DEAN FOODS CO
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
ýQuarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2017
or
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
Commission File Number 001-12755

Dean Foods Company
(Exact name of the registrant as specified in its charter)

Delaware	75-2559681
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

2711 North Haskell Avenue, Suite 3400
Dallas, Texas 75204
(214) 303-3400
(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No ý
As of August 3, 2017, the number of shares of the registrant's common stock outstanding was: 90,915,174.

Common Stock, par value $.01

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Part I — Financial Information
Item 1. Unaudited Condensed Consolidated Financial Statements
DEAN FOODS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$31,509	$17,980
Receivables, net of allowances of $6,189 and $5,118	601,869	669,200
Income tax receivable	7,191	5,578
Inventories	287,222	284,484
Deferred income taxes	—	37,504
Prepaid expenses and other current assets	40,292	43,884
Total current assets	968,083	1,058,630
Property, plant and equipment, net	1,124,089	1,163,851
Goodwill	167,535	154,112
Identifiable intangible and other assets, net	213,231	207,897
Deferred income taxes	21,310	21,737
Total	$2,494,248	$2,606,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$655,298	$706,981
Current portion of debt	142,173	140,806
Total current liabilities	797,471	847,787
Long-term debt, net	762,125	745,245
Deferred income taxes	99,942	126,009
Other long-term liabilities	226,499	276,630
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, none issued	—	—
Common stock, 90,913,564 and 90,586,741 shares issued and outstanding, with a par value of $0.01 per share	909	906
Additional paid-in capital	656,721	653,629
Retained earnings	36,938	45,654
Accumulated other comprehensive loss	(86,357)	(89,633)
Total stockholders' equity	608,211	610,556
Total	$2,494,248	$2,606,227

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net sales	$1,926,722	$1,848,788	$3,922,408	$3,727,616
Cost of sales	1,459,342	1,355,535	2,992,903	2,730,295
Gross profit	467,380	493,253	929,505	997,321
Operating costs and expenses:				
Selling and distribution	338,144	331,150	683,340	664,037
General and administrative	73,100	86,614	172,636	171,765
Amortization of intangibles	5,155	4,120	10,310	10,445
Facility closing and reorganization costs, net	5,817	(1,400)	15,103	(234)
Total operating costs and expenses	422,216	420,484	881,389	846,013
Operating income	45,164	72,769	48,116	151,308
Other (income) expense:				
Interest expense	16,419	16,830	33,883	33,706
Other income, net	(805)	(2,210)	(1,761)	(3,207)
Total other expense	15,614	14,620	32,122	30,499
Income before income taxes	29,550	58,149	15,994	120,809
Income tax expense	11,903	24,778	8,106	48,237
Net income	$17,647	$33,371	$7,888	$72,572
Average common shares:				
Basic	90,882,415	91,244,745	90,796,585	91,406,969
Diluted	91,369,030	91,679,813	91,365,946	91,995,078
Basic income per common share:				
Net income	$0.19	$0.37	$0.09	$0.79
Diluted income per common share:				
Net income	$0.19	$0.36	$0.09	$0.79
Cash dividends declared per common share	$0.09	$0.09	$0.18	$0.18

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income	$17,647	$33,371	$7,888	$72,572
Other comprehensive income (loss):				
Cumulative translation adjustments	—	(1,208)	—	(1,055)
Pension and other postretirement liability adjustment, net of tax	1,632	1,550	3,276	3,035
Other comprehensive income	1,632	342	3,276	1,980
Comprehensive income	$19,279	$33,713	$11,164	$74,552

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2017	90,586,741	$ 906	$ 653,629	$45,654	$ (89,633)	$ 610,556
Issuance of common stock	326,823	3	(883)	—	—	(880)
Share-based compensation expense	—	—	3,975	—	—	3,975
Net income	—	—	—	7,888	—	7,888
Dividends	—	—	—	(16,604)	—	(16,604)
Other comprehensive income (loss):						
Pension and other postretirement benefit liability adjustment, net of tax of $2,057	—	—	—	—	3,276	3,276
Balance, June 30, 2017	90,913,564	$ 909	$ 656,721	$36,938	$ (86,357)	$ 608,211

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2016	91,428,274	$ 914	$ 679,916	$ (49,523)	$ (85,803)	$ 545,504
Issuance of common stock, net of tax impact of share-based compensation	354,443	4	(1,956)	—	—	(1,952)
Share-based compensation expense	—	—	4,276	—	—	4,276
Repurchase of common stock	(1,371,185)	(14)	(24,986)	—	—	(25,000)
Net income	—	—	—	72,572	—	72,572
Dividends	—	—	(8,390)	(8,283)	—	(16,673)
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	—	(1,055)	(1,055)
Pension and other postretirement benefit liability adjustment, net of tax of $1,728	—	—	—	—	3,035	3,035
Balance, June 30, 2016	90,411,532	$ 904	$ 648,860	$ 14,766	$ (83,823)	$ 580,707

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30	
	2017	2016
Cash flows from operating activities:		
Net income	$7,888	$72,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,489	87,876
Share-based compensation expense	6,659	11,797
(Gain) loss on divestitures and other, net	3,423	(4,984)
Write-off of financing costs	1,080	—
Deferred income taxes	7,533	17,577
Other, net	(1,269)	(9,626)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables, net	68,351	79,875
Inventories	3,555	(307)
Prepaid expenses and other assets	8,837	10,454
Accounts payable and accrued expenses	(73,253)	(115,915)
Income taxes receivable/payable	(1,613)	(5,147)
Litigation settlement	—	(18,853)
Contributions to company sponsored pension plans	(38,500)	—
Net cash provided by operating activities	79,180	125,319
Cash flows from investing activities:		
Payments for property, plant and equipment	(34,551)	(45,752)
Payments for acquisitions, net of cash acquired	(21,596)	(157,321)
Proceeds from sale of fixed assets	2,481	10,711
Other investments	(9,000)	—
Net cash used in investing activities	(62,666)	(192,362)
Cash flows from financing activities:		
Repayments of debt	(832)	(895)
Payments of financing costs	(1,764)	—
Proceeds from senior secured revolver	120,900	118,100
Payments for senior secured revolver	(128,700)	(104,800)
Proceeds from receivables securitization facility	1,120,000	130,000
Payments for receivables securitization facility	(1,095,000)	(70,000)
Repurchase of common stock	—	(25,000)
Cash dividends paid	(16,357)	(16,514)
Issuance of common stock, net of share repurchases for withholding taxes	(1,232)	(646)
Tax savings on share-based compensation	—	699
Net cash provided by (used in) financing activities	(2,985)	30,944
Effect of exchange rate changes on cash and cash equivalents	—	(825)
Change in cash and cash equivalents	13,529	(36,924)
Cash and cash equivalents, beginning of period	17,980	60,734
Cash and cash equivalents, end of period	$31,509	$23,810

See Notes to unaudited Condensed Consolidated Financial Statements.

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DEAN FOODS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2017 and 2016
(Unaudited)

1. General

Nature of Our Business — We are a leading food and beverage company and the largest processor and direct-to-store distributor of fresh fluid milk and other dairy and dairy case products in the United States, with a vision to be the most admired and trusted provider of wholesome, great-tasting dairy products at every occasion.

We manufacture, market and distribute a wide variety of branded and private label dairy and dairy case products, including fluid milk, ice cream, cultured dairy products, creamers, ice cream mix and other dairy products to retailers, distributors, foodservice outlets, educational institutions and governmental entities across the United States. Our portfolio includes DairyPure®, the country's first and largest fresh, white milk national brand, and TruMoo®, the leading national flavored milk brand, along with well-known regional dairy brands such as Alta Dena®, Berkeley Farms®, Country Fresh®, Dean's®, Friendly's®, Garelick Farms®, LAND O LAKES ® milk and cultured products (licensed brand), Lehigh Valley Dairy Farms®, Mayfield ®, McArthur®, Meadow Gold ®, Oak Farms®, PET ® (licensed brand), T.G. Lee®, Tuscan® and more. In all, we have more than 50 national, regional and local dairy brands, as well as private labels. Additionally, with our acquisition of Uncle Matt's Organic, Inc., which was completed on June 22, 2017, we now sell and distribute organic juice, probiotic-infused juices, and fruit-infused waters under the Uncle Matt's Organic® brand. Dean Foods also makes and distributes ice cream, cultured products, juices, teas and bottled water. Due to the perishable nature of our products, we deliver the majority of our products directly to our customers' locations in refrigerated trucks or trailers that we own or lease. We believe that we have one of the most extensive refrigerated direct-to-store delivery systems in the United States. We sell our products primarily on a local or regional basis through our local and regional sales forces, and in some instances, with the assistance of national brokers. Some national customer relationships are coordinated by our centralized corporate sales department or national brokers.

Basis of Presentation — The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q have been prepared on the same basis as the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Annual Report on Form 10-K"), which we filed with the Securities and Exchange Commission on February 22, 2017. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) to present fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. Our results of operations for the three and six month periods ended June 30, 2017 may not be indicative of our operating results for the full year. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements contained in our 2016 Annual Report on Form 10-K.

Unless otherwise indicated, references in this report to "we," "us," "our" or "the Company" refer to Dean Foods Company and its subsidiaries, taken as a whole.

Recently Adopted Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2016-09 — In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, Compensation — Stock Compensation — Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, the accounting for forfeitures, the classification of awards as either equity or liabilities, and the classification of certain share-based payment transactions on the statement of cash flows. We adopted this ASU effective January 1, 2017, and it has been applied in accordance with the transition methods specified in the guidance. As permitted by the standard, we have not changed our accounting policy for forfeitures of share-based awards and will continue estimating forfeitures when determining compensation cost to be recognized over the vesting period. The presentation of excess tax benefits of share-based awards on the statement of cash flows has been applied prospectively; therefore, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. In addition, we are now recording on a prospective basis excess tax benefits and tax deficiencies related to share-based payments within the provision for income taxes on the statement of operations rather than on the consolidated balance sheet within additional paid-in capital.

ASU No. 2015-17 — In November 2015, the FASB issued ASU No. 2015-17, Income Taxes — Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes and requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments eliminate the guidance in Accounting Standards Codification ("ASC") Topic 740 that requires an entity to separate deferred tax liabilities and

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assets into a current amount and a noncurrent amount in a classified statement of financial position. We adopted this ASU on a prospective basis effective January 1, 2017.

Recently Issued Accounting Pronouncements

Effective in 2018

ASU No. 2017-09 — In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. The new guidance is intended to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1) The fair value (or calculated value or intrinsic value) of the modified award is the same as the fair value (or calculated value or intrinsic value) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, 2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, and 3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. This guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The amendments should be applied prospectively to an award modified on or after the adoption date. We do not intend to early adopt this ASU. We are currently evaluating the effect that the adoption of this standard will have on the presentation of our financial statements.

ASU No. 2017-07 — In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new guidance is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) are to be reported separately and outside a subtotal of operating income, if one is presented. Currently, we record all components of net periodic benefit cost on the same line item as the employees' respective compensation expense. Beginning in the first quarter of 2018, we will be required to present net periodic cost for pension and postretirement benefits in accordance with the new guidance described above. For public companies, this guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The amendment should be applied on a retrospective basis. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. We do not intend to early adopt this ASU. We are currently evaluating the effect that the adoption of this standard will have on the presentation of our financial statements.

ASU No. 2017-03 — In January 2017, the FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections and Investments — Equity Method and Joint Ventures: Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force ("EITF") Meetings. The new guidance is intended to provide clarity in relation to the disclosure of the impact that ASU 2014-09 and ASU 2016-02, which are described below, will have on our financial statements when adopted. The effective date for this guidance is the same as the effective date for ASU 2014-09 and ASU 2016-02. We are currently evaluating the effect that the adoption of this standard will have on our financial statements.

ASU No. 2017-01 — In January 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business. The new guidance clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective date. Early application of the amendments is allowed with certain restrictions. We do not expect the adoption of ASU 2017-01 to have a material impact on our financial statements and will prospectively apply the guidance to applicable transactions.

ASU No. 2016-16 — In October 2016, the FASB issued ASU No. 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 reduces complexity by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer (other than inventory) when the transfer occurs. The new guidance is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the effect that the adoption of this standard will have on our financial statements.

ASU No. 2016-15 — In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for all entities, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. We do not expect the adoption of ASU 2016-15 to have a material impact on our financial statements.

ASU No. 2016-01 — In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Liabilities. ASU 2016-01 supersedes existing guidance to classify equity securities with readily determinable fair values into different categories and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this amended guidance. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this ASU should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the ASU. Early application of certain amendments in this standard to financial statements of fiscal years and interim periods that have not yet been issued is permitted as of the beginning of the fiscal year of adoption. Except for the early application of certain amendments discussed above, early adoption of the standard is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our financial statements.

ASU No. 2014-09 — In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. Additionally, the new standard requires enhanced disclosures, including information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. On August 12, 2015, the FASB approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new standard as of the original effective date. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which clarifies narrow aspects of ASC 606 or corrects unintended application of the guidance. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements for ASU 2014-09.

