI. This in-school program combines the nutrition expertise of NDC and the fitness expertise and star power of the National Football League (NFL) to combat childhood obesity and provide youth



with resources necessary to improve their personal health and school environment. FUTP60 is based on the U.S. Dietary Guidelines for Americans that recommend the consumption of more fruits, vegetables, low-fat and fat-free dairy foods, and whole grains, and getting 60 minutes of daily physical activity.

FUTP60 reached more than 36 million students in more than 70,000 schools during the 2010/2011 school year. Students and schools joined the program by signing up at www.fueluptoplay60.com. Each enrolled school received a School Wellness Kit that contained in-school promotional materials and a “Playbook” containing healthy eating and physical activity strategies, or “plays.” Each of the plays could be tailored to individual school health and wellness needs. Students were encouraged to form teams, with supervision from an adult program advisor, to carry out the plays and generate excitement for making healthy changes throughout the student body.

FUTP60 gained further momentum during the 2010/2011 school year when representatives from USDA, the Department of Education, the Department of Health and Human Services, NDC, the NFL, and a newly formed foundation, Gen YOuth, signed a memorandum of understanding setting a new precedent for public-private partnerships and a cross-department collaboration committed to childhood health and wellness, in February 2011. Additionally, the event included the debut of a public service announcement (PSA) developed by the Ad Council in collaboration with Michelle Obama’s Let’s Move! program, USDA, NFL, NFL Player Association, NDC, and Brunner advertising. The PSA features Tony Romo, Quarterback for the Dallas Cowboys, and encourages youth to get healthy and be active by joining the FUTP60 movement. The television spot aired nationwide in time donated by the media, per the Ad Council model, and is featured on the FUTP60 website.

Gen YOuth Foundation

The Gen YOuth Foundation (Foundation) was launched in 2011 by NDC as a non-profit organization whose mission is to create a movement that will inspire youth to change their behavior. The Foundation will work with schools, communities, and business partners to develop and support programs that create lasting changes in the child health and wellness arena, including FUTP60.

The Foundation is governed and managed by a board of directors that covers multiple fields of expertise, including agriculture, health and nutrition, sports and fitness, media, education and the culinary arts. The Foundation Board will meet twice a year to identify sustainable solutions to the childhood obesity epidemic. Board members include: 16th U.S. Surgeon General Dr. David Satcher, known for first labeling childhood obesity an epidemic; National PTA President Charles Saylors; former NFL player and FOX Sports commentator Howie Long; Washington Post Senior Associate Editor Lally Weymouth; Top Chef All-Star Carla Hall; LALA USA Chief Executive Officer (CEO) Steve McCormick; and Purdue University Foods and Nutrition Department Head Dr. Connie Weaver. Former financial executive and media personality Alexis Glick will oversee the Board of Directors as CEO of the Gen YOuth Foundation.

Washington Post Childhood Obesity Summit

FUTP60 and the Foundation co-hosted “Weighing In on America’s Future: Childhood Obesity Summit” with the Washington Post in March 2011. The summit highlighted successful approaches and programs that are helping children become healthier. The summit was comprised of panel discussions, question and answer sessions, and a live on-site poll that provided insight on the issue of childhood obesity. Approximately 160 national decision makers, health and nutrition professionals, academia, business leaders, and media attended the event. An additional 2,500 people throughout the country streamed the event online and participated by asking questions and participating in polls.

Participants in the panel discussions agreed that solving the issue of childhood obesity requires partnerships that bring together industry, parents, and communities and that local initiatives are just as important as larger, national initiatives. Additionally, the panel participants stated that childhood obesity is a financial and national security issue and that education about health and nutrition is a key to curbing childhood obesity.

Partnerships

Domino's

DMI continued its partnership with Domino's Pizza (Domino's) in 2010 through the collaboration of increasing the availability of Smart Slice pizza. Domino's Smart Slice is a line of kid-approved pizzas that uses light and reduced-sodium mozzarella cheese in addition other reduced-fat and reduced-sodium ingredients. Domino's Smart Slice is available in 317 U.S. school districts, moving nearly 3.5 million pounds of milk through more than 2,000 schools. The Smart Slice line was also promoted through 50-plus school nutrition shows and industry conferences.



DMI continued to support Domino's American Legends line of pizzas in 2010. The American Legends line of pizzas was launched by Domino's as a permanent menu item that use up to 40 percent more cheese than a regular Domino's pizza. Through the checkoff's partnership, a seventh pizza, the Wisconsin 6 Cheese, was added to the American Legends line. The Wisconsin 6 Cheese quickly became the third most popular pizza during a one-month national promotion that resulted in a 12 percent increase in cheese sales compared with a 2009 promotion period. The other American Legends pizzas include:

- Honolulu Hawaiian – sliced ham, smoked bacon, pineapple, and roasted red peppers with Provolone and Mozzarella cheeses on a cheesy Parmesan crust. Customers can add Tabasco® pepper sauce and jalapenos for some extra “fire.”
- Cali Chicken Bacon Ranch™ – chicken breast, white sauce, smoked bacon, tomatoes, and parsley with Provolone and Mozzarella cheeses on a cheesy Parmesan crust.
- Pacific Veggie – roasted red peppers, spinach, onions, mushrooms, tomatoes, and black olives with Feta, Provolone and Mozzarella cheeses on a cheesy Parmesan crust.

- Memphis BBQ Chicken – chicken breast, barbecue sauce, onions, and parsley with Cheddar, Provolone, and Mozzarella cheeses on a cheesy Parmesan crust.
- Buffalo Chicken – chicken breast, buffalo hot sauce, onions, and parsley with American and Provolone cheeses on a cheesy Cheddar crust.
- Philly Cheese Steak – steak, onions, green peppers, and mushrooms with American and Provolone cheeses on a cheesy Provolone crust.

Lactaid

The dairy industry has committed resources to better understanding lactose intolerance, which keeps many consumers from consuming dairy products. DMI partnered with HP Hood and its Lactaid brand to educate consumers about lactose intolerance and the variety of dairy foods that can be enjoyed by lactose intolerant individuals. The lactose-free fluid milk category grew by nearly 80 million incremental pounds in 2010.

MooVision, a social media tool, was created to help address misperceptions about lactose intolerance, lactose-free milk, and to encourage consumers to share their ideas for managing the condition. The website, www.moovision.com, features a series of shows including: Moolah!, a trivia game about lactose-free milk; Gourmoo, a series of cooking demonstrations featuring lactose-free milk; and Moo News, a mockumentary news channel that covers breaking news for milk lovers. The website also features lactose-free milk recipes, a blog, and educational material, including links to the NDC and the National Institutes of Health.

DMI and NDC also placed an emphasis on educating health professionals by hosting a webinar titled “New Directions in Lactose Intolerance: Moving from Science to Solutions.” NDC also created a lactose intolerance education kit that contained resources for health professionals such as a lactose intolerance patient education handout and a consumer research fact sheet.

Export and Dry Ingredients

DMI’s export enhancement program is implemented by the U.S. Dairy Export Council (USDEC), supported by U.S. dairy producers through the checkoff program. USDEC receives primary funding from three sources: DMI, USDA’s Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2010, USDEC received \$12.1 million from DMI; \$5.8 million from USDA’s Market Access Program, Foreign Market Development Program, and other FAS programs that support commodity groups in promotion of their commodities in foreign markets; \$830,000 from membership dues; and \$624,000 from other sources. USDEC began its 15th year of operation in 2010 and its total budget was approximately \$20 million.

USDEC has offices in Washington, D.C.; Mexico City, Mexico; Tokyo, Japan; Seoul, South Korea; Hong Kong, Taipei, and Shanghai, China; Bangkok, Thailand; Beirut, Lebanon; London, England; and São Paulo, Brazil (Figure 1–1).

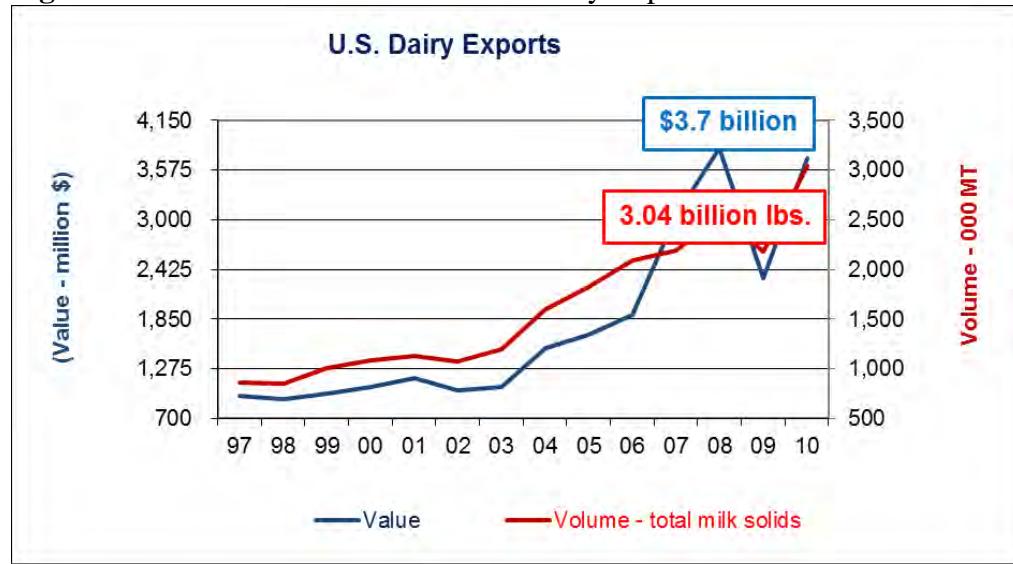
Figure 1–1. USDEC Offices.



After struggling through 2009, the U.S. dairy sector redoubled their efforts to serve global buyers and recaptured share they had lost the previous year. In doing so, they chipped further away at an unflattering portrayal as an opportunistic participant in global trade and built on a budding reputation as committed suppliers to the world.

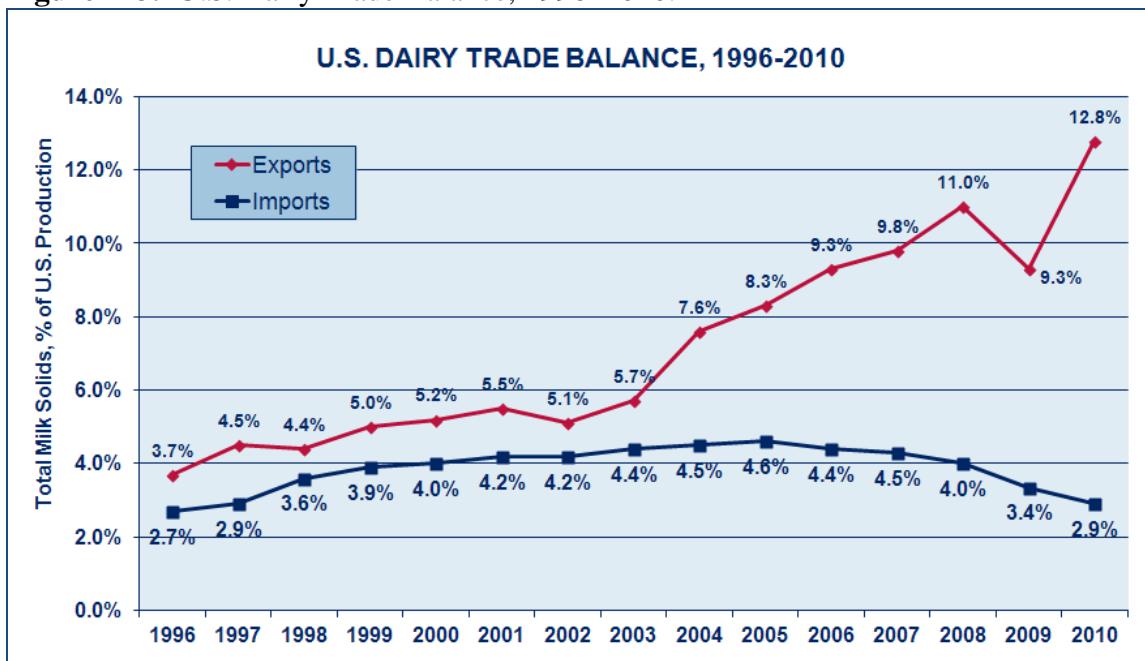
Export data confirms that U.S. dairy product export value reached \$3.7 billion, while volume reached 3.04 billion pounds in 2010 (Figure 1–2). In 2010, 12.8 percent of total U.S. milk solids were exported, while imports represented 2.9 percent. For comparison, in 2009, exports represented 9.3 percent of U.S. milk solids production and imports were greater at 3.4 percent (Figure 1–3).

Figure 1–2. Value and Volume of U.S. Dairy Exports.



Source: NMPF, USDA

Figure 1–3. U.S. Dairy Trade Balance, 1996–2010.



Source: USDEC, USDA

Exports showed increasing levels, representing 47 percent of the nonfat dry milk and skimmed milk powder produced in the United States last year, 55 percent of the whey proteins, 68 percent of the lactose, 7.9 percent of the butter, and 3.7 percent of the cheese. Mexico, Canada, and Southeast Asia remained the largest destinations for U.S. dairy products.

Over the last 15 years, the investment that U.S. dairy producers and processors have made in USDEC's marketing programs and technical support has helped suppliers position themselves for the more globalized business setting seen today.

USDEC, with the support of U.S. dairy producers through their checkoff, continued working to improve the global (export and U.S. ingredient) capabilities of domestic dairy companies by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export.

USDEC continued the use of the Web site www.innovatewithdairy.com to help increase demand for U.S. dairy ingredients by promoting how dairy adds the difference in taste, functionality, and convenience. The ingredient program supports dairy product and nutrition research, ingredient applications, development, and technical assistance for the dairy, food, and beverage industries. Dairy, food, and beverage manufacturers use this program to find know-how, laboratory, and professional resources to help develop or improve foods using dairy ingredients.

Publications that support the innovation and ingredients program include: (1) *Dairy Council Digest*—published six times per year focuses on the latest dairy nutrition research relevant to dairy, food and beverage manufacturers, and health professionals; (2) *Ingredient Specification Sheets*—cover technical basics of a variety of dairy ingredients and are updated as new data is

available; (3) *Dairy Herald*—reports periodically on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*—published as necessary, provide a comprehensive look at how whey protein and other dairy ingredients can be used in foods and beverages for different functionality needs; (5) *Tools for Innovation*—a periodic supplement from DMI and *Dairy Foods* magazine that covers dairy product trends and research; (6) *Innovations in Dairy*—a technical bulletin, published two to three times a year on specific topics in dairy products, ingredients, processing, and packaging; and (7) *Dairy Business View*—an e-newsletter published bi-monthly with *Dairy Foods* magazine covers dairy industry news, new technologies, business trends, innovation, and research.

Innovation Center for U.S. Dairy

Dairy producers, processors, and manufacturers announced an unprecedented agreement in 2008 to collaborate on pre-competitive initiatives through a new Innovation Center for U.S. Dairy (Innovation Center). The goal of the agreement is to accelerate industry innovation throughout the supply chain to increase sales in an increasingly competitive consumer marketplace.



The Innovation Center was established by dairy producers through DMI. It is the first organization of its kind to bring together milk producers, processors, and manufacturers under one organization to collaborate on major issues affecting the industry.

The Innovation Center provides a forum for the entire dairy industry to work together to offer consumers the products they want—when and where they want them—and increase dairy sales through pre-competitive collaboration. It combines the collective resources of the industry to provide consumers with nutritious dairy products and foster industry innovation for healthy people, healthy products, and a healthy planet. The Board of Directors for the Innovation Center represents leaders from across the dairy value chain, including producers and chief executives of the Nation's leading processors, manufacturers and brands. The Innovation Center is supported and staffed by DMI. The priorities include: Sustainability, Health and Wellness, Product Development, Information and Communications, Regulatory Issues (excludes pricing), Consumer Confidence, and Globalization.

The Innovation Center will move forward its priorities through enlisting cross-industry Operational Committees charged with developing action plans. These committees and purposes include: Health and Wellness Committee – to increase category sales and demand for dairy products by identifying and meeting the health and wellness needs and desires of consumers; Product Development and Information Committee – to act as the steward of the pre-competitive innovation assets and resources of the industry; Globalization – to provide a strategic analysis of the global dairy landscape to provide a common understanding of the challenges, opportunities, and threats posed by increasing globalization to the U.S. dairy industry; and Sustainability – to provide consumers with the nutritious dairy products they want in a way that is economically viable, environmentally sound, and socially responsible.

Sustainability

Dairy leaders continued their industry-wide commitment to reduce fluid milk's carbon footprint while increasing business value, from farm to consumer. Through this commitment, the sustainability initiative achieved a significant milestone in 2010 with the completion of a carbon footprint study that measured the greenhouse gas (GHG) emissions associated with a gallon of milk in the United States.

The lifecycle assessment (LCA) studied the entire life cycle of a gallon of milk, starting with the raw materials and ending after consumer use and disposal. The Innovation Center commissioned the Applied Sustainability Center at the University of Arkansas, one of the Nation's leading agricultural LCA research groups, to conduct the LCA of fluid milk. The study, together with data from additional studies measuring GHG emissions helped validate that total U.S. dairy GHG emissions are approximately 2.0 percent of total U.S. emissions. This is far less than earlier figures reported about the global livestock industry. Key learnings from the study showed that management practices, rather than the size or location of the farm or processing facility, makes the biggest difference in reducing GHG emissions. Additionally, the study created a scientific foundation to measure progress and provides a basis for dairy businesses to make independent decisions about management practices that are economically and environmentally feasible for their operations. The findings of the study were presented at the International Food LCA Conference in Italy in September 2010 and were submitted for publication in a peer-reviewed journal.

In addition to the LCA study, dairy leaders continued to focus on their industry-wide action plan that was an outcome of the industry's June 2008 Sustainability Summit for U.S. Dairy, a gathering of 250 leaders representing producers, processors, non-governmental organizations, university researchers, and government agencies, held in Rogers, Arkansas.

The plan focuses on operational efficiencies and innovations to reduce greenhouse gas emissions while ensuring financial viability and industry growth. The dairy industry has committed to a goal to reduce the carbon footprint of fluid milk by 25 percent by the year 2020 — equivalent to taking more than 1.25 million cars off the road every year. The industry will reduce greenhouse gas emissions throughout the entire dairy value chain – from production of feed for dairy cows through retail. Based on goals from the Sustainability Summit, 12 prototype projects are being tested to determine their real-world viability as ways to reduce greenhouse gas emissions.

1. Dairy Feed Systems – Nutrient management techniques and best practices.
2. Farm Energy Audit Program (FEAP) – Energy audits of dairy operations to find energy saving techniques.
3. Cow of the Future – Reduction of enteric methane by accelerating identification and adoption of new practices and technologies.
4. Dairy Underground – Assesses the viability of turning digester-generated methane into salable energy and the reduction of operational costs.
5. Dairy Power – Explores barriers to methane digester adoption.

6. Dairy Processing Carbon through Energy Efficiency (D-CREE) – Identification and adoption of energy efficiency best practices in milk processing plants.
7. Non-Thermal UV Processing – The use of UV technology as an alternative method to heat-based pasteurization.
8. Next Generation Clean-In-Place (CIP) – Reduced-temperature CIP technologies to reduce costs and greenhouse gas emissions.
9. Dairy Delivery Systems Life Cycle Assessment (LCA) – Assessment of the environmental impact of fluid milk products.
10. Environmentally Sustainable Methods for Achieving Responsible Transportation (E-SMART) – Transportation and fuel efficiency best practices.
11. Financial Resources – Coordination for funding sources for the greenhouse gas reduction projects that fall outside of the scope of the checkoff program.
12. Common Voice – Supports strategies and awareness of greenhouse gas reduction goals, projects, best practices, and results.

Dairy Research Institute

The Dairy Research Institute (DRI) was created by DMI in 2010 to conduct research on behalf of the



Innovation Center, the NDC, and other sponsors, by building on dairy producers' investment in research. The nonprofit organization works with and through industry, academic, government, and commercial partners to increase pre-competitive, technical research in nutrition, products, and sustainability. DRI is the first organization of its kind to provide an industry-wide approach to technical research for the dairy industry.

The Innovation Center board of directors identifies pre-competitive priorities that address industry research issues and opportunities. Then, DRI defines an industry-wide research plan and identifies funding for the plan.

DRI research priorities are categorized into four areas. Nutrition Research includes blood pressure, dairy protein, digestive health, milk fat/cheese, obesity, metabolic, health, body composition, and performance, and relationship of food and beverage nutrient density to climate impact. Product research includes applications and technical support, cheese, fluid milk/cultured products, milk ingredients/fractions, partnerships, and whey/co-products. Sustainability research projects include greenhouse gas reduction opportunities and lifecycle assessments. Finally, planning/partnership/regulatory research includes business development strategy, planning and partnerships, and regulatory affairs guidance.

Industry and Image Relations

Each year, fewer consumers are connected to food production and receive mixed messages through the media about the agriculture industry. As part of an effort to help protect the image of dairy producers and the dairy industry among the public, DMI continued its Website, www.dairystatus.org. The site educates the public about how today's dairy producers care for their animals, protect the land, and produce safe, wholesome milk.

To help dairy producers directly communicate with consumers about dairy farming practices, DMI continued its “Telling Your Story” (TYS) program. TYS provides dairy producers with public relations, presentation, and media training to build and maintain consumers’ confidence in the dairy industry’s production practices and products.

DMI continued the social media component of its TYS program, which utilizes Facebook, YouTube, blogs, and other social media. The goal of myDairy is to develop a network of social media-savvy dairy advocates who use online communication to tell the dairy industry’s story, reinforce and build its positive image, and counter inaccurate or uninformed online commentary about dairy farming practices. Dairy producers and industry representatives are provided with an online toolkit of social media and dairy resources that can be used to tell dairy’s story through blogs, social networking sites, and positive dairy videos and photos.

DMI also worked to inform dairy producers about how their assessment dollars were being used. The organization continued to communicate to dairy producers and other industry audiences through the TYS program, publications (such as the annual report, joint newsletters with Qualified Programs, and dairy cooperative check inserts), dairy industry events (including major trade shows and producer meetings), and media relations (including press releases, feature placement, and farm broadcast interviews).

DMI continued its Issues Management and Crisis Readiness programs in 2010. DMI staff and related dairy industry representatives work to monitor and identify current and potential issues where the safety, benefit, or reputation of dairy producers or dairy products may be called into question publicly. As needed, the network of representatives respond to media requests, train dairy spokespeople, build third-party relationships within the agricultural industry, and distribute media alerts with key messages to maintain consistent industry-wide responses. Primary areas of focus include animal welfare, environment, sustainability, food safety, child nutrition, and modern farming practices.

The Crisis Readiness program continued to develop a strong network of dairy industry and agricultural representatives. Through this coordinated effort, a communication plan was developed to communicate quickly, accurately, and effectively in the event of a crisis, such as disease outbreak, product contamination, or food-borne illness. The checkoff led three regional crisis drills in 2010 that engaged many sectors of the industry, focusing on hypothetical scenarios ranging from animal disease outbreaks to the international tampering of dairy products. These drills help to maintain the industry’s state of readiness and reinforce the critical nature of steps taken within the first 24 hours of a crisis.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related Web sites. DMI also continued to work with Wisconsin Milk Marketing Board to execute co-funded retail butter promotion activities. The national effort helped to drive incremental retail butter sales in select markets across the United States.

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Qualified State or Regional Dairy Product, Promotion, Research, or Nutrition Education Programs (Qualified Programs) are certified annually by the Secretary. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and the Secretary); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153). A list of the Qualified Programs is provided in Appendix F.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2010 was \$194 million (approximately 10 cents out of the 15-cent assessment). See Appendix B-7 and Appendix B-8 for aggregate income and expenditure data of the Qualified Programs.

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad-based projects. For example, UDIA coordinates nationally through DMI the programs and resources of 18 federation members and their affiliated units to support the unified marketing plan.

National Fluid Milk Processor Promotion Board

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) as authorized in the Fluid Milk Act administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia. The fluid milk marketing programs are research-based and message-focused for the purpose of positively changing the attitudes and purchase behavior of Americans regarding fluid milk.

The Secretary appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at-large members. Of the five at-large members, at least three must be fluid milk processors and at least one must be from the general public. Four fluid milk processors and one public member serve as at-large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Fluid Milk Board by more than three representatives. Fluid Milk Board members are listed in Appendix A-2. A map of the Fluid Milk Board regions is shown in Appendix H-2.

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the Fluid Milk Board's target-focused program committees (Moms, Teens, Hispanics, and Business Development and Research) to address the Fluid Milk Board's concern that it provide the best possible oversight of program spending. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Fluid Milk Board maintains a Finance Committee that reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Fluid Milk Board's accounting firm. The Fluid Milk Board met three times during 2010.

The National Fluid Milk Processor Promotion Program (MilkPEP) is funded by a 20-cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3 million pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated \$106.9 million in 2010. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from 2010 assessments was \$10 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities which include the "got milk?"® advertising campaign.

The actual income and expenses for 2010 are provided in Appendix B-4. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 2010 are detailed in Appendix B-5. Appendix B-6 contains the Fluid Milk Board's approved budget for 2010. Appendix C-2 contains an independent auditor's reports for the period of January 1 through December 31, 2010.

Medical and Scientific Activities

The Fluid Milk Board's Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, met in June 2010. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in continuing relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, and the American Heart Association. They also appeared as medical professionals in the media, providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked over the past year to inform others in the scientific community of research that showed that consuming milk after exercise can aid in muscle recovery and rehydration. Additionally, the MAB continued to increase awareness about the nutritional benefits of serving both flavored and non-flavored white milk to children in schools. These communications and

activities continue to highlight milk's nutritional profile that includes nine essential vitamins and minerals.

National Fluid Milk Programs

In 2010, fluid milk marketing plans were designed to conduct marketing and promotional activities emphasizing milk's role in building strong families. The Fluid Milk Board continued promoting the importance of refueling after exercise with chocolate milk and utilized television and print advertising, press releases, promotions, Internet, and other media to accomplish to promote the refuel messages. The program's target audiences included women and moms, teens, and Hispanics. The *got milk?*®/milk mustache advertising campaign continued to provide the basis for advertising activities and other program delivery methods. A description of the 2010 program activities listed by advertising target area follows.

