

**CONFIDENTIAL – ATTORNEY EYES ONLY MATERIAL
SUBJECT TO PROTECTIVE ORDER DATED OCTOBER 18, 2016
(REDACTED)**

AREA 4

**COST REPLACEMENT HEARING
DEALER REBUTTAL EXHIBITS**

DECEMBER 8, 2016

**CONFIDENTIAL – ATTORNEY EYES ONLY MATERIAL
SUBJECT TO PROTECTIVE ORDER DATED OCTOBER 18, 2016
(REDACTED)**

PMMB AREA 4

COST REPLACEMENT HEARING

INDEX OF REBUTTAL EXHIBITS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

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REBUTTAL EXHIBIT D1

Carl D. Herbein, CPA
Curriculum Vitae

EDUCATION

Elizabethtown College – B.S. Degree in Accounting (1968)
Delta Mu Delta – National Honor Society – Co-captain Cross Country Team

EMPLOYMENT

Herbein + Company, Inc., Reading, PA
October, 2004 to present
President and CEO

July, 1985 to September, 2004
Managing Partner

1974 to June, 1985
Partner
Reading, PA

Carl D. Herbein, CPA – Reading, PA
1972 to 1974

Ernst & Young, Reading, PA
1967 to 1972
Staff/Senior Accountant

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania (1971)

Member – American Institute of CPAs – Council (1990 – 1991)

Member – Pennsylvania Institute of CPAs – President (1988 – 1989)

Firm Member – PKF North American Network – Board of Directors (1993 – 1994)

Chairman – Reading Redevelopment Authority (1992 – 1998) Board of Directors (1984 – 1998)

Board Member

- Greater Berks Development Fund (1995 – present)
- Berks County Convention Center Authority - Treasurer (1996 – present)
- Alvernia University (2012 – present)

Berks County Chamber of Commerce (1980 – present)

- Chairman of the Board (1994 – 1996)
- Treasurer (1992 – 1993)
- Treasurer (2007-2009)

Greater Reading Economic Partnership (2005 – present)

Alvernia University

- Board of Trustees (2014 - present)
- Audit Committee (2014 – present)

Berkshire Country Club

- Board of Directors
- Treasurer (October 2001 – 2007)

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REBUTTAL EXHIBIT D1

Carl D. Herbein, CPA

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS – CONTINUED

Elizabethtown College

- Board of Trustees (1987 – 1992)
- Accounting Advisory Committee (1993 – 2005)
- Member – Leadership Council (2007 – present)

SPECIFIC DAIRY RELATED EXPERIENCE

Grew up and worked on his parents' dairy farm

Partner-in-charge of services for all dairy clients currently serviced by the Firm

Performed the feasibility and accounting work for numerous successful dairy mergers

Currently leads the Firm's engagements in industry consolidation, including due diligence, valuation, and consolidation benefit analysis

Performed other special projects for dairies – Product cost analysis, route accounting and profitability analysis, by-product and excess butterfat cost analysis, buy-sell arrangements, labor contract negotiations, hauling cost analysis, plant shrink studies, delivery cost studies, market price analysis, cost benchmarking projects, business valuations, Federal Trade Commission analysis, and dairy financial reporting design

Has spent more than 16,000 hours of time in personally preparing for and testifying at over 140 Pennsylvania Milk Marketing Board price hearings between 1976 and 2016

Has visited and provided services to more than 155 dairy food companies

PUBLICATIONS

"Product Costing In A Volatile Environment," which appeared in the *National Ice Cream Mix Association, Inc.* publication

"Milk Costing and Regulation - Is There a Conflict?" which appeared in the 2003 *International Association of Milk Control Agencies'* publication

"Benchmarking," which appeared in the August 2004, *422 Business Advisor*

"Financing Agribusiness Growth", which appeared in the *Pennsylvania CPA Journal*

"Processors Improve Profits With Benchmarking", which appeared in the October 2011, *Dairy Foods Magazine*

