BEEF

IT'S STILL WHAT'S FOR DINNER

2005 BEEF BOARD ANNUAL REPORT
Dear Fellow Producers:

It’s been another great year for the beef industry — and another great year for your Beef Checkoff Program. In the midst of constant change and challenge of recent years, though, the Supreme Court’s ruling in May that our checkoff program is constitutional certainly was a welcome one. With that ruling in place, we can continue to invest our checkoff dollars into programs aimed at increasing consumer demand for beef through promotion, research and information initiatives that help us change our product and marketing approaches to respond to consumers’ quickly changing desires.

In this report, you’ll get to review some of the results that specific beef checkoff initiatives achieved during Fiscal 2005. Maybe most important to our mission at the Cattlemen’s Beef Board and across the entire beef industry is that, throughout all of the challenges of the last few years — including BSE — consumer confidence in the safety of the U.S. beef supply has remained above 90 percent. And that’s something that we should all be proud of, knowing that producers have always worked diligently to maintain one of the safest beef supplies in the world.

So I take my hat off to you, my friends and fellow cattlemen, because if it weren’t for your investment in the checkoff, there are a lot of innovative safety, nutrition and promotion initiatives — tools, really — that we would simply not have to help our industry not just survive, but thrive. As we move forward through the next year of challenges, however, let’s not forget that it is our responsibility as producers to stay involved in our checkoff program, to make sure it is doing what we need for it to do. And let’s stay out of the courtroom and make decisions about our industry by working together to bring our visions to fruition for generations to come.

With warm regards,

Al Svajgr, Cattleman
Cozad, Neb.
2005 Chairman,
Cattlemen’s Beef Promotion & Research Board
2005 Beef Board Members

Beef Board members are nominated by fellow producers in their respective states or regions. The U.S. Secretary of Agriculture appoints producers to the Board from those nominations, and the U.S. Department of Agriculture oversees the Board. Each Board member serves a three-year term and may serve a second consecutive term if reappointed, and does so without compensation. In 2005, Beef Board members represented 11 different sectors of the beef industry, with the biggest sector being cow-calf, followed by feeder, stocker and dairy. There are no packer seats on the Beef Board.
BEEF It’s Still What’s For Dinner
Beef producers who volunteer their service on the Cattlemen’s Beef Board help determine how checkoff dollars are invested through their participation in committee recommendations and advisory committee discussions. Listed below are the Beef Board committees and the joint industry advisory committees on which Beef Board members served in Fiscal 2005.

**2005 Committees**

**BEEF BOARD COMMITTEES**

**EXECUTIVE COMMITTEE**
- Jay O’Brien, TX, Chair
- Al Svajgr, NE
- Ken Stielow, KS
- Carl Crabtree, ID
- Rich Nielson, UT
- Dick Nock, CA
- Sugie Sartwelle, TX
- Don Stewart, Imp.
- Dave True, WY
- Lucinda Williams, MA
- Stan Zylstra, IA
- Nelson Curry, KY, Ex-Officio

**CBB AUDIT COMMITTEE**
- Richard Benoit, KS, Chair
- Laurie Bryant, Imp., Vice Chair
- Ed Blair, SD
- Benny Farrell, MO
- Al Pedigo, KY
- Bill Rishel, NE
- Dick Sherron, TX
- Wayne Thames, AL
- Stan Zylstra, IA

**CBB ADMINISTRATION SUBCOMMITTEE**
- Charles Miller, KY, Chair
- Bill Rishel, NE, Vice Chair
- Pat Blum, SD
- Merrill Karlen, SD
- Neil Kayser, WA
- Jerry King, MO
- Dianne Kirkbride, WY
- Dan Petersen, IA
- Kay Richardson, FL
- Jim Webb, AZ
- Lucinda Williams, MA

**JOINT GLOBAL CONSUMER MARKETING GROUP**
- Lisa Hefner, OK - Chair
- Jay O’Brien, TX - Vice Chair

**JOINT ADVERTISING**
- Bobby Combs, VA
- Jon Erickson, ND
- Ron Estes, KS
- Glenda Fuller, KS
- Jon Gorder, MN
- Connie Kuhlman, KS
- Dave McCracken, NE
- Mac Pate, TN

**JOINT FOODSERVICE COMMITTEE**
- Laurie Bryant, Imp., Vice Chair
- Bill Carroll, IA
- Larry Descheemaeker, MT
- Doug Dickmann, MN
- Kim Holzner, Imp.
- Nancy Meyring, NE
- Mike Thoren, CO

**JOINT NEW PRODUCT & CULINARY INITIATIVES COMMITTEE**
- Hope Huffman, TX, Chair
- David Boyer, OK
- Glenn Eberly, PA
- Dianne Kirkbride, WY
- Randy Meabon, PA
- Mark Pendleton, NC