Moms

The Fluid Milk Board advertising campaign for the Moms target in 2010 focused on Mom building a strong, healthy family with the "Building Strong Families" campaign. Throughout the year, the Fluid Milk Board based their promotions on three concepts: strengthening family connections, creating occasions to enjoy milk, and student achievement during a back to school campaign. Additionally, the Fluid Milk Board launched their annual highly-successful "Chocolate Milk: The Official Drink of Halloween" promotion to remind Mom to provide a healthy Halloween "treat" to her own trick-or-treaters.

The Fluid Milk Board kicked off the year with the "Building Strong Families" campaign, which was the overarching theme of the year. This campaign was designed to increase sales by encouraging moms to serve milk at mealtimes. Through the use of in-store POS, national print and television advertising, public relations and local market processor events, "Building Strong Families" provided the basis for additional supportive campaigns throughout the year.

"Building Strong Families" awarded free milk for a year to four instant winners each day for 30 days. The promotion was highlighted during multiple popular morning shows, urging Mom to head to the dairy section. Additionally, Moms could enter the online sweepstakes and receive a coupon for a free gallon of white or flavored milk with purchase to encourage continued, future consumption of milk.

The "Building Strong Families" theme continued throughout the year, with the support of additional smaller campaigns. "Milk the Moment," which began in March 2010, reminded Moms to continue to set the table with milk. Moms were able to access quick and easy dinner recipes online and could also enter for prizes by describing how they "milk the moment." Additionally, one grand prize entry was selected from the prize winners.



In April 2010, the Fluid Milk Board partnered with “The Biggest Loser: Couples” in an effort to remind consumers that including milk at the dinner table helps to “pump up” the nutrition in a meal. Contest entrants were invited to follow the Fluid Milk Board’s social media, and submit their own stories of how milk is a great complement to their meals. A winner was selected from the submissions to attend the Biggest Loser finale, broadcast live in Los Angeles, California.

In June, the Fluid Milk Board celebrated families at *Scholastic Parent & Child*’s ‘Family of the Year’ event. The event was held in New York City and featured celebrity milk mustache stars Elisabeth and Tim Hasselbeck. The Hasselbecks read from the new storybook, The Giverback Parade, and unveiled their new milk mustache ad. The ad debuted in print in the 2010 June/July issue of *Scholastic Parent & Child* magazine.



In July and August 2010, the Fluid Milk Board partnered with Post Cereals to help remind moms about the benefits of a breakfast including milk as they helped their students get ready for back to school. The “Unlock Their Potential” campaign featured an instant win contest through the Fluid Milk Board’s www.whymilk.com Web site. Prizes were geared around the back-to-school time, and winners had a chance to win laptops, Leap Frog® learning electronics, backpacks, and gift cards.

In October 2010, the Fluid Milk Board brought back their highly-successful annual Halloween promotion “Chocolate Milk – the Official Drink of Halloween.” The campaign was a flavored milk feature incentive program that rewarded retailers for feature ad and display activity. The



program promoted flavored milk as a healthy treat for Moms to give their kids at Halloween. Retailers were rewarded with prizes based on their level of feature activity. The rewards could be used as in-store giveaways, employee incentives, or other ways to help increase flavored milk sales. Promotional point-of-sale materials included banners, wobblers, and static clings that were used to aid retailers in creating exciting in-store displays. Additionally, the Fluid Milk Board hosted an essay contest for Moms to share their experience of how they incorporate low-fat chocolate milk into their children’s diets during the Halloween season. One grand prize winner was selected to win a family-friendly trip to Orlando, Florida.

Appendix G includes thumbnail images of the Fluid Milk Board’s promotional activities for Moms in 2010.

Teens

The Fluid Milk Board continued their “Drink Milk for a Change” promotion in 2010. “Drink Milk for a Change” showcased the collaboration between singing sensation and American Idol winner Jordin Sparks and the Fluid Milk Board to inspire teens to make a difference. The two partnered with VH1 Save the Music to launch the “Drink Milk for a Change” program to benefit

school music departments across the country. The campaign kicked off on September 23, 2009, in Los Angeles, California. The campaign showed teens simple changes they could take to help make a difference in themselves and the world. Teens could make their own milk mustache ads on www.bodybymilk.com and for each mustache ad created, \$1 went toward the VH1 Save The Music Foundation to help restore school music programs, up to \$50,000. This campaign helped inform teens that making nutritious choices, like drinking low-fat milk, would affect how they look and feel. Packed with nine essential nutrients, drinking milk could help teens make the changes they wanted to see in themselves—including strong bones, lean muscles, and healthy hair and skin.

In continuing the “Change” theme, the Fluid Milk Board created the “Change Your Look” campaign featuring Lauren Conrad. Lauren, whose stardom began with MTV reality series *Laguna Beach: The Real Orange County* and *The Hills*, partnered with the Fluid Milk Board to help support www.donatemydress.org and provide prom dresses to needy prom attendees. The campaign also focused on the benefits of drinking milk as a teen girl. Lauren shared her “beauty secret” with teen girls and spoke to how she drinks milk to help her look and feel her best.

Lauren shot two different “got milk?” ads and teen girls were asked to vote for which style should be used; a casual “California girl” shot or a glam “night out” shot. Each time teens voted for their favorite style on

www.bodybymilk.com, \$1 was donated to prom dress drives nationwide via www.donatemydress.org. Additionally, voters were entered to win fashion and beauty items from Lauren’s ad shoot, a professional style session, and the chance to attend a special event where Lauren revealed the winning “California girl” milk mustache ad.



In August 2010, the Fluid Milk Board teamed up with some of the biggest athletes to promote the benefits of refueling with chocolate milk in their “Refuel America” tour. Eight-time speed skating medalist Apolo Anton Ohno and USA Basketball Men’s National Team member Chris Bosh donned milk mustaches and spoke about low-fat chocolate milk providing an easy, effective, and cost-efficient way to refuel after a tough workout. The “Refuel America” program aims to educate Americans that no matter what sport they play, low-fat chocolate milk is an easy,

effective, and cost-efficient way to refuel the body after a tough workout. Refueling after exercise, especially during the two-hour recovery window, is key in helping the body recover and prepare for the next workout or competition. Low-fat chocolate milk offers the right mix of protein and carbohydrates to repair and refuel exhausted muscles, plus fluids and electrolytes to rehydrate and help replenish what’s lost in sweat.



Fellow milk mustache athletes and refuel with chocolate milk proponents, including gold medalist Shawn Johnson, USA Basketball star Chauncey Billups, and WNBA star Crystal Langhorne, joined Ohno and Bosh to unveil their milk mustache ads and the new “Refuel America” program. The campaign continued to educate Americans through various smaller programs throughout 2010, including celebrity milk mustache print ads; television and online public service messages featuring athletes like Chris Bosh and Shawn Johnson; refueling athletes at sporting events around the country; a virtual personal training program for teens; and grants to schools.

The Fluid Milk Board again held the annual Scholar Athlete Milk Mustache of the Year (SAMMY) program and awarded 25 high school students from various regions across the United States a \$7,500 scholarship. Each applicant was required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. The SAMMY program received more than 40,000 applications in 2010. In addition to the scholarship award, each of the 25 winners was inducted into the SAMMY Hall of Fame and featured in a special milk mustache advertisement which appeared in *USA Today*, *Sports Illustrated*, and *ESPN* magazine. The 25 winners were selected by a panel of superstar athlete milk mustache judges including Andy Roddick, Steve Nash, Chauncey Billups, Dara Torres, and Michelle Kwan. Winners were honored during an awards ceremony at Disney’s Milk House in Orlando, Florida, with various star-studded events. The opening ceremony featured former SAMMY winner and bronze medal bobsledder Elana Meyers, and the weekend activities concluded with an awards ceremony hosted by milk mustache celebrity guests NBA All-Star and Denver Nuggets point guard Chauncey Billups and gold medal gymnast Shawn Johnson.

Appendix G includes thumbnail images of the Fluid Milk Board’s promotional activities for teens in 2010.

Hispanic

The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. Most of the promotions in 2010 geared towards general market moms also featured a Hispanic component. For example, the “Ejemplo de Amor” and “Mesa Puesta con Leche” programs reminded Hispanic moms to enjoy milk with their families and accomplish that through serving milk at the dinner table.



In addition, the Fluid Milk Board introduced a teen promotion to celebrate Quinceañera, the recognition of when a Hispanic girl makes the transition to womanhood. Typically, this occurs when a girl turns fifteen. Actress Victoria Justice donned a milk mustache and became the face of this promotion in celebration of the fifteenth anniversary of the *got milk?*® campaign. In conjunction with the new ad, the Fluid Milk Board held a contest in which entrants could win a

cash prize to use toward their very own Quinceñera, as well as hair and makeup application for the winner and her mom, spa gift certificates, consultation with a Quince expert, and more.

In October 2010, the Fluid Milk Board continued with the “Dia de los Muertos,” or “Day of the Dead” campaign during the Chocolate Milk: The Official Drink of Halloween promotion. This promotion reminded Hispanic consumers of the bone-building nutrients that milk provides.



Throughout the year, the Fluid Milk Board continued with their print advertisement campaign that featured Hispanic celebrities with the famous Milk Mustache. In addition to Victoria Justice, celebrities included Paulina Rubio and her mom Susana Dosamantes, Cristian de la Fuente, Maggie Jiminez, Sofia Vergara, and cartoon Handy Manny.

Appendix G includes thumbnail images of the Fluid Milk Board’s promotional activities for Hispanic consumers in 2010.

Business Development and Research

The Business Development and Research committee (BDR) is a joint effort of the Fluid Milk Board, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotions, and public relations activities. Over the years, BDR, formerly known as the Fluid Milk Strategic Thinking Initiative (FMSTI), has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer-friendly processor materials which may be found at www.milkpep.org. These materials include reports on milk’s opportunities in vending, foodservice, convenience and drug store, supermarket, and school foodservice channels. Some of the materials included are brochures focusing on new ways to get kids to drink more milk; vending sales kits containing results from the Multi-Channel Vending Test; and many other reports and studies published in prior years highlighting opportunities for increasing milk sales.

The promotion programs continued to focus on: (1) the nutritional benefits of milk; (2) emerging scientific studies that highlight milk’s benefits; (3) leveraging the high interest generated by the celebrities and the *got milk?*®/milk mustache campaign; and (4) preparing for and responding to misinformation and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences.

Promotion messaging was shifted to center on the enjoyment of milk (and its nutritional benefits) as a family. The 2010 activities included print, radio, online and television advertisements; major nationwide campaign launch events; promotions and contests; celebrity wellness spokespeople; engaging processors at local events; and Hispanic market outreach.

Research was a major priority in 2010. Facing concerns over added sugars in children's diets, the Fluid Milk Board continued to conduct and analyze studies of the effects on consumption if flavored milk was removed from schools. Trending from years past, some studies suggested that by removing flavored milk from school meals, consumption would decrease, thus potentially leaving children lacking in the essential nutrients that milk provides in the diet. Additionally, the Fluid Milk Board continued studying the positive recovery benefits of low-fat chocolate milk on the body after strenuous exercise, as showcased in their "Refuel with Chocolate Milk" campaign.

In 2010, after soliciting proposals from consulting companies, the Fluid Milk Board chose to work with Monitor Group, an international consulting firm that specializes in advisory projects and strategic planning, designing and implementing capability-building programs, and providing financial advisory services. The Fluid Milk Board's main objective with this study was to learn more about the decline of fluid consumption and to determine what actions could be taken in the future to slow or halt the decline.

MilkPEP continued providing processors access to customizable national programs such as the Milk Mustache Mobile and related media materials at www.milkpep.org to use in their own public relations efforts. Brochures, news releases, and other information on milk advertising and promotions were made available to consumers through the following Web sites: www.whymilk.com, www.bodybymilk.com, and www.eligeleche.com.

Complete reports, studies, executive summaries, and press releases for the Fluid Milk Board's ongoing processor initiatives are available for processors on the Web site www.milkpep.org. Customers can also visit www.milkdelivers.org, or call the milk hotline at 1-800-945-MILK (6455) for copies of presentations, videos, and printed materials.

Chapter 2

USDA Activities

The USDA's Agricultural Marketing Service's (AMS) Dairy Programs has day-to-day oversight responsibilities for the Dairy Board and the Fluid Milk Board. AMS Dairy Programs' oversight activities include reviewing and approving the Dairy and Fluid Milk Boards' budgets, budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is a major responsibility of AMS Dairy Programs. Program materials are monitored for conformance with provisions of the respective Acts and Orders, the U.S. Dietary Guidelines for Americans, and other legislation such as the Nutrition Labeling and Education Act. AMS Dairy Programs also uses the "Guidelines for AMS Oversight of Commodity Research and Promotion Programs" to govern oversight and facilitate the application of legislative and regulatory provisions of the Acts and the Orders.

AMS Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify Qualified Programs; and to provide for evaluation of the effectiveness of both promotion programs' advertising campaigns. AMS Dairy Programs assists the boards in their assessment collection, compliance, and enforcement actions.

Other AMS Dairy Programs responsibilities relate to nominating and appointing board members, amending the orders, conducting referenda, and conducting periodic management reviews. AMS Dairy Programs representatives attend full board and committee meetings, and other meetings of consequence to the program.

National Dairy Promotion and Research Board Oversight

Nominations and Appointments

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers and are selected by the Secretary from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties.

A list of Dairy Board members appears in Appendix A-1. Appendix H-1 is a map depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

Organic Exemption

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended Section 1150.157 of the Dairy Order. In States that have mandatory assessment laws, dairy producers are exempt only from the Federal assessment. Producers are still responsible for remittance of State assessments. In 2010, approximately 1,026 dairy

producers were granted exemptions, representing approximately 1.6 billion pounds of production. The Dairy Order requires producers to re-apply annually to continue to receive the exemption.

Amendment to the Dairy Act

Section 781 of the Dairy Act was amended in 2005 to allow the Dairy Board to obligate and expend funds for any activity to improve the environment and public health, and required the Secretary to review the impact of any such expenditure and include the review in the annual report to Congress.

The Dairy Board authorized the expenditure of up to \$6 million during 2006 to fund a portion of the National Air Emissions Monitoring Study (NAEMS). The NAEMS is a multi-year research effort to collect air emission data and create tools that all dairies can use, whether they are participating in the Environmental Protection Agency Air Quality Compliance Agreement (Consent Agreement) or not, to determine whether their air emission levels are in excess of the Clean Air Act thresholds and Comprehensive Environmental Response, Compensation and Liability Act, and Emergency Planning and Community Right to Know Act reporting requirements. The Consent Agreement was developed to offer protection to operations while research is conducted to determine the size and type of farms that may have regulatory responsibilities. Currently, little air emissions data exists for dairy operations.

Data collection for the study was completed during the first half of 2010, and Purdue University and principal investigators completed an initial summary of the data that was transferred to the Environmental Protection Agency (EPA). The EPA will have up to 18 months to complete its data interpretation. The equipment used to conduct the study is owned by the Dairy Board, and at a May 2010 meeting, the Dairy Board passed a motion to donate the equipment to universities to be used for further research. Additionally, the Dairy Board will use \$100,000 of the remaining NAEMS money to fund an interpretive summary that will compare the NAEMS data with previous studies, identify future research needs, create an outreach document, evaluate the NAEMS data quality in terms of completeness and representativeness, and determine relationships of other measured variables on farm emissions.

Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related contracts. USDEC contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act), Dairy Order, and with established USDA policies. AMS Dairy Programs reviewed 80 USDEC contracts during 2010.

Contracts

The Dairy Act and Dairy Order require that all contracts expending assessment funds be approved by the Secretary (7 CFR 1150.140). During 2010, Dairy Programs reviewed and

approved 300 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. Appendix D-1 lists the contractors and corresponding board initiatives approved by USDA.

Contractor Audits

DMI retained the certified public accounting firm of Ernst & Young to audit the records of the following contractors: Digital Influence Group, Edelman Public Relations Worldwide, and Weber Shandwick Worldwide (communications, public relations, and nutrition education); and The University of Connecticut (nutrition research). These contractors represented expenditures totaling approximately \$3.3 million. Audit findings will be presented to the Dairy Board when completed.

Collections

The Dairy Act specifies that each person making payments to a producer for milk produced in the United States and purchased from the producer shall, in the manner as prescribed by the order, collect an assessment based upon the number of hundredweights of milk for commercial use handled for account of the producer and remit the assessment to the Dairy Board. The current rate of assessment is 15 cents per hundredweight of milk for commercial use or the equivalent thereof as determined by the Secretary.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2010, the Dairy Board received about 5.04 cents per hundredweight of the 15-cent assessment.

Compliance

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. No significant differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contract with each Qualified Program. When noncompliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

Qualified Programs

Dairy Programs reviewed applications for continued qualification from 58 Qualified Programs. A list of the active Qualified Programs is provided in Appendix F. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2010 in Appendix B-7 and Appendix B-8.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. The Fluid Milk Promotion Order (Fluid Order) provides that no company shall be represented on the board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve 2 additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations. A list of current Fluid Milk Board members appears in Appendix A-2. Appendix H-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order.

Program Development

The Fluid Milk Board contracted directly with Deutsch Worldwide; DRAFTFCB; Weber Shandwick; and Siboney, U.S.A., to develop its mom and teen advertising, promotions, consumer education/public relations, and Hispanic advertising/public relations, respectively.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Snyder, Cohn, Collyer, Hamilton & Associates, P.C., in 2010 to audit the records of Weber Shandwick to determine if the agency had conformed to the financial compliance requirements specified in its agreement with the Board for the period of January 1 through December 31, 2009.

The Board continues to enhance its internal contract control system in order to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

Compliance

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate.

Chapter 3

Impact of Fluid Milk and Dairy Advertising and Non-Advertising Promotion on Dairy Markets: An Independent Analysis

The Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6407) require annual independent analyses of the advertising and promotion programs that operate to increase consumer awareness and sales of fluid milk and dairy products. Since 1998, economists from the Department of Applied Economics and Management at Cornell University have conducted the independent analyses of the Dairy Promotion and Research Program (Dairy Program) and the Fluid Milk Processor Promotion Program (Fluid Milk Program). In this chapter, the 2010 evaluation results of the effectiveness of the Dairy and Fluid Milk Programs are presented. The economic evaluation focuses on marketing activities by dairy farmers and fluid milk processors that are designed to increase the demand for fluid milk and dairy products. The results of two separate models are presented.

The first is a fluid milk-only demand model used to evaluate the economic impacts of all fluid milk marketing activities of both programs on fluid milk demand. The fluid milk marketing activities include generic¹ fluid milk advertising and non-advertising marketing activities used to increase demand. Advertising includes all media activities such as television, print, radio, outdoor, and web advertising by dairy farmers and fluid milk processors. In 2010, dairy farmers spent \$21.2 million and fluid milk processors spent \$51.6 million on advertising fluid milk activities. Non-advertising fluid milk marketing refers to both activities that have a shorter term impact on demand as well as those that have a longer term impact. These activities include programs such as Dairy Management Inc.'s (DMI) partnership activities, health and nutrition education programs, public relations, promotion programs, school milk programs, food service programs, retail programs, the Child Nutrition and Fitness Initiative, single serve milk promotions, value added marketing (issues/crisis, trade service communications, strategic research, Real Seal), and trade service communications. In 2010, dairy farmers spent \$72.1 million and fluid milk processors spent \$32.3 million on non-advertising fluid milk activities.

The second model is a combined fluid milk and dairy product demand model (measured in terms of domestic commercial disappearance) used to evaluate the economic impacts of all marketing activities for those products. This model, which is hereafter referred to as the "all-dairy-products" model, is included because the Dairy Program now emphasizes an "all-dairy" promotion strategy over product-specific campaigns. As in the first model, marketing activities in the second include generic advertising and non-advertising (shorter and longer term) marketing activities. Advertising and non-advertising marketing strategies are included as two separate variables in the demand model. Unlike the first model, the marketing activities in the second model include activities for all dairy products (fluid and manufactured dairy products). This model provides a measure of the economic impact of all demand-enhancing, generic

¹ Generic means non-branded activities designed to enhance the overall demand for fluid milk and dairy products rather than firm or brand specific demand. All activities conducted by the Fluid Milk Program are generic, but some of the activities conducted by DMI, such as brand partnerships, are not generic. However, the majority of fluid milk processor and dairy farmer marketing activities are generic, and this report will use the term generic to describe all advertising and non-advertising demand enhancing activities by these two groups.

marketing activities by processors and farmers. In 2010, dairy farmers spent \$72 million and \$171 million on all-dairy advertising and non-advertising, respectively.

More recently, DMI has focused more on longer-term impact non-advertising activities such as partnership programs, value-added projects, product research, nutritional research, and nutritional affairs. Previous analyses have not included these activities. However, since they now represent the major activities conducted by DMI they are included in the fluid (and all-dairy-products) model. In 2010, DMI spent \$54.3 million on longer term impact non-advertising activities for fluid milk and dairy products.

Highlights

While per capita fluid milk consumption has been declining for decades in the United States at about 1.0 percent per year, generic fluid milk marketing activities sponsored by the Dairy and Fluid Milk Programs have helped mitigate at least some of this decline. It is estimated that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2010, it is estimated that a 1.0 increase in generic fluid milk advertising expenditures resulted in a 0.038 percent increase in per capita fluid milk consumption when holding all other demand factors constant. Over the same period, it is estimated that a 1.0 percent increase in generic fluid milk non-advertising marketing expenditures resulted in a 0.051 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

In terms of total consumption of fluid milk, generic fluid milk marketing activities increased fluid milk consumption by an average of 7.7 billion pounds per year. Stated differently, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 13.9 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by the Dairy and Fluid Milk Processor Programs combined have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption.

An average benefit-cost ratio (BCR) was computed for the Fluid Milk Program based on the period 1999-2010. The BCR was 10.38, implying that, on average over the period 1999-2010, the benefits of the Fluid Milk Program have been 10.38 times greater than the costs, i.e., every dollar invested in Fluid Milk Program marketing yielded an additional \$10.38 in industry net revenue. To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR. The estimated lower bound for the average BCR was 4.84. Hence, it is reasonable to conclude that this confidence interval gives credence to the finding that the benefits of the Fluid Milk Program marketing activities have been considerably greater than the cost of the program.

In terms of the all-dairy product demand analysis, a 1.0 percent increase in media advertising expenditures resulted in a 0.031 percent and 0.048 percent increase on a skim milk solids and milk fat basis, respectively, in per capita all-dairy product demand when holding constant all other demand factors. A 1.0 percent increase in non-advertising expenditures resulted in a 0.015 percent and 0.016 percent increase on a skim milk solids and milk fat basis, respectively, in per capita all-dairy product demand when holding constant all other demand factors. Thus,

the total marketing (advertising and non-advertising) effort by dairy farmers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

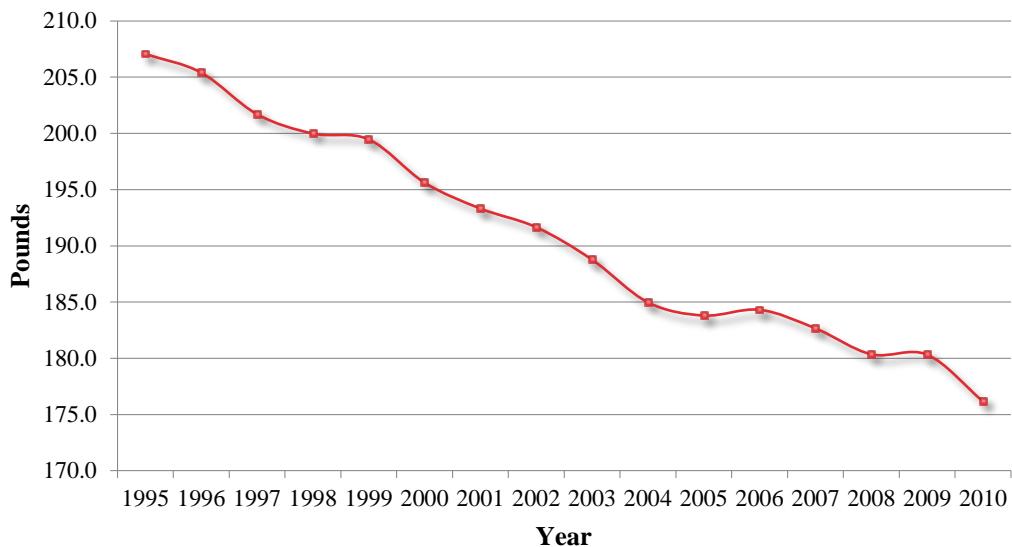
A BCR was calculated for the Dairy Program for the period 1999 through 2010. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue (producer surplus) due to demand enhancement from all marketing activities under the Dairy Program by way of increased sales and higher prices. The costs of the Dairy Program were calculated as the differences in the costs of demand enhancing activities before and after the national program was enacted. The results show that the average BCR for the Dairy Program was 4.93 (skim milk solids basis) and 9.02 (milk fat basis) from 1999 through 2010. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between \$4.93 and \$9.02, on average, in net revenue to farmers. These BCRs are a combined estimate for all DMI and all of the QP's marketing programs. The reason the BCR was higher on a milk fat basis than on a skim milk solids basis is that the estimated advertising and non-advertising elasticities were higher on a milk fat basis than on a skim milk solids basis. The level of the non-advertising BCR suggests that the combined non-advertising programs supported by dairy farmers have been a successful investment. The estimated lower bounds for a 90 percent confidence interval for the average BCR in the skim milk solids basis and milk fat basis models were 3.12 and 1.71, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the program.

In addition to computing a BCR for the overall marketing efforts of dairy farmers, an average BCR also was calculated for generic advertising and non-advertising activities by dairy farmers. The average BCR for generic advertising in the skim milk solids basis model was 6.03 compared with 3.31 for non-advertising marketing activities, and this difference was statistically significant at the 1.0 percent level. The average BCR for generic advertising in the milk fat basis model was 13.42 compared with 5.54 for non-advertising marketing activities, and this difference was statistically significant at the 1.0 percent level. The reason for the substantially higher BCR for advertising than non-advertising is due to the much higher advertising elasticity than non-advertising elasticity estimated in the econometric model.

