Parker Ranch

Est 1847

2005 ANNUAL REPORT

PROUDLY SUPPORTING OUR BENEFICIARIES

North Hawaii Community Hospital

Parker School Trust Corporation

Hawaii Preparatory Academy

Hawai'i Community Foundation

OUR VISION

Parker Ranch Foundation Trust will meet its social responsibilities and achieve financial goals to provide for beneficiary and community expectations. We will be recognized for our leadership in:

- The community
- Land stewardship
- Resource management
- Industries with which we do business while providing opportunities for employees and the community to grow and develop.

MISSION STATEMENT

To maintain and improve a unique quality of life in the Kamuela area by providing perpetual support for designated beneficiaries engaged in healthcare, education and charitable support, through the sound management and prudent investment of Trust assets.

CORE VALUES

Parker Ranch Foundation Trust will:

- Honor, preserve and enhance the Ranch heritage of the community and its special quality of life
- Conduct all activities with integrity and responsibility
- Value all employees, whose skills and dedication make them important resources
- Produce quality goods and services to maintain a strong economic base and industry leadership.

OBJECTIVES

The Parker Ranch Foundation Trust is guided by four primary objectives

- to protect and improve the value of Trust assets,
- to understand and respond to changing beneficiary expectations,
- to balance the financial objectives of the Trust with our social responsibilities to the community of Kamuela,
- to communicate with employees, beneficiaries, and the community so as to foster an awareness and understanding of the plans and goals of the Trust.

COVER PHOTO: MICHAL C. McCLURE

ALOHA,

September 2006

In many ways, 2005 was a truly historic year for Parker Ranch. It was the first year in recent Ranch history where our support activities netted a positive financial contribution. This milestone proves our sustainable business model is achievable and it will serve as a baseline for continued improvement in succeeding years.

The strategic planning process, initiated in late 2004, equipped us with solid guidance on actions necessary for financial health, asset diversification, investment planning, streamlining of operations, and land planning. These, along with other matters, formed the framework for the continuum of strategic planning initiatives actively discussed with the beneficiaries in many sessions throughout 2005.

During the year, the Parker Ranch Shopping Center was sold; an investment portfolio was established with professional oversight; a land planning process was commenced to begin a rational diversification of our assets; and the corporate operating model was streamlined and adapted to changing business needs.

This year also marked the completion of the trustee transition process. We bid aloha and thanks to Trustee Mel Hewett and welcomed the skills and experience of new Trustee Tim Johns.

Amidst all this progress, the most significant event to occur in 2005 was the declaration of about $8.2 million in distributions of land and cash to our four beneficiaries – North Hawaii Community Hospital, Parker School Trust Corporation, Hawaii Preparatory Academy, and the Richard Smart Fund, administered by the Hawaii Community Foundation. These notable distributions will go a long way in assisting these organizations in meeting their strategic goals and will benefit the greater Waimea community in many ways for years to come.

Under the continued leadership of President and CEO Chris Kanazawa, communications continued at a strong pace with beneficiaries, employees, retirees, and the community. These sessions were invaluable in gathering ideas for the future direction of the Ranch; to share views on Waimea's future; to discuss diversification alternatives for the lands; and to reinforce the values that make the Waimea community so special.

We are certainly excited about the Ranch's progress and hope that all share the great sense of accomplishment of the Parker Ranch team in 2005.

We thank the many beneficiary representatives, community members, government officials, and our dedicated team of employees for their support, counsel, caring and appreciation. We encourage your continued participation with Parker Ranch as we move ahead together.

Warren H. Haruki	Timothy E. Johns	John B. Ray
Trustee, Chair	Trustee	Trustee

Mel Hewett, one of the original Trustees selected by Richard Smart, closed his chapter at Parker Ranch on December 30, 2005, retiring after 14 years as Trustee.

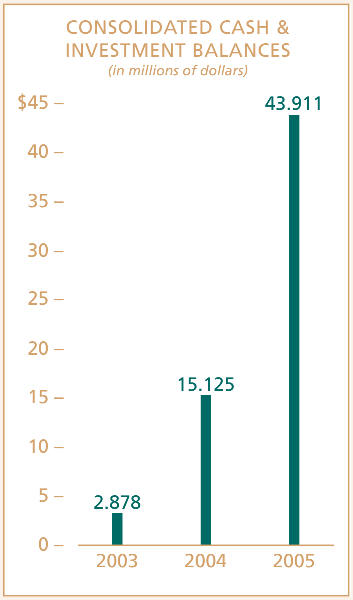
"Richard's vision for Waimea, a community he truly loved, is what drew me to him. His incredible legacy, his gift through the Parker Ranch Foundation Trust that benefits the Waimea community directly, is unparalleled and really got my attention. I wanted to be a part of that vision," Mel recalled when announcing his retirement.

Mel also served on the board of North Hawaii Community Hospital, was a trustee of the Parker School Trust, and a member of the Board of Governors of Hawaii Preparatory Academy.

The Parker Ranch Ohana

On behalf of the entire Parker Ranch ohana, we are pleased to share the 2005 financial results. The following accomplishments reflect the successful achievement of key objectives and position the Ranch for long-term growth.