**JOINT RETAIL COMMITTEE**
- Terry Wyatt, OK, Chair
- Richard Benoit, KS, Vice Chair
- Loretta Broderick, MO
- Pete Case, TX
- Virginia Coelho, CA
- Steve Lucas, NV
- Carol Mosher, MT
- Greg Silpe, Imp.
JOINT VEAL COMMITTEE
Bill Ehrke, WI, Vice Chair
Robert Carter, TX

JOINT INTERNATIONAL MARKETS COMMITTEE
Ed Blair, SD, Vice Chair
Jim Almond, MT
Mike Brooks, OK
Paul Cameron, CA
Jeff Dahl, ND
Benny Farrell, MO
Robert Fountain Jr., GA
Ross Garwood, NE
Dana Hauck, KS
Chuck Markley, MI
Al Pedigo, KY
Jim Webb, AZ
Stanley Zylstra, IA

JOINT PUBLIC OPINION & ISSUES MANAGEMENT GROUP
Ken Stielow, KS - Vice Chair

JOINT INFORMATION COMMITTEE
Dave Bateman, IL, Chair
Gary Sharp, SD, Vice Chair

JOINT PUBLIC RELATIONS SUBCOMMITTEE
Bill McKinnon, VA
Jenny Senn, SC
Jack Thomas, AR
Al Wright, AR

JOINT ISSUES MANAGEMENT SUBCOMMITTEE
Dave True, WY, Vice Chair
Austin Brown III, TX
Andrew Burtt, Imp.
O.D. Cope, MO
Carlyle Currier, CO
Merrill Karlen, SD
Woody Larson, Jr., FL
Charles Miller, KY
Sharon Spenrath, TX
Wayne Thames, AL
Lucinda Williams, MA

JOINT YOUTH EDUCATION & INFORMATION SUBCOMMITTEE
Wade Zimmerman, CO, Vice Chair
Vera Harrington, TX
Margie McKeen, NM
Mitchell Pincus, Imp.

JOINT NUTRITION AND HEALTH COMMITTEE
Mike Cline, IA - Chair

JOINT FOOD AND NUTRITION ISSUES SUBCOMMITTEE
Richard Atkinson, Imp.
Dan Petersen, IA
Doris Rush, NE
Don Stewart, Imp.

JOINT HEALTH PROFESSIONAL INFLUENCERS SUBCOMMITTEE
Pat Blum, SD, Chair
Richard Hodge, TX
T.B. Porter, LA

JOINT RESEARCH AND KNOWLEDGE MANAGEMENT GROUP

JOINT PRODUCT ENHANCEMENT COMMITTEE
Bill Rishel, NE, Vice Chair
Peggy Biaggi, OR
John Cook, TX
Norman Guenther, NE
Pat Woods, NM

JOINT BEEF SAFETY COMMITTEE
Greg Benedict, Imp.
Terry Detrick, OK
Dave Fugate, TN
Donald Gray, NY
Don Hullman, KS
Neil Kayser, WA
Walter Lasley, TX
Kay Richardson, FL
Mark Riechers, WI
Quilly Ward, WV

JOINT HUMAN NUTRITION RESEARCH COMMITTEE
Dick Sherron, TX, Chair
Greg Hilgeman, MN, Vice Chair
Jack Cowley, CA
Jerry King, MO

JOINT INDUSTRY & PRODUCER SERVICES GROUP
Jim Little, ID - V. Chair

JOINT PRODUCER COMMUNICATIONS COMMITTEE
Sugie Sartwelle, TX, Vice Chair
Herff Cornelius, Jr., TX
Virginia Davis, IN
Charlie Hull, MS
Chuck Kiker III, TX
Richard Nielson, UT
Dick Nock, CA
Frank Phelps, OH

JOINT PRODUCER EDUCATION COMMITTEE
Carl Crabtree, ID, Vice Chair
David Albers, CA
Nancy Thomas, WI

JOINT ADMINISTRATION COMMITTEES

JOINT AUDIT COMMITTEE
Richard Benoit, KS
The Cattlemen’s Beef Promotion & Research Board is dedicated to improving producer profitability, expanding consumer demand for beef, and strengthening beef’s position in the marketplace.

Most Americans have at one time or another heard Sam Elliot’s powerful cowboy voice smoothly booming out the "Beef. It's What's for Dinner" tagline, either in a television or radio advertisement touting beef. In fact, ad-tracking research indicates that about 86 percent of American consumers are familiar with that tagline for checkoff-funded beef promotion.

No doubt, that’s a strong start to a successful campaign; multibillion-dollar organizations spend far more on campaigns that never achieve results like that. And even though their checkoff doesn’t have billions to spend, cattlemen have maintained high standards for it: They don’t just want to sell beef. They want to sell beef that is so good — and good for you — that consumers come back for it over and over again.

With that in mind, the cattlemen and importers who direct the Beef Checkoff Program by volunteering their time to the Cattlemen’s Beef Board have a terrific story to tell, because today’s U.S. beef supply not only maintains great taste in the final product but also is a naturally nutrient-rich powerhouse that is among the safest in the world. Of course, that kind of quality and consistency doesn’t come without determined and strategic effort, and that’s what the Beef Checkoff Program is all about. And with the checkoff program focused on a solid industrywide strategy, consumer demand for beef advanced 25 percent between 1998 and 2004.

