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CHS INC  
Form 10-K/A  
November 14, 2003

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K/A-2  
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- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2002 OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER: 0-50150

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CHS INC.

(Exact name of registrant as specified in its charter)

MINNESOTA  
(State or other jurisdiction of  
incorporation or organization)

41-0251095  
(I.R.S. Employer  
Identification Number)

5500 CENEX DRIVE  
INVER GROVE HEIGHTS, MINNESOTA 55077  
(Address of principal executive office)

(651) 355-6000  
(Registrant's Telephone number,  
including area code)

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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE  
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE  
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: Not applicable

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

State the aggregate market value of the voting stock held by non-affiliates of the registrant: The registrant has no voting stock outstanding.

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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: The registrant has no common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CHS INC.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K amends the Registrant's Annual Report on Form 10-K for the fiscal year ended August 31, 2002, and is being filed solely to amend specific Items of the Annual Report for certain sales and transfers related to the Company's Grain Marketing business segment that were not properly eliminated for the fiscal years ended August 31, 2002, 2001 and 2000, as more fully explained in Note 16 to the Consolidated Financial Statements. These changes had no effect on the Company's financial condition, or changes in cash flows, and no effect on reported gross profit or net income for the periods stated above.

Items to be amended include Item 1, Item 6, Item 7, Item 8 and Item 15(a)(1). In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Registrant is including with this Amendment certain currently dated certifications in Item 15(a)(3). No other changes have been made to the Annual Report. This Form 10-K/A-2 does not modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the amendments discussed above and reflected below.

PART I.

ITEM 1. BUSINESS

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS  
OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

THE INFORMATION IN THIS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED AUGUST 31, 2002, INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 WITH RESPECT TO THE COMPANY. IN ADDITION, THE COMPANY AND ITS REPRESENTATIVES AND AGENTS MAY FROM TIME TO TIME MAKE OTHER WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION AND ITS REPORTS TO ITS MEMBERS AND SECURITYHOLDERS. WORDS AND PHRASES SUCH AS "WILL LIKELY RESULT," "ARE EXPECTED TO," "WILL CONTINUE," "IS ANTICIPATED," "ESTIMATE," "PROJECT" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS. THE COMPANY WISHES TO CAUTION READERS NOT TO PLACE UNDUE RELIANCE ON ANY FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE MADE.

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THE COMPANY'S FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, RISKS RELATED TO THE LEVEL OF COMMODITY PRICES, LOSS OF MEMBER BUSINESS, COMPETITION, CHANGES IN THE TAXATION OF COOPERATIVES, COMPLIANCE WITH LAWS AND REGULATIONS, PERCEPTIONS OF FOOD QUALITY AND SAFETY, BUSINESS INTERRUPTIONS AND CASUALTY LOSSES, ACCESS TO EQUITY CAPITAL, CONSOLIDATION OF PRODUCERS AND CUSTOMERS, FLUCTUATIONS IN PRICES FOR CRUDE OIL AND REFINED PETROLEUM PRODUCTS, ALTERNATIVE ENERGY SOURCES, THE PERFORMANCE OF OUR AGRONOMY BUSINESS AND JOINT VENTURES. THESE RISKS AND UNCERTAINTIES ARE FURTHER DESCRIBED IN EXHIBIT 99.1 TO THIS ANNUAL REPORT ON FORM 10-K, AND OTHER RISKS OR UNCERTAINTIES MAY BE DESCRIBED FROM TIME TO TIME IN THE COMPANY'S FUTURE FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

THE COMPANY UNDERTAKES NO OBLIGATION TO REVISE ANY FORWARD-LOOKING STATEMENTS TO REFLECT FUTURE EVENTS OR CIRCUMSTANCES.

### THE COMPANY

Effective August 5, 2003, Cenex Harvest States Cooperatives changed its name to CHS, Inc. CHS Inc. (CHS, Cenex Harvest States Cooperatives, CHS Cooperatives or the Company) is one of the nation's leading integrated agricultural companies. As a cooperative, the Company is owned by farmers and ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. CHS Cooperatives buys commodities from and provides products and services to its members and other customers. The Company provides a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of the Company's operations are conducted through equity investments and joint ventures whose operating results are not consolidated with the Company's results; rather, a proportionate share of the income from those entities is included as a component in the Company's net income under the equity method of accounting. For the fiscal year ended August 31, 2002, the Company's total revenues were \$7.3 billion.

The Company's operations are organized into five business segments: Agronomy, Energy, Country Operations, Grain Marketing and Processed Grains and Foods. Together these business segments create vertical integration to link producers with consumers. The first two segments, Agronomy and Energy, produce and provide for the wholesale distribution of inputs that are essential for crop production. The third segment, Country Operations, serves as the Company-owned retailer of a portion of these crop inputs and also serves as the first handler of a significant portion of the crops marketed and processed by the Company. The fourth segment, Grain Marketing, purchases and resells grains and oilseeds originated by the Country Operations segment, by member cooperatives and by third parties. The fifth business segment, Processed Grains and Foods, converts grains and oilseeds into value-added products.

Only producers of agricultural products and associations of producers of agricultural products may be members of CHS Cooperatives. The Company's earnings are allocated to members based on the

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volume of business they do with the Company. Members receive earnings in the form of patronage refunds in cash and patron's equities, which may be redeemed over time.

The origins of CHS Cooperatives date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. Cenex Harvest States Cooperatives, now headquartered in Inver Grove Heights, Minnesota, emerged as the result of the merger of the two entities in 1998.

The international sales information and segment information in Notes 2 and 11 to the financial statements are incorporated by reference into the following business segment descriptions.

The business segment financial information presented below does not represent the results that would have been obtained had the relevant business segment been operated as an independent business.

### AGRONOMY

#### OVERVIEW

Through the Agronomy business segment, the Company is engaged in the manufacture of crop nutrients and the wholesale distribution of crop nutrients and crop protection products. The Company conducts its agronomy operations primarily through two investments -- a 20% cooperative ownership interest in CF Industries, Inc. (CF Industries) and, effective January 2000, a 25% ownership interest in Agriliance, LLC (Agriliance). CF Industries manufactures crop nutrient products, particularly nitrogen and phosphate fertilizers, and is one of the largest suppliers to Agriliance. Agriliance is one of North America's largest wholesale distributors of crop nutrients, crop protection products and other agronomy products.

There is significant seasonality in the sale of crop nutrients and crop protection products and services, with peak activity coinciding with the planting and input seasons.

The Company's minority ownership interests in CF Industries and Agriliance are treated as investments, and therefore, those entities' revenues and expenses are not reflected in the Company's operating results. Each of CF Industries and Agriliance has its own line of financing, without recourse to the Company.

#### OPERATIONS

CF INDUSTRIES. CF Industries is an interregional agricultural cooperative involved in the manufacturing of crop nutrient products. It is one of North America's largest producers of nitrogen and phosphate fertilizers. Through its members, CF Industries' nitrogen and phosphate fertilizer products reach farmers and ranchers in 48 states and two Canadian provinces. CF Industries conducts its operations primarily from the following facilities:

- o a nitrogen manufacturing and processing facility at Donaldsonville, Louisiana;
- o a phosphate mine and phosphate fertilizer plant in central Florida; and
- o a 66% ownership interest in a nitrogen fertilizer manufacturing and processing facility in Alberta, Canada.