- Improved liquidity
- Increased profitability of support activities
- Update and refresh the Parker Ranch strategic plan

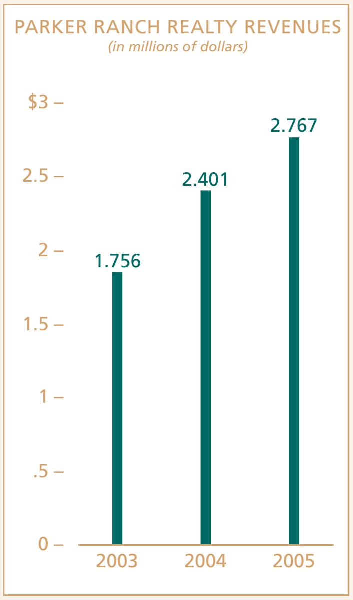


IMPROVED LIQUIDITY

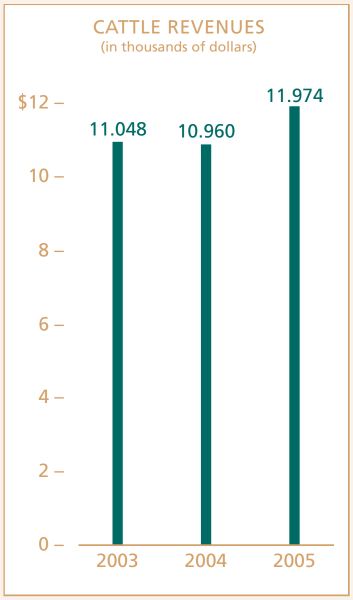
As Parker Ranch continues its asset diversification program, its liquidity has begun to improve significantly. The $31.3 million sale of Parker Ranch Center in December was the primary contributor to the growth of our liquid assets during the year. Total cash, cash equivalents and marketable debt securities at December 31, 2005 were approximately $43.9 million. This compares favorably to the comparable 2004 balances of $15.1 million and represents a year-over-year increase of 190 percent. The strengthening of our liquidity also enabled Parker Ranch to pay approximately $1.5 million of debt, reducing the outstanding debt to approximately $26.0 million.

INCREASED PROFITABILITY OF SUPPORT ACTIVITIES

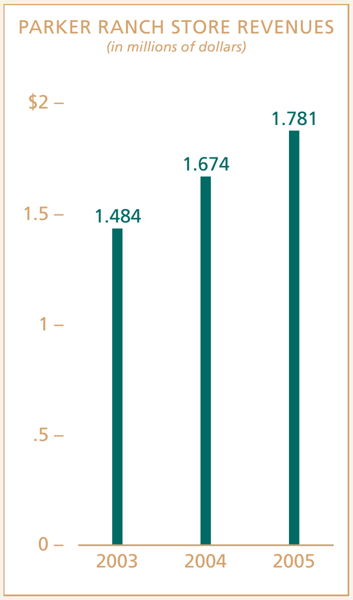
All support activities experienced an increase in profitability from a year ago. Cattle activities generated approximately $12.0 million in revenues in 2005, which compared favorably to revenues of approximately $11.0 million in 2004. Cattle activities in 2005 also benefited from reduced costs, noting the 2005 cost of cattle sales of approximately $9.1 million was a reduction from the 2004 cost of cattle sales of approximately $9.5 million. Revenues from Property activities of approximately $3.8 million, Parker Ranch Realty of approximately $2.8 million, and Visitor activities of approximately $2.3 million all represented increases from the prior year and contributed favorably to the change in net assets.



Parker Ranch increased its net assets as a result of these diversified support activities in 2005 by approximately $247,000, which compared favorably to the prior year decrease in net assets of approximately $3.9 million from these activities. Net assets in 2005 were approximately $292 million, as compared to net assets of approximately $316 million in 2004. This reduction in net assets was primarily due to a write down of real estate assets of $13.8 million, distributions to beneficiaries of approximately $8.2 million and the loss on sales of land and improvements of approximately $2.3 million.



Our cattle continue to achieve premiums in excess of commodity market prices through our participation in the Oregon Country Beef Program and membership in the Ranchers Renaissance Cooperative, Inc. Parker Ranch Realty has continued to increase its volume of real estate transactions, with more than 95 percent of its transactions involving real estate other than that owned by Parker Ranch. The Property Division has increased its commercial and industrial leasing and licensing activities in 2005. The Parker Ranch Store has continued its trend of increased revenues in 2005, contributing to the growth of the Visitor Division.



UPDATE AND REFRESH THE STRATEGIC PLAN

In 2005, Parker Ranch initiated a comprehensive review of its strategic plan to update and refresh its vision statement and the underlying strategic principles. A planning team was enlisted with specific expertise relevant to the issues facing Parker Ranch. This team engaged the trustees, directors, management and beneficiaries of Parker Ranch in a renewed strategic planning effort, addressing both the current and long-term goals and objectives for the Ranch and its stakeholders.

Through this process, an underlying theme of stewardship has emerged that will provide guidance for the formulation of strategic principles and implementation plans. This theme of stewardship requires us to carefully consider how we manage our land holdings, natural resources and support activities; achieve an economic premium for our assets; enhance the superior Parker Ranch brand; and provide leadership in encouraging our stakeholders to support this theme of stewardship. In the coming year, we will complete this strategic plan and embark on a course of action to achieve our shared vision.

With a positive outlook for 2006, our Parker Ranch ohana is excited about the prospects of the future. We intend to continue improving the liquidity of the organization through an asset diversification plan. We are also well positioned in our various support activities and expect to continue improving the profitability of these activities. Our employees remain committed to our objectives. Finally, we thank the beneficiary organizations for their ongoing support and participation as we lead Parker Ranch into the next century.

Chris J. Kanazawa

Chris J. Kanazawa
PRESIDENT/CEO

NORTH HAWAII COMMUNITY HOSPITAL

North Hawaii Community Hospital (NHCH) in Waimea is a full-service, acute-care hospital that is licensed for 50 beds. Governed by a local board of directors, NHCH has a management agreement with Adventist Health of Roseville, California. Opened in May 1996, NHCH serves the 30,000 plus residents and visitors of the northern region of the Big Island. Offering a full spectrum of acute and outpatient services, NHCH delivers high-quality care on a consistent basis. With the Harry & Jeanette Weinberg Patient Care and Imaging Pavilions, NHCH has the most modern technology available today. This is combined with a mission of caring for the whole person and a commitment to honoring blended-care practices and procedures. The Waimea Women's Center, a division of the hospital, offers complete healthcare to women of all ages. New to the hospital is the Hawaii Heart Brain Center of NHCH bringing high-quality cardio and neurovascular care to the service area. NHCH is a grateful recipient of support from the Parker Ranch Foundation Trust.