On the following pages, you’ll get a glimpse of the types of demand-building initiatives funded through the Beef Checkoff Program during Fiscal 2005. Thanks to the investment of the some 800,000 beef producers and importers in the U.S., these types of programs help ensure that the U.S. beef supply meets the needs of today’s fickle consumer — programs that help ensure that beef is still what’s for dinner.
Promotion

Promotion, as authorized for the checkoff, refers to any action, including paid advertising, aimed at advancing the image and desirability of beef and beef products, with the express intent of improving the competitive position and stimulating sales of beef and beef products in the marketplace.

Consumer Advertising
The “Beef. It’s What’s for Dinner” advertising campaign in 2005 focused on fueling consumers’ passion for beef and changing their attitudes about beef’s nutritional values. National advertisements ran 106 times in 27 national consumer magazines and 125 times a week on radio across the country, reaching 94 percent of adults 25-54 a total of 16 times each. The results? Ad tracking research indicates that 85 percent of those who saw the enjoyment print ads and 79 percent of those who heard the radio said “it makes me more interested in beef.” At the same time, 73 percent of those who saw the nutrition ads said they feel better about eating beef after seeing the ads.

New Product Development
The Beef Value Cuts program, developed through checkoff-funded research, has had a significant impact on beef sales through all marketing channels. More than 20,000 restaurants have served cuts including the Flat Iron, Shoulder Tender, and Ranch Cut. In addition, retail sales of Beef Value Cuts gained traction in 2005, demonstrated by the increasing number of U.S. supermarkets offering them - up from 321 in 2003 to nearly 5,000 in 2005! At the same time, foodservice entities nationwide sold 106 million pounds of Beef Value Cut steaks in Fiscal 2005 - including 47 million pounds of Flat Iron steaks, which surpassed the Porterhouse in foodservice volume.

Foodservice Marketing
The Beef Checkoff Program invested a total of $2 million into foodservice partnerships during the last four years, where partners invested about $122 million. That’s more than $60 from foodservice partners for every checkoff dollar invested! In 2005, that included a partnership with Boston Market — previously known for its rotisserie chicken — to introduce four new roasted sirloin meals. Within three weeks of launch, the lean steak entrees represented more than 10 percent of the chain’s overall product mix, making it one of the best new-product deployments in the company’s history.
Culinary Center
The checkoff-funded Culinary Center created a Beef and Veal Ad Planner with extensive full-color photography and recipes for use by consumer publications worldwide. In addition, the checkoff’s Culinary Center developed 70 new recipes, managed photography for 90 new photos, and screened more than 2,500 recipes for the National Beef Cook-off coordinated for the Beef Board and state beef councils by the American National CattleWomen.

National Beef Cook-Off
Media coverage for the 2005 National Beef Cook-Off event included more than 2,300 placements with 357 million media impressions. The total number of media impressions increased 36 percent compared to the 2003 National Beef Cook-Off, with additional coverage continuing to roll into 2006.

National Beef Ambassadors
A total of 46 trained youth worked to spread positive beef messages to consumers nationwide through the checkoff-funded Beef Ambassadors Program in 2005. Through print, Web, radio and television outlets, they promoted beef and shared positive nutrition messages. A peer nutrition workshop - “Beef Fed, Beef Fit, Beef Fantastic” - included weeklong training with beef experts.

Veal
Checkoff-funded promotion efforts helped get veal chops featured on the cover of Bon Appetit magazine in February 2005 for the first time ever. All told, checkoff-funded veal programs generated nearly $2 million in advertising equivalency in print media and more than 17.2 million impressions on national television shows during the year.

Some of America’s top amateur cooks went head-to-head in Rapid City, S.D. in September, competing for the $50,000 “Best of Beef” grand prize and eight other cash prizes in the 2005 National Beef Cook-Off®
For the purpose of the beef checkoff, research means studies relative to the effectiveness of market development and promotion efforts, studies relating to the nutritional value of beef and beef products, other related food-science research, and new product development.

**Beef Safety**
Checkoff-funded pathogen and intervention research demonstrates beef producers’ commitment to the goal of constantly maintaining the safety of the U.S. beef supply. And interventions developed through the Beef Checkoff Program are the very foundation for effective safety systems that ensure U.S. beef products remain the safest in the world. According to an April 2005 report issued by the Centers for Disease Control and Prevention, the incidence of illness attributed to *E.coli* O157:H7 has declined 42 percent since the 1996-98 baseline, meeting the U.S. Healthy People 2010 goal more than five years ahead of schedule. The percentage of positive ground beef samples collected declined by 80 percent between 2000 and 2004.

**Best Practices**
Based on the building blocks created at its *E.coli* Summit in January 2003, the checkoff-funded Beef Industry Food Safety Council continues to bring cow-calf producers, feedlot operators, packers, processors, retailers and foodservice operators to the table to battle the industry’s most complex food safety issues together. The Best Practices documents addressing pathogen management and completed by the group during FY2005 will be updated and reviewed as scientific and technology advances are made.