COMMUNITY AWARD

2006 Eugene L. Shirk Community Builder Award

2010 Corporate Honoree – March of Dimes

2012 Franciscan Award – Alvernia University

2013 Business Weekly Unity Award

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Carl D. Herbein, CPA

SPEAKING ENGAGEMENTS (2006 – 2015)

International Milk Control Agency – Why Dairy Plants Relocate, August 13, 2006

All Star Dairy Association – Cost Benchmarking, March 16, 2006

Quality Chekd Dairy – Valuation of Your Dairy Company, February 1, 2007

All Star Dairy Association – Cost Benchmarking, March 28, 2007

All Star Dairy Association – Financial Reporting, March 6, 2008

Quality Chekd Dairy – Captive Insurance, April 21, 2008

Pennsylvania Association of Milk Dealers – Cost Comparison Analysis, September 22, 2009

World International Dairy Foods Association – Worldwide Food Expo – Dairy Industry Analysis, October 31, 2009

All Star Dairy Association – Forensic Accounting, March 23, 2010

Pennsylvania Association of Milk Dealers and Northeast Dairy Foods Association, Inc. – Delivery, Depots and Distributors – August 22, 2011

International Association of Milk Control Agencies (IAMCA) – California Federal Milk Marketing Order – September 14, 2015

International Dairy Foods Association – Capital Budgeting – September 15, 2015

All Star Association – Measure Your Success – March 2016

TEACHING ASSIGNMENTS (2007 – 2011)

Developed and presented the annual “Dairy Cost Accounting Workshop” for International Dairy Foods Association – annual two (2) day seminar May 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015

Quality Chekd Dairy – Dairy Accounting Seminar, March 6 - 7, 2007

PUBLICATIONS

“Product Costing In A Volatile Environment,” which appeared in the *National Ice Cream Mix Association, Inc.* publication

“Milk Costing and Regulation - Is There a Conflict?” which appeared in the 2003 *International Association of Milk Control Agencies*’ publication

“Benchmarking,” which appeared in the August 2004, *422 Business Advisor*

“Financing Agribusiness Growth”, which appeared in the *Pennsylvania CPA Journal*

“Processors Improve Profits With Benchmarking”, which appeared in the October 2011, *Dairy Foods Magazine*

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Carl D. Herbein, CPA

EXPERT REPORTS, DEPOSITION AND TESTIMONY

COURT AND OTHER TESTIMONY

State of New Jersey Department of Agriculture – Expert testimony - Farmer premium establishment. (hearing held November 19, 2009, December 17, 2009 and January 28, 2010)

Sweetwater Valley Farm, Inc. v. Dairy Farmers of America, Inc. – June 15, 2010

Bross v. Bross – domestic matter. Testimony September 16, 2010.

Van Peenen Dairy, Inc. v. Tuscan/Lehigh Dairies, Inc. – contractual dispute, November 22, 2011

US Justice Department Report – Dean Foods / Suiza – merger analysis

State of Kentucky v. Trauth Dairy – damage calculation

State of Indiana v. Schenkel Dairy – damage calculation

Sweet Water Valley Farm v. Dairy Farmers of America – restraint of trade

Maine Milk Commission – Expert testimony – Dealer Margin Study (hearing held October 25, 2012)

Nicholas Meat Packing Co. v. Brigandi, Gleghorn and Associates – August 20, 2011 and July 2013.

Supports Coordination Organization Modeled Rate Review – payment rate dispute – July 15, 2013.

Allen S. Fisher, et. al. v. Dominion Transmission, Inc. – crop damage – loss calculation – October 2013.

DeVries Dairy v. White Eagle Cooperative Association – expert testimony – economic discrimination – October 2013.