PARKER SCHOOL TRUST CORPORATION

The Parker School Trust was established by Richard Smart in 1978 to provide for private education in North Hawaii. During Mr. Smart's lifetime Parker School developed both secondary and adult educational programs. The Trust supports Parker School's community based board of directors and supports and administers Waimea Community Education, the adult education program.

Parker School is an independent, college-preparatory day school serving students in grades 1-12. Located in the heart of Waimea, Parker strives for personal excellence in the classroom and on the athletic field. Students enjoy small class sizes in a "family atmosphere." Parker integrates community service and physical challenges into its curriculum and focuses on developing personal character, teaching values, and providing an awareness of the world.

Waimea Community Education (formerly known as the Parker School Continuing Education Program) offers over 25 adult education classes each year serving more than 500 adults in Waimea and North Hawaii.

HAWAII PREPARATORY ACADEMY

Founded in 1949, Hawaii Preparatory Academy (HPA) is one of the premier independent college preparatory boarding and day schools in the Pacific Region attracting students from around the world. The school offers a full range of academic and extracurricular opportunities for more than 600 students in grades K-12 on two campuses in the heart of the world-famous Parker Ranch on the Big Island of Hawaii.

Students pursue an ambitious, well-rounded course of studies in small classes taught by a dedicated, highly professional faculty using the latest in educational technology. The challenging academic curriculum takes advantage of Hawaii's geographic and social setting to give students a strong sense of Hawaii and its culture. The marine science program, in collaboration with NOAA, National Marine Fisheries Service, offers unrivaled encounters with the island's remarkable ocean environment. Partnerships with high-tech neighbors near and far such as the W.M. Keck Observatory, Canada-France Hawaii Telescope Corporation, and the Office of Naval Research enable participation in real-world, cutting-edge projects. The academic curriculum is complemented by strong programs in the visual and performing arts and a comprehensive athletic program that stresses participation and sportsmanship.

HPA is accredited by the Western Association of Schools and Colleges and is a member of the Hawaii Association of Independent Schools.

HAWAII COMMUNITY FOUNDATION

The Richard Smart Fund is a component of the Hawaii Community Foundation, a statewide charitable services and grant-making institution endowed with contributions from many donors. The Richard Smart Fund is supported by income from the Parker Ranch Foundation Trust and was created to support health care, educational and charitable purposes that improve the general welfare and quality of life for the people of the Kamuela area.

The fund currently supports projects that increase the capacity of the community and nonprofit organizations in the Waimea area through the Mo' Bettah Together and Organizational Capacity Building grant programs. Mo' Bettah Together focuses on increasing a community's social networks to create and implement solutions for meaningful community change. Organizational Capacity Building is intended to enhance a nonprofit's ability to achieve its mission by improving the management or governance of the organization.

BENEFICIARY DISTRIBUTIONS

Parker Ranch Foundation Trust, through its Distribution Committee, has cumulatively declared a total of $12,251,585 in cash and land through 2005 to its beneficiaries.

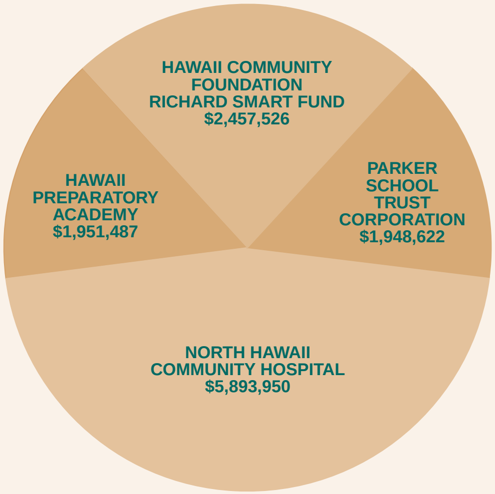
Distributions declared in 2005 for allocation to the four beneficiary organizations was as follows:

- $3,948,000 in land and cash to North Hawaii Community Hospital
- $1,645,000 in cash to the Richard Smart Fund of the Hawaii Community Foundation
- $1,316,000 in land to Hawaii Preparatory Academy
- $1,316,000 in land and cash to Parker School Trust Corporation

In addition to the distribution announcement, Trustees elected to pay the entire cash portion of the distribution in 2006 rather than over a previously planned five-year period. This is a direct result of Parker Ranch Foundation Trust's success in dramatically improving its liquidity.

Cumulative distributions now total $5,893,950 for North Hawaii Community Hospital, $2,457,526 for the Richard Smart Fund of the Hawaii Community Foundation, $1,951,487 for Hawaii Preparatory Academy and $1,948,622 for Parker School Trust Corporation.

Applicable Year	Year Paid	Amount
1996	1998	$ 250,000
1997	1999	$ 275,000
1998	2000	$ 300,000
1999	2000	$ 325,000
2000	2001	$ 850,000
2000	2002	$ 350,000
2000	2003	$1,301,585
2001	2003	$ 375,000
2005	2006	$8,225,000



CUMULATIVE TOTAL
$12,251,585

Consolidated Financial Statements

December 31, 2005

(With Independent Auditors' Report Thereon)

TO THE TRUSTEES OF PARKER RANCH FOUNDATION TRUST:

We have audited the accompanying consolidated statement of financial position of Parker Ranch Foundation Trust and subsidiaries (the Organization) as of December 31, 2005, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parker Ranch Foundation Trust and subsidiaries as of December 31, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 16, 2006

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statement of Financial Position
December 31, 2005

Assets

Cash and cash equivalents	$ 33,678,778
Marketable debt securities	10,232,644
Accounts receivable, net of allowances of $456,000	1,380,820
Notes receivable	516,507
Land held for sale or distribution	34,367,247
Real estate inventory	9,953,445
Cattle inventory	9,002,355
Property and equipment, net	244,870,815
Deferred income taxes	500,000
Other assets	1,251,124
Total assets	$ 345,753,735

