

Connecting
CATTLEMEN
TO CONSUMERS



BEEF



LETTER FROM BEEF BOARD CHAIRMAN

DEE LACEY

Dear Fellow Producers:

Regardless of what industry we work in, we would probably agree that 2002 was a challenging year. But with the record supplies and resulting low prices we experienced pretty much all year, and the additional weather challenges we dealt with across the country, we were extremely fortunate to have our beef checkoff dollars invested in programs aimed at continuing to stimulate consumers to buy our product.

During fiscal 2002, the Beef Checkoff Program sponsored a wide array of projects aimed at improving the market for beef, not the least of which was the highly successful summer grilling promotion. That \$2.8 million integrated marketing effort drew participation from 35 state beef councils, which executed their own offshoot programs. All told, more than 6,000 retail grocery stores — obviously a critical link in connecting cattlemen to consumers — also joined the effort.

In this annual report, you'll get details about that summer-grilling program, as well as other checkoff success stories from 2002, including efforts to build exports in South Korea and Mexico and to encourage consumers in Japan to purchase U.S. beef in the wake of BSE cases in cattle there. In addition, we invested checkoff dollars in concerted efforts to counter misinformation from activist groups through important issues-management programs, and in continued development of the Beef Value Cuts program, which resulted from checkoff-funded muscle profiling efforts to increase the value of the chuck and the round.

As we continue our efforts to maintain and grow our individual cattle operations, it is important to remember that while our industry has changed over the years, we all remain integral parts of a single industry, in which the consumer is boss. From cattlemen to manufacturers to grocers, we simply must work together to grow demand for beef, thus providing new opportunities for all sectors of our industry.

A stellar example of this coordination at work is our checkoff-funded effort in new-product development, undertaken in full about four years ago. By developing new ways to get our products to consumers in the convenient, tasty and tender forms they want, we can help stimulate demand for beef and attain better prices than would otherwise exist. Of course, we also must remember that supply represents the other half of the economic equation. As supply tightens, prices improve if demand is strong.

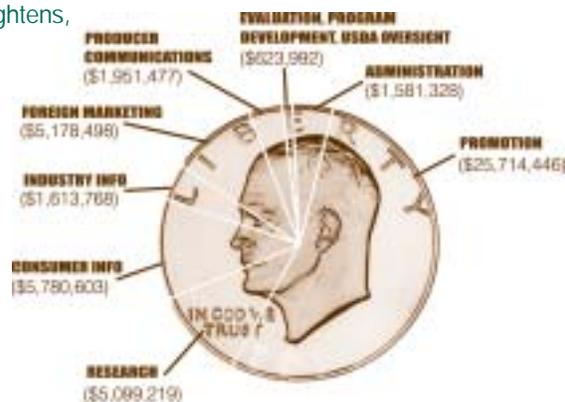
During the coming year, you can be assured that your representatives on the Cattlemen's Beef Board will continue to work hard on behalf of beef producers who pay the beef checkoff. At the same time, they'll count on you to join the effort by working together to accomplish and maintain our shared goal — a strong marketplace for beef.

With warm regards,

Dee Lacey
Producer

Paso Robles, Calif.

2002 Chairman, Cattlemen's Beef Promotion & Research Board



CATTELMEN'S BEEF BOARD FY2002 EXPENDITURES

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Amid the tremendous challenges that the beef industry and the nation's economy faced during the last year, the Cattlemen's Beef Board continued to focus beef checkoff programs on increasing beef demand by identifying and responding to the needs of today's consumers. Some checkoff programs initiated during the year were intended to build a stronger beef market over the long-term, while others sought an immediate impact on beef sales to combat large supplies and the sluggish economy. Still other efforts responded to specific issues and were intended to preserve and protect the market for beef.

The checkoff does not own cattle, beef products or packing plants, and it can't prevent falling cattle prices. Instead, the beef checkoff was designed to encourage others to sell more beef and to stimulate consumers to buy more beef. The checkoff strives to fulfill its charge by making connections: It connects beef product innovators with manufacturers, safety researchers with processors, beef nutritionists with health influencers, and the list goes on. The Beef Checkoff Program helps stimulate the flow of market signals back to producers — in short, connecting cattlemen to consumers.

In any given year, the beef checkoff plan of work begins with science-based research. Market research, nutrition research, research in the areas of new-product development, product enhancement and food safety — these provide the foundation for checkoff-funded information outreach and promotion. The beef checkoff is committed to distributing accurate information about beef to consumers, health professionals, scientists, media, teachers, youth and producers. The checkoff then monitors public opinion. It tracks consumer opinions about the safety and nutritional value of beef and the perception of beef as a good value, in addition to identifying consumer attitudes about cattlemen. These factors all play significant roles in consumer demand for beef.

BEEF



The pages of this annual report detail the programs and connections made through the Beef Checkoff Program in fiscal 2002. They highlight research efforts, promotion programs and information outreach. Before examining those program highlights, consider a measure of beef industry efforts through the perceptions of the consumer:

- A June 2002 national consumer survey revealed that 87 percent of Americans are confident that U.S. beef is safe from BSE.
- Studies show that consumer perceptions about the importance of beef in a balanced diet improved 14 points between October 1999 and June 2002.
- Eighty-one percent of consumers said that beef steaks and roasts offer consistent quality, a three-year increase of nine points, while 69 percent of ground beef consumers believe that hamburger provides consistent quality, a three-year increase of 15 points.
- About three in four consumers recently surveyed said that steaks, roasts and hamburger are a good value for their money. In 1997, 58 percent of consumers rated beef steaks and roasts a good value, while 62 percent cited hamburger as a good value.
- Seventy-one percent of consumers in a recent survey said that they had a favorable impression of ranchers and cattlemen, compared to 56 percent surveyed during the same period in 1998.

Without a doubt, the beef industry has made strides in consumer confidence about the safety and nutritional quality of beef, as well as in perceptions of beef's value and the overall image of cattlemen. Let's look now to program highlights to learn about checkoff work in these areas in fiscal 2002.

PROGRAM HIGHLIGHTS

PROMOTION CONNECTIONS

& RESULTS

- A meaningful 82 percent of consumers recognize the checkoff-funded "Beef. It's What's For Dinner"® advertising slogan, which features the rugged voice of Sam Elliott and the snappy Rodeo music of composer Aaron Copland. Television and radio advertising in 2002 sought to build awareness of new heat-and-serve products, communicate the nutritional value of beef, and spur additional beef sales by featuring the wonderful taste, sizzle and experience of grilling beef. Three flights of television advertising reached 55 million targeted women at least 10 times.

Awareness of new heat-and-serve beef products grew to 71 percent. Studies show that consumer perceptions about the importance of beef in a balanced diet improved 14 points between October 1999 and June 2002.