We are currently evaluating the overall impact this guidance will have on our consolidated financial statements. We have formed a steering committee comprised of subject matter experts within the Company to help assess the impact the guidance may have on the classification of bulk cream sales, which are currently presented as a reduction to cost of sales within our unaudited Condensed Consolidated Statements of Operations as we believe this presentation allows us to report our true cost of fluid milk production. The steering committee is in the process of gathering and evaluating quantitative and qualitative information with respect to the Company's bulk cream sales, which will assist in informing our conclusion with respect to the appropriate income statement presentation of such amounts under ASU 2014-09. Our assessment is ongoing and no final determinations have been made at this time.

Additionally, our evaluation includes the impact of the new standard on certain common practices currently employed by us and by other manufacturers of consumer products, such as slotting fees, co-operative advertising, rebates and other pricing allowances, merchandising funds and consumer coupons. We currently expect to adopt the ASU consistent with the deferred mandatory effective date of January 1, 2018 and to utilize the modified retrospective transition method, which would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the standard to contracts in process as of the adoption date. Under this method, we would not restate the prior financial statements presented; however, we would be required to provide

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additional disclosures of the amount by which each financial statement line item is affected in the current reporting period during 2018, as compared to the prior guidance. Based on our findings to date, we do not expect the standard to have a material impact on our results of operations or financial position; however, our assessment is not yet complete. Throughout the remainder of 2017, we plan to finalize our review and method of adoption.

Effective in 2019

ASU No. 2016-02 — In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities in the balance sheet and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. The amended guidance will require both operating and finance leases to be recognized in the balance sheet. Additionally, the amended guidance aligns lessor accounting to comparable guidance in ASC Topic 606, Revenue from Contracts with Customers. The amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be adopted using a modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. We do not intend to early adopt this ASU. We anticipate the impact of this standard to be significant to our Consolidated Balance Sheet due to the amount of our lease commitments. See Note 17 to the Consolidated Financial Statements contained in our 2016 Annual Report on Form 10-K for further information regarding these commitments. We are currently evaluating the other impacts that ASU 2016-02 will have on our consolidated financial statements.

Effective in 2020

ASU No. 2017-04 — In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment. The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds a reporting unit’s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. For public companies, this guidance is effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not intend to early adopt this ASU. We do not expect the adoption of ASU 2017-04 to have a material impact on our financial statements.

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2. Acquisitions and Investments in Unconsolidated Affiliates

Acquisitions

Uncle Matt's Organic — On June 22, 2017, we completed the acquisition of Uncle Matt's Organic, Inc. ("Uncle Matt's"). Uncle Matt's is a leading organic juice company offering a wide range of organic juices, including probiotic-infused juices and fruit-infused waters. The total purchase price was $22.0 million. Assets acquired and liabilities assumed in connection with the acquisition have been recorded at their fair values and include identifiable intangible assets of $8.4 million, of which $6.6 million relates to an indefinite-lived trademark and $1.8 million relates to customer relationships that are subject to amortization over a period of 10 years.

We recorded goodwill of $13.4 million in connection with the acquisition, which consists of the excess of the net purchase price over the fair value of the net assets acquired. This goodwill represents the expected value attributable to our expansion into the organic juice category. The goodwill is not deductible for tax purposes.

The acquisition was funded through a combination of cash on hand and borrowings under our receivables securitization facility. The values reflected above may change as we finalize our assessment of the acquired assets and liabilities. A change in these valuations may also impact the income tax related accounts and goodwill. The pro forma impact of the acquisition on consolidated net earnings would not have materially changed reported net earnings. Uncle Matt's results of operations will be included in our Consolidated Statements of Operations from the date of acquisition.

Friendly's — On June 20, 2016, we completed the acquisition of Friendly’s Ice Cream Holdings Corp. (“Friendly’s Holdings”), including its wholly-owned subsidiary, Friendly’s Manufacturing and Retail, LLC (“Friendly’s Manufacturing,” and together with Friendly’s Holdings, “Friendly’s”), the Friendly's® trademark and all intellectual property associated with the ice cream business. Friendly’s develops, produces, manufactures, markets, distributes and sells ice cream and other frozen dessert-related products, as well as toppings. The total purchase price was $158.2 million. Assets acquired and liabilities assumed in connection with the acquisition have been recorded at their fair values and include identifiable intangible assets of $81.7 million, of which $29.7 million relates to customer relationships that are subject to amortization over a period of 15 years. Additionally, we assumed an unfavorable lease contract with a fair value of $5.4 million, which will be amortized as a reduction of rent expense over the term of the lease agreement.

We recorded goodwill of $67.3 million in connection with the acquisition, which consists of the excess of the net purchase price over the fair value of the net assets acquired. This goodwill represents the expected value attributable to an anticipated increased competitive position in the ice cream market in the Northeastern United States. The goodwill is not deductible for tax purposes.

The acquisition was funded through a combination of cash on hand and borrowings under our senior secured revolving credit facility and receivables securitization facility. Friendly's results of operations have been included in our unaudited Condensed Consolidated Statements of Operations from the date of acquisition. The purchase accounting and the final fair value assessments are complete.

Investment in Unconsolidated Affiliate

Good Karma — On May 4, 2017, we acquired a non-controlling interest in, and entered into a distribution agreement with, Good Karma Foods, Inc. (“Good Karma”), the leading producer of flax-based milk and yogurt products. This investment allows us to diversify our portfolio to include plant-based dairy alternatives and provides Good Karma the ability to more rapidly expand distribution across the U.S., as well as increase investments in brand building and product innovation. We do not expect our equity in the earnings of this investment to materially impact our consolidated financial statements. We are accounting for this investment under the equity method of accounting based upon our ability to exercise significant influence over the investee through our ownership interest and representation on Good Karma's board of directors.

3. Inventories

Inventories at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
	(In thousands)	

Raw materials and supplies	$110,616	$110,095
Finished goods	176,606	174,389
Total	$287,222	$284,484

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4. Goodwill and Intangible Assets

As of June 30, 2017, the gross carrying value of goodwill was $2.24 billion and accumulated goodwill impairment was $2.08 billion. We recorded a goodwill impairment charge of $2.08 billion in 2011 with no goodwill impairment charges in subsequent years.

The changes in the net carrying amounts of goodwill as of June 30, 2017 and December 31, 2016 were as follows (in thousands):

Balance at December 31, 2016	$154,112
Acquisitions (Note 2)	13,423
Balance at June 30, 2017	$167,535

The net carrying amounts of our intangible assets other than goodwill as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017				December 31, 2016			
	Acquisition Costs(1)	Impairment	Accumulated Amortization	Net Carrying Amount	Acquisition Costs	Impairment	Accumulated Amortization	Net Carrying Amount
	(In thousands)							
Intangible assets with indefinite lives:								
Trademarks	$58,600	$—	$—	$58,600	$52,000	$—	$—	$52,000
Intangible assets with finite lives:								
Customer-related and other	80,685	—	(39,211)	41,474	78,925	—	(37,050)	41,875
Trademarks	230,709	(109,910)	(49,973)	70,826	229,777	(109,910)	(41,824)	78,043
Total	$369,994	$(109,910)	$(89,184)	$170,900	$360,702	$(109,910)	$(78,874)	$171,918

(1) The increase in the carrying amount of intangible assets from December 31, 2016 to June 30, 2017 is related in part to an indefinite-lived trademark of $6.6 million and a finite-lived customer-related intangible of $1.8 million we recorded as a part of the Uncle Matt's acquisition. See Note 2. Additionally, we acquired a finite-lived trademark of a regional artisan ice cream brand for $0.9 million during the period.

Our trademark values will be amortized on a straight-line basis over their remaining useful lives, which range from approximately 3 to 9 years. Amortization expense on intangible assets for the three months ended June 30, 2017 and 2016 was $5.2 million and $4.1 million, respectively. Amortization expense on intangible assets for the six months ended June 30, 2017 and 2016 was $10.3 million and $10.4 million, respectively. The amortization of intangible assets is reported on a separate line item in our unaudited Condensed Consolidated Statements of Operations.

Estimated aggregate intangible asset amortization expense for the next five years is as follows (in millions):

2017	$20.7
2018	20.3
2019	20.3
2020	12.2
2021	10.5

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5. Debt

Our long-term debt as of June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017			December 31, 2016		
	Amount	Interest Rate		Amount	Interest Rate	
	(In thousands, except percentages)					
Dean Foods Company debt obligations:						
Senior secured revolving credit facility	$1,300	3.06	% *	$9,100	2.94	% *
Senior notes due 2023	700,000	6.50		700,000	6.50	
	701,300			709,100		
Subsidiary debt obligations:						
Senior notes due 2017	142,000	6.90		142,000	6.90	
Receivables securitization facility	65,000	2.18	*	40,000	1.87	*
Capital lease and other	3,148	—		3,980	—	
	210,148			185,980		
Subtotal	911,448			895,080		
Unamortized discounts and debt issuance costs	(7,150)			(9,029)		
Total debt	904,298			886,051		
Less current portion	(142,173)			(140,806)		
Total long-term portion	$762,125			$745,245		

* Represents a weighted average rate, including applicable interest rate margins.

The scheduled debt maturities at June 30, 2017 were as follows (in thousands):

2017	$142,457
2018	1,125
2019	1,174
2020	65,392
2021	—
Thereafter	701,300
Subtotal	911,448
Less unamortized discounts and debt issuance costs	(7,150)
Total debt	$904,298

Senior Secured Revolving Credit Facility — In March 2015, we entered into a credit agreement, as amended on January 4, 2017 and as described below (as amended, the "Credit Agreement") pursuant to which the lenders provided us with a senior secured revolving credit facility in the amount of up to $450 million (the “Credit Facility”). Under the Credit Agreement, we have the right to request an increase of the aggregate commitments under the Credit Facility by up to $200 million, which we may request to be made available as either term loans or revolving loans, without the consent of any lenders not participating in such increase, subject to specified conditions. The Credit Facility is available for the issuance of up to $75 million of letters of credit and up to $100 million of swing line loans.

On January 4, 2017, we amended the Credit Agreement to, among other things, (i) extend the maturity date of the Credit Facility to January 4, 2022; (ii) modify the leverage ratio covenant to add a requirement that we comply with a maximum total net leverage ratio (which, for purposes of calculating indebtedness, excludes borrowings under our receivables securitization facility) not to exceed 4.25 to 1.00 and to eliminate the maximum senior secured net leverage ratio requirement; (iii) modify the definition of “Consolidated EBITDA” to permit certain pro forma cost savings add-backs in connection with permitted acquisitions and dispositions; (iv) modify the definition of “Applicable Rate” to reduce the interest rate margins such that loans outstanding under the Credit Facility will bear interest, at our option, at either (x) the LIBO Rate (as defined in the Credit Agreement) plus a

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margin of between 1.75% and 2.50% (2.00% as of June 30, 2017) based on our total net leverage ratio, or (y) the Alternate Base Rate (as defined in the Credit Agreement) plus a margin of between 0.75% and 1.50% (1.00% as of June 30, 2017) based on our total net leverage ratio; (v) modify certain negative covenants to provide additional flexibility for the incurrence of debt, the payment of dividends and the making of certain permitted acquisitions and other investments; (vi) eliminate and release all real property as collateral for loans under the Credit Facility; and (vii) provide the Company the ability to request that increases in the aggregate commitments under the Credit Facility be made available as either revolving loans or term loans.

In connection with the execution of the amendment to the Credit Agreement, we paid certain arrangement fees of approximately $0.7 million to lenders and other fees of approximately $0.3 million, which were capitalized and will be amortized to interest expense over the remaining term of the facility. Additionally, we wrote off $0.9 million of unamortized deferred financing costs in connection with this amendment.

We may make optional prepayments of loans under the Credit Facility, in whole or in part, without premium or penalty (other than applicable breakage costs). Subject to certain exceptions and conditions described in the Credit Agreement, we will be obligated to prepay the Credit Facility, but without a corresponding commitment reduction, with the net cash proceeds of certain asset sales and with casualty insurance proceeds. The Credit Facility is guaranteed by our existing and future domestic material restricted subsidiaries (as defined in the Credit Agreement), which are substantially all of our wholly-owned U.S. subsidiaries other than the receivables securitization facility subsidiaries (the “Guarantors”).

The Credit Facility is secured by a first priority perfected security interest in substantially all of our assets and the assets of the Guarantors, whether consisting of personal, tangible or intangible property, including a pledge of, and a perfected security interest in, (i) all of the shares of capital stock of the Guarantors and (ii) 65% of the shares of capital stock of our and the Guarantors' first-tier foreign subsidiaries that are material restricted subsidiaries, in each case subject to certain exceptions as set forth in the Credit Agreement. The collateral does not include, among other things, (a) any of our real property, (b) the capital stock and any assets of any unrestricted subsidiary, (c) any capital stock of any direct or indirect subsidiary of Dean Holding Company ("Legacy Dean"), a wholly owned subsidiary of the Company, which owns any real property, or (d) receivables sold pursuant to the receivables securitization facility.