Dar-View Farms v. Maryland Dairy Veterinarians – professional malpractice matter – March 2015

U.S. Department of Agriculture – California Hearing to consider establishing a California Milk Marketing order – October 2015

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REBUTTAL EXHIBIT D1

Carl D. Herbein, CPA

COMMONWEALTH OF PENNSYLVANIA MILK MARKETING BOARD APPEARANCES

2011

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the level and duration of the Class I over-order premium. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the announcement date for January 2012 minimum resale prices. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning adjustments to wholesale discounts to account for changes in milk prices subsequent to the adoption of Official General Orders for each of the Milk Marketing Areas. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 5. Expert witness appearing on behalf of the Area 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 5. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 5. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 5. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 6. Expert witness appearing on behalf of the Area 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 6. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1. Expert witness appearing on behalf of the Area 1 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 1. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held October 5, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 2. Expert witness appearing on behalf of the Area 2 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 2. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents

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of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held October 5, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 3. Expert witness appearing on behalf of the Area 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 3. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores.

In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held November 9, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4. Expert witness appearing on behalf of the Area 4 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 4. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held November 9, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the level and duration of the Class I over-order premium to be effective January 1, 2012. (hearing held November 9, 2011)

2012

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 5. Expert witness appearing on behalf of the Area 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the multi-store discount provisions in Milk Marketing Area 5. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 6. Expert witness appearing on behalf of the Area 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the multi-store discount provisions in Milk Marketing Area 6. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning whether to remove the service contract initial fee and renewal fee from Official General Order A-875. (hearing held February 8, 2012)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 4, and 5. Expert witness appearing on behalf of the Areas 1, 2, 4, and 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, 4 and 5.

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2013

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 3 and 6. Expert witness appearing on behalf of the Area 3 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 3 and 6. (hearing held January 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning wholesale milk discounts in Milk Marketing Area 1, 2, 3, 4, 5, and 6. (hearing held October 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held January 8, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing held February 5, 2014)

2014

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 4, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the small delivery costs in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 11, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing October 1, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held December 3, 2014)

2015

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held February 25 - 27, 2015) continuance from June 2014

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 5, and 6. Expert witness appearing on behalf of the Areas 1, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 5, and 6. (hearing held December 2, 2015)

2016

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 2, 3, and 4. Expert witness appearing on behalf of the Areas 2, 3, and 4 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 2, 3, and 4. (hearing held January 6, 2016)

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REBUTTAL EXHIBIT D2

PMMB AREA 4

COST REPLACEMENT HEARING

**PROCESSING, PACKAGING AND DELIVERY COSTS/POINT
(WEIGHTED AVERAGE BASED ON SALES IN AREA 4)**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

<u>Cost Center</u>	<u>Total 2015 Points in PMMB Area 4 (1)</u>	<u>2015 Weighted Average Cost/Point (1)</u>
Receiving, lab and field work	197,008,859	
Standardization and pasteurization	371,639,499	
Bottling	338,061,559	
Cold room	363,208,786	
Delivery	170,123,495	
Selling	219,688,857	

(1) Reflects points (and related cost/point) for sales in PMMB Area 4 for the cross-section dealers.

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REBUTTAL EXHIBIT D2-A

PMMB AREA 4

COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>2015 Weighted Average Cost/Point</u>	<u>2014 Cost/Point Included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Receiving, lab and field work			
Standardization and pasteurization			
Bottling			
Cold room			
Delivery			
Selling			
Sub total			
Add:			
2016 Cost increase (decrease) adjustment - Exhibit D7			
Less:			
2015 Cost (increase) decrease adjustment (1)			
Net change			