- The biennial National Beef Cook-Off® is one of the premiere and longest running cooking contests in the United States. Its focus has evolved over time into close alignment with consumer marketing initiatives — positioning chuck and round cuts as consumer friendly and creating awareness and trial and repurchase of new convenient beef products. The 2001 Cook-Off achieved a 50 percent increase in entries from the previous competition, up from 2,400 entries to 4,900. What's more, media coverage of the event increased about 40 percent to 293 million media impressions. Nearly 450,000 media placements resulted from publicity surrounding the event. More than 600,000 prize-winning recipe brochures were printed, and more than half of those were distributed during the year to consumers anxious to try the new recipes.

- A partnership with Albertson's and the National Potato Promotion Board that stemmed from the National Beef Cook-Off drew participation from about 1,750 Albertson's stores in 13 markets, which conducted demonstrations of winning recipes. The supermarket chain distributed nearly 300,000 Albertson's Recipe Brochures, which included five winning



beef recipes from the Cook-Off as well as a large flyer featuring beef specials that appeared in all of the chain's markets. The partnership funding also supported the demonstrations with a 13-week flight of radio advertising.

- The supermarket deli traditionally has been dominated by fried and rotisserie chicken but a new checkoff-developed Homestyle Beef Pot Roast (at left) is showing encouraging deli sales. Kroger stores introduced this new product

in 237 locations. In fiscal 2002, the volume of Homestyle Beef Pot Roasts sold hot through these delis grew to a level three to five times higher than sales of refrigerated heat-and-serve products.

- The checkoff-funded R&D Ranch® Team's efforts are making headlines and driving new beef product innovation throughout the industry. New beef products are hitting the market at an impressive rate — about 400 new beef products were launched during the year vs. just 70 in 1997. More than 1,500 new beef products have come to market since the checkoff began work in this area four years ago.



- A checkoff-funded partnership with Dunkin' Donuts resulted in the launch of a new Steak, Egg and Cheese breakfast sandwich in the New England market, while a partnership with Quizno's helped launch a Bistro Beef sub at 1,750 of its restaurants. Taco Bell and the beef industry partnered on the launch of the Steak Grilled Stuff Burrito at more than 6,300 Taco Bell stores. Beef was high profile on Taco Bell ads during heavy holiday television viewing and shopping. This promotion, along with a steak taco promotion, moved close to 1 million pounds of beef per week. The restaurant chain then independently introduced the Steak Quesadilla and the Southwest Steak Bowl in 2002, as a result of the chain's earlier successful partnership with the Beef Checkoff Program.

- New beef cuts developed for use in restaurants and foodservice were showcased to 750 chain restaurant executives and chefs during a beef reception at the *Nation's Restaurant News* Multi-Unit Foodservice Operators Conference.
- Virtually all of the leading publications of the restaurant and foodservice industry have run articles about new beef menuing ideas, new cuts and recipes. Between April and June 2002, about 1.5 million impressions were made with this specialized audience. Publications including *School Foodservice & Nutrition*, *Restaurant Hospitality* and *Restaurant Business*, ran articles.
- To date, the checkoff-funded Joint Brand-Like Commission has approved 55 beef products to carry the Mark of Quality symbol, which signifies that the products deliver what consumers expect from beef — great taste, quality and satisfaction. Marketing materials designed to increase consumer awareness and understanding of the Mark of Quality program include a brochure, a video and a Web site, www.beefmark.com. In cooperation with manufacturer partners, the checkoff program developed a beef Mark of Quality newspaper insert that netted a circulation of 40 million and included coupons for beef products carrying the Mark of Quality.
- In 2002, manufacturer partners spent \$6 for every checkoff dollar invested to help promote new beef entrees. Through manufacturing partnerships, the Beef Checkoff Program helped support new beef product launches by Old El Paso,



Schwan's and John Morrell in 2002. The checkoff partnered on an insert to accompany the launch of Old El Paso Seasoned Ground Beef. Weekly sales volume doubled within months of distributing the coupon. The Schwan's home food delivery company reported that its three-pound precooked pot roast was the top selling red meat item between mid-July and mid-August 2002. National promotions were developed at no cost to the checkoff program with A-1 Sauce, Gallo, and Mrs. Dash seasonings, with all three manufacturers interested in further beef partnerships. A new line of precooked beef entrees from

- Smithfield is continuing to gain both distribution and sales. Stouffer's® added 25 to 50 percent more beef to all of its Skillet Sensation and Oven Sensations Mark of Quality-approved beef meals and announced the upgrade to consumers through advertising with a circulation of 42.5 million.
- Checkoff-funded veal promotion efforts in fiscal 2002 included a promotional tour featuring celebrity chefs David Burke and Norman Van Aken. Chef Burke made guest appearances on television and radio programs in New York City, Philadelphia and Washington, D.C., while Chef Van Aken was featured on the national Fox & Friends News Channel and in the Miami market. Both chefs conducted veal recipe demonstrations for national and local print media. The checkoff's online www.vealstore.com featured veal burger recipes during summer and provided news and information to consumers about the veal industry and veal preparation.

A BEHIND-THE-SCENES VIEW

OF THE STATE-NATIONAL SUMMER GRILLING PROMOTION

In reaction to the weak cattle market and large supplies of beef and competing meats, the Beef Checkoff Program initiated an aggressive integrated \$2.8 million state and national promotion to stimulate beef sales throughout the summer. Thirty-five state beef councils partnered with the Beef Board's nationwide effort that included beef promotions in 6,100 grocery stores.

The summer grilling promotion included radio advertising, public relations and in-store marketing. It sought to convince retailers to feature beef more often, and consumers to grill beef more often.

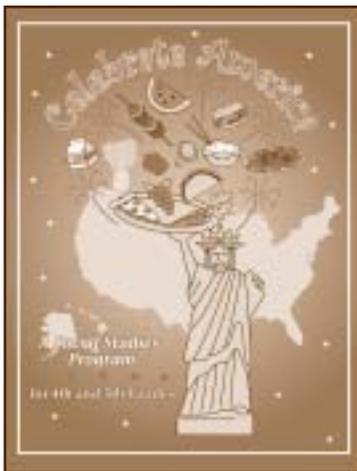
The promotion launched in late May and ran through Labor Day weekend. New radio ads in key markets were a central component of the campaign. In-store efforts included floor graphics, cart and meat case signs, in-store radio, and recipe and grilling information, all with the message, "Steak. Get Your Grill On." A brochure containing recipes for steak marinades and rubs carried the same grilling message. In addition, the checkoff program launched www.summer.beef.org to provide further information about summer grilling.

In total, consumers received more than 1 million beef grilling brochures and 1.2 million marinade and rub recipes. Radio advertising reached 46 percent of the population and 72 percent of the target audience of men, ages 25-54, about nine times. Public relations activities generated more than 363 million media impressions, and the in-store message reached about 68 percent of the population.

INFORMATION

CONNECTIONS

- A fun and informative new patch program sponsored by the Beef Checkoff Program is reaching Girl Scouts in the beef industry's targeted age group of 8- to 12-year-old "tweens" with beef's nutrition message. Girl Scout Councils throughout the country have received the "Fit for a Princess" program enthusiastically. Demand was greater than the initial supply of 45,000 copies, so the checkoff initiated a second printing of 75,000 more. With the groundwork in place, Fit for a Princess is expected to reach more than 100,000 Junior Girl Scouts and their moms next year.



