Report to Congress

on the

National Dairy Promotion and Research Program

and the

National Fluid Milk Processor Promotion Program

July 1, 2005

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Executive Summary

The enabling legislation of both the producer and processor dairy promotion programs (7 U.S.C. 4514 and 7 U.S.C. 6407) requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry by July 1. The producer and processor programs are conducted under the Dairy Promotion and Research Order (Dairy Order) (7 CFR §1150) and the Fluid Milk Promotion Order (Fluid Milk Order) (7 CFR §1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of the national fluid milk programs. An accounting of funds collected and spent, an independent analysis of the effectiveness of the advertising campaigns of the two programs, and an industry-commissioned review of fluid milk markets and program operations are included. Additionally, this report addresses program activities for the fiscal period January 1 - December 31, 2004, of the Dairy Promotion Program and the Fluid Milk Processor Promotion Program, unless otherwise noted.

Producer Dairy Promotion Program

The Dairy Production Stabilization Act of 1983, as amended, (Dairy Act) (7 U.S.C. 4501, *et seq.*) authorized a national producer program for generic dairy product promotion, research, and nutrition education as part of a comprehensive strategy to increase human consumption of milk and dairy products. Dairy farmers fund this self-help program through a mandatory 15-cent per hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially. Dairy farmers administer the national program through the National Dairy Promotion and Research Board (Dairy Board). The Dairy Act provides that dairy farmers can receive a credit of up to 10 cents per hundredweight of the assessment for contributions to qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs).

The Dairy Order became effective on May 1, 1984. The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Nearly 90 percent of the dairy farmers voting in the August-September 1985 referendum favored continuing the program. USDA held a second referendum on the dairy promotion program in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuing the program. USDA will hold future referenda at the direction of the Secretary or upon the request of at least 10 percent of the affected dairy farmers.

The Dairy Board portion of the revenue from the 15-cent per hundredweight producer assessment was $85.7 million for 2004, and Qualified Programs revenue from the producer assessment was $187.4 million for the same year. Revenue from assessments for the Dairy Board and many of the Qualified Programs is integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together.

Fluid Milk Processor Promotion Program

The Fluid Milk Promotion Act of 1990, as amended, (Fluid Milk Act) (7 U.S.C. 6401 *et seq.*) authorized the establishment of a national processor program for fluid milk promotion and education. The Fluid Milk Order became effective December 10, 1993. The Secretary appointed the initial National Fluid Milk Processor Promotion Board (Fluid Milk Board) on June 6, 1994.

Processors administer the Fluid Milk Processor Promotion Program through the Fluid Milk Board. Since 1996, processors marketing more than 3 million pounds of fluid milk per month, excluding those fluid milk products delivered to the residence of a consumer, fund this program through a 20-cent per hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia. Prior to 1996, processors marketing 3 million pounds or more funded the program. The Fluid Milk Board's revenue for the January 1 through December 31, 2004, period was $105.7 million.

The Fluid Milk Act required the Secretary to conduct a referendum among fluid milk processors funding the program to determine if a majority favored implementing the program. In the October 1993 referendum, 72 percent of the processors voted to approve the implementation of the fluid milk program. These processors represented 77 percent of the volume of fluid milk products marketed by all processors during May 1993, the representative period set for the referendum. USDA held a continuation referendum in February-March 1996. Of the processors voting in that referendum, nearly 65 percent favored continuation of the program. These processors represented 71 percent of the volume of fluid milk products marketed by all processors during September 1995, the representative period set for the referendum.

In November 1998, USDA held another continuation referendum at the request of the Fluid Milk Board. Fluid milk processors voted to continue a national program for fluid milk promotion established by the Fluid Milk Order. Of the processors voting in this referendum, 54 percent favored continuation of the order. These processors represented 86 percent of the fluid milk products processed and marketed by fluid milk processors voting in the referendum. The Fluid Milk Act and Order state that USDA will hold future referenda upon the request of the Fluid Milk Board, of processors representing 10 percent or more of the volume of the fluid milk products marketed by those processors voting in the last referendum, or when called by the Secretary.

National Fluid Milk Program

The Fluid Milk Board continued to execute a national fluid milk program in 2004. The fluid milk marketing programs are research based and message focused. A summary of the national fluid milk program for fiscal year 2004 follows the Fluid Milk Board section in Chapter 1 of this report.

USDA Oversight

USDA has oversight responsibility for both dairy promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with their respective Acts and Orders. All advertising, promotional, and educational materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved. USDA employees attend all Board and Board Committee meetings and monitor all Board activities. USDA also has responsibility for obtaining an independent evaluation of the program. Additional USDA responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program audits. The Boards reimburse the Secretary, as required by the Acts, for all of USDA's costs of program oversight and for the independent analysis.

Independent Analysis and Fluid Milk Market and Promotion Assessment

Chapter 3 reports the results of the independent econometric analysis, conducted by Cornell University, of the effectiveness of the dairy promotion programs. Since 1995, the independent analysis has included an analysis of the effectiveness of the producer promotion program in conjunction with the processor promotion program. Cornell has conducted these analyses since 1998.

Chapter 4 presents the industry-commissioned fluid milk market and program operations assessment, representing the sixth year that this assessment has been conducted. The review offers an evaluation of the effectiveness of the fluid milk advertising and promotion programs from a marketing perspective.

Appendices: Supplemental Information

This report's Appendix section (Appendix A–I) includes a variety of supplemental information related to the dairy promotion programs. Appendix A presents a detailed listing of the current and past Dairy Board members. Appendix B similarly includes a detailed listing of all current and past Fluid Milk Board Members.

Appendix C features two maps that display the regions of both the Dairy Board and Fluid Milk Board.

Appendix D presents tables that report the actual income and expenditures, USDA oversight costs, and approved budgets for both the Dairy Board and Fluid Milk Board.

Appendix E-1 includes the financial statements, supplemental schedules, and the independent auditor's report for the Dairy Board. The auditing firm KPMG LLP conducted the 2004 Dairy Board independent audit. Appendix E-2 includes financial statements and the independent auditor's report for the Fluid Milk Board. Snyder, Cohn, Collyer, Hamilton and Associates P.C., conducted the 2004 Fluid Milk Board independent audit.

Appendix F-1 includes a detailed listing of all 2004 Dairy Board and Dairy Management Inc. contracts (and corresponding initiatives) reviewed by USDA. The Dairy Act and Order require that all contracts expending producer assessment funds be approved by the Secretary of Agriculture (7 CFR §1150.140). Appendix F-2 includes a detailed listing of all 2004 Fluid Milk Board and International Dairy Foods Association (IDFA) contracts reviewed by USDA. The Fluid Milk Board contracts with IDFA to manage the day-to-day operations of the processor promotion program.

Appendix G-1 includes a listing of the two nutrition institutes and the six dairy foods research centers that provide much of the research that supports the marketing efforts of the dairy promotion programs. Appendix G-2 and G-3 list the new and ongoing dairy foods and nutrition research projects that are funded by DMI.

Appendix H lists the Qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs) for 2004. Qualified Programs are certified annually by the Secretary to determine whether milk producers may continue to receive credit against the 15-cent per hundredweight assessment due to the Dairy Board when contributing to a Qualified Program.

Appendix I features thumbnail images of the national fluid milk print and television advertisements. The advertisements are organized by message, target audience, contests, and sweepstakes winners.

Chapter 1
The Dairy Promotion Programs

In 2004, the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. While each promotion program has many unique activities, both programs used the role of calcium-rich dairy products in successful weight loss as a central theme and focal point for its activities in 2004.

National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Promotion and Research Order (Dairy Order), developing plans and programs, and approving budgets. Its dairy farmer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture (Secretary) appoints 36 dairy farmers to administer the Dairy Order. The appointments are made from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary (7 CFR §1150.133(a)). Dairy Board members serve 3-year terms and represent 1 of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice Chair, Treasurer, and Secretary. Current and past Dairy Board members are listed in Appendix A. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix C.

Total Dairy Board actual revenue for 2004 was $85.7 million (including assessments and interest). This amount was less than the Dairy Board budget of $87.1 million for that period. The Dairy Board amended its budget to $89.1 million by incorporating program development funds not budgeted previously. The Dairy Board budget for 2005 projects total revenue of $86.4 million from domestic assessments and interest. The Dairy Board administrative budget continued to be within the 5-percent-of-revenue limitation required by the Dairy Order. A list of actual income and expenses for 2003–2004 is provided in Appendix D-1. USDA's oversight and evaluation expenses for 2003–2004 are listed in Appendix D-2. Appendix D-3 displays the Dairy Board's approved budgets and a comparison of program funding by function for 2004–2005. An independent auditor's report for 2004 is provided in Appendix E-1.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the Chair of the F&A Committee, and the full Dairy Board serves as the Executive Committee.

The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).

In March 1994, the Dairy Board approved the creation of Dairy Management Inc.™ (DMI). DMI is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 59 active Qualified Programs under the direction of a board of directors. DMI merged the staffs of the Dairy Board and UDIA to manage the Dairy Board programs as well as those of the American Dairy Association® and National Dairy Council® throughout the contiguous 48 States. DMI serves both boards and is structured into five support groups. The nutrition, public, and corporate affairs group supports nutrition education and consumer affairs, board relations, and program implementation. The industry relations group provides news about dairy topics through media contacts as well as communications regarding the dairy checkoff program to producers and the rest of the industry. The strategic operations/finance and administration group handles program planning and communications, information services, membership development, and finance and accounting activities. The marketing and business development group supports retail channel development, marketing communications, advertising, research, and analyses of domestic and foreign marketplaces, program effectiveness, consumption patterns, and consumer perceptions for effective program planning, implementation, and measurement. The export marketing group serves as a resource for U.S. dairy ingredient manufacturers and processors to improve export capabilities of the U.S. dairy industry.

Since January 1, 1995, the Dairy Board and UDIA have developed their marketing plans and programs through DMI. DMI facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The goals of DMI are to reduce administrative costs, to have a larger impact on the consumer, and to drive demand, thereby helping to increase human consumption of fluid milk and dairy products.

DMI funds 1- to 3-year research projects that support marketing efforts. Two Nutrition Institutes and six Dairy Foods Research Centers provide much of the research. Their locations and the research objectives are listed in Appendix G-1. Additionally, lists of DMI's dairy foods and nutrition projects can be found in Appendices G-2 and G-3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

At its inception, the DMI Board of Directors consisted of 12 dairy farmers from the Dairy Board and 12 dairy farmers from the UDIA Board. An amendment to the articles of incorporation of DMI to expand the DMI Board size took effect January 1, 2001, and the expanded DMI Board (77) now comprises all Dairy Board (36) and all UDIA Board (41) members.

The committees for program activities are comprised of board members from both the Dairy Board and UDIA Board. The Dairy Board and UDIA Board separately must approve the DMI budget and annual plan before they can be implemented. In November 2003, both boards approved the 2004 unified dairy promotion plan budget and national implementation programs. Similar to previous plans, the 2004 unified dairy promotion plan continued to support the underlying theme of investing dollars where consumers are – not where dairy cows are. The

unified dairy promotion plan was consistently implemented in the top 150 demand-building consumer markets nationwide.

During 2004, DMI again hosted dairy director regional planning forums across the country to review and create marketing strategies for development of the unified dairy promotion plan. These forums are designed to create *one* unified dairy promotion plan and allow opportunity for State and regional dairy board members to ask questions, raise concerns, and offer their thinking on the direction and development of a unified dairy promotion plan.

At the 2004 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that focused on these five areas: (1) 3-A-Day of Dairy™ For Stronger Bones, a nutrition-based marketing and education program developed to help solve the nation's calcium crisis and increase consumption of milk, cheese, and yogurt; (2) Healthy Weight with Dairy, where the dairy checkoff reminds consumers that milk, cheese, and yogurt may help in weight-loss efforts, when paired with a reduced-calorie diet and physical activity; (3) New Look of School Milk, which includes efforts to improve the school milk experience for the nation's children through improvements in packaging, flavors, and availability; (4) Foodservice, where dairy checkoff funds are invested to help promote the expansion of flavors and the range of packaging for milk in foodservice and restaurants, as well as to help with menu concepts for cheese, and (5) Dairy Image/Confidence, which aims to protect and enhance consumer confidence in dairy products and the dairy industry through correcting misinformation and inaccurate claims against dairy. The success of the unified marketing plan relies heavily upon DMI's ability to expand partnerships with processors, retailers, schools, and health professional organizations.

The above-mentioned focus areas continue to build upon the 2002 forum results, which emphasized programs with less reliance upon television advertising, continuance of successful foodservice and retail activities, the need for heavier focus on kids and school milk problems, more focus on industry partnerships, and stronger, more proactive image protection of dairy products. Combined industry spending for the unified marketing plan totaled more than $250 million in 2004.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Cheese, Communications and Technology, Export and Dry Ingredients, and Fluid Milk. Each committee elects a Chair and a Vice-Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. The Joint Evaluation Committee continued to operate in 2004. One ad-hoc committee was added during 2004—the Project Research Policy Review Committee. This committee was created in order to review evolving research needs that may have a "pre-harvest" or "production-related" component, but only to the extent that researchers can demonstrate a clear and direct bearing on dairy product consumption. During 2004, the Dairy Board and UDIA Board met jointly four times.

The following information describes the Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2004.

3-A-Day™ of Dairy for Stronger Bones

3-A-Day™ of Dairy for Stronger Bones (3-A-Day™) marketing and nutrition education campaign was officially launched on March 3, 2003, and continued in 2004. The program objectives are to increase total consumption of dairy products and reinforce dairy as the leading source of calcium by providing simple guidance about dairy food selections. The development of the program was a joint dairy industry effort led by DMI. A key component of the 3-A-Day™ program is the logo, which appears on packages and labels of milk, cheese, and yogurt products containing 20 percent or more of the daily value of calcium. In October, the 3-A-Day™ of Dairy for Stronger Bones campaign was awarded the American Dietetic Association's 2004 President's Circle Nutrition Education Award. This award was created to recognize the development and dissemination of scientifically sound nutrition information that is unique in concept, creative in presentation, and free from specific commercial message or endorsement.

In 2004, DMI sponsored two national promotions around 3-A-Day™ for Stronger Bones—Power Periods 1 and 2. Power Period 1 included "Win 3 Ways with 3-A-Day™ of Dairy....Easy as 1, 2, 3!" This program began in March and included dissemination of a national free standing insert (FSI). The FSI featured coupons for savings on the purchase of milk, cheese, or yogurt and a "Look for the Logo Sweepstakes," for a chance to win a 3-room prize package. Consumers were asked to clip logos from participating milk, cheese, and yogurt packages and mail in the logos with a sweepstakes entry form. The program was complemented by the debut of a new 3-A-Day™ television campaign, celebrating dairy and showcasing the many easy ways to get three servings of milk, cheese, and yogurt each day.

Power Period 2 included the "Try 3 for 3," whose primary objective was to encourage consumer trials of a three a day of dairy habit and spur incremental purchase of milk, cheese, and yogurt. The consumer offer included "purchase a milk, cheese, and yogurt product each week for 3 weeks and get a rebate check for free dairy products at their preferred retailer." Web site www.3aday.org featured "Simple Solutions" based on the "Try 3 for 3" theme to help give moms recipes from chefs and recipe ideas that use dairy products. Retailers benefited from the incremental sales generated by multiple purchases as well as the incentive driving traffic back to their stores. Moms also received a 3-A-Day™ magnet and a three-week tracker to record dairy consumption for the whole family.

Health professional outreach remained a critical component of the 3-A-Day™ program. The American Academy of Family Physicians, the American Academy of Pediatrics, the American Dietetic Association, and the National Medical Association all continued their support and partnership with DMI and 3-A-Day™. By working together with these key health professional partners, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation's calcium crisis. DMI's 3-A-Day™ advisory panel, comprised of leaders

from these four organizations, along with other nutrition experts, continued to help guide the overall campaign, as well as nutrition philosophy and principles. To further support the important role of dairy in a healthy diet, the National Medical Association released a consensus report in December 2004 issue of the *Journal of the National Medical Association* recommending African Americans consume three to four servings a day of dairy to help reduce the risk of chronic diseases.

Healthy Weight With Dairy: 3-A-Day™ of Dairy– Burn More Fat, Lose Weight

In September 2004, DMI launched a national effort focused on dairy's link to weight loss by leveraging research that shows three daily servings of milk, cheese, or yogurt in a reduced-calorie diet may help you burn more fat and lose more weight. The associated promotion featured a nationwide "3-A-Day/WebMD Weight Loss Challenge." During the month of September, mom's were offered 3 free weeks ($15 value) to the WebMD Weight Loss Clinic with the purchase of milk, cheese, or yogurt. The promotion was supported via national television and print advertising, retail selling events, public relations efforts, grass roots events, and www.3aday.org.

3 servings of dairy a day in a reduced-calorie diet supports weight loss.

In addition to the promotional support surrounding the WebMD Weight Loss Challenge, the "3-A-Day™ of Dairy, Burn More Fat, Lose Weight" campaign was supported by print advertisements in national magazines and newspapers, television commercials, various public relations activities executed nationwide, and the Web site www.healthyweightwithdairy.com. In particular, the Web site provided consumers and health professionals access to medical research and other scientific information supporting dairy's role in healthy weight, commentary from nutrition researchers and dieticians, weight loss tips, recipes, links to easy-to-use weight management tools, and a body mass index calculator. The new site highlights national grocery partner efforts in a new "What's 'In Store' for Dairy" section.

Foodservice/Partnerships

DMI continued to work closely with top national restaurant chains, including McDonald's® and Wendy's®, to ensure that milk and cheese were featured prominently in menu items and offerings. DMI efforts led to the introduction of new milk offerings at McDonald's® and Wendy's® in nearly 20,000 restaurants across the country. The new milk offerings included single-serve plastic bottles in at least two flavors (white and chocolate). At McDonald's®, all Happy Meal® choices now include lowfat (1%) white or chocolate Milk Jugs in "kid-friendly" packages. The new single-serve containers, featuring Ronald McDonald surfing on a wave of milk, are plastic, resealable bottles that are easy for small hands to hold and convenient for families on the go. During the initial launch, Wendy's® and McDonald's® combined weekly average milk sales exceeded 5.2 million units, compared to 690,000 units sold per week prior to the new milk offering. Long term, DMI aims to increase larger single-serve milk options [size] with national chains, as well as introduce other new menu items that feature cheese and yogurt.

DMI partnered with General Mills® at the 41st Annual Pillsbury® Bake-Off Contest, with the first-ever "America's Greatest Cheese Recipe Award." DMI public relations efforts reminded consumers of the great taste and versatility of U.S.-made cheese through national print advertising, in-store samplings, and retailer receipt materials.

Additionally, through a retail partnership between DMI and Nabisco® (OREO), a nationwide promotion was held in June 2004. Customers were asked to collect specially embossed Oreo cookies featuring letters spelling "M-I-L-K," to win prizes and a chance to win the $1 million grand prize. Market analysis revealed that the promotion increased fluid milk sales by nearly 20 million incremental gallons–or more than 160 million pounds, according to Information Resources, Inc., a leading market research firm.

Web site www.ilovecheese.com continued to operate in 2004. Mainstay "Cheese Chatter," a free monthly e-newsletter about current cheese news, recipes, and savings for cheese lovers, continued to be sent to all www.ilovecheese.com members and chatter subscribers. The Web site continued to post high-traffic numbers throughout the entire year. The "Cheese Profiler Survey" and the "Snackulator" continued to assist Web site visitors in determining which cheeses best fit their lifestyle and to suggest appealing meal combinations and recipes.

Communications and Technology

Consumers receive mixed messages through the media about the nutritional value and benefits of food. DMI worked to provide consumers with education and information based on sound nutritional science and communicated the value of dairy products to consumers as well as to health professionals and educators. DMI also worked to inform dairy farmers about how their assessment dollars were being used. The organization continued to communicate to dairy producers and other industry audiences through publications (such as the annual report, joint newsletters with State and regional dairy promotion groups, and dairy cooperative check stuffers), dairy industry events (including major trade shows and producer meetings) and media relations (including press releases, feature placement, and farm broadcast interviews). For the seventh year, DMI continued its "Dairy Ambassadors" program, which uses a select group of board members to deliver consistent messages about the dairy promotion program to producers and other industry audiences.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related Web sites. DMI also worked with State and regional dairy product promotion organization Wisconsin Milk Marketing Board to execute co-funded retail butter promotion activities. This national effort helped to drive incremental retail butter sales in select markets across the United States.

Another activity of the Communications and Technology program was the issues management program. The objective of this program was to identify, monitor, and manage key issues that may influence consumer perceptions of dairy products. DMI coordinated its issues management activities with State and regional dairy promotion groups as well as with other dairy and

agricultural groups. The organization worked with these groups to bring forth sound, science-based information to address consumer issues. Dairy Reputation Management, an industrywide effort that interacts with the Issues Management, Industry Relations, and Dairy Image Programs, continued a proactive program to educate consumers and to reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to this audience.

In January 2004, *Emeril Live!*, a television program on the Food Network featuring nationally-known chef Emeril Lagasse, aired a salute to America's dairy farmers. Four DMI board members were featured and interviewed, and Emeril prepared a wide array of dishes using American-made dairy products. The dairy producers appeared on the show as part of the dairy image program that proactively educates the public about dairy producers and the dairy industry.

The Dairy Confidence Campaign, designed and initiated in 2001 to enhance existing dairy image and issues management programs, continued in 2004. DMI held additional mock-crisis training sessions in 2004 for dairy farmers and dairy communicators. These sessions were conducted to ensure that the industry continues to be able to quickly activate its crisis network and disseminate key messages to address potential animal disease outbreaks or other events that could affect the image or consumption of dairy products.

Ongoing nutrition research continues to validate discoveries about the potential benefits of dairy food consumption in reducing obesity. With continued emergence of research and breakthroughs demonstrating a positive role of dairy in the reduction of obesity and related diseases, DMI continued its "Healthy Weight With Dairy" campaign. Subsequently, the April 2004 issue of *Obesity Research*, published a study showing that people consuming three-to-four servings of milk, cheese, and yogurt daily – within a calorie-restricted diet – lose more weight than those who just cut calories or take calcium supplements. The clinical study found that adults on a reduced-calorie diet who ate three to four servings of dairy foods each day lost an average of 24 pounds over the 24-week study period. As noted earlier, these research findings provide the foundation for the dairy industry's "3-A-Day™ of Dairy, Burn More Fat, Lose Weight" platform.

Export and Dry Ingredients

DMI's export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives primary funding from three sources: DMI, USDA's Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2004, USDEC received $7.5 million from DMI; $3.9 million from USDA's Market Access Program and the Foreign Market Development Program, which support commodity groups in promotion of their commodities in foreign markets; and $632,750 from membership dues. USDEC is in its ninth year of operation, and its total budget was $12.09 million.

USDEC has offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Bangkok, Taipei, London, and Sao Paulo. In 2004, strong global demand and some supply shortfalls led to another record year for dairy exports.

Final 2004 export data confirm that U.S. dairy product exports reached $1.49 billion in 2004, up 39 percent from the prior year and the fifth straight year in which dairy exports exceeded $1 billion. On an aggregate volume basis, U.S. suppliers exported 1.562 billion pounds of milk products in 2004, up 31 percent from 2003. Once again, lactose was a success story, posting a 9 percent increase in export volume over the previous year. Sales of lactose to China, Mexico, South America, and Southeast Asia posted significant gains.

Overall whey exports increased, after steady declines from 2000 to 2003. Cheese exports increased 18 percent over 2003 levels on a volume basis, with Mexico and Japan leading the increases. Cheese exports to Mexico can again be linked to exporter commitment and successful USDEC promotional and market development activities.

Specific 2004 promotions included in-store retail promotions and sampling in supermarkets, joint promotions with foodservice companies, quarterly trade newsletters, exhibits at trade fairs, and seminars about U.S. dairy products presented to the press, end-user, and food distributors. USDEC successfully partnered with retailers and foodservice operators in key markets on programs that showcased a value-added cachet of U.S. cheese.

USDEC continued working to improve the export capabilities of domestic dairy companies. The organization assists U.S. dairy exporters by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export. Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

Nonfat dry milk and whey promotion efforts were conducted via advertising, public relations, trade shows, and the Web site www.doitwithdairy.com. The advertising theme "Do it with Dairy®" was utilized throughout all activities. The "Do it with Dairy" ingredient marketing campaign reaches the food manufacturing/processing industry with key market-driven whey research results and usage messages. Several newsletters and other publications support this program. "Dairy Dimensions," a quarterly newsletter, focuses on developments in dairy technology research. "Dairy Ingredients Insider" is a newsletter in which dairy ingredient suppliers are able to track buyer attitudes, behaviors, buying patterns, and product development plans. The latter has become a key planning tool for some suppliers, as it enables them to effectively utilize and leverage market research developed by DMI.

DMI's Product Innovation/Research and Nutrition Research group hosted the 2004 Dairy Innovation Forum (Forum) in San Antonio, Texas. The invitation-only Forum continued a 7-year DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. The Forum attracted more than 155 participants and included industry representatives such as dairy processors and cooperatives, food manufacturers, Government officials, ingredient suppliers, State and regional representatives, and university researchers. The agenda covered a number of critical topics, including consumer and market trends; product and nutrition research; weight-loss benefits of consuming three servings of dairy each day; and new technologies, including refining milk through ultrafiltration, reverse osmosis, and microfiltration—which are categorized as

"high-impact technology." There was also a panel discussion that covered a broad range of current issues in the dairy product and ingredient industry. Of note, panelists stressed that the dairy industry's future depends heavily upon individual companies willingness to innovate.

For the sixth consecutive year, DMI sponsored the Discoveries in Dairy Ingredients Contest. The contest allows undergraduate college students to develop an innovative food product formulation using dry milk, whey, or whey derivatives such as whey protein concentrate and whey protein isolate. The contest has a dual purpose – to highlight the versatility and functionality of dairy ingredients while at the same time providing food science students with practical, marketable experience. The three prize categories include the Best Overall Product Award, the Product Marketability Award, and the Product Creativity Award. Winning entries were featured at the 2004 Institute of Food Technologists Food Expo. The winning products included (1) Ice Cream Poppers, (2) Berry Blasters (beverage), and (3) Mac'N Cheese Grabbers and Barner's Ready-Bake Crackers (tie).

"Ingredient Insights," a newsletter designed expressly for food formulators and ingredient suppliers, continues to provide news about dairy ingredients, specific applications, and technical support resources. As part of this program, DMI provides ingredient technical support systems for food technologists. The system features four tiers, enabling food technologists to request the level of support they find the most useful. The options range from requesting technical information via FAX-ON-DEMAND to direct dialogue with a researcher.

"Innovations in Dairy," a technical bulletin that details new dairy science and technology information and research, is executed through a series of authoritative, topical updates written from a practical perspective for the lay reader.