Analysis of Generic Fluid Milk Marketing

Per capita fluid milk consumption in the United States has been steadily declining for decades. Among the factors behind this decline are changes in demographics, changes in consumer preferences for fluid milk, how and where people consume food, changes in consumer income, changes in retail fluid milk prices, changes in advertising and marketing by producers of beverages that compete with fluid milk, and changes in generic fluid milk advertising and marketing. The following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect fluid milk consumption from 1995 through 2010. It is important to emphasize, however, that the decline in per capita fluid milk consumption has occurred over a significantly longer period of time than since 1995. Figure 3-1 illustrates the

Figure 3-1. Per Capita Fluid Milk Consumption

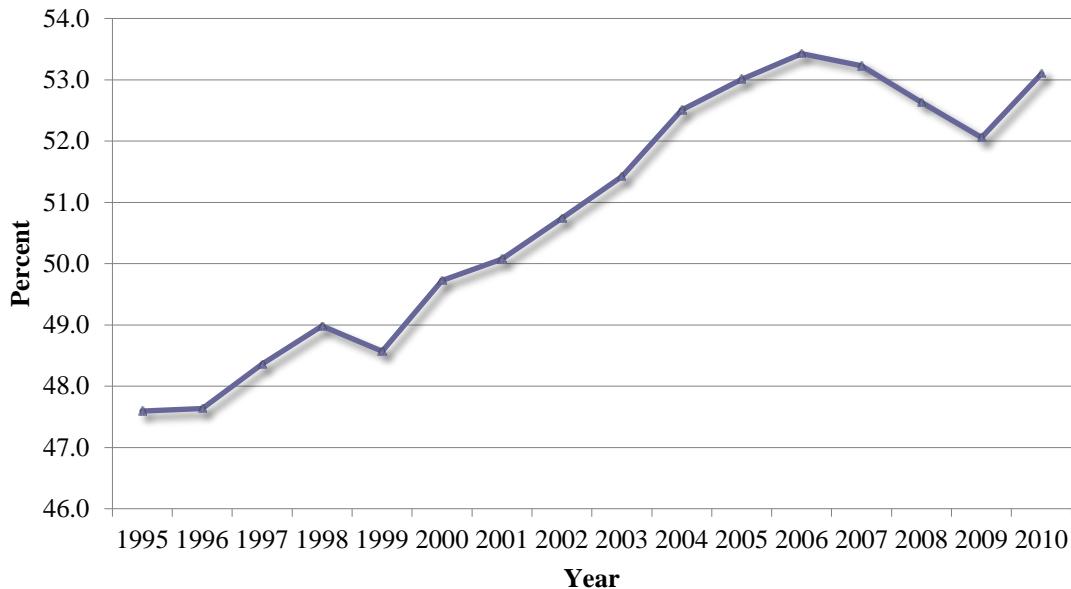


annual per capita consumption declined by just under 15 percent. This translates into an average annual rate of decline of 0.9 percent per year.

One potential cause of declining per capita fluid milk consumption over this time period may be the increasing trend in food consumed away from home. As people consume more food away from home, fluid milk consumption may be diminished by the lack of availability of many varieties of fluid milk products at the nation's eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of fluid milk product, which causes some people who would normally drink fluid milk to consume a different beverage if the preferred fluid milk product is not available. Figure 3-2 illustrates the trend in expenditures on food consumed away from home as a percentage of total food expenditures. From 1995 through 2010, the annual average percentage of expenditures on food consumed away from home increased by 11.6 percent. While there were some ups and downs in the percentage of food consumed away from home over this period, the general trend is increasing from 1995 through 2006. From 1998 to 1999, there was a small dip in food away from home expenditures as a percent of total food expenditures and the decline in per capita fluid milk consumption lessened considerably. From 2006 to 2009, food away from home expenditures as a percent of total food expenditures decreased in each successive year, however, rebounded from 2009 to 2010. It is evident from Figures 3-1 and 3-2 that per capita fluid milk consumption and eating away from home are negatively correlated. Thus, the increase in food consumed away from home appears to be responsible for some of the decrease in per capita fluid milk consumption.

A second factor for declining per capita fluid milk consumption may be changes in U.S. demographics. One important change is the proportion of young children in the population, which is lower than it was in 1995. Since young children are one of the largest fluid milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk

Figure 3-2. Food Away From Home Expenditures as a Percent of Total Food Expenditures.



consumption. Figure 3-3 shows the percentage of the population that was under 6 years old from 1995 through 2010, a segment of the population that decreased 7.1 percent between 1995 and 2002. Therefore, there is a positive correlation between per capita fluid milk consumption and this age cohort—both have declined since 1995. Note that since 2000, there has actually been a marginal increase in this age cohort, but it is still below levels in the mid-1990s.

Between 1995 and 2008, the retail price of fluid milk products has generally been rising relative to the retail price of other nonalcoholic beverages. This pattern is displayed in Figure 3-4.

While there have been some times over this period where retail fluid milk prices declined relative to other beverage prices, there is clearly an increasing trend over time making milk more expensive than other nonalcoholic beverages. However, this pattern significantly reversed itself in 2009, when the relative price ratio decreased 17.2 percent, which, by itself, had a positive effect on consumption. However, the price of fluid milk relative to other beverages rose again in 2010. Over the entire period of 1995 through 2010, annual average fluid milk prices rose 18.7 percent relative to other beverages. These retail fluid milk price increases were likely responsible for some of the decline in per capita fluid milk consumption.

Fluid milk's loss of market share to other beverages also may be due to aggressive marketing by competing beverage producers. Indeed, both dairy farmers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers. Figure 3-5 displays the combined real (inflation-adjusted) generic and brand fluid milk advertising expenditures divided by real bottled water, plus juice, plus soy beverage advertising, which are major competitors of fluid milk products. The general trend has been erosion in the ratio of generic fluid milk advertising to competing beverage advertising. For example, in 1995, this ratio was 0.30, indicating that total generic and brand fluid milk advertising was 30 percent of the combined total advertising budgets for bottled water, juice, and soy beverages. By 2010,

Figure 3-3. Percent of Population Under 6 Years of Age.

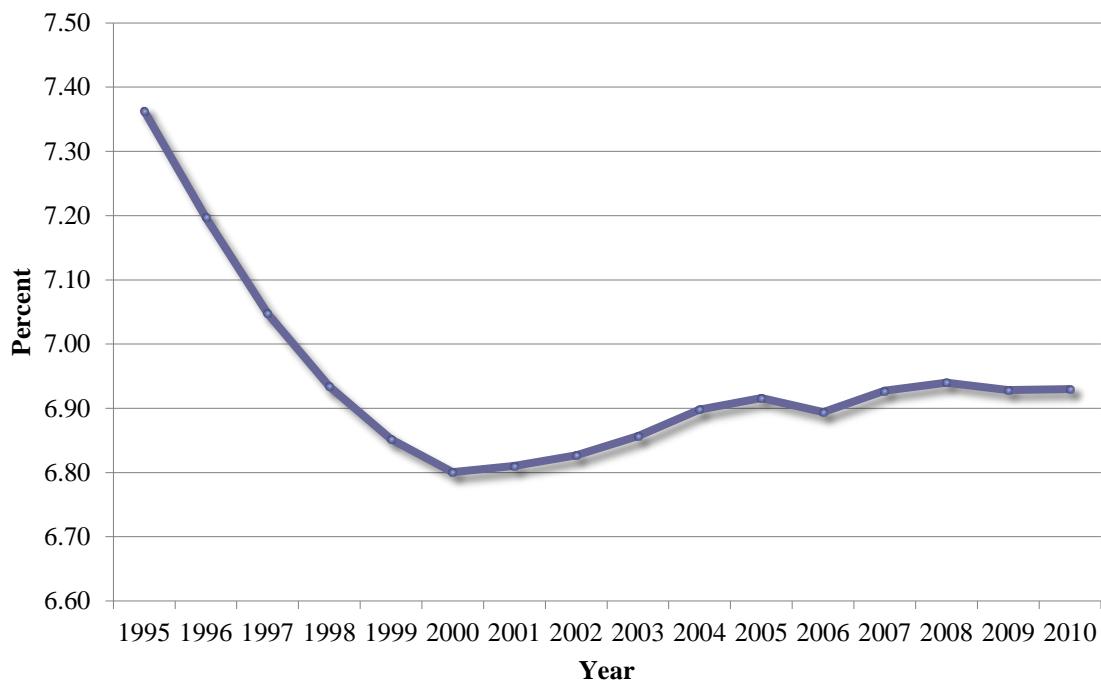


Figure 3-4. Retail Price of Fluid Milk Relative to Other Beverage Retail Prices (set equal to 1.00 for 1995).

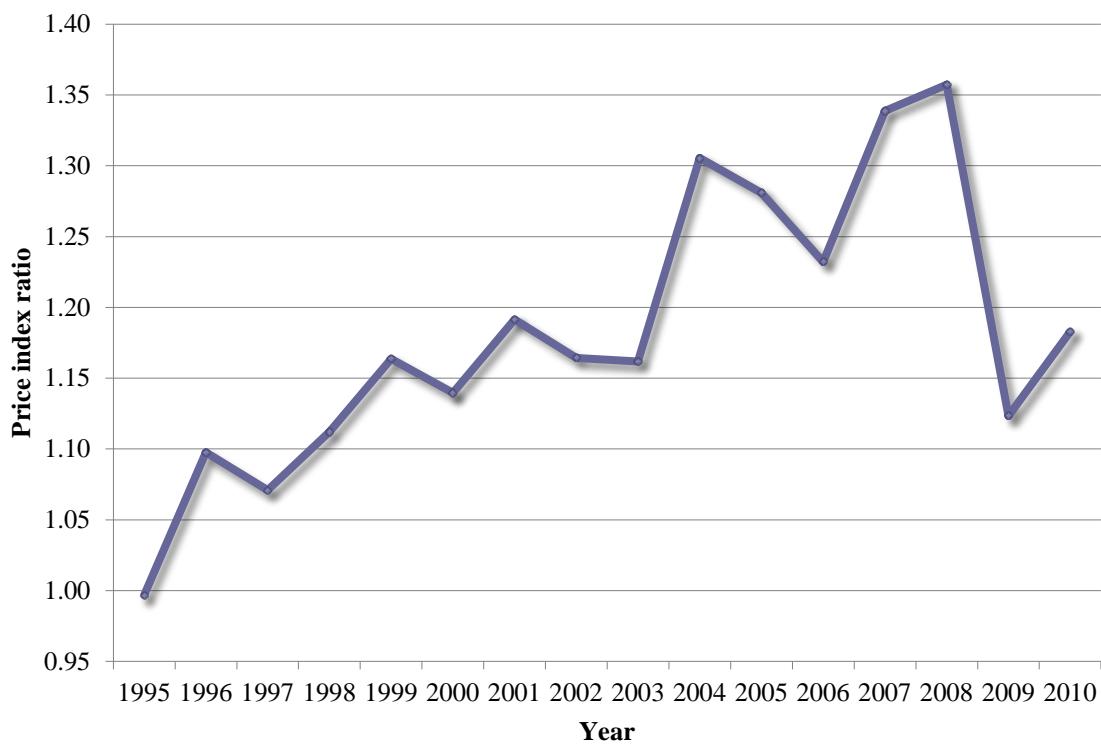
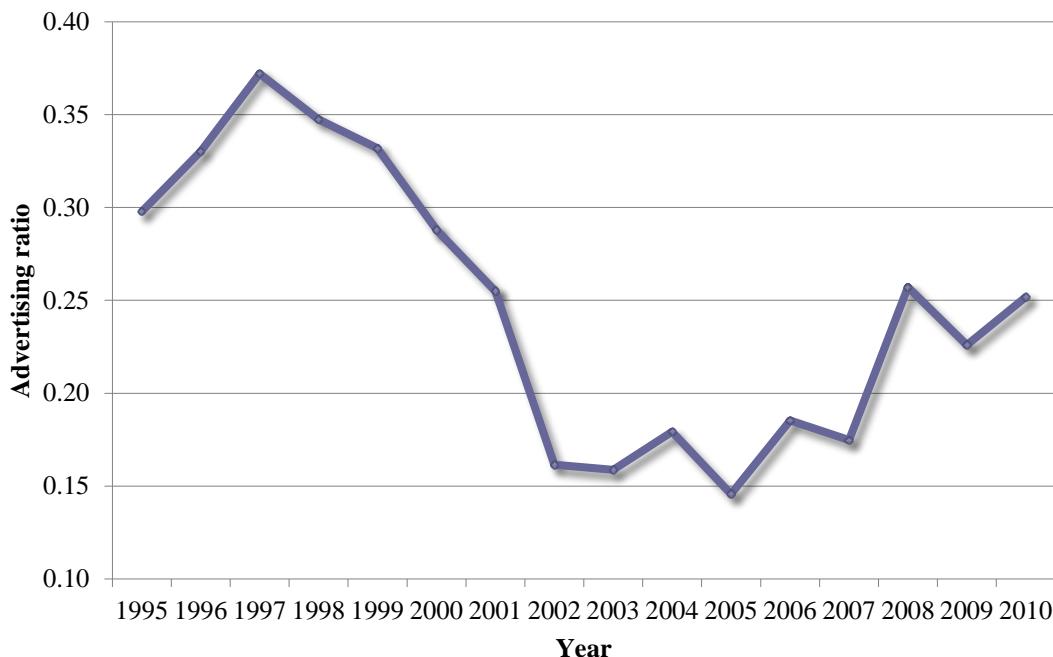


Figure 3-5. Generic and Brand Fluid Milk Advertising Divided by Soy Beverage, Juice, and Bottled Water Advertising.



this ratio fell 15.4 percent to 0.25. Hence, in terms of advertising, fluid milk has lost advertising market share to three of its main competitors, which likely had a negative impact on per capita milk consumption over this time period. However, this ratio has been trending up since 2005 indicating that the share of fluid milk advertising has been increasing relative to bottled water, plus juice, plus soy beverage advertising.

One factor that may have diminished some of the decline in per capita fluid milk consumption is the growth in real (inflation-adjusted) income over this period. Fluid milk is considered to be a “normal” good, which means that consumption increases as consumers’ disposable incomes increase. Figure 3-6 illustrates the steady positive trend in real per capita income (in 2010 dollars) from 1995 through 2010. Since 1995, real per capita income has increased by 26.6 percent, although it leveled off in 2007 and showed only weak growth since then.

Another factor that may have diminished some of the decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. The Dairy Program is the largest generic checkoff promotion program in the United States in terms of revenue, and the third largest program is the Fluid Milk Program.

Figure 3-7 shows generic fluid milk advertising real expenditures (adjusted for inflation) by dairy farmers and fluid milk processors. Over this period, dairy farmers, primarily through DMI, have significantly reduced their investment in generic fluid milk advertising, taking inflation into account. Real fluid milk advertising expenditures by dairy farmers have fallen from almost \$150 million in 1995 to \$21.2 million in 2010, an 85.9 percent decrease. Since the Fluid Milk Program’s first full year in 1997, its inflation-adjusted expenditures on fluid milk advertising

Figure 3-6. Real Per Capita Disposable Income, in 2010 Dollars.

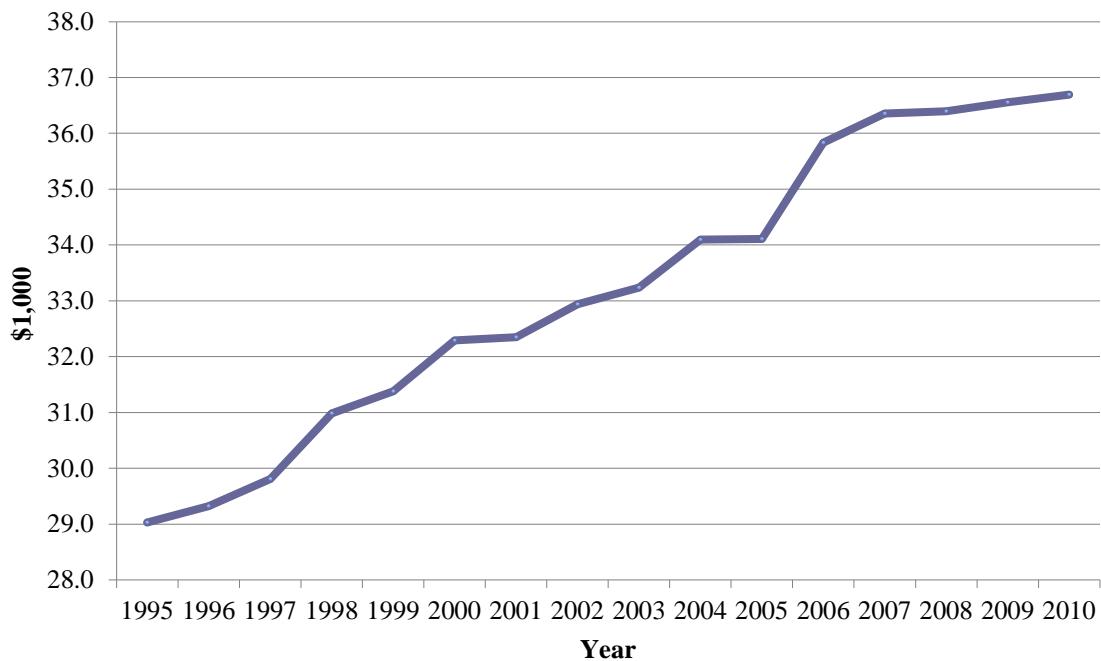
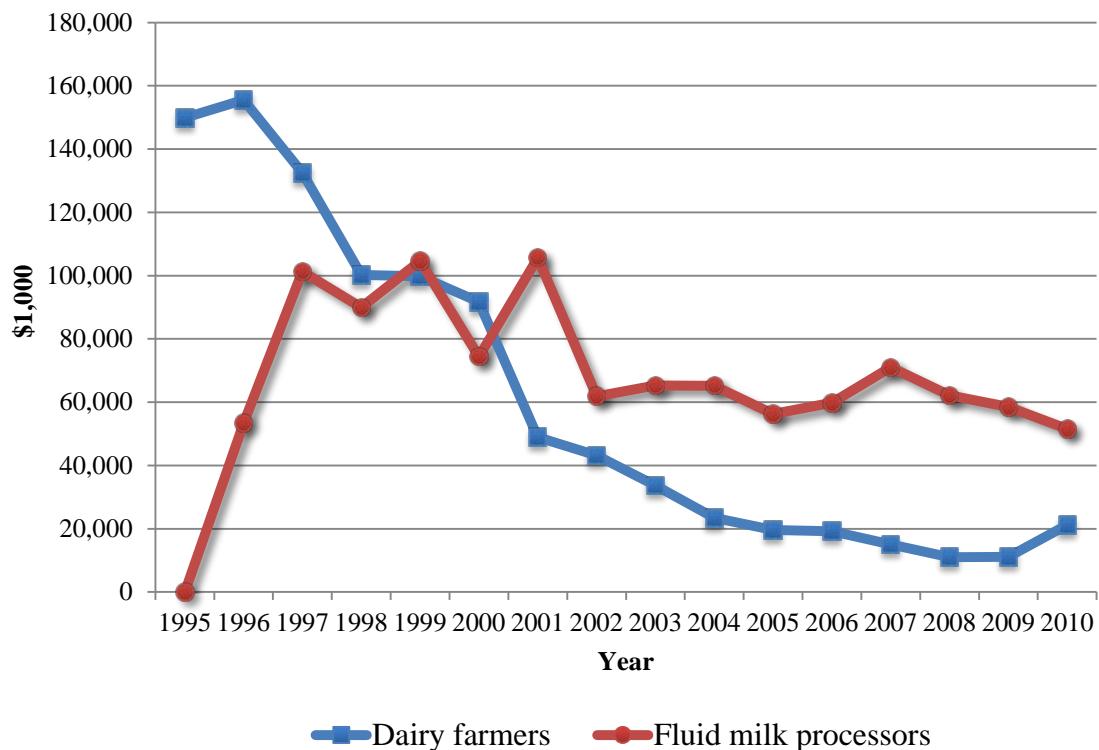


Figure 3-7. Real Fluid Milk Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.



have also declined from \$101.3 million (1997) to \$51.6 million in 2010, or 49.1 percent in real terms. However, over the same period, real brand milk advertising by fluid milk processors has increased from \$17 million to \$50.2 million, which has reduced the decline in processor advertising of fluid milk to 14 percent (instead of 49.1 percent) over this period. Collectively, generic and brand fluid milk advertising by both dairy farmers and fluid milk processors decreased by 54.2 percent in real terms.

Figure 3-8 shows generic fluid milk non-advertising marketing activities by the Dairy and Fluid Milk Programs. The trends in these expenditures have been the opposite of generic advertising. The Dairy Program increased annual expenditures of non-advertising marketing from \$26.2 million in 1995 to \$72.1 million in 2010, an increase of 175 percent in inflation-adjusted terms. The Fluid Milk Program increased expenditures in this category from \$17.2 million in 1997 to \$32.3 million in 2010, an 87.8 percent increase in real terms. Collectively, generic fluid milk non-advertising marketing expenditures by both dairy farmers and fluid milk processors increased by 140.2 percent in real terms.

Figure 3-9 shows combined generic fluid milk marketing (advertising and non-advertising) activities by dairy farmers and fluid milk processors. The trend here has been negative for both farmers and processors. Dairy farmers have decreased their annual expenditures of combined fluid milk marketing from \$176.1 million in 1995 to \$93.3 million in 2010, a decrease of 47 percent in real (inflation-adjusted) terms. Some of this decline is due to inflation, which has eroded the purchasing power for marketing activities, and another reason for this decline has been a decision by DMI to reduce expenditures on fluid milk marketing.

Figure 3-8. Real Fluid Milk Non-Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.

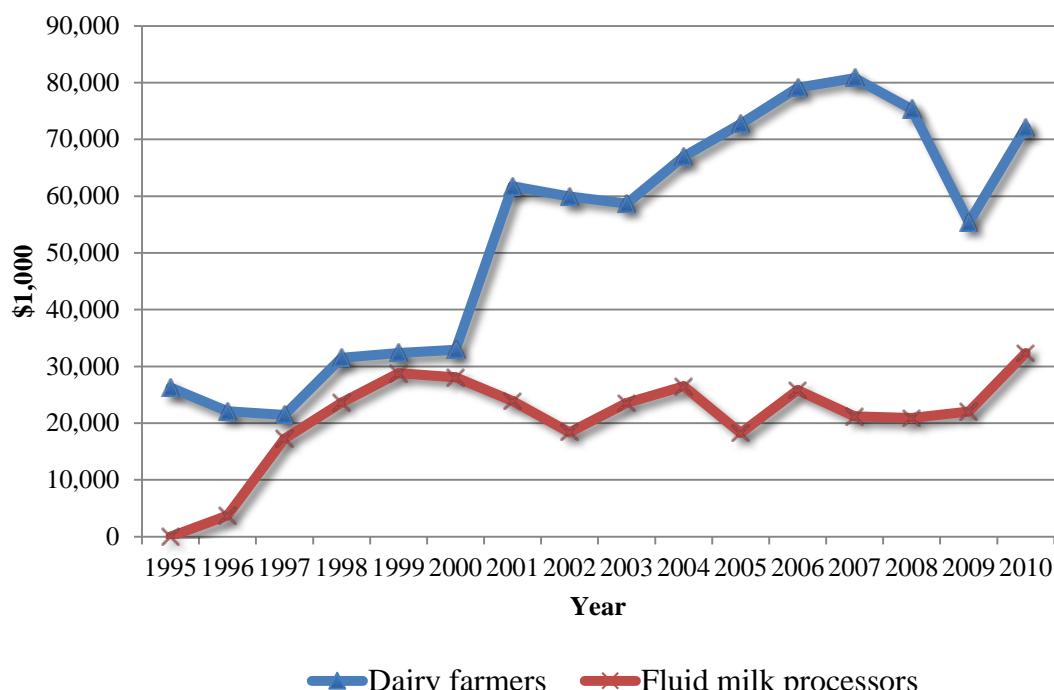
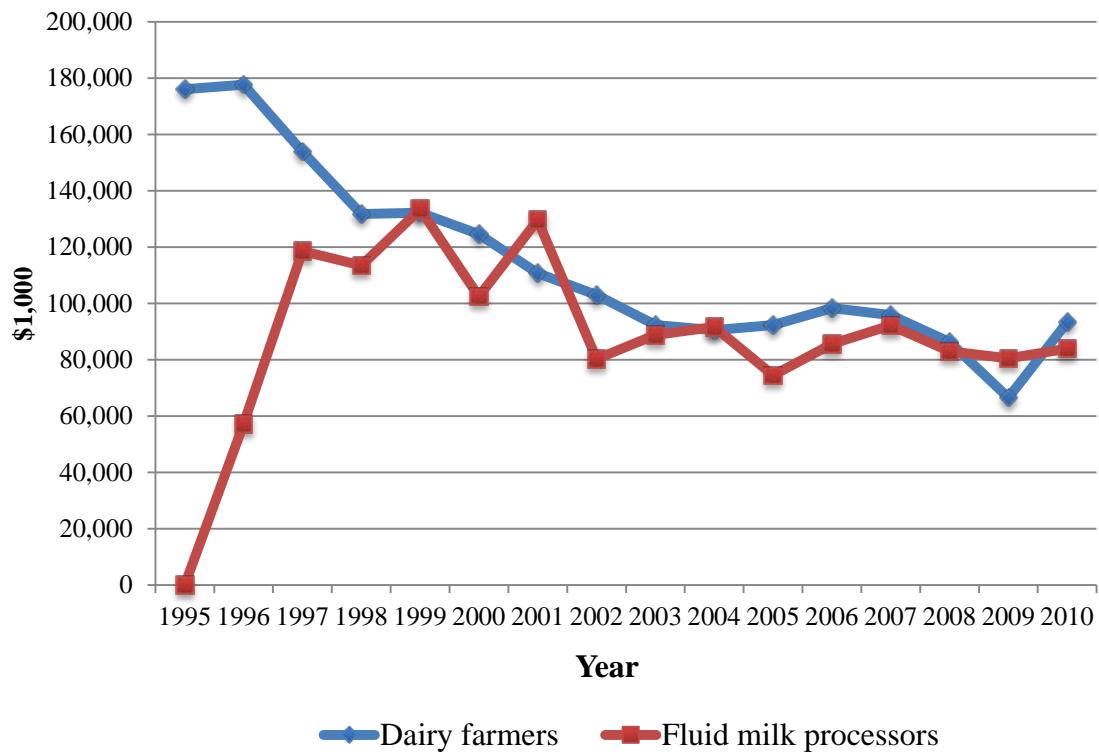


Figure 3-9. Real Fluid Milk Advertising Plus Non-Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.