- Providing teachers with checkoff-funded classroom materials is another efficient way to get beef's nutrition message to youth. A new Celebrate America kit teaches kids about foods from different regions and cultures. About 15,000 kits will showcase the global popularity of beef and its important role in a healthful diet.

- Through personal visits, the Beef Checkoff Program provided information and beef samples to food editors in New York City. Subsequently, new Ground Beef Crumbles appeared in recipes in *Woman's World*, circulation 1.6 million, and in *Woman's Day*, circulation 4.2 million. Several popular cooking publications, including *Simply Perfect Italian*, produced by *Better Homes and Gardens*, also showcased the new beef product.

- Behind-the-scenes work with food editors and writers resulted in development of more than 3,600 positive stories about beef during the year. The stories and photos had a total circulation of nearly 230 million readers. Efforts to promote beef cuts from the chuck and round accounted for nearly 1,300 of the newspaper placements with a total circulation of 108 million.

- An R&D Ranch Session conducted for 11 national magazine food editors was highly rated and generated media coverage for the checkoff's new-

product efforts. Feature articles by the *Wall Street Journal*, Reuters and beef industry trade publications highlighted the Beef Value Cuts program and the new-product strategic blueprint process. Participants included representatives from the *Los Angeles Times*, *Better Homes and Gardens*, *Southern Living*, *Parents* and *Good Housekeeping*.

- Beef nutrition information reached more than 8,000 consumers through an ongoing partnership with "Speaking of Women's Health," a non-profit organization that educates women about their health, well-being and personal safety. The checkoff-funded Council for Women's Nutrition Solutions (CWNS) visited five U.S. cities this year through Speaking of Women's Health events, and dozens of health professionals participated in each city roundtable discussion hosted by CWNS about obesity, weight management and other topics.



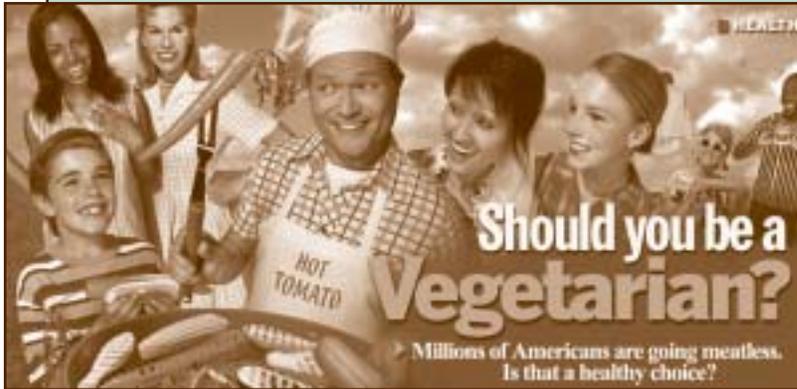
A REVIEW OF CHECKOFF-FUNDED

ISSUES MANAGEMENT EFFORTS — THE BEST NEWS YOU NEVER READ

Checkoff resources aim to protect the market for beef by supplying accurate information and preventing negative messages from reaching consumers. The beef industry has weighed in with accurate information on issues including vegetarianism, cancer, diabetes, obesity, food safety and animal disease. Successful issues management efforts are often called the “best news you never read.”

In 2002, issues management efforts influenced news stemming from such influential publications as *Time* magazine, which ran a cover story titled, “Should you be a Vegetarian? Millions of Americans are going meatless. Is that a healthy choice?” The beef industry worked with *Time* for several months to shape the content of the story. The article quoted Dr. Michelle Warren, a Columbia University expert on nutrition and health in adolescent females and a member of the checkoff-funded Council for Women’s Nutrition Solutions, who supported the inclusion of animal products in a healthy diet.

The national media monitoring program, a key component of issues management efforts, covers major market newspapers, wire services, national news and business publications and major network and cable news broadcasts. This news monitoring provides readings of media favorability ratings on several beef-related issues, such as beef safety and animal disease. This information is used to gauge media coverage that ultimately can influence beef demand. Consumer surveys conducted during times of heavy coverage of beef-related issues indicated that consumer confidence in the safety of U.S. beef actually increased, as checkoff efforts gave the consumers accurate information they needed to understand the issues.



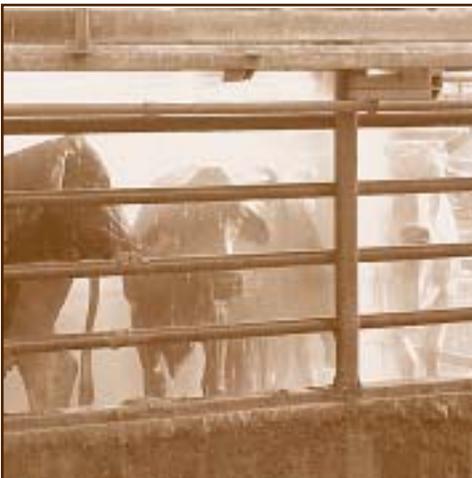
- Through the checkoff program, external nutrition professionals including CWNS members and the American Academy of Family Physicians developed and reviewed a new fitness-themed tear pad. AAFP approved the content of the tear pad, which also bears its seal of favorable review.
- Thanks to producers who pay the beef checkoff, beef’s nutrition message also connected with the hundreds of thousands of women who shop at Wal-Mart. The message is being distributed through a Speaking of Women’s Health brochure called “Better Nutrition For Life,” which includes health and nutrition tips, as well as a beef recipe. Wal-Mart printed 820,000 brochures for placement in special kiosks in 2,800 stores nationwide.
- The 2002 Summer Grilling Promotion created a timely opportunity to re-release the “Safe Food; Safe Grilling” public service announcements. During the year, the food safety announcements aired almost 2,900 times on 46 stations, reaching an estimated audience of 84 million and earning an airtime value of \$362,000. In response to recent media coverage about *E. coli* O157:H7, copies of the “Confident Cooking with Beef” booklet also were reprinted and distributed.



RESEARCH

CONNECTIONS

- The checkoff continued the Carcass Merit Project in 2002 to validate genetic markers for economically important carcass and customer satisfaction traits, such as marbling, tenderness and composition. The primary goal of the ongoing project is to provide tools to identify genetically superior animals in the U.S. beef population, toward producing offspring with the greatest potential for meeting demands of consumers. The project is building a database from which breed-specific Expected Progeny Differences can be developed. It is scheduled for completion in 2003.