Liabilities and Net Assets

Notes payable	$ 25,980,420
Accounts payable and accrued expenses	4,871,028
Accrued distributions	8,225,000
Due to joint venture partner	6,100,602
Capital lease obligations	794,116
Accrued franchise taxes	600,000
Postretirement benefits payable	4,005,239
Postemployment benefits payable	1,052,371
Reserve for land remediation	400,000
Total liabilities	52,028,776
Noncontrolling interest in joint venture	1,626,165
Net assets – unrestricted	292,098,794
Commitments and contingencies	
Total liabilities and net assets	$ 345,753,735

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statement of Activities
Year ended December 31, 2005

Revenues:	
Cattle sales	$ 11,974,377
Rental income	3,169,763
Real estate commissions	2,767,290
Visitor attractions	2,328,433
Timber and aggregate sales	662,740
Investment income	334,540
Other	1,080,435
Total revenues	22,317,578
Costs and expenses:	
Cost of cattle sales	9,118,491
Interest	2,198,640
Real estate commissions expense	2,119,967
Cost of visitor attractions	857,223
Operating costs	5,838,315
General and administrative	1,083,562
Depreciation and amortization	854,371
Total costs and expenses	22,070,569
	247,009
Writedowns on real estate	(13,800,000)
Distributions to beneficiaries	(8,225,000)
Loss on sales of land and improvements	(2,342,029)
Noncontrolling interest in joint venture	46,601
Change in net assets	(24,073,419)
Net assets, beginning of year	316,172,213
Net assets, end of year	$ 292,098,794

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statement of Cash Flows
Year ended December 31, 2005

Cash flows from operating activities:	
Change in net assets	$ (24,073,419)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Writedowns on real estate	13,800,000
Loss on sales of land and improvements	2,342,029
Depreciation and amortization	854,371
Deferred income tax benefit	(500,000)
Amortization of premiums on marketable debt securities	181,191
Losses on marketable debt securities	39,930
Forgiveness and loss on notes receivable	47,048
Noncontrolling interest in joint venture	(46,601)
Loss on disposal of property and equipment	36,591
Changes in assets and liabilities:	
Accounts receivable	(548,533)
Real estate inventory	(3,463,037)
Cattle inventory	101,422
Other assets	(333,474)
Accounts payable and accrued expenses	339,909
Accrued distributions	8,225,000
Due to joint venture partner	3,566,788
Accrued franchise taxes	(181,000)
Postretirement benefits payable	134,072
Postemployment benefits payable	(388,995)
Reserve for land remediation	(100,000)
Net cash provided by operating activities	33,292
Cash flows from investing activities:	
Net proceeds from sales of land and improvements	32,655,336
Capital expenditures	(1,836,243)
Purchases of marketable debt securities	(12,239,576)
Proceeds from maturities of marketable debt securities	9,968,779
Issuance of notes receivable	(55,487)
Repayments on notes receivable	17,110
Investments	37,421
Net cash provided by investing activities	28,547,340
Cash flows from financing activities:	
Payments on notes payable	(1,469,541)
Payments on capital lease obligations	(178,505)
Net cash used in financing activities	(1,648,046)
Net increase in cash and cash equivalents	26,932,586
Cash and cash equivalents, beginning of year	6,746,192
Cash and cash equivalents, end of year	$ 33,678,778
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 2,201,723
Supplemental disclosure of noncash information:	
Accrual of costs primarily related to land held for sale	$ 1,553,571
Net transfer of costs from breeding herd to cattle inventory	812,973
Relief of other assets related to sale of shopping center	228,169
Relief of accrued liabilities related to sale of shopping center	170,155

See accompanying notes to consolidated financial statements.

(1) Summary of Operations and Significant Accounting Policies

(a) Description of Organization

The Organization was formed on September 10, 1992, and is comprised of Parker Ranch Foundation Trust (the Trust), Richard Smart Irrevocable Trust (RST), and all wholly owned subsidiaries (collectively, the Organization), which include Parker Ranch, Inc. (PRI) and Parker Ranch Center LLC (PRC). PRC was formed to hold and operate the Parker Ranch Center, which was sold in December 2005 (see note 5).

PRI, a Hawaii corporation, was incorporated on February 8, 1995 to own and operate the Organization's cattle ranching, real estate, and tourism activities and holds the beneficial interest of the Parker Land Trust. PRI's wholly owned subsidiaries include Waimea Wastewater Company, Inc. (WWC), Parker Ranch Realty, Inc. (PRR), Parker Ranch Livestock LLC (PRL), PRI GP LLC (PRI GP), PRI LP LLC (PRI LP), and Hawaii Meat Company LLC (HMC). PRI also consolidates its interest in Kaomalo LLC (Kaomalo), a real estate development joint venture. WWC was formed to operate the assets of a wastewater treatment and collector system and PRR was incorporated to provide real estate brokerage services for the Organization and third parties. PRI GP and PRI LP are the general and limited partners in PRI Cattle LP (PRI Cattle), which was a partnership formed and capitalized in 2005 to hold and operate PRI's off-ranch cattle operations. PRL was formed to hold ownership interests in Champion Feeders Cattle Co., LLC and Champion Feeders, LLC (together, Champion Feeders), cattle and feed yard operations located in Texas. HMC holds a land lease formerly held by a liquidated subsidiary.

The Trust is a not-for-profit entity that has been recognized by the Internal Revenue Service (IRS) as exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and exempt under Hawaii Revised Statutes on income related to the exempt purpose. The Trust's primary objective is to support certain healthcare, educational, and charitable organizations in Waimea, Hawaii. The original trust principal was contributed from RST, as determined by the Last Will and Testament of Richard Smart (the Will). The beneficiaries of the Trust (the Beneficiaries) include the following organizations:

North Hawaii Community Hospital, Inc. (NHCH)
Richard Smart Fund, a component of the Hawaii Community Foundation (Smart Fund)
Hawaii Preparatory Academy (HPA)
Parker School Trust Corporation (PSTC)

The Trustees, based on recommendations from a Distribution Committee (the Committee), determine distributions from the Trust. The six member Committee reviews the programs, purposes, and financial needs of the Beneficiaries in order to make recommendations to the Trustees regarding distributions of principal, accumulation of net income, and reallocation of the distribution of net income. Recommendations are made based on a simple majority, except if the recommendation relates to the reallocation of the distribution of net income, which requires a vote of five of the six Committee members. The Committee is comprised of three members appointed by the Trustees and three members appointed by the Beneficiaries.