**Nutrition**
In 2005, the Beef Checkoff Program continued to fund nutrition research that identifies beef’s role in a healthy diet. Checkoff research conducted at the University of Illinois found that women using a protein-rich diet combined with an exercise program lost more weight than those who combined the same exercise program with a higher-carbohydrate, lower-protein diet. Results were published in the *Journal of Nutrition*. 
Consumer Information

Consumer information means nutritional data and other information that will assist consumers and other persons in making evaluations and decisions regarding the purchasing, preparing and use of beef and beef products.

Public Relations
The Beef Checkoff Program received nationwide recognition for public-relations efforts related to bovine spongiform encephalopathy (BSE), when it was awarded its second consecutive Silver Anvil Award from the Public Relations Society of America again in 2005.

Nutrition Public Relations
During 2005, nutrition public relations efforts funded by the checkoff generated nearly 330 million media impressions. Key to this was a continued effort to develop relationships with key nutrition and health media at national target publications based primarily in Washington, D.C. and New York City. Outlets included in nutrition public-relations media tours conducted during the year included Parents, First for Women, Women’s World, Family Circle, Men’s Fitness, Good Housekeeping, Women’s Day, Redbook, Fitness, Dow Jones and Reuters.

Safety Public Relations
Key efforts in this area in 2005 included a large-scale media outreach campaign; use of third-party experts as resources; creation of a Food Safety Education Network for education and resource-sharing; and a food safety media tour. The results? Consumer confidence remained above 90 percent. In addition, media analysis leader CARMA International’s favorability rating for beef safety media coverage averaged about 47 during the year, well within the “neutral” range of 45-55 - even with a case of BSE and against steady anti-beef activism.

Youth Education
Beef checkoff efforts highlighted the ease and fun of cooking with beef and the role of beef in a healthy diet to “tween” girls. In addition, more than 30,000 teachers received checkoff-funded materials for their classrooms, and another 50,000 girls were reached through the checkoff’s “Fit for a Princess” Girl Scout patch program.
Industry Information

Industry information means information and programs that will lead to development of new beef markets, marketing strategies, increased efficiency, and activities to enhance the image of the cattle industry.

Issues Management
The Beef Checkoff Program believes in the old Boy Scout Motto: Be Prepared. Comparable to defensive driving for the beef industry, a 2005 checkoff effort to plan for any further BSE events involved an integrated state/national plan of consumer research and attitude tracking, a research-based risk communications plan, information and message development, media relations, and development of a BSE Preparedness Toolkit for use by state beef councils.

The results? Consumer confidence never even quivered, averaging 91 percent since the first case of BSE in the U.S. was announced in December 2003. At year-end 2005, tracking indicated that 92 percent of consumers remained confident that U.S. beef is safe from BSE, even though 50 percent of Americans believe we do have a few cows with BSE in the United States.

Beef Quality Assurance
Fiscal 2005 witnessed a significant increase in state participation in the checkoff’s Quality Assurance program, with a total of 18 separate projects funded, including four state Quality Assurance pilot projects. Those were targeted at providing dairy and beef Quality Assurance training and educational materials. Similarly, a record number of state Quality Assurance coordinators attended the annual coordinators’ seminar in June 2005 — to update and discuss the latest Quality Assurance topics including biosecurity, animal identification, cattle handling and transportation - with 42 state programs represented by 105 state Quality Assurance coordinators!
Foreign Marketing

For the purposes of the Beef Checkoff Program, foreign marketing includes any of the approved categories of checkoff funding — promotion, research, consumer information and industry information — conducted in any market outside of the United States.

Mexico
The Beef Checkoff Program continued aggressive efforts in all sales channels to grow beef exports to Mexico, including retail promotions using entertainment to reward consumers who purchase U.S. beef. The results? Those promotions - coordinated for the checkoff by the U.S. Meat Export Federation (USMEF) - resulted in sales increases of as much as 150 percent where they were used in Mexico. Overall, beef and beef variety meat exports to Mexico neared pre-BSE levels by Fiscal 2005 year-end.

Japan
Beef checkoff dollars were invested in consumer advertising in Japan to present the facts about BSE and explain measures taken by the U.S. to ensure safety of beef exported to Japan. These messages, also under the direction of USMEF, reached a circulation of more than 35 million Japanese consumers and were designed to overcome the sense of betrayal that many of these consumers had communicated. Advertising tracking survey data suggests that those who saw the ads would be more likely to purchase U.S. beef when it returned to the Japanese market.
The goal of checkoff-funded producer-communications efforts is to keep producers and importers informed about how their checkoff dollars are being invested and give them opportunities to ask questions about those investments. During Fiscal 2005, checkoff educational ads for producers appeared 121 times in 18 state, regional and national beef and dairy publications, while radio ads aired on stations in a dozen states, and television checkoff news segments aired multiple times on U.S. Farm Report, Ag Day, RFD-TV and Today’s Ag. All told, the advertisements created more than 35 million impressions at a cost of about 2 cents each, and January 2005 producer research indicated that 83 percent of producers had a favorable impression of the ads.