- Beef safety research measured the effectiveness of feeding sodium chlorate to cattle to reduce *E. coli* concentrations. The results indicated that *E. coli* was reduced 10- to 100-fold both in the gut and on the hide, with no negative effects on carcass quality. Another study involved the feeding of Tasco 14, a product produced from seaweed, to cattle 14 days before slaughter. Results showed significant reductions in *E. coli* O157 and *E. coli* O157:H7 levels. Additional benefits of feeding Tasco 14 included an increase in the USDA quality grade due to increased marbling and decreased yield grade scores. While early in development stages, these studies may provide additional tools to ensure beef safety.
- Checkoff dollars have been invested in cattle cleaning research to reduce the level of bacteria that enters the processing facility. A recent study tested the AgWash solution and its effectiveness on cleaning cattle hides. The solution significantly reduced bacteria levels and shows promise. Further studies will be implemented on live cattle. Pre-harvest cattle washing also was tested using a variety of chemicals and wash cycles to determine the effectiveness of each process in reducing hide contamination.

- Product enhancement research focused on improving cuts from the chuck and round that previous checkoff-funded muscle profiling research determined to be slightly or moderately tender. Cuts were treated with vacuum tumbling, blade tenderization, marination or injection, and results were documented and studied. This information will be used to add value to lower-end beef cuts.
- In collaboration with the USDA Nutrient Data Lab, the checkoff program researched and updated

the national nutrient values of many beef products, including various compositions of ground beef. The USDA Nutrient Database for Standard Reference is an online resource used frequently by health professionals and consumers. The new USDA data shows that 95 percent lean ground beef is lower in fat and calories and higher in many micronutrients than ground turkey. The 93 percent to 95 percent lean ground beef also meets government requirements for a lean label claim. The new data is a direct result of a checkoff-funded study.

- In 2002, beef checkoff funding helped co-sponsor two important nutrition research conferences. More than 400 researchers attended the "International Meeting of Trace Elements in Man and Animals" to discuss trace element research, including iron, zinc, selenium and health issues, such as cognitive development. The National Nutrient Databank Conference attracted key food and nutrition professionals who use food composition data to solve



scientific questions in nutrition research and health services. Co-sponsorship of these conferences is a cost-effective way for the industry to make its interest in nutrition research known to key scientists, while also getting word out about the importance of the key nutrients in beef.

- Checkoff-funded research measured consumer flavor preferences for beef and assessed the extent to which consumers enjoy cooking. It also measured their use of recipes, desired degree of doneness for different types of beef and overall food sophistication. The checkoff-funded Culinary Center and New Product Development Team will use this research to work with food manufacturers to develop new and better convenient beef products.
- The Convenience Continuity Program facilitated development of in-store convenience sections. Studies have shown that although 65 percent of consumers are aware of convenient beef products, only 38 percent know where to find them in the store. This program incorporated



three specific elements: advertising to increase awareness of the products and sections, public relations to drive consumers to the stores, and in-store promotion to direct consumers to convenience sections within meat cases. The program is in place in about 1,220 stores. Program results indicate that stores with highly visible, clearly identified sections have the most significant increases in beef sales.

BRINGING SCIENCE TO MARKET

TURNING MUSCLE PROFILING INTO BEEF VALUE CUTS

Based on the Muscle Profiling Research, the checkoff-funded R&D Ranch® team developed a line of moderately priced steaks from cuts previously merchandised as inexpensive roasts or ground beef. The resulting line of 14 steaks and roasts known as Beef Value Cuts is adding value to the beef carcass, while also supplying new moderately priced beef options to consumers in supermarkets and restaurants.

A resource kit developed for the Beef Value Cuts program includes a CD with new recipes and photography, consumer market research, an interactive profitability worksheet and a cutting video. The checkoff-funded New Product and Culinary Center works directly with meat cutters to teach them how to fabricate the new value cuts. In addition, the center has developed recipe and cooking guidelines that offer new menu applications for the cuts.

Major restaurants, processors and foodservice distributors now are using Beef Value Cuts. More than 100 independent restaurants are offering the cuts, and menu applications are under development in several national chains. A Web site for foodservice professionals, www.beeffoodservice.com, featured two popular steak value cuts, the Flat Iron and Ranch Cut. Meanwhile, the Kroger supermarket chain introduced the Beef Value Cuts line in two cities, and "The Complete Take On Steak" recipe booklet was revised to include information about Beef Value Cuts.

Research tested consumer responses to the new beef line at retail to determine how consumers heard about Beef Value Cuts, how well they liked them, and whether they intended to repurchase. Finally, the muscle profiling work has gone another step through Cow Muscle Profiling research. Evaluations of muscles for tenderness and other characteristics were documented to help determine the best use for non-fed beef carcasses.



- Checkoff dollars fund extensive consumer market research to evaluate the success of the consumer advertising program and to track consumer trends and attitudes in regard to beef. Information from these studies is used to spot new food trends that can be used for new product development and to work with food manufacturers, foodservice operators and retail chains to increase the sale of beef and beef products. Examples of consumer research include the Advertising Tracking Study, Beef Industry Scan, Commercial Foodservice Trends, Retail Meat Purchase Diary, Beef Value Cuts In-Home Consumer Research and At-Home Beef Consumption Trends.

FOREIGN MARKETING

CONNECTIONS

- While USDA estimates that about 9 percent of U.S. beef production is exported, a new checkoff-funded study indicates that 55 percent of U.S. beef variety meats are exported at much higher values than they would net if they were sold domestically. Higher international prices paid for beef cuts underutilized in this country contributed more than half of the added value resulting from exports. The

study revealed that exporting beef and beef variety meats raised the number of potential customers and resulting overall demand. It also increased the value of U.S. products by allowing sellers to find buyers willing to pay the highest price globally. The study found that the total value of exports adds the equivalent of \$12.45 per hundredweight to the price of a fed steer. Worldwide, beef export sales were up 7 percent during the first half of calendar 2002, driven by strong sales to Korea, Mexico and Russia, while beef variety meat exports were 18 percent lower due to a 52 percent drop in sales to Japan. Combined beef plus variety meats exports during January through August 2002 declined 2.6 percent in tonnage and 6.4 percent in value from the same period in 2001, but still totaled \$2.1 billion.

- Mexico's growth in population and personal income, as well as its status as a popular vacation destination for U.S. citizens, has made it a key target for checkoff-funded promotional activities. The third annual chefs' competition was held in Mexico City. From a field of 186 participants — up from just 80 the first year — 18 finalists took part in a cooking contest. Winning dishes were



selected based on originality, versatility, nutritional attributes and use of underutilized cuts of U.S. beef. The nine winners traveled to the U.S. to learn more about its beef industry and to take part in a program at the Culinary Institute of America. During August, Mexico became the largest export market for American beef and beef variety meat, with exports increasing 14.1 percent in volume and 13 percent in value during the first eight months of 2002.

- A checkoff-sponsored meat merchandising event in South Korea — the third largest export market for U.S. beef and growing quickly — was designed to bring U.S. chilled beef closer to consumers by suggesting cooking methods for easy dishes. Fifty-six butcher shops that sell U.S. chilled beef entered the "delicious meat making" event, which included a meat cutting contest using U.S. cuts. The event demonstrated demand for U.S. chilled beef, and its publicity expanded awareness of U.S. beef products. Participating stores sold about 25 percent more U.S. beef during the contest and about 7 percent more in the period immediately following. U.S. beef and beef variety meat exports to Korea during the first eight months of 2002 were up 105 percent in volume and more than 121 percent in value.