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REBUTTAL EXHIBIT D3

PMMB AREA 4

COST REPLACEMENT HEARING

**SUMMARY OF CURRENT CONTAINER COSTS WITH ADJUSTMENT FOR SHRINKAGE AND
LOSS AND UPDATE TO CURRENT MONTH**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Container Size	April 2016 Container Cost (1)	Adjust from April 2016 to October 2016 - Current (2)	Subtotal	Calculated Shrinkage and Loss (4)	Shrinkage Cost	Total Container Cost
Gallon (5)	\$ 0.1655	\$ (0.0026)	\$ 0.1629	1.20%	\$ 0.0019	\$ 0.1648
1/2 gallon - plastic	0.1241					
1/2 gallon - paper (3)	-					
1/2 gallon - blended (5)	<u>0.1241</u>	0.0050	0.1291	1.24%	0.0016	0.1307
Quart - plastic	0.1407					
Quart - paper	<u>0.0902</u>					
Quart - blended (5)	<u>0.1405</u>	(0.0054)	0.1351	1.57%	0.0021	0.1372
Pint - plastic	0.1172					
Pint - paper (3)	<u>0.0448</u>					
Pint - blended (5)	<u>0.1149</u>	0.0091	0.1240	1.62%	0.0020	0.1260
Twelve ounce	(3)					
Ten ounce	(3)					
1/2 pint - plastic (5)	0.0650	0.0023	0.0673	0.92%	0.0006	0.0679
1/2 pint - paper (5)	0.0286	(0.0004)	0.0282	0.85%	0.0002	0.0284
Four ounce - paper	0.0302		0.0302	1.53%	0.0005	0.0307
Dispenser	0.0402		0.0402	1.30%	0.0005	0.0407

- (1) For containers not purchased in April 2016 the most recent invoice was used.
- (2) October 2016 container costs were used by the PMMB to establish minimum resale prices for November 2016.
- (3) Container not packaged in this Area.
- (4) Calculated based on actual container loss from a state-wide cross section of processing dealers for controlled containers used during the period January – March 2009. This state-wide cross section is composed of every processing dealer that participates in a cost replacement hearing.
- (5) Current container costs would replace these costs on a monthly basis when the PMMB minimum resale prices are announced.

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REBUTTAL EXHIBIT D3-A

PMMB AREA 4

COST REPLACEMENT HEARING

**ADJUSTED CONTAINER COSTS COMPARED TO CURRENT MONTH
CONTAINER COSTS – OCTOBER 2016**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

<u>Container Size</u>	<u>Adjusted Container Costs from Exhibit D3</u>	<u>Container Costs in Current Prices (1)</u>	<u>Difference</u>
Gallon (2)	\$ 0.1648	\$ 0.1663	\$ (0.0015)
Half Gallon (2)	0.1307	0.1339	(0.0032)
Quart (2)	0.1372	0.1657	(0.0285)
Pint (2)	0.1260	0.1047	0.0213
1/2 pint - plastic (2)	0.0679	0.0693	(0.0014)
1/2 pint - paper (2)	0.0284	0.0283	0.0001
Four ounce - paper	0.0307	0.0280	0.0027
Dispenser (per quart)	0.0407	0.0525	(0.0118)

(1) Per General Order No. A-963 (CRO 6) as updated.

(2) These container costs to be updated on a monthly basis.

(3) Difference between plastic ½ pint and paper ½ pint is \$0.0395. PMMB resale price schedules show the ½ pint paper price. \$0.0395 is the plastic add-on.

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REBUTTAL EXHIBIT D4

PMMB AREA 4

COST REPLACEMENT HEARING

**SUMMARY OF CURRENT INGREDIENT COSTS
(WEIGHTED AVERAGE BASED ON ACTUAL SALES IN AREA 4)**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>April 2016 Weighted Average Cost/Pound (1)</u>
Standard milk	\$0.0000
Reduced fat milk (2%)	0.0016
Lowfat milk (1%)	0.0018
Nonfat milk (skim)	0.0017
Flavored milk	0.0418
Flavored reduced fat milk	0.0405
Flavored nonfat milk	0.0285
Buttermilk	0.0244
Eggnog	0.2498

(1) For ingredients not purchased in April 2016 the most recent invoice was used.