Three new publications were introduced in 2004, which included "The Dairy Herald," "REAL Ideas," and "Dairy Dollars." "The Dairy Herald" reports on how food formulators and marketers can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients. "REAL Ideas" focuses on the use of cheese in foodservice and "Dairy Dollars" highlights issues and trends of interest to retailers to help maximize sales and profits from the dairy category. Industry feedback indicates that these publications are very well received.

Research continues to focus on nonfat dry milk and whey in the areas of functionality, quality, packaging, and new applications. In addition, the application laboratory for nonfat dry milk at California Polytechnic State University and the whey application laboratory at the University of Wisconsin Center for Dairy Research continued to provide technical assistance to both those that produce the ingredients and those that use the ingredients in finished products. The Web site www.extraordinarydairy.com provides a network of resources and information to help the dairy and food industries bring innovative products, formulations, and processes to market.

Researchers are exploring additional health benefits of whey. Preclinical (nonhuman) trials are currently investigating the role of specific whey proteins in reducing the risk of certain types of cancer, including breast and prostate cancer, and research trials are investigating a potential link between whey proteins and reduced risk of hypertension. In addition, specific whey proteins

have shown antibacterial properties. In the future, this may lead to whey's use as an ingredient in addressing potential food safety concerns with certain perishable foods such as meats or produce.

National Dairy Council®/School Marketing

The National Dairy Council® www.nationaldairycouncil.org (NDC), the nutrition marketing arm of DMI, has been the leader in dairy nutrition research, education, and communication since 1915. NDC provides timely, scientifically sound nutrition information to the media, physicians, dieticians, nurses, educators, consumers, and other health professionals.

NDC continues to work closely with foodservice professionals and milk processors vis-à-vis the benefits of offering an enhanced milk product in the school cafeteria. The foundation of these efforts is comprised of the results of a year-long School Milk Pilot Test conducted in 2002. Currently, more than 1,450 schools representing nearly one million students nationwide, now offer milk in single-serve plastic resealable containers on the school meal line. This number grows each year as DMI continues to implement its "New Look of School Milk" initiative. DMI funded market research shows that improving students' school milk experience can help recapture school milk consumption of up to 400 million gallons lost since 1993. The Fluid Milk Board also implemented a program to educate milk processors about the benefits of offering an enhanced milk product in the Nation's elementary and secondary schools. Milk processors have exhibited widespread support for the program.

The International Dairy Federation (IDF) awarded its International Milk Promotions trophy to DMI for the program "New Look of School Milk." The award is presented annually to the country with the best promotion program as judged by fellow competitors. IDF considers this program "the best in promoting the healthy image and lifestyle and nutritional benefit of dairy foods." The trophy was presented at the IDF World Dairy Summit 2004, in Melbourne, Australia.

National Dairy Council® continues its active support of and participation in the Action For Healthy Kids (AFHK) initiative. AFHK was created in response to the Healthy Schools Summit in 2002 and its mission is to inform, motivate, and mobilize schools, school districts, and States to chart a healthier course for the Nation's children and adolescents. AFHK is comprised of 51 State teams (including all States and the District of Columbia) and a partnership of more than 38 national organizations and Government agencies spanning education, health, fitness, and nutrition arenas. State teams are made up of a diverse base of volunteers, all working to improve nutrition and physical activity in schools at the State and local levels.

In September, DMI partnered with the National Football League® (NFL®) to help educate children on the importance of healthy eating, including three servings of dairy each day, and daily physical activity. "Milk: The Power Behind the Play," was a nationwide cafeteria promotion that featured NFL® players, including cafeteria posters, and other NFL®-themed materials. The program targeted children ages 6 to 11 to demonstrate how good nutrition and physical fitness play a role in their growth and development. The promotion reached more than 31,000 school cafeterias, which serve more than 18 million students. In addition, a new after-school program that provides students with fun ways to learn about nutrition and healthy snacking options that include dairy and NFL®-developed fitness activities was implemented in several test markets. Those test schools received special kits that include footballs, video instructions for after-school coordinators, nutrition information, and exercise drill equipment. A national after-school program is slated for roll-out in the 2005-2006 school year.

Reaching kids through the classroom with "Pyramid Café" and "Pyramid Explorations™," continued to be the primary focus of nutrition education activities. The program is targeted to second and fourth grades, and reaches over 12 million students with messages that milk and dairy products are a key part of a healthy diet. Survey results continue to show a very high utilization rate for these two programs.

Web site www.nutritionexplorations.org continues to deliver valuable resources to teachers, school foodservice professionals, and consumers. The site includes lesson plans for educators, resources for school foodservice directors, ideas for smart eating for families, and fun activities for kids. Web site www.nutritionexplorations.org received another World Wide Web Health Award. The World Wide Web Health Awards, organized by the Health Information Resource Center, recognize the best health-related Web sites for consumers and professionals each year. This site has won the award each year since 1999.

Research

Additional 2004 milk-related nutrition and product research was continued in the following areas:

1. The role of milk and milk products in the prevention of colon cancer and reduction of blood pressure.
2. Establishing the genetic basis for the activity of probiotic cultures.
3. Demonstration of milk consumption by teens to meet their calcium needs without adversely affecting weight.
4. The contribution of dairy's nutrient package in the development and maintenance of strong bones.
5. Investigation of the added value of fortification through the use of probiotics, nutraceuticals, nutrient delivery, and flavor enhancement.
6. The impact of differing milk options and experiences in schools on childhood fluid milk consumption behavior and attitudes.

National Dairy Council®-funded dairy nutrition research highlights in 2004 included:

1. The role of dairy as part of a heart-healthy diet.
2. The role of calcium-rich dairy products in successful weight loss and maintenance.
3. Dairy's role in the prevention and reduction of colon cancer.
4. Dairy's role in weight management.

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Qualified Programs are certified annually by the Secretary. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153). A list of the 59 active programs is provided in Appendix H.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2004 was $187 million (approximately 10 cents out of the 15-cent assessment). The Qualified Programs manage State or regional dairy product promotion, research, or nutrition education programs. See Table 1-1 and Table 1-2 for aggregate income and expenditure data of the Qualified Programs.

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad-based projects. For example, UDIA coordinates nationally through DMI the programs and resources of 18 federation members and their affiliated units to support the unified dairy promotion plan.

Table 1-1
Aggregate Income and Expenditure Data Reported to USDA by the 59 Active Qualified Programs

	2003 (in $000's)	2004 (in $000's)
Income		
Carryover from Previous Years	46,938[1]	47,947[1]
Producer Remittances	174,892	187,457
Transfers from Other Qualified Programs[2]	54,716	55,439
Transfers to Other Qualified Programs[2]	-57,109	-67,222
Other[3]	3,910	3,657
Total Adjusted Annual Income	**223,347**	**227,278**
Expenditures		
General and Administrative	7,641 [4.6%]	7,919 [4.6%]
Advertising and Sales Promotion	70,688 [42.6%]	75,799 [43.7%]
Unified Marketing Plan[4]	50,146 [30.2%]	50,124 [28.9%]
Dairy Foods and Nutrition Research	5,980 [3.6%]	4,091 [2.4%]
Public and Industry Communications	13,245 [8.0%]	14,958 [8.6%]
Nutrition Education	12,963 [7.8%]	16,590 [9.6%]
Market and Economic Research	1,568 [0.9%]	1,872 [1.0%]
Other[5]	3,742 [2.3%]	2,081 [1.2%]
Total Annual Expenditures	**165,973 [100%]**	**173,434 [100%]**
Total Available for Future Year Programs	57,374[1]	53,844

[1] Differences are due to audit adjustments and varying accounting periods.
[2] Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.
[3] Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.
[4] Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the DMI unified marketing plan to fund national implementation programs.
[5] Includes capital expenses and contributions to universities and other organizations.

Source: Aggregate income and expenditure data reported by the 59 active Qualified Programs.

Table 1-2
Aggregate Advertising Expenditure Data Reported to USDA by the 59 Active Qualified Programs

	2003 (in $000's)		2004 (in $000's)	
Advertising Programs				
Fluid Milk	17,701	[25.0%]	16,100	[21.2%]
Cheese	48,975	[69.3%]	48,170	[63.6%]
Butter	101	[0.1%]	2,835	[3.7%]
Frozen Dairy Products	117	[0.2%]	71	[0.1%]
Other[1]	3,794	[5.4%]	8,623	[11.4%]
Total	**70,688**	**[100%]**	**75,799**	**[100%]**

[1] Includes "Real Seal," holiday, multiproduct, calcium, evaporated milk, foodservice, product donations at State fairs, and other events and contributions for displays or promotional events.

Source: Aggregate income and expenditure data reported by the 59 active Qualified Programs.

National Fluid Milk Processor Promotion Board

The Fluid Milk Board, as authorized in the Fluid Milk Promotion Act of 1990, as amended, (Fluid Milk Act), administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

The Secretary of Agriculture appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at-large members. Of the five at-large members, at least three must be fluid milk processors and at least one must be from the general public. Three fluid milk processors and two public members serve as at-large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Board by more than three representatives. Current and past Fluid Milk Board members are listed in Appendix B. A map of the Fluid Milk Board regions is shown in Appendix C-2.

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the following committees: Advertising, Finance, Promotions, Public Relations/Medical and Scientific, and Strategic Thinking/Research. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met four times during 2004.

The National Fluid Milk Processor Promotion Program is funded by a 20-cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3 million pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated $105.7 million in 2004. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California fluid milk processor promotion program. For 2004, the amount returned to California from the assessments was $10.1 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the "got milk?®" advertising campaign.

The actual income and expenses for 2003–2004 are provided in Appendix D-4. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 2003–2004 are detailed in Appendix D-5. Appendix D-6 contains the Fluid Milk Board's approved budgets for 2004 and 2005. Appendix E-2 contains an independent auditor's reports for the period of January 1, 2004, through December 31, 2004.

The following summarizes Fluid Milk Board medical and scientific activities for the period of January 1, 2004, through December 31, 2004. The Fluid Milk Board's sponsorships, advertising, promotions, public relations, school marketing, and strategic thinking activities are incorporated in the National Fluid Milk Programs summary.

Medical and Scientific Activities

The Fluid Milk Board's Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, met twice in 2004. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in forging relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Heart Association, the National Cancer Institute, and the National Medical Association. They also appeared as medical professionals in the media, providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked extensively over the past year to inform others in the scientific community of the new and emerging research showing that three servings of dairy each day as part of a weight loss plan can help people lose more weight than calorie-restricted diets that did not include dairy. Numerous studies in the past 5 years have pointed to similar conclusions—that dairy foods and calcium may be important when addressing the issue of overweight and obesity. These communications and activities all continue to highlight milk's nutritional profile, which includes nine essential vitamins and minerals.

The 2004 "Good For You" program, whose primary goal is to promote milk's nutritional benefits, continued to leverage breaking research with relevance to milk and is supported with advertising and public relations. Three print advertisements were created under this campaign. Thumbnail images of the advertisements can be found in Appendix I. The focus of these advertisements was to inform consumers and the public about emerging research regarding the role dairy products may play in preventing weight gain and maintaining a healthy weight. The MAB was very involved in the development of messages in this area and helped the Fluid Milk Board explore ways to leverage the information in public relations and advertising messages.

The Fluid Milk Board continued its lactose intolerance initiatives, which focus on educating Hispanic Americans and others on the importance of incorporating milk into their diets and why lactose intolerance should not be a barrier to including milk in the diet.

National Fluid Milk Programs

The Fluid Milk Board continued to execute a national fluid milk program in 2004. The fluid milk marketing programs are research based and message focused.

The purpose of the national fluid milk program is to positively change the attitudes and purchase behavior of Americans regarding fluid milk. The 2004 fluid milk marketing plans were designed to introduce marketing and promotional activities to emphasize milk's weight-loss benefits, to increase the consumption of fluid milk, and to identify and support growth opportunities for the industry. Many communication media were used to accomplish this objective, including television and print advertising, public relations, promotions, and others. The program's target audiences include women and moms, teens, and Hispanics.

In 2004, the got milk?®/Milk Mustache advertising campaign, which provides the basis for advertising activities and other program delivery methods, was continued. A description of the 2004 program activities for the Fluid Milk Board follows.

Sponsorships

In 2004, the got milk?®/Milk Mustache campaign continued leveraging a multi-year partnership with Walt Disney Corporation. The sponsorship provides a unique opportunity to raise milk's image among teens and young adults by highlighting the message that milk is a great beverage of choice for active teens and for athletes of all ages. As part of the partnership, milk continued to be "the official training fuel" of Disney's Wide World of Sports™, while the "Milk House," a state-of-the art facility that hosts more than 30 championships and 20 tournaments for more than 40 different amateur sports (including baseball, football, soccer, volleyball, and inline hockey) annually, remained the centerpiece arena. The "Milk House" has prominently positioned got milk?® signage and milk mustache posters throughout the complex.

The Fluid Milk Board moved into the fourth year of its partnership with the National Basketball Association (NBA®) during 2004 as part of a multi-year sponsorship. Through this sponsorship, the Fluid Milk Board has an additional mechanism to reach teens with sports nutrition and growth messaging through such events as the got milk?®/All-Star Rookie Challenge weekend and the NBA®/got milk?® "Rookie of the Month" program. These programs feature popular NBA® stars and continue to highlight the important nutrients that milk provides for active, growing bodies.

The Fluid Milk Board continued in its seventh year sponsoring the Scholar Athlete Milk Mustache of the Year (SAMMY) award, which selects 25 high school students from various regions across the United States to receive a $7,500 scholarship. Each applicant is required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. This year posted a record number of 75,000 applications. In addition to the scholarship award, each of the 25 winners are inducted into the SAMMY Hall of Fame and are featured in a special milk mustache advertisement (Appendix I) which appears in *USA Today*, *Sports Illustrated*, and *ESPN* magazine.

Advertising

The Fluid Milk Board advertising program consists of television and print advertising as well as media-driven promotions. The advertisements highlight specific, relevant health-benefit

messages about milk and its nutrient content, while media-driven promotions serve to extend the advertising campaign.

In 2004, the Fluid Milk Board created three new television advertisements targeting women to include 24 ounces daily of fat-free or reduced-fat milk as part of a reduced-calorie diet to promote milk's weight loss benefits. These ads were "Skinny Glass," "Diet Fads," and "Refrigerator."

The chocolate milk "Shake Stuff Up" campaign continued in 2004 with the popular commercials "Pogo Stick," "Mountain Bike," and "Barcode," all of which were created to communicate the unique taste of chocolate milk and remind teens how much they love the product. The advertisements feature teens shaking chocolate milk in fun and unusual ways to demonstrate the lengths to which teens will go to get it. The chocolate milk advertising campaign builds on the growing popularity and availability of single-serve flavored milk products.

Fluid milk print advertisements produced in 2004 included celebrity weight loss advertisements targeting moms and women (5); celebrity advertisements with the active, bone growth, and fracture messages targeting teen boys and girls (15); NBA® Rookies of the Month (5) and Rookie of the Year (1); contest winners (3); Hispanic (3); school milk posters (4); outdoor/billboard advertisements (4); the "All Dairy" weight loss advertisements (3); a joint effort by the Fluid Board and DMI detailing the science supporting dairy's link to weight loss (1); and trade advertisements (4). This year also introduced the new logo for milk's weight loss message: "24/24 Milk your diet/ Lose weight!" Additional information regarding these advertisements can be found at www.milkpep.org and at www.whymilk.com. Appendix I includes thumbnail images of all the above noted print advertisements.

To initiate the celebration of its 10-year anniversary, the Milk Mustache campaign launched its 200th celebrity advertisement in November featuring actress Lindsay Lohan. The campaign first launched in 1995, with a print advertisement featuring Naomi Campbell, to help educate Americans about the nutritional benefits of milk and to increase milk consumption. Board-funded research shows that it has helped raise awareness of the many reasons to drink milk–from reducing the risk of high blood pressure and osteoporosis to weight management. Campaign messages have included promoting the importance of milk's nine essentials nutrients, including calcium, to help bones grow and to help keep them strong and healthy.

The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. Two popular Hispanic television commercials, "Ballet" and "Soccer" continued to air in 2004. These commercials focus on the nutrient package that milk delivers, as both featured active children involved in physical activities as they are growing up, while mom, family, and friends watch them succeed. The advertisements' tagline, *"Más leche, Más logro"* ("More milk, More achievement") reminds moms of milk's nutrients and the benefits of serving milk to their families. Hispanic print advertising (Appendix I) featured celebrities and everyday Hispanic moms. These included Miss Universe Amelia Vega and her

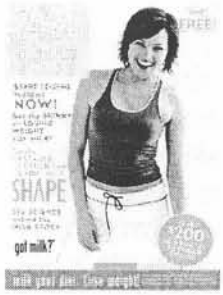
mom Patricia Polanco; Hispanic recording artist Veronica Castro and her son Christian; and the Hispanic "Star Mom" contest winner, Beatriz de Alba with her children Steven and Laura.

Outdoor advertising featuring both general market and Hispanic advertisements was employed to ensure that a consistent base of advertising was evenly distributed across all regions. These advertisements are pictured in Appendix I.

Promotions

The Fluid Milk Board conducts promotions to help increase fluid milk sales in retail outlets. The promotions work to move more milk out of the grocery store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. Some of the promotions work with partners to increase the appeal of the program. After careful measurement of the results of previous years' promotion strategies, promotion continued to focus on feature incentives, i.e., a promotion vehicle used to increase advertisements, displays of milk, and programs offering prizes directly to consumers to help drive incremental purchases. Of note in the execution of these programs, regional producer groups play an important role in selling-in these programs to retailers.

The Fluid Milk Board conducted three national promotions in 2004. The first promotion involved a feature incentive for flavored milk centered around February and milk's partner, the NBA®. The "All-Star Flavor Slam" was a 5-week feature ad incentive program designed to drive sales of flavored milk in which retailers could run featured ads on flavored milk in exchange for All-Star Flavor Slam/NBA®/got milk?® prizes. Point-of-Sale kits were shipped to retailers who signed up, and retailers would then assemble kits, and promote any size flavored milk at a feature price, send in proof of compliance, and receive prizes for giveaways. Retailers then used the prizes to run their own in-store sweepstakes, contests, or giveaways.



The second promotion, "The Shape You Want To Be In," held in June Dairy month, focused on the emerging research linking dairy consumption to weight loss, and featured a shipper display with a free mini magazine giveaway with the purchase of each gallon of milk. The mini magazine, "24-24 Weight Loss Guide," gave tips on how to include 24 ounces of milk in your daily routine, explained the science behind the weight loss claim, and contained purchase incentive coupons from nationwide sponsors for various products.

The third promotion, one of the most successful ever with consumers, retailers, and processors, centered around a summer sweepstakes, "Show Off With The Top Down," which allowed consumers to enter on-line for a chance to win one of 24 convertible cars in 24 days. The promotion rewarded customers for including 24 ounces of milk in their daily diets. Consumers could visit the Web site www.2424milk.com and enter the Universal Product Codes from their milk containers. More than 650,000 consumers participated. Additionally, retailers could participate in a retail display contest for a chance to win $1,000 to $4,000 in cash prizes for winning entries. This included an automatic entry into a drawing for their chance to win one of

two convertibles. Processors could then leverage news about the local car winners in their respective areas by using the customizable press releases posted on the "got news?" section of www.milkpep.org.

Public Relations

The public relations programs continued to focus on the nutritional benefits of milk, emerging scientific studies that highlight milk's benefits, leveraging the high interest generated by the celebrities and the got milk?®/Milk Mustache campaign, and preparing for and responding to misconceptions and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. Over two billion media impressions were garnered through the integrated public relations program. The program provided support for the three national retail promotions by helping to build public awareness and increase retailer participation.

For a third year, the Fluid Milk Board launched the "got milk?® 3v3 Soccer Shootout Tour" to remind American families about the importance of drinking milk for an active lifestyle and to position milk as nature's sports drink with nine essential vitamins and minerals, including calcium and protein. The 4-month tour visited 50 cities nationwide. The theme for this year's tour was another nationwide search for the "Ultimate Soccer Mom." Kids had the opportunity to nominate their moms at each tour stop and at www.whymilk.com. The winner, Jennifer Longnecker, received a minivan and a trip for her family to Disney World in Orlando, Florida.

For the seventh consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year's program, the "Shake Stuff Up Tour 2004," ran from March through October, covering 100 cities nationwide. New for this year's tour was an "Advance Team" which used a minivan with tour graphics to visit retailers in each of the tour cities a couple of weeks before the main tour to generate interest and increase traffic for the tour at its various stops. Also new was a "Milk Your Diet" bar which provided literature and advice from a nutrition expert on the benefits of including 24 ounces of milk every 24 hours in your diet. Additionally, this year's tour trucks carried dual messaging for the first-time ever featuring celebrities popular with teens on one side, while courting moms with the "Milk Your Diet. Lose Weight" theme on the opposite side.

For teens, this year's theme was again rock music, but the program included several enhancements to that of the previous year. A primary goal of the tour is to educate Americans about the nutrition and taste benefits of chocolate and other flavored milk. Also, continuing a partnership with MTV and *Rolling Stone* magazine, the tour offered teens the chance to participate in a "battle of the bands" event and win prizes. The winner of the "Be a got milk?® Rock Star" contest was Lindsay Ramer, who was featured in her own got milk?® print advertisement in *Rolling Stone* magazine with recording artist Jason Mraz, who held a private concert at Ms. Ramer's school as part of the prize component.

The "got news?" Web site on www.milkpep.org was launched in 2004 to help processors with their local media efforts. This feature gave processors access to customizable media materials from national programs such as the Milk Mustache Mobile and the 3v3 Soccer Shootout to use in their own public relations efforts. Additionally, the Web site provided a daily email to processors for breaking news, a list of dietetic spokespersons for use as a resource, processor success stories, and links to a searchable library of medical research studies.

Brochures and other information on milk were made available to consumers through Web sites www.whymilk.com, www.milkpep.org, and www.2424milk.com.

Strategic Thinking

The Fluid Milk Strategic Thinking Initiative (FMSTI) is a joint effort of the Fluid Milk Board, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotion, and public relations activities of the Fluid Milk Board.

Over the years, FMSTI has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer-friendly materials for processors which may be found at www.milkdelivers.org. These materials include reports on milk's opportunities in vending, foodservice, convenience and drug store, supermarket and school foodservice channels. Some of the materials included are brochures focusing on new ways to get kids to drink more milk; one-page fact sheets explaining the science behind milk's weight-loss claims; vending sales kits containing results from the 2003 Multi-Channel Vending Test; and many other reports and studies published in previous years highlighting opportunities for increased milk sales.

Complete reports, studies, executive summaries, and press releases for FMSTI's ongoing initiatives are available for processors on Web site www.milkpep.org and for customers at www.milkdelivers.org. The presentations, videos, and printed materials are available by calling the milk hotline at 1-800-945-MILK (6455.)

School Marketing

In 2004, FMSTI conducted several seminars to educate processors on how to increase their milk sales at schools. The seminars were part of the "Capturing the School Milk Opportunity" program, which presents processors with a myriad of options they can implement to improve school milk. Originally, eight seminars were scheduled in various regions across the United States, but due to overwhelming demand from processors, eight additional seminars were added.

The Fluid Milk Board's School Image Poster Program continued in 2004. Two truck-sized got milk?® posters were sent to participating public, middle, and high school foodservice directors in August for the beginning of the school year. This year's posters featured rock singer Fefe Dobson, NBA® star Tracy McGrady, tennis sensation Andy Roddick, and actress Hilary Duff. Results from 2003 indicated that the 32,000 schools that received posters educated almost

24 million students. Surveys of the schools' foodservice directors revealed that of those schools that received posters, 72 percent hung them (70 percent in the cafeteria area) and 94 percent requested new celebrity posters for future school years. More than one third of those evaluated planned to leave the posters up until they were no longer in good condition. Since size limitation was listed as the most cited reason for not hanging posters (especially for urban schools), a smaller version of the new posters was created and shipped to those schools. These efforts worked in tandem with DMI's school efforts to educate students and school foodservice professionals about the role milk and dairy foods plays in good nutrition.

Chapter 2
USDA Activities

The Dairy Programs unit of USDA's Agricultural Marketing Service (AMS) has day-to-day oversight responsibilities for the Dairy Board and the Fluid Milk Board. Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Board's budgets, budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is also a responsibility of Dairy Programs. Program materials are monitored for conformance with provisions of the respective Acts and Orders and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs); and to provide for evaluation of the effectiveness of both promotion programs' advertising campaigns. Dairy Programs also assists the Boards in their assessment collection, compliance, and enforcement actions.

Other Dairy Programs responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, and conducting periodic program audits. Dairy Programs representatives attend full Board and Board committee meetings.

National Dairy Promotion and Research Board Oversight

Nominations and Appointments

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers and are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties.

Twenty-six nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2004. A press release issued on October 15, 2004, announced the appointment of seven new members and five incumbents. All will serve 3-year terms ending October 31, 2007. Newly appointed members were: Deborah D. Dystkstra, Caruthers, California (Region 2); Linda P. Macedo, Merced, California (Region 2); Harvey S. Moranda, Orland, California (Region 2); Grant B. Kohler, Midway, Utah (Region 3); Jose L. Gonzalez, Mesquite, New Mexico (Region 4); John M. Larson, Okeechobee, Florida (Region 10); and Paula A. Meabon, Wattsburg, Pennsylvania (Region 11). Reappointed to serve second terms were: Marlin J. Rasmussen, St. Paul, Oregon (Region 1); Margaret A. Gambonini, Petaluma, California (Region 2); Rosalie M. Geiger, Reedsville, Wisconsin (Region 6); Alice S. Moore, Frazeysburg, Ohio (Region 9); and David E. Hardie, Lansing, New York (Region 12).

A list of current and past Dairy Board members appears in Appendix A. Appendix C-1 is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act) and Dairy Order and with established USDA policies. In 2004, the USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

Contracts

The Dairy Act and Dairy Order require that all contracts expending assessment funds be approved by the Secretary (7 CFR 1150.140). During 2004, Dairy Programs reviewed and approved 250 Dairy Board and DMI agreements, amendments, and annual plans. Funding approvals were from the 2002, 2003, and 2004 fiscal periods. Appendix F-1 lists the contractors and corresponding Board initiatives approved by USDA during 2004.

Contractor Audits

During 2004, DMI retained the certified public accounting firm of KPMG LLP to audit the records of the following contractors: DDB (media and advertising); National Milk Producers Federation (marketing research services); The Integer Group (marketing research services); Uniflex (export, through USDEC); and Slack Barshinger & Partners (media and advertising). DMI is implementing the audit recommendations for improving management and internal controls over contracts.

Collections

The Dairy Act specifies that persons who pay producers and producers marketing milk directly to consumers, commonly referred to as "responsible persons," shall remit assessments to the Dairy Board or to Qualified Programs for milk produced in the United States and marketed for commercial use.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2004, the Dairy Board received about 5.07 cents of the 15-cent assessment.

Compliance

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. No significant differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contract with each Qualified Program.

When noncompliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action. In 2004, USDA assisted the Dairy Board in the resolution of several bankruptcies and in other collection activities related to delinquent assessments.

Qualified Programs

Dairy Programs reviewed applications for continued qualification from 59 Qualified Programs. A list of the 59 active Qualified Programs is provided in Appendix H. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2003 and 2004 in Chapter 1.

Litigation

The Dairy Board and the Secretary of Agriculture were named as defendants in a lawsuit in the U.S. District Court for the Middle District of Pennsylvania by dairy producers seeking a declaration that the Dairy Act violates their First Amendment rights of free speech and association. In March 2003, a Federal trial court in Pennsylvania found that the Dairy Program does not violate the claimants' right of free speech and association. Upon appeal, a three-judge panel of the U.S. Court of Appeals for the Third Circuit reversed this decision. The panel found that the Dairy Program does violate the claimants' right of free speech and association rights by compelling them to subsidize speech with which they disagree. The Department of Justice (on behalf of the Secretary of Agriculture and Dairy Board) filed a petition for an *En Banc* rehearing, but the petition was subsequently denied. On October 1, 2004, the U.S. Solicitor General filed a writ of certiorari with the U.S. Supreme Court (Court). The petition for writ was granted on May 31, 2005; the judgement was vacated and the case was remanded to the Sixth Circuit Court of Appeals for further consideration in light of Court's decision in *Johanns, Secretary of Agriculture, Et Al. v. Livestock Marketing Association Et Al. (LMA)*. In this decision, the Court held that commodity promotion programs are considered Government speech, and therefore are not subject to First Amendment protections.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. The Fluid Milk Promotion Order (Fluid Order) provides that no company shall be represented on the board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve two additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations. In a news release issued on May 2, 2005, the Secretary of Agriculture announced four reappointments and two new appointments to the Fluid Milk Board. Reappointed to serve a second term were James S. Jaskiewicz, Lakeland, Florida (Region 5) and Gary L. Aggus, Springfield, Missouri (Region 11). Appointed to serve first terms after filling vacancies with a term of 18 months or less were Joseph Cervantes, Binghamton, New York (Region 2) and Jerry Tidwell, Walnut Creek, California (Region 14). Newly appointed to serve their first terms were Brian Haugh, Dallas, Texas (Region 8) and Michael A. Krueger, Phoenix, Arizona (At-Large Processor). The reappointed and newly appointed members were officially seated at the July 21-23, 2005, Fluid Milk Board Meeting. The terms for all appointees will expire on June 30, 2008.

A list of current and past Fluid Milk Board members appears in Appendix B. Appendix C-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order.

Program Development

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. IDFA contracted with Lowe Worldwide, Siboney Inc., Weber Shandwick, and Draft Worldwide, to develop the Fluid Milk Board's teen and mom advertising, Hispanic advertising and public relations, consumer education/public relations, and promotion programs, respectively.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates P.C. to audit the records of Lowe Worldwide, in order to determine if the agency had conformed to the financial compliance requirement specified in its agreement with the Board for the period of January 1, 2003, through December 31, 2003. Additionally, the records of Draft Worldwide were audited in order to determine financial compliance as specified in its agreement with the Board for the month of February 2004.

The final report from the 2003 independent audit of 2002 agency records of Flair Communications, Inc. has been completed. The Fluid Board was successful in its arbitration

with Flair Communications, Inc. to settle a dispute resulting from audit discrepancies. The Board has received full payment for the disputed amount. The Board continues to enhance its internal contract control system in order to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

Compliance

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate. In 2004, one delinquent account was referred to the USDA as a result of bankruptcy proceedings.

Chapter 3
Impact of Generic Fluid Milk and Dairy Advertising and Promotion on Dairy Markets: An Independent Analysis

The Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6407) require a yearly independent analysis of the effectiveness of milk industry programs. These promotion programs operate to increase milk awareness and thus the sale of fluid milk and related dairy products. From 1984 through 1994, USDA was responsible for the independent evaluation of the National Dairy Promotion and Research Program (Dairy Program), as authorized by the Dairy Act, and issued an annual Report to Congress on the effectiveness of the Dairy Program.

Beginning in 1995, the Congressional report began including third party analyses of the effectiveness of the Dairy Program in conjunction with the National Fluid Milk Processor Promotion Program (Fluid Milk Program) authorized by the Fluid Milk Act. Since 1988, these independent analyses have been conducted by agricultural economists from Cornell University.

Unlike last year's review, this analysis does not include an economic evaluation of solely generic advertising of fluid milk and cheese. Advertising alone is no longer evaluated because such advertising, and particularly advertising sponsored by dairy producers, has been declining in importance in recent years. Instead, the economic evaluation focuses on the combined generic marketing activities. The results of two separate models are presented.

The first model is a fluid milk-only demand model used to evaluate the economic impacts of all generic fluid milk marketing activities of both programs on fluid milk demand. The generic fluid milk marketing activities include fluid milk advertising and non-advertising marketing activities used to increase demand, including public relations, sales promotions, nutrition education, and sponsorships. While the dairy producer and fluid milk processor programs utilize various types of marketing strategies to increase fluid milk consumption, the effects of fluid milk marketing under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately.

The second model is a total dairy demand model for all fluid milk and dairy products used to evaluate the economic impacts of all generic marketing activities for those products. The total dairy demand model is included because the dairy producer programs now emphasize an "all dairy" promotion strategy (3-A-Day™) over product-specific campaigns.

Similar to the first model, marketing activities in the second include generic advertising, sales promotions, public relations, nutrition education, and sponsorships. Unlike the first model, the marketing activities in the second model include activities for all dairy products (fluid milk and manufactured dairy products). This model provides a measure of the economic impact of all demand-enhancing, generic marketing activities by both programs.

Highlights

Generic fluid milk marketing activities sponsored by fluid milk processors and dairy producers have helped mitigate a long-term decline in per capita fluid milk consumption in the United States. Cornell estimates that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2004, it is estimated that a 1.0 percent increase in generic fluid milk marketing expenditures resulted in a 0.056 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

What about the impact on total consumption of fluid milk? From 2000 through 2004, generic fluid milk marketing activities increased fluid milk commercial disappearance by 26.9 billion pounds in total or 5.4 billion pounds per year. Alternatively stated, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 9.7 percent less over this time period. Hence, the combined efforts of the two programs to market fluid milk have had a positive and statistically significant impact on fluid milk consumption.

Regarding total dairy product demand, the average generic dairy marketing program elasticity for the period 1990–2004 was 0.078; i.e., a 1.0 percent increase in expenditures for these marketing activities increased per capita dairy demand by 0.078 percent. Thus, the total marketing program effort had a positive and statistically significant impact on dairy consumption.

The benefit-cost ratio (BCR) for the Dairy Program for the period 2000 through 2004 was calculated. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue due to demand enhancement from all marketing activities under the Dairy Program. The costs of the Dairy Program were calculated as the difference in total assessment revenues before and after the national program was enacted. The results show that the average BCR for the Dairy Program was 5.11. This means that each dollar invested in generic dairy marketing by dairy producers returned $5.11, on average, in net revenue to farmers.

To make allowances for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR. The confidence interval provides a lower and an upper limit for the average BCR. One can be "confident" that the true average BCR lies within these bounds 90 percent of the time. The estimated lower and upper bounds for the average BCR were 4.19 and 6.02, respectively. This confidence interval demonstrates that one could be confident that 90 percent of the time the true average BCR lies between a low of 4.19 and a high of 6.02. Hence, it is reasonable to conclude that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the program.

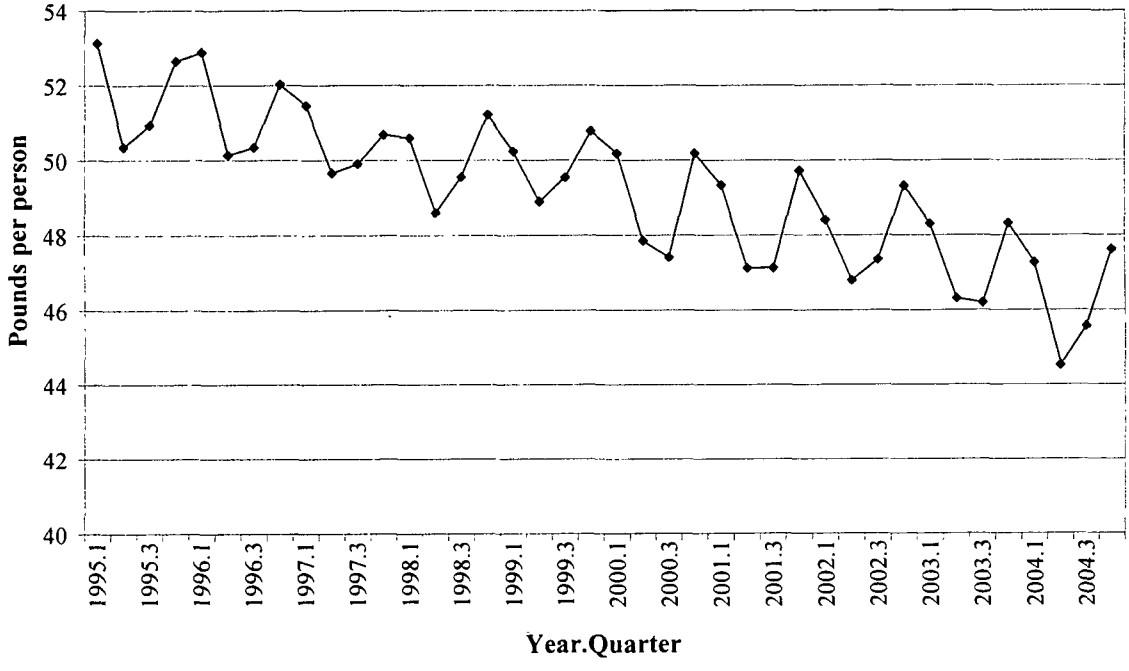
Analysis of Generic Fluid Milk Marketing

Per capita fluid milk consumption in the United States has been trending downward for many years. Among the factors behind this decline are aggressive advertising and marketing by producers of beverages that compete with fluid milk, changes in U.S. population demographics, changes in consumer preferences for fluid milk, and how and where people consume food. As the model described in this report uses quarterly data covering the period 1995 through 2004, the following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect milk consumption over this time period. It is important to emphasize, however, that the decline in per capita fluid milk consumption has occurred over a significantly longer period of time than since 1995.

Figure 3–1 illustrates the steady decline in fluid milk commercial disappearance since 1995 (along with seasonal and quarterly changes). From 1995 to 2004, per capita commercial disappearance declined by almost 11 percent. This translates into an average annual rate of decline of a little more than 1.0 percent annually.

One potential cause of declining per capita fluid milk consumption may be the positive trend in food consumed away from home. As people consume relatively more food away from home, fluid milk consumption may be diminished by the lack of availability of many varieties of fluid milk products at the nation's eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of milk product, which causes some people who would normally drink milk to consume a different beverage if their preferred milk

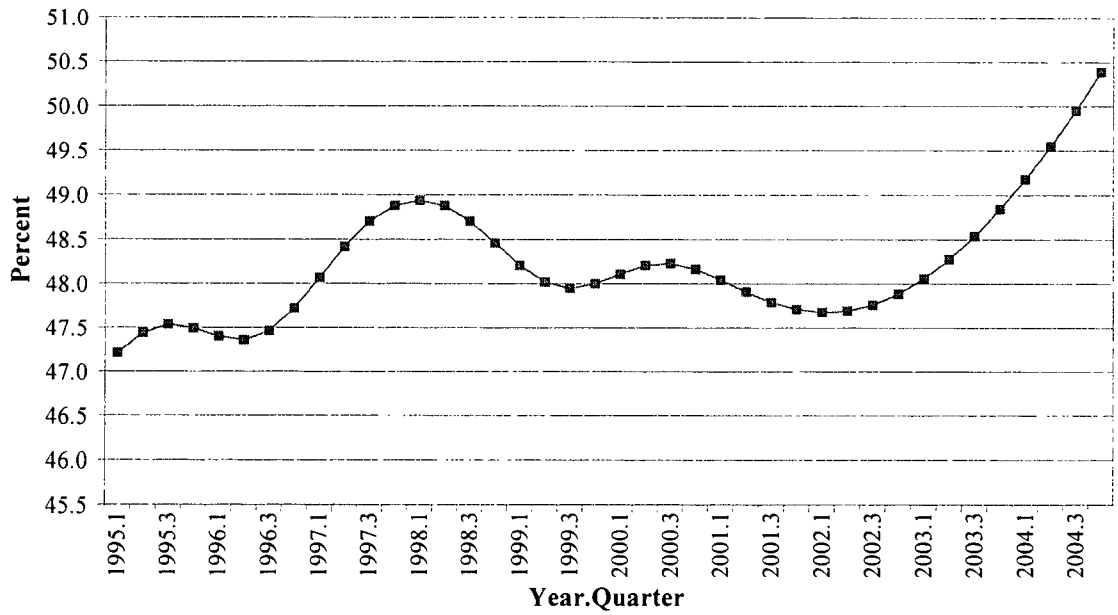
Figure 3–1. Per Capita Fluid Milk Consumption



product is not available. Figure 3–2 illustrates the trend in expenditures on food consumed away from home as a percentage of total food expenditures since 1995. Between 1995 and 2004, the annual average percentage of expenditures on food consumed away from home increased by 4.9 percent. While there were some ups and downs in the percentage of food consumed away from home over this period, the general trend is increasing from 1995 to 2004. It is evident from Figures 3–1 and 3–2 that fluid milk consumption and eating away from home are negatively related. Thus the increase in food consumed away from home has likely been responsible for some of the decrease in per capita fluid milk consumption.

Another potential reason why per capita fluid milk consumption has declined may be changes in population demographics. One important change is the declining proportion of young children in the population since 1995 (the decline has leveled out since 2000). Since young children are one of the largest milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk consumption. Figure 3–3 shows the percentage of the population that was less than six years old from 1995 to 2004, a segment of the population that has decreased by more than 8 percent since 1995.[1] Therefore, there is a positive correlation between per capita milk consumption and this age cohort—both are declining.[2]

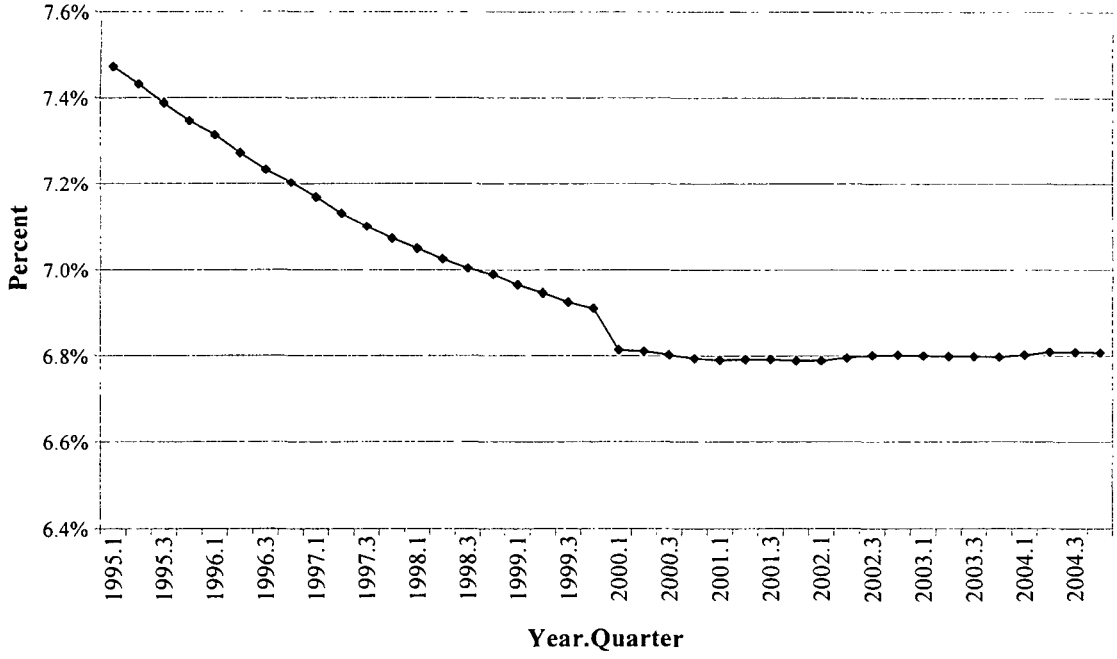
Figure 3–2. Expenditures on Food Consumed Away From Home as a Percentage of Total Food Expenditures



[1] The downward jump in the percentage of the population under six years of age that occurred between 1999 and 2000 as indicated in the 2002 census data.

[2] Since 2000, the positive relationship between per capita fluid milk consumption and the percent of the population under six years old has weakened considerably with the flattening out of the age demographic variable. However, this positive relationship nevertheless holds for the period 1995 through 2004.

Figure 3–3. Percentage of U.S. Population Under Six Years of Age



Since 1995, the retail price of fluid milk products has been rising relative to other nonalcoholic beverages. This pattern is displayed in Figure 3–4. Note that any value above 1.0 means the consumer price index for fluid milk is higher than the consumer price index for nonalcoholic beverages. While there have been some periods since 1995 where retail fluid milk prices declined relative to other beverage prices, two-out-of-three periods have been characterized by rising relative retail prices for fluid milk. From 1995 through 2004, annual average fluid milk prices rose 31 percent relative to other beverages. These retail fluid milk price increases may be responsible for some of the decline in per capita fluid milk consumption.

Fluid milk's loss of market share to other beverages also may be due to aggressive marketing by competing beverage producers. Indeed, both dairy producers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers. Since 1995, the one beverage that has grown the most in per capita consumption is bottled water, due in part to increased advertising and promotion by bottled water firms. Figure 3–5 displays real (inflation-adjusted) per capita advertising expenditures for bottled water. This advertising increased from practically nothing in 1995 to a high of 4.5 cents per person per quarter in 2002 (with consistently higher spending in the second and third quarters of the year). While this is still relatively small compared to advertising by other competitors such as soft drink firms, advertising of bottled water has increased substantially since 1995.

Figure 3–4. Retail Price of Fluid Milk Relative to Other Beverage Prices

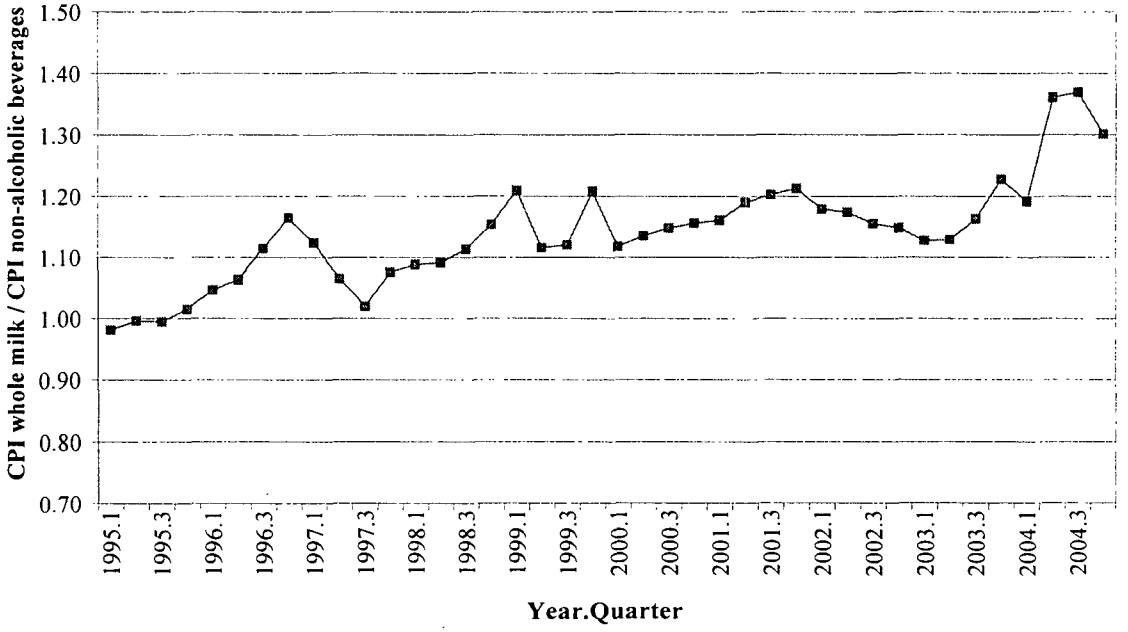
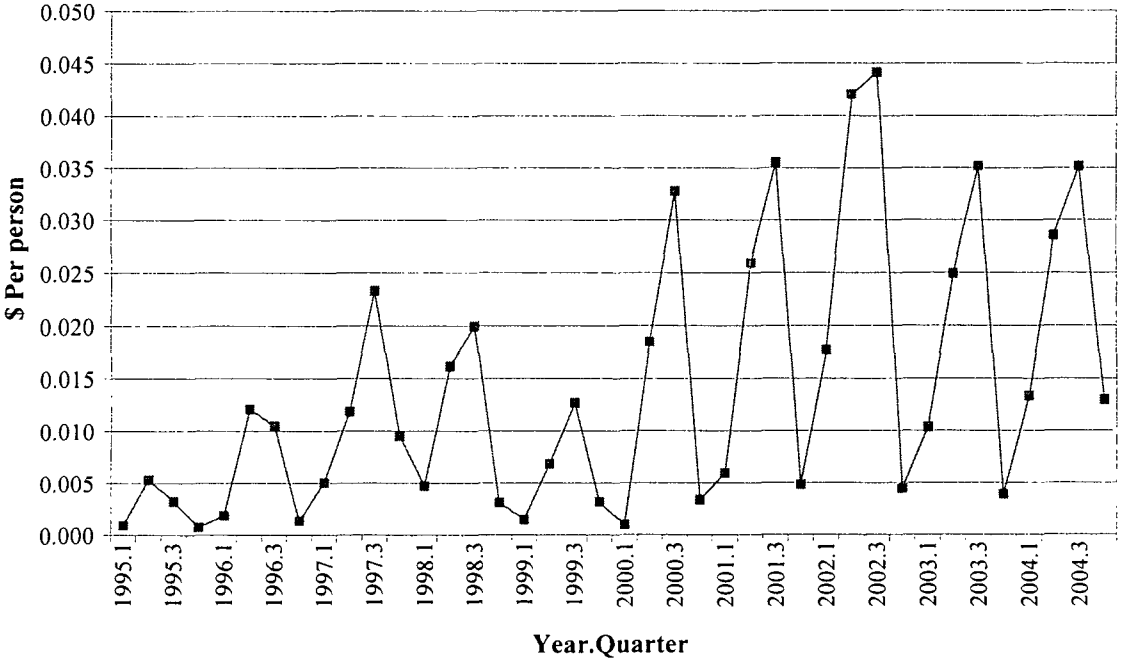


Figure 3–5. Real Per Capita Bottled Water Advertising



One factor that may have mitigated some of the long-term decline in per capita fluid milk consumption is the growth in real income over this period. Fluid milk is considered to be a "normal" good, which means that consumption increases as consumers' disposable incomes increase. Figure 3–6 illustrates the steady positive trend in real per capita income (in 2004 dollars) from 1995 to 2004. Since 1995, per capita income has increased by 28.6 percent.

Another factor that may have mitigated some of the long-term decline in per capita fluid milk consumption over this time period is the generic marketing sponsored by fluid milk processors and dairy producers. The dairy-producer checkoff program is the largest checkoff program in the United States in terms of revenue and the fluid milk processor program is the second largest. Figure 3–7 shows the combined real expenditures (in 2004 dollars) on generic fluid milk marketing efforts by these two programs. From 1995 to 1998, there was steady growth in real expenditures for generic fluid milk marketing, from just under $34 million in the first quarter of 1995 to $80 million in the fourth quarter of 1998. Since 1998, however, such expenditures have been declining. Combined annual average real expenditures declined by 13.5 percent from 1995–2004. This decline may have diminished somewhat the impact of the generic marketing programs on the long-term decline in per capita fluid milk consumption.

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, an econometric modeling approach was developed. Because there are factors other than generic advertising that influence the demand for fluid milk, this model was used to identify the effects of individual factors affecting demand. The following variables were included as factors influencing per capita fluid milk demand: the consumer price index (CPI) for fluid milk; the CPI for nonalcoholic beverages, which was used

Figure 3–6. Real Per Capita Disposable Income

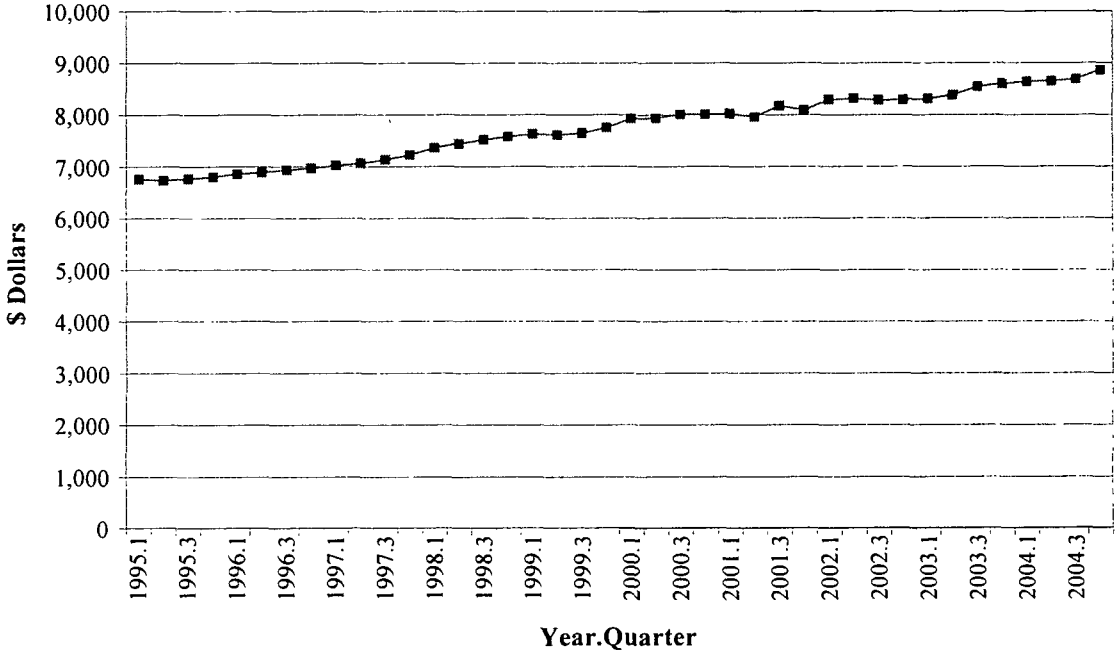
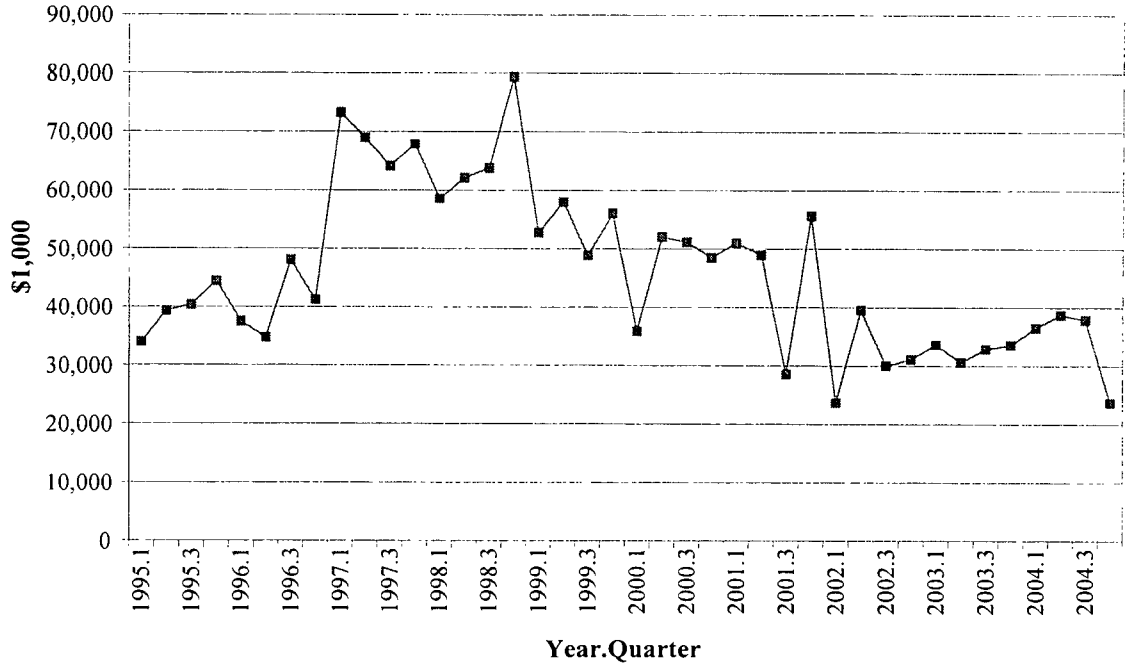


Figure 3–7. Real Generic Fluid Milk Marketing Expenditures



as a price proxy for fluid milk substitutes; the percentage of the U.S. population less than six years old; per capita disposable income; variables to capture seasonality in fluid milk demand; expenditures on food consumed away from home as a percentage of total food expenditures; per capita expenditures on bottled water advertising; and expenditures on generic fluid milk marketing. As mentioned in the introduction, the marketing expenditures included funds spent on fluid milk advertising, public relations, sales promotions, nutrition education, and sponsorships. Since the goals of the two marketing programs are the same, all generic milk marketing activities by both programs were aggregated into a single generic marketing variable.