- In one of the largest-ever promotions of a U.S. beef variety meat, a beef liver promotion was launched in more than 500 outlets throughout Russia. Working closely with Russian distributors, point-of-sale materials highlighted the versatility, great taste and healthy nature of U.S. beef livers.



Four innovative recipes also were used to encourage Russian consumers to purchase U.S. liver. U.S. beef and beef variety meat exports to Russia were up almost 44 percent in volume and up 60 percent in value during the first eight months of 2002.

A CLOSER LOOK AT EFFORTS

TO REBUILD U.S. BEEF EXPORTS TO JAPAN

The September 2001 discovery of BSE in the Japanese cattle herd caused a significant drop in beef consumption in Japan. Despite the fact that 70 percent of the beef consumed in Japan is imported from BSE-free countries such as the U.S., Japanese consumers turned away from all beef.

Checkoff dollars were immediately invested in a two-step response to the crisis in Japan, the largest export market for U.S. beef. First, the Food Safety Bureau was used as a primary vehicle to monitor the media, correct misinformation and conduct an active safety information campaign. The "anshin," or "no anxiety," campaign reached 27 million Japanese consumers, and more than 30,000 supermarkets and restaurants participated in joint promotions. A follow-up "aisareru," or "desire beef" promotion then was used to generate consumer confidence in U.S. beef and to rebuild intent to buy. The campaign was extended through cooperative promotions in more than 12,000 grocery stores and restaurants. In addition, 350 Japanese nutritionists and others attended seminars in Osaka and Tokyo and learned that beef is a good source of iron and zinc, two essential minerals not readily found in fish, the traditional protein source for the Japanese.

Japan remains the top U.S. beef export market, though U.S. exports to Japan in 2001 declined 6 percent in volume from the record year in 2000, when export volume was 514,000 metric tons. Meanwhile, export value dipped 11 percent to about \$1.6 billion. Sales to Japan during the first eight months of 2002 remained well below the same period in 2001, but checkoff-funded efforts will continue to seek a turnaround in this key market for U.S. beef.



PRODUCER

COMMUNICATIONS

- In a recent survey, more than nine out of 10 beef producers said it is important for them to know how their beef checkoff dollars are being invested and what the results of those investments are. Information about checkoff programs was disseminated to producers through more than 80 print news releases and 110 audio news releases. Brochures, posters, displays and other materials carrying checkoff information were available to producers at industry meetings, tradeshow and fairs, as well as in livestock sale barns. In addition, two-page checkoff updates were inserted quarterly in national beef and dairy publications with a combined circulation of nearly 1 million producers.



2002 MEMBERS

Beef Board members are nominated by fellow producers in their respective states or regions. Each serves without compensation. They are pictured here by state, along with their committee assignments.



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 Nelson Curry, Secretary/Treasurer
 Dee Lacey, Chairman
 Monte Reese, Chief Operating Officer

ALABAMA



Gregg Blythe
 Decatur, AL
 Advertising Committee



Wayne Thames
 Evergreen, AL
 Public Relations Subcommittee
 CBB Audit Committee

ARIZONA



James Webb
 Phoenix, AZ
 Chair - Information Committee

ARKANSAS



Leland Jackson
 Ash Flat, AR
 Beef Safety Research Subcommittee



John Thomas
 Danville, AR
 Advertising Committee
 OSBC Coordination & Collections Compliance Subcommittee

CALIFORNIA



David Albers
 Bakersfield, CA
 Beef Quality Assurance Subcommittee



Paul Cameron
 Brawley, CA
 V. Chair - International Markets Committee
 USMEF Board - CBB Representative



Dee Lacey
 Paso Robles, CA
 CBB Chairman; Chair - Operating Committee; Executive Committee; Beef Industry Budget Committee
 Conventions & Meetings Advisory Committee; Chair - Importer Working Group



Edward (Dan) Macedo
 Merced, CA
 Beef Quality Assurance Subcommittee



Bill Sanguinetti
 Farmington, CA
 Chair - Beef Quality Assurance Subcommittee



Michael Thoren
 Berthoud, CO
 Foodservice Committee



Danny Todd
 Crawford, CO
 New Product & Culinary Initiatives Committee



Wade Zimmerman
 Sugar City, CO
 V. Chair - Nutrition & Health Committee

COLORADO

FLORIDA



Kay Richardson
 Evinston, FL
 Executive Committee
 V. Chair - Beef Safety Research Subcommittee;
 CBB Administration Subcommittee



Andy Tucker, Jr.
 Rockledge, FL
 CBB V. Chair;
 Chair - Executive Committee;
 Operating Committee;
 V. Chair - Research & Technical Services Group



Harvey Lemmon
 Woodbury, GA
 Youth Education & Information Subcommittee
 V. Chair - OSBC Coordination & Collections Compliance Subcommittee



Carl Crabtree
 Grangeville, ID
 Industry Communications Subcommittee



Jim Little
 Emmett, ID
 Operating Committee
 V. Chair - Information Committee
 Beef Industry Budget Committee



David Bateman
 Elburn, IL
 Executive Committee;
 Public Relations Subcommittee;
 Chair - CBB Administration Subcommittee



Steven Foglesong
 Astoria, IL
 Issues Management Subcommittee



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 Ponte Vedra Beach, FL
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IDAHO

ILLINOIS

IMPORTERS

IMPORTERS



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 Westfield, NJ
 Youth Education & Information Subcommittee;
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 Retail Committee



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 Senosian
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 New Product & Culinary Initiatives Committee



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 Williamsport, IN
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Michael Cline
 Elgin, IA
 Health Professional Influencers Subcommittee

INDIANA

IOWA

IOWA



Nancy Pellett
Atlantic, IA
Retail Committee



Bill Scheitler
LeMars, IA
Operating Committee;
International Markets
Committee
V. Chair - Beef Industry
Budget Committee



Stanley Zylstra
Hull, IA
International Markets
Committee



Richard J. Benoit
Damar, KS
Retail Committee;
V. Chair - CBB Audit
Committee



Tracy Brunner
Ramona, KS
Operating Committee;
New Product & Culinary
Initiatives Committee



Ron Estes
Atchison, KS
Advertising Committee



Joe Jury
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Committee



Connie Kuhlman
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Advertising
Committee

KANSAS



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Clyde, KS
International Markets
Committee
USMEF Board - CBB
Representative



Howard Woodbury
Quenemo, KS
Product Enhancement
Subcommittee



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Hardinsburg, KY
International Markets
Committee;
Chair - OSBC Coordination
& Collections Compliance
Subcommittee



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Paris, KY
CBB Secretary/Treasurer;
Executive Committee;
Operating Committee;
V. Chair - Communications;
Beef Industry Budget Com.