The Credit Agreement contains customary representations, warranties and covenants, including, but not limited to specified restrictions on indebtedness, liens, guarantee obligations, mergers, acquisitions, consolidations, liquidations and dissolutions, sales of assets, leases, payment of dividends and other restricted payments during a default or non-compliance with the financial covenants, investments, loans and advances, transactions with affiliates and sale and leaseback transactions. The Credit Agreement also contains customary events of default and related cure provisions. We are required to comply with (a) a maximum total net leverage ratio of 4.25x (which, for purposes of calculating indebtedness, excludes borrowings under our receivables securitization facility); and (b) a minimum consolidated interest coverage ratio of 2.25x. In addition, the Credit Agreement imposes certain restrictions on our ability to pay dividends and make other restricted payments if our total net leverage ratio (including borrowings under our receivables securitization facility) is in excess of 3.50x.

At June 30, 2017, we had outstanding borrowings of $1.3 million under the Credit Facility. Our average daily balance under the Credit Facility during the six months ended June 30, 2017 was $1.7 million. There were no letters of credit issued under the Credit Facility as of June 30, 2017.

Dean Foods Receivables Securitization Facility — We have a $450 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to two wholly-owned entities intended to be bankruptcy-remote. The entities then transfer the receivables to third-party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these two entities are fully reflected in our unaudited Condensed Consolidated Balance Sheets, and the securitization is treated as a borrowing for accounting purposes.

On January 4, 2017, we amended the purchase agreement governing the receivables securitization facility to, among other things, (i) extend the liquidity termination date to January 4, 2020, (ii) reduce the maximum size of the receivables securitization facility to $450 million, (iii) replace the senior secured net leverage ratio with a total net leverage ratio to be consistent with the amended leverage ratio covenant under the amended Credit Agreement described above, and (iv) modify certain pricing terms such that advances outstanding under the receivables securitization facility will bear interest between 0.90% and 1.05%, and the Company will pay an unused fee between 0.40% and 0.55% on undrawn amounts, in each case based on the Company's total net leverage ratio.

In connection with the amendment to the receivables purchase agreement, we paid certain arrangement fees of approximately $0.6 million to lenders and other fees of approximately $0.1 million, which were capitalized and will be amortized to interest expense over the remaining term of the facility. Additionally, we wrote off $0.2 million of unamortized deferred financing costs in connection with the amendment.

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The receivables purchase agreement contains covenants consistent with those contained in the Credit Agreement. Based on the monthly borrowing base formula, we had the ability to borrow up to $448.4 million of the total commitment amount under the receivables securitization facility as of June 30, 2017. The total amount of receivables sold to these entities as of June 30, 2017 was $561.5 million. During the first six months of 2017, we borrowed $1.1 billion and repaid $1.1 billion under the facility with a remaining balance of $65.0 million as of June 30, 2017. In addition to letters of credit in the aggregate amount of $117.2 million that were issued but undrawn, the remaining available borrowing capacity was $266.2 million at June 30, 2017. Our average daily balance under this facility during the six months ended June 30, 2017 was $44.2 million. The receivables securitization facility bears interest at a variable rate based upon commercial paper and one-month LIBO rates plus an applicable margin based on our total net leverage ratio.

Dean Foods Company Senior Notes due 2023 — On February 25, 2015, we issued $700 million in aggregate principal amount of 6.50% senior notes due 2023 (the “2023 Notes”) at an issue price of 100% of the principal amount of the 2023 Notes in a private placement for resale to “qualified institutional buyers” as defined in Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and in offshore transactions pursuant to Regulation S under the Securities Act.

In connection with the issuance of the 2023 Notes, we paid certain arrangement fees of approximately $7.0 million to initial purchasers and other fees of approximately $1.8 million, which were deferred and netted against the outstanding debt balance, and will be amortized to interest expense over the remaining term of the 2023 Notes.

The 2023 Notes are our senior unsecured obligations. Accordingly, the 2023 Notes rank equally in right of payment with all of our existing and future senior obligations and are effectively subordinated in right of payment to all of our existing and future secured obligations, including obligations under our Credit Facility and receivables securitization facility, to the extent of the value of the collateral securing such obligations. The 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by our subsidiaries that guarantee obligations under the Credit Facility.

The 2023 Notes will mature on March 15, 2023 and bear interest at an annual rate of 6.50%. Interest on the 2023 Notes is payable semi-annually in arrears in March and September of each year.

We may, at our option, redeem all or a portion of the 2023 Notes at any time on or after March 15, 2018 at the applicable redemption prices specified in the indenture governing the 2023 Notes (the "Indenture"), plus any accrued and unpaid interest to, but excluding, the applicable redemption date. We are also entitled to redeem up to 40% of the aggregate principal amount of the 2023 Notes before March 15, 2018 with the net cash proceeds that we receive from certain equity offerings at a redemption price equal to 106.5% of the principal amount of the 2023 Notes, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. In addition, prior to March 15, 2018, we may redeem all or a portion of the 2023 Notes, at a redemption price equal to 100% of the principal amount thereof, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. If we undergo certain kinds of changes of control, holders of the 2023 Notes have the right to require us to repurchase all or any portion of such holder’s 2023 Notes at 101% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but excluding, the date of repurchase.

The Indenture contains covenants that, among other things, limit our ability to: (i) create certain liens; (ii) enter into sale and lease-back transactions; (iii) assume, incur or guarantee indebtedness for borrowed money that is secured by a lien on certain principal properties (or on any shares of capital stock of our subsidiaries that own such principal properties) without securing the 2023 Notes on a pari passu basis; and (iv) consolidate with or merge with or into, or sell, transfer, convey or lease all or substantially all of our properties and assets, taken as a whole, to another person.

The carrying value under the 2023 Notes at June 30, 2017 was $693.8 million, net of unamortized debt issuance costs of $6.2 million.

Subsidiary Senior Notes due 2017 — Legacy Dean had certain senior notes outstanding at the time of its acquisition, of which one series remains outstanding ($142 million aggregate principal amount) and matures on October 15, 2017. The carrying value under these notes at June 30, 2017 was $141.1 million, net of unamortized discounts of $0.9 million, at 6.90% interest. The indenture governing the Legacy Dean senior notes does not contain financial covenants but does contain certain restrictions, including a prohibition against Legacy Dean and its subsidiaries granting liens on certain of their real property interests and a prohibition against Legacy Dean granting liens on the stock of its subsidiaries. The Legacy Dean senior notes are not guaranteed by Dean Foods Company or Legacy Dean's wholly-owned subsidiaries.

See Note 6 for information regarding the fair value of the 2023 Notes and the subsidiary senior notes due 2017 as of June 30, 2017.

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Capital Lease Obligations and Other — Capital lease obligations of $3.1 million and $4.0 million as of June 30, 2017 and December 31, 2016, respectively, were primarily comprised of our leases for information technology equipment.

6. Derivative Financial Instruments and Fair Value Measurements

Derivative Financial Instruments

Commodities — We are exposed to commodity price fluctuations, including in the prices of milk, butterfat, sweeteners and other commodities used in the manufacturing, packaging and distribution of our products, such as natural gas, resin and diesel fuel. To secure adequate supplies of materials and bring greater stability to the cost of ingredients and their related manufacturing, packaging and distribution, we routinely enter into forward purchase contracts and other purchase arrangements with suppliers. Under the forward purchase contracts, we commit to purchasing agreed-upon quantities of ingredients and commodities at agreed-upon prices at specified future dates. The outstanding purchase commitment for these commodities at any point in time typically ranges from one month's to one year's anticipated requirements, depending on the ingredient or commodity. These contracts are considered normal purchases.

In addition to entering into forward purchase contracts, from time to time we may purchase over-the-counter contracts from qualified financial institutions or enter into exchange-traded commodity futures contracts for raw materials that are ingredients of our products or components of such ingredients. All commodities contracts are marked to market in our income statement at each reporting period and a derivative asset or liability is recorded on our balance sheet. Although we may utilize forward purchase contracts and other instruments to mitigate the risks related to commodity price fluctuation, such strategies do not fully mitigate commodity price risk. Adverse movements in commodity prices over the terms of the contracts or instruments could decrease the economic benefits we derive from these strategies. At June 30, 2017 and December 31, 2016, our derivatives recorded at fair value in our unaudited Condensed Consolidated Balance Sheets consisted of the following:

	Derivative Assets		Derivative Liabilities	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	(In thousands)			
Commodities contracts — current(1)	$6,945	$ 2,416	$2,037	$ 12
Commodities contracts — non-current(2)	1	—	10	—
Total derivatives	$6,946	$ 2,416	$2,047	$ 12

(1) Derivative assets and liabilities that have settlement dates equal to or less than 12 months from the respective balance sheet date are included in prepaid expenses and other current assets and accounts payable and accrued expenses, respectively, in our unaudited Condensed Consolidated Balance Sheets.

(2) Derivative assets and liabilities that have settlement dates greater than 12 months from the respective balance sheet date are included in identifiable intangible and other assets, net and other long-term liabilities, respectively, in our unaudited Condensed Consolidated Balance Sheets.

Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, we follow a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
- Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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A summary of our derivative assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 is as follows (in thousands):

	Fair Value as of June 30, 2017	Level 1	Level 2	Level 3
Asset — Commodities contracts	$6,946	$ —	$6,946	$ —
Liability — Commodities contracts	2,047	—	2,047	—

A summary of our derivative assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 is as follows (in thousands):

	Fair Value as of December 31, 2016	Level 1	Level 2	Level 3
Asset — Commodities contracts	$ 2,416	$ —	$2,416	$ —
Liability — Commodities contracts	12	—	12	—

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. In addition, because the interest rates on our Credit Facility, receivables securitization facility, and certain other debt are variable, their fair values approximate their carrying values.

The fair values of the 2023 Notes and subsidiary senior notes were determined based on quoted market prices obtained through an external pricing source which derives its price valuations from daily marketplace transactions, with adjustments to reflect the spreads of benchmark bonds, credit risk and certain other variables. We have determined these fair values to be Level 2 measurements as all significant inputs into the quotes provided by our pricing source are observable in active markets. The following table presents the outstanding principal amounts and fair values of the 2023 Notes and subsidiary senior notes at June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Amount Outstanding	Fair Value	Amount Outstanding	Fair Value
	(In thousands)			
Dean Foods Company senior notes due 2023	$700,000	$736,750	$700,000	$736,750
Subsidiary senior notes due 2017	142,000	143,775	142,000	146,615

Additionally, we maintain a Supplemental Executive Retirement Plan ("SERP"), which is a nonqualified deferred compensation arrangement for our executive officers and other employees earning compensation in excess of the maximum compensation that can be taken into account with respect to our 401(k) plan. The SERP is designed to provide these employees with retirement benefits from us that are equivalent, as a percentage of total compensation, to the benefits provided to other employees. The assets related to the SERP are primarily invested in money market and mutual funds and are held at fair value. We classify these assets as Level 2 as fair value can be corroborated based on quoted market prices for identical or similar instruments in markets that are not active. The following table presents a summary of the SERP assets measured at fair value on a recurring basis as of June 30, 2017 (in thousands):

	Total	Level 1	Level 2	Level 3
Money market	$ 24	$ —	$ 24	$ —
Mutual funds	1,754	—	1,754	—

The following table presents a summary of the SERP assets measured at fair value on a recurring basis as of December 31, 2016 (in thousands):

	Total	Level 1	Level 2	Level 3

Money market	$ 27	$ —	$ 27	$ —
Mutual funds	1,673	—	1,673	—

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7. Common Stock and Share-Based Compensation

Our authorized shares of capital stock include one million shares of preferred stock and 250 million shares of common stock with a par value of $0.01 per share.

Cash Dividends — In November 2013, we announced that our Board of Directors had adopted a cash dividend policy. Under the policy, holders of our common stock will receive dividends when and as declared by our Board of Directors. Beginning in 2015, all awards of restricted stock units, performance stock units and phantom shares provide for cash dividend equivalent units, which vest in cash at the same time as the underlying award. Quarterly dividends of $0.09 per share were paid in March and June of 2017 and 2016, totaling approximately $16.4 million and $16.5 million for the first six months of 2017 and 2016, respectively. We expect to pay quarterly dividends of $0.09 per share ($0.36 per share annually) for the remainder of 2017. Our cash dividend policy is subject to modification, suspension or cancellation in any manner and at any time. Dividends are presented as a reduction to retained earnings in our unaudited Condensed Consolidated Statement of Stockholders' Equity unless we have an accumulated deficit as of the end of the period, in which case they are reflected as a reduction to additional paid-in capital.

Stock Repurchase Program — Since 1998, our Board of Directors has from time to time authorized the repurchase of our common stock up to an aggregate of $2.38 billion, excluding fees and commissions. We made no share repurchases during the three and six months ended June 30, 2017. We repurchased 1,371,185 shares for $25.0 million during the three and six months ended June 30, 2016. As of June 30, 2017, $197.1 million remained available for repurchases under this program (excluding fees and commissions). Our management is authorized to purchase shares from time to time through open market transactions at prevailing prices or in privately-negotiated transactions, subject to market conditions and other factors. Shares, when repurchased, are retired.