Net income, exclusive of principal transactions, is to be distributed at least annually to the Beneficiaries, as follows:

NHCH	48%
Smart Fund	20
HPA	16
PSTC	16
	100%

To the extent net income is unavailable for distribution, the Trustees, in consultation with the Committee, may distribute to any beneficiary up to 5% of that portion of the principal of the Trust normally allocable to that beneficiary under the proportions indicated above. Such a distribution results in a reduction of the portion of the Trust principal allocable to that beneficiary. Whenever the Trustees make a distribution of principal, the Trustees may accumulate net income normally distributable to the beneficiary who received a principal distribution, until such time as the distributed principal has been restored. As of December 31, 2005, cumulative authorized distributions to Beneficiaries were approximately $12,252,000.

Except for the finishing and marketing of cattle on the U.S. Mainland, substantially all of the Organization's assets and operations are located on the Big Island of Hawaii. Accordingly, the Organization's operations are dependent on the economic and climatic conditions of the Big Island of Hawaii and subject to the inherent risks of agricultural commodities. The majority of the Organization's assets are real estate holdings, which will be used for ranch operations, developed for commercial use, or marketed to diversify the Organization's holdings. The Organization's ability to realize its assets and generate cash flows adequate to meet its operating and debt service requirements are dependent upon, among other things, the sale of certain parcels of land at sufficient prices and at requisite times.

The Organization recognizes revenue from cattle sales at the time cattle are sold.

Real estate commissions are recognized as revenue at the point which all services have been performed by the Organization, and title to real property has passed from buyer to seller.

Profit on sales of real estate is recognized when title has passed, minimum down payment criteria are met, the terms of any note received are such as to satisfy continuing investment requirements and collectibility of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer, and there is no substantial continuing involvement with the property. If any of the aforementioned criteria are not met, profit is deferred and recognized under either the installment, cost-recovery, deposit, or percentage-of-completion method.

(b) Financial Statement Presentation

The consolidated financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not for Profit Organizations, as required by U.S. generally accepted accounting principles. SFAS No. 117 provides for three basic financial statements and the classification of resources into three separate classes of net assets – permanently restricted, temporarily restricted, and unrestricted. All assets of the Organization are classified unrestricted, as defined by SFAS No. 117, as they are generally available to be utilized for the purposes of the Will, as determined by the Trustees. The initial contribution of assets and liabilities to the Trust was recorded at fair value at November 12, 1992.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Trust, RST, and all wholly owned subsidiaries, as well as the accounts of variable interest entities required to be consolidated pursuant to Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), issued by the Financial Accounting Standards Board (FASB). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Organization is a 50% member of Kaomalo under an operating agreement to develop residential units on certain parcels of land in Waimea, Hawaii. Kaomalo ends its fiscal year on September 30 and the Organization consolidates the accounts and transactions of Kaomalo on that basis. At September 30, 2005, Kaomalo's total assets amounted to approximately $9,953,000 (which is substantially comprised of real estate inventory), total liabilities amounted to approximately $6,701,000 (which included amounts due to joint venture partner of approximately $6,101,000), and members' equity amounted to approximately $3,252,000 (which included a noncontrolling interest in joint venture of approximately $1,626,000). Net income for the year ended September 30, 2005 amounted to approximately $93,000. Despite the effects of consolidation, the creditors of Kaomalo have no recourse against the Organization.

(d) Management Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for receivables, inventories, and deferred income tax assets, land remediation liabilities, and obligations related to employee benefits. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Organization primarily maintains its operating cash in bank deposit accounts and had approximately $2,927,000 in excess of federally insured limits at December 31, 2005. The Organization has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

Cash equivalents are uninsured money market funds, government agency notes, and corporate bonds with maturities of three months or less at the time of purchase.

(f) Marketable Debt Securities

Marketable debt securities are stated at fair value, as determined by quoted market prices. Gains and losses on marketable debt securities are recorded as increases or decreases in net assets and are reflected in the accompanying consolidated statement of activities. The cost of securities sold is determined on the specific-identification method.

These investments are considered to be impaired when a decline in fair value is judged to be other than temporary. The Organization evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Organization employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, the magnitude and duration of the decline in fair value, the financial health of the issuer, and the Organization's intent and ability to hold the investment. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

(g) Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms and are carried at original invoice amount less an estimate of doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded when received.

(h) Cattle Inventory

Cattle inventory are stated at the lower of cost (first-in, first-out method) or market. Costs of raised cattle include proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the balance sheet date. Purchased cattle are carried at purchase cost plus costs of maintenance through the balance sheet date.

(i) Real Estate Inventory and Land Held for Sale or Distribution

Real estate inventory and land held for sale or distribution are stated at cost, unless such costs would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are measured at fair value, less disposal costs. The cost of real estate inventory and land held for sale or distribution includes land, land development, and home construction costs, as well as interest and real estate taxes related to property under development and construction. Direct overhead costs are capitalized during development and construction; indirect overhead costs are expensed as incurred.

Cost of real estate sales includes the specific construction costs of each home closed, land acquisition, and land development costs allocated on a prorata basis, closing costs and sales commissions, related interest and real estate taxes, and an estimate of future warranty and related costs for the homes closed.

Interest capitalized to real estate inventory was approximately $280,000 during the year ended December 31, 2005.