James Tipton
Taylorsville, KY
Issues Management
Subcommittee;
Administration
Subcommittee



Daniel Lyons
Church Point, LA
Public Relations
Subcommittee;
Evaluation Committee



Walter Stafford
Richland, MI
Product Enhancement
Subcommittee



Larry Echols
Gap Mills, WV
Product Enhancement
Subcommittee

KENTUCKY

MINNESOTA



Douglas Dickmann
Pierz, MN
Foodservice Committee



Jon Gorder
Canby, MN
New Product & Culinary
Initiatives Committee



Greg Hilgeman
Oklee, MN
Human Nutrition
Research Subcommittee



Clifford Dance, Jr.
Winona, MS
Issues Management
Subcommittee



Loretta Broderick
Plattsburg, MO
Beef Safety Research
Subcommittee



Benny Farrell
Maryville, MO
International Markets
Committee
USMEF Board - CBB
Representative



David Means
Fulton, MO
Food & Nutrition
Issues Subcommittee



Tom Sites
Blackwater, MO
Human Nutrition Research
Subcommittee
V.Chair-CBB Administration
Subcommittee

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Foodservice Committee;
QSBC Coordination &
Collections
Compliance Subcommittee



Jane Lindgren
Joliet, MT
Advertising Committee;
Importer Working Group



Carol Mosher
Augusta, MT
Retail Committee



Shari Flaming
Paxton, NE
V. Chair - New Product &
Culinary Initiatives Committee;
Brand-Like Commission



Norman Guenther
Crofton, NE
Advertising Committee
CBB Administration
Subcommittee



David McCracken
Friend, NE
Executive Committee;
Advertising Committee;
Importer
Working Group



John McFadden
Taylor, NE
New Product & Culinary
Initiatives Committee



Nancy Meyring
Alliance, NE
Foodservice Committee

NEBRASKA

NEBRASKA



Bill Rishel
North Platte, NE
Product Enhancement
Subcommittee
CBB Audit Committee
CBB Administration Committee



Alan Svajgr
Cozad, NE
Operating Committee;
V. Chair - Human
Nutrition Research
Subcommittee



Steven Lucas
Paradise Valley, NV
Retail Committee

NEW MEXICO



Anne Ferguson
Carrizozo, NM
Public Relations
Subcommittee

NEW YORK



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Candor, NY
Veal Committee;
CBB Audit Committee

NORTHEAST



Dr. Justin Martin, Jr.
Canandaigua, NY
USMEF Board - CBB
Representative;
QSBC Coordination &
Collections Compliance
Subcommittee

NORTHWEST



John Roberts
Whiting, VT
Executive Committee;
V. Chair - Issues
Management Subcommittee;
Beef Industry Budget
Committee



Joan Harder
Ritzville, WA
Executive Committee;
Youth Education &
Information
Subcommittee;
Chair - Evaluation
Committee

N. CAROLINA



Perry Lee Teeter
Glade Valley, NC
Operating Committee;
Advertising Committee

N. DAKOTA



Jon Erickson
Minot, ND
Advertising
Committee



Theresa Tokach
Mandan, ND
Retail Committee

OHIO



Joe Foster
Gallipolis, OH
Industry Communications
Subcommittee

OKLAHOMA



Lisa Hefner
Seminole, OK
Chair - Foodservice
Committee



Michael Brooks
Ringling, OK
Health Professional
Influencers
Subcommittee



Roger Kite
Sulphur, OK
Public Relations
Subcommittee



Billy McCarley
Marlow, OK
Beef Quality Assurance
Subcommittee

OKLAHOMA



Terry Wyatt
Hollister, OK
V. Chair - Retail
Committee



Peggy Biaggi
Bonanza, OR
Issues
Management
Subcommittee



Bob Hay
Friedens, PA
New Product & Culinary
Initiatives Committee;
CBB Administration
Subcommittee



Ralph Bell
Summerton, SC
Foodservice Committee
Joint Audit Committee
Chair - CBB Audit
Committee



Patricia Blum
Reliance, SD
Chair - Industry
Communications
Subcommittee



Ralph Jones
Midland, SD
Beef Safety Research
Subcommittee;
QSBC Coordination &
Collections Compliance
Subcommittee



Gary Sharp
Bath, SD
Executive Committee;
Chair - Youth Education
& Information
Subcommittee



Arnold Wienk
Lake Preston, SD
V. Chair - Public
Relations
Subcommittee

OREGON

PENNSYLVANIA

S. CAROLINA

S. DAKOTA

TENNESSEE

TEXAS



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Maryville, TN
Advertising
Committee



Stephen Worley
Hampshire, TN
Human Nutrition
Research Subcommittee;
Evaluation Committee



Verlin Callahan
Austin, TX
Chair - Food & Nutrition
Issues Subcommittee



Robert Carter
Plainview, TX
Product Enhancement
Subcommittee



John Cook
Nixon, TX
Product Enhancement
Subcommittee



Herff Cornelius, Jr.
Wadsworth, TX
Beef Quality Assurance
Subcommittee



Hollis Gilfillian, Jr.
Stowell, TX
V. Chair - Beef Quality
Assurance
Subcommittee;
CBB Administration
Subcommittee



Vera Harrington
Sulphur Springs, TX
Youth Education &
Information
Subcommittee

TEXAS



Janet Helm
Van Horn, TX
V. Chair - Consumer
Marketing;
CBB Audit
Committee



Hope Huffman
McGregor, TX
New Product & Culinary
Initiatives;
Brand-Like Commission



Pat McDowell
Shamrock, TX
Executive Committee;
Industry Communications
Subcommittee;
CBB Administration
Subcommittee
V. Chair - Brand Like Commission



Ernie Morales
Devine, TX
International Markets
Committee



Jay O'Brien
Amarillo, TX
Operating Committee;
Chair - Nutrition &
Health Committee



Dr. C. R. Sherron
Beaumont, TX
Health Professional
Influencers
Subcommittee



Linda Joy Stovall
El Campo, TX
Operating Committee;
Chair - Advertising
Committee



Carlyn Walker
Mirando City, TX
New Product & Culinary
Initiatives Committee

UTAH

VIRGINIA

WISCONSIN

WYOMING



Darrell Johnson
Rushvalley, UT
Beef Quality Assurance
Subcommittee;
QSBC Coordination &
Collections
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Luray, VA
Foodservice Committee



Joe Wampler
Mt. Crawford, VA
Retail Committee



Susan Beittlich
Stoddard, WI
V. Chair-Food &
Nutrition Issues
Subcommittee



Wayne Danielson
Cadott, WI
Veal Committee
CBB Audit Committee



Bill Ehrke
Ft. Atkinson, WI
New Product &
Culinary Initiatives;
QSBC Coordination &
Collections Compliance
Subcommittee



Leigh Tuckey
Lancaster, WI
V. Chair-Industry
Communications
Subcommittee;
CBB Administration
Subcommittee



Patricia Frolander
Sundance, WY
Advertising Committee;
CBB Administration
Subcommittee

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2002 AND 2001 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