Fluid milk processors decreased their combined generic marketing expenditures from \$118.6 million in 1997 to \$83.9 million in 2010, a 29.3 percent decrease in real terms. Almost all of the decline in fluid milk processor generic milk marketing has been due to inflation eroding the purchasing power of their marketing dollars. Collectively, generic fluid milk marketing expenditures by both the Dairy and Fluid Milk Programs decreased by 39.9 percent in real terms since 1995.

Fluid Milk Model Estimation

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, an econometric modeling approach was used. Because there are factors other than generic marketing by dairy farmers and fluid milk processors that influence the demand for fluid milk, this model was used to identify the effects of individual factors affecting demand. The following variables were included as factors influencing per capita fluid milk demand: the consumer price index (CPI) for fluid milk; the CPI for nonalcoholic beverages, which was used as a proxy for fluid milk substitutes; the percentage of the U.S. population less than 6 years old; per capita disposable income; variables to capture seasonality in fluid milk demand; expenditures on food consumed away from home as a percentage of total food expenditures; expenditures on competing beverage advertising (bottled water, juice, and soy beverage advertising combined), expenditures on generic fluid milk

advertising,² and expenditures on generic fluid milk non-advertising marketing activities. Since the goals of the Dairy and Fluid Milk Programs are the same with regards to fluid milk, all generic fluid milk advertising by both programs was aggregated into a single advertising variable, and all fluid milk non-advertising marketing by both programs were aggregated into a single non-advertising marketing variable.

The model was estimated with national quarterly data from 1995 through 2010. To account for the effects of inflation, prices and income were deflated by the CPI for all items. Generic fluid milk advertising as well as competing advertising expenditures were deflated by a media cost index computed from annual changes in advertising costs by media type. Similar procedures were used to capture this carry-over effect for competing (bottled water, soy beverage, and juice) advertising. The shorter and longer term impact non-advertising variables were combined into one variable, which was deflated by the CPI for all items. Current expenditures for shorter-term activities were added with longer term activities lagged four quarters, which was determined by the model to fit the data the best. The resulting variable was then included in the model using a distributive-lag structure similar to the advertising variables.

The impacts of variables affecting demand can be represented with what economists call “elasticities.” Elasticities measure the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant. Table 3-1 provides average elasticities for the period 1995 through 2010.³ For example, a price elasticity of demand for fluid milk equal to -0.078 means that a 1.0 percent increase in the real (inflation adjusted) retail fluid milk price causes a decline in per capita fluid milk quantity demanded by 0.078 percent, holding all other demand factors constant. The most important factors influencing per capita fluid milk demand are age demographic changes and the proportion of food expenditures on food eaten away from home. While not as large in magnitude, income, retail fluid milk prices, expenditures on generic fluid milk advertising and non-advertising marketing efforts, and competing beverage advertising expenditures also impacted per capita fluid milk demand. Each factor is further discussed in detail.

The percentage of the population under 6 years of age is the most important factor affecting fluid milk consumption. This factor has an estimated elasticity of 0.708, which means that a 1.0

² As mentioned in the introduction, the advertising expenditures include media expenditures for television, radio, print, and outdoor advertising. Brand fluid milk advertising was initially included in the model, and while it was positive, it was not statistically significant and hence was not included in the final model. Recall there are two types of generic fluid milk non-advertising marketing expenditures: (1) shorter term impacts (designed to last less than one-year) and (2) longer term impact (designed to have a longer than one year impact). These two types of non-advertising marketing activities were combined into one variable. However, a shorter lag duration was used for the shorter-term impact activities while a longer lag duration was used for the longer-term impact activities. Because advertising has a carry-over effect on demand, past generic fluid milk advertising expenditures also were included in the model as explanatory variables using a distributed-lag structure. Specifically, a second-degree polynomial lag structure was imposed. The demand model included current and lagged advertising expenditures to capture the carryover effect of advertising. Similarly, competing advertising included current and lagged expenditures.

³ The estimated model fit the data extremely well. Most variables were statistically significant at the 1.0 percent significance level or better. The adjusted goodness-of-fit measure indicated that the explanatory variables explained 99 percent of the variation in per capita fluid milk consumption. Various statistical diagnostics were performed and no statistical problems were found.

Table 3-1. Average Elasticity Values (1995-2010) for Factors Affecting the Per Capita Retail Demand for Fluid Milk.^a

| Demand factor | Elasticity |
|--|------------|
| Percent of population under 6 years of age | 0.708* |
| Percent of food away from home expenditures | -0.268* |
| Per capita income | 0.165* |
| Retail fluid milk price | -0.078* |
| Bottled-water + soy beverage + juice advertising expenditures ^b | -0.046** |
| Generic fluid milk advertising expenditures ^b | 0.038* |
| Generic fluid milk non-advertising marketing expenditures ^b | 0.051* |

^a Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.078 percent. For more information on the data used, see Appendix Table 3-A1.

^b Long-run elasticity computed as the sum of current and all lagged impacts.

* Statistically significant at the 5.0 percent significance level or less.

** Statistically significant at the 7.0 percent significance level.

percent increase in this age cohort measure would result in a 0.708 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies, which show that one of the largest fluid milk-consuming segments of the population is young children. While this age cohort declined between 1995 and 2000, it has slowly increased since then, which should have a mitigating influence on declining per capita fluid milk consumption.

The amount of food that is consumed away from home, measured in this model as expenditures on food eaten away from home as a percentage of expenditures on all food, has an elasticity of -0.268. This means that a 1.0 percent increase in the food consumed away from home would result in a 0.268 percent decrease in fluid milk demand when holding all other demand factors constant. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products and high availability of fluid milk substitutes at many eating establishments, which frequently offer only one or two types of fluid milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose fluid milk choose another beverage instead. This result suggests the need to target the retail food service industry in an effort to increase away from home consumption.

Per capita disposable income has a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.165 percent increase in per capita fluid milk demand, holding all other demand factors constant. Similar to the price elasticity in magnitude, the income elasticity is consistent with the notion of fluid milk products as a staple commodity in the United States. With real per capita income up by 26.6 percent since 1995, this has lessened the decline in per capita fluid milk consumption. Holding all other factors constant, this 26.6 percent increase in real income increased per capita fluid milk consumption by 4.4 percent over this period.

Not surprisingly, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1.0 percent increase in the real retail price of fluid milk would result in a 0.078 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small, which indicates that consumers' fluid milk purchasing behavior is relatively insensitive to changes in the retail price. This result, which is consistent with other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States.

Combined soy beverage, juice, and bottled water advertising also has a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to soy beverage, juice, and bottled-water advertising is -0.046, and statistically significant.

Finally, the generic fluid milk marketing activities conducted by the Fluid Milk and Dairy Programs have a positive and statistically significant impact on per capita fluid milk demand. The average advertising elasticity is computed to be 0.038 and is statistically significantly different from zero. Thus, a 1.0 percent increase in generic fluid milk advertising would increase per capita fluid milk consumption by 0.038 percent holding all other demand factors constant. The generic non-advertising marketing elasticity is computed to be 0.051 and is statistically significant. The non-advertising elasticity is 1.3 times larger than the advertising elasticity, and the difference is statistically significant at the 1.0 percent level.

Fluid Milk Model Simulation

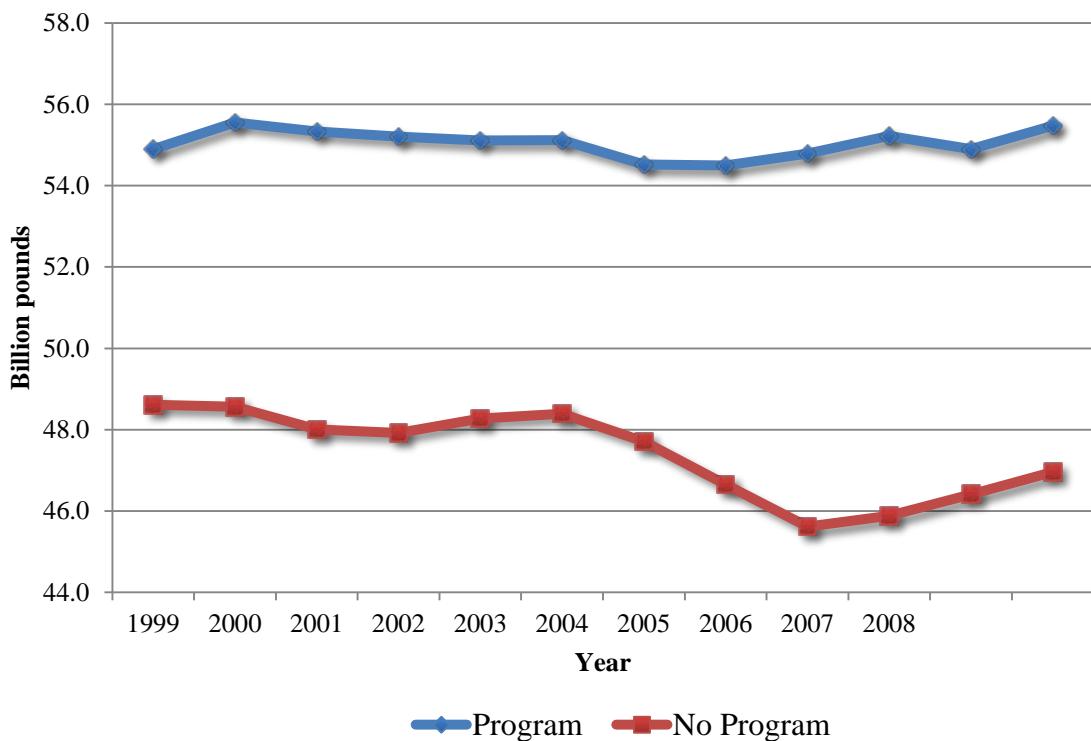
To examine the impact of dairy farmer and fluid milk processor marketing on total consumption of fluid milk, the estimated demand equation was simulated for two scenarios for the period from 1999 through 2010: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non-advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no national Dairy Program, no Fluid Milk Processor Program scenario in which there was no fluid milk processor-sponsored marketing and dairy farmer-sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the national program was enacted.

A comparison of these two scenarios provided a measure of the impact of the national Dairy and Fluid Milk programs. Figure 3-10 displays the simulation results for annual fluid milk consumption for the two scenarios. These marketing activities were responsible for creating an additional 7.7 billion pounds more milk consumption each year on average. Put differently, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 13.9 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy farmers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in per capita fluid milk consumption.

Fluid Milk Processor Benefit-Cost Analysis

One way to measure whether the benefits of a program outweigh the cost is to compute a BCR.

Figure 3-10. Simulated Milk Consumption With and Without Generic Fluid Milk Marketing.



A BCR can be computed as the change in net revenue (processor surplus)⁴ due to generic dairy marketing divided by the cost of the checkoff program. To compute the BCR for the Fluid Milk Program,⁵ the estimated demand equation was simulated for two scenarios for the period from 1999 through 2010: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non-advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no Fluid Milk Program scenario, in which fluid milk processor-sponsored marketing were reduced to 5.0 percent of their actual levels, but dairy farmer fluid milk marketing expenditures were set at historical levels.⁶ A BCR for the fluid milk processor program can be computed on the basis of the difference in market conditions between these two scenarios.

To estimate the BCR, an estimate of the supply response by fluid milk processors and a retail-

⁴ “Net revenue” is defined as the aggregate gain in total fluid milk processor revenue from price and demand enhancements due to generic fluid milk advertising and non-advertising less the increase in supply costs for the additional milk marketed by fluid milk processors. Economists refer to this notion of net revenue as “producer surplus.” The same term could be used for dairy farmer supplying milk to processors or processors supply milk and dairy products to consumers. For this paper, in order to avoid confusion, we make a distinction between “processor” surplus and producer surplus since the term producer usually refers to dairy farmers in the dairy industry.

⁵ A separate BCR is computed for the dairy farmers’ program in the next section.

⁶ 5.0 percent rather than 0.0 percent of fluid milk processors’ actual marketing expenditures was used since this is a logarithmic model and the logarithm of zero and other small positive amounts can result in extreme values.

processor margin equation are necessary in addition to the fluid milk demand equation.⁷ Using quarterly data from 1995 through 2010, the supply from fluid milk processors was estimated as a function of fluid milk supply in the previous quarter, inflation-adjusted processor fluid price, inflation-adjusted Class I price, and a trend term. The estimated long-run own price elasticity of supply was computed to be 0.122, i.e., a 1.0 percent increase in the processor price results in a 0.122 percent increase in quantity of fluid milk supplied. In addition, a retail-processor margin equation was estimated by regressing the retail price index on the wholesale processor price. The three equations, retail demand equation, processor supply equation, and the margin equation were used to simulate the processor market impacts of the Fluid Milk Program.

Table 3-2 presents the average quarterly impacts and BCRs (from 1999 to 2010) for the Fluid Milk Program. Fluid Milk Program generic marketing had a positive impact on the price fluid milk processors received over this period. The average increase in price from 1999 to 2010 was 5.1 percent. In other words, had there not been any marketing by the Fluid Milk Program, the average fluid milk processors' price would have been 5.1 percent lower from 1999 to 2010 than it actually was. The increase in overall milk consumption due to the Fluid Milk Program (not the dairy farmers' marketing) was 6.0 percent.

Fluid Milk Program marketing efforts had a positive impact on processor net revenue over this period as well. The average increase in processor net revenue from 1999 to 2010 was \$1.144 billion per year. In other words, had there not been any Fluid Milk Program marketing, average fluid milk processor net revenue would have been \$1.144 billion per year lower from 1999 to 2010 than it actually was.

How does the gain in processor net revenue compare with the costs of the fluid milk processors' program? To answer the question, an average BCR was computed. A BCR greater than 1.0 implies that the total benefits of the Fluid Milk Program exceed the costs. The average BCR from 1999 to 2010 was 10.38.

Table 3-2. Average Market Impacts of Fluid Processor Generic Marketing Program, 1999-2010.

| Item | |
|---|-------|
| Change in processor price (percent) | 5.1 |
| Change in milk consumption (percent) | 6.0 |
| Change in processor net revenue (\$ million per year) | 1,144 |
| Change in marketing costs (\$ million per year) | 110.2 |
| Benefit-cost ratio | 10.38 |
| Lower bound of 90 percent confidence interval for BCR | 4.84 |

⁷ All the results of the econometric estimation are provided in the following report: Kaiser, Harry M. "Measuring the Impacts of Generic Fluid Milk and Dairy Marketing." NICPRE Research Bulletin, School of Applied Economics and Management, Cornell University, 2011, which is available from the following Website:
<http://www.aem.cornell.edu/research/rb.php>.

This implies that, on average over the period 1999-2010, the benefits of the Fluid Milk Program marketing programs have been 10.38 times greater than the costs, i.e., every dollar invested in Fluid Milk Program marketing yielded an additional \$10.38 in industry net revenue.

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower for the average BCR. One can be 90 percent “confident” that the true average BCR lies within those bounds. The estimated lower bound for the average BCR was 4.84. Since this lower bound is well above 1.0, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Fluid Milk Program’s marketing activities have been greater than the cost of the programs.

Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, generic milk marketing expenditures by fluid milk processors is a mere 0.9 percent of the recent average annual value of processor milk sales. The marketing activities resulted in modest gains in the quantity of milk products and a positive effect on processor prices, resulting in large positive net revenue from the marketing investment.

Analysis of All-Dairy Products Generic Marketing

The following is a brief graphical overview of changes in per capita domestic commercial disappearance of all dairy products and factors hypothesized to affect it from 1995 through 2010. Figures 3-11 and 3-12 display the per capita domestic commercial disappearance of all dairy products since 1995 on a skim milk solids basis and milk fat basis, respectively. The trends in per capita consumption are substantially different for the milk fat basis measure compared with the skim milk solids based measure. On a milk fat basis, per capita consumption has increased by 8.5 percent over this period, although it actually decreased by 1.5 percent from 2008 to 2010. On a skim milk solids basis, per capita consumption has actually decreased by 1.3 percent since 1995.

An important factor influencing per capita commercial disappearance of all dairy products is the retail price of dairy products. Figure 3-13 displays the Consumer Price Index (CPI) for all dairy products relative to the CPI for all items. This figure indicates that there have been both ups and downs for retail dairy prices relative to all prices in the economy. For instance, the price of all dairy products declined in the most recent two years by 7.1 percent.

A factor that had a positive impact on per capita commercial disappearance of all dairy products is the growth in real (inflation adjusted) income over this period. All dairy products are considered to be “normal goods,” which means that consumption increases as consumers’ disposable incomes increase. Figure 3-6 illustrates the steady positive trend in real per capita income (in 2010 dollars) from 1995 through 2010. Since 1995, real per capita income has increased by 26.6 percent, although it leveled off in 2007, and showed only weak growth since then.

Figure 3-11. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (skim-milk-solids basis).

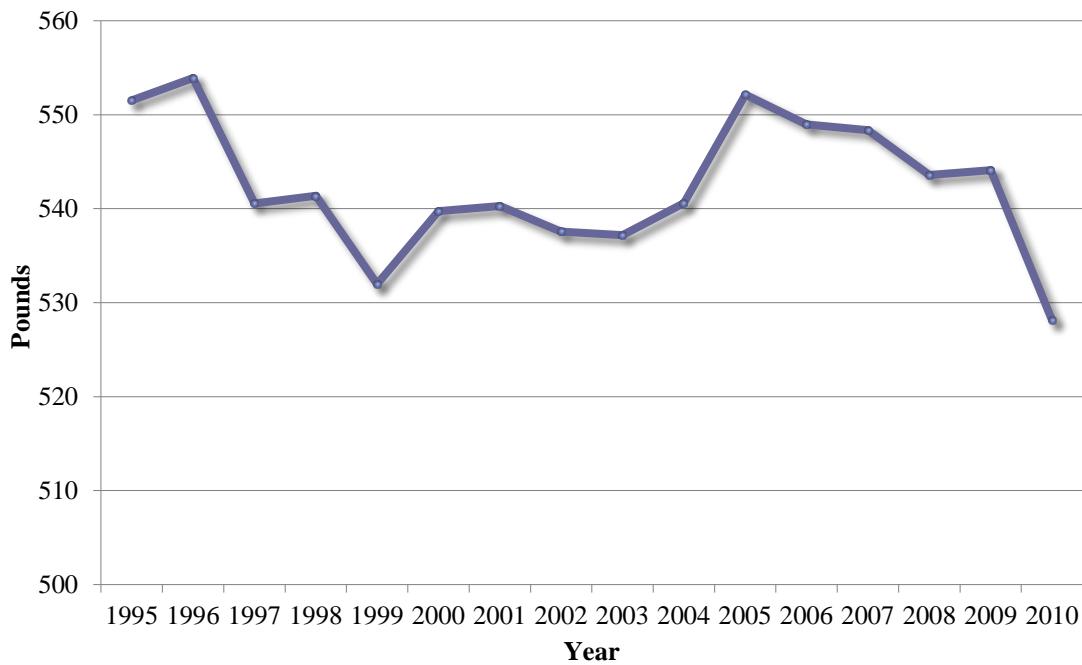


Figure 3-12. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (milk fat basis).

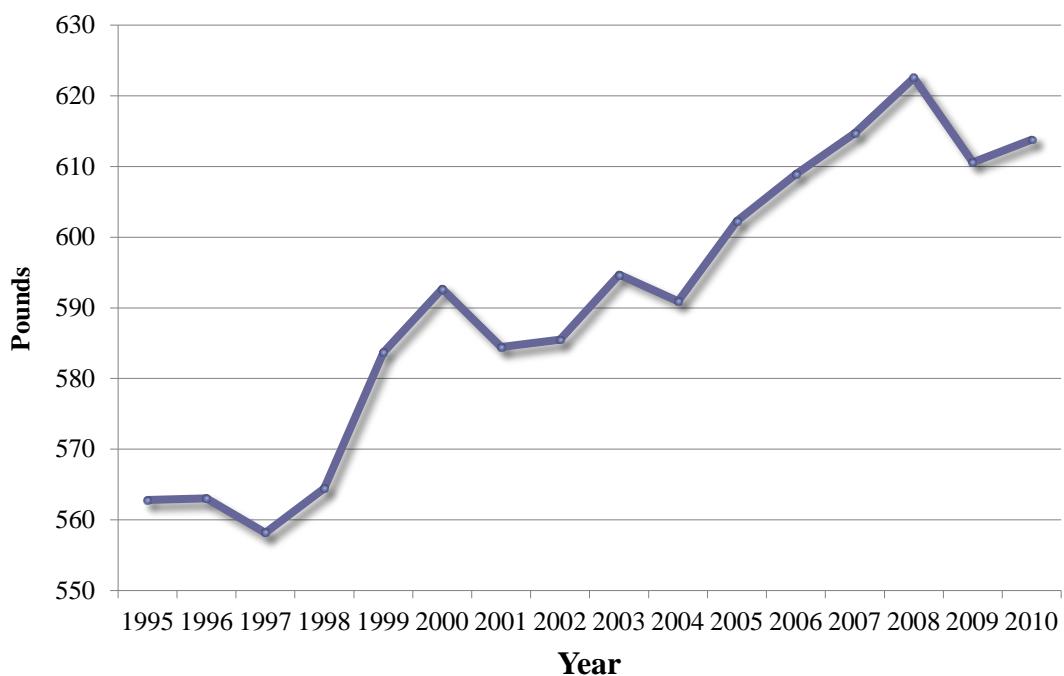
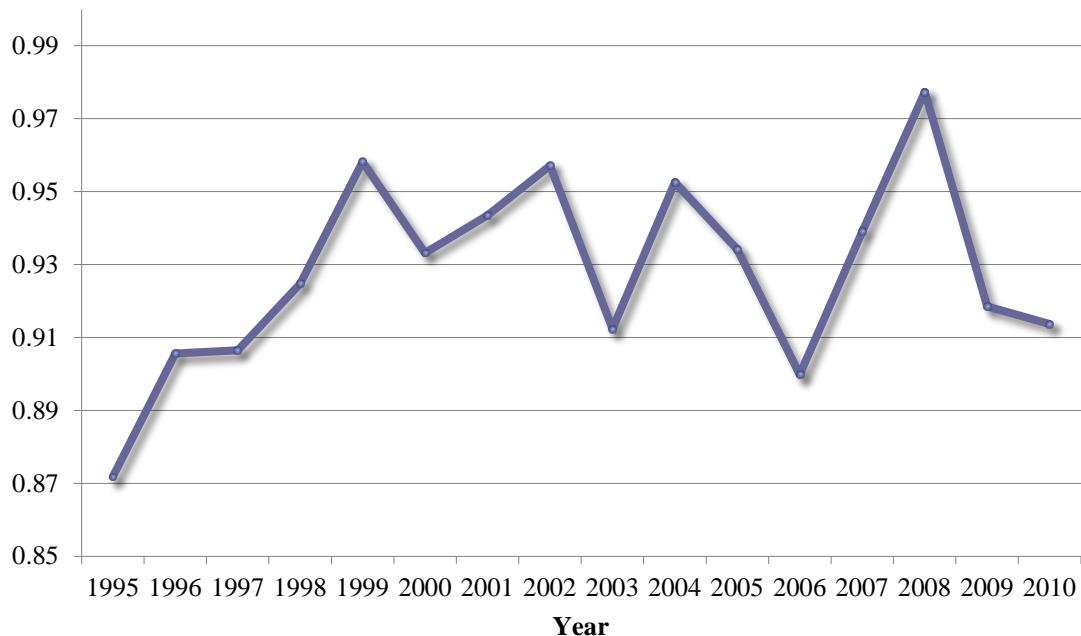


Figure 3-13. Retail Price of Dairy Products Relative to All Other Retail Prices.

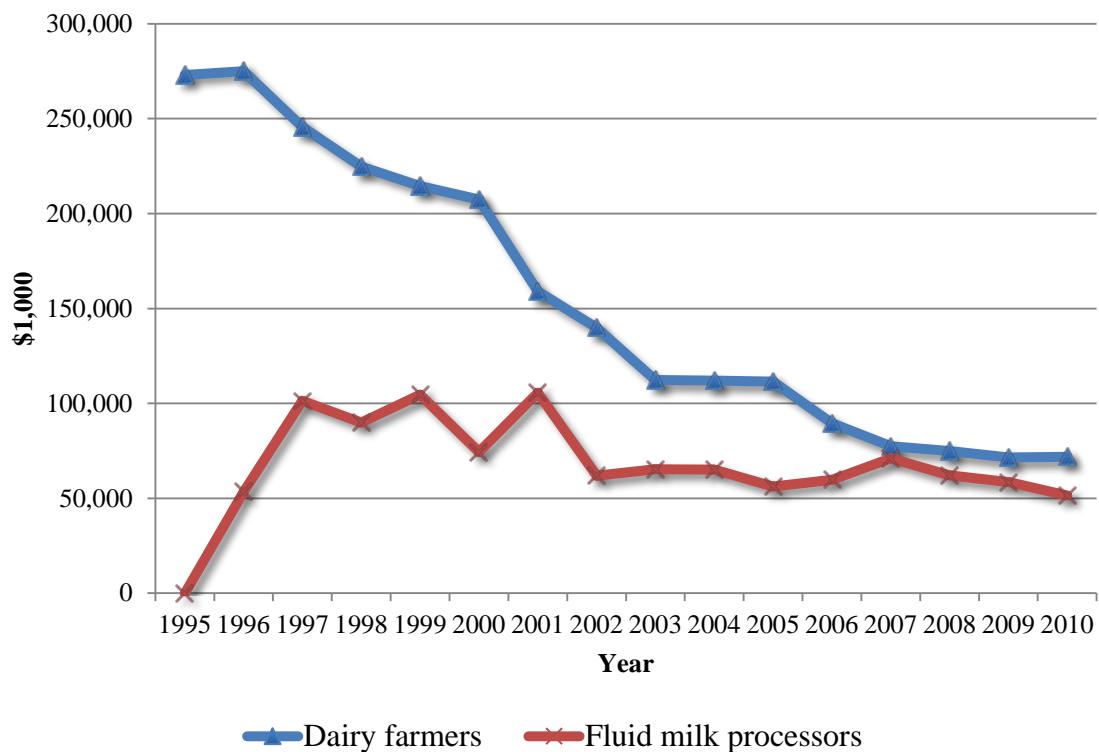


Another factor that may have contributed to increasing per capita domestic commercial disappearance of all dairy products over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. Figure 3-14 shows generic fluid milk and dairy product advertising real expenditures by dairy farmers and fluid milk processors. Real (inflation adjusted) dairy farmer advertising expenditures have fallen from \$272.9 million in 1995 to \$71.9 million in 2010, a 73.6% decrease. Since the first full year of the Fluid Milk Program in 1997, expenditures on fluid milk advertising have also declined from \$101.3 million (1997) to \$51.6 million in 2010, or 49.1 percent in real terms. Collectively, generic fluid milk advertising marketing expenditures by both dairy farmers and fluid milk processor increased by 67 percent.

