

--Only the tip of the iceberg!

DFA Scandal: Hanman Secretly Paid Ex-Board Chairman \$1 Million

The corrupt facade at Dairy Farmers of America (DFA) has cracked open.

On May 9, DFA leaders revealed that in 2001, former CEO/President Gary Hanman secretly paid \$1 million dollars to then-DFA board chairman Herman Brubaker. That payment – issued from the coffers of National Dairy Holdings (NDH, a DFA subsidiary) – was hidden from DFA's corporate board members (other than Brubaker).

- * Hanman has been banned from DFA's corporate offices.
- * Brubaker is in ill health and is confined to a nursing home.
- * The \$1 million has been repaid, with interest, by Brubaker and Hanman.
- * DFA CEO/President Rick Smith stated that the cooperative is considering filing criminal charges against Hanman and Brubaker.
- * Smith and board chairman Tom Camerlo, in a joint letter to members dated May 8, 2008, announced that a special committee of DFA's board is being appointed to review this and possibly other unsavory business dealings.
- * DFA directors warn outsiders that there's a lot more scandal to unravel at the co-op.

IRS investigation stirred the pot

The Internal Revenue Service has been investigating DFA for at least the last three to four years, according to footnotes in DFA's 2005, 2006 and 2007 financial statements. Footnote 13 ("Commitments and Contingencies") of the 2007 audit states:

"Tax matters

"The IRS is currently examining our federal income tax returns for the years 2001 through 2004. Our current estimate of the resolution of these examinations is reflected in accrued expenses; however, final settlement of the examinations or charges in our estimate may result in future income tax expense or benefit."

"Benefit"??? After three (or more) years of investigating a firm, the IRS is not going to walk away without a few coonskins to display in its trophy case. In the back-and-forth that has taken place between DFA and IRS investigators, DFA's senior management had to have a good idea what was at issue. It's very likely that legal actions relating to the IRS investigation is about to break against the individuals involved, and perhaps also DFA.

Thus, DFA's sudden revelation of dirty laundry has in all likelihood been spurred by something bigger about to break.

Damage control: press conference, letter to members

DFA's senior leaders huddled with a conference call involving roughly 100 management personnel, directors and lawyers on Thursday, May 8. The next day, DFA held a press conference to announce the illegal payments authorized by Hanman to Brubaker.

Simultaneously, DFA management sent out a press release and letter to members. That letter to members is reproduced on this page.

(Editor's note: *The Milkweed* was not invited to participate in the telephonic press conference on Friday, May 9.)

\$1 million – barely the tip of the iceberg

In the analysis of *The Milkweed*, this revelation of high-level financial scandal at DFA is not even the tip of the iceberg. Herman Brubaker, a miserable so-and-so even in his prime, is far from the only high-level DFA figure with his hand in the company cookie jar!

The \$1 million secretly paid to Brubaker is small change in relation to some of the other financial shenanigans involving "insiders" at DFA. If anything, Brubaker – in his current debilitated condition – is a "dummy" thrown off DFA's gravy train in hopes of sating government investigators.

(Editor's note: Brubaker was the first board chairman at DFA, serving from 1998 until his retirement in 2003. Brubaker was promised the board chairmanship at the time four dairy cooperatives were merging into DFA. Patting Brubaker's ample ego helped pull his cooperative, Milk Marketing, Inc., into the merger. As DFA board chairman, Brubaker enjoyed annual compensation totaling a couple hundred thousand dollars. Brubaker made a lot more money milking farmers than his 60 or so cows.)

What about all the other illicit deals?

DFA's board of directors is appointing a special committee to investigate the \$1 million payment to Brubaker and other possible wrongdoings. The co-op's leaders are acting stunned, as if news of financial misdeeds were only recent.

As DFA's board and management attempt to grasp their sudden reality that the co-op has been misled for years by Hanman and his gang of merry thieves, *The Milkweed* offers the following suggestions as to further areas to explore. The directors need starting points, so *The Milkweed*, ever trying to help clean up DFA, suggests the following:

* What about the board-authorized \$6 million "bonus" paid to Hanman (probably in early 2002)? Did Herman Brubaker promote that bonus – for Hanman's "success" in negotiating the sale of fluid processing assets and purchase of other assets by NDH? Did Brubaker and Hanman merely exchange "tit for tat" ... except that Brubaker's "tit" was under the table and is now in the wringer?