Independent Auditors' Report

To the Members of the Cattlemen's Beef Promotion and Research Board:

We have audited the accompanying statement of assets, liabilities and fund balances - modified cash basis of the Cattlemen's Beef Promotion and Research Board (the "Board") as of September 30, 2002, and the related statement of revenues, expenses and changes in fund balances - modified cash basis for the year then ended. These financial statements and the exhibit referred to below are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements and exhibit of the Board as of and for the year ended September 30, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and the exhibit in their report dated October 17, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Board's policy is to prepare its financial statements on the modified cash basis of accounting; consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations of the Board in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Board as of September 30, 2002, and its revenues, expenses and changes in fund balances for the year then ended, on the modified cash basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the 2002 basic financial statements taken as a whole. The supplementary statement of assessment revenues by state for the year ended September 30, 2002 (Exhibit I) is presented for purposes of additional analysis and is not a required part of the 2002 basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the 2002 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2002 basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the Board insofar as they relate to accounting matters. Further, in connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the terms of Section 1260.149(f) of the Order, or with the terms of the Agricultural Marketing Service Investment Policy, which describe the type of instruments in which the Board may invest, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the members of the Cattlemen's Beef Promotion and Research Board and its management and the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

KPMG, LLP

Denver, Colorado
November 4, 2002

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
(MODIFIED CASH BASIS, NOTE 2) SEPTEMBER 30, 2002 AND 2001

ASSETS	2002	2001
CASH AND CASH EQUIVALENTS (Notes 2 and 3)	\$ 9,203,039	\$ 663,464
SHORT-TERM INVESTMENTS (Note 3)	15,916,023	25,468,729
EQUIPMENT, net of accumulated depreciation of \$56,174 and \$47,766, respectively (Note 2)	14,486	13,552
OTHER	5,956	1,106
Total assets	<u>\$25,139,504</u>	<u>\$26,146,851</u>
LIABILITIES AND FUND BALANCES		
DUE TO STATE BEEF COUNCILS AND OTHER COMMITMENTS (Notes 2, 4, 7 and 8)	\$ 855	\$ 754
FUND BALANCES (Note 5):		
Appropriated for budgeted expenditures	19,456,292	15,074,044
Board reserve	5,000,000	5,000,000
Unappropriated	667,871	6,058,501
Investment in equipment, net	14,486	13,552
	<u>25,138,649</u>	<u>26,146,097</u>
Total liabilities and fund balances	<u>\$25,139,504</u>	<u>\$26,146,851</u>

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS, NOTE 2) SEPTEMBER 30, 2002 AND 2001

	2002	2001
REVENUES:		
Assessments (Note 1)	\$45,696,642	\$47,469,581
Interest	793,714	1,820,563
Other	45,527	24,383
Total revenues	<u>46,535,883</u>	<u>49,314,527</u>
EXPENSES:		
Program-		
Promotion	25,714,446	29,976,379
Research	5,099,219	5,132,907
Consumer Information	5,780,603	4,868,427
Industry Information	1,613,768	1,706,150
Foreign Marketing	5,178,498	5,064,770
Producer Communications	1,951,477	2,558,901
Program Evaluation	130,000	67,441
Program Development	96,780	119,877
Total program expenses	<u>45,564,791</u>	<u>49,494,852</u>
USDA Oversight Administration (Note 4)	397,212	169,988
	<u>1,581,328</u>	<u>1,745,110</u>
Total expenses	<u>47,543,331</u>	<u>51,409,950</u>
Deficiency of revenues over expenses (Note 2)	(1,007,448)	(2,095,423)
BEGINNING FUND BALANCES	<u>26,146,097</u>	<u>28,241,520</u>
ENDING FUND BALANCES	<u>\$25,138,649</u>	<u>\$26,146,097</u>

The accompanying notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
(MODIFIED CASH BASIS)

SEPTEMBER 30, 2002 AND 2001

(1) ORGANIZATION

The Beef Promotion and Research Act of 1985 (the "Act"), approved on December 23, 1985 by the United States Congress, established a coordinated program of promotion and research designed to strengthen the beef industry's position in the marketplace, as well as to maintain and expand domestic and foreign markets and uses for beef and beef products. As provided in the Act, the Secretary of the United States Department of Agriculture (the "Secretary") issued the Beef Promotion and Research Order (the "Order"), effective July 18, 1986, which provides the terms and conditions for the Act's administration. The Cattlemen's Beef Promotion and Research Board (the "Board"), which was created and approved by the Secretary to administer the Act, consists of 110 members who are representatives of the cattle industry in the United States, including importers.

The program is financed by a \$1 per head assessment on domestic sales of cattle and on imported cattle, beef, and beef products. The Board, as part of its responsibilities under the Act and Order, may certify no more than one Qualified State Beef Council (the "Council") in each state and authorize that Council to collect such assessments. The assessments are remitted to the Councils or the Board. The Board receives one-half of assessment monies from states with Councils and the Councils retain the remainder. The Board receives all assessment revenues from states without Councils and from imported cattle, beef, and beef products.

Pursuant to the Act, the Board's expenditures for administration are limited to 5% or less of projected revenues. All remaining revenues are expended on programs related to promotion, research and information for the beef industry. The Board contracts with established national cattle- or beef-industry-governed nonprofit organizations for the implementation and conduct of these programs. Under the terms of these contracts, the entities which receive Board contracts are subject to annual audits and reviews.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under this method, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred. At

September 30, 2002 and 2001, there were assessment receivables of approximately \$6,100,000 and \$6,400,000, interest receivables of approximately \$105,000 and \$253,000, and accounts payable of approximately \$7,400,000 and \$2,300,000, respectively, which are not reflected in the accompanying financial statements. Accounts payable relate to appropriated expenditures and are included in the fund balance appropriated for budgeted expenditures in the accompanying statements of assets, liabilities and fund balances (Note 5).

As discussed in Note 1, the Board receives one-half of the assessment monies collected by the Councils and the remainder is retained by the Councils. The accompanying financial statements include only the Board's share of assessment monies and do not include amounts related to either revenues or expenses of the individual Councils.

Depreciation

Equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of three to ten years.

Cash and Cash Equivalents

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

(3) CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Secretary has provided that excess cash may be invested, on a short-term basis, in obligations of the United States or in obligations of any U.S. Government agency or U.S. Government-sponsored corporation. Cash, cash equivalents and short-term investments at September 30, 2002 and 2001, by investment type, are as follows.

	Cash and Cash Equivalents	Short-Term Investments	Total Book Value	Total Market Value
Demand Deposit Account	\$ 63,257	\$ -	\$ 63,257	\$ 63,257
U.S. Government Securities	11,100,460	15,916,023	27,016,483	27,192,242
Less-Outstanding Checks	(1,960,678)	-	(1,960,678)	(1,960,678)
Totals for 2002	<u>\$ 9,203,039</u>	<u>\$15,916,023</u>	<u>\$25,119,062</u>	<u>\$25,294,821</u>
Totals for 2001	<u>\$ 663,464</u>	<u>\$25,468,729</u>	<u>\$26,132,193</u>	<u>\$26,304,555</u>

The demand deposit account is insured by the Federal Deposit Insurance Corporation and fully collateralized by U.S. Government securities held at the Federal Reserve Bank in the Board's name.