Also during the year, media tours by the Beef Board’s officers created a total of 4.14 million impressions, based on media circulation numbers, and a monthly newsletter updated importers about the checkoff. Checkoff participation in dairy and beef industry trade shows earned publicity about the checkoff’s accomplishments and offered one-on-one information opportunities for producers, importers and media.

The Beefmobile, which travels throughout the country on behalf of the Beef Checkoff Program, made more than 100 visits to livestock marketing facilities in 2005 to spread the word about how the checkoff is invested and answer any associated questions. Its efforts were recognized by the National Agri-Marketing Association as the best producer-funded public relations program to an agricultural audience. Producers increased funding for the Beefmobile in Fiscal 2006, to put two vans on the road.
INDEPENDENT AUDITOR’S REPORT

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

We have audited the 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, 2005 and the related statement of revenues, expenses and changes in fund balances - modified cash basis for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Board as of September 30, 2004 were audited by other auditors whose report dated November 1, 2004 on those statements included an explanatory paragraph describing conditions that raised substantial doubt about the Board's ability to continue as a going concern as discussed in Note 8.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Board as of September 30, 2005 and its revenues, expenses and changes in fund balances for the year then ended, on the basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the basic financial statements for the year ended September 30, 2005 taken as a whole. The accompanying supplementary statements of assessment revenues by state (modified cash basis) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information for the year ended September 30, 2005 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information for the year ended September 30, 2004 was audited by other auditors, whose report dated November 1, 2004 expressed an unqualified opinion on such information, in all material respects, in relation to the 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") related 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 specific parties.

Denver, Colorado
October 21, 2005

Clifton Gunderson LLP
### STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
(Modified Cash Basis, Note 2)
September 30, 2005 and 2004

#### Assets
<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
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<tbody>
<tr>
<td>Cash and Cash Equivalents (Note 3)</td>
<td>$100,303</td>
<td>$740,617</td>
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<tr>
<td>Short-Term Investments (Note 3)</td>
<td>25,344,276</td>
<td>21,843,070</td>
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<tr>
<td>Equipment, net of accumulated depreciation of $52,398 and $57,462, respectively</td>
<td>8,000</td>
<td>10,791</td>
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<tr>
<td>Other</td>
<td>13,425</td>
<td>10,699</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$25,466,004</td>
<td>$22,605,177</td>
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#### Liabilities and Fund Balances
Due to State Beef Councils and other
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<tr>
<th></th>
<th>2005</th>
<th>2004</th>
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<tr>
<td>$910</td>
<td>935</td>
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Fund Balances (Note 5):
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<tr>
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<th>2005</th>
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<tr>
<td>Appropriated for budgeted expenses</td>
<td>22,457,094</td>
<td>17,593,451</td>
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<tr>
<td>Board reserve</td>
<td>3,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Investment in equipment, net</td>
<td>8,000</td>
<td>10,791</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>25,465,094</td>
<td>22,604,242</td>
</tr>
</tbody>
</table>

Commitments and contingencies (Notes 4, 7 and 8)
<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities and Fund Balances</strong></td>
<td>$25,466,004</td>
<td>$22,605,177</td>
</tr>
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### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
(Modified Cash Basis, Note 2)
September 30, 2005 and 2004

#### Revenues:
<table>
<thead>
<tr>
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<th>2005</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>Assessments (Note 1)</td>
<td>$44,627,129</td>
<td>$45,195,760</td>
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<tr>
<td>Interest</td>
<td>511,687</td>
<td>251,953</td>
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<tr>
<td>Other</td>
<td>37,226</td>
<td>56,398</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>45,236,042</td>
<td>45,504,111</td>
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#### Expenses:
<table>
<thead>
<tr>
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<th>2004</th>
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<tbody>
<tr>
<td>Program-</td>
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<td></td>
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<tr>
<td>Promotion</td>
<td>22,309,397</td>
<td>25,171,651</td>
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<tr>
<td>Research</td>
<td>6,204,972</td>
<td>5,765,831</td>
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<tr>
<td>Consumer Information</td>
<td>5,560,807</td>
<td>4,685,044</td>
</tr>
<tr>
<td>Industry Information</td>
<td>1,335,324</td>
<td>2,335,519</td>
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<tr>
<td>Foreign Marketing</td>
<td>3,091,053</td>
<td>4,252,807</td>
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<tr>
<td>Producer Communications</td>
<td>1,839,489</td>
<td>1,615,064</td>
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<td>Program Evaluation</td>
<td>197,689</td>
<td>188,490</td>
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<tr>
<td>Program Development</td>
<td>124,674</td>
<td>86,472</td>
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<tr>
<td><strong>Total program expenses</strong></td>
<td>40,663,405</td>
<td>44,100,878</td>
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<tr>
<td>USDA Oversight</td>
<td>109,958</td>
<td>135,394</td>
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<td>Administration (Note 4)</td>
<td>1,601,827</td>
<td>1,705,002</td>
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<tr>
<td><strong>Total expenses</strong></td>
<td>42,375,190</td>
<td>45,941,274</td>
</tr>
<tr>
<td>Revenues over (under) expenses</td>
<td>2,860,852</td>
<td>(437,163)</td>
</tr>
<tr>
<td><strong>Beginning fund balances</strong></td>
<td>22,604,242</td>
<td>23,041,405</td>
</tr>
<tr>
<td><strong>Ending fund balances</strong></td>
<td>$25,466,094</td>
<td>$22,604,242</td>
</tr>
</tbody>
</table>

