Strengthening the Fiber of our Industry

THE COTTON BOARD

Mission Statement

The Cotton Board's mission is to serve U.S. producers and importers of cotton and cotton products by effectively and efficiently governing the Cotton Research & Promotion Program so that it leads to increased demand for and consumption of cotton.

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This annual report covers the 2016 calendar and fiscal year for The Cotton Board, the oversight and administrative arm of the Cotton Research and Promotion Program (the “Program”). The objectives of the Program are to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for cotton by developing, funding, and implementing a coordinated plan of research and promotion. The Cotton Board is responsible for providing strategic leadership and oversight of the economic resources devoted to the Program. The Board’s membership, consisting of key stakeholders - U.S. cotton producers and importers of cotton apparel and other cotton products - brings a broad range of industry experience and insight to the Program.

During 2016, The Cotton Board made available $76 million to Cotton Incorporated to carry out the research and promotion program. This was down from $80 million in 2015, as decreased assessment revenues necessitated a funding level that was more in line with revenue. The leadership of the Cotton Board and Cotton Incorporated has developed a long-term budget plan as revenue continues to decline. Reserves are being used as needed in order to prevent sudden and disruptive decreases in program funding. As a result, Cotton Incorporated is able to maintain our most valuable resource, the professionals who work for Cotton Incorporated. The long-term budget plan is enabling the program to retain the benefit of this investment, while evaluating spending from the ground up, narrowing our focus and cementing the program’s commitment to projects and research that are more likely to enhance demand for cotton and improve margins throughout the industry. The program has “tightened its budget belt” and focused resources. I am proud of the foresight and thoughtful decisions that made this effort possible. I am confident the program will continue to generate significant returns for all stakeholders.

The Cotton Board maintains a strong collection rate, positive audit results, strong communication efforts, and effective reviews of Program activities. I am proud of the organization and its staff.

2016 marked the fiftieth anniversary of the Cotton Research and Promotion Program. Today's industry leaders draw inspiration from this heritage as cotton again faces significant competitive challenges. As we enter cotton’s next 50 years, it is important to reflect on the vast array of accomplishments the Program has generated so far and renew our commitment to the same kind of hard work and dedication required to make cotton the preferred fiber for the world.

Cotton Incorporated and its leadership are paving the way for innovative answers to the task of increasing demand. We have an incredibly strong partnership with Cotton Incorporated and USDA’s Agricultural Marketing Service. We could not have a successful program without the sense of unity and purpose that guides our organizations. Most importantly, I want to acknowledge The Cotton Board’s many dedicated Members and Alternates for their commitment and hard work throughout this past year. Thank you for your friendship and support.

Sincerely,
Janet Ydavoy
Chairman
Annually, The Cotton Board analyzes assessment collections and program funding needs to in order to determine annual funding levels. At the same time, an appropriate reserve amount is also determined in order to provide funding continuity for ongoing research and promotion activities.

For the year ending December 31, 2016, The Cotton Board collected $73 million in total assessments comprised of $36.5 million in Producer assessments and $36.5 million in Importer assessments. The average assessment was $2.51 per bale. The Program’s compliance rate of 99.55% continues to be among the highest of all commodity research and promotion group programs.

Looking forward to 2017 and beyond, The Cotton Board will continue to set funding levels that are fiscally responsible and fulfill the program’s mission of increasing the demand for and profitability of cotton. For 2017, the funding level has been set at $70 million.

ASSETS
Current assets:
Cash $22,247,896 $20,779,259
Short-term investments 30,244,078 26,759,131
Assessments receivable, net 11,907,481 11,728,510
Due from Cotton Incorporated 4,471,843 4,405,421
Prepaid expenses and other assets 63,083 61,880
Total current assets 68,864,578 65,734,180

Long-term investments 17,492,000 25,703,000
Property and equipment, net 10,806,813 11,013,029

Total assets $97,073,391 $102,461,199

LIABILITIES AND NET ASSETS
Current liabilities:
Accounts payable and accrued expenses $194,126 $221,144
Due to Cotton Incorporated for research and promotion 4,137,128 6,375,690
State and Import support funds carryover 2,403,730 1,705,832
Total current liabilities 6,734,984 8,302,766

Unrestricted net assets 90,348,407 94,148,373

Total liabilities and net assets $97,073,391 $102,461,199

The Cotton Board Statements of Activities Years Ended December 31, 2016 & 2015

REVENUES:
Domestic producer assessments $36,505,631 $36,062,623
Import assessments 36,557,997 39,421,306
Less: reimbursements on import assessments (39,918) (15,878)

Total revenues 73,023,610 75,468,153

Interest income 406,264 367,211
Imputed rent income 2,255,368 2,189,678
Other income 381,812 417,749