The model was estimated using national quarterly data from 1995 to 2004. To account for the effects of inflation, all prices and income were deflated by the appropriate consumer price index. Generic fluid milk marketing and bottled water advertising expenditures were deflated by a media cost index computed from annual changes in promotion and advertising costs by media type supplied by Dairy Management Inc. Because marketing has a carry-over effect on demand, past fluid milk marketing expenditures also were included in the model as explanatory variables using a distributed-lag structure.[3] Similar procedures were used to capture this carry-over effect for bottled water advertising.

[3] Specifically, a second-degree polynomial lag structure with both end point restrictions was imposed. The demand model included current expenditures and seven quarters of lagged real generic milk marketing expenditures to capture the carry-over effect of the marketing activities. The length of lag used here was a little longer than used in previous studies, which indicates that such demand enhancing activities as the *got milk?*® and milk mustache campaigns have long-lasting effects on consumers.

The relative impacts of variables affecting demand can be represented by "elasticities." An elasticity measures the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant. Table 3–1 provides average elasticities for the period 1995 through 2004 for variables found to have a statistically significant effect on consumption.[4] For example, a price elasticity of demand for fluid milk equal to –0.148 means that a 1.0 percent increase in the real (inflation-adjusted) retail fluid milk price decreases per capita fluid milk quantity demanded by 0.148 percent.

The most important factors influencing per capita fluid milk demand are the percentage of the population under 6 years of age and the proportion of food expenditures on food eaten away from home. While not as large in magnitude, retail fluid milk prices, income, expenditures on generic fluid milk marketing efforts, and bottled water advertising expenditures also significantly impacted per capita fluid milk demand.

Population demographic changes had an impact on fluid milk consumption. Specifically, the percentage of the population under 6 years of age had an estimated elasticity of 1.212. This means that a 1.0 percent increase in this age cohort would result in a 1.212 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies (including last year's analysis), which show that one of the largest milk-consuming segments of the population is young children.

Another important fluid milk demand factor is the amount of food that is consumed away from home, which was measured in this model as real expenditures on food eaten away from home

Table 3–1. Average Elasticity Values (1995–2004) for Factors Affecting the Retail Demand for Fluid Milk[1]

Demand Factor	Elasticity
Retail price	–0.148*
Per capita income	0.154*
Percent of food-away-from-home expenditures	–0.610*
Percent of population younger than six years of age	1.212*
Bottled-water advertising	–0.014*
Generic milk marketing	0.056*

[1] Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.148 percent. For more information on the data used, see Table 3–3. *Statistically significant at the 1.0 percent significance level or less.

[4] The estimated model fit the data extremely well. All variables were statistically significant at the 1.0 percent significance level. The adjusted goodness-of-fit measure indicated that the explanatory variables explained 96 percent of the variation in per capita fluid milk consumption. Various statistical diagnostics were performed and no statistical problems were found.

as a percentage of total expenditures on food. The estimated elasticity for this factor was –0.610. A 1.0 percent increase in the percentage of food consumed away from home expenditures would result in a 0.610 percent decrease in fluid milk demand. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products and high availability of fluid milk substitutes at many eating establishments, which frequently offer only one or two types of milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose milk select another beverage instead. This result suggests the need to target the retail food service industry in an effort to increase away from home consumption. Efforts to increase the variety of fluid milk beverages offered to customers may increase the competitiveness of fluid milk.

Not surprisingly, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1.0 percent increase in the real retail price of fluid milk would result in a 0.148 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small, which indicates that U.S. consumers' milk purchasing behavior is insensitive relative to changes in the retail price. This result, which is consistent with the other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States. However, as described in the previous section, the retail price of milk has increased substantially since 1995 (31 percent) relative to the price of other beverages. Consequently, the increase in fluid milk price has contributed to the decline in per capita consumption.

Per capita disposable income had a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.154 percent increase in per capita fluid milk demand, holding all other demand factors constant.

The generic fluid milk marketing activities sponsored by dairy producers and fluid milk processors have had a positive and statistically significant impact on per capita fluid milk demand. The average marketing elasticity was computed to be 0.056 and was statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk marketing would increase per capita fluid milk consumption by 0.056 percent holding all other demand factors constant. This generic marketing elasticity is larger than estimated last year for just generic fluid milk advertising (0.037). However, the model and length of time series data used for the two analyses also are different. Hence, the two elasticities are not comparable.

Finally, bottled water advertising has had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to bottled water advertising was –0.014. While relatively small in magnitude, this elasticity was statistically different from zero at the 1.0 percent significance level.

To examine the impacts on total consumption of fluid milk for the period from 2000 through 2004, the economic model simulated the estimated demand equation for two scenarios: (1) a baseline scenario, in which the combined fluid milk marketing expenditures were equal to actual marketing expenditures under the two programs and (2) a no-national-Dairy-Program, no-Fluid

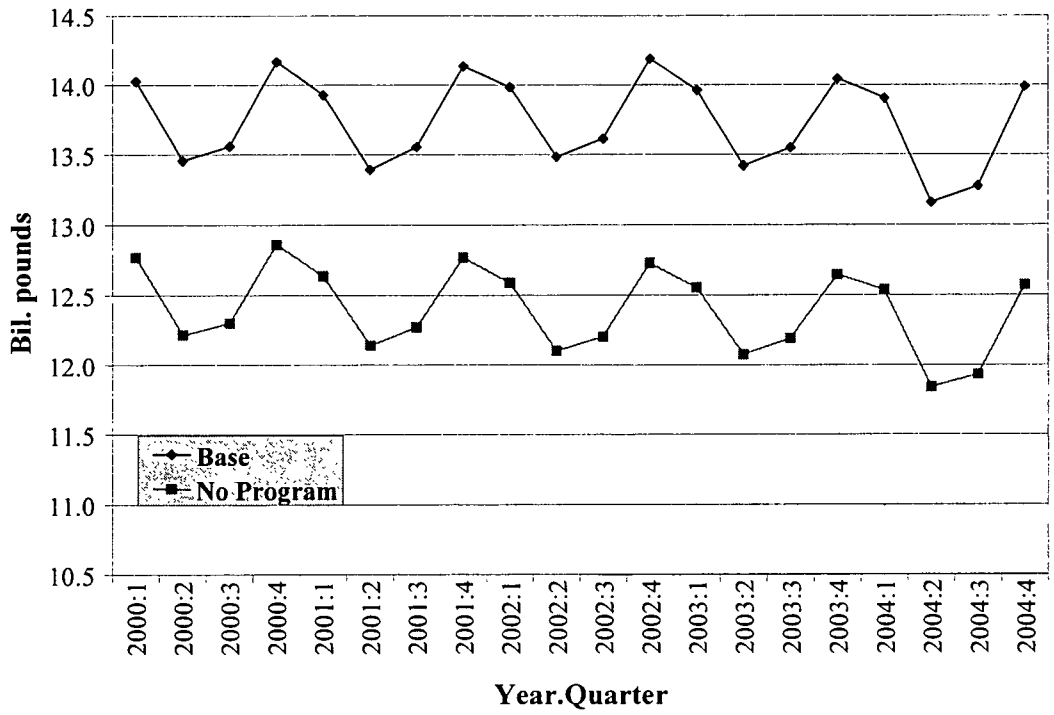
Milk-Program scenario in which there was no fluid milk-processor-sponsored marketing and dairy-producer-sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the national program was enacted. A comparison of these scenarios provides a measure of the impact of the two national programs.

Figure 3–8 displays the simulation results for quarterly fluid milk commercial disappearance for the two scenarios. It clearly shows the positive impact on total fluid milk consumption due to the milk-processor and dairy-producer marketing programs. From 2000 through 2004, these marketing activities increased fluid milk commercial disappearance by 26.9 billion pounds in total, which is 5.4 billion pounds per year. Put differently, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 9.7 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy farmers and fluid milk processors combined have had a positive and statistically significant impact on fluid milk consumption.

Analysis of Total Dairy Product Generic Marketing

To examine the overall impact of the dairy producer and fluid milk processor programs on overall dairy demand, a combined fluid milk/dairy product demand model was developed that included all demand-enhancing marketing activities as one of the demand determinants. Per capita commercial disappearance of fluid milk, cheese, butter, and frozen products was used to

Figure 3–8. Simulated Base and No-National Fluid Milk and Dairy Programs



represent total dairy demand.[5] Expenditures for the following marketing activities were aggregated into one variable to reflect their combined impact on total dairy demand: total dairy-producer expenditures for generic milk and cheese advertising, public relations, sponsorships, retail promotions, and nutrition education and total fluid milk processor expenditures for generic milk advertising, public relations, and promotions.[6] In addition, the following variables were included as factors influencing per capita dairy demand: the CPI for all dairy products, per capita disposable income, variables to capture seasonality in dairy product demand, and per capita expenditures on consumption of food away from home.

The model was estimated with national quarterly data for 1990–2004.[7] To account for the impact of inflation, all monetary variables were deflated by the CPI for all items. Generic fluid milk and cheese marketing expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor) for fluid milk and cheese.

Table 3–2 provides selected elasticities from the total dairy demand model. All demand elasticities were statistically significantly different from zero at the 1.0 percent significance level. The most important factor in the model impacting per capita disappearance of all dairy products was expenditures on food consumed away from home as a percentage of the total expenditures on food. The results indicate that a 1.0 percent increase in the percentage of food-away-from-home expenditures would result in a 0.921 percent increase in combined per capita total dairy demand. The average retail price elasticity for 1990 through 2004 was –0.583; in other words, a

Table 3–2. Average Elasticity Values (1990–2004) for Factors Affecting Total Dairy Retail Demand

Demand Factor	Elasticity
Retail price	–0.583*
Per capita income	0.264*
Percent of food-away-from-home expenditures	0.921*
Generic dairy marketing	0.078*

*Statistically significant at the 1 percent level or less.

[5] Since all products were expressed on a milk-fat equivalent basis, non-fat dry milk is not included. The summation of fluid milk, cheese, butter, and frozen dairy products, on a milk fat equivalent basis, is used as a measure of total dairy demand.

[6] Considerably more than 90 percent of the combined generic marketing budgets of dairy farmers and fluid milk processors is spent on fluid milk and cheese marketing activities. Hence, expenditures on fluid milk and cheese marketing are used as a measure of the overall dairy marketing efforts of the two programs.

[7] Unlike the fluid milk demand model, data for the total dairy demand model went farther back in time to 1990. We could not go back prior to 1995 for the fluid milk model because it was impossible to separate fluid milk marketing expenditures from total dairy marketing expenditures before 1995. Since extra data existed for the total dairy demand model, they were used.

1.0 increase in the retail price of dairy products would result in a 0.583 percent decrease in per capita quantity demanded for all dairy products. Income was also an important factor in the total demand model. The estimated income elasticity was 0.264, indicating that these dairy products are normal goods; that is, consumption rises with increases in income.

The major interest here is the combined advertising and promotion or "marketing" elasticity. The average marketing elasticity for this period was 0.078; a 1 percent increase in expenditures for these combined marketing activities would increase per capita total dairy demand by 0.078 percent. Thus, the total marketing effort by dairy farmers and milk processors has had a positive and statistically significant impact on dairy consumption.

Benefit-Cost Analysis of the Dairy Program

One way to measure whether the benefits of a program outweigh the cost is to compute a benefit-cost ratio (BCR). A BCR can be computed as the change in net revenue[8] due to generic dairy marketing divided by the cost of the checkoff program. A BCR was estimated for producers for the Dairy Program, but one could not be computed at this time for milk processors for the Fluid Program because data on packaged fluid milk wholesale prices, which are necessary in calculating processor net revenue, are proprietary and therefore not available.

BCRs[9] were calculated by simulating two scenarios: (1) a baseline scenario in which the combined marketing expenditure level was equal to actual marketing expenditures under the two programs and (2) a no-national-Dairy-Program scenario in which there was fluid milk processor sponsored marketing but dairy producer-sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessments before and after the national program was enacted. A comparison of these scenarios provides a measure of the impact of the Dairy Program. The benefits of the Dairy Program were calculated as the change in dairy farmer net revenue (what economists refer to as "producer surplus") due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in net revenue between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the marketing program. The costs of the Dairy Program were calculated as the difference in total assessment revenue before and after the national program was enacted.

The results show that the average BCR for the Dairy Program was 5.11 from 2000 through 2004. This means that each dollar invested in generic dairy marketing by dairy farmers during the period returned $5.11, on average, in net revenue to farmers. The level of the marketing BCR suggests that the marketing programs supported by dairy farmers have been a successful investment.

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[8] "Net revenue" is defined as the aggregate gain in total revenue from price and product disappearance enhancements due to generic dairy marketing less the increase in supply costs for the additional milk marketed by dairy farmers.

[9] To measure market impacts, we estimated supply equations at the retail and farm levels to simulate supply response to any price increase due to a marketing-induced increase in demand. The results of these estimates are available from the authors upon request.

In another interpretation of the BCR, the generic dairy marketing expenditures resulting from the Dairy Program cost dairy producers an additional $147 million per year on average (i.e., the difference between $366 million annually under the baseline scenario and $219 million under the no-Dairy-Program scenario). This additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, we estimate that the average annual increase in producer surplus (reflecting changes in both revenues and costs) due to the additional generic marketing under the Dairy Program was $751.5 million. Dividing $751.5 million by the additional Dairy Program cost of $147 million results in the estimated benefit-cost ratio of 5.11.

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower and upper limit for the average BCR. One can be "confident" that the true average BCR falls within those bounds 90 percent of the time. The estimated lower and upper bounds for the average BCR were 4.19 and 6.02, respectively. Hence, it is reasonable to conclude that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the programs.

Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, the change in generic dairy marketing expenditures noted previously is 3.3 percent of the average annual value of farm milk marketings from 2000 through 2004 ($22.94 billion). The generic marketing activities conducted through the Dairy Program resulted in modest gains in the quantity of dairy products marketed and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment.

Table 3–3. Description of Variables Used in Econometric Models[1]

Variable	Description	Units	Mean[2]
	Consumption Variables		
RFDPC	Quarterly retail fluid demand per capita	lbs MFE	13.81 (0.35)
RDDPC	Quarterly retail total dairy demand per capita	lbs MFE	39.40 (3.11)
	Price Indices		
RFPCPI	Consumer retail price index for fresh milk and cream deflated by consumer price index for all items (1982–84=1)	#	1.14 (0.09)
RDPCPI	Consumer retail price index for all dairy products deflated by consumer retail price index for all items (1982–84=1)	#	0.93 (0.03)
RBEVCPI	Consumer retail price index for non-alcoholic beverages (1982–84=1)	#	135.72 (4.09)
	Demographic and Income Variables		
INCPC	Quarterly per capita disposable income, deflated by the consumer retail price index for all items (2004=1)	$	7,743 (644.67)
AGE5	Percent of the population under age six	#	6.97 (0.22)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	48.20 (0.70)
	Marketing Expenditures		
GMM	Quarterly generic fluid milk marketing expenditures deflated by media cost index (2004 $)	$mil	45.90 (14.08)
GMMD	Quarterly generic fluid milk marketing expenditures, Dairy Program, deflated by media cost index (2004 $)	$mil	22.84 (10.47)
GMMP	Quarterly generic fluid milk marketing expenditures, Fluid Milk Program, deflated by media cost index (2004 $)	$mil	23.06 (12.23)
GMCM	Quarterly generic fluid milk and cheese marketing expenditures, Dairy and Fluid Milk Program, deflated by media cost index (2004 $)	$mil	99.33 (25.73)
BWA	Quarterly per capita bottled-water advertising expenditures deflated by media cost index (2004 $)	$/person	0.0139 (0.01)

[1] Quarterly dummy variables are also included in the model to account for seasonality in demand.
[2] Computed over the period from 1995 to 2004. Standard deviation in parentheses.

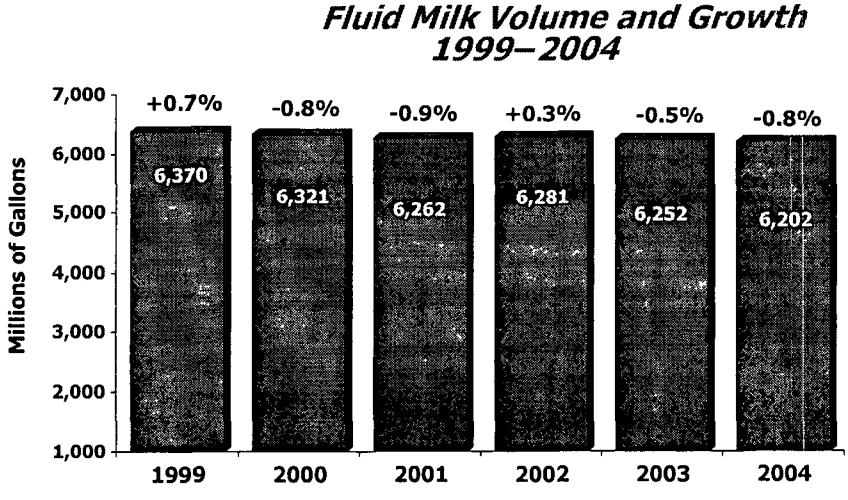
Chapter 4
Fluid Milk Market and Promotion Assessment

For the fifth consecutive year, Beverage Marketing Corporation (BMC) has been commissioned by Dairy Management Inc. (DMI) and the National Fluid Milk Processor Promotion Board to review the national fluid milk advertising and promotional programs. This review offers a subjective evaluation of the effectiveness of those programs and provides a third-party marketing perspective of these efforts. It also evaluates milk's position relative to milk's competitive beverage set, including its respective marketing efforts and market performance. BMC believes milk's competitive set includes most non-alcoholic refreshment beverages, specifically carbonated soft drinks, bottled water, fruit beverages, ready-to-drink teas, and sports beverages. This year, BMC examines the overall milk industry's performance as well as the effect that targeted advertising and promotion have had on milk consumption by the crucial demographic cohorts. The following summarizes our findings based on the analysis of available data.

Beverage Marketing Corporation's Assessment of Current Milk Industry Environment

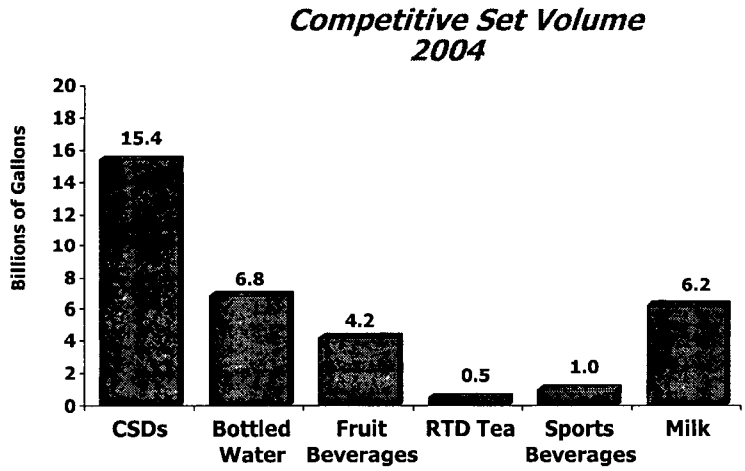
In 2004, fluid milk volume declined by 0.8 percent to 6.20 billion gallons following the slightly downward trend in 2003. Over the last 6 years, fluid milk volume has essentially been stable, fluctuating within a narrow band of volume between 6.2 and 6.4 billion gallons. Milk volume declined 50 million gallons in 2004 and about 30 million gallons in 2003. The history of volume changes for fluid milk sales over the past 6 years is shown in Figure 4–1. Milk's compound annual growth rate (CAGR) for the 5-year period of 1999 to 2004 was −0.5 percent, a reflection of the negligible swings in year-over-year milk consumption since 1999. In fact, these narrow consumption swings from year to year extend back over a decade. Consider that as long ago as 1988 fluid milk consumption was 6.2 billion gallons—almost identical to the fluid milk consumption in 2004.

Figure 4–1



Source: Beverage Marketing Corporation, USDA

Figure 4–2



Source: Beverage Marketing Corporation

Within its competitive set, milk is the third largest beverage category by volume. (See Figure 4–2.) In 2004, bottled water, which has been showing dramatic growth for the last decade, strengthened its position as the second largest beverage category. Meanwhile, carbonated soft drinks remain the largest category in the competitive set by far with 15.4 billion gallons in 2004. With the exception of milk and fruit beverages, all categories experienced some sort of increase over the past year.

As a whole, the combined categories of the competitive set increased by 2.1 percent to 34.1 billion gallons, up from 33.4 billion gallons in 2003. From 1999 to 2004, the competitive set has grown at a CAGR of 1.8 percent. (See Figure 4–3.) Without milk, the performance of the competitive set would have been slightly better—increasing at a CAGR of 2.4 percent from 1999 to 2004. Without bottled water, the competitive set grew by a CAGR of just 0.5 percent over that same 5-year time span. Bottled water accounted for approximately 75 percent of the volume increase of the competitive set in 2004. Absent bottled water, milk's performance was only slightly weaker than the performance of the competitive set.

BMC has studied milk's share of the volume increase compared to that of the entire competitive set annually over the last 15 years. This index reveals whether milk has gained or lost competitive share over this time span. This measure of milk's performance is an index based on its share of competitive volume change, divided by milk's market share of the competitive set at the onset of the year. An index greater than 1.0 indicates milk is improving its share and thus outperforming the competitive set; an index less than 1.0 reveals that milk's share of the competitive set is declining. In Figure 4–4, this index is illustrated over a 5-year period for each of the competitive set categories.

Milk has consistently underperformed the competitive set, and has thus lost competitive share each year since 1999 as the diagram illustrates. Conversely, bottled water and sports drinks have consistently outperformed the competitive set and have gained competitive share. Bottled water, in particular, has shown dramatic growth in recent years, driven primarily by heightened consumer demand for healthier beverage alternatives and greater convenience.

Figure 4–3

Volume Growth of Milk and Its Competitive Set
1999–2004

	Milk	Competitive Set Total	Competitive Set Without Milk	Competitive Set Without Water
1999	0.7%	2.4%	2.9%	1.1%
2000	−0.8%	0.8%	1.3%	0.5%
2001	−0.9%	1.7%	2.3%	0.2%
2002	0.3%	2.6%	3.2%	0.8%
2003	−0.5%	1.9%	2.4%	0.5%
2004	−0.8%	2.1%	2.7%	0.6%
99/04 CAGR	−0.5%	1.8%	2.4%	0.5%

Source: Beverage Marketing Corporation

While there are many factors associated with these consumption trends, advertising expenditures is one factor that is easily measured. In 2004, every category within the competitive set except for ready-to-drink tea (RTD) tea experienced an increase in media spending per gallon (See Figure 4–5.) Just as in previous years, milk is one of the lowest categories in media spending per gallon, with only bottled water and RTD tea spending less per gallon. The milk category spent approximately 2 cents on advertising for every gallon of milk sold, whereas carbonated soft drinks spent approximately 5 cents for every gallon sold. Bottled water's success has been primarily distribution- and consumer-driven and has continued even without significant marketing dollar expenditures in recent years.