Figure 3-15 shows generic dairy non-advertising marketing activities (in 2010 dollars) by dairy farmers and fluid milk processors. Again, both shorter and longer term non-advertising marketing activities are included in these expenditures. The trend in these expenditures has been the opposite of generic advertising. Dairy farmers have increased their annual expenditures of non-advertising dairy marketing from \$74.1 million in 1995 to \$171 million in 2010, an increase of 130.8 percent. Fluid milk processors increased their expenditures in this category from almost \$17.2 million in 1997 to \$32.3 million in 2010, an 87.8 percent increase. Collectively, generic fluid milk non-advertising marketing expenditures by both dairy farmers and fluid milk processors increased by 122.4 percent.

Figure 3-16 shows combined generic dairy marketing (advertising and non-advertising) activities (in 2010 dollars) by dairy farmers and fluid milk processors. The trend here has been negative for both farmers and processors. Annual expenditures of combined dairy marketing by dairy farmers decreased from \$347 million in 1995 to \$242.9 million in 2010, a decrease of 30 percent. Annual combined generic marketing expenditures by fluid milk processors decreased from \$118.6 million in 1997 to \$83.9 million in 2010, a 29.3 percent decrease. Collectively, generic

Figure 3-14. Real Dairy Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.



dairy and fluid milk marketing expenditures by both dairy farmers and fluid milk processors decreased by 29.8 percent. For fluid milk marketing expenditures, the decrease has been primarily due to inflation in media costs as well as the CPI, while some of this has been offset in total dairy marketing expenditures by increased farm marketings.

All Dairy Products Model Estimation

To examine the overall impact of the Fluid Milk and Dairy Programs on overall dairy demand, we estimated a combined fluid milk/dairy product demand model that included all generic dairy advertising activities as one demand determinant, and all non-advertising dairy marketing activities as another demand determinant. Expenditures by dairy farmers and fluid milk processors for the following advertising activities were aggregated into one variable assumed to impact the all-dairy product demand model: television, radio, print, and outdoor media advertising for fluid milk and manufactured dairy products. Expenditures for the following shorter and longer term impact non-advertising, marketing activities were aggregated into one variable: retail programs, school marketing, food service and manufacturing programs, integrated communications, public relations, sales promotions, nutrition education, retail programs, sponsorships, nutrition on-pack communications, value-added projects, NFL marketing, product research, nutritional research, and nutritional affairs conducted by fluid milk processors and dairy farmers. In addition, the following variables were included as factors influencing per capita all-dairy products demand: the CPI for all-dairy products, per capita disposable income, and variables to capture seasonality in dairy product demand. Similar to the

Figure 3-15. Real Dairy Non-Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.

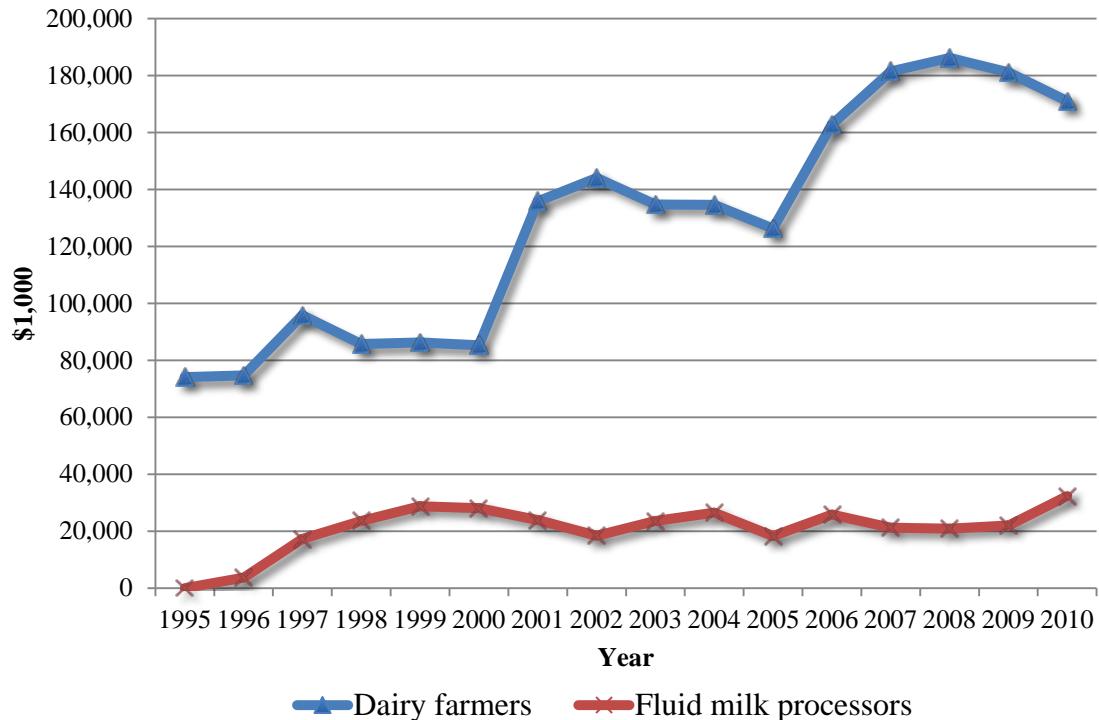
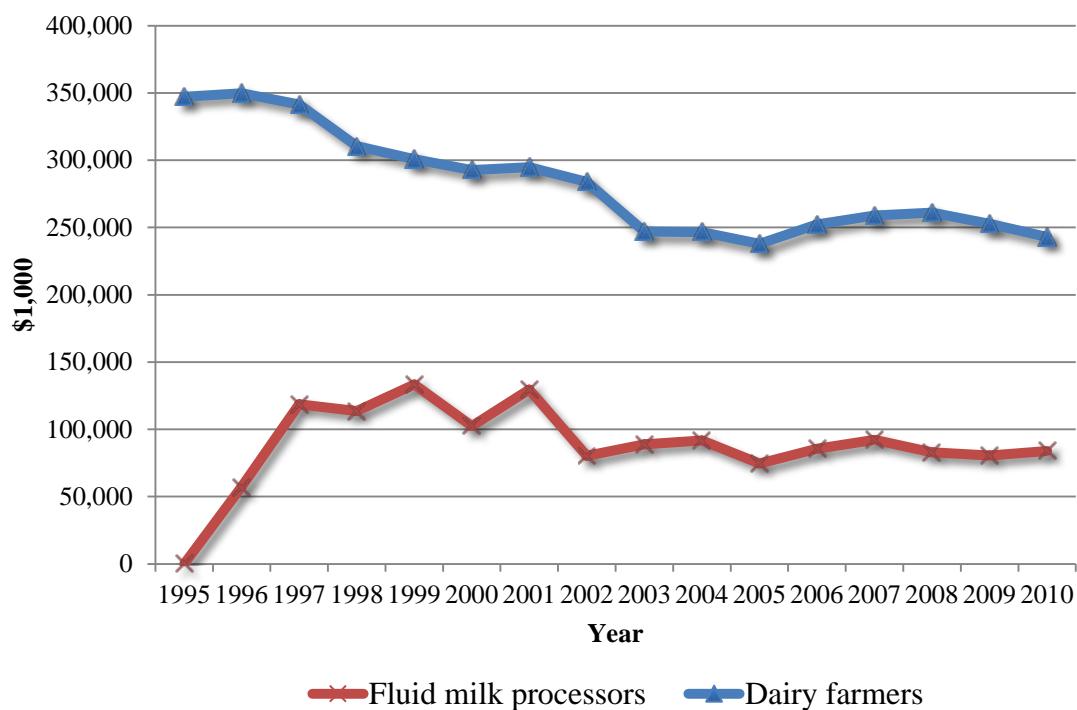


Figure 3-16. Real Dairy Advertising Plus Non-Advertising Expenditures, in 2010 Dollars, by Dairy Farmers and Fluid Milk Processors.



fluid milk demand model, the all-dairy products demand model was estimated on a per capita basis to control for the influence of population increases on demand. The model was estimated with national quarterly data for 1995 through 2010. To account for the impact of inflation, all prices and income variables were deflated by the CPI for all items. Generic fluid milk and dairy product advertising expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor). Generic fluid milk and dairy product non-advertising marketing expenditures were deflated by the CPI for all items, and were lagged to capture carryover effects of advertising. Generic advertising expenditures were deflated by the media cost index, and were lagged two quarters in the milk fat basis model and one quarter in the skim milk solids basis model. While non-advertising marketing activities were combined into one variable, longer term non-advertising expenditures were lagged 9 quarters, while shorter term expenditures were lagged 4 quarters.

Table 3-3 provides elasticities for the all-dairy product demand models on a milkfat and skim-milk-solids basis.⁸ All variables, except income in the skim milk solids basis model, were statistically significant. The results indicate that a 1.0 percent increase in the real price for dairy products would result in 0.243 percent and 0.166 percent decreases in per capita all-dairy product quantity demanded on a skim milk solids basis and milk fat basis, respectively, holding all other variables constant. The average income elasticities for 1995 through 2010 were 0.078 (skim milk solids basis) and 0.900 (milk fat basis); in other words, a 1.0 percent increase in real per capita income would result in 0.078 percent (skim milk solids basis) and 0.900 percent (milk fat basis) increases in per capita demand for all-dairy products holding all other variables constant.

The major interest here is the advertising and non-advertising marketing elasticities. The average advertising elasticities for this period on a skim milk solids basis and milk fat basis were 0.031 and 0.048, respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.031 percent (skim milk solids basis) and 0.048 percent (milk fat basis).

Table 3-3. Average Elasticity Values (1995–2010) for Factors Affecting Per Capita All-dairy Products Demand.

| Demand Factor | Skim-milk-solids basis Elasticity | Milkfat basis Elasticity |
|---|-----------------------------------|--------------------------|
| CPI for all-dairy products | -0.243** | -0.166* |
| Per capita income | 0.078 | 0.900** |
| Generic dairy advertising expenditures ^a | 0.031** | 0.048** |
| Generic dairy non-advertising marketing expenditures ^a | 0.015** | 0.016** |

* Statistically significant at the 10 percent level or better.

** Statistically significant at the 1.0 percent level or better.

^a Long run elasticity computed as the sum of current and all lagged impacts.

⁸ The two models are for milk equivalent, calculated on a milk fat solids basis and skim milk solids basis. Not to be confused with models for skim milk solids and milkfat solids.

The average non-advertising marketing elasticities for this period were 0.015 (skim-milk-solids basis) and 0.016 (milk fat basis), respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.015 percent (skim- milk-solids basis) and 0.016 percent (milk fat basis). The advertising elasticity in both models was found to be statistically larger than the non-advertising elasticity in both models: two times higher on a skim milk solids basis, and three times higher on a milk fat basis. (See Table 3-3).

Dairy Farmer Benefit-Cost Analysis

A BCR was calculated on both a milk fat basis and a skim-milk-solids basis by simulating two scenarios: (1) a baseline scenario in which combined marketing (advertising and non-advertising marketing) levels were equal to actual marketing expenditures under the two programs, and (2) a no national Dairy Program scenario in which there was fluid milk processor-sponsored marketing, but dairy farmer-sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before and after the national program was enacted. A comparison of these two scenarios provided a measure of the impact of the Dairy Program.

The benefits of the Dairy Program were calculated as the change in dairy farmer producer net revenue (i.e., producer surplus) due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in producer net revenue between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the dairy farmers' marketing program. The costs of the Dairy Program were calculated as the differences in total marketing costs before and after the national program was enacted. These scenarios were run for the time period 1999 through 2010 for the two milk-equivalent models: skim-milk-solids basis and milk fat basis.

As was the case for the Fluid Milk Program, an own price elasticity of farm supply was necessary to compute the BCR, and consequently a farm milk supply equation was estimated. Using quarterly data from 1995 through 2010, a supply function for dairy farmers was estimated and the long-run own price elasticity of supply was computed to be 2.41, i.e., a 1.0 percent increase in the all milk price results in a 2.41 percent increase in quantity supplied of farm milk. This long run supply elasticity estimate was used as the base case for computing the BCR.

Table 3-4 presents the average quarterly impacts and BCR (from 1999 to 2010) for the Dairy Program. The average all milk price from 1999 through 2010 was \$14.74 per hundredweight. In the counter factual no national Dairy Program scenario for the skim-milk-solids model, the average all milk price was \$14.43 per hundredweight, which is 31 cents lower. Thus, had there been no national Dairy Program over this period, the price farmers receive for their milk would have been 2.13 percent lower than it actually was. The total quantity of milk demand was estimated to be 1.64 percent higher, on a skim-milk-solids basis as a result of the Dairy Program. In the counter factual no national Dairy-Program scenario for the milk fat model, the average all milk price was \$14.20 per hundredweight, which is 54 cents lower. Thus, had there been no national Dairy Program over this period, the price farmers receive for their milk would have been 3.67 percent lower than it actually was. The total quantity of milk demand was estimated to be 2.54 percent higher, on a milk fat basis as a result of the Dairy Program.

The results show that the average BCR for the Dairy Program was 4.93 (skim-milk-solids basis)

Table 3-4. Average Market Impacts of Dairy Farmer Generic Marketing Program, 1999-2010.

| Item | Skim-milk-solids basis | Milk fat basis |
|---|------------------------|----------------|
| Change in all milk price (percent) | 2.13% | 3.67% |
| Change in total milk marketings (percent) | 1.64% | 2.54% |
| Change in producer net revenue (\$ million per year) | 754.1 | 1,380.0 |
| Change in marketing costs (\$ million per year) | 152.9 | 152.9 |
| Benefit-cost ratio (ratio) | 4.93 | 9.02 |
| Lower bound of 90 percent confidence interval for BCR (ratio) | 3.12 | 1.71 |

and 9.02 (milk fat basis) from 1999 through 2010. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between \$4.93 and \$9.02, on average, in net revenue to farmers. The level of the BCR suggests that dairy farmer expenditures on advertising and non-advertising promotions have been a successful investment.

In another interpretation of the BCR, the increase in real (2010 dollars) generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional \$152.9 million per year on average from 1999 through 2010. The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, it is estimated that the average annual increase in producer net revenue (reflecting changes in both revenues and costs) due to the additional generic marketing under the Dairy Program was \$754.1 million on a skim-milk-solids basis and \$1.38 billion on a milk fat basis. Dividing \$754.1 (or \$1,380) million by the additional Dairy Program cost of \$152.9 million results in the estimated BCRs of 4.93 (skim-milk-solids basis) and 9.02 (milk fat basis).

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower estimate for the average BCR. One can be 90 percent “confident” that the true average BCR lies within those bounds. The estimated lower bound for the average BCRs in the skim-milk-solids basis and milk fat basis models are 3.12 and 1.71, respectively. Since both lower bounds are above 1.0, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program’s marketing activities have been greater than the cost of the programs.

The change in generic dairy marketing expenditures noted previously is a mere 0.5 percent of the recent average annual value of farm milk marketings from 1999 through 2010 (\$29.21 billion). The marketing activities resulted in modest gains in the quantity of dairy products and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment. In addition to computing a BCR for the overall marketing efforts of dairy farmers, an average BCR was also calculated for generic advertising and non-advertising activities by dairy farmers. Similar to the elasticity results, the average BCR for advertising was significantly higher than for non-advertising. The average BCR for generic advertising in the skim-milk-solids model was 6.03 compared with 3.31 for non-advertising marketing activities, and this difference was statistically significant at the 1.0 percent level. The average BCR for generic advertising in the

milk fat model was 13.42 compared with 5.54 for non-advertising marketing activities, and this difference was statistically significant at the 1.0 percent level. Hence, dairy farmers are receiving a higher return from their generic advertising activities than the non-advertising marketing activities.

Table 3-A1. Description of Variables Used in Econometric Models.^a

| Variable | Description | Units | Mean ^b |
|---|---|-------|-------------------|
| <i>Consumption Variables</i> | | | |
| RFDPC | Annual retail fluid demand per capita | lbs | 191.0 (9.7) |
| RDDPCNF | Annual retail all-dairy product demand per capita on a skim-milk-solids basis | lbs | 542.5 (7.2) |
| RDDPCF | Annual retail all-dairy product demand per capita on a milk fat basis | lbs | 590.8 (20.7) |
| <i>Price Indices</i> | | | |
| RFPCPI | Consumer retail price index for fresh milk and cream deflated by consumer price index for nonalcoholic beverages (1982–84=1) | # | 1.18 (0.10) |
| RDPCPI | Consumer retail price index for all-dairy products deflated by consumer retail price index for all items (1982–84=1) | # | 0.93 (0.03) |
| RBEVCPI | Consumer retail price index for non-alcoholic beverages (1982–84=100) | # | 142.9 (11.1) |
| <i>Demographic and Income Variables</i> | | | |
| INCPC | Annual per capita disposable income, deflated by the consumer retail price index for all items (2010=1) | \$ | 33,200 (2,700) |
| AGE5 | Percent of the population under age 6 | % | 6.95 (0.15) |
| FAFH% | Food away from home expenditures as percent of total food expenditures | % | 50.8 (2.1) |
| <i>Marketing Expenditures</i> | | | |
| GFMA | Annual generic fluid milk advertising expenditures by dairy farmers deflated by media cost index (2010 \$) | \$mil | 61.0 (52.1) |
| GFMN | Annual generic fluid milk non-advertising marketing expenditures by dairy farmers deflated by consumer price index (2010 \$) | \$mil | 49.3 (17.9) |
| GFDA | Annual generic milk and dairy advertising expenditures by dairy farmers, deflated by media cost index (2010 \$) | \$mil | 153.8 (74.9) |
| GFDN | Annual generic milk and dairy non-advertising marketing expenditures by dairy farmers, deflated by media cost index (2010 \$) | \$mil | 128.7 (40.5) |
| GPMA | Annual generic fluid milk advertising expenditures by fluid milk processors, deflated by media cost index (2010 \$) | \$mil | 67.6 (25.7) |
| GPMN | Annual generic fluid milk non-advertising marketing expenditures by fluid milk processors, deflated by consumer price index (2010 \$) | \$mil | 20.9 (8.5) |
| CBA | Annual soy beverage + juice + bottled-water advertising expenditures deflated by media cost index (2010 \$) | \$mil | 209.2 (160.8) |

^a Quarterly dummy variables and a time trend are also included in the model to account for seasonality in demand and changes in preferences.

^b Computed over the period 1995–2010. Standard deviation in parentheses.

Appendix A-1
National Dairy Promotion and Research Board
Member Listing

Region 1 (Oregon and Washington)

George E. Marsh
Cornelius, Oregon
1st Term Expires 10/31/12

Region 2 (California)

James L. Ahlem
Hilmar, California
2nd Term Expires 10/31/13

John B. Fiscalini
Modesto, California
2nd Term Expires 10/31/13

Stephen D. Maddox
Riverdale, California
2nd Term Expires 10/31/13

Brad J. Scott
Moreno Valley, California
2nd Term Expires 10/31/13

Renae A. De Jager
Chowchilla, California
1st Term Expires 10/31/13

Ronald L. Koetsier
Visalia, California
2nd Term Expires 10/31/11

Ray S. Prock
Denair, California
1st Term Expires 10/31/12

Arlene J. Vander Eyk
Pixley, California
1st Term Expires 10/31/12

Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming)

Brian W. Esplin
Shelley, Idaho
1st Term Expires 10/31/12

Ronald E. Shelton
Greeley, Colorado
1st Term Expires 10/31/11

Jeffrey A. Hardy
Brigham City, Utah
1st Term Expires 10/31/13

Harold A. Wick
Austin, Colorado
1st Term Expires 10/31/11

Region 4 (Arkansas, Kansas, New Mexico, Oklahoma, and Texas)

William R. Anglin
Bentonville, Arkansas
2nd Term Expires 10/31/11

Neil A. Hoff
Windthorst, Texas
1st Term Expires 10/31/12

Steven R. Hanson
Clovis, New Mexico
1st Term Expires 10/31/13

Byron A. Lehman
Newton, Kansas
1st Term Expires 10/31/11

Appendix A-1, continued

Region 5 (Minnesota, North Dakota, and South Dakota)

| | |
|--|--|
| Paul A. Fritzsche New Ulm, Minnesota 1 st Term Expires 10/31/12 | Kenton W. Holle Mandan, North Dakota 1 st Term Expires 10/31/11 |
|--|--|

Region 6 (Wisconsin)

| | |
|--|--|
| Patricia M. Boettcher Bloomer, Wisconsin 1 st Term Expires 10/31/12 | Douglas T. Danielson Cadott, Wisconsin 1 st Term Expires 10/31/13 |
| Sharon K. Laubscher Wonewoc, Wisconsin 1 st Term Expires 10/31/11 | Randy G. Roecker Loganville, Wisconsin 2 nd Term Expires 10/31/12 |
| Carl F. Van Den Avond Green Bay, Wisconsin 2 nd Term Expires 10/31/11 | |

Region 7 (Illinois, Iowa, Missouri, and Nebraska)

| | |
|---|---|
| Mark E. Erdman Chenoa, Illinois 1 st Term Expires 10/31/12 | Douglas D. Nuttelman Stromsburg, Nebraska 2 nd Term Expires 10/31/11 |
|---|---|

Region 8 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

| |
|---|
| Larry B. Jaggers Glendale, Kentucky 1 st Term Expires 10/31/11 |
|---|

Region 9 (Indiana, Michigan, Ohio, and West Virginia)

| | |
|--|---|
| Douglas L. Krickenbarger West Alexandria, Ohio 1 st Term Expires 10/31/13 | Carl A. Schmitz Wadesville, Indiana 2 nd Term Expires 10/31/11 |
|--|---|

| |
|--|
| Susan D. K. Troyer Goshen, Indiana 1 st Term Expires 10/31/12 |
|--|

Region 10 (Florida, Georgia, North Carolina, South Carolina, and Virginia)

| |
|---|
| Zachary H. Myers Jonesville, North Carolina 1 st Term Expires 10/31/13 |
|---|

Appendix A-1, continued

Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)

David P. Crowl

Forest Hill, Maryland

1st Term Expires 10/31/13

Rita P. Kennedy

Butler, Pennsylvania

2nd Term Expires 10/31/12

Region 12 (New York)

Ronald R. McCormick

Java Center, New York

1st Term Expires 10/31/12

Sanford Stauffer

Nicholville, New York

1st Term Expires 10/31/13

Region 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Ellen H. Paradee

Grand Isle, Vermont

1st Term Expires 10/31/11

Appendix A-2
National Fluid Milk Processor Promotion Board
Member Listing

Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Michael F. Touhey, Jr.
Dean Foods Company
Franklin, Massachusetts
Term Expires 06/30/2010

Region 2 (New Jersey and New York)

James F. Walsh
H.P. Hood, L.L.C.
Lynnefield, Massachusetts
Term Expires 06/30/2011

Region 3 (Delaware, District of Columbia, Maryland, Pennsylvania, and Virginia)

Jay S. Bryant
Maryland and Virginia Milk Producer's Cooperative Association, Inc.
Reston, Virginia
Term Expires 06/30/2012

Region 4 (Georgia, North Carolina, and South Carolina)

Charles L. Gaither, Jr.
Milkco, Inc.
Asheville, North Carolina
Term Expires 06/30/2010

Region 5 (Florida)

Michael R. Smith
Publix Super Markets, Inc.
Lakeland, Florida
Term Expires 06/30/2011

Region 6 (Ohio and West Virginia)

Charles S. Mayfield, Jr.
Mayfield Dairy (a subsidiary of Dean Foods Company)
Athens, Tennessee
Term Expires 06/30/2012

Appendix A-2, continued

Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)

James B. Green
Kemps, L.L.C. (a subsidiary of H.P. Hood, L.L.C.)
St. Paul, Minnesota
Term Expires 06/30/2010

Region 8 (Illinois and Indiana)

Brian Haugh
National Dairy Holdings (a subsidiary of Grupo Lala)
Dallas, Texas
Term Expires 06/30/2011

Region 9 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Edward L. Mullins
Prairie Farms Dairy, Inc.
Carlinville, Illinois
Term Expires 06/30/2012

Region 10 (Texas)

Robert B. McCullough
H.E. Butt Grocery Company
San Antonio, Texas
Term Expires 06/30/2010

Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska, and Oklahoma)

Steven M. Turner
Turner Dairy L.L.C. (a subsidiary of Prairie Farms Dairy, Inc.)
Covington, Tennessee
Term Expires 06/30/2011

Region 12 (Arizona, Colorado, Nevada, New Mexico, and Utah)

John R. Zuroweste
Dean Foods Company
Dallas, Texas
Term Expires 06/30/2012

Region 13 (Idaho, Montana, Oregon, Washington, and Wyoming)

Jerry N. Tidwell
Safeway, Inc.
Pleasanton, California
Term Expires 06/30/2010

Appendix A-2, continued

Region 14 (Northern California)

Jay B. Simon
Super Store Industries
Stockton, California
Term Expires 06/30/2011

Region 15 (Southern California)

Timothy Kelbel
The Kroger Company, Western Division
Cincinnati, Ohio
Term Expires 06/30/2012

Members-At-Large (Processors)

Miriam E. Brown
Anderson Erikson Dairy
Des Moines, Iowa
Term Expires 06/30/2012

Michael A. Krueger
Shamrock Foods Company
Phoenix, Arizona
Term Expires 06/30/2011

Randy D. Mooney
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term Expires 06/30/2010

Teresa E. Webb
Farmland Dairies, L.L.C.
Wallington, New Jersey
Term Expires 06/30/2010

Members-At-Large (Public)

Mary A. Hill
Jackson, Mississippi
Term Expires 06/30/2012

Appendix B-1
National Dairy Promotion and Research Board
2010 Actual Income and Expenses
(Thousands)

Income

| | |
|-----------------------------|-----------------|
| Assessments | \$95,701 |
| Interest | 23 |
| NAEMS ¹ Interest | <u>221</u> |
| Total Income | \$95,945 |

General Expenditures

| | |
|----------------------------|----------------|
| General and Administrative | \$3,796 |
| USDA Oversight | <u>927</u> |
| Total General Expenditures | \$4,723 |

Program Expenditures

| | |
|---|----------|
| Domestic Marketing and Export Enhancement | \$95,941 |
|---|----------|

| | |
|--|------------------|
| Excess of Revenue (Under) Over Expenditures | (\$4,719) |
|--|------------------|

| | |
|--|-----------------|
| Fund Balance, Beginning of Year | \$22,339 |
|--|-----------------|

| | |
|----------------------------------|-----------------|
| Fund Balance, End of Year | \$17,620 |
|----------------------------------|-----------------|

¹National Air Emissions Monitoring Study.