(j) Property and Equipment

Property and equipment are carried at cost, net of depreciation. Breeding livestock are stated at purchase costs or inventory transfer amounts equal to the lower of cost or market. The costs of normal repairs and maintenance are charged to expense as incurred.

Depreciation and amortization are provided using straight-line and accelerated methods over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Machinery, fixtures, and equipment	3 to 10 years
Breeding livestock	5 years

(k) Accounting for Long-lived Assets

The carrying values of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If the undiscounted future cash flows (without interest charges) are less than the carrying amount of an asset, an impairment loss is recognized to the extent that the asset's carrying amount exceeds its fair value. Fair value is reduced by the amount of estimated selling costs for impaired assets that are held for sale.

The estimation of future cash flows is inherently uncertain, and relies significantly upon the availability of capital and the Organization's ability to market real estate in an orderly fashion at prices equal to or exceeding the related carrying values. The future availability of capital, the timing of real estate sales, and changes in the estimates of future cash flows could impact the carrying amount of real estate assets.

(l) Other Assets

Other assets include merchandise inventories, prepaid expenses, and deposits. Merchandise inventories are stated at the lower of average cost or market.

(m) Financial Instruments

The carrying amounts of the Organization's financial instruments (i.e., cash and cash equivalents, accounts receivable, notes receivable, notes payable, accounts payable and accrued expenses due to joint venture partner, and capital lease obligations) approximate fair values because of the short maturity of these instruments, except for those related to the notes payable. As of December 31, 2005, the carrying amounts of notes payable of $25,980,420 had an estimated fair value of approximately $26,820,000. Management estimated the fair value of the notes payable using an interest rate of 7.0%.

(n) Income Taxes

Activities of the Trust are generally exempt from income taxes. Operations conducted through RST and PRI are taxable. Accordingly, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of current and deferred income taxes.

Deferred income tax assets and liabilities are computed at effective tax rates for the temporary differences between the financial statement and income tax bases of assets and liabilities in PRI. Deferred tax assets are also recognized for operating loss carryforwards and alternative minimum tax credits that are available to offset future income taxes. A valuation allowance is provided for deferred tax assets considered unrealizable.

(2) Marketable Debt Securities

The amortized cost, unrealized losses, and estimated market value of marketable debt securities at December 31, 2005 were as follows:

	Amortized cost	Unrealized losses	Estimated market value
Corporate debt securities	$ 4,480,735	(45,706)	4,435,029
U.S. government debt securities	5,815,090	(17,475)	5,797,615
Total	$ 10,295,825	(63,181)	10,232,644

Substantially all unrealized losses on the Organization's investments in corporate and U.S. government debt securities at December 31, 2005 were incurred during the year. Unrealized losses on investments in corporate bonds primarily relate to a $500,000 investment in the bonds of an issuer whose credit rating was decreased after the investment. Unrealized losses on investments in U.S. Treasury obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The Organization currently does not believe that it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the Organization has the ability and intent to hold these investments until a recovery of fair value, which may be at maturity, the Organization does not consider these investments to be other-than-temporarily impaired at December 31, 2005.

The amortized cost, unrealized losses, and estimated market value of debt securities by contractual maturity at December 31, 2005 were as follows:

	Amortized cost	Unrealized losses	Estimated market value
Due within one year	$ 7,367,901	(22,897)	7,345,004
Due after one year through two years	2,627,924	(40,242)	2,587,682
Due after five years through six years	300,000	(42)	299,958
Total	$ 10,295,825	(63,181)	10,232,644

Expected maturities may differ from contractual maturities because the issuers of certain debt securities do have the right to call or prepay their obligations without penalties.

(3) Notes Receivable

The following is a summary of notes receivable from related parties at December 31, 2005:

Principal due on interest-only subordinated notes from Champion Feeders, bearing interest of 6%, due July 2009	$ 285,539
Principal due on employee and other notes, bearing interest of 5% to 10%, secured by real property, due at various dates through November 2021	175,540
Principal due on unsecured noninterest-bearing note, due in monthly installments through May 2007	55,428
	$ 516,507

The notes receivable from employees relate to land sales and educational loans.

(4) Land Held for Sale or Distribution

Land held for sale or distribution at December 31, 2005 consists of approximately 24,000 acres of land to be sold to the U.S. government under threat of condemnation and several parcels of land to be returned to the Trust for distribution to the Trust's beneficiaries. Writedowns of approximately $13.3 million were recorded during 2005 on land held for sale, which was written down to its estimated sales price of $31.5 million and included an accrual of approximately $1.5 million of estimated costs to be incurred related to the land. Of the land parcels held for distribution, one parcel was written down by approximately $0.5 million during 2005 to reduce the Organization's carrying value to fair value.

(5) Property and Equipment, Net

During the year ended December 31, 2005, the Organization sold Parker Ranch Center for $31.5 million as a component of their overall diversification plan and as a means to capitalize on favorable market conditions. A loss on the transaction of approximately $3,478,000 was recorded during the year ended December 31, 2005. Revenues and expenses related to Parker Ranch Center amounted to approximately $2,470,000 and $2,190,000, respectively, for the year ended December 31, 2005.

Ranch land and related assets at December 31 consist of the following:

Land	$ 223,749,951
Buildings and improvements	24,222,521
Machinery, fixtures, and equipment	5,309,663
Breeding livestock	6,588,525
Water rights	2,670,000
Construction in progress	2,343,000
	264,883,660
Accumulated depreciation and amortization	(20,012,845)
	$ 244,870,815

In 2005, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately $1,512,000 were $854,371.

(6) Debt

PRI previously entered into a loan agreement with an insurance company and executed $10 million and $20 million mortgage notes bearing interest at 7.81% and 7.96%, respectively. The notes require PRI to make aggregate semiannual principal and interest payments of approximately $1,309,000. Interest rates are scheduled to be renegotiated in December 2009 and remain fixed until the maturity date of December 2014. Prepayments are subject to penalties until the interest rate renegotiation date. In addition, prepayments on the $10 million note are prohibited for the first five years. The mortgage notes are secured by $2 million of cash equivalents and approximately 94,400 acres of land, with a carrying value of approximately $131 million.