The accompanying notes to financial statements are an integral part of these statements.
NOTES TO FINANCIAL STATEMENTS
(Modified Cash Basis)  September 30, 2005 and 2004

(1) Organization and Operations
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 108 members who are representatives of the cattle industry in the United States, including importers. Board members are appointed by the Secretary.

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 expenses 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-governmental 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.

During fiscal years 2005 and 2004, the Board reimbursed the following industry organizations for program expenses incurred on approved projects:

<table>
<thead>
<tr>
<th>Name of Contractor</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Farm Bureau</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation for Agriculture</td>
<td>59,114</td>
<td>11,188</td>
</tr>
<tr>
<td>American Meat Institute Foundation</td>
<td>22,628</td>
<td>137,294</td>
</tr>
<tr>
<td>American National Cattlemen, Inc. (&quot;ANCW&quot;)</td>
<td>34,983</td>
<td>110,123</td>
</tr>
<tr>
<td>Meat Importers Council of America</td>
<td>5,119</td>
<td>2,258</td>
</tr>
<tr>
<td>National Cattlemen’s Beef Association</td>
<td>40,060,664</td>
<td>43,329,967</td>
</tr>
<tr>
<td>National Livestock Producers Association</td>
<td>158,504</td>
<td>235,088</td>
</tr>
</tbody>
</table>

The program expenses incurred by NCBA and NCF during fiscal years 2005 and 2004 included reimbursements for costs incurred under subcontracts with the ANCW of $449,120 and $503,476, the American Veal Association of $30,703 and $95,694, and the U.S. Meat Export Federation of $3,091,053 and $5,800,000, respectively.

(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, 2005 and 2004, there were assessment receivables of approximately $6,300,000 and $6,200,000, interest receivables of approximately $184,000 and $60,000, and accounts payable of approximately $4,800,000 and $5,800,000, 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, Cash Equivalents and Short-Term Investments
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. Cash equivalents and short-term investments are recorded at cost.

(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, 2005 and 2004, by investment type, are as follows:

<table>
<thead>
<tr>
<th>Demand Deposit Account</th>
<th>Cash and cash equivalents</th>
<th>Short-term investments</th>
<th>Total carrying value</th>
<th>Total fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government Securities</td>
<td>$293</td>
<td>$—</td>
<td>$293</td>
<td>$293</td>
</tr>
<tr>
<td>Less – outstanding checks</td>
<td>(86,990)</td>
<td>$25,344,276</td>
<td>25,531,276</td>
<td>25,693,910</td>
</tr>
<tr>
<td>Totals for 2005</td>
<td>$100,303</td>
<td>$25,344,276</td>
<td>$25,444,579</td>
<td>$25,607,213</td>
</tr>
<tr>
<td>Totals for 2004</td>
<td>$740,617</td>
<td>$21,843,070</td>
<td>$22,583,687</td>
<td>$22,631,406</td>
</tr>
</tbody>
</table>

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 expenses for the administration of the program to 5% or less of projected revenues. Projected revenues were $45,000,000 for 2005 and $47,000,000 for 2004. Accordingly, the administrative expenses incurred by the Board were limited to $2,250,000 in 2005 and $2,350,000 in 2004. 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 $1,544,000 (3.4% of projected revenues) in 2005 and $1,718,000 (3.7% of projected revenues) in 2004. Expressed as a percentage of actual revenues, the Board’s administrative expenses were 3.4% in 2005 and 3.8% in 2004.
The Board has entered into an Administrative Services Agreement with 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 2005 and 2004, respectively, the Board paid NCBA approximately $187,000 and $184,000 related to this agreement.

The Board leases office facilities from an outside third-party under an operating lease. Payments required under the lease were approximately $92,000 during 2005 and $93,000 during 2004. Future annual payments related to the lease are approximately $98,000 in 2006, and $41,000 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 $3,000,000 to be used as the Board may deem necessary, with the approval of the Secretary.

Unappropriated

No amounts were unappropriated as of September 30, 2005 and 2004.

(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 ("USDA").

(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 $89,000 and $85,000 in 2005 and 2004, respectively.