AGRILIANCE. Agriliance is the one of the nation's largest wholesale distributors of crop nutrients (fertilizers) and crop protection products

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(insecticides, fungicides and pesticides), accounting for an estimated 30% of the U.S. market for crop nutrients and approximately 25% of the U.S. market for crop protection products. As a wholesale distributor, Agriliance has warehouse, distribution and service facilities located throughout the country. Agriliance also owns and operates retail agricultural units in the southeastern United States. Agriliance purchases most of its fertilizer from CF Industries and Farmland Industries, Inc. (Farmland) and its crop protection products from Monsanto and Sygenta.

Agriliance was formed in 2000 when CHS Cooperatives, Farmland and Land O'Lakes, Inc. (Land O'Lakes) contributed their respective agronomy businesses to the new company in consideration for ownership interests (25% each for CHS and Farmland and 50% for Land O'Lakes) in the venture. CHS Cooperatives and Farmland hold their interests in Agriliance through United Country Brands, LLC, a jointly-owned holding company.

2

### PRODUCTS AND SERVICES

CF Industries manufactures crop nutrient products, primarily nitrogen and phosphate fertilizers and potash. Agriliance wholesales crop nutrient products and crop protection products that include insecticides, fungicides, and pesticides. Agriliance also provides field and technical services, including soil testing, adjuvant and herbicide formulation, application and related services.

### SALES AND MARKETING; CUSTOMERS

CF Industries sells its crop nutrient products to large agricultural cooperatives and distributors. Its largest customers are Land O'Lakes, CHS and seven other regional cooperatives that wholesale the products to their members. Agriliance distributes agronomy products through approximately 1,000 local cooperatives from Ohio to the West Coast and from the Canadian border south to Kansas. Agriliance also provides sales and services through 48 Agriliance Service Centers and other retail outlets. Agriliance's largest customer is the Company's Country Operations business segment. In 2002, Agriliance sold approximately \$1.4 billion of crop nutrient products and approximately \$2.2 billion of crop protection and other products.

### INDUSTRY; COMPETITION

CF INDUSTRIES. North American fertilizer producers operate in a highly competitive, global industry. Commercial fertilizers are world-traded commodities and producers compete principally on the basis of price and service. Many of the raw materials that are used in fertilizer production, such as natural gas, are often more expensive in the U.S. than other parts of the world. Crop nutrient margins have historically been cyclical; large profits generated throughout the mid-1990's attracted additional capital and expansion and the industry now suffers from excess capacity. These factors have produced depressed margins for North American fertilizer manufacturers over the past several years, although recently fertilizer margins have stabilized as natural gas prices have declined.

CF Industries competes with numerous domestic and international crop nutrient manufacturers, including Farmland.

AGRILIANCE. The wholesale distribution of agronomy products is highly competitive and dependent upon relationships with agricultural producers and local cooperatives, proximity to producers and local cooperatives and competitive pricing. Moreover, the crop protection products industry is mature

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with slow growth predicted for the future, which has led distributors and suppliers to turn to consolidation and strategic partnerships to benefit from economies of scale and increased market share. Agriliance competes with other large agronomy distributors, as well as other regional or local distributors and retailers. Agriliance competes on the strength of its relationships with the members of the Company, Farmland and Land O'Lakes, its purchasing power and competitive pricing, and its attention to service in the field.

Major competitors of Agriliance in crop nutrient distribution include Agrium, Growmark, United Suppliers and West Central. Major competitors of Agriliance in crop protection products distribution include Helena, ConAgra (UAP), Tenkoz and numerous smaller distribution companies.

### SUMMARY OPERATING RESULTS

The Company accounts for its Agronomy business segment as follows:

**CF INDUSTRIES.** The Company's investment in CF Industries of \$153 million on August 31, 2002, is carried on the balance sheet at cost, including allocated patronage. Since CF Industries is a cooperative, the Company recognizes income from the investment only if it receives patronage refunds. In recent years, CF Industries has realized operating losses and as such, it has not issued any patronage refunds to its members. Historically, crop nutrients manufacturing earnings have been cyclical in nature.

**AGRILIANCE.** At August 31, 2002 the Company's equity investment in Agriliance was \$86 million. The Company recognizes earnings from Agriliance using the equity method of accounting, which results in the Company including its ownership percentage of Agriliance's net earnings as equity income from investments. The Company applies related internal expenses against those earnings.

3

Summary operating results for the Agronomy business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	2000
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	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales* .....			\$808,659
Patronage dividends .....	\$ (89)	\$ 196	224
Other revenues .....			5,817
	-----	-----	-----
	(89)	196	814,700
Cost of goods sold .....			764,744
Marketing, general and administrative .....	8,957	8,503	20,832
	-----	-----	-----
Operating (losses) earnings .....	(9,046)	(8,307)	29,124
Interest .....	(1,403)	(4,529)	(3,512)
Equity (income) loss from investments .....	(13,425)	(7,360)	4,336
	-----	-----	-----
Income before income taxes .....	\$ 5,782	\$ 3,582	\$ 28,300
	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 242,015	\$230,051	\$228,277
	=====	=====	=====

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\* Net sales in 2000 reflect sales from the Company's agronomy business prior to the time it was contributed to Agriliance. Earnings from the Company's interest in Agriliance are shown as equity (income) loss from investments.

## ENERGY

### OVERVIEW

CHS Cooperatives is the nation's largest cooperative energy company, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel, and other energy products); the blending, sale and distribution of lubricants; and the wholesale and retail supply of propane. The Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (owned by an entity in which CHS has an approximate 74.5% ownership interest) and sells those products under the Cenex brand to CHS's member cooperatives and others through a network of approximately 1,400 independent retailers, including approximately 800 that operate Cenex/Ampride convenience stores.

### OPERATIONS

**LAUREL REFINERY.** The Company's Laurel, Montana refinery processes medium and high sulfur crude oil into refined petroleum products that primarily include gasoline, diesel, and asphalt. The Laurel refinery sources approximately 90% of its crude oil supply from Canada, with the balance obtained from domestic sources. Laurel has access to Canadian and northwest Montana crude through the Company's wholly-owned Front Range Pipeline and other common carrier pipelines. The Laurel refinery also has access to Wyoming crude via common carrier pipelines from the south.

The Laurel facility processes approximately 55,000 barrels of crude oil per day to produce refined products that consist of approximately 42% gasoline, 30% diesel and 28% asphalt and other residual products. Refined fuels produced at Laurel, Montana are available via the Yellowstone Pipeline to western Montana terminals and to Spokane and Moses Lake, Washington, south via common carrier pipelines to Wyoming terminals and Denver, Colorado, and east via the Company's wholly-owned Cenex Pipeline to Glendive, Montana, and Minot and Fargo, North Dakota.

**MCPHERSON REFINERY.** The McPherson, Kansas refinery is owned and operated by the National Cooperative Refinery Association (NCRA), of which the Company owns approximately 74.5%. The McPherson refinery processes low and medium sulfur crude oil into gasoline, diesel and other distillates, propane, and other products. McPherson sources approximately 95% of its crude oil from Kansas, Oklahoma, and Texas through NCRA-owned and common carrier pipelines.

The McPherson refinery processes approximately 80,000 barrels of crude oil per day to produce refined products that consist of approximately 57% gasoline, 34% diesel and other distillates, and 9% propane and other products. Approximately 90% of the refined fuels are shipped via NCRA's

proprietary products pipeline to its terminal in Council Bluffs, Iowa and to other markets via common carrier pipelines. The balance of the fuels are loaded into trucks at the refinery.

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OTHER ENERGY OPERATIONS. The Company owns and operates ten propane plants and three propane terminals, four asphalt terminals, three lubricants blending and packaging facilities, and 36 convenience stores. The Company also owns and leases a fleet of liquid and pressure trailers and tractors which are used to transport refined fuels, propane and anhydrous ammonia.