(4) ADMINISTRATION EXPENSE

The Act limits expenditures for the administration of the program to 5% or less of projected revenues. Projected revenues were \$45,000,000 for 2002 and 2001. Accordingly, the administrative expenses incurred by the Board were limited to \$2,250,000 in 2002 and 2001. Administrative expenses incurred by the Board on the accrual basis (versus modified cash basis amounts reflected in the accompanying statements of revenues, expenses and changes in fund balances) were approximately \$1,595,000 (3.5% of projected revenues) in 2002 and \$1,734,000 (3.9% of projected revenues) in 2001. Expressed as a percentage of actual revenues, the Board's administrative expenses were 3.4% in 2002 and 3.5% in 2001.

The Board has entered into an Administrative Services Agreement with the National Cattlemen's Beef Association (NCBA) whereby NCBA agreed to provide certain administrative services to the Board in return for reimbursement of all direct and indirect costs related to the provided services. During 2002 and 2001, respectively, the Board paid NCBA approximately \$177,000 and \$138,000 related to this agreement.

During fiscal year 2001, the Board leased office facilities from NCBA. Payments required by the lease were approximately \$39,000 in 2001. Beginning August 2001, the Board is leasing office facilities from an outside third-party under an operating lease. No payments were required under the new lease during fiscal year 2001 and payments required during fiscal year 2002 were approximately \$55,000. Future annual payments related to the lease are approximately \$87,000 in 2003, \$87,000 in 2004, \$92,000 in 2005, \$95,000 in 2006, and \$39,000 in 2007 (five months).

(5) FUND BALANCES

Appropriated for Budgeted Expenditures

The balance reflected in the appropriated portion of the fund balance relates to unexpended program appropriations and unexpended amounts budgeted for administrative expenses.

Board Reserve

The Board has approved the establishment of a fund balance reserve in the amount of \$5,000,000 to be used as the Board may deem necessary, with the approval of the Secretary.

Unappropriated

At September 30, 2002 and 2001, respectively, \$667,871 and \$6,058,501 of the fund balance had not been appropriated by the Board and was available for budgeting to the various

program areas. During October 2002 and 2001, the Board appropriated \$400,000 and \$800,711 of these available funds by amending the fiscal year 2003 and 2002 budgets, respectively.

(6) INCOME TAX STATUS

The Board has received a ruling from the Internal Revenue Service stating that it is classified as a tax-exempt entity that engages in activities under the aegis of the United States Department of Agriculture.

(7) PENSION PLAN

The Board provides pension benefits for all of its employees through a simplified employee pension plan under which annual contributions are provided based on a percentage of each employee's salary. Contributions required and funded by the Board were approximately \$78,000 and \$68,000 in 2002 and 2001, respectively.

(8) LITIGATION (UNAUDITED)

During fiscal year 2001, certain persons filed suit against USDA and the Board alleging, among other allegations, that the beef checkoff program violates beef producers' rights under the First Amendment to the Constitution of the United States. On June 21, 2002, a federal district court in South Dakota ruled the beef checkoff program violates producers' First Amendment rights and issued an injunction prohibiting collection of checkoff assessments that was to take effect on July 15, 2002. Before that date, the 8th Circuit Court of Appeals issued a stay on this injunction during the pendency of the appeal filed by the U.S. Department of Justice. No ruling has been issued on the appeal of this lawsuit as of November 4, 2002.

A similar legal challenge has been pending in the federal district court in Montana. On November 1, 2002, that court ruled the beef checkoff program constitutional, rejecting the challengers' argument that it violates the First Amendment. The challengers are expected to appeal this decision to the 9th Circuit, although no appeal had been filed as of November 4, 2002.

USDA and the U.S. Department of Justice will continue to vigorously defend these cases and believe the beef checkoff program does not violate producers' First Amendment rights. USDA and the Board have successfully defended the constitutionality of the beef checkoff program in previous cases and feel they have strong arguments in support of their position that the beef checkoff program does not violate the First Amendment. However, if the beef checkoff program is ultimately ruled unconstitutional and that resulted in the loss of a significant portion of checkoff assessments, it would have a significant impact on the Board's operations.

EXHIBIT 1: SUPPLEMENTARY STATEMENTS OF ASSESSMENT REVENUES BY STATE

(MODIFIED CASH BASIS, NOTE 2)

SEPTEMBER 30, 2002 AND 2001

ASSESSMENT REVENUES:	2002	2001
Qualified State Beef Councils-		
Alabama	\$ 392,336	\$ 455,300
Arizona	375,019	365,558
Arkansas	457,823	472,136
California	1,404,735	1,543,438
Colorado	2,023,288	2,048,699
Delaware	7,179	7,628
Florida	386,795	417,278
Georgia	326,891	358,265
Hawaii	12,829	17,877
Idaho	912,112	1,024,998
Illinois	396,401	420,214
Indiana	260,487	284,819
Iowa	1,675,618	1,760,019
Kansas	4,043,188	4,037,377
Kentucky	682,923	730,774
Louisiana	244,823	282,598
Maine	15,292	17,733
Maryland	49,561	51,506
Michigan	225,808	226,439
Minnesota	682,988	712,909
Mississippi	301,183	364,888
Missouri	1,325,412	1,408,628
Montana	940,522	1,050,344
Nebraska	3,814,964	4,036,850
Nevada	131,133	169,420
New Jersey	7,411	8,333
New Mexico	526,573	597,046
New York	311,585	327,029
North Carolina	221,172	224,262
North Dakota	627,239	604,514
Ohio	\$ 315,933	\$ 324,889
Oklahoma	2,003,568	2,010,954
Oregon	446,307	494,166
Pennsylvania	422,514	438,935
South Carolina	108,711	122,199
South Dakota	1,523,026	1,546,049
Tennessee	508,069	551,456
Texas	5,955,370	6,194,661
Utah	315,483	337,606
Vermont	56,700	64,469
Virginia	431,713	382,392
Washington	567,549	610,577
West Virginia	104,785	102,712
Wisconsin	754,812	817,777
Wyoming	563,110	604,101
Total Qualified State Beef Councils	36,860,940	38,629,822
States Without Qualified State Beef Councils-		
Alaska	483	646
Connecticut	16,549	19,845
Massachusetts	18,001	18,736
New Hampshire	11,684	14,591
Rhode Island	1,281	7,089
Total States Without Qualified State Beef Councils	47,998	60,907
Importers	8,787,704	8,778,852
Total Assessment Revenues	\$45,696,642	\$47,469,581

The accompanying notes to financial statements are an integral part of these supplementary statements.



CATTLEMEN'S BEEF PROMOTION
AND RESEARCH BOARD

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