Restricted Stock Units — We issue restricted stock units ("RSUs") to certain senior employees and non-employee directors as part of our long-term incentive compensation program. An RSU represents the right to receive one share of common stock in the future. RSUs have no exercise price. RSUs granted to employees generally vest ratably over three years, subject to certain accelerated vesting provisions based primarily on a change of control, or in certain cases upon death or qualified disability. RSUs granted to non-employee directors vest ratably over three years.

The following table summarizes RSU activity during the six months ended June 30, 2017:

	Employees	Non-Employee Directors	Total
RSUs outstanding at January 1, 2017	872,785	80,207	952,992
RSUs granted	395,097	45,528	440,625
Shares issued upon vesting of RSUs	(221,992)	(37,204)	(259,196)
RSUs canceled or forfeited(1)	(296,696)	(2,112)	(298,808)
RSUs outstanding at June 30, 2017	749,194	86,419	835,613
Weighted average grant date fair value	$ 17.91	$ 18.46	$ 17.97

(1) Pursuant to the terms of our plans, employees have the option of forfeiting RSUs to cover their minimum statutory tax withholding when shares are issued. Any RSUs surrendered or canceled in satisfaction of participants' tax withholding obligations are not available for future grants under the plans.

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Performance Stock Units — Beginning in 2016, performance share units ("PSUs") were granted as part of our long-term incentive compensation program. PSUs will cliff vest and be settled in shares of our common stock at the end of a three-year performance period contingent upon the achievement of specific performance goals established for each calendar year during the respective performance periods. The number of shares that may be earned at the end of the vesting period may range from zero to 200 percent of the target award amount based on the achievement of the performance goals. The fair value of PSUs is estimated using the market price of our common stock on the date of grant, and we recognize compensation expense ratably over the vesting period for the portion of the awards that are expected to vest. The following table summarizes PSU activity during the six months ended June 30, 2017:

	PSUs	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	90,583	$ 19.13
Granted	158,402	18.84
Vested	—	—
Forfeited or canceled	(81,217)	19.29
Outstanding at June 30, 2017	167,768	$ 18.78

Phantom Shares — We grant phantom shares as part of our long-term incentive compensation program, which are similar to RSUs in that they are based on the price of our stock and vest ratably over a three-year period, but are cash-settled based upon the value of our stock at each vesting date. The fair value of the awards is remeasured at each reporting period. Compensation expense is recognized over the vesting period with a corresponding liability, which is recorded in accounts payable and accrued expenses in our unaudited Condensed Consolidated Balance Sheets. The following table summarizes the phantom share activity during the six months ended June 30, 2017:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	1,361,062	$ 17.78
Granted	767,521	18.47
Converted/paid	(600,346)	17.00
Forfeited	(140,783)	18.27
Outstanding at June 30, 2017	1,387,454	$ 18.45

Stock Options — The following table summarizes stock option activity during the six months ended June 30, 2017:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding and exercisable at January 1, 2017	2,038,829	$ 19.78		
Forfeited and canceled	(557,329)	26.18		
Exercised	(49,879)	15.12		
Options outstanding and exercisable at June 30, 2017	1,431,621	$ 17.45	1.15	$2,709,128

We recognize share-based compensation expense for stock options ratably over the vesting period. The fair value of each option award is estimated on the date of grant using a Black-Scholes valuation model. We did not grant any stock options during 2016 or 2017, nor do we currently plan to in the future. At June 30, 2017, there was no remaining unrecognized stock option expense related to unvested awards.

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Share-Based Compensation Expense — The following table summarizes the share-based compensation expense recognized during the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
RSUs	$1,046	$2,068	$2,654	$3,437
PSUs	(1,051)	451	(551)	839
Phantom shares	2,707	3,210	4,556	7,521
Total	$2,702	$5,729	$6,659	$11,797

8. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is based on the weighted average number of common shares outstanding during each period. Diluted EPS is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents outstanding during each period. The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In thousands, except share data)			
Basic earnings (loss) per share computation:				
Numerator:				
Income	$17,647	$33,371	$7,888	$ 72,572
Denominator:				
Average common shares	90,882,415	91,244,745	90,796,585	91,406,969
Basic earnings per share	$0.19	$0.37	$0.09	$ 0.79
Diluted earnings (loss) per share computation:				
Numerator:				
Income	$17,647	$33,371	$7,888	$ 72,572
Denominator:				
Average common shares — basic	90,882,415	91,244,745	90,796,585	91,406,969
Stock option conversion(1)	220,318	232,113	232,495	258,164
RSUs and PSUs(2)	266,297	202,955	336,866	329,945
Average common shares — diluted	91,369,030	91,679,813	91,365,946	91,995,078
Diluted earnings per share	$0.19	$0.36	$0.09	$ 0.79
(1) Anti-dilutive options excluded	655,700	1,282,259	776,710	1,349,300
(2) Anti-dilutive stock units excluded	8,959	5,911	4,504	—

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9. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, during the three months ended June 30, 2017 were as follows (in thousands):

	Pension and Other Postretirement Benefits Items	Foreign Currency Items	Total
Balance at March 31, 2017	$ (83,208)	$ (4,781)	$ (87,989)
Other comprehensive income before reclassifications	3,278	—	3,278
Amounts reclassified from accumulated other comprehensive income(1)	(1,646)	—	(1,646)
Net current-period other comprehensive income	1,632	—	1,632
Balance at June 30, 2017	$ (81,576)	$ (4,781)	$ (86,357)

(1) The accumulated other comprehensive loss reclassification is related to amortization of unrecognized actuarial losses and prior service costs, both of which are included in the computation of net periodic benefit cost. See Note 10.

The changes in accumulated other comprehensive income (loss) by component, net of tax, during the three months ended June 30, 2016 were as follows (in thousands):

	Pension and Other Postretirement Benefits Items	Foreign Currency Items	Total
Balance at March 31, 2016	$ (81,794)	$ (2,371)	$ (84,165)
Other comprehensive income (loss) before reclassifications	3,015	(1,208)	1,807
Amounts reclassified from accumulated other comprehensive income(1)	(1,465)	—	(1,465)
Net current-period other comprehensive income (loss)	1,550	(1,208)	342
Balance at June 30, 2016	$ (80,244)	$ (3,579)	$ (83,823)

(1) The accumulated other comprehensive loss reclassification is related to amortization of unrecognized actuarial losses and prior service costs, both of which are included in the computation of net periodic benefit cost. See Note 10.

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The changes in accumulated other comprehensive income (loss) by component, net of tax, during the six months ended June 30, 2017 were as follows (in thousands):

	Pension and Other Postretirement Benefits Items	Foreign Currency Items	Total
Balance at December 31, 2016	$ (84,852)	$ (4,781)	$ (89,633)
Other comprehensive income before reclassifications	6,569	—	6,569
Amounts reclassified from accumulated other comprehensive income(1)	(3,293)	—	(3,293)
Net current-period other comprehensive income	3,276	—	3,276
Balance at June 30, 2017	$ (81,576)	$ (4,781)	$ (86,357)

(1) The accumulated other comprehensive loss reclassification is related to amortization of unrecognized actuarial losses and prior service costs, both of which are included in the computation of net periodic benefit cost. See Note 10.

The changes in accumulated other comprehensive income (loss) by component, net of tax, during the six months ended June 30, 2016 were as follows (in thousands):

	Pension and Other Postretirement Benefits Items	Foreign Currency Items	Total
Balance at December 31, 2015	$ (83,279)	$ (2,524)	$ (85,803)
Other comprehensive income (loss) before reclassifications	5,964	(1,055)	4,909
Amounts reclassified from accumulated other comprehensive income(1)	(2,929)	—	(2,929)
Net current-period other comprehensive income (loss)	3,035	(1,055)	1,980
Balance at June 30, 2016	$ (80,244)	$ (3,579)	$ (83,823)

(1) The accumulated other comprehensive loss reclassification is related to amortization of unrecognized actuarial losses and prior service costs, both of which are included in the computation of net periodic benefit cost. See Note 10.

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10. Employee Retirement and Postretirement Benefits

We sponsor various defined benefit and defined contribution retirement plans, including various employee savings and profit sharing plans, and contribute to various multiemployer pension plans on behalf of our employees. All full-time union and non-union employees who have met requirements pursuant to the plans are eligible to participate in one or more of these plans.

Defined Benefit Plans — The benefits under our defined benefit plans are based on years of service and employee compensation. The following table sets forth the components of net periodic benefit cost for our defined benefit plans during the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	$752	$793	$1,504	$1,586
Interest cost	2,927	3,043	5,854	6,086
Expected return on plan assets	(4,758)	(4,633)	(9,516)	(9,266)
Amortizations:				
Prior service cost	176	214	352	428
Unrecognized net loss	2,581	2,206	5,162	4,412
Net periodic benefit cost	$1,678	$1,623	$3,356	$3,246

On April 3, 2017, we made a discretionary contribution of $38.5 million to our company-sponsored pension plans. We expect to contribute an additional $0.8 million to the company-sponsored pension plans during the remainder of 2017.

Postretirement Benefits — Certain of our subsidiaries provide health care benefits to certain retirees who are covered under specific group contracts. The following table sets forth the components of net periodic benefit cost for our postretirement benefit plans during the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	$146	$160	$292	$320
Interest cost	240	271	480	542
Amortizations:				
Prior service cost	23	23	46	46
Unrecognized net gain	(114)	(61)	(228)	(122)
Net periodic benefit cost	$295	$393	$590	$786

11. Asset Impairment Charges and Facility Closing and Reorganization Costs

Asset Impairment Charges

We evaluate our finite-lived intangible and long-lived assets for impairment when circumstances indicate that the carrying value may not be recoverable. Indicators of impairment could include, among other factors, significant changes in the business environment or the planned closure of a facility. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows.

Testing the assets for recoverability involves developing estimates of future cash flows directly associated with, and that are expected to arise as a direct result of, the use and eventual disposition of the assets. Other inputs are based on assessment of an individual asset's alternative use within other production facilities, evaluation of recent market data and historical liquidation sales values for similar assets. As the inputs for testing recoverability are largely based on management's judgments and are not generally observable in active markets, we consider such measurements to be

Level 3 measurements in the fair value hierarchy. See Note 6.

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The results of our analysis indicated no impairment of our property, plant and equipment, outside of facility closing and reorganization costs, for the three and six months ended June 30, 2017 and 2016. We can provide no assurance that we will not have impairment charges in future periods as a result of changes in our business environment, operating results or the assumptions and estimates utilized in our impairment tests.

Facility Closing and Reorganization Costs

Costs associated with approved plans within our ongoing network optimization strategies are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
Closure of facilities, net(1)	$4,203	$(1,400)	$7,689	$(234)
Organizational Effectiveness(2)	1,614	—	7,414	—
Facility closing and reorganization costs, net	$5,817	$(1,400)	$15,103	$(234)

(1) Reflects charges, net of gains on the sales of assets, associated with closed facilities that were incurred in 2017 and 2016. These charges are primarily related to facility closures in Orem, Utah; New Orleans, Louisiana; Rochester, Indiana; Riverside, California; Delta, Colorado; Denver, Colorado; Springfield, Virginia; Buena Park, California; and Sheboygan, Wisconsin, as well as other approved closures that have not yet been announced. We have incurred net charges to date of $57.5 million related to these facility closures through June 30, 2017. We expect to incur additional charges related to these facility closures of approximately $6.9 million related to shutdown, contract termination and other costs. As we continue the evaluation of our supply chain and distribution network, it is likely that we will close additional facilities in the future.

(2) During the first six months of 2017, we embarked on a company-wide, multi-phase organizational effectiveness initiative to better align each key function of the Company with our strategic plan. This initiative has resulted in headcount reductions due to changes to our organizational structure, and the charges shown in the table above are primarily comprised of severance benefits and other employee-related costs associated with these organizational changes. Efforts with respect to our organizational effectiveness initiative are ongoing and we expect that we will incur additional costs in the coming months associated with the approval and implementation of additional phases of the plan; however, as specific details of these phases have not been finalized and approved, future costs are not yet estimable.

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Activity with respect to facility closing and reorganization costs during the six months ended June 30, 2017 is summarized below and includes items expensed as incurred:

	Accrued Charges at December 31, 2016	Charges and Adjustments	Payments	Accrued Charges at June 30, 2017
	(In thousands)			
Cash charges:				
Workforce reduction costs	$3,610	$ 7,464	$(3,572)	$7,502
Shutdown costs	—	2,557	(2,557)	—
Lease obligations after shutdown	3,932	166	(814)	3,284
Other	—	163	(163)	—
Subtotal	$7,542	10,350	$(7,106)	$10,786
Other charges:				
Write-down of assets(1)		4,678		
Loss on sale of related assets		67		
Other, net		8		
Subtotal		4,753		
Total		$ 15,103		

(1) The write-down of assets relates primarily to owned buildings, land and equipment of those facilities identified for closure. The assets were tested for recoverability at the time the decision to close the facilities was more likely than not to occur. Over time, refinements to our estimates used in testing for recoverability may result in additional asset write-downs. The write-down of assets can include accelerated depreciation recorded for those facilities identified for closure. Our methodology for testing the recoverability of the assets is consistent with the methodology described in the "Asset Impairment Charges" section above.