### PRODUCTS AND SERVICES

The Energy business segment produces and sells (primarily wholesale) gasoline, diesel, propane, asphalt, and lubricants. It obtains the petroleum products that it sells both from the Laurel and McPherson refineries and from third parties.

### SALES AND MARKETING; CUSTOMERS

The Company makes approximately 85% of its refined fuel sales to members, with the balance sold to non-members. Sales are made wholesale to member cooperatives and through a network of independent retailers that operate convenience stores under the Cenex/Ampride tradename. The Company sold approximately 1.3 billion gallons of gasoline and approximately 1.2 billion gallons of diesel fuel in fiscal year 2002. The Company also wholesales auto and farm machinery lubricants to both members and non-members. In fiscal year 2002, energy operations sold approximately 26.4 million gallons of lubricants. The Company is one of the nation's largest propane wholesalers. In fiscal year 2002, energy operations sold approximately 0.7 billion gallons of propane. Most of the propane sold in rural areas is for heating and agricultural consumption. Annual sales volumes of propane vary greatly depending on weather patterns and crop conditions.

### INDUSTRY; COMPETITION

Governmental regulations and policies, particularly in the areas of taxation, energy and the environment, have a significant impact on the Company's energy operations segment. Like many other refineries, the Energy business segment's refineries are currently focusing their capital spending on reducing pollution. In particular, these refineries are currently working to comply with the federal government's initiatives to lower the sulfur content of gasoline and diesel. The Company currently expects that the cost of compliance, which will be spread out over the next four years, will be approximately \$340 million in total for the McPherson and Laurel refineries. It is expected that over 80% of the costs will be incurred at the McPherson refinery.

The energy business is highly cyclical. Demand for crude oil and its products are driven by the condition of local and worldwide economies, local and regional weather patterns and taxation relative to other energy sources. Most of the Company's energy product market is located in rural areas, so sales activity tends to follow the planting and harvesting cycles. More fuel efficient equipment, reduced crop tillage, depressed prices for crops, warm winter weather, and government programs which encourage idle acres may all reduce demand for the Company's energy products.

The refining and wholesale fuels business is very competitive. Among the Company's competitors are some of the world's largest integrated petroleum companies, which have their own crude oil supplies, distribution and marketing systems. The Company also competes with smaller domestic refiners and marketers in the midwestern and northwestern United States, with foreign refiners who import products into the United States and with producers and marketers in other industries supplying other forms of energy and fuels to consumers. Given



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the commodity nature of the end products, profitability in the refining and marketing industry depends largely on margins, as well as operating efficiency, product mix, and costs of product distribution and transportation. The retail gasoline market is highly competitive, with much larger competitors that have greater brand recognition and distribution outlets throughout the country and the world. CHS Cooperatives owned and non-owned retail outlets are located primarily in the southern, midwestern and northwestern United States.

5

### SUMMARY OPERATING RESULTS

Summary operating results for the Energy business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	2000
(DOLLARS IN THOUSANDS)			
Revenues:			
Net sales .....	\$2,657,689	\$2,781,243	\$2,959,622
Patronage dividends .....	458	712	311
Other revenues .....	6,392	4,036	2,792
	2,664,539	2,785,991	2,962,725
Cost of goods sold .....	2,489,352	2,549,099	2,862,715
Marketing, general and administrative .....	66,731	48,432	43,332
	108,456	188,460	56,678
Operating earnings .....	16,875	25,097	27,926
Interest .....	1,166	4,081	(856)
Equity loss (income) from investments .....	14,604	34,713	24,443
Minority interests .....	\$ 75,811	\$ 124,569	\$ 5,165
Income before income taxes .....	\$1,305,828	\$1,154,036	\$1,379,019
Total identifiable assets -- August 31 .....	\$1,305,828	\$1,154,036	\$1,379,019

### COUNTRY OPERATIONS

#### OVERVIEW

The Country Operations business segment purchases wheat and other grains from the Company's producer members and provides cooperative members and producers with access to a full range of products and services including farm supplies, programs for crop and livestock production, hedging and insurance services, and agricultural operations financing. Country Operations operates at approximately 300 locations dispersed throughout Minnesota, North Dakota, South Dakota, Nebraska, Montana, Idaho, Washington and Oregon. Most of these locations purchase grain from farmers and sell agronomy products, energy products and feed to those same producers and others, although not all locations provide every product and service.

#### PRODUCTS AND SERVICES

**GRAIN PURCHASING.** The Company is one of the largest country elevator operators in North America. Through a majority of its elevator locations, the Country Operations business segment purchases grain from member and non-member producers and other elevators and grain dealers. Most of the grain purchased is

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either sold through the Company's Grain Marketing business segment or used for local feed and processing operations. In the year ended August 31, 2002, the Company purchased approximately 280 million bushels of grain, primarily wheat (131 million bushels), corn (77 million bushels) and soybeans (45 million bushels). Of these bushels, 255 million were purchased from members and 239 million were sold through the Grain Marketing business segment.

FARM SUPPLIES. Country Operations manufactures and sells farm supplies, both directly and through ownership interests in other entities. These include seed; plant food; energy products; animal feed ingredients, supplements and products; animal health products; and crop protection products. The Company sells agronomy products at 160 locations, feed products at 135 locations and energy products at 94 locations. Farm supplies are purchased through cooperatives whenever possible.

FINANCIAL SERVICES. The Company has provided open account financing to more than 150 CHS members that are cooperatives (Cooperative Association Members) in the past year. These arrangements involve the discretionary extension of credit in the form of term and seasonal loans and can also be used as a clearing account for settlement of grain purchases and as a cash management tool. A substantial part of the term and seasonal loans are sold to the National Bank for Cooperatives (CoBank), with CoBank purchasing up to 90% of any loan. The Company's borrowing arrangements with CoBank limit loan balances outstanding under this program to not more than \$150.0 million at any one time.

6

Through its wholly-owned subsidiary Fin-Ag, Inc. the Company provides seasonal cattle feeding and swine financing loans, facility financing loans and crop production loans. It also provides consulting services to member cooperatives. Most loans are sold to CoBank under a separate program from that described above, under which the Company has guaranteed a portion of the loans. The Company's exposure at August 31, 2002 was approximately \$40.8 million. Under the Company's borrowing arrangements, the maximum amount of the loans outstanding at any one time may not exceed \$125.0 million and the Company's maximum guarantee exposure would be \$48.5 million.

The Company's wholly-owned subsidiary Country Hedging, Inc., which is a registered futures commission merchant and a clearing member of both the Minneapolis Grain Exchange and the Kansas City Board of Trade, is a full service commodity futures and options broker.

Ag States Agency, LLC is an independent insurance agency in which the Company holds a majority ownership interest. It sells insurance, including group benefits, property and casualty, and bonding programs. Its more than 1,700 customers are primarily agricultural businesses, including local cooperatives and independent elevators, oil stations, agronomy and feed/seed plants, implement dealers, fruit and vegetable packers/warehouses, and food processors.

### INDUSTRY; COMPETITION

Competitors for the purchase of grain include other elevators and large grain marketing companies. Competitors for farm supply include a variety of cooperatives, privately held and large national companies. The Company competes primarily on the basis of price, services and patronage.

The financing operations are not significant, however, competitors for the Company's financing operations are primarily other financial institutions. The

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Company competes primarily on the basis of price, services and patronage. Country Hedging's competitors include international brokerage firms, national brokerage firms, regional brokerage firms (both cooperatives and non-cooperatives) as well as local introducing brokers, with competition driven both by price and level of service. Ag States competes with other insurance agencies, primarily on the basis of price and services.