Source: Independent Auditor's Report of the National Dairy Board and USDA records.

Appendix B–2
2010 USDA Oversight Costs for the
National Dairy Promotion and Research Board
(Thousands)

| | |
|-----------------------------------|------------------|
| Salaries and Benefits | \$588 |
| Travel | 65 |
| Miscellaneous ¹ | 55 |
| Equipment | 1 |
| Total | \$709 |
| Independent Evaluation | \$125 |
| Total² | \$834 |

¹Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of General Counsel costs.

²The totals for USDA expenses differ slightly from those shown in Appendix B–1 because of end-of-year estimates which are adjusted in the following year and correspond to the Federal fiscal year, which runs from October 1 through September 30.

Source: USDA Accounting Reports.

Appendix B-3
National Dairy Promotion and Research Board
2010 Approved Budget
(Thousands)

Revenues

| | |
|-------------------------------|------------------|
| Domestic Assessments | \$91,650 |
| Import Assessments | 4,700 |
| Program Development Fund Draw | 14,600 |
| Interest | <u>55</u> |
| Total Income | \$111,005 |

Expenses

| | |
|----------------------------|----------------|
| General and Administrative | \$4,162 |
| USDA Oversight | <u>948</u> |
| Subtotal | \$5,110 |

Program Budget

| | |
|---|------------------|
| Milk | \$17,423 |
| Cheese | 11,695 |
| Ingredients | 418 |
| Export Enhancement | 12,669 |
| Children's Fitness and Nutrition Initiative | 15,350 |
| Product Research | 872 |
| Nutrition Research | 1,096 |
| Nutrition Affairs | 5,677 |
| Industry Image and Relations | 9,173 |
| Foodservice | 374 |
| Retail | 1,379 |
| Strategy and Insights | 5,715 |
| Sustainability | 1,609 |
| Other ¹ | <u>4,545</u> |
| Subtotal | \$87,995* |

| | |
|---------------------------|--------|
| Dairy Research Institute | 14,984 |
| Business Development Fund | 1,900 |

Total Budget Expenditures **\$104,879**

¹Other includes fixed commitments, butter promotion, value-added milk, and value-added cheese.
*UDIA Expense share of total is \$23,805.

Source: Budgets received and approved by USDA from the National Dairy Board.

Appendix B-4
National Fluid Milk Processor Promotion Board
2010 Actual Income and Expenses
(Thousands)

| | |
|---|------------------|
| Income | |
| Assessments | \$106,974 |
| Late-Payment Charges | 80 |
| Interest | 144 |
| Other | 8 |
| Total Income | \$107,206 |
| General Expenditures | |
| California Refund | 10,001 |
| Administrative | 2,520 |
| USDA Oversight | 471 |
| USDA Assessment Verification | 87 |
| Total General Expenditures | \$13,079 |
| Program Expenditures | |
| Moms Target | \$57,641 |
| Teens Target | 24,365 |
| Hispanic Target | 6,948 |
| Market Research | 4,308 |
| Business Development | 5,009 |
| Program Measurement | 45 |
| Total Program Expenditures | \$98,316 |
| Excess of Revenue (Under) Over Expenditures | (\$4,188) |
| Fund Balance, Beginning of Year | \$19,356 |
| Fund Balance, End of Year | \$15,168 |

Source: Independent Auditor's Report of the Fluid Milk Board and USDA Records.

Appendix B-5
USDA 2009 Oversight Costs for the
National Fluid Milk Processor Promotion Board
(Thousands)

| | |
|-----------------------------------|-----------------|
| Salaries and Benefits | \$403 |
| Travel | 17 |
| Miscellaneous ¹ | 40 |
| Equipment | 5 |
| Printing | 1 |
| Total | \$466 |
| Independent Evaluation | \$37 |
| Total² | \$503 |

¹ Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of General Counsel costs.

² The totals for USDA expenses differ slightly from those shown in Appendix B-4 because of end-of-year estimates which are adjusted in the following year.

Source: USDA Accounting Reports.

Appendix B–6
National Fluid Milk Processor Promotion Board
2010 Approved Budget
(Thousands)

Revenues

| | |
|-------------------------------------|------------------|
| Assessments | \$107,500 |
| Interest | 160 |
| Total Income | \$107,660 |
| Carryover from Previous Fiscal Year | \$4,269 |
| Total Available Funds | \$111,929 |

Expenses

| | |
|----------------------------|-----------------|
| General and Administrative | \$2,855 |
| USDA Oversight | 570 |
| California Refund | 10,210 |
| Subtotal | \$13,635 |

Program Budget

| | |
|----------------------|-----------------|
| Moms | \$58,450 |
| Teens | 24,320 |
| Hispanic | 7,090 |
| Business Development | 5,246 |
| Research | 4,774 |
| Program Measurement | 105 |
| Subtotal | \$99,985 |

| | |
|--------------------|------------|
| Unallocated | 973 |
|--------------------|------------|

| | |
|----------------------------------|------------------|
| Total Budget Expenditures | \$100,958 |
|----------------------------------|------------------|

¹Independent Evaluation costs are included in Program Measurement Expenses.

²Processor Compliance is included in General and Administrative Expenses.

Source: Budgets from the National Fluid Milk Board received and approved by USDA.

Appendix B-7
2010 Aggregate Income and Expenditure Data
Reported to USDA by the Qualified Programs
(Thousands)

| | 2009 |
|--|-----------------------|
| Income | |
| Carryover from Previous Year | \$73,327 ¹ |
| Producer Remittances | 194,240 |
| Transfers from Other Qualified Programs ² | 57,958 |
| Transfers to Other Qualified Programs | -58,803 |
| Other Income | <u>5,198</u> |
| Total Adjusted Annual Income | \$271,920 |
| Expenditures | |
| General and Administrative | \$8,728 |
| Advertising and Sales Promotion | 68,605 |
| Unified Marketing Plan ⁴ | 72,933 |
| Dairy Foods and Nutrition Research | 5,981 |
| Public and Industry Communications | 13,198 |
| Nutrition Education | 18,058 |
| Market and Economic Research | 1,934 |
| Other ⁵ | <u>2,049</u> |
| Total Annual Expenditures | \$191,486 |
| Total Available for Future Year Programs | \$80,434 |

¹ Differences are due to audit adjustments and varying accounting periods.

² Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.

³ Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.

⁴ Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the Dairy Management Inc. unified marketing plan to fund national implementation programs.

⁵ Includes capital expenses.

Source: Data reported by the Qualified Programs.

Appendix B-8
Aggregate 2010 Advertising Expenditure Data Reported
to USDA by the Qualified Programs
(Thousands)

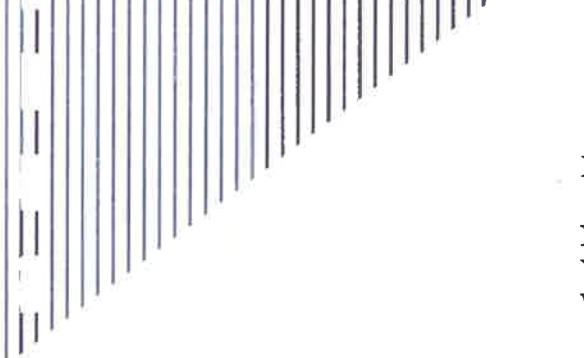
Advertising Programs

| | |
|-----------------------|------------------------|
| Fluid Milk | \$12,642 [18.4%] |
| Cheese | 34,129 [49.7%] |
| Butter | 8,801 [12.8%] |
| Frozen Dairy Products | 1,650 [2.4%] |
| Other ¹ | <u>11,383</u> [16.6%] |
| Total | \$68,605 [100%] |

¹ Includes “Real Seal,” holiday, multi-product, calcium, foodservice, product donation at State fairs, and other events and contributions for displays or promotional events.

Source: Data reported by the Qualified Programs.

Appendix C-1



FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Appendix C-1, continued



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787
Tel: +1 312 879 2000
Fax: +1 312 879 4000

Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NDB's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Ernst & Young LLP".

May 12, 2011

Appendix C-1, continued

National Dairy Promotion and Research Board

Balance Sheets

| | December 31 | |
|--|----------------------|----------------------|
| | 2010 | 2009 |
| Assets | | |
| Cash and cash equivalents | \$ 27,232,666 | \$ 29,139,296 |
| Assessments receivable, net of allowance for doubtful accounts of \$200,000 in 2010 and 2009 | 8,573,381 | 8,781,521 |
| Accrued interest receivable | 120 | 145 |
| Interest receivable from NAEMS investments | 221,336 | – |
| Fixed assets, net of accumulated depreciation of \$209,521 in 2010 and \$195,104 in 2009 | 33,298 | 29,920 |
| Total assets | \$ 36,060,801 | \$ 37,950,882 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Due to related party – Dairy Management, Inc. | \$ 18,037,196 | \$ 15,087,443 |
| Accounts payable | 27,791 | 1,697 |
| Accrued expenses and other liabilities | 375,655 | 522,861 |
| Total liabilities | 18,440,642 | 15,612,001 |
| Unrestricted net assets: | | |
| Designated | 8,337,286 | 16,387,776 |
| Undesignated | 9,282,873 | 5,951,105 |
| Net assets – unrestricted | 17,620,159 | 22,338,881 |
| Total liabilities and net assets | \$ 36,060,801 | \$ 37,950,882 |

See accompanying notes.

Appendix C-1, continued

National Dairy Promotion and Research Board

Statements of Activities

| | Year Ended December 31 | |
|---|-------------------------------|----------------------|
| | 2010 | 2009 |
| Revenues | | |
| Assessments | \$ 95,700,787 | \$ 93,827,599 |
| Interest income | 23,007 | 38,925 |
| NAEMS interest | 221,336 | - |
| Total revenues | <u>95,945,130</u> | <u>93,866,524</u> |
| Expenses | | |
| Programs: | | |
| Domestic and export marketing | 95,941,301 | 103,591,562 |
| United States Department of Agriculture | 926,646 | 851,870 |
| Amortization of NAEMS study | - | 1,833,333 |
| Total programs | <u>96,867,947</u> | <u>106,276,765</u> |
| General and administrative: | | |
| DMI general and administrative | 3,077,785 | 3,279,161 |
| General and administrative | 718,120 | 598,054 |
| Total general and administrative | <u>3,795,905</u> | <u>3,877,215</u> |
| Total expenses | <u>100,663,852</u> | <u>110,153,980</u> |
| Decrease in net assets | (4,718,722) | (16,287,456) |
| Net assets at beginning of year | <u>22,338,881</u> | <u>38,626,337</u> |
| Net assets at end of year | <u>\$ 17,620,159</u> | <u>\$ 22,338,881</u> |

See accompanying notes.

Appendix C-1, continued

National Dairy Promotion and Research Board

Statements of Cash Flows

| | Year Ended December 31 | |
|--|-------------------------------|----------------------|
| | 2010 | 2009 |
| Operating activities | | |
| Change in net assets | \$ (4,718,722) | \$ (16,287,456) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Amortization of NAEMS study | — | 1,833,333 |
| Depreciation | 14,417 | 15,740 |
| Changes in assets and liabilities: | | |
| Assessments receivable | 208,140 | 1,902,993 |
| Accrued interest receivable | 25 | 7,879 |
| Interest receivable from NAEMS investments | (221,336) | |
| Due to related party – Dairy Management, Inc. | 2,949,753 | 737,730 |
| Accounts payable | 26,094 | (58,488) |
| Accrued expenses and other liabilities | (147,206) | 157,315 |
| Net cash used in operating activities | <u>(1,888,835)</u> | <u>(11,690,954)</u> |
| Investing activities | | |
| Purchases of fixed assets | <u>(17,795)</u> | <u>(16,822)</u> |
| Net decrease in cash and cash equivalents | (1,906,630) | (11,707,776) |
| Cash and cash equivalents at beginning of year | <u>29,139,296</u> | <u>40,847,072</u> |
| Cash and cash equivalents at end of year | <u>\$ 27,232,666</u> | <u>\$ 29,139,296</u> |

See accompanying notes.

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2010 and 2009

1. Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of U.S.-produced fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the U.S. dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA, which jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost-reimbursement basis. Core costs, which include staff salaries and benefits of DMI employees, travel, Board of Directors, and office operating expenses, are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) in the United States. These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

FASB Codification

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) designated the FASB Accounting Standards Codification (ASC or Codification) as the single source of authoritative accounting and reporting standards in the United States applicable to all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC) and its staff. The Codification is not intended to change U.S. GAAP; instead it reorganizes pronouncements into topics and displays all topics in a consistent structure. The restructuring of U.S. GAAP content has affected how reporting entities reference accounting guidance; consequently all references to accounting standards within these statements comply with the new Codification requirements.

Financial Instruments

The carrying values of cash and cash equivalents, assessments receivable, accrued interest receivable, interest earned on NAEMS investments, due to related party, accounts payable, and accrued expenses and other liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Cash and Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy for disclosure of fair value measurements for financial instruments measured at fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NDB has classified \$20,399,789 and \$11,549,474 of investments in U.S. federal agency securities, which are included in cash and cash equivalents as of December 31, 2010 and 2009, respectively, as Level 1.

Assessments

Assessment revenue is generated by a mandatory assessment of \$0.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to \$0.10 per hundredweight to USDA-qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2010 and 2009, the net NDB assessment was approximately \$0.0504 per hundredweight of milk marketed. Assessment revenue is recognized in the month in which milk is marketed.

The Dairy Promotion and Research Order allows organic dairy producers, as defined, to be exempt from paying assessments. The amount of exempted assessments in 2010 and 2009 was approximately \$778,000 and \$661,000, respectively.

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets consist of computer software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the costs of depreciable assets to operations over estimated service lives of five years using the straight-line method.

Income Taxes

The Internal Revenue Service has ruled that NDB is an entity engaging in an activity under the oversight of the Department of Agriculture and, accordingly, is not subject to federal taxation.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

| | 2010 | 2009 |
|--------------------------------|----------------------|----------------------|
| Cash | \$ 6,832,877 | \$ 17,589,822 |
| U.S. federal agency securities | <u>20,399,789</u> | <u>11,549,474</u> |
| | \$ 27,232,666 | \$ 29,139,296 |

4. Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2010 and 2009, \$651,000 and \$67,000, respectively, of cumulative unpaid assessments were at the USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2010 and 2009, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Related-Party Transactions

NDB has funded DMI program and core costs as follows:

| | 2010 | 2009 |
|----------------------|-----------------------------|------------------------------|
| Program costs | \$ 71,132,891 | \$ 74,421,171 |
| Core costs | <u>27,886,195</u> | <u>32,449,552</u> |
| Total funding to DMI | <u>\$ 99,019,086</u> | <u>\$ 106,870,723</u> |

The U.S. Dairy Export Council (USDEC) was incorporated effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. Of the program funding that NDB reimbursed DMI, \$9,115,196 and \$8,148,823 for 2010 and 2009, respectively, was reimbursed to DMI for USDEC's operations.

6. Transactions With Other Industry Organizations

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. Expenses incurred under this arrangement amounted to \$926,646 and \$851,870 for 2010 and 2009, respectively.

7. Net Assets

During 2010 and 2009, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

| | 2010 | 2009 |
|----------------------------------|-----------------------------|-----------------------------|
| Designated net assets: | | |
| Cash reserves | \$ 1,800,000 | \$ 1,800,000 |
| Subsequent-year program activity | <u>6,537,286</u> | <u>14,587,776</u> |
| Total designated net assets | <u>8,337,286</u> | <u>16,387,776</u> |
| Undesignated net assets | <u>9,282,873</u> | <u>5,951,105</u> |
| Total net assets | <u>\$ 17,620,159</u> | <u>\$ 22,338,881</u> |

Appendix C-1, continued

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

8. National Air Emissions Monitoring Study (NAEMS)

In 2005, the U.S. Congress approved a one-time waiver in restrictions that limited the use of checkoff dollars to post-harvest research activities. The waiver allowed NDB to use checkoff money to pay for research into the types of air emissions coming from a cross-section of dairy operations.

In January 2006, NDB contracted with National Milk Producers Federation (NMPF) to conduct a research project to study the environmental effects of air emissions from dairy operations. Total investment in the project, which began in December 2006, was \$6.0 million. NMPF placed these funds into an escrow account and released an NDB-approved portion of these funds to the Agricultural Air Research Council (AARC), which conducted the research for a three-year period. NDB amortized the investment over the three-year life of the project, which ended in December 2009.

At December 31, 2010, NDB recorded a receivable of \$221,336 related to interest earned on project funds.

9. Line of Credit Guarantee

As of April 30, 2010, NDB guaranteed DMI's \$10,000,000 revolving bank line of credit, which expired on April 30, 2011 and was extended to June 30, 2011. Borrowings made, if any, under the line of credit accrue interest, payable monthly, at the prevailing prime interest rate. There were no borrowings on the line of credit as of December 31, 2010.

10. Subsequent Events

NDB evaluated events occurring between January 1, 2011 and May 12, 2011, which is the date when the financial statements were available to be issued. NDB did not have any subsequent events to recognize or disclose.

Appendix C-2

**National Fluid Milk Processor
Promotion Board**

**Financial Statements
and
Independent Auditor's Report**

Year Ended December 31, 2010

**1250 H Street, N.W., Suite 950
Washington, D.C. 20005**

Appendix C-2, continued

Part I

Financial Statements and Independent Auditor's Report for the Year Ended December 31, 2010

Part II

**Independent Auditor's Report on Internal Control
(Combined Report Applicable to Internal Control over Financial Reporting Based on an Audit of Financial Statements and Internal Control over Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*)**

Part III

Independent Auditor's Comments on Compliance with *Government Auditing Standards*

Appendix C-2, continued

PART I

Appendix C-2, continued

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Independent Auditor's Report

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited the accompanying statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2010, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Appendix C-2, continued

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

In accordance with *Government Auditing Standards*, we have also issued reports dated March 21, 2011 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Snyder Cohn, PC

SNYDER COHN, PC
North Bethesda, Maryland
March 21, 2011

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Statement of Financial Position

December 31, 2010

Assets

Current assets:

| | |
|-----------------------------|---------------|
| Cash and cash equivalents | \$ 10,156,063 |
| Assessments receivable, net | 10,380,634 |
| Future year costs | 4,431,877 |
| Prepaid expenses | 71,024 |
| Other receivables | <u>8,411</u> |

Total current assets 25,048,009

Property and equipment, net 93,596

Total assets \$ 25,141,605

Liabilities and net assets

Current liabilities:

| | |
|---------------------------------------|---------------|
| Accounts payable and accrued expenses | \$ 9,956,170 |
| Deferred compensation, related party | <u>17,635</u> |

Total current liabilities 9,973,805

Commitments

Net assets:

| | |
|------------------------------|-------------------|
| Designated for contingencies | 2,500,000 |
| Undesignated | <u>12,667,800</u> |

Total net assets 15,167,800

Total liabilities and net assets \$ 25,141,605

See Accompanying Notes

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2010

Revenues:

| | |
|-----------------------|--------------------|
| Assessments | \$ 106,973,957 |
| Late payment charges | 79,738 |
| Interest income | 144,257 |
| Other | 8,397 |
| | <hr/> |
| Total revenues | 107,206,349 |

Expenses:

| | |
|-------------------------------|-------------------|
| Program expenses: | |
| Moms target | 57,640,588 |
| Teens target | 24,365,284 |
| Hispanic target | 6,948,391 |
| Market research | 4,307,525 |
| Business development | 5,008,835 |
| Program measurement | 45,000 |
| Total program expenses | 98,315,623 |

Other expenses:

| | |
|-----------------------------|-------------------|
| California grant | 10,000,947 |
| Administrative | 2,519,569 |
| USDA oversight | 470,659 |
| USDA compliance audit | 87,336 |
| Total other expenses | 13,078,511 |

Total expenses

111,394,134

Excess of expenses over revenues

(4,187,785)

Net assets - beginning

19,355,585

Net assets - ending

\$ 15,167,800

See Accompanying Notes

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the year ended December 31, 2010

Cash flows from operating activities:

| | |
|---|----------------|
| Excess of expenses over revenues | \$ (4,187,785) |
| Adjustments to reconcile excess of expenses over revenues to net cash used in operating activities: | |
| Depreciation | 55,687 |
| Changes in assets and liabilities: | |
| Decrease in assessments receivable | 444,353 |
| Decrease in future year costs | 73,872 |
| Increase in prepaid expenses | (35,867) |
| Decrease in other receivables | 23,961 |
| Increase in accounts payable and accrued expenses | 355,578 |
| Decrease in deferred compensation | <u>(1,148)</u> |

Net cash used in operating activities

(3,271,349)

Cash flows from investing activities:

| | |
|--|------------------|
| Payments made for property and equipment | (12,758) |
| Proceeds from sale of investments | <u>1,028,288</u> |
| Net cash provided by investing activities | <u>1,015,530</u> |

Net decrease in cash and cash equivalents

(2,255,819)

Cash and cash equivalents - beginning

12,411,882

Cash and cash equivalents - ending

\$ 10,156,063

See Accompanying Notes

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10% or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Assessments are generated from any person who processes and markets commercially more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Assessment revenue is recognized in the month in which the fluid milk product is processed.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 1: Summary of significant accounting policies: (continued)

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment. The late payment charge is equal to 1.5% of unpaid assessments and accrues monthly. At no time does the Board stop accruing interest on these assessments. For 2010, an allowance for doubtful accounts of \$-0- has been established for those amounts where the late charges are being appealed.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements.

Cash equivalents - For purposes of the statement of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2011 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible. The total allowance for uncollectible accounts at December 31, 2010 was \$80,693.

Property and equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. Expenditures for repairs and maintenance are charged to expense as incurred.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Investments - The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 1: Summary of significant accounting policies: (continued)

Fair value measurements - The FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Board believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 2: Cash and cash equivalents:

At December 31, 2010, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name. Included in cash and cash equivalents is \$2,500,000 of Board designated cash reserves.

Note 3: Property and equipment:

Property and equipment consist of the following as of December 31, 2010:

| | |
|--------------------------------|-----------|
| Furniture and fixtures | \$ 33,261 |
| Leasehold improvements | 130,324 |
| Office equipment | 119,963 |
| | <hr/> |
| | 283,548 |
| Less: accumulated depreciation | (189,952) |
| | <hr/> |
| | \$ 93,596 |

Depreciation expense for the year ended December 31, 2010 was \$55,687.

Note 4: Line of credit:

During December 2009, the Board obtained a revolving line of credit for up to \$2,500,000. The line provides for advances from time to time, but must be paid down to zero (-\$0-) and remain at zero (-\$0-) for 90 consecutive days at least once every 12 months. Interest accrues on outstanding balances at prime minus 0.25% with an interest floor of 3.75%. The line is secured by all the assets of the Board including cash, assessments, furniture, fixtures, equipment and personal property. The Board is also subject to reporting requirements and financial covenants as outlined in the line of credit agreement. The line expires on December 2, 2011. The amount outstanding on the line of credit at December 31, 2010 was \$-0-.

Note 5: Compliance matters:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2010, the Board did not exceed this limitation.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 6: Program administration:

At the end of 2009 and during 2010 and 2011, the Board entered into agreements with various organizations to develop programs for advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign. The funding levels vary for the various organizations and are subject to approval. The organizations and the expiration dates of the agreements are as follows:

| Agency | Expiration |
|---|------------------|
| Draftfcb, Inc. | June 2011 |
| Deutsch, Inc. | Until Terminated |
| Publicidad Siboney Corporation d/b/a Siboney USA | December 2011 |
| CMGRP, Inc. d/b/a Weber Shandwick | December 2010 |

As of December 31, 2010 and through the date of the audit report, the extension terms and conditions of the CMGRP, Inc. contract have not been finalized and are currently being negotiated.

To assist the above organizations in the development of advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign, the Board has also entered into numerous smaller contracts throughout the 2010 year.

In October 2007, the Board entered into two agreements, an office services and a professional services agreement, with the International Dairy Foods Association (IDFA).

The office services agreement was renewed during October 2009 for a fifteen month period expiring on December 31, 2010. The extension terms and conditions have not been finalized as of December 31, 2010 and through the date of the audit report and are currently being negotiated. Under this agreement, IDFA provides certain administrative services and resources to the Board. Fees for these services are based on predetermined amounts totaling \$4,370 per month plus out-of-pocket costs and hourly charges for additional services. During the year ended December 31, 2010, the Board incurred \$80,470 under this agreement.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 6: Program administration: (continued)

The professional services agreement was renewed during 2009 and became effective January 1, 2010 until December 31, 2010. The extension terms and conditions have not been finalized as of December 31, 2010 and through the date of the audit report and are currently being negotiated. The agreement allows for IDFA to assist the Board in performing general services pursuant to its responsibility under the Fluid Milk Promotion Act of 1990. General services are set forth in greater detail in the agreement, but include areas such as:

- Medical and nutritional
- Sales and econometric analysis
- In house legal services
- Specialized IT services
- Other services as requested

Fees for these services are based on hourly rates ranging from \$140 to \$400 plus out-of-pocket costs. Total costs incurred under this agreement were \$173,306 for the year ended December 31, 2010.