12. Commitments and Contingencies

Contingent Obligations Related to Divested Operations — We have divested certain businesses in recent years. In each case, we have retained certain known contingent obligations related to those businesses and/or assumed an obligation to indemnify the purchasers of the businesses for certain unknown contingent liabilities, including environmental liabilities. We believe that we have established adequate reserves, which are immaterial to the financial statements, for potential liabilities and indemnifications related to our divested businesses. Moreover, we do not expect any liability that we may have for these retained liabilities, or any indemnification liability, to materially exceed amounts accrued.

Contingent Obligations Related to Milk Supply Arrangements — On December 21, 2001, in connection with our acquisition of Legacy Dean, we purchased Dairy Farmers of America's ("DFA") 33.8% interest in our operations. In connection with that transaction, we issued a contingent, subordinated promissory note to DFA in the original principal amount of $40 million. The promissory note has a 20-year term that bears interest based on the consumer price index. Interest will not be paid in cash but will be added to the principal amount of the note annually, up to a maximum principal amount of $96 million. We may prepay the note in whole or in part at any time, without penalty. The note will become payable only if we materially breach or terminate one of our related milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire in 2021, without any obligation to pay any portion of the principal or interest. Payments made under the note, if any, would be expensed as incurred. We have not terminated, and we have not materially breached, any of our milk supply agreements with DFA related to the promissory note. We have previously terminated unrelated supply agreements with respect to several plants that were supplied by DFA. In connection with our continued focus on cost control and increased supply chain efficiency, we continue to evaluate our sources of raw milk supply.

Insurance — We use a combination of insurance and self-insurance for a number of risks, including property, workers' compensation, general liability, automobile liability, product liability and employee health care utilizing high deductibles. Deductibles vary due to insurance market conditions and risk. Liabilities associated with these risks are estimated considering historical claims experience and other actuarial assumptions. Based on current information, we believe that we have established adequate reserves to cover these claims.

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Lease and Purchase Obligations — We lease certain property, plant and equipment used in our operations under both capital and operating lease agreements. Such leases, which are primarily for machinery, equipment and vehicles, including our distribution fleet, have lease terms ranging from one to 20 years. Certain of the operating lease agreements require the payment of additional rentals for maintenance, along with additional rentals based on miles driven or units produced. Certain leases require us to guarantee a minimum value of the leased asset at the end of the lease. Our maximum exposure under those guarantees is not a material amount.

We have entered into various contracts, in the normal course of business, obligating us to purchase minimum quantities of raw materials used in our production and distribution processes, including conventional raw milk, diesel fuel, sugar and other ingredients that are inputs into our finished products. We enter into these contracts from time to time to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.

Litigation, Investigations and Audits — On August 9, 2007, two plaintiffs filed a putative class action antitrust complaint against Dean Foods and other milk processors in the United States District Court for the Eastern District of Tennessee. Plaintiffs alleged generally that we, either acting alone or in conjunction with others in the milk industry, lessened competition in the Southeastern United States for the sale of processed fluid Grade A milk to retail outlets and other customers. Plaintiffs further alleged that the defendants' conduct artificially inflated wholesale prices paid by direct milk purchasers. On January 25, 2016, the district court denied plaintiffs' motion for class certification. On February 8, 2016, plaintiffs filed a petition for permission to appeal the district court's order denying class certification. That petition was denied by the Sixth Circuit on June 14, 2016. Although the courts refused to certify the case as a class action, the two original plaintiffs decided to pursue their individual claims for damages. The case was scheduled for trial on March 28, 2017. Prior to trial, the plaintiffs agreed with us to settle the lawsuit. We agreed to pay settlements to the plaintiffs and the parties resolved all outstanding claims in the litigation and agreed to voluntarily dismiss the litigation. The litigation was dismissed on March 21, 2017 with respect to one plaintiff, and on March 26, 2017 with respect to the other plaintiff. We recorded a charge and a corresponding liability in connection with the settlements in the first quarter of 2017.

In addition to the legal proceeding described above, we are party from time to time to certain claims, litigations, audits and investigations. Potential liabilities associated with these other matters are not expected to have a material adverse impact on our financial position, results of operations, or cash flows.

13. Segment, Geographic and Customer Information

We operate as a single reportable segment in manufacturing, marketing, selling and distributing a wide variety of branded and private label dairy and dairy case products. We operate 66 manufacturing facilities which are geographically located largely based on local and regional customer needs and other market factors. We manufacture, market and distribute a wide variety of branded and private label dairy and dairy case products, including fluid milk, ice cream, cultured dairy products, creamers, ice cream mix and other dairy products to retailers, distributors, foodservice outlets, educational institutions and governmental entities across the United States. Our products are primarily delivered through what we believe to be one of the most extensive refrigerated direct-to-store delivery ("DSD") systems in the United States. Our Chief Executive Officer evaluates the performance of our business based on sales and operating income or loss before facility closing and reorganization costs, litigation settlements, impairments of long-lived assets, gains and losses on the sale of businesses and certain other non-recurring gains and losses.

Geographic Information — Net sales related to our foreign operations comprised less than 1% of our consolidated net sales during each of the three and six months ended June 30, 2017 and 2016. None of our long-lived assets are associated with our foreign operations.

Significant Customers — Our largest customer accounted for approximately 17.0% and 16.2% of our consolidated net sales in the three months ended June 30, 2017 and 2016, respectively, and accounted for approximately 17.1% and 16.3% of our consolidated net sales in the six months ended June 30, 2017 and 2016, respectively.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are predictions based on our current expectations and our projections about future events, and are not statements of historical fact. Forward-looking statements include statements concerning our business strategy, among other things, including anticipated trends and developments in, and management plans for, our business and the markets in which we operate. In some cases, you can identify these statements by forward-looking words, such as “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe,” “foreca “foresee,” “likely,” “may,” “should,” “goal,” “target,” “might,” “will,” “could,” “predict,” and “continue,” the negative or plura words and other comparable terminology. All forward-looking statements included in this Form 10-Q are based upon information available to us as of the filing date of this Form 10-Q, and we undertake no obligation to update any of these forward-looking statements for any reason. You should not place undue reliance on these forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Annual Report on Form 10-K"), as updated herein, and elsewhere in this Form 10-Q. You should carefully consider the risks and uncertainties described under these sections.

Business Overview

We are a leading food and beverage company and the largest processor and direct-to-store distributor of fresh fluid milk and other dairy and dairy case products in the United States, with a vision to be the most admired and trusted provider of wholesome, great-tasting dairy products at every occasion. As we continue to evaluate and seek to maximize the value of our national operational network and our leading brands and product offerings, we have aligned our leadership team, operating strategy, and sales, logistics and supply chain initiatives into a single operating and reportable segment.

We manufacture, market and distribute a wide variety of branded and private label dairy and dairy case products, including fluid milk, ice cream, cultured dairy products, creamers, ice cream mix and other dairy products to retailers, distributors, foodservice outlets, educational institutions and governmental entities across the United States. Our portfolio includes DairyPure®, the country's first and largest fresh, white milk national brand, and TruMoo®, the leading national flavored milk brand, along with well-known regional dairy brands such as Alta Dena®, Berkeley Farms®, Country Fresh®, Dean’s®, Friendly's®, Garelick Farms®, LAND O LAKES ® milk and cultured products (licensed brand), Lehigh Valley Dairy Farms®, Mayfield ®, McArthur®, Meadow Gold ®, Oak Farms®, PET ® (licensed brand), T.G. Lee®, Tuscan® and more. In all, we have more than 50 national, regional and local dairy brands as well as private labels. Additionally, with our acquisition of Uncle Matt's Organic, Inc., which was completed on June 22, 2017, we now sell and distribute organic juice, probiotic-infused juices, and fruit-infused waters under the Uncle Matt's Organic® brand. Dean Foods also makes and distributes ice cream, cultured products, juices, teas, and bottled water. Due to the perishable nature of our products, we deliver the majority of our products directly to our customers' locations in refrigerated trucks or trailers that we own or lease. We believe that we have one of the most extensive refrigerated direct-to-store delivery ("DSD") systems in the United States. We sell our products primarily on a local or regional basis through our local and regional sales forces, and in some instances, with the assistance of national brokers. Some national customer relationships are coordinated by our centralized corporate sales department or national brokers.

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Recent Developments

Uncle Matt's Organic Acquisition

On June 22, 2017, we completed the acquisition of Uncle Matt's Organic, Inc. ("Uncle Matt's"). Uncle Matt's is a leading organic juice company offering a wide range of organic juices, including probiotic-infused juices and fruit-infused waters. The total purchase price was $22.0 million, which was funded through a combination of cash on hand and borrowings under our receivables securitization facility. Uncle Matt's results of operations will be included in our Consolidated Statements of Operations from the date of acquisition.

Investment in Good Karma

On May 4, 2017, we acquired a non-controlling interest in, and entered into a distribution agreement with, Good Karma Foods, Inc. (“Good Karma”), the leading producer of flax-based milk and yogurt products. This investment allows us to diversify our portfolio to include plant-based dairy alternatives and provides Good Karma the ability to more rapidly expand distribution across the U.S., as well as increase investments in brand building and product innovation. We do not expect our equity in the earnings of this investment to materially impact our consolidated financial statements. We are accounting for this investment under the equity method of accounting based upon our ability to exercise significant influence over the investee through our ownership interest and representation on Good Karma's board of directors.

Results of Operations

Our key performance indicators are brand mix, achieving low cost and volume performance, which are reflected in gross profit, operating income and net sales, respectively. We evaluate our financial performance based on sales and operating profit or loss before gains and losses on the sale of businesses, facility closing and reorganization costs, asset impairment charges, litigation settlements and other nonrecurring gains and losses. The following table presents certain information concerning our financial results, including information presented as a percentage of net sales:

	Three Months Ended June 30				Six Months Ended June 30			
	2017		2016		2017		2016	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)							
Net sales	$1,926.7	100.0%	$1,848.8	100.0 %	$3,922.4	100.0%	$3,727.6	100.0%
Cost of sales	1,459.3	75.7	1,355.5	73.3	2,992.9	76.3	2,730.3	73.2
Gross profit(1)	467.4	24.3	493.3	26.7	929.5	23.7	997.3	26.8
Operating costs and expenses:								
Selling and distribution	338.1	17.5	331.2	17.9	683.3	17.4	664.0	17.8
General and administrative	73.1	3.8	86.6	4.7	172.7	4.4	171.8	4.6
Amortization of intangibles	5.2	0.3	4.1	0.2	10.3	0.3	10.4	0.3
Facility closing and reorganization costs, net	5.8	0.3	(1.4)	(0.1)	15.1	0.4	(0.2)	—
Total operating costs and expenses	422.2	21.9	420.5	22.7	881.4	22.5	846.0	22.7
Operating income	$45.2	2.3 %	$72.8	3.9 %	$48.1	1.2 %	$151.3	4.1 %

(1) As disclosed in Note 1 to the Consolidated Financial Statements in our 2016 Annual Report on Form 10-K, we include certain shipping and handling costs within selling and distribution expense. As a result, our gross profit may not be comparable to other entities that present all shipping and handling costs as a component of cost of sales.

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Quarter Ended June 30, 2017 Compared to Quarter Ended June 30, 2016

Net Sales — The change in net sales was due to the following:

	Three Months Ended June 30, 2017 vs. 2016
	(In millions)
Volume	$ (66.6)
Pricing and product mix changes	108.0
Acquisitions	36.5
Total increase	$ 77.9

Net sales increased $77.9 million, or 4.2%, during the second quarter of 2017 as compared to the second quarter of 2016, primarily due to increased pricing, as a result of increases in dairy commodity costs from year-ago levels. On average, during the second quarter of 2017, the Class I price was 14.7% above prior-year levels. Additionally, volumes associated with the acquisition of Friendly's Ice Cream Holdings Corp. ("Friendly's") contributed $45.2 million to net sales in the second quarter of 2017 as compared to $8.7 million in the second quarter of 2016. The Friendly's acquisition closed on June 20, 2016 and net sales in the second quarter of 2016 reflect 11 days of Friendly's operations. See Note 2 to our unaudited Condensed Consolidated Financial Statements. Net sales increases were partially offset by a 2.7% total sales volume decline across all products from year-ago levels. This decline was in excess of our expectations. Volume declines across our fluid milk business, which accounted for approximately 76% of our total sales volume in the second quarter of 2017, represented an approximately 3.4% year-over-year decrease. Our total branded white milk volumes decreased 6.0% year-over-year. These decreases were partially offset by a 1.4% year-over-year increase in our flavored milk volumes.