### SUMMARY OPERATING RESULTS

Summary operating results for the Country Operations business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales .....	\$1,474,553	\$1,577,268	\$1,409,892
Patronage dividends .....	2,572	3,683	3,830
Other revenues .....	80,789	80,479	68,436
	-----	-----	-----
	1,557,914	1,661,430	1,482,158
Cost of goods sold .....	1,471,422	1,569,884	1,404,120
Marketing, general and administrative .....	47,995	53,417	44,136
	-----	-----	-----
Operating earnings .....	38,497	38,129	33,902
Interest .....	13,851	15,695	12,782
Equity income from investments .....	(283)	(246)	(1,007)
Minority interests .....	786	385	103
	-----	-----	-----
Income before income taxes .....	\$ 24,143	\$ 22,295	\$ 22,024
	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 799,711	\$ 679,053	\$ 660,358
	=====	=====	=====

### GRAIN MARKETING

#### OVERVIEW

CHS Cooperatives is the nation's largest cooperative marketer of grain and oilseed, handling about 1.1 billion bushels annually. During fiscal year 2002, the Company purchased approximately 76% of total

7

grain volumes from individual and member cooperatives and the Country Operations business segment, with the balance purchased from third parties. CHS Cooperatives arranges for the transportation of the grains either directly to customers or to Company owned or leased grain terminals and elevators pending delivery to domestic and foreign purchasers. The Company primarily conducts its Grain Marketing operations directly, but does conduct some of its business through three 50% owned joint ventures.

#### OPERATIONS

The Grain Marketing segment purchases grain directly and indirectly from agricultural producers primarily in the Midwestern and Western United States. The purchased grain is typically sold for future delivery at a specified location, with the Company responsible for handling the grain and arranging for

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its transportation to that location. The Company's ability to arrange efficient transportation, including loading capabilities onto unit trains, ocean-going vessels, and barges, is a significant part of the service it offers to its customers. Rail, vessel, barge and truck transportation is carried out by third parties, often under long-term freight agreements with the Company. Grain intended for export is usually shipped by rail or barge to an export terminal, where it is loaded onto ocean-going vessels. Grain intended for domestic use is usually shipped by rail or truck to various locations throughout the country.

CHS owns export terminals, river terminals, and elevators involved in the handling and transport of grain. River terminals at Kansas City, Missouri, St. Paul, Savage, and Winona, Minnesota, and Davenport, Iowa are used to load grains onto barges for shipment to both domestic and export customers via the Mississippi River System. The Company's export terminal at Superior, Wisconsin provides access to the Great Lakes and St. Lawrence Seaway, and an export terminal at Myrtle Grove, Louisiana serves the Gulf market. In the Pacific Northwest, the Company conducts its grain marketing operations through United Harvest, LLC (a 50% joint venture with United Grain Corporation) and TEMCO, LLC (a 50% joint venture with Cargill, Incorporated). United Harvest, LLC operates grain terminals in Vancouver and Kalama, Washington. TEMCO, LLC operates a large export terminal in Tacoma, Washington. These facilities serve the Pacific market, as well as domestic grain customers in the Western United States. Grain Supplier, LLC (a 50% joint venture with Commodity Specialists Company) will begin operating an elevator facility in Friona, Texas and one in Collins, Mississippi beginning in late fiscal year 2003 or early fiscal year 2004.

Grain Marketing purchases most of its grain during the summer and fall harvest period. Because of the Company's geographic location and the fact that it is further from its export facilities, grain tends to be sold later than in other parts of the country. However, as many producers have significant on-farm storage capacity and in light of the Company's own storage capacity, the Grain Marketing business segment buys and ships grain throughout the year. Due to the amount of grain purchased and held in inventory, the Grain Marketing business segment has significant working capital needs at various times of the year. The amount of borrowings for this purpose, and the interest rate charged on those borrowings, directly affect the profitability of the Grain Marketing segment.

### PRODUCTS AND SERVICES

The primary grains purchased by the Grain Marketing business segment for the year ended August 31, 2002 were wheat (362 million bushels), corn (393 million bushels) and soybeans (241 million bushels). Of the total grains purchased by the Grain Marketing segment during the year ended August 31, 2002, 571 million bushels were purchased from the Company's individual and cooperative association members, 239 million bushel were purchased from the Country Operations business segment and the remainder were purchased from third parties.

### SALES AND MARKETING; CUSTOMERS

Purchasers include domestic and foreign millers, maltsters, feeders, crushers, and other processors. To a much lesser extent purchasers include intermediaries and distributors. Grain marketing operations are not dependent on any one customer. The Grain Marketing segment has supply relationships calling for delivery of grain at prevailing market prices.

### INDUSTRY; COMPETITION

The Grain Marketing business segment competes for both the purchase and sale of grain. Competition is intense and margins are low. Some competitors are integrated food producers, which may also be customers. A few major competitors have substantially greater financial resources than the Company.

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In the purchase of grain from producers, location of the delivery facility is a prime consideration, but producers are increasingly willing to truck grain longer distances for sale. Price is affected by the capabilities of the facility; for example, if it is cheaper to deliver to a customer by unit train than by truck, a facility with unit train capability provides a price advantage. The Company believes that its relationships with individual members serviced by local Country Operations locations and with cooperative members gives it a broad origination capability.

The Grain Marketing business segment competes for grain sales based on price, services and ability to provide the desired quantity and quality of grains required. Location of facilities is a major factor in the ability to compete. Grain marketing operations compete with numerous grain merchandisers, including major grain merchandising companies such as Archer Daniels Midland (ADM), Cargill, Incorporated (Cargill), ConAgra, Bunge and Louis Dreyfus, each of which handle grain volumes of more than one billion bushels annually.

The results of the grain marketing business may be adversely affected by relative levels of supply and demand, both domestic and international, commodity price levels (including grain prices reporting on national markets) and transportation costs and conditions. Supply is affected by weather conditions, disease, insect damage, acreage planted and government regulations and policies. Demand may be affected by foreign governments and their programs, relationships of foreign countries with the United States, the affluence of foreign countries, acts of war, currency exchange fluctuations and substitution of commodities. Demand may also be affected by changes in eating habits, by population growth, and by increased or decreased per capita consumption of some products.

### SUMMARY OPERATING RESULTS

Summary operating results for the Grain Marketing business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	2000
	Restated(a)	Restated(a)	Restated(a)
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales .....	\$3,281,469	\$3,416,239	\$3,375,616
Patronage dividends .....	497	840	861
Other revenues .....	21,902	22,964	15,440
	-----	-----	-----
Cost of goods sold .....	3,303,868	3,440,043	3,391,917
Marketing, general and administrative .....	3,272,985	3,416,500	3,361,672
	22,213	22,396	21,412
	-----	-----	-----
Operating earnings .....	8,670	1,147	8,833
Interest .....	4,807	8,144	8,701
Equity income from investments .....	(4,257)	(4,519)	(6,452)
	-----	-----	-----
Income (loss) before income taxes .....	\$ 8,120	\$ (2,478)	\$ 6,584
	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 481,232	\$ 345,696	\$ 321,813
	=====	=====	=====

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(a) See Note 16 in the Consolidated Financial Statements for discussion on the matters restated.

### PROCESSED GRAINS AND FOODS

#### OVERVIEW

The Processed Grains and Foods business segment converts raw agricultural commodities into ingredients for finished food products or into finished consumer food products. The Company has focused on areas that allow it to utilize the products supplied by member producers. These areas are oilseed processing and refining, wheat milling and foods.