Note 7: Commitments:

The Board entered into a consulting agreement with an outside consultant during 2009. The duration of the agreement was from March 1, 2009 through March 31, 2010. The consultant provided program support for the Board's advertising, public relations and promotions programs as requested and directed by the Board. Fees for these services were billed at an hourly rate of \$70.00 plus any additional out-of-pocket expenses. In February 2010, the agreement was amended to change the term of the contract to begin on January 1, 2010 and end automatically on December 31, 2010. Additionally, per the amended contract, the consultant is paid a weekly consulting fee of \$2,658 plus reasonable and necessary out-of-pocket expenses. The Board has the option to pay the consultant at \$72.00 per hour as long as written notice is provided to the consultant. The total fees and out-of-pocket expenses paid to the consultant shall not exceed \$168,240 for 2010. The total fees and out-of-pocket expenses paid to the consultant were \$164,457 for the year ended December 31, 2010.

Subsequent to year end, the consulting agreement was renewed for a twelve month period expiring on December 31, 2011. In exchange for the consultant's professional services, the Board shall pay \$2,755 per week and necessary out-of-pocket expenses. The Board may elect to pay the consultant hourly at \$74.60 as long as written notice is provided to the consultant. The total fees and out-of-pocket expenses paid to the consultant shall not exceed \$178,260 for 2011.

Appendix C-2
National Fluid Milk Processor Promotion Board
Notes to Financial Statements

December 31, 2010

Note 7: Commitments: (continued)

In November 2010, the Board entered into a 36-month service agreement with DataLink Interactive, Inc. which expires on October 20, 2013. Under the terms of the agreement, the Board is required to pay \$4,250 per month in exchange for information technology support services. Fees for these services under this contract during 2010 were \$8,500.

The future minimum payments under the above agreement as of December 31, 2010 are as follows:

| | |
|--------|-------------------|
| 2011 | \$ 51,000 |
| 2012 | 51,000 |
| 2013 | <u>42,500</u> |
| Total: | <u>\$ 144,500</u> |

Note 8: Operating leases:

In October 2007, the Board entered into a 20-month lease agreement with IDFA, which had been extended through May 31, 2010. In 2010, the Board extended the lease again through December 31, 2011. Under the terms of the lease, the Board is required to pay monthly base rent plus additional monthly charges equal to a pro rata portion of the building's operating expenses and other charges as defined in the lease agreement. The Board incurred \$163,595 of rental expense during 2010.

The Board also has one copier lease expiring in January 2012.

The future minimum payments under these operating leases for the years ended December 31 are as follows:

| | |
|--------|-------------------|
| 2011 | \$ 173,410 |
| 2012 | <u>546</u> |
| Total: | <u>\$ 173,956</u> |

Note 9: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were \$557,995 during 2010.

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2010

Note 10: Related party activity:

Accounting services for the Board are performed by Bridgewater Wealth & Financial Management, LLC (Bridgewater). The cost of these services was \$400,000 during 2010. A principal of Bridgewater serves as the Chief Financial Officer of the Board and receives compensation for services performed. As of December 31, 2010, the amount due to Bridgewater and included in accounts payable totaled \$2,148.

In 2009, The Board entered into an employment agreement with a new Chief Executive Officer (CEO). The agreement runs from March 1, 2009 to February 28, 2011, extended through February 28, 2014, and provides for annual compensation, benefits, and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments upon early termination of the agreement.

Note 11: Retirement plan:

In October 2007, the Board adopted a safe harbor 401(k) plan. An employee is eligible to participate in the plan once the service requirement is completed as defined in the plan document. If an employee was employed by the Board on October 1, 2007, the service requirement was waived and those employees were immediately eligible to participate. Participants may elect to defer a portion of their salary and contribute it to the retirement plan. Additionally, the Board will make a safe harbor matching contribution equal to 100% of deferrals that do not exceed 3% of the employees' compensation plus a 50% match for deferrals between 3% - 5% of employees' compensation. However, for any plan year when the plan is not a "safe harbor" plan, the contribution is at the Board's discretion. The Board's contribution totaled \$111,102 for the year ended December 31, 2010.

Note 12: Subsequent events:

Subsequent events have been evaluated through March 21, 2011, which is the date the financial statements were available to be issued.

Appendix C-2, continued

**SUPPLEMENTARY
INFORMATION**

SNYDER COHN

CPAs and Business Advisors

Independent Auditor's Report on Supplementary Information

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2010 appears on pages 1 and 2. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 16 to 19 for the year ended December 31, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, other than the budget amounts, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Budget amounts have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on these amounts.

Snyder Cohn, PC

SNYDER COHN, PC
North Bethesda, Maryland
March 21, 2011



Appendix C-2, continued
National Fluid Milk Processor Promotion Board

**Schedule of Revenues and Expenses
 Actual Compared to Budget
 (Budget Basis)**

For the year ended December 31, 2010

| | Unexpended/ Amended Budget (Unaudited) | Current Year Actual | Actual Over (Under) Budget |
|---|---|------------------------|----------------------------------|
| Revenues: | | | |
| Assessments | \$ 107,500,000 | \$ 106,973,957 | \$ (526,043) |
| Cash flow reserve reduction | 2,500,000 | - | (2,500,000) |
| Late payment charges | - | 79,738 | 79,738 |
| Interest income | 160,000 | 144,257 | (15,743) |
| Other | - | 8,397 | 8,397 |
| Carryover - prior years | <u>4,268,500</u> | <u>-</u> | <u>(4,268,500)</u> |
| Total revenues | <u>114,428,500</u> | <u>107,206,349</u> | <u>(7,222,151)</u> |
| Expenses: | | | |
| Program expenses: | | | |
| Program - current year | 99,985,100 | 95,688,512 | (4,296,588) |
| Program - prior years | <u>5,372,657</u> | <u>2,627,111</u> | <u>(2,745,546)</u> |
| Total program expenses | <u>105,357,757</u> | <u>98,315,623</u> | <u>(7,042,134)</u> |
| Other expenses: | | | |
| California grant | 10,250,000 | 10,000,947 | (249,053) |
| Administrative | 2,650,346 | 2,519,569 | (130,777) |
| USDA oversight | <u>570,000</u> | <u>557,995</u> | <u>(12,005)</u> |
| Total other expenses | <u>13,470,346</u> | <u>13,078,511</u> | <u>(391,835)</u> |
| Less: encumbrances - prior years | <u>(5,372,657)</u> | <u>-</u> | <u>5,372,657</u> |
| Total expenses | <u>113,455,446</u> | <u>111,394,134</u> | <u>(2,061,312)</u> |
| Unallocated budget | <u>973,054</u> | <u>-</u> | <u>(973,054)</u> |
| Excess of expenses over revenues | \$ - | \$ (4,187,785) | \$ (4,187,785) |

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

**Schedule of Program Expenses
Actual Compared to Budget
(Budget Basis)**

For the year ended December 31, 2010

| | Current Year Amended Budget | Expended Current Year Actual | Actual Over (Under) Budget | Prior Year Unexpended Budget | Expended Prior Year Actual | Actual Over (Under) Budget | Total Program Activity |
|-------------------------------|--|---|---|---|---|---|---------------------------------------|
| | | | | (Unaudited) | | | |
| Moms target | \$ 58,450,000 | \$ 56,443,170 | \$ (2,006,830) | \$ 2,170,006 | \$ 1,197,418 | \$ (972,588) | \$ 57,640,588 |
| Teens target | 24,320,000 | 23,438,577 | (881,423) | 1,270,912 | 926,707 | (344,205) | 24,365,284 |
| Hispanic target | 7,090,000 | 6,918,442 | (171,558) | 138,937 | 29,949 | (108,988) | 6,948,391 |
| Market research | 4,773,500 | 3,999,114 | (774,386) | 1,508,600 | 308,411 | (1,200,189) | 4,307,525 |
| Business development | 5,246,600 | 4,888,114 | (358,486) | 119,956 | 120,721 | 765 | 5,008,835 |
| Program measurement | 105,000 | 1,095 | (103,905) | 164,246 | 43,905 | (120,341) | 45,000 |
| Total program expenses | \$ 99,985,100 | \$ 95,688,512 | \$ (4,296,588) | \$ 5,372,657 | \$ 2,627,111 | \$ (2,745,546) | \$ 98,315,623 |

Appendix C-2, continued

Appendix C-2, continued
National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2010

| | Current Year Amended Budget (Unaudited) | Current Year Actual | Actual Over (Under) Budget |
|---|--|------------------------|----------------------------------|
| Board meeting expenses | \$ 375,000 | \$ 333,724 | \$ (41,276) |
| Staff salaries and benefits: | | | |
| Staff salaries and benefits | 1,677,537 | 1,574,185 | (103,352) |
| Program management salary allocation | (1,403,715) | (1,329,036) | 74,679 |
| Total staff salaries and benefits | <u>273,822</u> | <u>245,149</u> | <u>(28,673)</u> |
| Finance and administration: | | | |
| Contract staff | 160,000 | 160,000 | - |
| Consultants - HR, IT, strategic | 90,000 | 66,211 | (23,789) |
| Financial services | 400,000 | 400,000 | - |
| Total finance and administration | <u>650,000</u> | <u>626,211</u> | <u>(23,789)</u> |
| Other operating expenses: | | | |
| Legal | 450,000 | 347,850 | (102,150) |
| Audits | 80,000 | 74,675 | (5,325) |
| Office facilities | 164,538 | 163,595 | (943) |
| Support and maintenance | 52,440 | 81,129 | 28,689 |
| Staff travel | 290,000 | 386,776 | 96,776 |
| Telephone | 32,000 | 25,815 | (6,185) |
| Insurance | 31,000 | 29,748 | (1,252) |
| Postage and delivery | 20,000 | 14,251 | (5,749) |
| Payroll service and pension administration | 7,500 | 7,697 | 197 |
| Office supplies and expense | 40,000 | 46,998 | 6,998 |
| Employee development | 50,000 | 27,587 | (22,413) |
| Miscellaneous | 50,000 | 52,677 | 2,677 |
| Unallocated administrative | 1,078 | - | (1,078) |
| Amortization and depreciation | 82,968 | 55,687 | (27,281) |
| Total other operating expenses | <u>1,351,524</u> | <u>1,314,485</u> | <u>(37,039)</u> |
| Total administrative expenses | \$ 2,650,346 | \$ 2,519,569 | \$ (130,777) |

See Independent Auditor's Report on Supplementary Information

Appendix C-2, continued
National Fluid Milk Processor Promotion Board
Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2010

Cash receipts from operations:

| | |
|--------------------------------------|---------------------------|
| Assessments | \$ 107,412,800 |
| Late payment charges | 79,738 |
| Interest income | 173,729 |
| Other | 8,397 |
| Cash receipts from operations | <u>107,674,664</u> |

Cash receipts and disbursements from Investing activities:

| | |
|--|-------------------------|
| Proceeds from investments | 1,028,288 |
| Purchase of property and equipment | (12,758) |
| Cash receipts from investing activities | <u>1,015,530</u> |

Cash disbursements for operations

(110,946,013)

Excess of disbursements over cash receipts

(2,255,819)

Cash and cash equivalents - beginning

12,411,882

Cash and cash equivalents - ending

\$ 10,156,063

See Independent Auditor's Report on Supplementary Information

Appendix C-2, continued

PART II

SNYDERCOHN

CPAs and Business Advisors

Independent Auditor's Report on Internal Control

(Combined Report Applicable to Internal Control over Financial Reporting)

Based on an Audit of Financial Statements and Internal Control over Compliance Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards)

**To the Board of Directors
National Fluid Milk Processor Promotion Board
Washington, D.C.**

We have audited the financial statements of the National Fluid Milk Processor Promotion Board (the Board), as of and for the year ended December 31, 2010, and have issued our report thereon dated March 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.



Appendix C-2, continued

To the Board of Directors
National Fluid Milk Processor Promotion Board
Page two

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors of the National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

Snyder Cohn, PC

SNYDER COHN, PC
North Bethesda, Maryland
March 21, 2011

Appendix C-2, continued

PART III

SNYDERCOHN

CPAs and Business Advisors

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 21, 2011. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2010;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;



Appendix C-2, continued

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

- Failed to comply with internal controls;
- Failed to comply with disclosure requirements for lease commitments;
- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter; or
- Failed to comply with the by-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder Cohn, PC

SNYDER COHN, PC
North Bethesda, Maryland
March 21, 2011

Appendix D–1
National Dairy Promotion and Research Board
and Dairy Management Inc.
Contracts Reviewed by USDA

Advertising and Marketing Services

American Dairy Association Mid East—Professional Staff Services

Dairy Farmers, Inc.—Professional Services

Domino's Pizza—Cheese Promotion Activity

G2 Promotional Marketing—Marketing and Retail Support Activities

H.P. Hood—Lactose-Free Half-and-Half Market Introduction

Media Management Services—Child Nutrition & Fitness Initiative strategic support and planning

Prevail! Strategic Marketing and Communications—Health and wellness communications services

Southeast United Dairy Industry Association—Professional services

Willard Bishop—Market research on packaging innovation; strategic insights program services

Wisconsin Milk Marketing Board—National butter program

Communications, Public Relations, and Nutrition Education

Action for Healthy Kids, Inc.—Fuel up to Play 60 school recruitment and implementation

Bader Rutter & Associates—Sustainability and Hispanic marketing communications; dairy snacking white paper; www.USDAiry.com website development; ingredients communications; lactose intolerance white paper communications; international dairy show communications; health and wellness communications

Baxter Communications—Video and communications services

Blu Skye Sustainability—Dairy industry sustainability initiative services

Burson-Marsteller—Dairy market research

Ceres Connections—Child Nutrition and Fitness Initiative consulting

Cleveland Dovington Partners, Inc.—Information technology services and consulting; contracts management enhancements

Dairy Farmers, Inc.—Communication activities, unified marketing plan implementation

Digital Influence—Lactose-free social media campaign

Edelman Public Relations Worldwide—Public relations support; spokesperson strategic consulting and coordination; lactose intolerance; Fuel Up to Play 60, health professional public relations, National Dairy Council news bureau public relations, Website, newsletter and e-mail services

FoodMinds L.L.C.—Whey protein communications; sports nutrition; regulatory affairs; healthy aging and bone and joint health consumer research; issues training support, Nutrient Rich Foods public relations; nutrition research honorariums; child nutrition; sports nutrition; lactose intolerance public relations

Food, Research, and Action Center—Breakfast and Fuel up to Play 60 expansion services

Fresh Approach—Commodity roundtable services

The Hartman Group—Assess consumer motives and drivers for plant-based diets

Health & Nutrition Network—Consulting services

I-Site Web Design—School marketing Website program; Fuel up to Play 60 program services

Appendix D-1, continued

Kelly Czerwonka—Consulting services
LevCom—Professional services
Marketing Drive—Communication services
National Dairy Shrine—Dairy scholarship program
Nutrition Impact L.L.C.—Nutrient consulting and project services
Results Direct—USDEC Website activities
Richter Studios—www.dairyfarmingtoday.org Website activities
Ruby-Do Special Projects—Industry image and relations consulting
School Nutrition Foundation—School marketing and promotion
Weber Shandwick, Inc.—Issues monitoring and response; crisis communications program;
Mydairy social media; on-line dairy advocates program

Export and Ingredients

2020 Company L.L.C.—eTrade document exchange system
American-Mexican Marketing—Mexican market representation and program activities
Arab Marketing Finance, Inc.—Middle East market representation and program activities
Bain & Company—Analysis of global dairy market
Canadean Limited—Global dairy ingredients database
Carla Sorenson—Professional services
Contacts International Consulting, Ltd.—South American market representation and program activities
Dairy Farmers, Inc.—Caribbean retail promotion activities
DH Business Consulting—Consulting services
Howard Valentine—Consulting services
IntNet—Korean market representation and program activities
Joan C. Parker—Consulting services
Knowledge Networks—Consumer confidence messages and claims
Market Makers—Japanese market representative and program activities
Midwest Dairy Association—Ingredient trade servicing
National Milk Producers Federation—Global and domestic research activities; trade barriers; marketing information and economic research services; animal health and welfare issues
Novak Birch—Website creative and design services
PR Consultants—Chinese market representation and program activities
Pacrim Associates—Southeast Asian market representation and program activities
Results Direct—USDEC Website activities www.usdec.org
Schonrock Consulting—Professional services
Steve Calhoun—Consulting services
Story Consulting—Consulting services
Synovate—Consumer awareness of sodium research; plant-based diets

Market and Economic Research, Consulting Services

Burrelle's Luce—Media monitoring
CFE Solutions, Inc.—Consulting services

Appendix D-1, continued

Clift Research—Milk and cereal qualitative research

Culinary Sales Support—Menu development, pizza workshops; American pizza tradition and trends monograph

Global Dairy Platform, L.L.C.—Development, maintenance and dissemination of specific market and consumer research

GFK Custom Research—Health professionals dairy nutrition tracking study

Hartman Group—Explore consumer attitudes and behaviors with regard plant-based diets

Marketecture—Issues management and monitoring

Marketing Concepts—Research and innovation services; Real Seal administration

National Milk Producers Federation—Domestic research program activities/animal health and welfare issues activities; global research

NPD Group—Lactose free specialty coffee market research

Peryam & Kroll— Nutritional beverage sensory test

Results Direct—Website support services

Shainwright Consulting—Consulting and research services

TNS Custom Research—World panel beverage usage data subscription; milk competitive set projects; Milk barriers and opportunities research tracking project

Valid International—Development, acceptability and effectiveness trial of milk whey protein based ready-to-use therapeutic food in treatment of severe acute malnutrition in under-five children

Video Monitoring Services—Broadcast and communications monitoring

Watson Mulhern L.L.C.—Consulting services

Appendix D–2
National Fluid Milk Processor Promotion Board
Contracts Reviewed by USDA

Robert P. Heaney—Medical Advisory Board member services

James O. Hill—Medical Advisory Board member services

Christina Economos—Medical Advisory board member services

Advertising, Promotion, and Public Relations

CMGRP, Inc. d/b/a Weber Shandwick—Direct marketing and promotion services

Inland Label and Marketing—Customer service, storage and fulfillment services

NFL Properties—Player services

Outloud—Marketing communications

Real Media Value—Media evaluation services

Siboney USA—Hispanic marketing program

Market Research and Evaluation, and Consulting Services

Applied Thinking—Market mix methodology review

Artemis Strategy Group—Market research

Beverage Marketing Corporation—Consulting/competitive strategy development

Data Development World Wide—Market research

Deutsch—Hispanic market research; creation of a market research database

Dynamic Logic—Advertising analysis

Gavin Chalcraft—Analysis and development of strategic recommendations

Greenfield Consulting Group—Qualitative market research

Guia Brand Planning—Hispanic teen market research

International Dairy Foods Association—Professional consulting and communications services

Kaley Warner Klemp—Consulting services

Kelly Fisher—Consulting services

Monitor Company—Market research services

Phoenix Marketing Group—Hispanic qualitative market research

Prime Consulting Group—Consulting services, survey analyses and strategic planning

Radius Global Market Research—Hispanic teen market research; serving size assessment

RealMediaValue Company—Media evaluation services

Team Services—Strategic consulting services

Victor Zaborsky—Consulting services

Other Agreements

International Dairy Foods Association—Professional management services

Kaley Warner Klemp—Staff development and strategic planning retreat

L&M Productions—Audiovisual services

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.—Audit services

Appendix E-1 **Dairy Foods Research Centers**

California Dairy Foods Research Center

(University of California–Davis and California Polytechnic State University–San Luis Obispo): Specializes in Product Technology Development, Ingredient Technology, Product Health Enhancement Properties, Food Safety, and Quality Assurance.

Midwest Dairy Foods Research Center

(University of Minnesota–St. Paul, Iowa State University–Ames and South Dakota State University–Brookings): Concentrates on Natural and Processed Cheese Functionality and Flavor, Fluid Milk Flavor and Shelf Life, Genomics of Probiotic Bacteria, and Utilization of Acid and Salt Whey.

Southeast Dairy Foods Research Center

(North Carolina State University–Raleigh and Mississippi State University–Starkville): Specializes in Milk and Whey Ingredient Functionality, Thermal and Biological Processing, Sensory Properties of Cheese and Dairy Ingredients, Dairy Food Safety, and Microbial Technologies for Starter Cultures and Probiotics.

Western Dairy Center

(Utah State University–Logan): Specializes in Cheese Flavor and Functionality, Fluid Milk Processing, Whey and Milk Utilization, and Microbial Genetics and Physiology.

Wisconsin Center for Dairy Research

(University of Wisconsin–Madison): Explores Functional Flavor and Physical Properties of Cheese and Cheese Products, Whey and Whey Components, and Milk Components Used as Ingredients and as Finished Products, Cheese Making and Whey Processing and Separation Procedures, Use of Milkfat, and Food Safety and Quality Technology.

Appendix E-2

Dairy Foods Competitive Research Projects Active in 2010

Principal Investigator, Institution, and Project Title

Allen E. Foegeding, Ph.D. (North Carolina State University): A Broad Survey of Chelating Agents to Enhance Heat Stability of Whey Proteins, in the Presence of Calcium, for Beverage Application [began in 2009]; Developing Whey Proteins Having Less Astringency at Low pH [began in 2009]; Designing Filler Particles to Imitate Fat in Cheddar Cheese [began in 2009]; Developing Whey Proteins Having Less Astringency at Low pH [began in 2009]; and Modifying Whey Proteins Having Less Astringency at Low pH [continued in 2010].

Daniel J. O'Sullivan, Ph.D. (University of Minnesota): De-Lactose Whey Fermentate Food Ingredient with Very Broad-Spectrum Antimicrobial Properties [began in 2009]; Factors Effecting Stability of Freeze-Dried Bifidobacteria [began in 2009]; and Over-Expression of Stress Genes to Improve Stability of Bifidobacteria in Yogurt [began in 2009].

Devin Peterson, Ph.D. (University of Minnesota): Inhibition of Off-Flavor Development in Non-Refrigerated Milk by Phenolic Chemistry [began in 2009]. A systematic study of cheese microbiology and flavor based on salt cation substitution in lower sodium cheddar cheese

Donald McMahon, Ph.D. (Utah State University): Designing Filler Particles to Imitate Fat in Cheddar Cheese [began in 2009]; A systematic study of cheese microbiology and flavor based on salt cation substitution in lower sodium cheddar cheese [began in 2010]; Designing filler particles to imitate fat in cheddar cheese; Influence of Salt-In-Water Content on Flavor of Full-Fat and Low-Fat Cheddar Cheese [began in 2009]; Influence of Starter Culture Growth on the Development of Rosey and Burnt-Brothy Flavors During Aging of Low Fat Cheese [began in 2009]; Flavor Comparison Between UHT Milk Heated by Conventional Methods and Electrical Resistive Heating [began in 2008]; Improve the Flavor of Low-Fat Cheese by Adding Innovative Cultures and/or Flavoring Systems [continued in 2010]; Innovative Approaches for Improving Low-Fat Mozzarella Cheese [continued in 2010]; At What Level do Consumers Notice Decreasing Salt Concentrations and at What Concentration is Acceptance Negatively Impacted [began in 2010]

Francisco Diez-Gonzalez, Ph.D. (University of Minnesota): Improving the Safety of Queso Fresco Using GRAS Ingredients [began in 2008].

James L. Steele, Ph.D. (University of Wisconsin): Evaluation of Compositional Factors of Low-Fat and Low-Sodium Cheddar Cheeses on the Growth of Potential Pathogens in a Model System [began in 2009];

John A. Lucey, Ph.D. (University of Wisconsin): High Pressure Processing of Low-Fat Cheese [began in 2009]; Combined Native Whey and Casein Concentrate Production [continued in 2010]; and Milk Protein Concentrate Functionality Improvement Program [continued in 2010].

Appendix E-2, continued

Lloyd Metzger, Ph.D. (South Dakota State University): Prediction of Process Cheese Instrumental Texture and Melting Characteristics Using Dielectric Spectroscopy and Chemometrics [began in 2009]; Evaluation of NFDM and MPC in Yogurt Manufacture [continued in 2010]; Low-Fat/Fat-Free Process Cheese For Slice-on-Slice Applications [continued in 2010]; and Manufacture of Reduced/Low Sodium SOS Process Cheese [continued in 2010].

MaryAnne Drake, Ph.D. (North Carolina State University): Influence of Starter Culture Growth on the Development of Rosey and Burnt-Brothy Flavors During Aging of Low-Fat Cheese [began in 2009]; Understanding the Role of Beverage Processing Steps on Whey Protein Flavor Contributions [began in 2009]; Identification of Chemical Components Responsible for Specific Flavors in WPC80 and WPI [continued in 2010]; Improving Whey Protein Off-Flavor Prevention Via Alternative Process Step Optimization [continued in 2010]; Low Fat Cheese Platform Study (Part 2): Quantify Compounds for Flavor in LF Cheddar Cheese [continued in 2010]; Quantification and Aroma Quality of the Compounds Responsible for Desirable and Undesirable Flavor in Low-Fat Cheddar Cheese [continued in 2010]; At What Level do Consumers Notice Decreasing Salt Concentrations and at What Concentration is Acceptance Negatively Impacted [began in 2010]; Annatto partitioning in cheese and cheese whey [began in 2010]

Mark R. Etzel, Ph.D. (University of Wisconsin-Madison): Charged Ultrafiltration Membranes for Fractionation of Milk Proteins [began in 2009]; Electrostatic Repulsion Enhancement for Heat Stable, Clear Whey Protein Beverages [began in 2009]; and Creation of Whey Protein Enhanced Beverages that are Clear and Heat Stable at Acidic pH [continued in 2010].

Mark Johnson, Ph.D. (Wisconsin Center for Dairy Research): Influence of Starter Culture Growth on the Development of Rosey and Burnt-Brothy Flavors During Aging of Low-Fat Cheese [began in 2009];

Marie K. Walsh, Ph.D. (Utah State University): Production of High Protein Cheddar Cheese With an Improved Extrusion-Modified Texture [continued in 2010];

Nana Farkye, Ph.D. (California Polytechnic State University): Natural Mold Inhibition in Cheese by Lactic Acid Bacteria [initiated in 2009]; Influence of Starter Culture Growth on the Development of Rosey and Burnt-Brothy Flavors During Aging of Low-Fat Cheese [began in 2009]; Improving Texture and Lubricity of Low-Fat Cheddar Cheese with Selected Surfactants and Gums [continued in 2010]; and Low- and Reduced-Sodium Cheese with Enhanced Flavor [continued in 2010] Can Increasing the Level of Primary Proteolysis Improve Lowfat Cheese Texture [began in 2010]; Effects of Salt Substitutes and Anti-Microbial Intervention Models on Functionality, Shelf-Life, and consumer acceptability of low sodium string cheese and the survival of pathogenic bacteria [began in 2010]

Appendix E-2, continued

Greg Thoma, Ph.D. (University of Arkansas) Comprehensive life cycle assessment for cheese and whey products; Comprehensive life cycle assessment for fluid dairy delivery systems [continued in 2010]

Peggy M. Tomasula, Ph.D. (USDA Agricultural Research Service): Development and Validation of the Effect of Interventions and Processes on Persistence of Listeria monocytogenes on Queso Fresco Cheese [continued in 2010].