In 2004, all categories in the competitive set except for RTD tea spent more on advertising than they did in 2003. Carbonated soft drinks once again accounted for nearly half of all advertising

Figure 4–4

Milk Indexed Share of Competitive Turnover
1999–2004

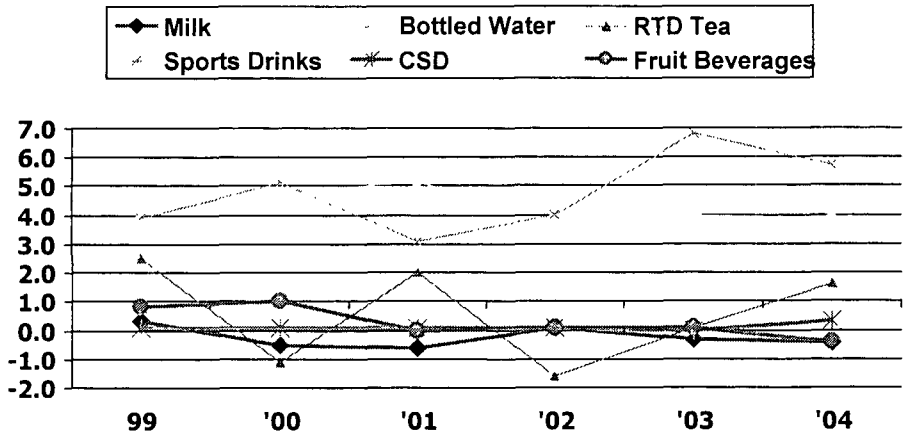
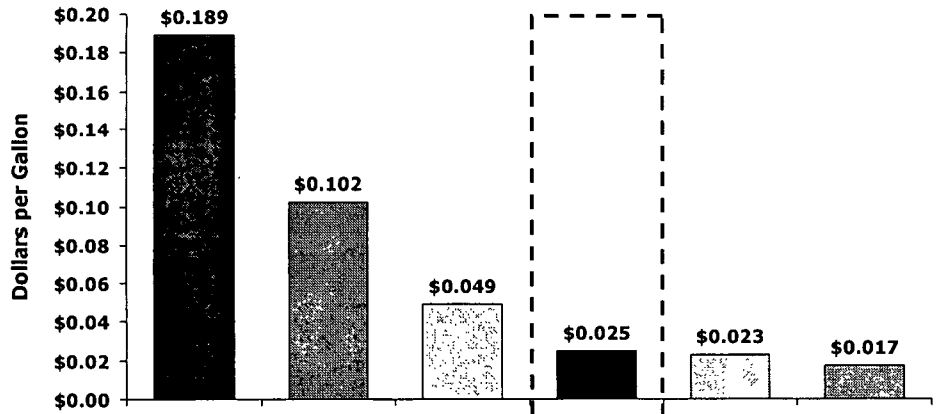


Figure 4–5

Competitive Set Media Spending Per Gallon*
2004



'03-'04 Change	+0.5%	+4.1%	+13.9%	+19.0%	-30.2%	+21.4%

*Change incorporates revised 2004 spending dollars provided by Lowe
Source: Beverage Marketing Corporation

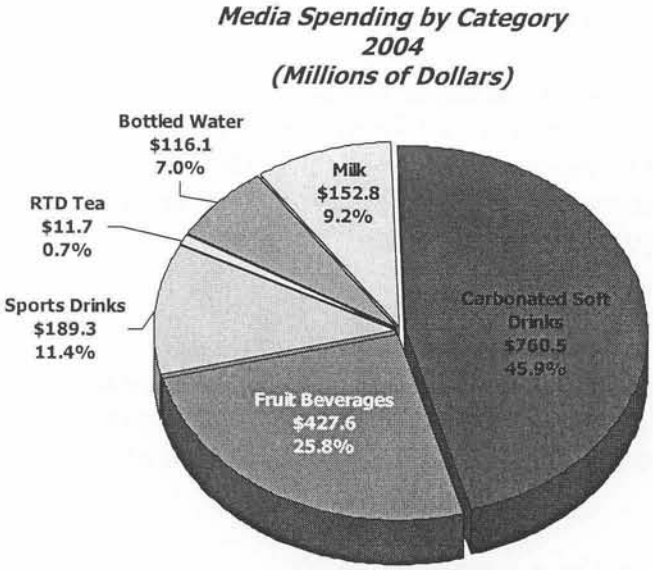
dollars spent within the competitive set, at $760 million. At $430 million in spending, fruit beverages accounted for approximately 26 percent. At $150 million in spending in 2004, milk ranked fourth within the competitive set, accounting for less than 10 percent of spending. (See Figure 4–6.) Milk advertising spending is comprised primarily of the national generic campaign, regional generic spending and branded product spending. While such spending is significant, milk accounts for approximately 18 percent of the competitive set volume and thus, remains significantly underrepresented in share of voice.

Unfortunately, simple measurement of media spending does not take into account the effectiveness of the campaigns, nor does it measure the impact of millions of dollars spent on promotions and other programs. Promotional expenditures can not be measured in an objective manner because it is not tracked by syndicated methods and companies tend not to divulge this data.

Nevertheless, many millions of dollars are spent on promotional programs within the competitive set. BMC believes that milk, despite past year increases in non-media programs, continues to be outspent on promotional programs and that this is a contributory factor to milk's flat volume performance.

Furthermore, the milk category is disadvantaged relative to the other competitive set categories for other reasons, outlined below. While the milk category has begun to make progress in many of these areas, for the most part it continues to trail the other categories in all of them.

Figure 4-6



Source: Beverage Marketing Corporation; Lowe

Consumer Attention

Clearly, consumer awareness and penetration of milk is high; however, the category lacks other competitive categories' high-level of consumer-focused marketing and "news" related to product and brand activities (e.g., promotions, innovations, etc.).

In 2004, milk once again lagged the competitive set in its share of advertising expenditures in contrast to its volume share. Milk's low share of voice, declining over a number of years, is likely to have both real-time immediate as well as a cumulative negative impact on milk consumption.

Beverage product innovation has accelerated in recent years for all categories within the competitive set. Innovation adds news and excitement to categories, bringing more focus and attention to them compared to less innovative categories. Despite innovation in the milk category, milk has lagged other competitive set categories in number of new product introductions. The net result is that consumers have more choices than ever outside of milk. The news related to innovation has the added effect of increasing the impact of advertising. Many of these new products, such as soy beverages or orange juice with calcium, have innovated into milk's territory, co-opting milk's healthy positioning.

Product Attributes and Innovation

Recent innovation in the milk category has centered on flavored milk—primarily variations of chocolate—and single-serve packaging. While this represents an improvement after years of very little innovation, other competitive set categories have been more aggressive with a wider variety of product innovation and a greater assortment of packaging formats and sizes. Among

other innovations, beverage fortification with vitamins, minerals, herbs and other ingredients have added functional benefits in many categories.

In 2004, milk new product introductions stayed low at 202, with no increase over the previous year. Milk ranked third in the competitive set for new product introductions in 2004, behind fruit beverages and carbonated soft drinks, its principal competitors. But the category is in need of more innovation, both evolutionary (e.g., packages and flavors) and revolutionary (e.g., functionality and technology) in the coming years.

Branding

One of the more significant disparities in milk versus its competitive set is the distinct lack of big milk brands and the impact of brand-building support on the total category. In comparison, the competitive set is dominated by mega-brands that have been built and nurtured by world-class marketing organizations.

The milk category is dominated by private label. In 2004, only 31.6 percent of milk volume in the grocery channel was accounted for by branded products. No other category in the competitive set has less than half its volume accounted for by branded products. BMC believes this disparity places milk at a distinct disadvantage with the rest of the competitive set because of the challenges inherent in marketing a category versus brands.

Finally, the high share of private label milk reinforces milk's commodity image, making competitive premium-image products more attractive to consumers.

Distribution

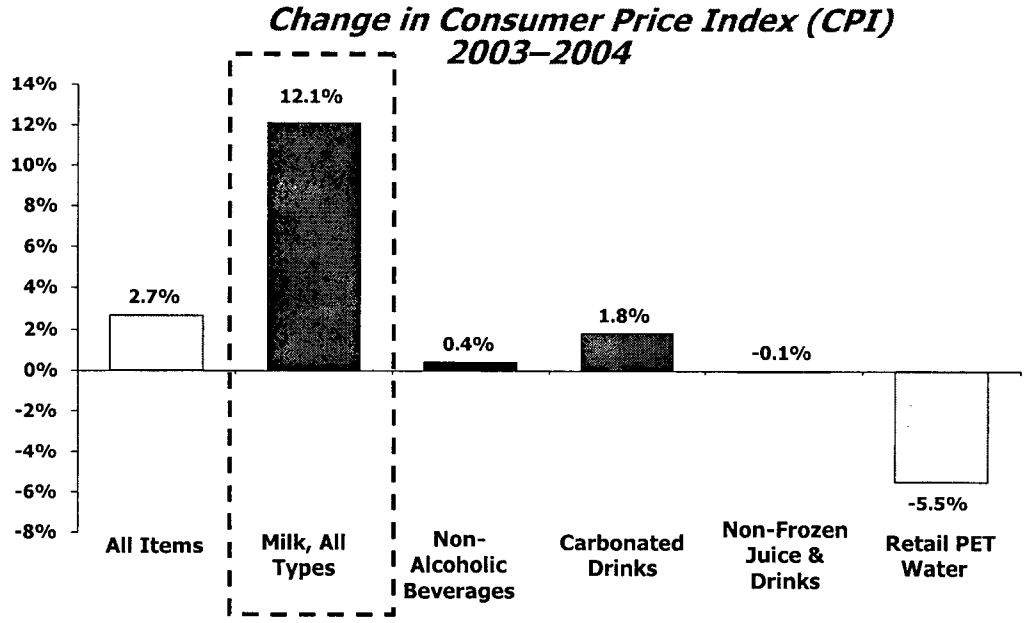
Milk is widely available; nevertheless, its availability does continue to have some significant limitations. Milk availability is concentrated in take-home retail channels, especially supermarkets. In other outlets where milk is available, it often does not have the range of packaging and flavor options that consumers seek and that are offered by other competitive set products. This places milk at a competitive disadvantage.

As consumer lifestyles become more and more on-the-go, beverage manufacturers respond by developing products in convenient single-serve packaging distributed in immediate consumption channels such as convenience stores, foodservice, and vending. In 2004, only about 19 percent of milk volume was sold for immediate consumption, whereas more than half the volume of carbonated soft drinks, sports drinks and ready-to-drink tea was purchased for immediate consumption.

Pricing

Price promotion is a key tool beverage marketers have used to spur sales, and this is true of all categories in the competitive set except for milk. The industry is limited structurally and legally in its use of price promotion.

Figure 4-7



Source: Beverage Marketing Corporation; Bureau of Labor Statistics

In 2004, milk had the largest consumer price index increase of all the categories in the competitive set tracked by the Bureau of Labor Statistics. In particular, the milk category experienced rising prices throughout 2004 and into 2005. Given milk's responsiveness to price changes, these increases are likely to amplify milk's competitive disadvantage. (See Figure 4–7.)

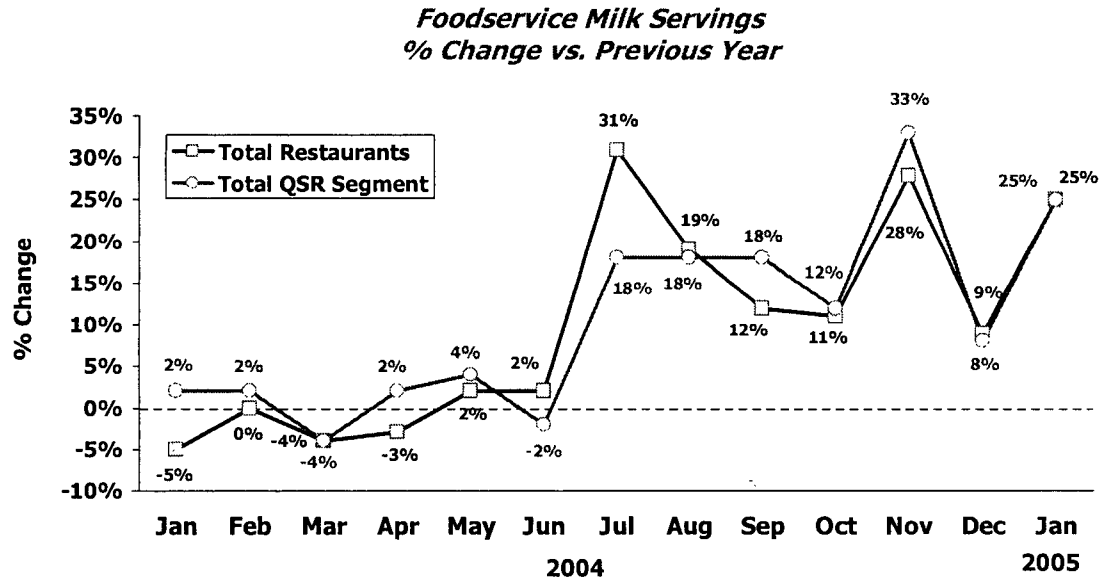
Beverage Marketing Corporation's Assessment of Current Milk Marketing Programs

BMC believes the marketing campaigns developed under the Dairy Production Stabilization Act of 1983 and the National Fluid Milk Promotion Act of 1990 have served to stem declines in milk consumption in the face of vastly heightened competition. While over the last 5 years there has been a decline in milk consumption, BMC believes these declines would have been more significant without the industry's got milk?/Milk Moustache, 3-A-Day™, weight loss, and other generic campaigns.

Of particular interest in 2004 was the emergence of new scientific evidence that milk consumption can be linked to weight loss. This has allowed for an unparalleled opportunity to drive milk sales. With the generic program shifting resources and realigning the advertising budget and other program efforts (e.g., public relations, promotions, and research) behind weight loss communications, there has been measurable success in achieving consumer acceptance of the weight loss-milk link. This success should build into 2005 and beyond. In addition, dairy processors have welcomed the weight loss programming and integrated it into their own business and brand-building initiatives.

In accordance with the new weight loss efforts, there has been a shift in target and product focus. Generic media spending allocations moved from kids and teens to women/moms, with a switch

Figure 4–8



Source: Beverage Marketing Corporation; NPD Group Inc.; Crest

in emphasis from flavors/single-serve to core white milk. The continuation of the got milk?® Milk Moustache campaign, driven by new celebrities, is also tied-in with weight loss. Despite the shift away from teen-targeted advertising, grassroots efforts and sponsorships targeted toward teens continued. These efforts also included the 3v3 soccer tournaments, action sports, Disney's Wide World of Sports, and the National Football League partnership.

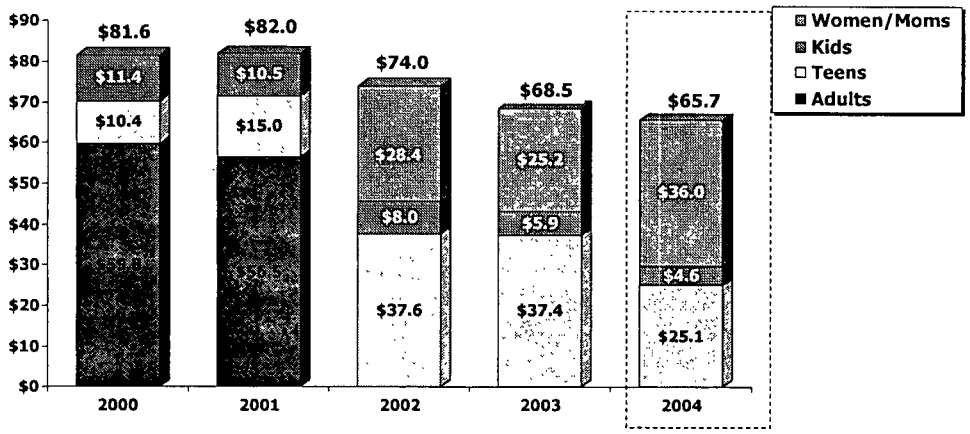
Programs focusing on milk vending, foodservice, and school milk improvements continued in 2004, as did Hispanic consumer-targeted programs. The milk vending initiative appears to be gaining momentum, with BMC estimating there are now roughly 7,500 dedicated milk vending placements, many in the key secondary school channel. Foodservice milk sales, especially through quick service restaurants (QSR), are also gaining traction after the industry-sponsored tests with Wendy's® and McDonald's®. (See Figure 4–8.)

Even against these improvements, milk remains at a disadvantage against the competitive set. Its price is increasing faster than any other category, while its spending is declining. The last 3 years have seen declines in the fluid milk generic media budget—from $82 million in 2001 to $65.7 million in 2004. (See Figure 4–9.) BMC believes this decline in spending may have a negative impact on milk consumption in the face of sizeable spending by other categories in the competitive set. Most of the categories in the competitive set (except bottled water and RTD tea) outspent milk again in 2004. In addition, milk's share of voice is roughly half its volume share of the competitive set.

The new emphasis on weight-loss benefits has also invited new challenges for milk. The set of direct competitors may now include other weight-loss products such as meal replacement beverages and bars, and even programs such as Weight Watchers and Jenny Craig. Additionally, with competitors' aggressive advertising, promotion, and focus on convenience and innovation, milk is perceived as being less contemporary compared to the alternatives.

Figure 4–9

Fluid Milk Generic Advertising Budget (1)
2000–2004



(1) These figures represent only national MilkPEP and DMI advertising spending and not Qualified Program spending.
Source: Beverage Marketing Corporation; Lowe

The shift in target to women/moms has lessened milk advertising focus on previously targeted teens/kids. Positive consumption trends were seen with teens/kids in prior years, and the industry should be concerned about losing traction with those consumers. It will be critical for the generic programs to continue to focus or refocus resources toward the primary targets, including teens, while continuing to evolve the messaging. The industry will have to accurately gauge consumer response to the weight-loss message and its sustainability, and eventually evolve or perhaps move onto another benefit communication. Additionally, the focus on weight loss should not be at the expense of other long-term relevant industry platforms, including product innovation, availability enhancements, and significant brand-building focus.

Absent further significant price increases for 2005, the outlook seems promising, especially given the growing acceptance of the weight-loss platform. As long as spending is strong and improvements in availability and promotions continue into 2005, BMC predicts a slight increase or at least stable volume for the upcoming year.

Appendix A
National Dairy Promotion and Research Board
Current and Past Member Listing

Region 1 (Oregon and Washington)

Current National Dairy Board Members

Elizabeth L. (Liz) Anderson
Onalaska, Washington
Term expires 10/31/2006

Marlin J. Rasmussen
St. Paul, Oregon
Term expires 10/31/2007

Past National Dairy Board Members

Elizabeth L. (Liz) Anderson
Onalaska, Washington

Fred J. Cockram
Baker, Oregon

Alvin H. Sherman
Coupeville, Washington

Region 2 (California)

Current National Dairy Board Members

Mary E. Cameron
Hanford, California
Term expires 10/31/2006

Kimberly K. Clauss
Hilmar, California
Term expires 10/31/2006

Deborah Dykstra
Caruthas, California
Term expires 10/31/2007

Margaret A. Gambonini
Petaluma, California
Term expires 10/31/2007

Linda P. Macedo
Merced, California
Term expires 10/31/2007

Harvey S, Moranda
Orland, California
Term expires 10/31/2007

John Zonneveld, Jr.
Laton, California
Term expires 10/31/2005

Past National Dairy Board Members

William R. Ahlem, Jr
Hilmar, California

Robert R. Bignami
Chico, California

Appendix A, continued

Past Nation Dairy Board Members, continued

Mary E. Cameron
Hanford, California

Louis R. Calcagno
Moss Landing, California

Robert W. Giacomini
Point Reyes, California

Vernal Gomes
Tulare, California

Steve Hofman
Modesto, California

Dennis A. Leonardi
Ferndale, California

Bea Moons
Chino, California

Harvey S. Moranda
Orland, California

Mary B. Parente
Ontario, California

Ronald B. Quinn
Tulare, California

Paul A. Rollin
Burrel, California

Manuel Santos, Jr.
Tulare, California

Tom Sawyer
Waterford, California

Tony M. Souza, Jr
Tulare, California

Patricia M. Van Dam
Chino, California

Pete J. Vander Poel
Chino, California

Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming)

Lester E. Hardesty
Greeley, Colorado
Term expires 10/31/2005

Grant B. Kohler
Midaway, Utah
Term expires 10/31/2007

William C. Stouder
Wendell, Idaho
Term expires 10/31/2006

Past National Dairy Board Members

Barbara Curti
Reno, Nevada

Jack S. Davis
Kuna, Idaho

Steve P. Frischknecht
Manti, Utah

Francis D. Gregerson
Longmont, Colorado

Appendix A, continued

Past National Dairy Board Members, continued

Pete Lizaso
Emmett, Idaho

Ruth E. Miller
Kuna, Idaho

Paul Rovey
Glendale, Arizona

Don L. Meikle
Smithfield, Utah

Harry Papageorge
Ogden, Utah

Region 4 (Arkansas, New Mexico, Oklahoma, and Texas)

Current National Dairy Board Members

Charles W. Bryant
Austin, Arkansas
Term expires 10/31/2006

Neil A. Hoff
Windthorst, Texas
Term expires 10/31/2005

Jose L. Gonzalez
Mesquite, New Mexico
Term expires 10/31/2007

Past National Dairy Board Members

William E. Bugg
Hennessey, Oklahoma

Lynda Foster
Fort Scott, Kansas

James H. Loper, Jr.
Santa Teresa, New Mexico

Ivan K. Strickler
Iola, Kansas

Jimmie L. Davis
Green Forest, Arkansas

Louis Hinders
Canyon, Texas

Myron D. Schmidt
Newton, Kansas

Bill Thornton
Carlisle, Arkansas

Appendix A, continued

Region 5 (Minnesota, North Dakota, and South Dakota)

Current National Dairy Board Members

Arlon E. Fritsche
New Ulm, Minnesota
Term expires 10/31/2006

Cynthia R. Langer
Faribault, Minnesota
Term expires 10/31/2005

Past National Dairy Board Members

Robert J. Gaebe
New Salem, North Dakota

Robert L. Gee
Moorhead, Minnesota

Ronnie Hornstra
Avon, South Dakota

Loren E. Jons
Bonesteel, South Dakota

James R. Lefebvre
Elk River, Minnesota

George Rydeen
Stillwater, Minnesota

Claire Sandness
La Moure, North Dakota

Glen Schroeder
Caledonia, Minnesota

Ervin M. Silvers
Albany, Minnesota

Lyle Tjosaas
Kasson, Minnesota

Leslie Winters
Bingham Lake, Minnesota

Region 6 (Wisconsin)

Current National Dairy Board Members

Patricia M. Boettcher
Bloomer, Wisconsin
Term expires 10/31/2005

Rosalie M. Geiger
Reedsville, Wisconsin
Term expires 10/31/2007

William J. Herr
Greenwood, Wisconsin
Term expires 10/31/2005

Ronald G. Johnsrud
Gays Mills, Wisconsin
Term expires 10/31/06

Connie M. Seefeldt
Coleman, Wisconsin
Term expires 10/31/2006

Appendix A, continued

Past National Dairy Board Members

Frederick E. Anding
Hudson, Wisconsin

Gregory D. Blaska
Sun Prairie, Wisconsin

John H. Christensen
Ringle, Wisconsin

Victoria H. Coughlin
Watertown, Wisconsin

Wayne L. Danielson
Cadott, Wisconsin

David J. Krug
Owen, Wisconsin

Donald R. Haldeman
Norwalk, Wisconsin

Sylvia J. Hemauer
Plymouth, Wisconsin

John A. Malcheski
Pulaski, Wisconsin

Ray A. Mallo
Oilman, Wisconsin

Janet M. Nelson
Praire Farm, Wisconsin

Timothy C. O'Harrow
Oconto Falls, Wisconsin

Roger O. Rebout
Janesville, Wisconsin

Daniel J. Rodenkirch
Kewaskum, Wisconsin

Charles Russell
Shullsburg, Wisconsin

Jerome G. Servais
West Salem, Wisconsin

Audrey M. Sickinger
Cato, Wisconsin

Gerald Sipple
Menomonie, Wisconsin

Region 7 (Illinois, Iowa, Missouri, and Nebraska)

Current National Dairy Board Members

Pam Bolin
Clarksville, Iowa
Term expires 10/31/2005

James R. Bartelson
Anita, Iowa
Term expires 10/31/2006

Past National Dairy Board Members

Ardath DeWall
Shannon, Illinois

Wayne E. Dykshorn
Ireton, Iowa

Appendix A, continued

Past National Dairy Board Members, continued

Myron Erdman
Chenoa, Illinois

Lester M. Evans
Lebanon, Missouri

W. Eugene Flynn
Blair, Nebraska

Maynard J. Lang
Brooklyn, Iowa

G. Joe Lyon
Toledo, Iowa

Harold E. Rice
DuQuoin, Illinois

William B. Siebenborn
Trenton, Missouri

John L. Sullivan
Superior, Nebraska

Tim R. Volk
Battle Creek, Nebraska

Region 8 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Current National Dairy Board Members

Michael M. Ferguson
Coldwater, Mississippi
Term expires 10/31/2005

Past National Dairy Board Members

Joe Bavido
Sharon, Tennessee

James S. Cook
Evergreen, Alabama

Buckey M. Jones
Smithdale, Mississippi

Harry E. Pickering
Taylorsville, Mississippi

Stephen K. Plenge
Shepherdsville, Kentucky

Ruth M. Robinson
Jonesborough, Tennessee

Appendix A, continued

Region 9 (Indiana, Michigan, Ohio, and West Virginia)

Current National Dairy Board Members

Donald E. Gurtner
Fremont, Indiana
Term expires 10/31/2006

Alice S. Moore
Frazeyburg, Ohio
Term expires 10/31/2007

Deanna S. Stamp
Marlette, Michigan
Term expires 10/31/2005

Past National Dairy Board Members

Herman M. Brubaker
West Alexandria, Ohio

Merle L. Chaplin
Moundsville, West Virginia

Roger D. Crossgrove
Archbold, Ohio

Glenn E. Johnson
Hartford City, Indiana

Elwood C. Kirkpatrick
Kinde, Michigan

Harold E. Reiff
Burnettsville, Indiana

Elton R. Smith
Caledonia, Michigan

Louis Smith
Fremont, Ohio

John O. Spreng, Sr.
Bucyrus, Ohio

Region 10 (Florida, Georgia, North Carolina, South Carolina, and Virginia)

Current National Dairy Board Members

John M. Larson
Okeechobee, Florida
Term expires 10/31/2007

Past National Dairy Board Members

H. Todd Arant
Bowman, South Carolina

Gerald L. Aycock
Fremont, North Carolina

Appendix A, continued

Past National Dairy Board Members, continued

John Peter DeJong
Pinetown, North Carolina

James M. Dorn, Jr.
Edgefield, South Carolina

William Higginbotham
Washington, Georgia

W. Charles McGuinnis
Kinards, South Carolina

Franklin J. Teague
Elon College, North Carolina

Charles H. Deputy
Harrisonburg, Virginia

Robert K. Herman
Taylorsville, North Carolina

Sanford L. Jones, Jr.
Quitman, Georgia

John A. Peachey
Myakka City, Florida

Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)

Current National Dairy Board Members

Lewis Gardner
Galeton, Pennsylvania
Term expires 10/31/2007

Paula V. Meabon
Wattsburg, Pennsylvania
Term expires 10/31/2007

Rita Kennedy
Valencia, Pennsylvania
Term expires 10/31/2005

Past National Dairy Board Members

Deborah A. Benner
Mt. Joy, Pennsylvania

Keith W. Eckel
Clarks Summit, Pennsylvania

Penrose Hallowell
Ottsville, Pennsylvania

Walter A. Martz
Frederick, Maryland

H. Wallace Cook, Jr.
Newark, Delaware

Earl R. Forwood
Hop Bottom, Pennsylvania

Harold L. Lenhart, Sr.
Thurmont, Maryland

Ernest O. Miller
Hamburg, Pennsylvania

Appendix A, continued

Past National Dairy Board Members, continued

David N. Noss
Port Royal, Pennsylvania

Horace W. Waybright
Gettysburg, Pennsylvania

David Weitzer
Poolesville, Maryland

Region 12 (New York)