Additionally, PRI maintains a $2 million line of credit with a bank, which bears interest of 7.25% at December 31, 2005. The line is collateralized by 480 acres of land with a carrying value of approximately $3.1 million and a security interest in the furniture, fixtures, and equipment situated on the related land. There were no outstanding draws against the line at December 31, 2005.

The approximate annual principal payments on notes payable at December 31, 2005 are as follows:

Year ending December 31:	
2006	$ 588,000
2007	636,000
2008	687,000
2009	742,000
2010	802,000
Thereafter	22,525,420
	$ 25,980,420

(7) Income Taxes

Income tax benefit for the year ended December 31, 2005 consisted of the following:

	Current	Deferred	Total
Federal	$ -	425,000	425,000
State	-	75,000	75,000
	$ -	500,000	500,000

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below as of December 31, 2005:

Deferred tax assets:	
Differences in the book and tax carrying values of property and equipment, primarily resulting from writedowns of land	$ 31,375,000
Net operating loss carryforwards	14,994,000
Postemployment and postretirement benefits	2,003,000
Alternative minimum tax credit carryforwards	141,000
Other	107,000
Total gross deferred tax assets	48,620,000
Less valuation allowance	(48,120,000)
Deferred income taxes, net	$ 500,000

During the year ended December 31, 2005, PRI recorded a deferred income tax benefit of approximately $4.9 million and an offsetting valuation allowance of approximately $4.4 million, which are included in general and administrative expenses in the accompanying consolidated statement of activities.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that PRI will realize a portion of the benefits of these deductible differences. The amount of the deferred tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

PRI has approximately $37.5 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years from 2010 through 2025. PRI also has approximately $141,000 of alternative minimum tax credits for use in future years.

(8) Related-party Transactions

Richard Smart selected the original Trustees for the Trust. Successor Trustees are selected by the remaining Trustees. The Trust calls for a minimum of three Trustees and a maximum of five. The Trust currently has three Trustees who are responsible for the administration, control, and safekeeping of the Trust's assets.

In 2003, PRI entered into an agreement with a Trustee, whereby the Trustee provided real estate consulting services. PRI paid approximately $21,000 related to this agreement in 2005. This contract was terminated effective March 31, 2005.

(9) Leases

(a) Lessor

The Organization leases certain lands under operating leases expiring in various years through 2059. Approximate minimum future lease rentals to be received, excluding percentage rents and cost reimbursements, are as follows:

Year ending December 31:		
2006	$	364,000
2007		375,000
2008		375,000
2009		287,000
2010		239,000
Thereafter		1,699,000
	$	3,339,000

(b) Lessee

PRI leases pasture land, commercial space, and equipment under operating and capital leases expiring in various years through 2032. Pasture land leases expiring in 2011 provide for renegotiations of rent in 2006. Commercial leases provide for the payment of percentage rents, reimbursement of certain costs, and renewal options. Capital leases have remaining terms of up to five years.

At December 31, 2005, approximate future minimum lease payments are as follows:

	Capital	Operating
Year ending December 31:		
2006	$ 173,000	181,000
2007	170,000	179,000
2008	170,000	178,000
2009	170,000	186,000
2010	170,000	187,000
Thereafter	-	423,000
Future minimum lease payments	853,000	$ 1,334,000
Amounts representing interest at rates from 3.0% to 7.1%	(58,884)	
Present value of minimum lease payments	$ 794,116	

Accumulated amortization related to equipment held under capital leases was approximately $770,000 at December 31, 2005. The related amortization expense is included in depreciation and amortization expense in the accompanying consolidated statement of activities and was approximately $97,000 in 2005. Rent expense related to operating leases was approximately $324,000 for the year ended December 31, 2005.

(10) Benefit Plans

(a) Postretirement Benefits

The Organization provides retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2005 was computed based on management's current estimates of benefits to be paid, discounted at 5.75% and assuming healthcare costs increase 8.5% in 2006, 7.5% in 2007, 6.5% in 2008, 5.5% in 2009, and 5.0% in 2010 and thereafter.

During December 2003, the federal government enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act introduced prescription drug benefits under Medicare, as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Organization has adopted the provisions of the Act, the effects of which are included in the Organization's consolidated financial statements as of and for the year ended December 31, 2005.

The accrued liability for postretirement benefits at December 31, 2005 is as follows:

Change in benefit obligation:	
Benefit obligation at beginning of year	$ 3,871,167
Interest cost	219,551
Benefits paid	(227,049)
Actuarial loss	141,570
Benefit obligation at end of year	$ 4,005,239

Postretirement benefit expense for the year ended December 31, 2005 is as follows:

Interest cost	$ 219,551
Amortization of actuarial loss	141,570
Postretirement benefits expense	$ 361,121

At December 31, 2005, future estimated benefit payments during the next 10 years are as follows:

Year ending December 31:	
2006	$ 255,000
2007	266,000
2008	275,000
2009	272,000
2010	294,000
2011 – 2015	1,415,000
	$ 2,777,000

(b) Postemployment Benefits

PRI previously offered a voluntary separation program (the Program) to eligible employees as part of the Organization's efforts to reduce its fixed overhead cost structure. In addition to salary continuation payments that ended in 2004, the Program also offered a variety of benefits to be paid for a specified period to employees who chose to participate in the Program. The unfunded benefit obligation at December 31, 2005 was computed based on management's current estimates of undiscounted benefits to be paid, assuming healthcare costs increase annually at 13.0% and are shared equally between PRI and participants in the Program. During 2005, PRI reduced its obligation by approximately $87,000 based on the results of an actuarial analysis. Additionally, PRI paid benefits of approximately $302,000 during the year ended December 31, 2005.