Phillip S. Tong, Ph.D. (California Polytechnic State University): Evaluation of Properties of Vacuum Packaged Dry Dairy Powders [continued in 2010]; Improving Whey Protein Off-Flavor Prevention Via Alternative Process Step Optimization [continued in 2010]; and Milk Protein Concentrate Functionality Improvement Program [continued in 2010].

Qixin Zhong, Ph.D (The University of Tennessee): Magnetic Nanotubes to Purify High Value Peptides/Proteins from Unclarified Whey [continued in 2010]; Creating novel structures to stabilize whey proteins during heating nearby isoelectric points [began in 2010]

Richard W. Hartel, Ph.D. (University of Wisconsin): Pro-Cream and DLP Blends as an Ingredient for Various Food Product Applications [began in 2009]; and Methods to Aid Drying of Delactose Permeate [continued in 2010]; Effect of Protein on Partial Coalescence in Ice Cream [began in 2010]

Robert F. Roberts, Ph.D. (Pennsylvania State University): Influence of Delivery System on the Efficacy of a Probiotic Intervention [began in 2010]

Roger Ruan, Ph.D. (University of Minnesota): Concentrated High Intensity Electric Field (CHIEF) Pasteurization of Milk [began in 2009]; and Non-Thermal Plasma and Electric Field Treatment of Milk [continued in 2010].

Selvarani Govindasamy-Lucey, Ph.D. (Wisconsin Center for Dairy Research): Low Sodium Cheddar Cheese by Controlling Microbial Activity and Enhancing Flavor [began in 2009]; and Manufacture of High Protein Cheddar Cheese Using Cold Extrusion [continued in 2010].

Tonya Schoenfuss, Ph.D. (University of Minnesota): Production of Low Sodium Cheddar Cheese; Improving Flavor Through the Use of Flavor Enhancers, Salt Replacers and Cheese Making Procedures [began in 2009].

Appendix E-3

Nutrition Competitive Research Activities

Principal Investigator, Institution, and Project Title

David J. Baer, Ph.D. (USDA-Agricultural Research Service-Beltsville Human Nutrition Research Center): Effects of Trans-Fatty Acids from Ruminant Sources on Risk Factor for Cardiovascular Disease [continued in 2010]; and Dietary Protein Sources and Their Effects on Risk Factors Associated with Cardiovascular Disease [continued in 2010].

Wayne Campbell, Ph.D. (Purdue University): Influence of Whey Protein on Body Composition, Glucose Metabolism, and Appetite in Middle-Aged Adults at Risk for Metabolic Syndrome [continued in 2010].

Joseph E. Donnelly, Ph.D., and Richard Washburn, Ph.D. (University of Kansas): Effects of Resistance Training and Milk Supplementation on Body Composition in Middle School Children [began in 2009].

Roger Fielding, Ph.D. (Tufts University): Efficacy of Whey Protein Supplementation on Resistance Exercise Induced Changes in Muscle Strength, Fat Free Mass, and Function in Mobility-Limited Older Adults [continued in 2010].

Ellen B. Fung, Ph.D., RD (Children's Hospital Oakland Research Institute): Evaluation of a Pilot Project to Add Yogurt to the WIC Food Package for Women [continued in 2010].

Bruce German, Ph.D. (University of California-Davis): Milk Glycolipids: Capturing the Value of a Novel Class of Complex Molecular Conjugates [continued in 2010].

Michael Holick, Ph.D., M.D. (Boston University School of Medicine): The Effect of Dietary Calcium and Vitamin D on Prostate Cancer [continued in 2010].

Karl L. Insogna, M.D. (Yale University) The Impact of a Protein Supplement on Bone Mass in Older Men and Women [began in 2009].

John L. Ivy, Ph.D. (The University of Texas at Austin): The Effect of Chocolate Milk (CM) on Exercise Recovery and Training Adaptation [continued in 2010].

Rachel Johnson, Ph.D., MPH, RD (University of Vermont): Evaluating the Acceptance of Reformulated Flavored Milk in Schools [began in 2009].

Kerry E. Kaylegian, Ph.D., John Coupland, Ph.D., and Ryan Elias, Ph.D. (Pennsylvania State University) Reduction of the saturated fat content of milk fat fractions by dry crystallization of anhydrous milk fat made from small and large milk fat globules obtained by microfiltration [began in 2010]

Appendix E-3, continued

Nancy L. Keim, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): The Effect of Dairy Foods in Normalizing the Hypothalamic-Pituitary-Adrenal Axis in Overweight/Obese Adults Following Diet-Induced Weight Loss [continued in 2010].

Todd Klaenhammer, Ph.D. (North Carolina State University): Identification of Probiotic Features of Lactobacillus acidophilus Affected by Dairy Delivery [continued in 2010]; and Influence of Lactic Acid Bacteria, Milk, Yogurt and Milk Components on Gene Expression in Human Intestinal Epithelia Cells [continued in 2010].

Ronald M. Krauss, Ph.D. (Children's Hospital Oakland Research Institute): Dietary Protein and Saturated Fat Effects on Insulin Resistance [continued in 2010]; Changes in LDL and HDL With Increased Intake of Saturated Fat from Dairy Foods in Individuals with Atherogenic Dyslipidemia and LDL Subclass Pattern B [continued in 2010]; and Association of Dairy Consumption with Lipoprotein Subfractions and Cardiovascular Disease in the Malmo Diet and Cancer Study [began in 2009].

Marlena C. Kruger, Ph.D. (Massey University): The Effect of Whey Protein Concentrate Supplementation on Body Composition, Physical Performance and Nutritional Status in Older Adults; A Pilot Study [began in 2009].

Andre-Denis Wright, Ph.D. (University of Vermont): Influence of Maternal Intake of Conjugated Linoleic Acid on Hormone Responses by the Mammary Glands of Female Progeny [continued in 2010]; and The Impact of Natural and Industrial Sources of Trans Fatty Acids on the Development of Atherosclerosis in the ApoE*3 Leiden Mouse Model [continued in 2010].

Schuichi Machida, Ph.D. (Tokai University, Japan): The Effect of Whey Protein on Sarcopenia in the Elderly [continued in 2010].

Juan Medrano, Ph.D. (University of California-Davis): Genomic Approach to Optimize the Content of Beneficial Oligosaccharides in the Milk Supply [continued in 2010].

David Mills, Ph.D. (University of California-Davis): Isolation and Characterization of Lactic Acid Bacteria that Selectively Grow on the Unique Set of Oligosaccharides Found in Milk [continued in 2010].

Lynn L. Moore, Ph.D. (Boston University) Dietary patterns in children and adolescents and selected health outcomes [began in 2010]

Theresa Nicklas, Ph.D. (Baylor College of Medicine): Understanding Perceived Lactose Intolerance in White, Black and Hispanic Adults; and Healthy Eating and Lifestyle for Total Health (HEALTH) [continued in 2010].

Appendix E-3, continued

Sharon M. Nickols-Richardson, Ph.D. (Pennsylvania State University): Does a dairy-rich diet modify indicators of inflammatory and oxidative stress in adults with excess adiposity [began in 2010]

Stuart Phillips, Ph.D. (McMaster University): Responses of Muscle and Whole-Body Protein Turnover to Ingestion of Differing Doses of Whey and Soy Protein With and Without Resistance Exercise in Elderly Men [continued in 2010]; and The Impact of Higher Dairy and Dietary Protein on the “Quality” of Hypoenergetic Diet and Exercise Induced Weight Loss in Pre-Menopausal, Overweight, and Obese Young Women [continued in 2010].

Karen Rafferty, M.S., RD, Robert Heaney, M.D. (Creighton University): A Project to Advance a Research Data Infrastructure by Creating a Master Data Bank [continued in 2010].

Helen Raybould, Ph.D. (University of California-Davis): Effects of Milk Components on Gastrointestinal Signaling Pathways [continued in 2010]; and Host Effects Derived from Milk-Dependent Production of Soluble Signals from Bifidobacteria [began in 2010].

Karen Schmidt, Ph.D. (University of Kansas): RFDH: A process lethality treatment that impacts unique functionality [began in 2010]

Gloria Solano-Aguilar, Ph.D., and Todd R. Klaenhammer, Ph.D. (USDA Agricultural Research Service-Beltsville Human Nutrition Research Center and North Carolina State University): Effect of Dairy Delivery on Survival and Activity of Probiotic Cultures *in vivo* [continued in 2010].

Brian Timmons, Ph.D. (McMaster University): Milk for Lean Mass for Overweight Kids: The MILK with Exercise Study [Continued in 2010]

Jeff Volek, Ph.D. (University of Connecticut): Investigation of Whey Protein Supplementation for Physiological Enhancement to Resistance Training and Dietary Regimes in Young Adults [continued in 2010].

Marta Van Loan, Ph.D. (USDA Agricultural Research Service) ,The Role of Dairy Foods in Enhancing Central Fat Loss and Weight Loss with Moderate Energy Restriction in Overweight and Obese Adults [continued in 2010]

Rosemary Walzem, Ph.D. (Texas A&M University): Can Dairy Calcium Modulate Bodyweight Through Changes in Fecal Microbial Diversity? [continued in 2010]; Can dairy calcium modulate bodyweight through changes in fecal microbial diversity? [began in 2010]

Youfa Wang, M.D., Ph.D. (Johns Hopkins University Bloomberg School of Public Health): The Influences of Dairy Consumption and Related Nutrients on Obesity, Metabolic Syndrome, and Type 2 Diabetes and the Ethnic Differences [completed in 2010].

Appendix E-3, continued

Richard A. Washburn, Ph.D. (University of Kansas): Whey Protein Supplementation with Resistance Training: Effect on Body Composition of Young Adults [continued in 2010].

Connie Weaver, Ph.D. (Purdue University): Influence of Dairy on Bone Mass Accrual, Bone Size and Fat and Lean Body Mass in Early Pubertal Overweight vs. Healthy Weight Girls [continued in 2010].

Michael B. Zemel, Ph.D. (University of Tennessee): Effects of Dairy Components on Monocyte-Endothelial Cell Vascular Infiltration and Inflammation [began in 2010]; Effects of Dairy Consumption on SIRT1 and Metabolic Risk in Humans [began in 2010]; Modulation of human airway smooth muscle function and hyperactivity by dairy components, [began in 2010]

Appendix E-4

Sustainability Competitive Research Activities

Heber, Albert J., Ph.D. (Purdue University): Assessment of Carbon Footprint Contributions to Milk Products by U.S. Dairies; and Greenhouse Gas Emissions at US Dairies [continued in 2010].

Olivier Joliet, Ph.D. (University of Michigan): US Fluid Milk: Beyond Carbon LCA Study [began in 2010]

Darrin Nutter, Ph.D (University of Arkansas): Sharing and dissemination of industry best practices to increase market competitiveness through the application of “Green Practices” – Phase 2 [began in 2010]

Appendix F
**Qualified State or Regional Dairy Product Promotion,
Research, or Nutrition Education Programs**

Allied Milk Producers' Cooperative
495 Blough Road
Hooversville, PA 15936-8207

American Dairy Association Mid East
5950 Sharon Woods Blvd.
Columbus, OH 43229

**American Dairy Association and Dairy
Council, Inc.**
Interstate Place II, 100 Elwood Road
North Syracuse, NY 13212

American Dairy Association of Alabama
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Georgia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Kentucky
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Michigan
2163 Jolly Road
Okemos, MI 48864

American Dairy Association of Mississippi
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Nebraska
8205 F Street
Omaha, NE 68127-1779

**American Dairy Association of
North Carolina**
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**American Dairy Association of
South Carolina**
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**American Dairy Association of
South Dakota**
2015 Rice Street
St. Paul, MN 55113

American Dairy Association of Virginia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**California Manufacturing Milk Producers
Advisory Board**
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

California Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

Dairy Council of California
1101 National Drive, Suite B
Sacramento, CA 95834-1945

Dairy Council of Michigan
2163 Jolly Road
Okemos, MI 48864

Dairy Council of Nebraska
8205 F Street
Omaha, NE 68127-1779

Dairy Farmers, Inc.
166 Lookout Place, Suite 100
Maitland, FL 32751-4496

Appendix F, continued

DairyMAX

2214 Paddock Way Drive, Suite 600
Grand Prairie, TX 75050

Dairy Promotion, Inc.

10220 NW Ambassador Drive
Kansas City, MO 64153

**Georgia Agricultural Commodity
Commission for Milk**

19 Martin Luther King Jr., Dr., SW, Room 328
Atlanta, GA 30334

Granite State Dairy Promotion

c/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302-2042

Idaho Dairy Products Commission

10221 West Emerald, Suite 180
Boise, ID 83704

Illinois Milk Promotion Board

1701 Towanda Avenue
Bloomington, IL 61701

Indiana Dairy Industry Development Board

9360 Castlegate Drive
Indianapolis, IN 46256

Louisiana Dairy Industry Promotion Board

c/o Louisiana Department of Agriculture
and Forestry
47076 North Morrison Street
Hammond, LA 70401

Maine Dairy and Nutrition Council

333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board

333 Cony Road
Augusta, ME 04330

Massachusetts Dairy Promotion Board

Suite 500, 251 Causeway Street
Boston, MA 02114

Michigan Dairy Market Program

P.O. Box 8002
Novi, MI 48376-8002

Mid-Atlantic Dairy Association

325 Chestnut Street, Suite 600
Philadelphia, PA 19106

Midwest Dairy Association

2015 Rice Street
St. Paul, MN 55113

Midwest Dairy Council

2015 Rice Street
St. Paul, MN 55113

Milk for Health on the Niagara Frontier, Inc.

4185 Seneca Street
West Seneca, NY 14224

Milk Promotion Services of Indiana, Inc.

9360 Castlegate Drive
Indianapolis, IN 46256

**Minnesota Dairy Research and Promotion
Council**

2015 Rice Street
St. Paul, MN 55113

**Nebraska Dairy Industry Development
Board**

8205 F Street
Omaha, NE 68127-1779

**Nevada Farm Bureau Dairy Producers
Committee**

2165 Green Vista Drive, Suite 205
Sparks, NV 89431

Appendix F, continued

New England Dairy and Food Council, Inc.
1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board
1034 Commonwealth Avenue
Boston, MA 02215

**New Jersey Dairy Industry Advisory
Council c/o New Jersey Dept. of Agriculture**
PO Box 330
Trenton, NJ 08625-0330

**New York State Dept. of Agriculture and
Markets**
Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235-0001

North Dakota Dairy Promotion Commission
2015 Rice Street
St. Paul, MN 55113

Oregon Dairy Products Commission
10505 Southwest Barbur Boulevard
Portland, OR 97219

Pennsylvania Dairy Promotion Program
c/o Pennsylvania Department of Agriculture
2301 North Cameron Street
Harrisburg, PA 17110-9408

Promotion Services, Inc.
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**Rochester Health Foundation, Inc.
c/o ADADC, Inc.**
Interstate Place II, 100 Elwood Road
North Syracuse, NY 13212

Southeast United Dairy Industry Association
5340 West Fayetteville Road
Atlanta, GA 30349-5416

Southwest Dairy Museum
P.O. Box 936
Sulphur Springs, TX 7548

Tennessee Dairy Promotion Committee
5340 West Fayetteville Road
Atlanta, GA 30349-5416

United Dairymen of Arizona
2008 S. Hardy Drive
Tempe, AZ 85282

Utah Dairy Commission
1213 East 2100 South
Salt Lake City, UT 84106

Vermont Dairy Promotion Council
116 State Street, Drawer 20
Montpelier, VT 05620-2901

Washington State Dairy Council
4201 198th Street, SW, Suite 102
Lynnwood, WA 98036-6751

**Washington State Dairy Products
Commission**
4201 198th Street, SW, Suite 101
Lynnwood, WA 98036

Western Dairy Association
12000 North Washington Street, Suite 200
Thornton, CO 80241

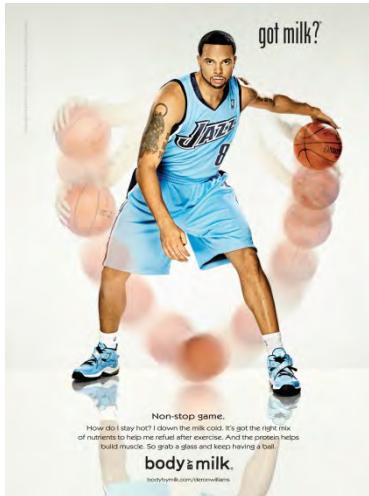
Wisconsin Milk Marketing Board, Inc.
8418 Excelsior Drive
Madison, WI 53717

Appendix G

National Fluid Milk Processor Promotion Board

Promotional Materials – Teens

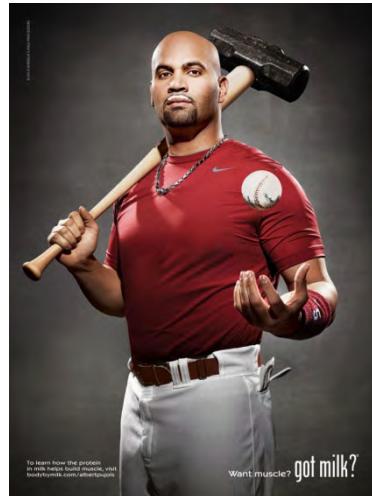
Milk Mustache Posters



Deron Williams



Shawn Johnson



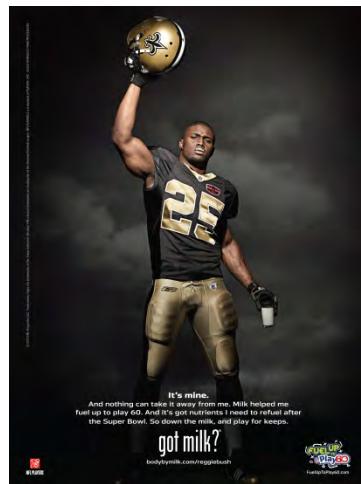
Albert Pujols



Crystal Langhorne



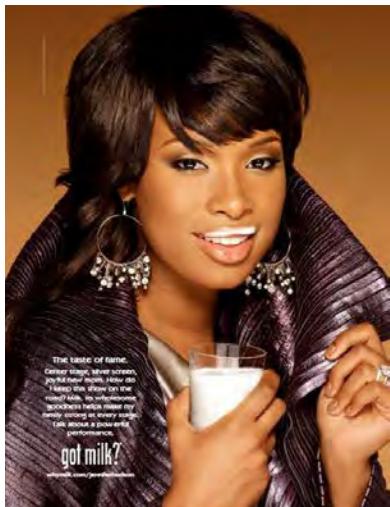
Reggie Bush & Reggie Wayne



Reggie Bush

Appendix G, continued

Milk Mustache Posters (cont.)



Jennifer Hudson



Dwight Howard



Oreo

Milk the Moment



Elizabeth & Tim Hasselbeck



Michael Ventrella



Jennifer Hudson



MM Poster



MM Ad



Tyler Florence



MM Banner

Appendix G, continued

Body By Milk Celebzone Banners



Shawn Johnson



Deron Williams



Albert Pujols



Crystal Longhorne



Apolo Ohno



Lindsey Vonn



Jennifer Hudson



Lauren Conrad

Appendix G, continued

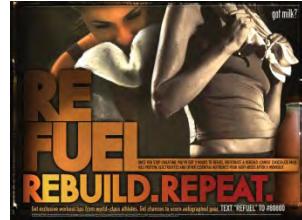
Refuel With Chocolate Milk



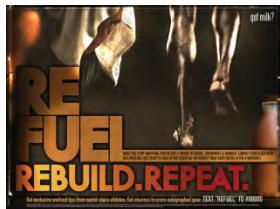
Refuel Banner



Refuel with Celebs



Refuel Poster



Refuel Poster

Refuel with Chris Bosh



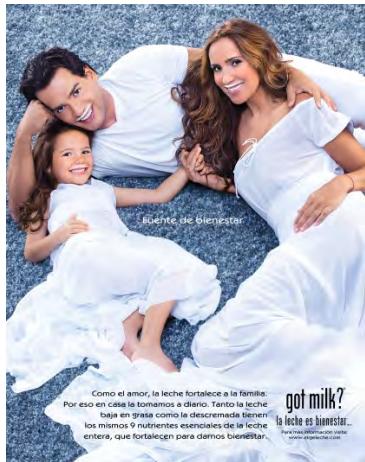
Refuel Wobbler



Refuel Banner

Promotional Materials – Moms and Hispanics

Milk Mustache Posters - Hispanic



Cristián de la Fuente



Paulina Rubio



Maggie Jimenez

Appendix G, continued

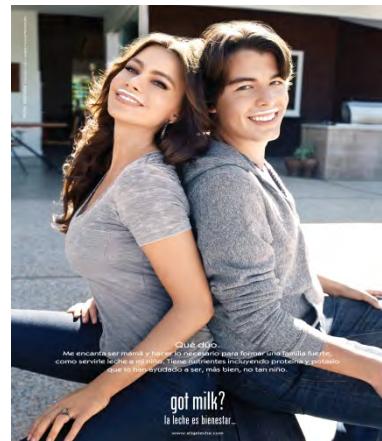
Milk Mustache Posters – Hispanic (cont.)



Victoria Justice



Handy Manny



Sofia Vergara

Halloween



Halloween Cling – Bottle



Halloween Banner



Halloween Wobbler

Dia de los Muertos – Hispanic



Halloween Wobbler – Skeleton



Halloween Cling – Bottle

Appendix G, continued

Great Gallon Give



Give Banner



GGG Cling



GGG Wobbler

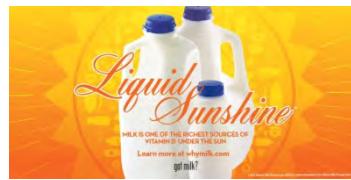


GGG Wobbler – Hispanic

Liquid Sunshine



LS Cling



LS Banner



LS Wobbler

Oreo



Oreo Wobbler



Pure Joy Cling



Milk Mustache Poster

Unlock Their Potential



UTP Wobbler



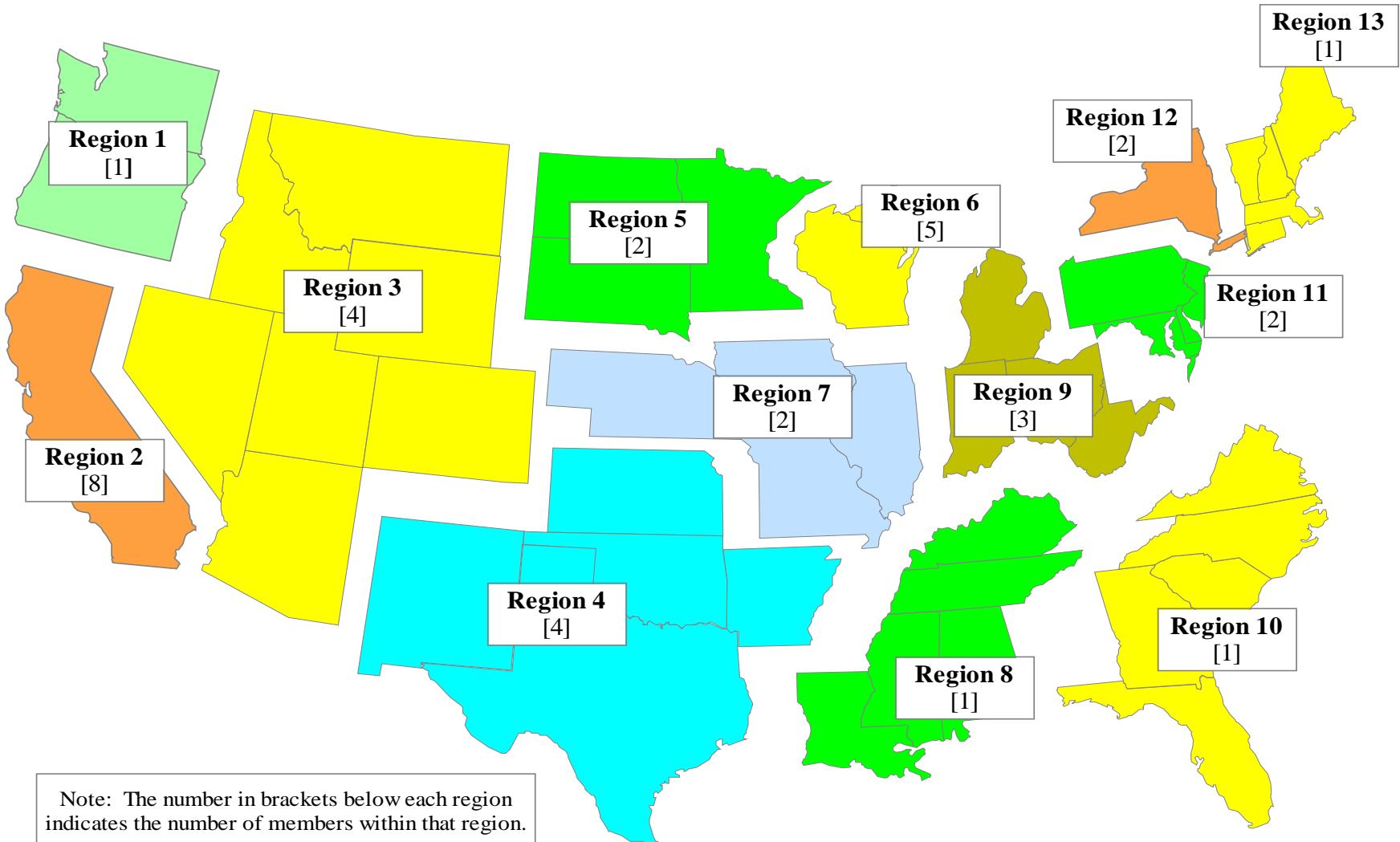
UTP Banner – Hispanic



UTP Banner - Hispanic

Appendix H-1

Regions of the National Dairy Promotion and Research Board



Appendix H-2

Regions of the National Fluid Milk Processor Promotion Board