Current National Dairy Board Members

Audrey G. Donahoe
Frankfort, New York
Term expires 10/31/2005

David E. Hardie
Lansing, New York
Term expires 10/31/2007

Edgar A. King
Schuylerville, New York
Term expires 10/31/2006

Past National Dairy Board Members

Leon A. Brown
Westtown, New York

Carl E. Butler
Pine Plains, New York

David M. Dodge
Woodville, New York

Jane M. Gillette
Turin, New York

Raymond E. Johnson
Schaghticoke, New York

Paul R. Kirsch
Varysburg, New York

Ruth I. Laribee
Lowville, New York

Shirley Mower
Jordanville, New York

Thomas L. Snyder
Churchville, New York

William T. Underwood
Tully, New York

John N. Widger
Ellicottville, New York

P. Kay Zeosky
Turin, New York

Appendix A, continued

Region 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Current National Dairy Board Member

Claude J. Bourbeau
St. Albans, Vermont
Term expires 10/31/2005

Past National Dairy Board Members

Robert P. Davis
Cabot, Vermont

Harold J. Howrigan
Fairfield, Vermont

Leo O'Brien, Jr.
South Burlington, Vermont

Appendix B
National Fluid Milk Processor Promotion Board
Current and Past Member Listing

Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Current National Fluid Milk Board Member

Michael F. Touhey, Jr.
Dean Foods Company
Franklin, Massachusetts
Term expires 06/30/2007

Past National Fluid Milk Board Members

Arthur J. Pappathanasi
West Lynn Creamery, Inc.
Lynn, Massachusetts

Peter M. Ross
Garelick Farms, Inc.
Franklin, Massachusetts

Region 2 (New Jersey and New York)

Current National Fluid Milk Board Member

Joseph Cervantes.
Crowley Foods, L.L.C.
Binghamton, New York
Term expires 06/30/2008

Past National Fluid Milk Board Members

Michael L. Marcus
Tuscan Dairy Farms, Inc.
Union, New Jersey

Jeffrey W. Stephen
H.P. Hood, Inc.
Chelsea, Massachusetts

Mary Ellen Spencer
H.P. Hood, Inc.
Chelsea, Massachusetts

Appendix B, continued

Region 3 (Delaware, District of Columbia, Maryland, Pennsylvania, and Virginia)

Current National Fluid Milk Board Member

Michael F. Nosewicz
The Kroger Company
Cincinnati, Ohio
Term expires 06/30/2006

Past National Fluid Milk Board Members

Robert W. Allen
Lehigh Valley Dairies
Lansdale, Pennsylvania

Ronald W. Mong
Mong Dairy Company
Seneca, Pennsylvania

Sylvia C. Oriatti
Dean Foods Company
Rosemont, Illinois

Region 4 (Georgia, North Carolina, and South Carolina)

Current National Fluid Milk Board Member

R. Bruce Matson
Marva Maid Dairy
Reston, Virginia
Term expires 06/30/2007

Past National Fluid Milk Board Members

Ralph H. Gardner
Ingles/Milkco, Inc.
Ashville, North Carolina

C. Scottie Mayfield, Jr.
Mayfield Dairy Farms, Inc.
Athens, Tennessee

Mary F. Williams
Mayfield Dairy Farms, Inc.
Athens, Tennessee

Joseph Cervantes
Crowley Foods, L.L.C.
Binghamton, New York

Appendix B, continued

Region 5 (Florida)

Current National Fluid Milk Board Member

James S. Jaskiewicz
Publix Super Markets, Inc.
Lakeland, Florida
Term expires 06/30/2008

Past National Fluid Milk Board Members

Robert (Scott) Charlton
Public Super Markets, Inc.
Lakeland, Florida

H. Denny Gaultney
Skinners' Dairy, Inc.
Jacksonville, Florida

Region 6 (Ohio and West Virginia)

Current National Fluid Milk Board Member

William R. McCabe
Smith Dairy Products Company
Orrville, Ohio
Term expires 06/30/2006

Past National Fluid Milk Board Members

Alan L. Faust
The Kroger Company
Cincinnati, Ohio

John C. Hitchell
The Kroger Company
Cincinnati, Ohio

Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)

Current National Fluid Milk Board Member

Rachel A. Kyllo
Marigold Foods, Inc.
Minneapolis, Minnesota
Term expires 06/30/2007

Appendix B, continued

Past National Fluid Milk Board Members

Jeffrey L. Koehler
Associated Milk Producers, Inc.
Morning Glory Farms Region
De Pere, Wisconsin

David G. Schwain
Land O'Lakes, Inc.
Arden Hills, Minnesota

Region 8 (Illinois and Indiana)

Current National Fluid Milk Board Member

Brian Haugh
National Dairy Holdings
Dallas, Texas
Term expires 06/30/2008

Past National Fluid Milk Board Members

G. Irwin Gordon
Suiza Foods Corporation
Dallas, Texas

Phillip A. Littell
Maplehurst Farms, Inc.
Indianapolis, Indiana

Roger D. Capps
Prairie Farms Dairy, Inc.
Carlinville, Illinois

Region 9 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Current National Fluid Milk Board Member

James W. Turner
Turner Holdings, L.L.C.
Memphis, Tennessee
Term expires 06/30/2006

Past National Fluid Milk Board Members

Mark V. Ezell
Purity Dairies, Inc.
Nashville, Tennessee

Appendix B, continued

Region 10 (Texas)

Current National Fluid Milk Board Member

Robert M. McCullough.
H. E. Butt Grocery Company
San Antonio, Texas
Term expires 06/30/2007

Past National Fluid Milk Board Members

Patrick R. Beaman
Southern Foods Group
Oak Farms Dairy
Dallas, Texas

Robert L. Fleming
Southern Foods Group
Schepps Foremost Dairy
Dallas, Texas

John D. Robinson
Dean Foods Company
Dallas, Texas

Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska, and Oklahoma)

Current National Fluid Milk Board Member

Gary L. Aggus
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2008

Past National Fluid Milk Board Members

Miriam Erickson Brown
Anderson Erickson Dairy Company
Des Moines, Iowa

Appendix B, continued

Region 12 (Arizona, Colorado, New Mexico, Nevada, and Utah)

Current National Fluid Milk Board Member

John D. Robinson
Dean Foods Company
Dallas, Texas
Term expires 06/30/2006

Past National Fluid Milk Board Members

Richard L. Robinson
Robinson Dairy, Inc.
Denver, Colorado

Lawrence V. Jackson
Safeway, Inc.
Pleasanton, California

Michael H. Leb
Safeway, Inc.
Walnut Creek, California

Region 13 (Idaho, Montana, Oregon, Washington, and Wyoming)

Current National Fluid Milk Board Member

James T. Wilcox, III
Wilcox Dairy Farms, L.L.C.
Roy, Washington
Term expires 06/30/2007

Past National Fluid Milk Board Members

James T. Wilcox, Jr.
Wilcox Farms, Inc.
Roy, Washington

Region 14 (Northern California)

Current National Fluid Milk Board Member

Jerry N. Tidwell
Safeway, Inc.
Walnut Creek, California
Term expires 06/30/2008

Appendix B, continued

Past National Fluid Milk Board Members

Charles R. Hills
Crystal Cream & Butter Company
Sacramento, California

Richard L. Sturgeon
Super Stores Industries
Stockton, California

Ronald M. Foster
Foster Dairy Farms
Modesto, California

Region 15 (Southern California)

Current National Fluid Milk Board Member

Paul W. Bikowitz
Heartland Farms
City of Industry, California
Term expires 06/30/2006

Past National Fluid Milk Board Members

Thomas P. Dolan
Driftwood Dairy
El Monte, California

Gary J. San Filippo
Alta Dena Certified Dairy, Inc.
City of Industry, California

Richard Walrack
Santee Dairies, Inc.
City of Industry, California

Members-At-Large

Current National Fluid Milk Board Members

Robert E. Baker
Public Member
Highland Park, Illinois
Term expires 06/30/2006

Susan D. Meadows
Dean Foods Company
Dallas, Texas
Term expires 06/30/2006

Randy D. Mooney
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2007

Michael A. Krueger
Shamrock Foods Company
Phoenix, Arizona
Term expires 06/30/2008

Appendix B, continued

Current National Fluid Milk Board Members

Patricia C. Romero
Public Member
Irvine, California
Term expires 06/30/2007

Past National Fluid Milk Board Members

Robert W. Allen
Borden, Inc.
Columbus, Ohio

David Coates
Public Member
Germantown, Tennessee

John R. Jilbert
Jilbert Dairy, Inc.
Marquette, Michigan

Ann Puelz Ocana
Shamrock Foods Company
Phoenix, Arizona

Joseph W. Van Treek
Public Member
Anchorage, Alaska

Charles D. Price
Galliker Dairy Company
Johnstown, Pennsylvania

Robert E. Baker
Public Member
Highland Park, Illinois

Gary E. Hanman
Mid-America Dairymen
Springfield, Missouri

Martin J. Margherio
Crowley Foods, Inc.
Binghamton, New York

Leonard J. Southwell
Prairie Farms Dairy, Inc.
Carlinville, Illinois

Anthony R. Ward
Borden/Meadow Gold Dairy
Ogden, Utah

Appendix C-1

Regions of the National Dairy Promotion and Research Board

NOTE: The number in brackets below each region indicates the number of members within that region.

Appendix C-2

Regions of the National Fluid Milk Processor Promotion Board

Appendix D-1
National Dairy Promotion and Research Board
Actual Income and Expenses
FY 2003–2004
(in $000's)

	2003	2004
Income		
Assessments	$86,149	$85,716
Interest	42	29
Total Income	**$86,191**	**$85,745**
General Expenditures		
General and Administrative	$3,068	$3,470
USDA Oversight	554	659
Total General Expenditures	**$3,622**	**$4,129**
Program Expenditures		
Communications and Member Relations	$13,007	$11,595
Domestic Marketing	60,711	60,491
Export Enhancement	5,252	5,483
Planning and Research	4,952	3,082
Total Program Expenditures	**$83,922**	**$80,651**
Excess of Revenue (Under) Over Expenditures	(1,353)	965
Fund Balance, Beginning of Year	**$6,277**	**$4,924**
Fund Balance, End of Year	**$4,924**	**$5,889**

SOURCE: Independent Auditor's Report of the National Dairy Board and USDA records.

Appendix D-2
USDA Oversight Costs for the National Dairy Promotion and Research Board FY 2003–2004

	2003	2004
Salaries and Benefits	$294,051	$359,338
Travel	29,400	36,906
Miscellaneous[1]	43,437	32,984
Equipment	1,177	6,651
Printing	3,336	3,261
USDA Oversight Total	**$371,401**	**$439,140**
Independent Evaluation	**$86,308**	**$154,543**
Total[2]	**$457,709**	**$593,683**

[1] Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

[2] The totals for USDA expenses differ slightly from those shown in Appendix D-1 because of end-of-year estimates which are adjusted in the following fiscal year.

Source: Monthly billings by Dairy Programs to the National Dairy Board.

Appendix D-3
National Dairy Promotion and Research Board
Approved Budgets
FY 2004–2005
(in $000's)

	2004		2005	
Revenues				
Assessments	$87,060		$87,315	
Interest	39		50	
Total Income	**$87,099**		**$86,365**	
Expenses				
General and Administrative	$3,511		$3,721	
USDA Oversight	520		540	
Subtotal	**$4,031**		**$4,261**	
Program Budget				
Domestic Marketing	$63,669	[76.6%]	$56,247	[68.5%]
Communications and Member Relations	10,946	[13.0%]	9,180	[11.2%]
Research and Evaluation	3,158	[3.8%]	1,586	[1.9%]
Budgeted but Not Allocated	-		9,542	[11.6%]
Export Enhancement	5,450	[6.6%]	5,549	[6.8%]
Subtotal	**$83,068**	**[100%]**	**$82,104**	**[100%]**
Total Budget	**$87,099**		**$86,365**	

Source: Budgets from the National Dairy Board received and approved by USDA.

Appendix D-4
National Fluid Milk Processor Promotion Board
Actual Income and Expenses
FY 2003–2004
(in $000's)

	2003	2004
Income		
Assessments	$105,992	$105,728
Late-Payment Charges	40	54
Interest	370	252
Other	142	4
Total Income	**$106,544**	**$106,038**
General Expenditures		
California Refund	$10,300	$10,175
Administrative Expenses	1,967	2,152
USDA Oversight	382	318
USDA Assessment Verification	49	113
Total General Expenditures	**$12,698**	**$12,757**
Program Expenditures		
Media	$72,322	$69,508
Public Relations	13,351	13,312
Promotions	6,807	9,690
Strategic Thinking	1,360	1,864
Medical Advisory Panel	208	189
American Heart Association	120	240
Research, Local Markets, and Program Measurement	1,519	2,129
Program Management		334
Total Program Expenditures	**$95,687**	**$97,166**
Excess of Revenue (Under) Over Expenditures	($1,841)	($3,887)
Beginning of Year Fund Balance	$18,288	$16,447
End of Year Fund Balance	$16,447	$12,560

Source: Independent Auditor's Report of the National Fluid Milk Board and USDA records.

Appendix D-5
USDA Oversight Costs for the National Fluid Milk Processor Promotion Board FY 2003–2004

	2003	2004
Salaries and Benefits	$283,721	$262,626
Travel	15,247	18,385
Miscellaneous[1]	37,047	28,161
Equipment	1,177	2,910
Printing	7,554	3,024
USDA Oversight Total	**$344,746**	**$315,106**
Independent Evaluation	**$28,769**	**$98,375**
Total[2]	**$373,515**	**$413,481**

[1] Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

[2] The totals for USDA expenses differ slightly from those shown in Appendix D-4 because of end-of-year estimates, which are adjusted in the following fiscal year.

Source: Monthly billings by Dairy Programs to the National Fluid Milk Board.

Appendix D-6
National Fluid Milk Processor Promotion Board
Approved Budgets
FY 2004–2005
(in $000's)

	2004		2005	
Revenues				
Assessments	$105,800		$104,900	
Interest	-		-	
Total Income	**$105,800**		**$104,900**	
Reserve Fund	3,000		-	
Carryover from Previous Fiscal Year	$6,844		$6,800	
Total Available Funds	**$115,644**		**$111,700**	
Expenses				
General and Administrative	$2,140		$2,102	
USDA Oversight	380		380	
Independent Evaluation	-[1]		-[1]	
Processor Compliance	-[2]		-[2]	
Reserve/Contingency	1,000		-	
California Refund	9,991		10,300	
Subtotal	**$13,511**		**$12,782**	
Program Budget				
Advertising	$71,701	[70.2%]	$62,450	[70.9%]
Public Relations	13,852	[13.6%]	10,275	[11.7%]
Promotions	11,933	[11.7%]	10,725	[12.2%]
Strategic Thinking	2,023	[2.0%]	1,900	[2.2%]
Medical Advisory Panel	333	[0.3%]	208	[0.2%]
Research	2,159	[2.1%]	2,237	[2.5%]
Program Management	-		150	[0.2%]
Program Measurement	128	[0.1%]	155	[0.2%]
Subtotal	**$102,129**	**[100%]**	**$88,100**	**[100%]**
Unallocated	4		10,818	
Total Budget	**$115,644**		**$111,700**	

[1] Independent Evaluation costs are included in Program Measurement Expenses.

[2] Processor Compliance is included in General and Administrative Expenses.

Source: Budgets from the National Fluid Milk Board received and approved by USDA.

Appendix E-1

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
National Dairy Promotion and Research Board:

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDB's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2004 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule of reconciliation of operations budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2004 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

April 8, 2005

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Balance Sheets

December 31, 2004 and 2003

Assets		2004	2003
Cash and cash equivalents (note 3)	$	4,544,245	5,691,663
Assessments receivable, net (note 4)		7,588,476	7,668,879
Accrued interest receivable		184	91
Fixed assets (net of accumulated depreciation of $126,730 and $117,809 in 2004 and 2003, respectively)		11,186	20,107
	$	12,144,091	13,380,740
Liabilities and Net Assets			
Accounts payable:			
Related party – DMI	$	5,883,443	7,986,785
Other		236,859	138,784
Accrued expenses and other liabilities		134,337	331,199
Total liabilities		6,254,639	8,456,768
Commitments (note 5)			
Net assets – unrestricted		5,889,452	4,923,972
Total liabilities and net assets	$	12,144,091	13,380,740

See accompanying notes to financial statements.

APPENDIX E

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Statements of Activities

Years ended December 31, 2004 and 2003

		2004	2003
Revenue:			
Assessments	$	85,716,090	86,148,864
Interest income		28,759	42,161
Total revenue		85,744,849	86,191,025
Expenses:			
Program:			
Domestic marketing group		60,491,075	60,710,527
Research and evaluation group		3,081,654	4,952,087
Communications/member relations group		11,595,023	13,007,120
Export group		5,482,500	5,251,770
United States Department of Agriculture		659,305	554,121
Total program		81,309,557	84,475,625
General and administrative:			
DMI general and administrative		2,972,207	2,632,108
General and administrative		497,605	436,292
Total general and administrative		3,469,812	3,068,400
Total expenses		84,779,369	87,544,025
Increase (decrease) in net assets		965,480	(1,353,000)
Net assets at beginning of year		4,923,972	6,276,972
Net assets at end of year	$	5,889,452	4,923,972

See accompanying notes to financial statements.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Statements of Cash Flows

Years ended December 31, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Increase (decrease) in net assets	$	965,480	(1,353,000)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization		8,921	8,921
Changes in assets and liabilities:			
Assessments receivable		80,403	401,711
Accrued interest receivable		(93)	1
Accounts payable		(2,005,267)	(1,833,870)
Accrued expenses and other liabilities		(196,862)	(218,782)
Net cash used in operating activities		(1,147,418)	(2,995,019)
Net decrease in cash and cash equivalents		(1,147,418)	(2,995,019)
Cash and cash equivalents at beginning of year		5,691,663	8,686,682
Cash and cash equivalents at end of year	$	4,544,245	5,691,663

See accompanying notes to financial statements.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Notes to Financial Statements

December 31, 2004 and 2003

(1) Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of U.S.-produced fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the U.S. dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost reimbursement basis. Core costs, which include staff salaries and benefits, travel, Board of Directors, and office operating expenses are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA based on the annual Unified Marketing Plan budget. NDB has funded DMI core costs of $15,481,616 and $14,213,094 and program costs of $68,140,843 and $72,340,518, for activity related to the years ended December 31, 2004 and 2003, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. For the years ended December 31, 2004 and 2003, NDB reimbursed DMI $5,482,500 and $5,251,770, respectively, for USDEC's operations.

(2) Summary of Significant Accounting Policies

The financial statements of NDB have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. To facilitate the understanding of information included in the financial statements, summarized below are the more significant accounting policies.

(a) Cash Equivalents

NDB considers debt investment instruments with an original maturity of three months or less to be cash equivalents.

(Continued)

(b) ***Assessments***

Assessment revenue is generated by a mandatory assessment of 15 cents per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to 10 cents per hundredweight to USDA qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2004 and 2003, the net NDB assessment was approximately 5.07 and 5.11 cents per hundredweight of milk marketed, respectively. Assessment revenue is recognized in the month in which milk is marketed.

(c) ***Fixed Assets***

Fixed assets consist of computer equipment and software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the cost of depreciable assets to operations over estimated service lives of five years using the straight-line method.

(d) ***Net Assets***

All net assets of the NDB at December 31, 2004 and 2003 are unrestricted.

(e) ***Contract and Grant Expense***

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved. In addition, a portion of the fund balance is designated for future payments under existing contracts and grants (see note 5).

(f) ***Income Taxes***

NDB has received a determination letter from the Internal Revenue Service indicating that it is exempt from Federal and state income taxes on related income under 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2004 and 2003; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

(g) ***Use of Estimates***

Management of NDB has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(h) ***Employee Costs***

NDB's operations are staffed by DMI employees, who receive vacation, retirement, health, and other benefits provided by DMI.

(Continued)

(3) Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

		2004	2003
Operating cash in banks and on hand	$	305,034	162,185
Federal agency discounted securities		4,239,211	5,529,478
	$	4,544,245	5,691,663

(4) Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2004 and 2003, approximately $101,000 and $80,000, respectively, of cumulative unpaid assessments were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2004 and 2003, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

(5) Net Assets

During 2004 and 2003, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

		2004	2003
Designated assets – cash reserves	$	1,800,000	1,800,000
Undesignated net assets		4,089,452	3,123,972
Total net assets	$	5,889,452	4,923,972

(6) Transactions with the United States Department of Agriculture

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. These reimbursements amounted to $659,305 and $554,121 for the years ended December 31, 2004 and 2003, respectively.

(Continued)

(7) Litigation

NDB and the USDA are defendants in a lawsuit that claims the Dairy Promotion Program established by the Dairy Promotion Stabilization Act of 1983 (the Dairy Act) violates the First Amendment right to free speech and free association. The lawsuit seeks injunctive relief from the mandatory assessment fees paid to NDB on milk produced and marketed in the contiguous United States. These mandatory assessment fees are the primary revenue source for the National Dairy Board.

In 2003, a federal trial court in Pennsylvania found that the Dairy Promotion Program does not violate the claimants' right of free speech and association. However, on February 24, 2005, a three-judge panel of the U.S. Court of Appeals for the Third Circuit reversed this decision and found that the Dairy Promotion Program does violate the claimants' right of free speech and association rights by compelling them to subsidize speech with which they disagree. Currently, no injunction has been issued against the collection of assessments. If this decision is not reversed, however, the Dairy Promotion Program and NDB may be forced to make significant modifications to its current operations or possibly cease operations.

It has been represented to NDB that the USDA intends to vigorously defend against these claims. To that end, on April 9, 2004, the United States Justice Department (USJD) on behalf of NDB and the USDA filed a petition with the Third Circuit requesting that all of the judges of that court reconsider the February 24, 2004 decision of the three-judge panel. That petition argues that the panel's decision conflicts with applicable Supreme Court precedents, a key Third Circuit precedent, and with the decisions of two other Circuits (the Ninth and Sixth Circuits) that each upheld the constitutionality of the Dairy Act and rejected the precise argument that the third Circuit decided to accept. The Third Circuit rejected that petition. Therefore, the USJD on behalf of NDB and the USDA filed a request that the Supreme Court hear an appeal from the Third Circuit's decision, and to hold the case while the Supreme Court considers a similar challenge to the Beef Promotion Act (the LMA case). The LMA case was argued to the Supreme Court on December 8, 2004, and a decision is expected by June 2005. NDB expects that the Supreme Court will decide whether to consider the USJD appeal from the Third Circuit case once it decides the LMA case.

NDB believes there are very strong arguments in favor of the constitutionality of the Dairy Promotion Program. However, at this time, it is not possible to predict the outcome of the litigation or whether an injunction will be used against the collection of the assessments.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Schedule of Reconciliation of Operations Budget

Year ended December 31, 2004

		2004 Total expenses	2005 Commitments expensed in 2004	2004 Operations Budget Statement
Organizational group expenses:				
Domestic marketing group	$	60,491,075	(164,147)	60,326,928
Research and evaluation group		3,081,654	—	3,081,654
Communications/member relations group		11,595,023	—	11,595,023
Export group		5,482,500	—	5,482,500
DMI general and administrative		2,972,207	—	2,972,207
General and administrative		497,605	—	497,605
United States Department of Agriculture		659,305	—	659,305
Total organizational group expenses	$	84,779,369	(164,147)	84,615,222

This schedule reconciles the total expenses from the Statement of Activities presented in accordance with accounting principles generally accepted in the United States of America to those reflected in the Operations Budget Statement which is used for management's internal purposes.

The 2005 commitments expensed in 2004 represent programs that management committed as part of the 2005 marketing plan.

See accompanying independent auditors' report.

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Accountants' Report
On Applying Agreed-upon Procedures

The Board of Directors
National Dairy Promotion and Research Board:

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Agriculture (USDA) and National Dairy Promotion and Research Board (NDB), solely to assist the specified parties in evaluating the entities' compliance with The Dairy and Tobacco Adjustment Act of 1983 (Act), the Dairy Promotion and Research Order (Order), and the Agricultural Marketing Services Directive (Directive) entitled *Investments of Public Funds* as of and for the year ended December 31, 2004. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

APPENDIX E

Our procedures and findings were as follows:

(a) We obtained NDB's budget for the year ended December 31, 2004 and sighted the signature of the Secretary of the USDA.

(b) We selected four investment purchase transactions from calendar year 2004, compared and agreed them against their respective brokers' advices, and noted the following:

- The investments were in either U.S. Government Securities or Federal Agency Securities.
- The investments had maturity periods of one year or less;
- The U.S. Government Securities and Federal Agency Securities were held in the name of NDB at the institution.

(c) We obtained the 1998 investment files and sighted various broker's advices noting that the investment records have been maintained for six years.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the USDA and NDB and is not intended to be and should not be used anyone other than these specified parties.

KPMG LLP

April 8, 2005

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

April 8, 2005

The Board of Directors
National Dairy Promotion and Research Board
Rosemont, Illinois

Ladies and Gentlemen:

We have audited the financial statements of the National Dairy Promotion and Research Board for the year ended December 31, 2004, and have issued our report thereon dated April 8, 2005. In planning and performing our audit of the financial statements of the National Dairy Promotion and Research Board, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the United States Department of Agriculture, the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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member firm of KPMG International, a Swiss cooperative.

Appendix E-2

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited the accompanying balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 7, 2005 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Certified Public Accountants and Business Advisors
4520 East West Highway, Suite 520, Bethesda, MD 20814-3338
Phone: 301-652-6700 Fax: 301-986-1028
Web: cpahelp.com E-Mail: advice@cpahelp.com

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To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting information included in the report for 2004 (Pages 11 through 16) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the National Fluid Milk Processor Promotion Board. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 7, 2005
Bethesda, Maryland

National Fluid Milk Processor Promotion Board

Balance Sheet

December 31, 2004

Assets	
Current assets:	
Cash and cash equivalents	$ 5,660,177
Assessments receivable, net of allowance for uncollectible accounts of $156,163	11,213,726
Interest receivable	5,647
Future year costs	14,789,906
Other receivables	214,439
Total assets	$ 31,883,895
Liabilities and net assets	
Current liabilities:	
Accounts payable	$ 19,323,592
Net assets:	
Designated for contingencies	2,500,000
Undesignated	10,060,303
Total net assets	12,560,303
Total liabilities and net assets	$ 31,883,895

APPENDIX E

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2004

Revenues:	
Assessments	$ 105,728,118
Late payment charges	54,080
Interest income	251,939
Other	3,707
Total revenues	106,037,844
Expenses:	
Program expenses:	
Media	69,508,310
Promotions	9,690,118
Public relations	13,311,999
Strategic thinking	1,864,083
Research	2,010,342
Medical advisory panel	189,439
American Heart Association	240,000
Medical research	119,190
Program measurement	233,816
Total program expenses	97,167,297
Other expenses:	
California grant	10,174,576
Administrative	2,151,789
USDA oversight	318,050
USDA compliance audit	112,765
Total other expenses	12,757,180
Total expenses	109,924,477
Excess of expenses over revenues	(3,886,633)
Net assets - beginning	16,446,936
Net assets - ending	$ 12,560,303

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the year ended December 31, 2004

Cash flows from operating activities:	
Excess of expenses over revenues	$ (3,886,633)
Changes in assets and liabilities:	
Increase in assessments receivable	(243,249)
Decrease in interest receivable	2,105
Increase in future year costs	(14,789,906)
Decrease in other receivables	159,443
Increase in accounts payable	13,019,791
Net cash used in operating activities and net decrease in cash and cash equivalents	(5,738,449)
Cash and cash equivalents - beginning	11,398,626
Cash and cash equivalents - ending	$ 5,660,177

APPENDIX E

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2004

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture. On March 30, 2004, a Notice of Review and Request was published in the Federal Register. The purpose of the Review was to determine whether the Order should continue without change. No comments were received and the Order will continue without change.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Beginning August 1, 2002, assessments are generated from those processors marketing more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Prior to August 1, 2002, the minimum monthly assessments were generated from processors marketing more than 500,000 pounds of fluid milk per month. Assessment revenue is recognized in the month in which the fluid milk product is processed.