#### OILSEED PROCESSING AND REFINING

The Company's oilseed processing operations convert soybeans into soybean meal, soyflour, crude soyoil, refined soybean oil and associated by-products. These operations are conducted at a facility in Mankato, Minnesota that can crush 39 million bushels of soybeans on an annual basis, producing

9

approximately 940,000 short tons of soybean meal and 460 million pounds of crude soybean oil. The same facility is able to refine approximately 1 billion pounds of refined soybean oil annually. Another crushing facility is under construction in Fairmont, Minnesota that will have a crushing capacity and crude soyoil output similar to the Mankato facility. The facility in Fairmont is anticipated to be ready for the 2003 harvest and is estimated to cost approximately \$90 million, of which approximately \$23 million has been spent through August 31, 2002.

The Company's oilseed processing and refining operations produce three primary products: refined oils, soybean meal and soyflour. Refined oils are used in processed foods, such as margarine, shortening, salad dressings and baked goods and, to a lesser extent for certain industrial uses for plastics, inks and paints. Soybean meal has a high protein content and is used for feeding livestock. Soyflour is used in the baking industry, as a milk replacement in animal feed and in industrial applications.

The Company's soy processing facilities are located in areas with a strong production base of soybeans and end-user market for the meal and soyflour. The Company purchases virtually all of its soybeans from members. The oilseed crushing operations currently produce approximately 45% of the crude oil that the Company refines; it purchases the balance from outside suppliers.

The Company's customers for refined oil are principally large food product companies located throughout the United States. However, over 50% of the customers are located in the Midwest due to lower freight costs and slightly higher profitability. The largest customer for refined oil products is Ventura Foods, LLC (Ventura Foods), in which the Company holds a 50% ownership interest and with which the Company has a long-term supply agreement to supply minimum quantities of edible soybean oils as long as the Company maintains a minimum 25.5% ownership interest and the price is comparative with other suppliers of the product. The Company's sales to Ventura Foods were \$49.8 million in fiscal year 2002. The Company also sells soymeal to over 500 customers, primarily feed lots and feed mills in southern Minnesota; six of these customers accounted for approximately 61% of the soymeal sold. Land O'Lakes/Farmland Feeds, LLC accounts for 29% of soymeal sold and Commodity Specialists Company accounts for

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10% of soymeal sold. The Company sells soyflour to customers in the baking industry both domestically and for export.

The refined soybean products industry is highly competitive. Major industry competitors include ADM, Cargill, Ag Processing, Inc., and Bunge. These and other competitors have acquired other processors and have expanded existing plants, or are proposing to construct new plants, both domestically and internationally. Price, transportation costs, services and product quality drive competition. The Company estimates that it has a market share of approximately 6% to 8% of the domestic refined soybean oil market and less than 3% of the domestic soybean crushing capacity.

Soybeans are a commodity and their price can fluctuate significantly depending on production levels, demand for the refined products, and other supply and demand factors.

### WHEAT MILLING

In January 2002, the Company and Cargill formed Horizon Milling, LLC (Horizon Milling), in which the Company owns 24% and Cargill owns the remaining 76%. Horizon Milling is the largest U.S. wheat miller. Sales of wheat and durum by the Company to Horizon Milling during fiscal year 2002 were \$114.4 million.

The Company ceased operations at its Huron, Ohio mill prior to the formation of Horizon Milling and the Company's facility lease expired on September 30, 2002. The Company is currently dismantling and negotiating for the sale of the milling equipment. The Processed Grains and Foods business segment established an impairment of approximately \$6.5 million on the equipment during the fourth quarter of fiscal year 2002.

### FOODS

The Company has two primary areas of focus in the foods area: Ventura Foods, which produces oilseed based products such as margarine and salad dressing and which is 50% owned by the Company, and the production of Mexican foods such as tortillas, tortilla chips and entrees.

10

VENTURA FOODS. Ventura Foods manufactures, packages, distributes and markets bulk margarine, salad dressings, mayonnaise, salad oils, syrups, soup bases and sauces, many of which utilize soybean oil as a primary ingredient. Approximately 20% of Ventura Food's volume, based on sales revenues, comes from products for which Ventura Foods owns the brand, and the remainder comes from products that it produces for third parties. A variety of Ventura Food's product formulations and processes are proprietary to it or its customers. Ventura Foods is the largest manufacturer of margarine in the U.S. and is a major producer of many other products.

Ventura Foods has 13 manufacturing and distribution locations across the United States. It sources its raw materials, which consists primarily of soybean oil, canola oil, cottonseed oil, peanut oil and various ingredients and supplies, from various national suppliers, including the Company's oilseed processing and refining operations. It sells the products it manufactures to third parties as a contract manufacturer, as well as directly to retailers, food distribution companies and large institutional food service companies. Ventura Foods' sales are approximately 65% in foodservice and the remainder split between retail and industrial customers who use edible oil products as ingredients in foods they manufacture for resale.

Ventura Foods competes with a variety of large companies in the food

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manufacturing industry. Some of its major competitors are ADM, Cargill, Bunge, Unilever, ConAgra, ACH, Smuckers, Kraft, and CF Sauer.

Ventura Foods was created in 1996 and at the time was owned 40% by the Company and 60% by Wilsey Foods, Inc., a majority owned subsidiary of Mitsui USA, Inc. In March 2000, Wilsey Foods, Inc. sold an additional 10% interest bringing the Company's total equity investment in Ventura Foods to 50%. The Company accounts for the Ventura Foods investment under the equity method of accounting.

MEXICAN FOODS. Since June 2000, the Company has acquired three regional producers of Mexican foods. Through its Mexican foods operations, the Company manufactures, packages and distributes tortillas, tortilla chips and prepared frozen Mexican food products such as burritos and tamales. The Company sells these products under a variety of local and regional brand names and also produces private label products and co-packs for customers. The current operational focus is on integrating these disparate operations into a single business entity with consistent standards, systems and sales practices. The Company is also working to develop a national brand from its predominantly local and regional brand platforms.

The tortilla and tortilla chip industry in the United States is comprised of a large number of small regional manufacturers and a few dominant manufacturers. The Company estimates that its Mexican foods operation has approximately a 1.5% share of the national tortilla market and less than a 1% share of the national tortilla chip market. On a national basis, the primary competitors are large chip and snack companies such as Frito Lay.

11

### SUMMARY OPERATING RESULTS

Summary operating results for the Processed Grains and Foods business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales* .....	\$ 496,084	\$ 662,726	\$ 584,052
Patronage dividends .....	260	339	100
Other revenues .....	(1,469)	(238)	(10)
	-----	-----	-----
Cost of goods sold .....	494,875	662,827	584,142
Marketing, general and administrative .....	457,538	619,184	547,234
	36,930	44,870	21,462
	-----	-----	-----
Operating earnings (losses) .....	407	(1,227)	15,446
Interest .....	9,514	13,026	9,851
Equity income from investments .....	(41,331)	(35,505)	(24,367)
	-----	-----	-----
Income before income taxes .....	\$ 32,224	\$ 21,252	\$ 29,962
	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 439,942	\$ 430,871	\$ 391,286
	=====	=====	=====



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\* The sales decline in 2002 is primarily due to the formation of Horizon Milling. Since January 2002 the Company has accounted for the operating results of its milling operations under the equity method of accounting. Earnings from the Company's interest in Horizon Milling are included as part of equity income from investments.

#### PRICE RISK AND HEDGING

Depending on the terms and conditions of the particular contract, the Company incurs risks of carrying inventory, including risks related to price changes and performance (including delivery, quality, quantity and shipment period) whenever it enters into a commodity purchase commitment. The Company is exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. The Company is also exposed to risk of loss on its fixed price or partially fixed price sales contracts in the event market prices increase.