(c) 401(k) Retirement Savings Plan

PRI sponsors the Parker Ranch 401(k) Retirement Savings Plan (the Plan), which covers substantially all employees. The Plan provides for PRI to make minimum annual contributions of 3% of eligible employee compensation and allows for discretionary contributions to a maximum of 15%. Eligible employees may make contributions not to exceed amounts allowable under the Internal Revenue Code. PRI made contributions of approximately $95,000 during the year ended December 31, 2005.

(11) Reserve for Land Remediation

During 2002, leasehold interests expired on lands previously used by PRI for grazing cattle. Pursuant to the conditions of the leases and related agreements, PRI may have a commitment to help control the perimeter of a noxious weed infestation on the leased lands. In order to resolve any contingencies related to PRI's responsibilities for controlling the infestation, management proposed and accrued a settlement in 2002 to be paid to the lessor over a period of several years. During 2005, PRI paid approximately $100,000 related to the control of this infestation. The reserve for land remediation amounted to $400,000 at December 31, 2005. Although negotiations with the lessor of the previously leased land are ongoing, management does not expect the outcome of these negotiations to have a material adverse effect on the Organization's financial position.

(12) Customer Concentration

To obtain premium pricing on cattle, PRI markets its cattle through a limited number of customers. Cattle sales to two customers represented approximately 77% of cattle sales and 42% of total revenues in 2005. As cattle are a commodity product, management believes alternative customers could be identified as necessary.

(13) Contingencies

In the normal course of the Organization's activities, or the conduct of PRI's operations, the Organization is subject to potential claims and litigation. Management of the Organization believes that such matters will not have a material adverse effect on the Organization's financial position.

(14) Functional Allocation of Expenses

The costs of fulfilling program requirements and supporting activities are summarized below. Expenses as reflected in the accompanying consolidated statements of activities have been allocated to the program and general and administrative activities as follows:

Supporting services:	
Livestock	$ 10,869,912
Property	3,274,842
Realty	2,610,703
Visitor	2,386,303
Other supporting services	2,928,809
	$ 22,070,569

PARKER RANCH INCORPORATED

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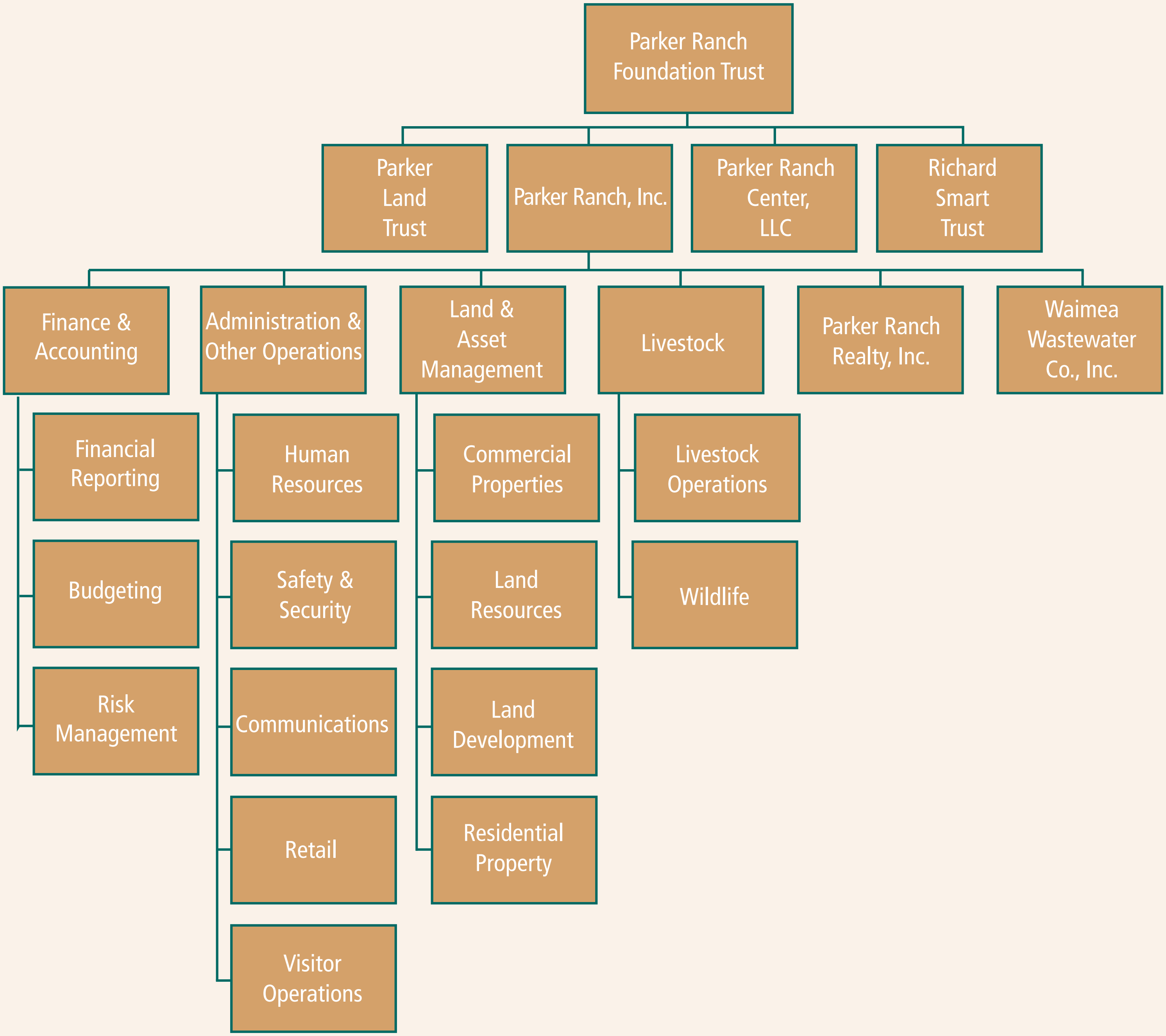
ORGANIZATIONAL CHART



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