Note 1: Summary of significant accounting policies: (continued)

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment. The late payment charge is equal to .015% of unpaid assessments and accrues monthly. At no time does the Board stop accruing interest on these assessments. The Board's management has established a policy of reserving 50% of the late fee charges.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements

Cash equivalents - For purposes of the statement of cash flows, the Board considers investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2005 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

Note 2: Cash and cash equivalents:

At December 31, 2004, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name.

	Carrying Value
Cash deposits	$2,826,260
Repurchase agreements	295,016
Investments	2,538,901
	$5,660,177

APPENDIX E

Note 2: Cash and cash equivalents: (continued)

At December 31, 2004, the repurchase agreements were secured as to principal plus accrued interest by U.S. government securities held in the respective banks' safekeeping account, in the Board's name, with the Federal Reserve Bank.

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. At December 31, 2004, investments consist entirely of U.S. government agency obligations. Investments are carried at cost, which approximates fair value. The Board's investments are held by the counterparty's trust department or agent in the Board's name.

At December 31, 2004, investments consisted of the following:

	Issue Date	Maturity Date	Interest Rate	Carrying Amount
U.S. Securities:				
FNMA discount note	11/17/04	02/16/05	2.22%	$1,539,333
FNMA discount note	12/08/04	02/16/05	2.27	999,568
				$2,538,901

At December 31, 2004, the Board was owed accrued interest of $5,647.

Included in cash and cash equivalents is $2,500,000 of Board designated cash reserves.

Note 3: Compliance matters:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2004, the Board did not exceed this limitation.

Note 4: Program administration:

The Board entered into an agreement with the International Dairy Foods Association (IDFA) to administer the fluid milk program. Under this agreement, IDFA engages outside organizations to develop programs for advertising, promotion, consumer education, and certain minority initiatives. The organizations are:

- Draft (began January 2004)
- Lowe & Partners Worldwide
- Flair Communication, Inc. (ended January 2004)
- Weber Shandwick Worldwide
- Siboney USA

Under this and related agreements, IDFA also directly provides program management, administrative support and employee benefits management services and leases office space to the Board. During the year ended December 31, 2004, the Board incurred approximately $1,080,000 for directly provided services. At December 31, 2004, the Board owed IDFA $408,835 for costs billed under these agreements.

Note 5: Commitments:

The Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board will pay WDWHRC $1,800,000 each year for the next six years through 2006 in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort. In December 2003, both parties agreed to extend the term of the agreement for another three years through 2009 at the previously agreed rate of $1,800,000 to be increased annually by the change in the Consumer Price Index.

In 2002, the Board entered into a five-year agreement with the American Heart Association. Under the agreement, the Board pays the American Heart Association $120,000 annually from 2002 to 2007 for use of the logo on the processors' milk containers.

Note 6: Operating lease:

The Board incurred $124,800 of rental expense during 2004, under a sublease with an automatic renewal option. For 2005, the annual lease payment under the contract will be $129,000.

Note 7: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were $430,815 during 2004.

Note 8: Related party activity:

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was $299,859 during 2004. A principal of RK&A serves as the Chief Financial Officer of the Board and receives compensation for services performed.

The Board has entered into an employment agreement with its Chief Executive Officer (CEO). The agreement runs from January 1, 2004 to December 31, 2006 and provides for annual compensation, benefits and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments on early termination of the agreement.

Included with other receivables is $137,688 due from IDFA which represents excess retirement plan fundings associated with the CEO's employment contract. This amount will be adjusted on an annual basis, and will be refunded to the Board upon the earlier of the CEO's termination or retirement.

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report on Supplementary Information

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2004 appears on page 1. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 13 to 16 for the year ended December 31, 2004 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton + Associates, P.C.

March 7, 2005
Bethesda, Maryland

APPENDIX E

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National Fluid Milk Processor Promotion Board

Schedule of Revenues and Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2004

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	$ 103,200,000	$ 105,728,118	$ 2,528,118
Late payment charges	-	54,080	54,080
Interest income	-	251,939	251,939
Other	-	3,707	3,707
Carryover - prior years	8,844,427	-	(8,844,427)
Total revenues	112,044,427	106,037,844	(6,006,583)
Expenses:			
Program expenses:			
Program - current year	99,424,700	94,512,199	(4,912,501)
Program - prior years	5,651,180	2,655,098	(2,996,082)
Total program expenses	105,075,880	97,167,297	(7,908,583)
Other expenses:			
California grant	9,991,000	10,174,576	183,576
Administrative	2,248,727	2,151,789	(96,938)
USDA oversight	380,000	430,815	50,815
Total other expenses	12,619,727	12,757,180	137,453
Less encumbrances - prior years	(5,651,180)	-	5,651,180
Total expenses	112,044,427	109,924,477	(2,119,950)
Excess of expenses over revenues	$ -	$ (3,886,633)	$ (3,886,633)

National Fluid Milk Processor Promotion Board

Schedule of Program Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2004

	Current Year Amended Budget	Expended Current Year Actual	Actual Over (Under) Budget	Prior Year Unexpended Budget	Expended Prior Year Actual	Actual Over (Under) Budget	Total Program Activity
Expenses - 2004 budget							
Media	$ 69,780,200	$ 69,178,722	$ (601,478)	$ 567,456	$ 329,588	$ (237,868)	$ 69,508,310
Promotions	11,735,000	9,099,914	(2,635,086)	1,734,385	590,204	(1,144,181)	9,690,118
Public relations	13,545,000	13,107,118	(437,882)	560,202	204,881	(355,321)	13,311,999
Strategic thinking	1,770,000	1,484,535	(285,465)	802,989	379,548	(423,441)	1,864,083
Research	1,965,000	1,273,608	(691,392)	1,177,333	736,734	(440,599)	2,010,342
Medical advisory panel	300,000	180,983	(119,017)	206,627	8,456	(198,171)	189,439
American Heart Association	-	-	-	360,000	240,000	(120,000)	240,000
Medical research	212,000	72,697	(139,303)	61,543	46,493	(15,050)	119,190
Program measurement	117,500	114,622	(2,878)	180,645	119,194	(61,451)	233,816
Total program expenses	$ 99,424,700	$ 94,512,199	$ (4,912,501)	$ 5,651,180	$ 2,655,098	$ (2,996,082)	$ 97,167,297

National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2004

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
Management contract	$ 375,000	$ 345,488	$ (29,512)
Board meeting expenses	350,000	290,625	(59,375)
Staff salaries and benefits:			
Staff salaries and compensation	410,956	407,413	(3,543)
Staff retirement benefit	41,096	85,141	44,045
Payroll taxes	14,333	15,277	944
Health insurance	8,200	1,966	(6,234)
Life insurance	1,400	1,601	201
Disability insurance	1,500	771	(729)
Workers compensation	700	580	(120)
Other employee benefits	2,200	2,160	(40)
Total staff salaries and benefits	480,385	514,909	34,524
Finance and administration:			
Contract staff	140,000	140,000	-
Financial services	300,000	299,859	(141)
Total finance and administration	440,000	439,859	(141)
Other operating expenses:			
Legal	200,000	191,101	(8,899)
Audits	85,000	77,128	(7,872)
Office facilities	106,800	106,800	-
Support and maintenance	18,000	18,000	-
Staff travel	105,000	98,129	(6,871)
Telephone	5,000	1,147	(3,853)
Insurance	35,000	35,965	965
Postage and delivery	20,000	19,918	(82)
Unallocated administrative expense	28,542	12,720	(15,822)
Total other operating expenses	603,342	560,908	(42,434)
Total administrative expenses	$ 2,248,727	$ 2,151,789	$ (96,938)

National Fluid Milk Processor Promotion Board

Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2004

Cash receipts from operations:	
Assessments	$ 105,644,312
Late payment charges	54,080
Interest income	254,044
Other	3,707
Total revenues	105,956,143
Cash disbursements for operations	(111,694,592)
Excess of disbursements over operating receipts	(5,738,449)
Cash and cash equivalents - beginning	11,398,626
Cash and cash equivalents - ending	$ 5,660,177

APPENDIX E

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited the financial statements of the National Fluid Milk Processor Promotion Board as of and for the year ended December 31, 2004, and have issued our report thereon dated March 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Fluid Milk Processor Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the National Fluid Milk Processor Promotion Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted during the course of our audit one invoice and accompanying check paid to a vendor that did not have the dual signatures of approval.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the National Fluid Milk Processor Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 7, 2005
Bethesda, Maryland

APPENDIX E

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 7, 2004. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2004;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;

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- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;

- Failed to comply with internal controls, except as described below;

- Failed to comply with disclosure requirements for lease commitments;

- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter; or

- Failed to comply with the by-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

During the course of our audit, we noted that one invoice and accompanying check paid to a vendor did not have the required signatures for approval of payment of both the chief executive officer and chief financial officer of the National Fluid Milk Processor Promotion Board.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 7, 2005
Bethesda, Maryland

APPENDIX E

Appendix F-1
National Dairy Promotion and Research Board and Dairy Management Inc. Contracts Reviewed by USDA, 2004

Advertising and Marketing Services

Affina Corporation–Real Seal® Certification Program
American School Food Service Association–School Foodservice Publications; School Milk Pilot Consulting Services
Broadcast Traffic and Residuals, Inc.–Fluid Milk and Cheese Broadcast Materials and Talent Activities
Campbell Mithun (Lowe Worldwide)–Advertising Services; National Accounts–Milk and Cheese Foodservice Activities; Promotion Activities
DDB Worldwide Communications Group–Media Planning Services; 3-A-Day of Dairy Creative Advertising
Dairy Farmers, Inc.–Professional Services
Flair Communications Agency–Fluid Milk Sales Promotion Activities; McDonald's Promotion Activities
General Mills Marketing–41st Pillsbury Bake-off Contest; Print Media Buying
Inland Printing Company, Inc.–Milk Merchandise Material Production and Distribution; Warehousing and Production of Creative Materials; and DMI Materials Website Maintenance
J. Brown and Associates–DMI Cheese Co-Marketing Program
Kellogg's USA, Inc.–NASCAR Sponsorship; Joint Milk and Cereal Promotion Activities
McDonald's Corporation–Happy Meal Promotion
Media Management Services–School Marketing Strategic Planning; International School Milk Conference Planning; NFL Support Activities
Media Vest Worldwide–3-A-Day Advertising Services
Midwest Dairy Association–National Retail Account Services
NFL Properties, LLC–Promotional Activities; Logo Usage Rights
Olson Communications–School Foodservice Merchandising Materials; Mealtime Sampler Activities; Milk Vending Promotion Kits; School Cafeteria Promotion Activities; Foodservice Program Activities; School Marketing Promotion Activities
School Foodservice and Nutrition–Nutrition Magazine Inserts
Slack Barshinger and Partners–Integrated Marketing Communications
Team Services, LLC–NFL and Sports Marketing Services
WebMD–3-A-Day Weight Loss Activities (Web-based)
Wendy's International–Plastic Milk Container Tests; Kids Meal Promotion
Wisconsin Milk Marketing Board–National Butter Program

Appendix F-1, continued

Public Relations and Nutrition Education

Association Partners Plus–Communications and Cooperative Education Projects
Association of School Business Officials International–School Nutrition Environment
Cardan Company–Grade 2 Nutrition Education Programs
Child Nutrition Foundation–School Foodservice Program Activities
Cleveland Dovington Partners, Inc.–Information Technology Services and Consulting; Web site development (Intranet)
Dairy Farmers, Inc.–Communication Activities
Destination Imagination, Inc.–Destination Imagination Sponsorship; 3-A-Day of Dairy Improv Challenge
Edelman Public Relations Worldwide–Web site www.dairynutrition.com Maintenance; DMI Health Professional Public Relations Program; Dairy First Program; Dairy Spokesperson Network, Nutrition Communications Program; Food Guide Pyramid/Dietary Guidelines Counsel; Food Marketing Institute Project; 3-A-Day Web Marketing Program; DMI Dairy Image Program; Whey Protein Project; Centers of Influence; Healthy Weight with Dairy Activities
Fleishman Hillard–Reputation Management Program
Food, Research, and Action Center–After School Nutrition Program Brochure Development
The Fratelli Group–Healthy School Environment Initiative; Food Guide Pyramid/Dietary Guidelines Support; Dairy Image Protection
Health and Nutrition Network–Public Relations Activities
Healthy Schools, Inc.–Action For Healthy Kids Sponsorship
I-Site Web Design–www.nutritionexplorations.com and www.nationaldairycouncil.org
Image Base Corporation–Video News Release Production; International School Milk Conference Services
Integer Group–Dairy Industry Communications Program
J.M. Smucker–Return to School Promotion Activities
Jack Morton Worldwide–www.3aday.org, www.healthyweightwithdairy.com, and www.ilovecheese.com Web site Design
Jerry Dryer Group–Dairy Issues Management
Media Management Services–Pyramid Café/Pyramid Explorations Newsletter
National Dairy Shrine–Dairy Scholarship Program
National School Board Association–Marketing Partnership
Osborn and Barr–Communications; Industry Relations Consulting Project
Results Direct–DMI Website Activities
Weber Shandwick, Inc.–Reputation and Issues Management; Crisis Preparedness Program; Responsible Production Program; Dairy Image/Dairy Confidence Program Activities; Retail Service Team Activities; WMMB Crisis Training

Appendix F-1, continued

Export

American-Mexican Marketing–Mexican Market Representation and Program Activities; Mexican Trade Show and Cheese Promotion Activities
Another Color, Inc.–Development and Design of USDEC Publications
Arab Marketing Finance–Middle East Market Representation and Program Activities
Contacts International Consulting, Ltd.–South American Market Representation and Program Activities
Dairymark.com–Whey Permeate Product Supplier Study; Global Strategic Plan for Dairy Research; Global Dairy Industry Patent Review Series
Foodtrends–Production of Training Manual and Video for Caribbean Deli Program
Functional Ingredients Research, Inc.–Korean Whey Nutrient-Marketing Conference and Trade Mission
GVI Productions–Development and Production of Promotion Video
The Garrison Group–Consulting, Editorial, and Promotional Services
Global Trade Information Services–Purchase of *World Trade Atlas*
Grassland Media–Production of Deli Training Video
International Dairy Foods Association–Update of USDEC Export Manuals
International Trade Services–Update of USDEC's International Reference Manuals
IntNet–Korean Market Representation and Program Activities; Cheese Seminar Activities
Jerry Dryer Group–USDEC International Communications Activities
Landell Mills–Update of Global Dairy Blends Study; Central America Dairy Market Study; Canada/USA Dairy Trade Analysis; Market Study for Dairy Products in Korea; Opportunities Study for Dairy Nutraceuticals; Multinational Ingredient User Dossier
Levitt Communication–International Consulting Services
Mistral Group, Ltd.–European Market Representation and Program Activities
National Milk Producers Federation–Global Research Activities; Farm to Consumer Program Activities
PR Consultants–Chinese Market Representation and Program Activities
Pacrim Associates–Southeast Asian Market Representation and Program Activities
Patricia R. Fuchs & Associates–USDEC Print Project Management
Promar International–Study of Deli Products in Central America
Results Direct–USDEC Web site Activities
Stanton, Emms, and Sia–Study of Markets for Dairy Products in Vietnam
TCE Consulting Group–Food and Nutrition Conference Activities
Uniflex Marketing–Japanese Market Representation and Program Activities; Japanese Dry Ingredients Program
World Perspectives–Market Research for Cheese in the Foodservice Sector in the Caribbean

Appendix F-1, continued

Market and Economic Research

Academic Network–Food Guide Pyramid Strategic Counseling
ARS Group–Print Advertising Evaluation
Beverage Marketing Corporation of New York–Evaluation of the Effectiveness of Generic Milk Programs; School Milk Promotional Test Consulting Services
Burelle's Newsclip Analysis Service–Media Monitoring and Analysis
CFE Solutions, Inc.–School Milk Pilot Consulting/Milk Consumption Research Activities; Healthy Schools, Inc., Consulting Services
C & R Research–Educational Materials Research Evaluation
CY Research, Inc.–Milk and Cheese Creative Testing; Dairy Weight Loss Research Awareness
Container Recycling Service–School Recycling Project
Custom Research, Inc.–Cheese and 3-A-Day Advertising Campaign Impact Assessment; Health Professional Dairy Nutrition Tracking Study
Datacore Marketing–Database Management and Consulting
Doyle Research Associates–Web Site Usability Qualitative Research; Business to Business Qualitative Research; Chocolate/White Milk Qualitative Research
Focus Management Services–U.S. Milk Industry School Audit
Fresh Look Marketing Group–Top-line Random Weight Cheese Data
GFK Custom Research–Kids Milk Tracking Study; Health Professional Tracking Study
Harris Interactive, Inc.–Nutrition Education Programs for Elementary Student, Pre-test
Information Resources, Inc.–Milk and Cheese Category Volume Reports
K.A. Enterprise–African American Usage, Attitudes, and Associations with Dairy Products
KRC Research–3-A-Day Tracking Survey
Knowledge Networks–NASCAR Promotion Awareness Research; Fluid Milk Advertising Tracking Research/Mom's Tracking Study
MSW–3-A-Day Weight Loss Advertising Test; Kids Milk Television Test; Advertising Focus Group Analysis
MangoLogic–Online Consumer Surveys
Marketecture–Attitudes and Usage Trends Study Analysis; Tracking Activities of Public Opinion Toward Dairy Products and the Dairy Industry (Issues Tracker)
Marketing Concepts–Product Innovation and Research Program
Marketing Management–Marketing Mix Analysis of Cheese and Yogurt Categories
Maskowitz-Jacobs–Consumer Interviews on Milk and Soy Preferences
Mintel International Group–New Products Database and Market Intelligence Reports
National Medical Association–Role of Dairy in the African American Diet
National Milk Producers Federation–Domestic Research Program Activities/Animal Health and Welfare Issues Activities
NFO Research–Purchase and Analysis of Marketing Data; Consumer Interest Assessment in Dairy Products Enhanced with Nutraceuticals

Appendix F-1, continued

Market and Economic Research, continued

NPD Group–Cheese Consumption Tracking Activity; CREST Foodservice Data; Eating Patterns Data Report; Food Safety and Dieting Monitor Report; Eating Trends and Beverage Study; Breakfast in America Report; Lactose Intolerance Survey; Food World Subscription
Prime Consulting Group–Retail Innovation Study Results Workshop
Promar International–School Milk Analysis and Consultation
Promata-Leemiss Services–Online Advertising Activity Data
Pursuant, Inc.–Milk-Producing Livestock Cloning/Dairy Consumption Research; Obesity and Healthcare Research; Dairy Production Practices Attitude Research
RSC-The Quality Measurement Co.–3-A-Day Testing Activities
Roper ASW–Plate Waste Study; Student Surveys
Sachs Marketing and Research–Dairy Weight Loss Claims Study
Spectra Marketing Systems–Marketing Research Activities
Summit Research, Inc.–NFL After School Program
Talent Partners–Broadcast Traffic Services
TDI Management–Development and Implementation Planning Services
Technomic–Understanding Obesity and its Foodservice Impact
Teri Gacek Associates–Qualitative Market Research Assignments; Alternative Creative Approaches
The Travis Company–NDC Promotional Kit Evaluation Research
Trion Group LP–School Milk Training Project
Turover Straus Group–Strategic Blueprint Development; Concept Development: Dairy-Based Salad Dressing and Spreads
Upshot Corporation–Sales Force Outreach and Data Delivery System
Western Wats–School Vending Awareness and Usage Survey
Widener-Burrows and Associates–Qualitative Research for Chocolate Milk Program Analysis
Wirthlin Worldwide–Producer Communications Survey; Pyramid Education Program Research

Appendix F-2
National Fluid Milk Processor Promotion Board and International Dairy Foods Association Contracts Reviewed by USDA, 2004

<u>Contractor and Initiatives</u>

Susan Baker, M.D.–Medical Advisory Board Member Services
Susan Barr, Ph.D.–Medical Advisory Board Member Services
Robert P. Heaney, M.D.-Creighton University–Medical Advisory Board Member Services
James O. Hill, Ph.D.–Medical Advisory Board Member Services
Rachel Johnson, Ph.D., R.D.–Medical Advisory Board Member Services
Jeanette M. Newton-Keith, M.D.–Medical Advisory Board Member Services
Ronald M. Krauss, M.D.–Medical Advisory Board Member Services
American Heart Association–Certification Mark Licensing Agreement; Product Nomenclature
Annie Leibovitz–Photography Services
Bachtelle and Associates–Consulting Services and Vending Seminars
Beverage Marketing Corporation of New York–Consulting/Competitive Strategy Development
Blueprint Communications–Media Buy Performance Analysis
BSMG Worldwide–Public Relations Services
Centiv, Inc.–Customer Services
Data Development Corporation–Market Research
Diagonostic Research–Market Research: Chocolate Milk Television Advertisements
Draft, Inc.–Promotional Marketing Services
ECI Communications–Marketing Video, Presentation, and Brochure
Environ International Corporation–Consulting Services and Research
Forecasting and Business Analytics, LLC–Literature Review - Fluid Milk Products
Herbein Company–Analysis of School Milk Pilot Test Report
Information Resources, Inc.–Market Analysis
Inland Printing–Customer Service Activities
J. Heimbach, LLC–Development of Nutrition Marketing Manual
Kelly C. Fisher–Consulting Services
Knowledge Networks–Data testing
Look Look–On-line Surveys
Lowe Worldwide–Advertising Services
Menendez International–Hispanic Market Research
Outloud–Marketing Communications
Potomac Digitek–www.Milkplan.org Web site Services
Prime Consulting Group–Consulting Services, Survey Analysis; Promotion Assessments

Appendix F-2, continued

Publicidad Siboney–Hispanic Marketing Program
Snyder, Cohn, Collyer, Hamilton & Associates, P.C.–Audit Services
Taylor Nelson Sofres–Hispanic Consumer Market Research
Technomic, Inc.–Marketing Study and Analysis
The Hale Group–Research Services
Weber Shandwick, Inc.–Public Relations Services
Widner Burrows–Assessment of Dairy Attitudes on Weight Loss
Willard Bishop–Consulting Services
Wirthlin Worldwide–Assessment of Print and Television Milk Advertisements

Appendix G-1
Nutrition and Health Research Institutes and Dairy Foods Research Centers, 2004

Nutrition and Health Research Institutes

Diet, Genetics, and Heart Disease Institute
Louisiana State University, Pennington Biomedical Research Center: Relationship of Low-Fat Diets to Heart Disease

Genetics and Nutrition Institute
Children's Hospital, Oakland Research Institute: Relationship of Genetics, Dietary Fat (Especially Dairy Fat), and Heart Disease

Dairy Foods Research Centers

California Dairy Research Foundation
(University of California–Davis and California Polytechnic State University–San Luis Obispo)
Specializes in product technology development, ingredient technology, product health enhancement properties, food safety, and quality assurance.

Minnesota/South Dakota Dairy Food Research Center
(University of Minnesota–St. Paul and South Dakota State University–Brookings)
Concentrates on natural and processed cheese functionality and flavor, fluid milk flavor and shelf life, genomics of probiotic bacteria, and utilization of acid and salt whey.

Northeast Dairy Foods Research Center
(Cornell University–Ithaca and University of Vermont–Burlington)
Focuses attention on developing and improving processing technologies to enhance dairy product quality, safety, and functionality, improving the safety of foods and processing systems, and modifying dairy product composition to ensure that dairy foods and ingredients remain a part of a healthy diet.

Southeast Dairy Foods Research Center
(North Carolina State University–Raleigh and Mississippi State University–Starkville)
Specializes in milk and whey ingredient functionality, thermal and biological processing, sensory properties of cheese and dairy ingredients, dairy food safety, and microbial technologies for starter cultures and probiotics.

Western Dairy Center
(Utah State University–Logan, Oregon State University–Corvalis, Washington State University–Pullman, and University of Idaho–Moscow)
Specializes in cheese flavor and functionality, fluid milk processing, whey and milk utilization, and microbial genetics and physiology.

Appendix G-1, continued

Wisconsin Center for Dairy Research
(University of Wisconsin–Madison)
Explores functional flavor and physical properties of cheese and cheese products, whey and whey components, and milk components used as ingredients and as finished products, cheese making and whey processing and separation procedures, use of milkfat, and food safety and quality technology.