We generally increase or decrease the prices of our private label fluid dairy products on a monthly basis in correlation with fluctuations in the costs of raw materials, packaging supplies and delivery costs. We manage the pricing of our branded fluid milk products on a longer-term basis, balancing consumer demand with net price realization. However, we continue to balance our product pricing with the execution of our strategy to improve net price realization and, in some cases, we are subject to the terms of our sales agreements with respect to the means and/or timing of price increases, which can negatively impact our profitability. The following table sets forth the average monthly Class I “mover” and its components, as well as the average monthly Class II minimum prices for raw skim milk and butterfat for the second quarter of 2017 compared to the second quarter of 2016:

	Three Months Ended June 30*		
	2017	2016	% Change
Class I mover(1)	$15.52	$13.53	14.7 %
Class I raw skim milk mover(1)(2)	7.41	5.88	26.0
Class I butterfat mover(2)(3)	2.39	2.24	6.7
Class II raw skim milk minimum(1)(4)	6.76	5.82	16.2
Class II butterfat minimum(3)(4)	2.50	2.32	7.8

* The prices noted in this table are not the prices that we actually pay. The federal order minimum prices applicable at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover prices plus producer premiums and a location differential. Class II prices noted in the table are federal minimum prices, applicable at all locations. Our actual cost also includes procurement costs and other related charges that vary by location and supplier. Please see “Part I — Item 1. Business — Government Regulation — Milk Industry Regulation” in our 2016 Annual Report on Form 10-K and “— Known Trends and Uncertainties — Prices of Conventional Raw Milk and Other Inputs” below for a more complete description of raw milk pricing.

(1) Prices are per hundredweight.

(2) We process Class I raw skim milk and butterfat into fluid milk products.

(3) Prices are per pound.

(4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream.

Cost of Sales — All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs; labor costs; and plant and equipment costs. Cost of sales increased 7.7% in the second quarter of 2017 as compared to the second quarter of 2016, primarily due to increased dairy commodity costs. The Class I price was 14.7% above prior-year levels.

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Gross Profit — Our gross profit percentage decreased to 24.3% in the second quarter of 2017 as compared to 26.7% in the second quarter of 2016. This decrease was primarily due to higher input costs and overall volume declines discussed above.

Operating Costs and Expenses — Operating costs and expenses increased $1.7 million, or 0.4%, in the second quarter of 2017 as compared to the second quarter of 2016. Significant changes to operating costs and expenses in the second quarter of 2017 as compared to the second quarter of 2016 include the following:

- Selling and distribution costs increased by $6.9 million during the second quarter of 2017 primarily due to higher freight, insurance and external commissions costs, partially offset by lower incentive compensation and advertising costs.
- General and administrative costs decreased by $13.5 million during the second quarter of 2017 primarily due to lower incentive compensation compared to the prior period.
- Amortization of intangibles increased by $1.1 million during the second quarter of 2017 primarily due to the amortization of intangibles acquired in the Friendly's acquisition.
- Facility closing and reorganization costs increased by $7.2 million during the second quarter of 2017 primarily due to costs associated with the implementation of our organizational structure change and additional asset write-downs and other charges associated with closed facilities. See Note 11 to our unaudited Condensed Consolidated Financial Statements.

Other (Income) Expense — Other expense increased $1.0 million during the second quarter of 2017 as compared to the second quarter of 2016. This increase in expense was primarily due to declines in foreign currency exchange gains in the second quarter of 2017 as compared to the prior period, partially offset by slightly lower interest expense in the second quarter of 2017 as compared to the second quarter of 2016.

Income Taxes — Income tax expense was recorded at an effective rate of 40.3% for the second quarter of 2017 as compared to a 42.6% effective tax rate for the second quarter of 2016. Generally, our effective tax rate varies primarily based on our profitability level and the relative earnings of our business units.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net Sales — The change in net sales was due to the following:

	Six Months Ended June 30, 2017 vs. 2016 (In millions)
Volume	$ (110.8)
Pricing and product mix changes	227.5
Acquisitions	78.1
Total increase	$ 194.8

Net sales increased $194.8 million, or 5.2%, during the first six months of 2017 as compared to the first six months of 2016, primarily due to increased pricing, as a result of increases in dairy commodity costs from year-ago levels. On average, during the first six months of 2017, the Class I price was 16.1% above prior-year levels. Additionally, volumes associated with the Friendly's acquisition contributed $86.8 million to net sales in the first six months of 2017 as compared to $8.7 million in the first six months of 2016. The Friendly's acquisition closed on June 20, 2016 and net sales in the first six months of 2016 reflect 11 days of Friendly's operations. See Note 2 to our unaudited Condensed Consolidated Financial Statements. Net sales increases were partially offset by a 2.0% total sales volume decline across all products from year-ago levels. This decline was in excess of our expectations.Volume declines across our fluid milk business, which accounted for approximately 77% of our total sales volume in first six months of 2017, represented an approximately 2.6% year-over-year decrease. Our total branded white milk volumes decreased 5.1% year-over-year. These decreases were partially offset by a 2.9% year-over-year increase in our flavored milk volumes.

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The following table sets forth the average monthly Class I "mover" and its components, as well as the average monthly Class II minimum prices for raw skim milk and butterfat for the first six months of 2017 in comparison to the first six months of 2016:

	Six Months Ended June 30*		
	2017	2016	% Change
Class I mover(1)	$16.27	$14.01	16.1 %
Class I raw skim milk mover(1)(2)	8.12	5.79	40.2
Class I butterfat mover(2)(3)	2.41	2.41	—
Class II raw skim milk minimum(1)(4)	7.39	6.00	23.2
Class II butterfat minimum(3)(4)	2.48	2.31	7.4

* The prices noted in this table are not the prices that we actually pay. The federal order minimum prices applicable at any given location for Class I raw skim milk or Class I butterfat are based on the Class I mover prices plus producer premiums and a location differential. Class II prices noted in the table are federal minimum prices, applicable at all locations. Our actual cost also includes procurement costs and other related charges that vary by location and supplier. Please see "Part I — Item 1. Business — Government Regulation — Milk Industry Regulation" in our 2016 Annual Report on Form 10-K and "— Known Trends and Uncertainties — Prices of Conventional Raw Milk and Other Inputs" below for a more complete description of raw milk pricing.

(1) Prices are per hundredweight.

(2) We process Class I raw skim milk and butterfat into fluid milk products.

(3) Prices are per pound.

(4) We process Class II raw skim milk and butterfat into products such as cottage cheese, creams and creamers, ice cream and sour cream.

Cost of Sales — Cost of sales increased 9.6% in the first six months of 2017 as compared to the first six months of 2016, primarily due to increased dairy commodity costs. The Class I price was 16.1% above prior-year levels.

Gross Profit — Our gross profit percentage decreased to 23.7% for the first six months of 2017 as compared to 26.8% for the first six months of 2016. This decrease was primarily due to higher input costs and overall volume declines discussed above.

Operating Costs and Expenses — Operating costs and expenses increased $35.4 million, or 4.2%, in the first six months of 2017 as compared to the first six months of 2016. Significant changes to operating costs and expenses in the first six months of 2017 as compared to the first six months of 2016 include the following:

- Selling and distribution costs increased by $19.3 million during the first six months of 2017 primarily due to higher freight, insurance, and external commissions costs, partially offset by decreased incentive compensation and advertising costs.
- General and administrative costs increased by $0.9 million during the first six months of 2017 primarily due to the litigation settlements reached in the first quarter of 2017 and the related legal expenses, partially offset by lower incentive compensation compared to the prior period.
- Amortization of intangibles decreased by $0.1 million during the first six months of 2017 related to the extension of the useful lives of certain of our finite-lived trademarks in conjunction with our strategy around our ice cream brands in the first quarter of 2016, partially offset by the amortization of intangibles acquired in the Friendly's acquisition.
- Facility closing and reorganization costs increased by $15.3 million during the first six months of 2017 primarily due to costs associated with the implementation of our organizational structure change and additional asset write-downs and other charges associated with closed facilities. See Note 11 to our unaudited Condensed Consolidated Financial Statements.

Other (Income) Expense — Other expense increased $1.6 million during the first six months of 2017 as compared to the first six months of 2016. This increase in expense was primarily due to declines in foreign currency exchange gains in the first six months of 2017 as compared to the prior period, in addition to slightly higher interest expense in the first six months of 2017 as compared to the first six months of 2016.

Income Taxes — Income tax expense was recorded at an effective rate of 50.7% for the first six months of 2017 as compared to a 39.9% effective tax rate for the first six months of 2016. Generally, our effective tax rate varies primarily based on our profitability level and the relative earnings of our business units. In the first half of 2017, our effective tax rate was impacted by the adoption of Accounting Standards Update No. 2016-09 which requires excess tax benefits and tax deficiencies related to share-based payments to be recorded in the provision for income taxes. Excluding the $1.3 million of tax expense recorded because of the adoption, our effective tax rate for the first half of 2017 was 42.5%.

Liquidity and Capital Resources

We believe that our cash on hand coupled with future cash flows from operations and other available sources of liquidity, including our $450 million senior secured revolving credit facility and our $450 million receivables securitization facility, together will provide sufficient liquidity to allow us to meet our cash requirements for at least the next twelve months, including the repayment of the $142 million aggregate principal amount of subsidiary senior notes, which mature on October 15, 2017. Additional anticipated uses of cash for the remainder of 2017 include capital expenditures; working capital; pension contributions; financial obligations, including tax payments; and certain other costs that may be necessary to execute our strategic initiatives and invest to grow our business. On an ongoing basis, we evaluate and consider strategic acquisitions, divestitures, joint ventures, or other transactions to create shareholder value and enhance financial performance. However, we may, from time to time, raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions. As discussed below, we have also instituted a cash dividend policy and may repurchase shares of our common stock opportunistically.

As of June 30, 2017, we had total cash on hand of $31.5 million, of which $11.7 million was attributable to our foreign operations. We are evaluating strategies and alternatives with respect to the cash attributable to our foreign operations.

At June 30, 2017, we had $911.4 million of long-term debt obligations, excluding unamortized discounts and debt issuance costs of $7.2 million, and $714.9 million of combined available future borrowing capacity under our senior secured revolving credit facility and receivables securitization facility, subject to compliance with the covenants in our credit agreements. Based on our current expectations, we believe our liquidity and capital resources will be sufficient to operate our business.

Cash Dividends — In November 2013, we announced that our Board of Directors had adopted a cash dividend policy. Under the policy, holders of our common stock will receive dividends when and as declared by our Board of Directors. Beginning in 2015, all awards of restricted stock units, performance stock units and phantom shares provide for cash dividend equivalent units, which vest in cash at the same time as the underlying award. Quarterly dividends of $0.09 per share were paid in March and June of 2017 and 2016, totaling approximately $16.4 million and $16.5 million for the first six months of 2017 and 2016, respectively. We expect to pay quarterly dividends of $0.09 per share ($0.36 per share annually) for the remainder of 2017. Our cash dividend policy is subject to modification, suspension or cancellation in any manner and at any time. Dividends are presented as a reduction to retained earnings in our unaudited Condensed Consolidated Statement of Stockholders' Equity unless we have an accumulated deficit as of the end of the period, in which case they are reflected as a reduction to additional paid-in capital. See Note 7 to our unaudited Condensed Consolidated Financial Statements.

Senior Secured Revolving Credit Facility — We have a credit agreement (as amended, the "Credit Agreement") pursuant to which the lenders have provided us with a senior secured revolving credit facility in the amount of up to $450 million (the "Credit Facility") with a maturity date of January 4, 2022. Under the Credit Agreement, we have the right to request an increase of the aggregate commitments under the Credit Facility by up to $200 million, which we may request to be made available as either term loans or revolving loans, without the consent of any lenders not participating in such increase, subject to specified conditions. The Credit Facility is available for the issuance of up to $75 million of letters of credit and up to $100 million of swing line loans.

Loans outstanding under the Credit Facility will bear interest, at our option, at either (i) the LIBO Rate (as defined in the Credit Agreement) plus a margin of between 1.75% and 2.50% (2.00% as of June 30, 2017) based on our total net leverage ratio (as defined in the Credit Agreement), or (ii) the Alternate Base Rate (as defined in the Credit Agreement) plus a margin of between 0.75% and 1.50% (1.00% as of June 30, 2017) based on our total net leverage ratio.

We may make optional prepayments of loans under the Credit Facility, in whole or in part, without premium or penalty (other than applicable breakage costs). Subject to certain exceptions and conditions described in the Credit Agreement, we will be obligated to prepay the Credit Facility, but without a corresponding commitment reduction, with the net cash proceeds of certain asset sales and with casualty insurance proceeds. The Credit Facility is guaranteed by our existing and future domestic material restricted subsidiaries (as defined in the Credit Agreement), which are substantially all of our wholly-owned U.S. subsidiaries other than the receivables securitization facility subsidiaries (the “Guarantors”).

The Credit Facility is secured by a first priority perfected security interest in substantially all of our assets and the assets of the Guarantors, whether consisting of personal, tangible or intangible property, including a pledge of, and a perfected security interest in, (i) all of the shares of capital stock of the Guarantors and (ii) 65% of the shares of capital stock of our and the Guarantors' first-tier foreign subsidiaries that are material restricted subsidiaries, in each case subject to certain exceptions as set forth in the Credit Agreement. The collateral does not include, among other things, (a) any of our real property, (b) the capital stock and any assets of any unrestricted subsidiary, (c) any capital stock of any direct or indirect subsidiary of Dean Holding Company ("Legacy Dean"), a wholly owned subsidiary of the Company, which owns any real property, or (d) receivables sold pursuant to the receivables securitization facility.