Total revenues 76,066,154 75,442,791

EXPENSES:
Salaries and wages 1,592,828 1,588,011
Payroll taxes 101,531 102,377
Insurance and retirement 472,893 483,252
Travels - board 365,591 393,756
Travel - staff 182,882 209,976
Program evaluation 20,000 55,000
Training 5,172 7,221
Board development 13,942 6,088
Staff meeting 5,497 3,569
Data processing equipment 18,324 15,191
Office supplies 9,186 9,430
Reproduction of forms 8,079 4,717
Postage 7,487 9,085
Rent 81,726 81,867
Telephone/telecom 41,693 40,582
Equipment repairs and maintenance 16,200 16,342
Furniture/office machines 2,273 1,954
Professional services 32,756 42,027
Program information 203,721 391,840
Agricultural marketing services fees 237,396 232,683
Automobile 18,918 24,000
Depreciation 468,884 463,577
Miscellaneous 8,481 3,218

Total expenses 75,967,790 79,312,354

Program amounts:
Research and promotion program requests: Cotton research and promotion expenditures 3,906,340
Total expenses and research and promotion program requests 79,866,120 83,497,675
Change in net assets (3,799,966) (5,054,884)
Net assets, beginning of year 94,148,373 99,203,257
Net assets, end of year $90,348,407 $94,148,373

COTTON BOARD EXPENDITURES

Program Administration & Evaluation 4.5%
Research & Promotion Programs (Cotton Inc) 95%
USDA 0.5%

COTTON INCORPORATED RESEARCH & PROMOTION EXPENDITURES

Strategy & Metrics 41.0%
Consumer Marketing 22.5%
Global Supply Chain 15.0%
Ag Research 13.5%
Research & Development 7.0%
Administration 1.0%
GUIDING THE PROGRAM

One of The Cotton Board’s most essential functions is the ongoing strategic direction of the Cotton Research and Promotion Program.

Each year, following its March session, The Cotton Board submits to Cotton Incorporated its estimated level of funding for the coming year as well as recommendations related to the direction of future research and promotion projects. The estimated level of funding for Program Year 2017 was 70 million dollars.

TOP LINE RECOMMENDATIONS FOR PROGRAM YEAR 2017
(Approved March 2016)

1. Prioritize for market share impact. Prioritize activities that will have the greatest immediate positive impact on market share for cotton and cotton products, even if other, longer-term projects must be de-emphasized. Leverage relationships and partnerships to maximize cotton demand, funding levels, and other resources.

2. Provide a strong focus on communicating a more effective case for cotton with emphasis on social media and public relations. Aspects of this industry-wide communication effort should include:
   • Promoting a meaningful, coordinated, and aggressive sustainability program – (sell the advantage of cotton throughout the supply chain);
   • Aggressively pursuing comparisons between cotton and synthetic fibers;
   • Exploring broader uses of the Seal of Cotton, in blends and otherwise, in order to better leverage consumers’ preferences for cotton.

3. Find additional markets for cotton. Prioritize efforts to develop new market opportunities, including introduction of cotton blends into primarily synthetic products and developing innovative, non-traditional uses for cotton products on a priority basis.
COTTON RESEARCH AND PROMOTION PROGRAM TURNS FIFTY

2016 marked the fiftieth year of the Cotton Research and Promotion Program (the Program). The vision and dedication of cotton industry leaders in the 1950s and 1960s enabled cotton farmers to organize and collectively fight to regain market share that had been lost to synthetic fibers. Their efforts led to the enactment of the Cotton Research and Promotion Act of 1966 and the creation of an effective public/private partnership that gave the cotton industry a second life. Through Cotton Incorporated, the Program continues to advance the economic interests of the cotton industry. At the farm level, the Program is dedicated to agricultural research aimed at helping upland cotton producers increase yields and improve profitability. At the fiber level, the Program is working to increase the demand for cotton and cotton products worldwide through fabric innovations and marketing campaigns that open new doors for cotton and its products, making cotton the “fabric of our lives.”

To celebrate the fiftieth year of the Program, The Cotton Board created the “Cotton’s Next 50” logo to show that the Program continues to look to the future. The Cotton Board also celebrated its fiftieth year by holding their annual March Board of Directors meeting in Memphis, Tennessee, the location of The Cotton Board’s headquarters.

COOLER IN COTTON CONSUMER PROMOTION

During the summer of 2016 Cotton Incorporated’s Consumer Marketing Division launched a new consumer-directed digital music video that included messaging about beating the summer heat by wearing more cotton. The video promotes cotton’s functional benefits over synthetics, while reminding consumers why checking the fiber content label matters. The catchy lyrics includes lines like “You want to wear more, wash less, smell good, impress - at work, on a date, Summer will be great with cotton.” The online music video targets both women and men and has been supported by social media, paid media, PR, and influencer outreach. Cotton Incorporated has also provided consumers a way to shop the looks featured in the video.

