

U.S. Premium Beef

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Arthur Capper Cooperative Center
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U.S. Premium Beef

History of the Company

U.S. Premium Beef was established on July 1, 1996. A group of producers that included Doug Laue (custom backgrounder and cattle feeder), Terry Nelson (commercial cow-calf producer, backgrounder, and cattle feeder), Terry Ryan (commercial cattle feeder), and Steve Hunt, who was a fifth generation cattleman, had met that previous fall to discuss different options for adding value to their animals. After looking at different business organizations, they decided that a closed membership cooperative offered the best chance of success.

In the fall of 1996, they held a series of meetings in the Great Plains to discuss the cooperative. An initial membership drive was held where Steve Hunt, who had been selected as CEO, and directors discussed U.S. Premium Beef with potential members. The membership fee was \$500 with an additional registration fee of \$0.50 per head on cattle that would be delivered to U.S. Premium Beef.

U.S. Premium Beef considered three alternatives: building a plant, buying a plant, or partnering with someone else. They decided to pursue the latter alternative because it would provide them access to a recognized brand and looked at six different companies.

On July 31, 1997, U.S. Premium Beef signed a letter of intent to purchase up to 50 percent of Farmland National Beef. A stock offering was held that fall with one share valued at \$55 per head. U.S. Premium Beef also required \$50 per head in debt to finance the investment. More than \$38 million was raised in the first offering that closed in November 1997. On December 1, 1997, U.S. Premium Beef became an owner in Farmland National Beef. A second stock offering was held later that month that resulted in U.S. Premium Beef owning 29 percent of the company. The rationale for investing in Farmland National Beef was that it gave them an opportunity to expand if they wanted and they had a recognizable brand.

Farmland Industries declared bankruptcy in late May 2002. U.S. Premium Beef and a minority partner, which included a management group and NBPCo, bought the remaining 71 percent (valued at \$232 million) on Wednesday, August 6, 2003. The company is now called National Beef Packing LLC and U.S. Premium Beef is the majority owner.

Mission and Objectives

The mission of U.S. Premium Beef is *to increase the quality of beef and long-term profitability of cattle producers by creating a fully integrated producer-owned beef processing system that is a global supplier of high quality value-added beef products responsive to consumer desires.*

Governance

Over 1,850 producers in 37 states are members. Of these members, over 400 producers in 26 states constitute the ownership of U.S. Premium Beef. The difference between the members and owners is due to the fact that U.S. Premium Beef allows owners to lease shares. The cooperative has two types of membership. Lifetime members pay a \$500 fee and associate members can join for a year at \$100 annually. Voting rights are given to members who have at least 100 shares of stock where one share of stock represents the annual right and obligation to deliver one animal. The delivery agreement requires a member to deliver the same number of animals per month (“even slots”) or to deliver animals during one or more months each year (“odd slots”).

A seven member board of directors governs U.S. Premium Beef. The membership is comprised of all segments in the cattle industry including cow-calf producers, seedstock producers, commercial cattle feeders, and stocker operators.

Privileges of Membership

Membership in U.S. Premium Beef allows shares to be leased by members from other members who own the stock. Cow-calf operators who own shares can partner with feedlots to retain ownership. There are no geographic restrictions on the location of the feedyards.

U.S. Premium Beef has a competitive value-based marketing program and offers carcass information free to all of its members. The cooperative employs field staff who provide expertise in animal health, economics, genetics, and management. Forward contracting opportunities are available and members share in the patronage refunds issued by U.S. Premium Beef.

National Beef Packing

USPB is the majority owner in National Beef Packing Company, LLC (NBP), which has processing and fabrication plants located in Liberal and Dodge City, KS, as well as further processing facilities in Hummels Wharf, PA, Moultrie, GA, and Kansas City Steak Company in Kansas City, KS. National Beef also owns National Carriers, a 700-unit refrigerated trucking operation. NBP is the nation's fourth largest beef packer, processing 3.2 million head of cattle per year.

USPB member cattle are marketed under the U.S. Premium Beef™ brand and numerous NBP product lines including Farmland Black Angus Beef®, Farmland Certified Premium Beef®, and Black Canyon Angus Beef®, in addition to Certified Angus Beef®. USPB member cattle are also marketed direct to consumers through Kansas City Steak Company, a high quality, portion control and mail order company owned by National Beef Packing Company.

Financial Data

U.S. Premium Beef's stock value has steadily increased since its initial price of \$55 per share as seen in Figure 1. The patronage history is shown in Figure 2. The original goal of U.S. Premium Beef was to pay a competitive price for the cattle and pay down the long term debt in order to purchase more stock in Farmland National Beef.