The Credit Agreement contains customary representations, warranties and covenants, including, but not limited to specified restrictions on indebtedness, liens, guarantee obligations, mergers, acquisitions, consolidations, liquidations and dissolutions, sales of assets, leases, payment of dividends and other restricted payments during a default or non-compliance with the financial covenants, investments, loans and advances, transactions with affiliates and sale and leaseback transactions. The Credit Agreement also contains customary events of default and related cure provisions. We are required to comply with (i) a maximum total net leverage ratio of 4.25x (which, for purposes of calculating indebtedness, excludes borrowings under our receivables securitization facility); and (ii) a minimum consolidated interest coverage ratio of 2.25x. In addition, the Credit Agreement imposes certain restrictions on our ability to pay dividends and make other restricted payments if our total net leverage ratio (including borrowings under our receivables securitization facility) is in excess of 3.50x.

At June 30, 2017, we had outstanding borrowings of $1.3 million under the Credit Facility. Our average daily balance under the Credit Facility during the six months ended June 30, 2017 was $1.7 million. There were no letters of credit issued under the Credit Facility as of June 30, 2017.

Dean Foods Receivables Securitization Facility — We have an amended and restated receivables purchase agreement (as amended), which provides us with a $450 million receivables securitization facility pursuant to which certain of our subsidiaries sell their accounts receivable to two wholly-owned entities intended to be bankruptcy-remote. The entities then transfer the receivables to third-party asset-backed commercial paper conduits sponsored by major financial institutions. The assets and liabilities of these two entities are fully reflected in our unaudited Condensed Consolidated Balance Sheets, and the securitization is treated as a borrowing for accounting purposes.

The receivables securitization facility has a liquidity termination date of January 4, 2020 and bears interest at a variable rate based upon commercial paper and one-month LIBO rates plus an applicable margin based on our net leverage ratio. The receivables purchase agreement contains covenants consistent with those in the Credit Agreement. Advances outstanding under the receivables securitization facility will bear interest between 0.90% and 1.05%, and the Company will pay an unused fee between 0.40% and 0.55% on undrawn amounts, in each case based on the Company's total net leverage ratio.

Based on the monthly borrowing base formula, we had the ability to borrow up to $448.4 million of the total commitment amount under the receivables securitization facility as of June 30, 2017. The total amount of receivables sold to these entities as of June 30, 2017 was $561.5 million. During the first six months of 2017, we borrowed $1.1 billion and repaid $1.1 billion under the facility with a remaining balance of $65.0 million as of June 30, 2017. In addition to letters of credit in the aggregate amount of $117.2 million that were issued but undrawn, the remaining available borrowing capacity was $266.2 million at June 30, 2017. Our average daily balance under this facility during the six months ended June 30, 2017 was $44.2 million.

At August 3, 2017, we had $50.0 million outstanding borrowings under the Credit Facility and the receivables securitization facility, excluding letters of credit in the aggregate amount of $117.1 million that were issued but undrawn.

Covenant Compliance — As of June 30, 2017, we were in compliance with all covenants under our credit agreements. The following describes our financial covenants pursuant to our current credit agreements.

The Credit Agreement and the purchase agreement governing our receivables securitization facility require us to maintain a total net leverage ratio less than 4.25x as of the end of each fiscal quarter. In addition, the Credit Agreement imposes certain restrictions on our ability to pay dividends and make other restricted payments if our total net leverage ratio (including borrowings under our receivables securitization facility) exceeds 3.5x. As described in more detail in our Credit Agreement and the purchase agreement governing our receivables securitization facility, the total net leverage ratio is calculated as the ratio of consolidated funded indebtedness, less cash up to $50 million to the extent held by us and our restricted subsidiaries, to consolidated EBITDA for the period of four consecutive fiscal quarters ended on the measurement date. Consolidated funded indebtedness excludes borrowings under our receivables securitization facility and is calculated on a pro forma basis to give effect to permitted acquisitions, divestitures or refinancing of indebtedness.

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Consolidated EBITDA is comprised of net income for us and our restricted subsidiaries plus interest expense, taxes, depreciation and amortization expense and other non-cash expenses, certain pro forma cost savings add-backs in connection with permitted acquisitions and dispositions, and certain other add-backs for non-recurring charges and other adjustments permitted in calculating covenant compliance under the Credit Agreement, and is calculated on a pro forma basis.

The Credit Agreement and the purchase agreement governing our receivables securitization facility require us to maintain an interest coverage ratio of at least 2.25x as of the end of each fiscal quarter. As described in more detail in the Credit Agreement and the purchase agreement governing our receivables securitization facility, our interest coverage ratio is calculated as the ratio of consolidated EBITDA to consolidated interest expense for the period of four consecutive fiscal quarters ended on the measurement date. Consolidated EBITDA is calculated as described above in the discussion of our leverage ratio. Consolidated interest expense is comprised of consolidated interest expense paid or payable in cash by us and our restricted subsidiaries, as calculated in accordance with generally accepted accounting principles, but excluding write-offs or amortization of deferred financing fees and amounts paid on early termination of swap agreements, calculated on a pro forma basis.

Dean Foods Company Senior Notes due 2023 — On February 25, 2015, we issued $700 million in aggregate principal amount of 6.50% senior notes due 2023 (the “2023 Notes”) at an issue price of 100% of the principal amount of the 2023 Notes in a private placement for resale to “qualified institutional buyers” as defined in Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and in offshore transactions pursuant to Regulation S under the Securities Act.

In connection with the issuance of the 2023 Notes, we paid certain arrangement fees of approximately $7.0 million to initial purchasers and other fees of approximately $1.8 million, which were deferred and netted against the outstanding debt balance, and will be amortized to interest expense over the remaining term of the 2023 Notes.

The 2023 Notes are our senior unsecured obligations. Accordingly, the 2023 Notes rank equally in right of payment with all of our existing and future senior obligations and are effectively subordinated in right of payment to all of our existing and future secured obligations, including obligations under our Credit Facility and receivables securitization facility, to the extent of the value of the collateral securing such obligations. The 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by our subsidiaries that guarantee obligations under the Credit Facility.

The 2023 Notes will mature on March 15, 2023 and bear interest at an annual rate of 6.50%. Interest on the 2023 Notes is payable semi-annually in arrears in March and September of each year.

We may, at our option, redeem all or a portion of the 2023 Notes at any time on or after March 15, 2018 at the applicable redemption prices specified in the indenture governing the 2023 Notes (the "Indenture"), plus any accrued and unpaid interest to, but excluding, the applicable redemption date. We are also entitled to redeem up to 40% of the aggregate principal amount of the 2023 Notes before March 15, 2018 with the net cash proceeds that we receive from certain equity offerings at a redemption price equal to 106.5% of the principal amount of the 2023 Notes, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. In addition, prior to March 15, 2018, we may redeem all or a portion of the 2023 Notes, at a redemption price equal to 100% of the principal amount thereof, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. If we undergo certain kinds of changes of control, holders of the 2023 Notes have the right to require us to repurchase all or any portion of such holder’s 2023 Notes at 101% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but excluding, the date of repurchase.

The Indenture contains covenants that, among other things, limit our ability to: (i) create certain liens; (ii) enter into sale and lease-back transactions; (iii) assume, incur or guarantee indebtedness for borrowed money that is secured by a lien on certain principal properties (or on any shares of capital stock of our subsidiaries that own such principal properties) without securing the 2023 Notes on a pari passu basis; and (iv) consolidate with or merge with or into, or sell, transfer, convey or lease all or substantially all of our properties and assets, taken as a whole, to another person.

The carrying value under the 2023 Notes at June 30, 2017 was $693.8 million, net of unamortized debt issuance costs of $6.2 million.

Subsidiary Senior Notes due 2017 — Legacy Dean had certain senior notes outstanding at the time of its acquisition, of which one series remains outstanding ($142 million aggregate principal amount) and matures on October 15, 2017. The carrying value under these notes at June 30, 2017 was $141.1 million, net of unamortized discounts of $0.9 million, at 6.90% interest. The indenture governing the Legacy Dean senior notes does not contain financial covenants but does contain certain restrictions, including a prohibition against Legacy Dean and its subsidiaries granting liens on certain of their real property interests and a prohibition against Legacy Dean granting liens on the stock of its subsidiaries. The Legacy Dean senior notes are not guaranteed by Dean Foods Company or Legacy Dean's wholly-owned subsidiaries.

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Historical Cash Flow

The following table summarizes our cash flows from operating, investing and financing activities:

	Six Months Ended June 30		
	2017	2016	Change
	(In thousands)		
Net cash flows from operations:			
Operating activities	$79,180	$125,319	$(46,139)
Investing activities	(62,666)	(192,362)	129,696
Financing activities	(2,985)	30,944	(33,929)
Effect of exchange rate changes on cash and cash equivalents	—	(825)	825
Net increase (decrease) in cash and cash equivalents	$13,529	$(36,924)	$50,453

Operating Activities

Net cash provided by operating activities was $79.2 million in the six months ended June 30, 2017 compared to $125.3 million in the six months ended June 30, 2016. The decrease was primarily attributable to a discretionary pension contribution of $38.5 million to our company-sponsored pension plans and lower operating income in the first six months of 2017.

Investing Activities

Net cash used in investing activities decreased by $129.7 million in the six months ended June 30, 2017 compared to the six months ended June 30, 2016. This decrease was primarily attributable to the $157.3 million purchase price for the Friendly's acquisition, recorded in the second quarter of 2016, as compared to the purchase price, net of cash acquired, of $21.6 million for the Uncle Matt's acquisition, which closed in the second quarter of 2017, and other investments of $9.0 million in the six months ended June 30, 2017.

Financing Activities

Net cash used in financing activities was $3.0 million in the six months ended June 30, 2017 compared to net cash provided by financing activities of $30.9 million in the six months ended June 30, 2016. This change was driven by net debt proceeds from borrowings of $17.2 million in the first six months of 2017, as compared to $73.3 million in the first six months of 2016. Net debt proceeds were partially offset by payments of financing costs related to the amendments to our Credit Agreement and receivables purchase agreement of $1.8 million in the first six months of 2017. Additionally, we made $25.0 million of share repurchases under our stock repurchase program in the first six months of 2016.

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Contractual Obligations

As of June 30, 2017, there were no material changes outside the ordinary course of business to our contractual obligations as reported in our 2016 Annual Report on Form 10-K, except as reflected in the table below:

	Payments Due by Period						
	Total	2017	2018	2019	2020	2021	Thereafter
	(in millions)						
Receivables securitization facility(1)	$65.0	$—	$—	$—	$65.0	$—	$ —
Credit Facility(1)	1.3	—	—	—	—	—	1.3
Interest payments(2)	326.5	60.8	51.3	51.3	47.4	47.4	68.3
Total	$392.8	$60.8	$51.3	$51.3	$112.4	$47.4	$ 69.6

(1) Represents amounts outstanding under our receivables securitization facility and Credit Facility at June 30, 2017. On January 4, 2017, we amended our receivables purchase agreement to extend the maturity date to January 4, 2020, and we amended our Credit Agreement to extend the maturity date to January 4, 2022. See Note 5 to our unaudited Condensed Consolidated Financial Statements for additional information regarding the January 4, 2017 amendments to the receivables purchase agreement and the Credit Agreement.

(2) Includes fixed rate interest obligations and interest on variable rate debt based on the outstanding balances and interest rates in effect at June 30, 2017. Interest that may be due in the future on variable rate borrowings under the Credit Facility and receivables securitization facility will vary based on the interest rate in effect at the time and the borrowings outstanding at the time. On January 4, 2017, we amended the purchase agreement governing the receivables securitization facility to modify certain pricing terms such that advances outstanding under the receivables securitization facility will bear interest between 0.90% and 1.05%, and the Company will pay an unused fee between 0.40% and 0.55% on undrawn amounts, in each case based on the Company's total net leverage ratio. On January 4, 2017, we amended the Credit Agreement to modify the definition of “Applicable Rate” to reduce the interest rate margins such that loans outstanding under the Credit Facility will bear interest, at our option, at either (x) the LIBO Rate (as defined in the Credit Agreement) plus a margin of between 1.75% and 2.50% based on our total net leverage ratio, or (y) the Alternate Base Rate (as defined in the Credit Agreement) plus a margin of between 0.75% and 1.50% based on our total net leverage ratio. See Note 5 to our unaudited Condensed Consolidated Financial Statements for additional information regarding the January 4, 2017 amendments to the receivables purchase agreement and the Credit Agreement.

Other Long-Term Liabilities

We offer pension benefits through various defined benefit pension plans and also offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing non-contributory defined pension benefits and other postretirement benefits are dependent upon numerous factors, assumptions and estimates. For example, these costs are impacted by actual employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plan and earnings on plan assets. Pension and postretirement costs also may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and annual periodic pension costs.

On April 3, 2017, we made a discretionary contribution of $38.5 million to our company-sponsored pension plans. We expect to contribute an additional $0.8 million to the company-sponsored pension plans and $2.1 million to the postretirement health plans during the remainder of 2017.