(8) Litigation and Potential Impact on Board's Operations

During fiscal year 2001, certain persons filed suit against the USDA and the Board alleging, inter alia, that the Beef Promotion and Research Act violates beef producers' rights under the First Amendment (Johanns v. LMA). On June 21, 2002, a federal district court in South Dakota ruled that the Act was unconstitutional and entered an order enjoining collections as of July 15, 2002. As part of that proceeding the court considered, but did not act on, the plaintiffs' claim that the Board should refund $10,048,677 because plaintiffs claimed that the money had been used on improper producer communications. The 2002 injunction order was stayed pending appeal before it went into effect. This stay permitted the Board to operate normally while the appeals were pending. The 8th Circuit Court of Appeals affirmed the district court ruling, however, on May 27, 2005, the U.S. Supreme Court reversed the ruling, holding that the Act did not violate the First Amendment. The 2002 injunction order was vacated and the case was sent back for further proceedings.

No schedule has yet been established for further proceedings in the federal district court of South Dakota. We anticipate that the plaintiffs will soon inform the Court as to what remaining claims, if any, in the case they seek to further pursue. We anticipate that in light of the Supreme Court's decision any continuing effort by plaintiffs to seek to compel the refund of the $10,048,677 identified in their complaint would be vigorously contested. Beyond this, plaintiffs may seek to return to the original claim that led to the filing of the complaint, the USDA's decision that insufficient valid petitions had been submitted to force the Secretary to schedule a referendum. We anticipate that any remaining claims will be vigorously contested by the Board.

On November 1, 2002, the federal district court in Montana rejected a First Amendment challenge to the Act ruling that the Act produced government speech (Charter v. USDA). An appeal to the 9th Circuit Court of Appeals (9th Circuit) was stayed pending the Supreme Court's decision in Johanns v. LMA (decided May 27, 2005). In Johanns v. LMA, the Supreme Court, consistent with the federal district court's 2002 ruling, held that the Act produces government speech thereby rejecting the plaintiff's First Amendment challenge. Following Johanns v. LMA, the 9th Circuit, on June 16, 2005, vacated the federal district court's ruling and remanded the case asking the District Court to determine if there was a factual basis to proceed with an as-applied claim based on a claimed violation of the First Amendment's freedom of association. Specifically, the 9th Circuit remanded "to determine, among other things, whether speech was attributed to appellants and, if so, whether such attribution can and does support a claim that the Act is unconstitutional as applied." The government's request that the 9th Circuit reconsider that ruling was rejected on August 4, 2005. A scheduled October hearing to discuss how to proceed with the case at the federal district court in Montana was cancelled when the Court was advised by plaintiffs that they intended to dismiss their complaint with prejudice. On October 19, 2005, the parties filed a stipulation for dismissal with prejudice and on October 21, 2005, the federal district court in Montana dismissed the case with prejudice.

On July 24, 2001, Orleans International, Inc. filed a complaint in the U.S. Court of International Trade seeking a refund of its beef assessments because, it alleged, the Act violates its First Amendment rights in light of the Supreme Court's decision in United States v. United Foods, No. 00-276 (June 25, 2001). In December, 2001, this case was consolidated with Pierce Trading Int'l v. U.S. (U.S. Court of International Trade). A third case, A.S.C.-Meyner Company v. United States, was also filed in the U.S. Court of International Trade. In their complaint, plaintiffs allege that they import beef and beef products into the United States and pay beef assessments on those imports. They are seeking a refund with interest of all the assessments they have paid. In Johanns v. LMA, the Supreme Court held that the Act produces government speech, thereby rejecting the Plaintiffs' First Amendment challenge. Following this decision, plaintiffs are considering amending their complaints to assert that the attribution of those messages to the individual plaintiffs constituted an "as applied" violation of the First Amendment. The Department of Agriculture and the Department of Justice have vigorously defended against plaintiffs' claims and will continue to do so.
**EXHIBIT 1: SUPPLEMENTARY STATEMENTS OF ASSESSMENT REVENUES BY STATE**  
(Modified Cash Basis) For the Years Ended September 30, 2005 and 2004