To reduce the price change risks associated with holding fixed price positions, the Company generally takes opposite and offsetting positions by entering into commodity futures contracts (either a straight futures contract or an options futures contract) on regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. The crude oil and most of the grain and oilseed volume handled by the Company can be hedged. Some grains cannot be hedged because there are no futures for certain commodities. For those commodities, risk is managed through the use of forward sales and different pricing arrangements and to some extent cross-commodity futures hedging. While hedging activities reduce the risk of loss from changing market values of inventory, such activities also limit the gain potential which otherwise could result from changes in market prices of inventory. The Company's policy is to generally maintain hedged positions in grain. The Company's profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. Hedging arrangements do not protect against nonperformance of a contract.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a short futures contract increases, then an additional margin deposit (maintenance margin) would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

At any one time inventory and purchase contracts for delivery to the Company may be substantial. The Company has risk management policies and procedures that include net position limits. It is defined by commodity and includes both trader and management limits. This policy, and computerized procedures in grain marketing operations, triggers a review by operations management when any trader is outside of position limits and also triggers review by senior management of the Company if operating areas are outside of position limits. A similar process is used in energy operations. The position limits are reviewed at least annually with management of the Company. The Company monitors current market conditions and may expand or reduce the

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purchasing program in response to changes in those conditions. In addition, certain purchase and sale contracts are subject to credit approvals and appropriate terms and conditions.

### EMPLOYEES

As of August 31, 2002, CHS Cooperatives had approximately 6,750 full and part-time employees, which included approximately 550 employees of NCRA. Of that total, approximately 2,180 were employed in the Energy segment, 2,260 in the Country Operations segment (not including an estimated 720 seasonal and temporary employees), 390 in the Grain Marketing segment, 970 in the Processed Grains and Foods business segment and 230 in corporate and administrative functions.

In addition to those employed directly by the Company, many employees work directly for the joint ventures in which the Company has an ownership interest. All of the employees in the Agronomy segment and a portion of the Grain Marketing and Processed Grains and Foods segments are employed as such.

Employees in certain areas are represented by collective bargaining agreements. Refinery workers in Laurel, Montana (233 employees), are represented by agreements with two unions (Paper, Allied-Industrial, Chemical and Energy Workers International Union (PACE) and Oil Basin Pipeliners Union (OBP)), for which agreements are in place through 2006 for PACE and under negotiation for OBP with anticipation of a successful resolution. The contracts covering the McPherson, Kansas refinery (254 employees in the PACE union) are also in place through 2006. There are approximately 160 employees in transportation and lubricant plant operations that are covered by collective bargaining agreements that expire at various times. Production workers in grain marketing operations (143 employees) are represented by agreements with four unions which expire at various times from 2003 through 2005. Finally, certain production workers in Oilseed Processing and Refining operations are subject to collective bargaining agreements with the American Federation of Grain Millers (126 employees) and the Pipefitters' Union (2 employees). Both of these contracts have expired and are currently being negotiated with the Company anticipating a successful resolution.

### MEMBERSHIP IN THE COMPANY AND AUTHORIZED CAPITAL

#### INTRODUCTION

The Company is an agricultural membership cooperative organized under Minnesota cooperative law to do business with member and non-member patrons. Patrons, and not the Company, are subject to income taxes on income from patronage. The Company is subject to income taxes on non-patronage-sourced income. See "-- Tax Treatment" below.

#### DISTRIBUTION OF NET INCOME; PATRONAGE DIVIDENDS

The Company is required by its organizational documents annually to distribute net earnings derived from patronage business with members, after payment of dividends on equity capital, to members on the basis of patronage, except that the Board of Directors may elect to retain and add to the Company's unallocated capital reserve an amount not to exceed 10% of the distributable net income from patronage business. Net income from non-patronage business may be distributed to members or added to the unallocated capital reserve, in whatever proportions the Board of Directors deems appropriate.

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These distributions, referred to as "patronage dividends," may be distributed in cash, patrons' equities, revolving fund certificates, securities of the Company or others or any combination designated by the Board of Directors. Since 1998, the Board of Directors has distributed patronage dividends in the form of 30% cash and 70% patrons' equities (see "-- Patrons' Equities" below). The Board of Directors may change the mix in the form of the patronage dividend in the future. In making distributions, the Board of Directors may use any method of allocation as may, in its judgment, be reasonable and equitable. Patronage dividends distributed during the years ended August 31, 2002, 2001 and 2000 were \$132.6 million (\$40.1 million in cash), \$86.4 million (\$26.1 million in cash) and \$59.1 million (\$17.9 million in cash), respectively.

### PATRONS' EQUITIES

Patrons' equities are in the form of a bookkeeping entry and represent a right to receive cash when redeemed by the Company. Patrons' equities form part of the capital of the Company, do not bear interest and are not subject to redemption upon request of a member. Patrons' equities are redeemable only at the discretion of the Board of Directors and in accordance with the terms of a redemption policy adopted by the Board of Directors, which may be modified at any time without member consent. The Company's current policy is to redeem the equities of those members who were age 61 and older on June 1, 1998 when they reach the age of 72 and upon death. The current policy is also to redeem equities older than 10 years held by active members on a pro-rata basis as determined by the Board of Directors.

Redemptions of patrons' and other equities, including equity participation units (discussed in Note 9 to the Financial Statements), during the years ended August 31, 2002, 2001 and 2000 were \$31.1 million, \$33.0 million and \$28.7 million, respectively.

### GOVERNANCE

The Company is managed by a Board of Directors of at least 17 persons elected by the members at the Company's annual meeting. Terms of Directors are staggered so that no more than seven directors are elected in any year. The Board of Directors is currently comprised of 17 directors. The articles of incorporation and bylaws of the Company may be amended only upon approval of a majority of the votes cast at an annual or special meeting of the members, except for the higher vote described under "-- Certain Antitakeover Measures" below.

### MEMBERSHIP

Membership in the Company is restricted to certain producers of agricultural products and to associations of producers of agricultural products that are organized and operating so as to adhere to the provisions of the Agricultural Marketing Act and the Capper-Volstead Act, as amended. The Board of Directors may establish other qualifications for membership as it may from time to time deem advisable.

As a membership cooperative, the Company does not have common stock. The Company may issue equity or debt securities, on a patronage basis or otherwise, to its members. The Company has two classes of outstanding membership. Individual members are individuals actually engaged in the production of agricultural products. Cooperative associations are associations of agricultural producers, either cooperatives or other associations organized and operated under the provisions of the Agricultural Marketing Act and the Capper-Volstead Act.

### VOTING RIGHTS

Voting rights arise by virtue of membership in the Company, not because of ownership of any equity or debt security. Members that are cooperative

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associations are entitled to vote based upon a formula that takes into account the number of producer members of such cooperative, the equity held by the cooperative in the Company and the average amount of business done with the Company over the previous three years.

Members who are individuals are entitled to one vote. Individual members may exercise their voting power directly or through a patrons' association associated with a grain elevator, feed mill, seed plant or any other Company facility (with certain historical exceptions) recognized by the Board of Directors. The number of votes of patrons' associations is determined under the same formula as cooperative association members.

14

The Board of Directors has proposed an amendment to the Company's bylaws to eliminate the number of producers as a factor in determining the number of votes of cooperative association members and patrons' associations. The proposed amendment is expected to be voted upon at the annual members' meeting in December 2002.

Most matters submitted to a vote of the members require the approval of a majority of the votes cast at a meeting of the members, although the approval of not less than two-thirds of the votes cast at a meeting is required to approve "Change of Control" transactions, which include a merger, consolidation, liquidation, dissolution, or the sale of all or substantially all of the Company's assets and, in certain circumstances, a greater vote may be required. See "Certain Antitakeover Measures" below.