Other Commitments and Contingencies

In 2001, in connection with our acquisition of Legacy Dean, we purchased Dairy Farmers of America’s (“DFA”) 33.8% interest in our operations. In connection with that transaction, we issued a contingent, subordinated promissory note to DFA in the original principal amount of $40 million. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash but will be added to the principal amount of the note annually, up to a maximum principal amount of $96 million. We may prepay the note in whole or in part at any time, without penalty. The note will become payable only if we materially breach or terminate one of our related milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire in 2021, without any obligation to pay any portion of the principal or interest. Payments made under the note, if any, would be expensed as incurred. We have not terminated, and we have not materially breached, any of our related milk supply agreements with DFA related to the promissory note. We have previously terminated unrelated

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supply agreements with respect to several plants that were supplied by DFA. In connection with our goals of cost control and supply chain efficiency, we continue to evaluate our sources of raw milk supply.

We also have the following commitments and contingent liabilities, in addition to contingent liabilities related to ordinary course litigation, investigations and audits:

- certain indemnification obligations related to businesses that we have divested;
- certain lease obligations, which require us to guarantee the minimum value of the leased asset at the end of the lease;
- selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses; and
- certain litigation-related contingencies.

See Note 12 to our unaudited Condensed Consolidated Financial Statements.

Future Capital Requirements

During 2017, we intend to invest a total of approximately $120 million to $130 million in capital expenditures, primarily for our existing manufacturing facilities and in support of our strategic initiatives. We expect cash interest to be approximately $59 million to $60 million based upon current debt levels and projected forward interest rates under our Credit Facility. Cash interest excludes amortization of deferred financing fees and bond discounts of approximately $5 million.

On an ongoing basis, we evaluate and consider strategic acquisitions, divestitures, joint ventures, or other transactions to create shareholder value and enhance financial performance. We have also instituted a cash dividend policy and may repurchase shares of our common stock opportunistically.

Known Trends and Uncertainties

Prices of Conventional Raw Milk and Other Inputs

Conventional Raw Milk and Butterfat — The primary raw materials used in the products we manufacture, distribute and sell are conventional milk (which contains both raw milk and butterfat) and bulk cream. On a monthly basis, the federal government and certain state governments set minimum prices for raw milk. The regulated minimum prices differ based on how the raw milk is utilized. Raw milk processed into fluid milk is priced at the Class I price and raw milk processed into products such as cottage cheese, creams and creamers, ice cream and sour cream is priced at the Class II price. Generally, we pay the federal minimum prices for raw milk, plus certain producer premiums (or "over-order" premiums) and location differentials. We also incur other raw milk procurement costs in some locations (such as hauling and field personnel). A change in the federal minimum price does not necessarily mean an identical change in our total raw milk costs as over-order premiums may increase or decrease. This relationship is different in every region of the country and can sometimes differ within a region based on supplier arrangements. However, in general, the overall change in our raw milk costs can be linked to the change in federal minimum prices. Because our Class II products typically have a higher fat content than that contained in raw milk, we also purchase bulk cream for use in some of our Class II products. Bulk cream is typically purchased based on a multiple of the Grade AA butter price on the Chicago Mercantile Exchange.

Prices for conventional raw milk in the second quarter of 2017 were approximately 14.7% higher than year-ago levels and decreased approximately 9% sequentially from the first quarter of 2017. We currently expect raw milk costs to increase by approximately 8% sequentially in the third quarter of 2017 (an approximately 11% increase year-over-year). Given the multitude of factors that influence the dairy commodity environment, we acknowledge the potential for future volatility.

Fuel and Resin Costs — We purchase diesel fuel to operate our extensive DSD system, and we incur fuel surcharge expense related to the products we deliver through third-party carriers. Although we may utilize forward purchase contracts and other instruments to mitigate the risks related to commodity price fluctuations, such strategies do not fully mitigate commodity price risk. Adverse movements in commodity prices over the terms of the contracts or instruments could decrease the economic benefits we derive from these strategies. Another significant raw material we use is resin, which is a fossil fuel-based product used to make plastic bottles. The prices of diesel and resin are subject to fluctuations based on changes in crude oil and natural gas prices.

For 2017, we expect our fuel and resin costs to increase in comparison to the prior year.

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Competitive Environment and Volume Performance

The fluid milk industry remains highly competitive. Volume softness continues to weigh on the broader food industry, and the emphasis of specific retailers on private label within certain segments showed growth in the second quarter of 2017. This created a challenging environment for our Company on both volume and brand mix.

In the second quarter of 2017, our total sales volume declined 2.7% across all products from year-ago levels. This decline was in excess of our expectations. As private label performed ahead of the category, our total branded white milk volumes, which include DairyPure® and our other brands, decreased 6.0% year-over-year. This trade down to private label fluid milk from branded products represents a continuing challenge for our business. These decreases were partially offset by a 1.4% increase in our flavored milk volumes versus the second quarter of 2016. Across our other non-fluid milk product categories, year-over-year total volume declines were partially offset by an increase of approximately 8.9% in our ice cream volume performance, primarily due to volumes associated with the Friendly's acquisition.

In the private label milk space, we experienced some customer losses at a higher rate than our expectations. Milk production continues to grow across many areas of the country, creating surplus volume in supply that is changing some recent pricing dynamics in the category. We also continue to face pricing pressures from industry consolidation, large-format and vertical retailers, discounters, and dairy cooperatives and other processors. These factors have resulted in higher than expected fluid milk volume losses that will contribute to a higher year-over-year decline in total volume for 2017. For at least the remainder of 2017, we expect a total volume decline in the mid-single digits.

We believe the overall retail landscape continues to be challenging, with several factors beyond our control continuing to impact our earnings progression. The downward trend in fluid milk category sales has continued during the first half of 2017. Fluid milk sales data published by the USDA through May 2017 shows a quarter-to-date fluid milk category sales volume decline of 2.9% on a year-over-year basis. In the second quarter of 2017, our share of the fluid milk category decreased by 30 basis points versus the second quarter of the prior year.

We believe that maintaining a competitive cost structure is crucial to the ongoing success of our organization, particularly in view of the competitive environment and volume pressures we are currently facing. During the first quarter of 2017, we re-engineered our commercial function, with a focus on increasing the effectiveness and efficiency of our sales force. We believe it is necessary to replicate this work across the other functions of our business and are targeting an incremental annual cost reduction of $40 million to $50 million in our general and administrative functions. The design phase of this initiative is underway across our organization and we anticipate having plans in place by the end of 2017. Soft volumes, the continued shift to private label and competitive pricing pressures have negated, and will likely continue to negate, some of the impact of our ongoing cost reduction efforts, making it more difficult to deliver these cost savings to the bottom line. Depending on the extent of the decline in our financial results and our financial and cash flow projections, we may incur asset impairment charges in future periods.

Additionally, in March 2016, Wal-Mart Stores, Inc. announced that it plans to build a dairy processing plant in Indiana to supply certain Wal-Mart and Sam's Club stores located in the Midwest. We have received preliminary information from Wal-mart regarding the phasing of the transfer of volume into the plant and, based on this data, we expect to lose approximately 90 million to 95 million gallons of private label fluid milk volume in 2018 and 2019. Dialogue between us and Wal-Mart is ongoing, and we are actively taking steps to optimize our network to mitigate the impact of volume losses in the affected region when they occur. However, given the volume degradation we have experienced this year, which is expected to continue through the balance of 2017, we may be unable to sufficiently reduce our costs to mitigate the negative financial impact of the Wal-Mart volume loss. As previously disclosed, we expect to continue to supply Wal-Mart's private label milk for other Wal-Mart stores across the United States pursuant to our existing agreements.

Tax Rate

Income tax expense was recorded at an effective rate of 50.7% in the first six months of 2017 compared to a 39.9% effective tax rate in the first six months of 2016. Changes in our profitability levels and the relative earnings of our business units, as well as changes to federal, state, and foreign tax laws, may cause the rate to change from historical rates.

See the risk factors described in “Part I — Item 1A — Risk Factors” in our 2016 Annual Report on Form 10-K and elsewhere in this Form 10-Q for a description of various other risks and uncertainties concerning our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our quantitative and qualitative disclosures about market risk as set forth in our 2016 Annual Report on Form 10-K.

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Item 4. Controls and Procedures

Controls Evaluation and Related Certifications

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), referred to herein as “Disclosure Controls”) as of the end of the period covered by this quarterly report. The controls evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon our most recent controls evaluation, our CEO and CFO have concluded that our Disclosure Controls were effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

During the period covered by this quarterly report, there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II — Other Information
Item 1A. Risk Factors
There have been no material changes in the Company's risk factors from those set forth in our 2016 Annual Report on Form 10-K, except as follows:
We may be adversely impacted by a changing customer landscape.
Many of our customers, such as supermarkets, warehouse clubs and food distributors, have experienced industry consolidation in recent years and this consolidation is expected to continue. These consolidations have produced large, more sophisticated customers with increased buying power and negotiating strength, who may seek lower prices or more favorable terms, and they have increased our dependence on key large-format retailers and discount supermarket chains. In addition, some of these customers are vertically integrated and have re-dedicated key shelf-space currently occupied by our branded products for their private label products. We are also facing downward pricing pressure from retailers who sell their own private label products and proprietary brands, such as discount supermarket chains. In addition to the competitive pressures from retail customers, we are facing increased competition from dairy cooperatives and other processors.
The highly competitive retail fluid milk and broader grocery industries are facing additional future uncertainties as a result of the rise of discount supermarket chains and Amazon.com, Inc.'s announcement of its planned acquisition of Whole Foods Market. Discount supermarket chains such as Aldi, which has announced a large expansion of its stores in the U.S., and Lidl, which recently entered the U.S. market, create competitive pressure on retailers to lower prices. These developments may trigger significant changes in pricing competition, and the grocery industry, as well as consumer buying patterns, the effects and timing of which are currently unknown.
Higher levels of price competition and higher resistance to price increases have had a significant impact on our business. If we are unable to respond to these customer dynamics and potential future changes in the customer landscape, our business or financial results could be adversely affected.

The continuing industry shift from branded to private label products could impede our growth rate and profit margin.
We are experiencing a continued shift from branded to private label products. Private label competitors are generally able to sell their products at lower prices because private label products typically have lower marketing costs than their branded competitors. In periods of economic weakness, consumers tend to purchase lower-priced products, including conventional milk, coffee creamers and other private label products, which could reduce sales of our branded products. In addition, in periods of economic disparity and income inequality, certain of our customers may purchase lower-priced products as well as make purchases less frequently. The willingness of consumers to purchase our products will depend upon our ability to offer products providing the right consumer benefits at the right price. Further trade down to lower priced products could adversely affect our sales and the profit margin for our branded products.
This industry shift to private label could be accelerated by the expansion of Aldi and the entry of Lidl in the U.S. market. If our products fail to compete successfully with other branded or private label offerings in the industry, demand for our products and our sales volumes could be negatively impacted.

Litigation could expose us to significant liabilities and may have a material adverse impact on our reputation and business.
Scrutiny of the dairy industry has resulted, and may continue to result, in litigation against us. Such lawsuits are expensive to defend, divert management's attention and may result in significant judgments or settlements. In some cases, these awards would be trebled by statute and successful plaintiffs are entitled to an award of attorneys' fees. Depending on its size, such a judgment or settlement could materially and adversely affect our results of operations, cash flows and financial condition and impair our ability to continue operations. We may not be able to pay such judgment or to post a bond for an appeal, given our financial condition and our available cash resources. In addition, depending on its size, failure to pay such a judgment or failure to post an appeal bond could cause us to breach certain provisions of our credit facilities. In either of these or other circumstances, we may seek a waiver of or amendment to the terms of our credit facilities, but we may not be able to obtain such a waiver or amendment. Failure to obtain such

a waiver or amendment would materially and adversely affect our results of operations, cash flows and financial condition and could impair our ability to continue operations. Moreover, such litigation could expose us to negative publicity, which could adversely affect our brands, reputation and/or customer preference for our products.
We were previously a party to a private antitrust lawsuit brought by two plaintiffs that was scheduled for trial beginning March 28, 2017. Prior to trial, the plaintiffs agreed with us to settle the lawsuit. We agreed to pay settlements to the plaintiffs and the parties resolved all outstanding claims in the litigation and agreed to voluntarily dismiss the litigation. The litigation was

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dismissed on March 21, 2017 with respect to one plaintiff, and on March 26, 2017 with respect to the other plaintiff. The two plaintiffs initiated the case in 2007 as a putative class action. Although the court refused to certify the case as a class action, the court's denial of class certification did not act as an adjudication on the merits for the class of purchasers the named plaintiffs proposed to represent. Therefore, we may be subject to subsequent litigation by such purchasers.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99	Supplemental Financial Information for Dean Holding Company (filed herewith).
101.INS	XBRL Instance Document(1).
101.SCH	XBRL Taxonomy Extension Schema Document(1).
101.CAL	XBRL Taxonomy Calculation Linkbase Document(1).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document(1).
101.LAB	XBRL Taxonomy Label Linkbase Document(1).
101.PRE	XBRL Taxonomy Presentation Linkbase Document(1).

(1) Filed electronically herewith.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEAN FOODS COMPANY

/S/ SCOTT K. VOPNI
Scott K. Vopni
Senior Vice President, Finance and Chief Accounting Officer

August 8, 2017

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