Appendix G-2
Dairy Foods Competitive Research Activities, 2004

Principal Investigator, Institution, and Project Title

William R. Aimutis, Ph.D. (Land O' Lakes): Physical and Biochemical Changes Associated with Shredded Cheese During Ripening [completed in 2004]

Valente B. Alvarez, Ph.D. (Ohio State University Research Foundation): Flavor Changes During Extended Shelf Life of PET Bottled Ultrapasteurized Milk [continued in 2004]

Susan E. Duncan, Ph.D. (Virginia Polytechnic Institute): Controlled Release of Antioxidants Polymer Films into Milk [completed in 2004]

Robert W. Hutkins, Ph.D. (Virginia Polytechnic Institute): Utilization of Fructooligosaccharides by Probiotic Bacteria [completed in 2004]

Michael E. Mangino, Ph.D. (Ohio State University Research Foundation): Partial Denaturation to Improve Heat Stability of Whey Protein – Part II [completed in 2004]

Joseph E. Marcy, Ph.D. (Virginia Polytechnic Institute): Improved Uses of Natamycin to Prevent Mold Spoilage of Cheese [completed in 2004]; Active Packaging to Improve the Quality of UHT Milk [completed in 2004]; Ensuring Stability of Natamycin on Shredded Cheese to Prevent Mold Growth [continued in 2004]

John U. McGregor, Ph.D. (Clemson University): Fluid Dairy Products as Ingredients in Freshly Prepared Coffee House [completed in 2004]; Enhancing the Shelf Life of Whole Milk Powder [completed in 2004]

Charles Morr (Independent): Developing a Membrane Fractionation Process Removing Lactose from Skim Milk [began in 2004]

Ronald L. Richter, Ph.D. (Texas A&M University): Effects of Formulation and Processing on the Emulsion Stability and Sedimentation of Retort Sterilized Dairy-Based Nutritional Products–Part II [completed in 2004]; Control of Properties/Stability of High Whey Protein Concentration Retorted Beverages [completed in 2004]

K. Schmidt, Ph.D. (Kansas State University): Ingredient Technology and Interactions for Stable, Nutritionally Designed Milk-Based Beverages [continued in 2004]

Richard L. Stroshine, Ph.D. (Purdue Research Foundation): Low Field Proton Magnetic Resonance for On-Line Monitoring of the Moisture Content of Processed Cheese and Other Dairy Products [completed in 2004]

Appendix G-2, continued

Margaret Swearingen, Ph.D. (Land O' Lakes): Calcium Lactate Levels and Incidence of [completed in 2004]

Appendix G-3
Nutrition Competitive Research Activities, 2004

Principal Investigator, Institution, and Project Title

Dale E. Bauman, Ph.D. (Cornell University): Effect of Milkfat-Derived Trans Fatty Acids on Changes in Plasma Lipoproteins Related to the Development of CHD [completed in 2004]

Jean Harvey-Berino, Ph.D. (University of Vermont): Can Dairy Enhance Weight Loss? [completed in 2004]

Leann L. Birch, Ph.D. (Pennsylvania State University): Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status [completed in 2004]; Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status–Phase II [began in 2004]

Gary Chan, M.D. (Primary Children's Medical Center Foundation): Effects of Dairy Foods on Pregnant Teenagers and Their Infants [completed in 2004]

Joseph Donnelly, Ph.D. (University of Kansas Center for Research, Inc.): The Effects of Dairy Intake on Weight Maintenance and Metabolic Profile [continued in 2004]

Adam Drewnowski, Ph.D. (University of Washington): New Measures of Nutrient Density and Nutrient Content Cost [completed in 2004]

Penny Kris-Eatherton, Ph.D. (Pennsylvania State University): Effects of a Dairy-Rich Diet on Blood Pressure and Vascular Reactivity [continued in 2004]; Role of LDL and HDL Particle Size in Response to Diet Susceptibility to Oxidative Modification [completed in 2004]

Christine Eonomos, Ph.D. (Tufts University): What Predicts Dairy Intake, Bone Mass, and Body Composition in Early Children [continued in 2004]

Lisa Harnack, Ph.D. (University of Minnesota): Beverage Consumption of Middle School Aged Children: Health and Assessment Issues [completed in 2004]

Stan Heshka, Ph.D. (St. Luke's-Roosevelt Hospital): The Effect of a Mixed Nutrient Versus a Single Nutrient Beverage on Energy Metabolism, Substrate Oxidation, and Indices of Satiety and Food Intake in Children [continued in 2004]

Steve Hertzler, Ph.D. (Ohio State University): Colonic Bacterial Adaptation to Lactose in African-American Maldigesters [completed in 2004]

James Hill, Ph.D. (University of Colorado): Role of Dairy Products in Promoting Fat Oxidation in Humans [completed in 2004]

Appendix G-3, continued

Bess Dawson-Hughes, Ph.D. (Tufts University): Dietary Protein and Calcium Homeostasis: Impact of Aromatic Versus Branched-Chain Amino Acids on Urinary Calcium Excretion [completed in 2004]

Clement Ip, Ph.D. (Roswell Park Cancer Institute): Mammary Cancer Prevention by CLA-Butter [completed in 2004]

Jeanette Newton-Keith, M.D. (University of Chicago): Misperceptions of Lactose Intolerance in African Americans [completed in 2004]

Teresa A. Marshall, Ph.D. (University of Iowa): Assessment of Associations Between Consumption of Milk and Milk Products and Growth and Body Composition in the Young Child [completed in 2004]

Richard Mattes, Ph.D. (Purdue University): Effect of Dairy Product Consumption on Food Intake and Hunger in Adult Humans [began in 2004]

Edward Melanson, Ph.D. (University of Colorado): Effects of High and Low Calcium Diets on Fat Metabolism During and After Exercise [began in 2004]

J. Metz, Ph.D. (Oregon Health Sciences University): Lowfat Dairy Products Reduce Anti-hypertensive Drug Therapy–Phase II [completed in 2003]

Vikram V. Mistry, Ph.D. (South Dakota State University): Effect of Processed Cheese With and Without Vitamin D_3 on Vitamin D Status, Parathyroid Hormone, and Bone Turnover in the Elderly [completed in 2004]

Lynn L. Moore, Ph.D. (Boston University School of Medicine): Effects of Milk and Milk Products on Changes in Body Fat and Risk of Obesity Throughout Childhood [completed in 2004]; The Effect of Dietary Calcium on Body Fat Levels in Children and Adults– Phase II [completed in 2004]; Dairy Intake: Its Determinants and Relation to a Healthy Diet [continued in 2004]; and Dietary Intake Patterns and Metabolic Syndrome Among Children and Adolescents [began in 2004]

Ratna Mukherjea, Ph.D. (Children's Hospital, Oakland Research Institute): Effect of Moderate Dairy Intake on Insulin Resistance, Glucose Tolerance, and Body Fat in Overweight Young Adolescent Girls [began in 2004]

Aviva Must, Ph.D. (Tufts University): 3-A-Day of Dairy: Related Dietary and Behavioral Factors in Adolescent Girls [completed in 2004]

Appendix G-3, continued

Theresa A. Nicklas, Ph.D. (Baylor College of Medicine): Environmental Influences on Children's Consumption of Dairy Products–Family Environment [completed in 2004]; Dietary Calcium Intake and Dairy Product Consumption by Children and Young Adults–Nutritional Impact and Health Outcomes [completed in 2004]; and Environmental Influences on Children's Food Consumption, Specifically Dairy Products–Day Care Environment [completed in 2004]

Stuart Phillips, Ph.D. (McMaster University): The Effectiveness of Milk Consumption in the Promotion of Resistance Training-induced Lean Mass Gains in Novice Weightlifters: Continuation [began in 2004]

Debra Sullivan, Ph.D. (University of Kansas Medical Center): Effects of Increased Dairy Product Consumption on Blood Pressure in Multi-Ethnic Population of Elementary School Children [completed in 2004]; Synergistic Effect of Dairy Foods on Metabolism–A Mechanistic Study [continued in 2004]

Dorothy Teegarden, Ph.D. (Purdue Research Foundation): Effect of Calcium Education Intervention on Body Fat Mass in Adolescents [continued in 2004]

Warren Thompson, M.D. (The Mayo Clinic): Effects of High Dairy, High Fiber, Low Glycemic Index, Low Energy Density Diet on Weight, Body Fat, and Glucose Tolerance [completed in 2004]

Connie Weaver, Ph.D. (Purdue University): Dairy's Calcium Carbonate in Promoting and Retaining Peak Bone Mass [began in 2004]; Calcium, Dairy, and Body Fat in Adolescents [began in 2004]

Michael B. Zemel, Ph.D. (University of Tennessee Research Foundation): Role of Dairy Products in Weight Loss: A Multi-Center Trial [completed in 2004]; Role of Dairy Components in Weight Control and Fat Loss [began in 2004]; and Role of Dairy Products in Weight Maintenance: Prevention of Weight Regain Following Weight Loss [continued in 2004]

Appendix H
Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs, 2004

Allied Milk Producers' Cooperative, Inc.
495 Blough Road
Hooversville, PA 15936-8207

American Dairy Association and Dairy Council Mid East
5950 Sharon Woods Boulevard
Columbus, OH 43229

American Dairy Association and Dairy Council, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

American Dairy Association of Alabama
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Georgia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Kentucky
9201 Bunsen Parkway, Suite 100
Louisville, KY 40220

American Dairy Association of Michigan, Inc.
2163 Jolly Road
Okemos, MI 48864

American Dairy Association of Mississippi
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Nebraska, Inc.
8205 F Street
Omaha, NE 68127-1779

American Dairy Association of North Carolina
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of South Carolina
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of South Dakota
2015 Rice Street
St. Paul, MN 55113

American Dairy Association of Virginia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

California Manufacturing Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

California Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

Dairy Council of California
1101 National Drive, Suite B
Sacramento, CA 95834-1945

Dairy Council of Michigan, Inc.
2163 Jolly Road
Okemos, MI 48864

Dairy Council of Nebraska, Inc.
8205 F Street
Omaha, NE 68127-1779

Appendix H, continued

Dairy Farmers, Inc.
166 Lookout Place, Suite 100
Maitland, FL 32751-4496

Dairy MAX, Inc.
2415 Avenue J, Suite 111
Arlington, TX 76006-6119

Dairy Promotion, Inc.
Dairy Farmers of America
P.O. Box 909700
Kansas City, MO 64190-9700

Georgia Agricultural Commodity Commission for Milk
19 Martin Luther King Jr. Dr., S.W., Room 328
Atlanta, GA 30334

Granite State Dairy Promotion
c/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302-2042

Idaho Dairy Products Commission
10221 West Emerald, Suite 180
Boise, ID 83704

Illinois Milk Promotion Board
1701 N. Towanda Avenue
P.O. Box 2901
Bloomington, IL 61702-2901

Indiana Dairy Industry Development Board
200 W. Washington Street
242 State House
Indianapolis, IN 46204

Kansas Dairy Commission
4210 Wam-Teau Drive
Wamego, KS 66547

Louisiana Dairy Industry Promotion Board
c/o Louisiana Department of Agriculture and Forestry
P.O. Box 3334
Baton Rouge, LA 70821-3334

Maine Dairy and Nutrition Council
333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board
333 Cony Road
Augusta, ME 04330

Michigan Dairy Market Program
P.O. Box 8002
Novi, MI 48376-8002

Mid-Atlantic Dairy Association
325 Chestnut Street, Suite 600
Philadelphia, PA 19106

Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

Midwest Dairy Council
2015 Rice Street
St. Paul, MN 55113

Milk for Health on the Niagara Frontier, Inc.
4185 Seneca Street
West Seneca, NY 14224

Milk Promotion Services of Indiana, Inc.
9360 Castlegate Drive
Indianapolis, IN 46256

Minnesota Dairy Research and Promotion Council
2015 Rice Street
St. Paul, MN 55113

Appendix H, continued

Nebraska Dairy Industry Development Board
8205 F Street
Omaha, NE 68127-1779

Nevada Farm Bureau Dairy Producers' Committee
2165 Green Vista Drive, Suite 205
Sparks, NV 89431

New England Dairy and Food Council
1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board, Inc.
1034 Commonwealth Avenue
Boston, MA 02215

New Jersey Dairy Industry Advisory Council
c/o New Jersey Department of Agriculture
P.O. Box 330
Trenton, NJ 08625-0330

New York State Department of Agriculture and Markets
Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235

North Dakota Dairy Promotion Commission
2015 Rice Street
St. Paul, MN 55113

Oregon Dairy Products Commission
10505 Southwest Barbur Boulevard
Portland, OR 97219

Pennsylvania Dairy Promotion Program
c/o Pennsylvania Department of Agriculture
2301 North Cameron Street
Harrisburg, PA 17110-9408

Promotion Services, Inc.
5340 West Fayetteville Road
Atlanta, GA 30349-5416

Rochester Health Foundation, Inc.
c/o American Dairy Association and Dairy Council, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

St. Louis District Dairy Council
1254 Hanley Industrial Court
St. Louis, MO 63144-1912

Southeast United Dairy Industry Association, Inc.
5340 West Fayetteville Road
Atlanta, GA 30349-5416

Southwest Dairy Museum, Inc.
P.O. Box 936
Sulphur Springs, TX 75483

Tennessee Dairy Promotion Committee
9201 Bunsen Parkway, Suite 100
Louisville, KY 40220

United Dairymen of Arizona
2008 South Hardy Drive
Tempe, AZ 85282

Utah Dairy Commission-Dairy Council of Utah/Nevada
1213 East 2100 South
Salt Lake City, UT 84106

Vermont Dairy Promotion Council
116 State Street, Drawer 20
Montpelier, VT 05620-2901

Appendix H, continued

Washington State Dairy Council
4201 198th Street, S.W., Suite 101
Lynnwood, WA 98036-6757

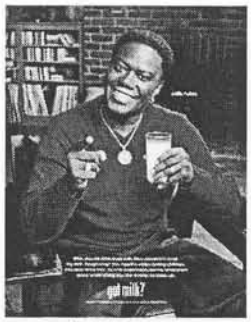
Washington State Dairy Products Commission
4201 198th Street, S.W., Suite 101
Lynnwood, WA 98036

Western Dairy Farmers' Promotion Association
12000 North Washington Street, Suite 200
Thornton, CO 80241

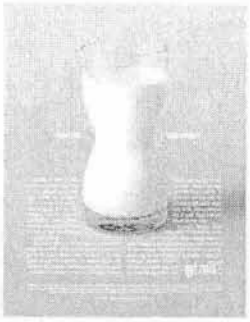
Wisconsin Milk Marketing Board, Inc.
8418 Excelsior Drive
Madison, WI 53717

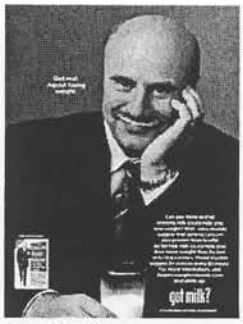
Appendix I
2004 Fluid Milk Print Advertisements

Active and Weight Loss Messages
Target Audience: Moms/Women

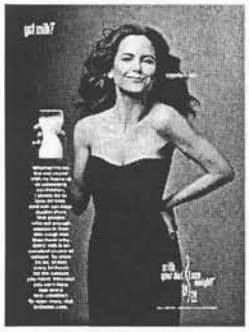


Bernie Mac


Skinny Glass



Dr. Phil



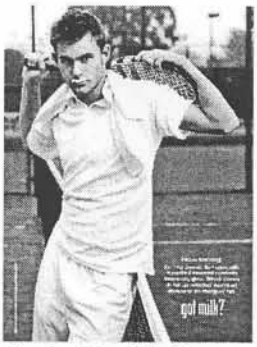
Kelly Preston

Diane Heavin

Stockard Channing

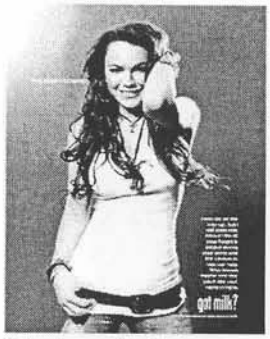
Appendix I, continued

Active, Bone Growth, and Bone Fractures Messages
Target Audience: Teen Girls and Teen Boys



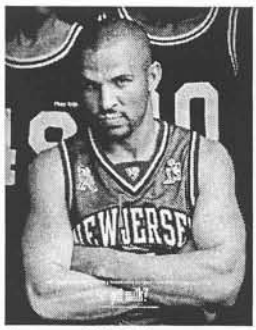
Andy Roddick

Fefe Dobson

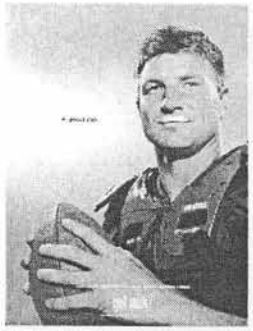


Lindsay Lohan

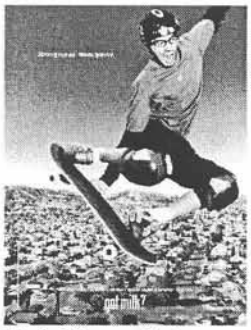
Olsen Twins



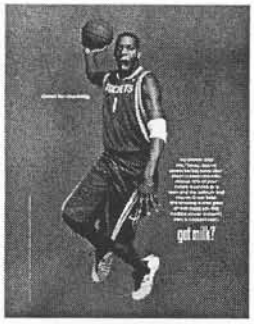
Jason Kidd



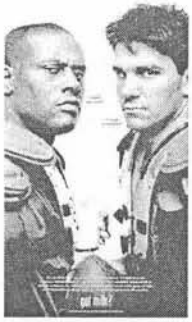
Brad Johnson



Bob Burquist



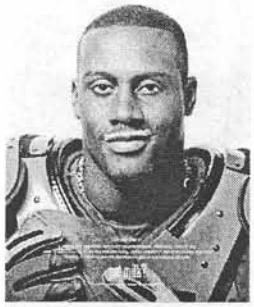
Tracy McGrady

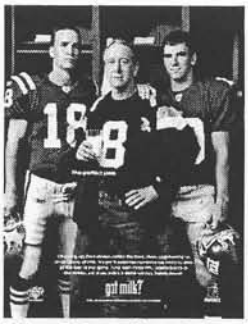


Ty Law/Jake Delhomme

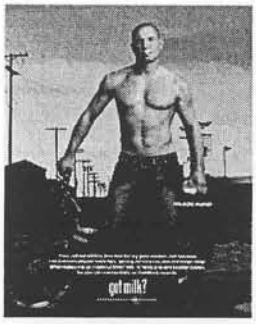
Appendix I, continued

Active, Bone Growth, and Bone Fractures Messages
Target Audience: Teen Girls and Teen Boys


Ty Law



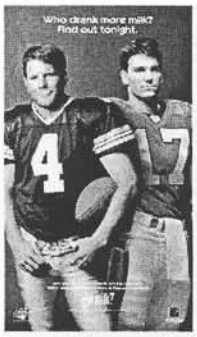
The Manning Family



Dave Mirra

Michael Phelps

Micheal Phelps

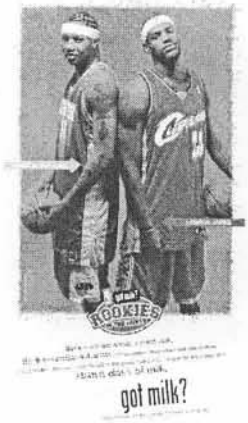


Brett Favre/Jake Delhomme

Appendix I, continued

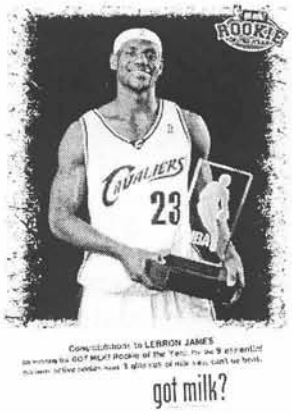
2004 Got Milk?®/NBA® Rookies of the Month/Rookie of the Year

January
Carmelo Anthony/
LeBron James

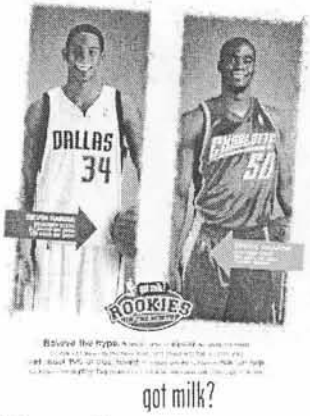


February
Carmelo Anthony/
LeBron James

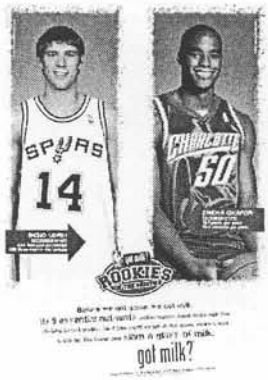
March
Carmelo Anthony/
LeBron James



April-Rookie of the Year
LeBron James



November
Devin Harris/Emeka Okafor



December
Beno Udrih/Emeka Okafor

Appendix I, continued

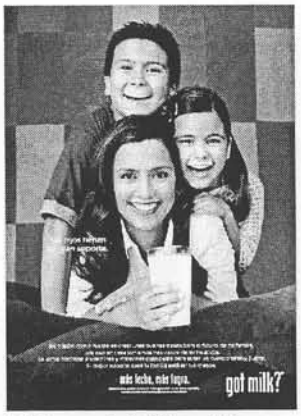
Contest/Sweepstakes Winners and Hispanic Advertisements

Rolling Stone winner, Lindsay Ramer with Jason Mraz

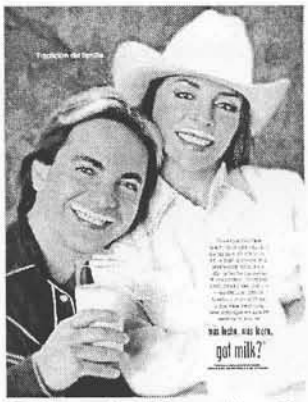
Seventeen winner, Kelly Primc

3v3 Soccer mom winner, Jennifer Longnecker and her children

(Hispanic) Miss Universe Amelia Vega and her mom



(Hispanic) Star Mom winner, Beatriz de Alba with her children



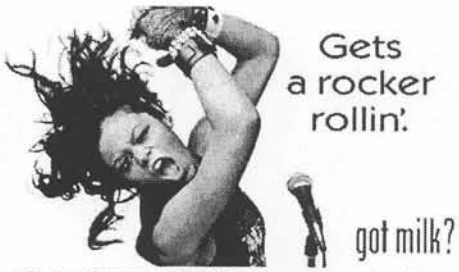
(Hispanic) Veronica Castro and her son, Christian

2004 SAMMY Winners

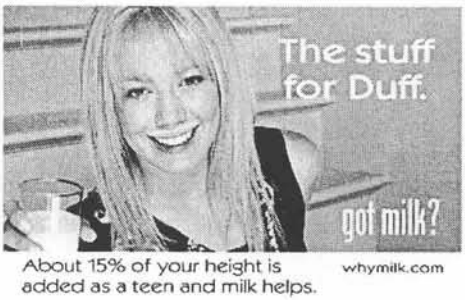
Appendix I, continued

2004 School Milk Posters

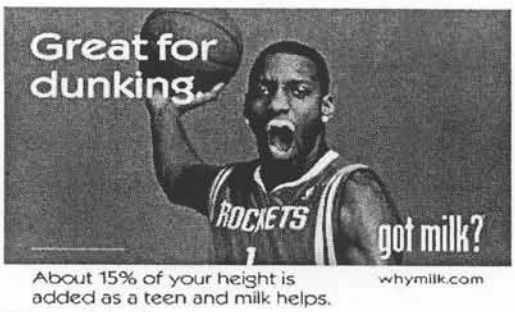
Andy Roddick



Fefe Dobson

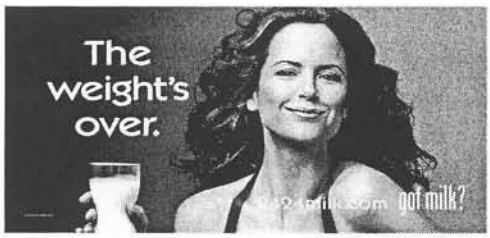


Hilary Duff



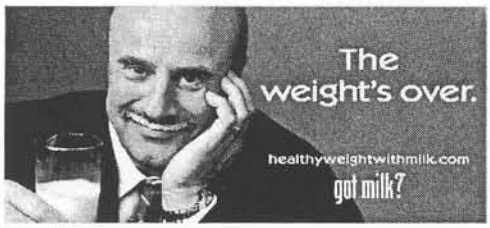
Tracy McGrady

Outdoor/Billboard Advertisements



Kelly Preston

Andy Roddick



Dr. Phil

Myrka Dellanos (Hispanic)

Appendix I, continued

2004 Healthy Weight With Dairy/Good For You Advertisements

Skinny Glass

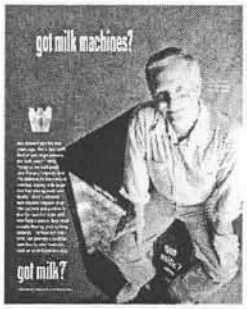
Healthy Weight With Dairy Launch

Healthy Weight With Dairy New Year's Resolution

Congratulations to Calcium, New York

Appendix I, continued

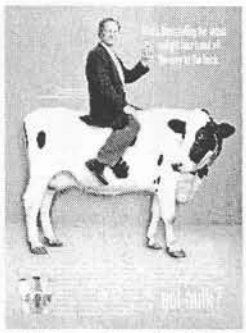
2004 Trade Advertisements



Don Howard

Donna Wittrock

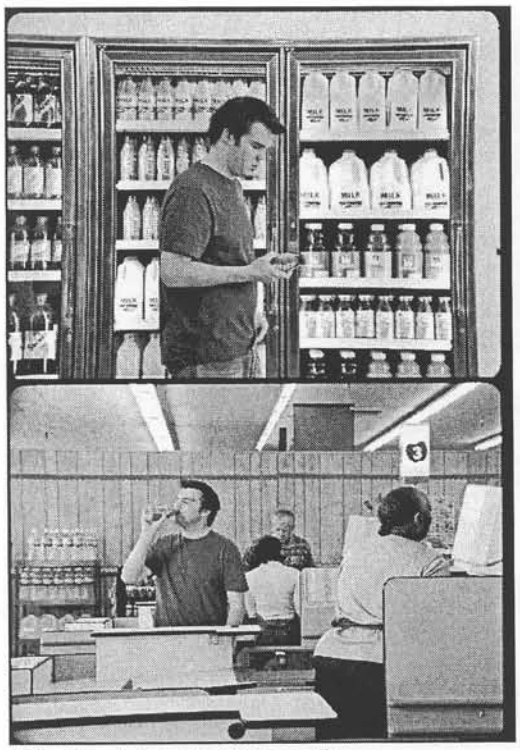
Ralph Sanese



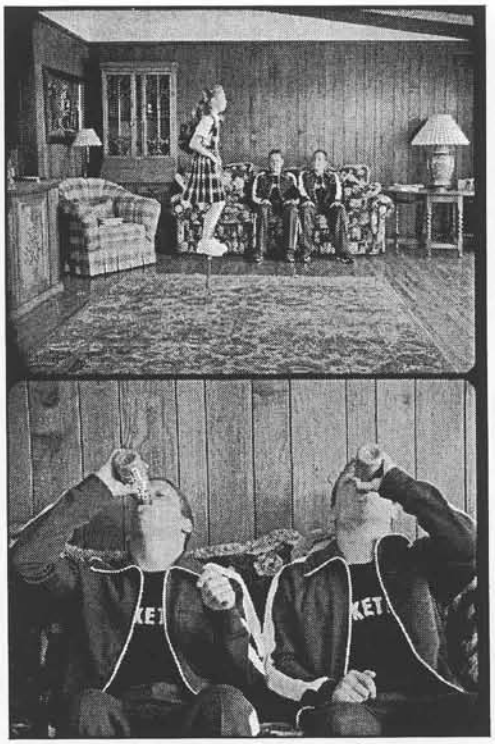
Richard V. Schibler

Appendix I, continued

2004 Television Advertisements



"BarCode" (:30 TV spot)



"Pogo Stick" (:30 TV spot)

"Mountain Bike" (:30 TV spot)