Figure 1. U.S. Premium Beef's Stock Value

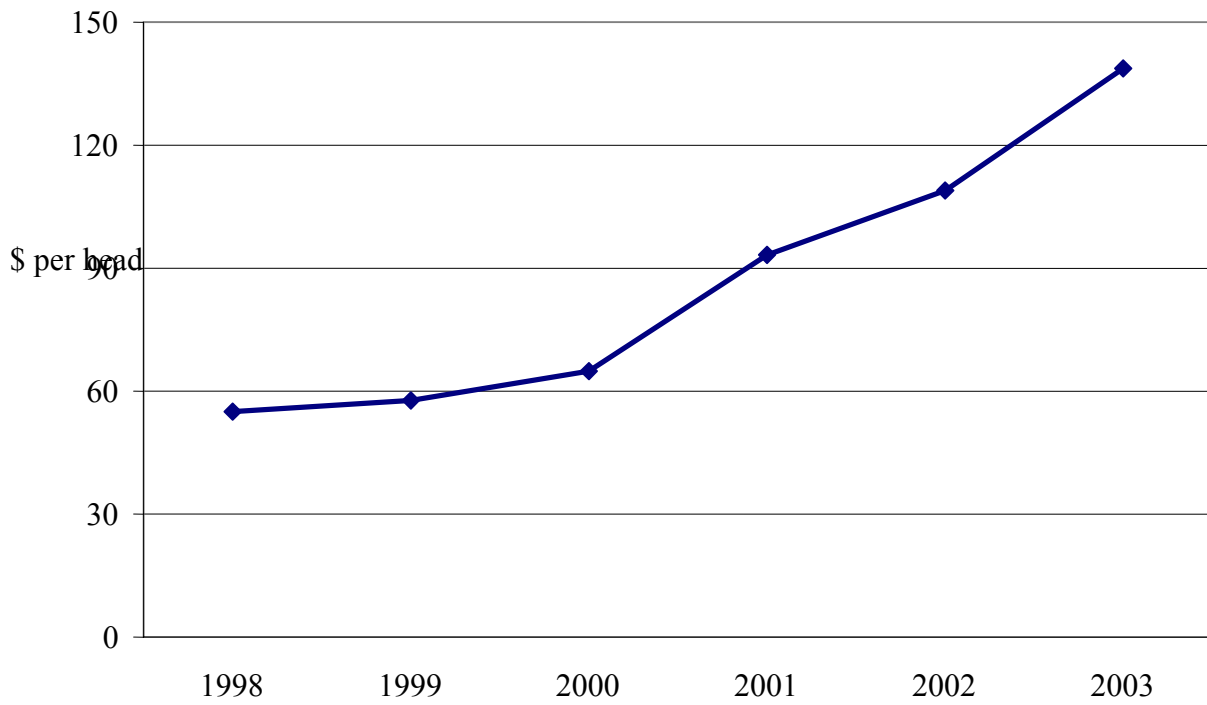
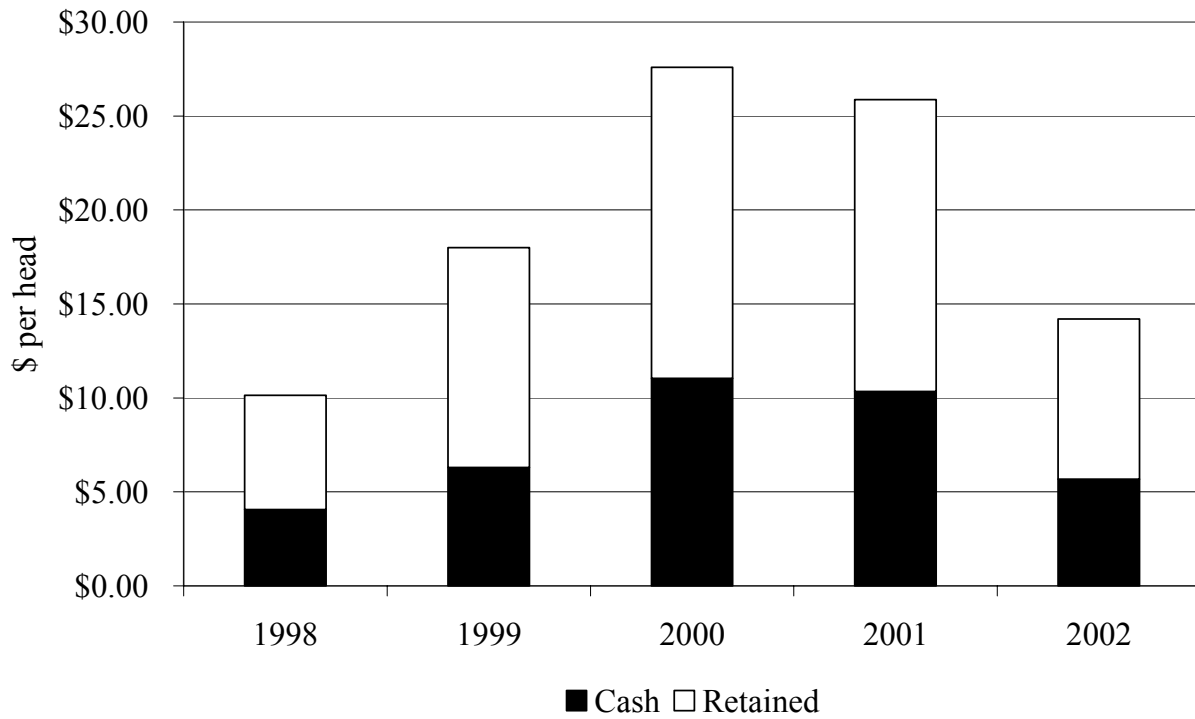


Figure 2. U.S. Premium Beef Cash and Retained Patronage, 1998 to 2002



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