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**HEADLINE: NATIONAL DAIRY, HOOD SCRAP DEAL PLAN ALTERNATIVE TO MERGER TO SKIRT REGULATORY WORRIES**

**BYLINE:** By Bruce Mohl, Globe Staff

**BODY:**

To ease Justice Department concerns, H.P. Hood and National Dairy Holdings called off their merger yesterday, proposing instead a deal that would link management of the two companies and grant a major concession to New England's largest dairy cooperative.

The proposed merger of Chelsea-based Hood and Dallas-based National Dairy was first announced in November. A federal review of the deal has apparently stalled over concerns that Kansas City, Mo.-based Dairy Farmers of America, the nation's largest dairy cooperative and a 50 percent owner of National Dairy, would gain control over all of Hood's milk purchases.

Agri-mark, the largest dairy cooperative in New England and Hood's biggest milk supplier, complained loudly about the arrangement, fearing it would be muscled out by the Kansas City giant.

Under the deal announced yesterday, Hood and National Dairy would take minority stakes in each other, blend their top management, and limit the control of Dairy Farmers of America here in New England. The companies said they were submitting their new proposal to regulators for review.

John Kaneb, the president and chief executive of Hood, said the proposal calls for Hood to buy 30 percent of National Dairy and for Dairy Farmers of America to buy 15 percent of Hood.

Kaneb also would become chairman and chief executive of National Dairy, while National Dairy's president, Tracy L. Noll, would also assume the title of president

of Hood.

Agri-mark would remain as a direct supplier to Hood here in New England, with no change in its current supply arrangement, Kaneb said. Dairy Farmers of America, however, would gain control over Hood milk purchases at Hood's plant in Winchester, Va.

Officials at Hood and National Dairy say they believe their two companies would benefit by joining forces to build a stronger competitor to industry behemoth Dean Foods of Dallas. Hood is a distant second to Dean here in New England - Dean owns Garelick Farms, West Lynn Creamery, Cumberland Farms, and Nature's Best Dairy - and National Dairy is a distant second to Dean nationally.

The businesses of Hood and National Dairy don't overlap much. National Dairy, with \$2 billion in sales, operates 33 dairy plants around the country, but its only plant in New England is in Concord, N.H.

Hood controls about 15 percent of the milk-processing business in New England, but it derives nearly half of its \$900 million in sales from selling extended shelf-life milks and creams produced using ultra-high temperature processes. Most of those products are sold under brands licensed to Hood such as Lactaid, Nesquik, and Carnation Coffee/

Mate. National Dairy has no presence in that fast-growing business.

The original merger proposal was put together by Gary Hanman, president and chief executive of the Dairy Farmers of America. He has made no secret of his goal to invest in dairies across the country so his 25,000 member farmers get a share of the processing profits and a market for their milk.

"What we're really in this for is to gain market share," Hammond said in a Globe interview in December. A spokeswoman for Dairy Farmers of America could not be reached yesterday.

Hammond's ambitions scared Agri-mark and other cooperatives in New England, who feared Dairy Farmers of America would use its control over Hood milk purchases to force their farmers to join his co-op or else lose a market for their milk.

Douglas DiMento, a spokesman for Agri-mark, said yesterday the co-op would have no comment on the new Hood-National Dairy proposal. He said the co-op was still trying to learn details of the deal.

"It looks like they did the merger but they're not calling it that," he said.

DiMento said the co-op's Washington lawyers had indicated the original merger

deal was dead in Washington.

The efforts by Hood and National Dairy to join forces come at a time when the dairy industry in New England and across the country is consolidating. Agricultural economists in New England have expressed concern that the market concentration is leading to unusually high milk prices on supermarket shelves, even as the prices farmers receive for their milk keep falling.

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