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REBUTTAL EXHIBIT D4-A

PMMB AREA 4

COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>April 2016 Weighted Average Cost/Pound</u>	<u>Cost/Pound included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	\$0.0000	\$0.0000	\$0.0000
Reduced fat milk (2%)	0.0016	0.0024	(0.0008)
Lowfat milk (1%)	0.0018	0.0022	(0.0004)
Nonfat milk (skim)	0.0017	0.0025	(0.0008)
Flavored milk (2)	0.0418	0.0422	(0.0004)
Flavored reduced fat milk (2)	0.0405	0.0346	0.0059
Flavored nonfat milk (2)	0.0285	0.0270	0.0015
Buttermilk	0.0244	0.0274	(0.0030)
Eggnog	0.2498	0.1591	0.0907

(1) Per General Order OGO A-963 (CRO 6) as updated for flavored milks on October 1, 2016.

(2) Ingredient costs to be updated on a quarterly basis for flavored milk, flavored reduced fat milk and flavored nonfat milk. Updates should be effective on January 1, April 1, July 1 and October 1.

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REBUTTAL EXHIBIT D5

PMMB AREA 4

COST REPLACEMENT HEARING

WEIGHTED COST OF SHRINKAGE AND WEIGHTED COSTS AND REVENUES FROM BULK CREAM AND BULK MILK

Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. - Schuylkill Haven

PMMB Area 4	Costs	Revenues	Weighted Net Cost (Revenue)	Weighted Pounds (1)	Weighted Cost (Revenue) Per Pound
Shrinkage	\$ 691,091		\$ 691,091		
Bulk milk revenue minus milk costs		177,897			
Bulk milk cost center costs & freight					
Net bulk milk cost (revenue)			(177,897)		
Bulk cream revenue minus milk costs		1,699,278			
Bulk cream cost center costs	322,914				
Net bulk cream cost (revenue)			(1,376,364)		
Total	\$ 1,014,005	\$ 1,877,175			
Net cost (net revenue) - calendar year 2015			\$ (863,170)	374,000,510	\$ (0.0023)
Net cost (net revenue) in current order - calendar year 2014			\$ (280,477)	402,439,592	(0.0007)
Net change - cost increase (cost reduction)			<u>\$ (582,693)</u>		<u>\$ (0.0016)</u>

(1) Beginning in calendar year 2013 producer milk diverted to other plants is excluded from the calculation of weighted pounds.

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REBUTTAL EXHIBIT D6

PMMB AREA 4

COST REPLACEMENT HEARING

BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>2015 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2832%	3.2848%	-0.0016%
Reduced fat milk (2%)	1.9536%	1.9518%	0.0018%
Lowfat milk (1%)	0.9633%	0.9563%	0.0070%
Nonfat milk (skim)	0.1170%	0.1123%	0.0047%
Flavored milk	3.2875%	3.2823%	0.0052%
Flavored reduced fat milk	0.9386%	0.9407%	-0.0021%
Flavored nonfat milk	0.0931%	0.0802%	0.0129%
Buttermilk	1.0000%	1.0005%	-0.0005%
Eggnog	7.5784%	7.9792%	-0.4008%

(1) Per General Order No. A-963 (CRO 6)

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REBUTTAL EXHIBIT D7

PMMB AREA 4

COST REPLACEMENT HEARING

COST INCREASES (DECREASES) FOR LABOR, INSURANCE AND UTILITY COSTS

Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven

Type of Expense	Weighted Expenses for the Six Months Ended June 30 (1)		Weighted Points for the Six Months Ended June 30 (1)		Cost Per Point		Increase (Decrease) Per Point
	2016	2015	2016	2015	2016	2015	
Labor and fringe benefits	\$ 18,730,113	\$ 18,084,821	157,054,047	156,960,954	\$ 0.1193	\$ 0.1152	\$ 0.0041
Utilities	946,564	904,945	157,054,047	156,960,954	0.0060	0.0058	0.0002
Insurance	145,585	190,160	157,054,047	156,960,954	0.0009	0.0012	(0.0003)
							<u>\$0.0040</u>

(1) Weighted based on sales in PMMB Area 4.