REAL-TIME, REPUTABLE INFORMATION FOR THE COTTON GROWING COMMUNITY

Cotton Incorporated is dedicated to providing valuable tools and resources to cotton growers as part of an overall commitment to improving the profitability of growing cotton. To help achieve that goal, a joint-effort resource has been created by Cotton Incorporated and the Plant Management Network (PMN). The result of this partnership is a suite of Focus on Cotton webcasts that gives real-time access to scientific information that can be used in the field. Focus on Cotton features frequently updated webcasts from noted experts in the cotton industry covering topics such as agronomic practices, crop protection from insects and weeds, disease control, and ag engineering. These webcasts provide growers and crop consultants in the cotton growing community the opportunity to access the best, research-driven management practices.
Cotton Board Asks Industry To “Renew Your Faith in Cotton’

In early 2016, The Cotton Board launched a new campaign directed at producers with the hopes of giving them the confidence needed to renew their faith in cotton.

The campaign launched at a time when cotton was entering into new territory, a time when prices were low and market share was declining. The Cotton Research and Promotion Program (the Program) has a positive story to tell, and a legacy to back it up, but couldn’t get bogged down in the past. So, the new campaign elicited a forward looking rally-cry for the cotton industry, letting the cotton-growing community know that the Program was pressing on and the possibilities are limitless.

The campaign tells the story of research and promotion being done by Cotton Incorporated and introduces the cotton industry to exciting projects, such as innovations in cottonseed for food production and breakthroughs in fiber technology.

The campaign is being executed through a variety of channels, including print advertising, radio features, and digital platforms.

Cotton’s future is renewable. Cotton prices have risen and fallen many times, but the demand for this natural, sustainable resource always returns with new possibilities and advances from research and promotion.

The Program continues to cultivate new markets and applications for cotton on behalf of today’s producers and importers, and for the generations that follow. And while downturns in cotton prices make headlines, new markets and innovations for cotton have the potential to make even more history.

The possibilities for cotton are limitless. And together, through the Program, cotton producers and importers are funding cutting edge scientific research, award-winning advertising campaigns, and state of the art manufacturing techniques to help this trusted, reliable crop find new markets for generations to come.
### 2017 COTTON BOARD ROSTER

<table>
<thead>
<tr>
<th>State</th>
<th>Member</th>
<th>Alternate</th>
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<tbody>
<tr>
<td>AL</td>
<td>Walter L. Corcoran, Jr.</td>
<td>Timothy J. Mullek</td>
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<tr>
<td>AZ</td>
<td>Adam S. Hatley</td>
<td>William B. Harrison</td>
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<td>AR</td>
<td>Marty E. White</td>
<td>Richard B. Bransford</td>
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<tr>
<td>CA/NV</td>
<td>Aaron A. Barcellos</td>
<td>Dustin J. Mancebo</td>
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<td>FL</td>
<td>David J. DeFelix</td>
<td>Alan J. Edwards</td>
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<tr>
<td>GA</td>
<td>G. “Teel” Warbington</td>
<td>Darren J. Hembree</td>
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<td>GA</td>
<td>James L. Webb</td>
<td>Benjamin R. Grimsley</td>
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<td>Benjamin O. Boyd</td>
<td>Jaclyn Dixon Ford</td>
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<td>KS</td>
<td>Suzanne R. Drouhard</td>
<td>Thomas L. Lohey</td>
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<td>LA</td>
<td>George G. LaCour, Jr.</td>
<td>Donna B. Winters</td>
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<td>MS</td>
<td>James C. Robertson, Jr.</td>
<td>Patrick L. Johnson, Jr.</td>
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<td>Kim M. Mayberry-Holfi</td>
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<td>NM</td>
<td>Alisa Ogden</td>
<td>Nathan H. Jurva</td>
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<td>David M. Dunlow</td>
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<td>Mark Nichols</td>
<td>Clint D. Abernathy</td>
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<td>SC</td>
<td>F. “Rusty” G. Darby, Jr.</td>
<td>Don B. Wakefield</td>
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<td>TN/KY</td>
<td>Willie L. German, Jr.</td>
<td>Catherine S. Via</td>
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<td>Bryan K. Patterson</td>
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<td>M. Dean Draughn, Jr.</td>
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<td>Marshal Cohen</td>
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<td>TX</td>
<td>Haywood E. Harrell</td>
<td>Karen E. Kyllo</td>
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### 2017 COTTON BOARD EXECUTIVE COMMITTEE

- Janet Ydavoy - Chairman
- George LaCour Jr. - Vice Chairman
- Peter McGrath - Secretary
- Jeff Posey - Treasurer
- Aaron Barcellos - Immediate Past-Chair
- Willie German - Chair, Governance
- Matt Farmer - Chair, Operations
- Mark Nichols - Chair, Strategic Assessment
- Sonja Chapman - At Large Member
- Jack Mathews - At Large Member