### DEBT AND EQUITY INSTRUMENTS

The Company may issue debt and equity instruments to its current members and patrons, on a patronage basis or otherwise, and to persons who are neither members nor patrons. Debt or equity issued by the Company is subject to a first lien in favor of the Company for all indebtedness of the holder thereof to the Company. As of August 31, 2002 the Company's outstanding capital included patrons' equities (consisting of capital equity certificates and non-patronage earnings certificates), 8% Preferred Stock and certain capital reserves. A best efforts offering of 8% Preferred Stock begun in late 2001 has been suspended after raising approximately \$9.5 million in new capital.

### DISTRIBUTION OF ASSETS UPON DISSOLUTION; MERGER AND CONSOLIDATION

In the event of any dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, all debts and liabilities would be paid first according to their respective priorities. As more particularly provided in the Company's bylaws, the remaining assets would be paid to the holders of equity capital to the extent of their interests and any excess would be paid to patrons on the basis of their past patronage. The bylaws provide for the allocation among the members and nonmember patrons of the consideration received in any merger or consolidation to which the Company is a party.

### CERTAIN ANTITAKEOVER MEASURES

The governing documents may be amended upon the approval of a majority of the votes cast at an annual or special meeting. However, if the Board of Directors, in its sole discretion, declares that a proposed amendment to the Company's governing documents involves or is related to a "hostile takeover," the amendment must be adopted by 80% of the total voting power of the members of the Company. Further, if the Board of Directors determines that a proposed change of control transaction involves a hostile takeover, the 80% approval requirement applies. The term "hostile takeover" is not further defined in the Minnesota cooperative law or the governing documents of the Company.

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### TAX TREATMENT

Subchapter T of the Internal Revenue Code sets forth rules for the tax treatment of cooperatives and applies to both cooperatives exempt from taxation under Section 521 of the Internal Revenue Code and to nonexempt corporations operating on a cooperative basis. The Company is a nonexempt cooperative.

As a cooperative, the Company is not taxed on patronage paid to its members either in the form of equities or cash. Consequently, such amounts are taxed only at the patron level. However, the amounts of any allocated but undistributed patronage earnings (called non-qualified unit retains) are taxable to the Company when allocated. Upon redemption of any such non-qualified unit retains, the amount is deductible to the Company and taxable at the member level.

Income derived by the Company from non-patronage sources is not entitled to the "single tax" benefit of Subchapter T and is taxed to the Company at corporate income tax rates.

15

### PART II.

#### ITEM 6. SELECTED FINANCIAL DATA

The selected financial information below has been derived from the Company's consolidated financial statements for the periods indicated. The selected consolidated financial information subsequent to August 31, 1999 should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this filing.

#### SUMMARY CONSOLIDATED FINANCIAL DATA

	YEARS ENDED AUGUST 31,				THREE
	2002	2001	2000	1999	ENDED A 1
	Restated(a)	Restated(a)	Restated(a)	Restated(a)	Rest
	(DOLLARS IN THOUSANDS)				
<b>Income Statement Data:</b>					
<b>Revenues:</b>					
Net sales .....	\$7,156,454	\$7,464,242	\$8,248,413	\$6,198,843	\$1,4
Patronage dividends .....	3,885	5,977	5,494	5,876	
Other revenues .....	109,459	116,254	97,471	81,180	
	-----	-----	-----	-----	-----
Cost of goods sold .....	7,269,798	7,586,473	8,351,378	6,285,899	1,5
Marketing, general and administrative .....	6,937,956	7,181,433	8,051,057	6,010,796	1,4
	-----	-----	-----	-----	-----
Operating earnings .....	187,292	184,046	155,266	152,031	
	-----	-----	-----	-----	-----
Operating earnings .....	144,550	220,994	145,055	123,072	
Interest .....	42,455	61,436	57,566	42,438	
Equity (income) loss from investments .....	(58,133)	(28,494)	(28,325)	(22,363)	
Minority interests .....	15,390	35,098	24,546	10,017	

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Income before income taxes ....	144,838	152,954	91,268	92,980	
Income taxes .....	18,700	(25,600)	3,880	6,980	
Net income .....	\$ 126,138	\$ 178,554	\$ 87,388	\$ 86,000	\$
Balance Sheet Data (at end of period):					
Working capital .....	\$ 249,115	\$ 305,280	\$ 214,223	\$ 219,045	\$ 2
Net property, plant and equipment .....	1,057,421	1,023,872	1,034,768	968,333	9
Total assets .....	3,481,727	3,057,319	3,172,680	2,787,664	2,4
Long-term debt, including current maturities .....	572,124	559,997	510,500	482,666	4
Total equities .....	1,289,638	1,261,153	1,164,426	1,117,636	1,0

(a) See Note 16 in the Consolidated Financial Statements for discussion on the matters restated.

16

The selected financial statement information below has been derived from the Company's five business segments, and Corporate and Other, for the fiscal years ended August 31, 2002, 2001 and 2000. The intracompany sales between segments were \$753.3 million, \$973.2 million and \$889.4 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively.

SUMMARY FINANCIAL DATA BY BUSINESS SEGMENT

	AGRONOMY			
	2002	2001	2000	2002
	(DOLLARS IN THOUSAN			
Revenues:				
Net sales .....			\$ 808,659	\$2,657,68
Patronage dividends .....	\$ (89)	\$ 196	224	45
Other revenues .....			5,817	6,39
	(89)	196	814,700	2,664,53
Cost of goods sold .....			764,744	2,489,35
Marketing, general and administrative .....	8,957	8,503	20,832	66,73
Operating (losses) earnings .....	(9,046)	(8,307)	29,124	108,45
Interest .....	(1,403)	(4,529)	(3,512)	16,87
Equity (income) loss from investments .....	(13,425)	(7,360)	4,336	1,16
Minority interests .....				14,60
Income before income taxes .....	\$ 5,782	\$ 3,582	\$ 28,300	\$ 75,81
Total identifiable assets -- August 31 .....	\$ 242,015	\$ 230,051	\$ 228,277	\$1,305,82

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	COUNTRY OPERATIONS			
	2002	2001	2000	2002
				Restated (
				(DOLLARS IN THOUSANDS)
Revenues:				
Net sales .....	\$1,474,553	\$1,577,268	\$1,409,892	\$3,281,46
Patronage dividends .....	2,572	3,683	3,830	49
Other revenues .....	80,789	80,479	68,436	21,90
	-----	-----	-----	-----
Cost of goods sold .....	1,557,914	1,661,430	1,482,158	3,303,86
Marketing, general and administrative .....	1,471,422	1,569,884	1,404,120	3,272,98
	-----	-----	-----	-----
Operating earnings .....	38,497	38,129	33,902	8,67
Interest .....	13,851	15,695	12,782	4,80
Equity income from investments .....	(283)	(246)	(1,007)	(4,25
Minority interests .....	786	385	103	
	-----	-----	-----	-----
Income (loss) before income taxes .....	\$ 24,143	\$ 22,295	\$ 22,024	\$ 8,12
	=====	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 799,711	\$ 679,053	\$ 660,358	\$ 481,23
	=====	=====	=====	=====

	PROCESSED GRAINS AND FOODS			
	2002	2001	2000	2002
				(DOLLARS IN THOUSANDS)
Revenues:				
Net sales .....	\$ 496,084	\$ 662,726	\$ 584,052	
Patronage dividends .....	260	339	100	\$ 18
Other revenues .....	(1,469)	(238)	(10)	1,84
	-----	-----	-----	-----
Cost of goods sold .....	494,875	662,827	584,142	2,03
Marketing, general and administrative .....	457,538	619,184	547,234	
	-----	-----	-----	-----
Operating earnings (losses) .....	407	(1,227)	15,446	(2,43
Interest .....	9,514	13,026	9,851	(1,18
Equity (income) loss from investments .....	(41,331)	(35,505)	(24,367)	(
	-----	-----	-----	-----
Income (loss) before income taxes .....	\$ 32,224	\$ 21,252	\$ 29,962	\$ (1,24
	=====	=====	=====	=====
Total identifiable assets -- August 31 .....	\$ 439,942	\$ 430,871	\$ 391,286	\$ 212,99
	=====	=====	=====	=====

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- (a) See Note 16 in the Consolidated Financial Statements for discussion on the matters restated.