<table>
<thead>
<tr>
<th>State</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessment Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualified State Beef Councils-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alabama</td>
<td>406,941</td>
<td>473,219</td>
</tr>
<tr>
<td>Arizona</td>
<td>351,349</td>
<td>307,833</td>
</tr>
<tr>
<td>Arkansas</td>
<td>468,679</td>
<td>468,895</td>
</tr>
<tr>
<td>California</td>
<td>1,608,425</td>
<td>1,661,433</td>
</tr>
<tr>
<td>Colorado</td>
<td>1,569,335</td>
<td>1,608,408</td>
</tr>
<tr>
<td>Delaware</td>
<td>10,945</td>
<td>10,342</td>
</tr>
<tr>
<td>Florida</td>
<td>368,158</td>
<td>379,816</td>
</tr>
<tr>
<td>Georgia</td>
<td>328,130</td>
<td>369,406</td>
</tr>
<tr>
<td>Hawaii</td>
<td>21,335</td>
<td>21,012</td>
</tr>
<tr>
<td>Idaho</td>
<td>868,610</td>
<td>906,689</td>
</tr>
<tr>
<td>Illinois</td>
<td>358,760</td>
<td>379,147</td>
</tr>
<tr>
<td>Indiana</td>
<td>267,061</td>
<td>267,303</td>
</tr>
<tr>
<td>Iowa</td>
<td>1,655,498</td>
<td>1,714,056</td>
</tr>
<tr>
<td>Kansas</td>
<td>3,793,786</td>
<td>3,945,649</td>
</tr>
<tr>
<td>Kentucky</td>
<td>767,977</td>
<td>761,446</td>
</tr>
<tr>
<td>Louisiana</td>
<td>230,462</td>
<td>244,756</td>
</tr>
<tr>
<td>Maine</td>
<td>14,841</td>
<td>16,010</td>
</tr>
<tr>
<td>Maryland</td>
<td>46,914</td>
<td>45,559</td>
</tr>
<tr>
<td>Michigan</td>
<td>229,625</td>
<td>238,944</td>
</tr>
<tr>
<td>Minnesota</td>
<td>691,990</td>
<td>707,933</td>
</tr>
<tr>
<td>Mississippi</td>
<td>306,936</td>
<td>334,132</td>
</tr>
<tr>
<td>Missouri</td>
<td>1,416,746</td>
<td>1,425,841</td>
</tr>
<tr>
<td>Montana</td>
<td>899,468</td>
<td>899,864</td>
</tr>
<tr>
<td>Nebraska</td>
<td>3,741,369</td>
<td>3,673,982</td>
</tr>
<tr>
<td>Nevada</td>
<td>126,168</td>
<td>129,571</td>
</tr>
<tr>
<td>New Jersey</td>
<td>6,417</td>
<td>7,559</td>
</tr>
<tr>
<td>New Mexico</td>
<td>508,285</td>
<td>554,946</td>
</tr>
<tr>
<td>New York</td>
<td>303,729</td>
<td>313,448</td>
</tr>
<tr>
<td>North Carolina</td>
<td>202,050</td>
<td>227,738</td>
</tr>
<tr>
<td>North Dakota</td>
<td>594,212</td>
<td>615,973</td>
</tr>
<tr>
<td>Ohio</td>
<td>315,862</td>
<td>322,002</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>1,969,331</td>
<td>2,119,868</td>
</tr>
<tr>
<td>Oregon</td>
<td>440,359</td>
<td>445,344</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>390,408</td>
<td>405,547</td>
</tr>
<tr>
<td>South Carolina</td>
<td>99,839</td>
<td>114,138</td>
</tr>
<tr>
<td>South Dakota</td>
<td>1,457,822</td>
<td>1,480,102</td>
</tr>
<tr>
<td>Tennessee</td>
<td>525,899</td>
<td>558,025</td>
</tr>
<tr>
<td>Texas</td>
<td>5,942,053</td>
<td>6,187,488</td>
</tr>
<tr>
<td>Utah</td>
<td>250,781</td>
<td>212,570</td>
</tr>
<tr>
<td>Vermont</td>
<td>51,034</td>
<td>55,289</td>
</tr>
<tr>
<td>Virginia</td>
<td>391,932</td>
<td>416,094</td>
</tr>
<tr>
<td>Washington</td>
<td>430,896</td>
<td>446,433</td>
</tr>
<tr>
<td>West Virginia</td>
<td>115,153</td>
<td>112,024</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>733,779</td>
<td>753,099</td>
</tr>
<tr>
<td>Wyoming</td>
<td>478,487</td>
<td>486,401</td>
</tr>
<tr>
<td><strong>Total Qualified State Beef Councils</strong></td>
<td>35,747,856</td>
<td>36,825,334</td>
</tr>
<tr>
<td>States Without Qualified State Beef Councils-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alaska</td>
<td>493</td>
<td>452</td>
</tr>
<tr>
<td>Connecticut</td>
<td>15,527</td>
<td>16,362</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>17,959</td>
<td>19,050</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>11,932</td>
<td>11,983</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>503</td>
<td>434</td>
</tr>
<tr>
<td><strong>Total States Without Qualified State Beef Councils</strong></td>
<td>46,414</td>
<td>48,281</td>
</tr>
<tr>
<td>Importers</td>
<td>8,832,859</td>
<td>8,322,145</td>
</tr>
<tr>
<td><strong>Total Assessment Revenues</strong></td>
<td>$44,627,129</td>
<td>$45,195,760</td>
</tr>
</tbody>
</table>

See the accompanying independent auditors’ report.
Cattlemen’s Beef Board Mission Statement

The Cattlemen’s Beef Promotion & Research Board is dedicated to improving producer profitability, expanding consumer demand for beef, and strengthening beef’s position in the marketplace.
Investing in Beef Safety, Nutrition & Promotion

Cattlemen’s Beef Promotion and Research Board
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Centennial, Colorado 80112
Phone: 303.220.9890 • Fax: 303.220.9280

www.beefboard.org