* What about the \$90 million profit enjoyed by current DFA employee Alan Meyer, netted when Meyer sold off his share of a jointly-owned investment to co-owner DFA? (Note: Meyer was replaced as head of NDH in 2007, after



Dairy Farmers of America

May 8, 2008

Dear Member:

We are saddened and disappointed to tell you that we recently learned about an improper transaction involving two former senior representatives of Dairy Farmers of America, Inc. (DFA). In 2001, DFA's former CEO, Gary Hanman, played a role in arranging for the unauthorized transfer of money, to be paid through a DFA affiliate, to former DFA Board Chairman Herman Brubaker. Brubaker received \$1,000,000. This transaction was not approved by DFA's Board of Directors.

This is obviously not conduct that we condone. DFA's past and present Boards of Directors were not involved in this wrongdoing, and the current Board and management team only recently became aware of it.

Once we learned of the transaction, we moved quickly to secure the repayment of the money. We can report today that \$1 million, plus interest, has been returned. However, the return of funds is not the end of this matter. A special committee of the Board has been directed to look into whether any similar transactions have taken place and will also examine whether any additional standards or practices could enhance internal controls at DFA. We expect that the committee will report back to the Board in the next few months.

We recognize this news is disturbing, and we regret having to report this to you. When we learn of matters that affect you, even unfortunate ones, we think you should hear about them directly from us.

In the past couple of years, we have made significant operational changes designed to ensure the long-term strength and success of your Cooperative. We have accomplished a great deal, and we are confident that we have a promising future ahead of us.

We continue to look to you for guidance and support as we move DFA successfully into the future. If you have questions, please do not hesitate to direct them to us, or contact your local membership office or Chief Operating Officer. We will certainly keep you updated as our work on this matter moves forward.

Sincerely,

Richard P. Smith
President and CEO

James P. Camerlo
Chairman

10220 N. Ambassador Drive, Kansas City, MO 64153 • 1-888-DFA-MILK

Congratulations, DFA members! The co-op's former CEO and board chairman are crooks! Here's the letter that DFA sent out on May 8, 2008 informing members of recent developments. DFA insiders warn: much more scandal to come!

Smith took away Meyer's corporate jet. Smith's action seems wise, in retrospect, seeing how NDH lost \$134 million in 2007. Meyer was shifted to DFA's corporate headquarters in Kansas City following his departure at NDH. Meyer was allegedly placed in charge of cheese plant acquisitions – at a time when DFA is selling off or closing as many of its cheese plants as it can get rid of. Meyer looks like one more in a growing list of executives kept on DFA's payroll to cultivate loyalty amid a growing list of entanglements.)

* What about the \$18-20 million profit gleaned under similar circumstances (net of sale of his assets in a jointly-owned dairy processing business) by Robert Allen, a former business partner of DFA and a former consultant to DFA's board.

* What about apparently excessive payments by DFA for milk to bankrupt director Lew Gardner of Galeton, Pennsylvania? Gardner filed bankruptcy in 2006, leaving behind a small army of unpaid creditors. Bankruptcy documents filed in that case reveal that Gardner was receiving about three dollars per cwt. more for his milk than then current market prices would have indicated.

* What were the annual total compensations for Hanman, Jerry Bos (former DFA chief financial officer) and other management personnel for service on boards of DFA's many affiliates and joint ventures?

What about the joint venture of a big milk hauling business located in Cabool, Missouri that was 50 percent owned by Bill Honeycutt -- Gary Hanman's brother-in-law! Was DFA's partnership with, and eventual buy-out of, Honeycutt in the best interests of the cooperative?

What do Gary Hanman & Al Capone have in common?

Sometime in the early 1990s, Gary Hanman started acting like a mafia chief, using thuggery to force farmers into the cooperatives he headed. None successfully challenged Hanman's virtual complete power at DFA. But now, an IRS investigation has apparently forced DFA to publicly admit that Hanman was a crook. Funny ... the IRS finally nailed mobster Al Capone. You can bet Hanman's buddy John Ashcroft will lobby for a pardon before Bush exits.

DFA's financial condition is already precarious. (See the April 2008 issue of *The Milkweed*, pages 1, 4 & 5.)