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PMMB AREA 4

COST REPLACEMENT HEARING

CHANGES IN DIESEL FUEL COSTS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Diesel fuel costs – calendar year 2015 (1)	\$1,699,068
Delivery points – calendar year 2015 (1)	<u>170,123,495</u>
Diesel fuel cost per point delivered	<u><u>\$0.0100</u></u>
Average diesel price – calendar year 2015 (2)	\$2.927
Average diesel price – August 2016 (2) (3)	<u>\$2.442</u>
Increase (decrease) from year 2015 to month October 2016	-16.57%
Increase (decrease) in diesel fuel cost per point delivered	<u><u>(\$0.0017)</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 4.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) August 2016 diesel fuel costs were used by the PMMB in establishing minimum prices for October 2016.

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REBUTTAL EXHIBIT D9

PMMB AREA 4

COST REPLACEMENT HEARING

CHANGES IN HEATING FUEL COSTS (NATURAL GAS)

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Heating fuel costs – calendar year 2015 (1)	\$249,968
Standardization & pasteurization points – calendar year 2015 (1)	<u>371,639,499</u>
Heating fuel cost per point pasteurized	<u>\$0.0007</u>
Average heating fuel costs – calendar year 2015 (2)	\$9.73
Average heating fuel costs – April 2016 (2) (3)	<u>7.21</u>
Increase (decrease) from year 2015 to month April 2016	-25.90%
Increase (decrease) in heating fuel cost per point pasteurized	<u>(\$0.0002)</u>

- (1) Costs of cross-section dealers weighted by sales in Area 4.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) April 2016 natural gas costs were used by the PMMB in establishing minimum prices for October 2016.

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REBUTTAL EXHIBIT D10-A

PMMB AREA 4

COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
GALLON REDUCED FAT MILK (2%) FOR OCTOBER 2016**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6		1.9518%	
Butterfat price as announced by PMMB	(1)		per lb. \$ 2.3738 per lb.	
Extended butterfat value			per lb. \$ 0.0463 per lb.	
Skim price as announced by PMMB	(1)		per cwt. \$ 13.93 per cwt.	
Extended skim value			per lb. \$ 0.1366 per lb.	
Total milk value at announced prices			per lb. \$ 0.1829 per lb.	
Ingredient cost	D3		0.0024	
Cost of shrinkage / bulk milk & cream	D5		(0.0007)	
Total milk cost per pound			per lb. \$ 0.1846 per lb.	
Pounds per gallon (conversion)			8.62	
Total milk cost per gallon			\$ 1.5913	
Container cost (adjusted for shrinkage)	D3		each 0.1663 each	
Cost center costs	D2		0.9540	
1st half 2015 to 1st half 2016 adjustment	D7		0.0348	
Container efficiency adjustment	(2)		(0.0842)	
Percentage discount adjustment	(3)		(0.0032)	
Diesel fuel adjustment	D8		(0.0256)	
Heating fuels adjustment	D9		0.0008	
			each \$ 2.6342 each	
Dealer profit at 3.4%	(2)		0.0927	
Subtotal			each \$ 2.7269 each	
Less: average delivery cost	(2)		(0.4352)	
Add: high cost delivery	(2)		0.9664	
Wholesale minimum price			each \$ 3.2581 each	

- (1) As announced for October 2016 by PMMB on September 22, 2016.
(2) Per OGO A-963 (CRO 6) as updated.
(3) Per OGO A-972 "Price Adjustments to Account for Interaction of Milk Prices and Wholesale Percentage Discounts."

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REBUTTAL EXHIBIT D10-B

PMMB AREA 4

COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR OCTOBER 2016**

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6		0.0802%	
Butterfat price as announced by PMMB	(1)	per lb.	\$ 2.3738 per lb.	
Extended butterfat value		per lb.	\$ 0.0019 per lb.	
Skim price as announced by PMMB	(1)	per cwt.	\$ 13.93 per cwt.	
Extended skim value		per lb.	\$ 0.1392 per lb.	
Total milk value at announced prices		per lb.	<u>\$ 0.1411 per lb.</u>	
Ingredient cost	D4		0.0270	
Cost of shrinkage / bulk milk & cream	D5		<u>(0.0007)</u>	
Total milk cost per pound		per lb.	<u>\$ 0.1674 per lb.</u>	
Pounds per gallon (conversion)			0.50	
Total milk cost per half pint			<u>\$ 0.0837</u>	
Container cost (adjusted for shrinkage)	D3	each	0.0283 each	
Cost center costs	D2		0.0596	
1st half 2015 to 1st half 2016 adjustment	D7		0.0022	
Container efficiency adjustment	(2)		0.0210	
Percentage discount adjustment	(3)		(0.0001)	
Diesel fuel adjustment	D8		(0.0018)	
Heating fuels adjustment	D9		0.0001	
		each	<u>\$ 0.1930 each</u>	
Dealer profit at 3.4%	(2)		0.0068	
Subtotal		each	<u>\$ 0.1998 each</u>	
Less: average delivery cost	(2)		(0.0272)	
Add: high cost delivery	(2)		0.0604	
Wholesale minimum price		each	<u>\$ 0.2330 each</u>	

(1) As announced for October 2016 by PMMB on September 22, 2016.

(2) Per OGO A-963 (CRO 6) as updated.

(3) Per OGO A-972 "Price Adjustments to Account for Interaction of Milk Prices and Wholesale Percentage Discounts."

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REBUTTAL EXHIBIT D11

COMPARATIVE INCOME STATEMENT
FHMB CROSS-SECTION DEALERS
SOURCE: FHMB-6a

SUMMARY	2014	2014	2013	2012	2011	2010	2009	CHANGE-2015 to 2014		CHANGE-2015 to 2009	
								Dollars	Percent	Dollars	Percent
Net sales	\$ 2,131,778,435	\$ 2,287,682,096	\$ 2,074,213,745	\$ 2,029,577,151	\$ 2,068,609,849	\$ 1,914,710,984	\$ 1,707,884,295	\$ (155,903,661)	-6.0%	\$ 423,894,140	24.8%
Cost of goods sold	<u>1,443,206,894</u>	<u>1,659,143,458</u>	<u>1,422,057,106</u>	<u>1,374,484,933</u>	<u>1,450,984,370</u>	<u>1,283,938,406</u>	<u>1,063,716,907</u>	\$ (215,936,654)	-13.0%	\$ 379,449,897	35.7%
Gross margin	<u>\$ 688,571,541</u>	<u>\$ 628,538,638</u>	<u>\$ 652,156,639</u>	<u>\$ 651,092,168</u>	<u>\$ 617,625,479</u>	<u>\$ 630,774,578</u>	<u>\$ 644,167,388</u>	\$ 60,032,993	9.2%	\$ 7,919,251	1.2%
	22.3%	27.5%	31.4%	32.1%	29.9%	32.9%	37.7%				
Cost center costs	<u>647,491,833</u>	<u>621,532,812</u>	<u>613,292,404</u>	<u>634,923,564</u>	<u>594,857,657</u>	<u>582,747,350</u>	<u>584,449,070</u>	\$ 21,059,013	3.4%	\$ 18,142,715	3.0%
Operating income	<u>\$ 45,979,806</u>	<u>\$ 7,005,826</u>	<u>\$ 18,864,235</u>	<u>\$ 16,168,604</u>	<u>\$ 22,767,822</u>	<u>\$ 48,027,228</u>	<u>\$ 59,718,318</u>	\$ 38,923,980	206.7%	\$ (40,861,083)	-68.0%
Income as a % of net sales	2.2%	0.3%	0.9%	0.8%	1.1%	2.5%	3.5%				

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