17

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Effective August 5, 2003, Cenex Harvest States Cooperatives changed its name to CHS Inc. CHS Inc. (CHS, Cenex Harvest States, CHS Cooperatives or the Company) is one of the nation's leading integrated agricultural companies. As a cooperative, the Company is owned by farmers, ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. CHS Cooperatives buys commodities from, and provides products and services to members and other customers. The Company provides a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grains and oilseeds, grain and oilseed processing, and food products.

The Company has five distinct business segments: Agronomy, Energy, Country Operations, Grain Marketing and Processed Grains and Foods. Summary data for each of these segments for the fiscal years ended August 31, 2002, 2001 and 2000 is shown on prior pages.

Many of the Company's businesses are highly seasonal. Due to this, operating income will vary throughout the year, but overall revenues remain fairly constant, partly because the Company does not consolidate revenues in the Agronomy segment as explained below. Overall, the Company's income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. Certain business segments are subject to varying seasonal fluctuations. For example, Agronomy and Country Operations segments experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. The Grain Marketing segment, as well, is somewhat subject to fluctuations in revenue and earnings based on producer harvests. The Company's Energy segment generally experiences higher revenues and profitability in certain operating areas, such as refined products, in the summer when gasoline and diesel usage is highest. Other energy products, such as propane, experience higher revenues and profitability during the winter heating season.

While the Company's sales and operating income are derived from businesses and operations which are wholly-owned and majority-owned, a portion of business operations are conducted through companies in which the Company holds ownership interests of 50% or less. The Company accounts for these investments primarily using the equity method of accounting, wherein CHS Cooperatives records as equity income from investments its proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in the Company's consolidated statements of operations. These investments principally include the Company's 25% ownership in Agriliance, LLC (Agriliance), the 50% ownership in TEMCO, LLC, the 50% ownership in United Harvest, LLC, the 24% ownership in Horizon Milling, LLC (Horizon) and the 50% ownership in Ventura Foods, LLC (Ventura).

#### RESULTS OF OPERATIONS



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### COMPARISON OF THE YEARS ENDED AUGUST 31, 2002 AND 2001

NET INCOME. Consolidated net income for the year ended August 31, 2002 was \$126.1 million compared to \$178.6 million for the year ended August 31, 2001, which represents a \$52.5 million (29%) decrease. This decrease in profitability is primarily attributable to a tax benefit of \$34.2 million in the prior year and decreased earnings in the Company's Energy segment compared to the year ended August 31, 2001.

NET SALES. Consolidated net sales of \$7.2 billion for the year ended August 31, 2002 decreased \$307.8 million (4%) compared to the year ended August 31, 2001.

Energy net sales of \$2.6 billion decreased \$119.1 million (4%) during the year ended August 31, 2002 compared to the year ended August 31, 2001. Sales for the year ended August 31, 2002 and 2001 were \$2,657.7 million and \$2,781.2 million, respectively. The Company eliminated all intracompany sales from the Energy segment to the Country Operations segment of \$67.4 million and \$71.8 million for the years ended August 31, 2002 and 2001, respectively. Prior to December 31, 2000 the company consolidated the business activity of Cooperative Refining LLC (CRLLC), a refining joint venture into the Energy segment. The Company held a 58% interest in CRLLC, which was dissolved effective December 31, 2000. The decrease in Energy sales is primarily due to this dissolution. The decrease was partially offset by an increase in refined fuel sales that were not part of CRLLC, which consisted of a 49% increase in volume, which was partially offset by a sales price decrease of \$0.21 per gallon

18

compared to the year ended August 31, 2001. The average sales price of propane decreased by \$0.21 per gallon, which was partially offset by a volume increase of 28% compared to the year ended August 31, 2001. Refined fuels and propane volume increases were primarily a result of acquisitions, with the most substantial acquisition taking place in November 2001, when the Company purchased for \$39.0 million, the wholesale energy business of Farmland Industries, Inc. (Farmland), as well as all interest in Country Energy, LLC a joint venture formerly with Farmland.

Country Operations farm supply sales of \$612.5 million decreased by \$51.3 million (8%) during the year ended August 31, 2002 compared to the year ended August 31, 2001. The decrease is primarily due to a reduction in the average retail sales price of energy products compared to the prior year.

Company-wide grain and oilseed net sales of \$3.5 billion increased \$29.0 million (1%) during the year ended August 31, 2002 compared to the year ended August 31, 2001. Sales for the year ended August 31, 2002 were \$3,281.4 million and \$862.0 million from Grain Marketing and Country Operations segments, respectively. Sales for the year ended August 31, 2001 were \$3,416.2 million and \$913.4 million from Grain Marketing and Country Operations segments, respectively. The Company eliminated all intracompany sales from the Country Operations segment to the Grain Marketing segment, of \$685.4 million and \$900.6 million, for the years ended August 31, 2002 and 2001, respectively. The net increase in sales was primarily due to an increase of \$0.28 (10%) per bushel in the average sales price of all grain and oilseed marketed by the Company, which was partially offset by a decrease in grain volume of 8% compared to the prior year.

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Processed Grains and Foods segment net sales of \$495.5 million decreased \$166.4 million (25%) during the year ended August 31, 2002 compared to the year ended August 31, 2001. Intracompany sales between segments were eliminated. The decrease in sales is primarily due to the formation of Horizon, a wheat flour milling and processing joint venture that was formed in January 2002. After that date, the Company accounted for operating results of Horizon under the equity method of accounting. The Company has a 24% interest in Horizon, and Cargill, Incorporated (Cargill) has a 76% interest. The Company is leasing five mills and related equipment to Horizon.

PATRONAGE DIVIDENDS. Patronage dividends received of \$3.9 million decreased \$2.1 million (35%) during the year ended August 31, 2002 compared to the year ended August 31, 2001, primarily due to reduced patronage dividends from cooperatives.

OTHER REVENUES. Other revenues of \$109.5 million decreased \$6.8 million (6%) during the year ended August 31, 2002 compared to the year ended August 31, 2001. The most significant changes were within the Energy segment, and Corporate and Other compared to the prior year.

COST OF GOODS SOLD. Cost of goods sold of \$6.9 billion decreased \$243.5 million (3%) during the year ended August 31, 2002, compared to the year ended August 31, 2001. The cost of all grains and oilseed procured by the Company through its Grain Marketing and Country Operations segments increased 10% compared to the year ended August 31, 2001 primarily due to a \$0.27 (10%) average cost per bushel increase, which was partially offset by a 8% decrease in volume. This increase was partially offset by decreases in cost of goods sold in the Processed Grains and Foods, Country Operations and Energy segments. Processed Grains and Foods segment cost of goods sold decreased by 26% compared to the year ended August 31, 2001, primarily due to the formation of Horizon, as previously described. Country Operations segment farm supply cost of goods sold decreased by 9% during the year ended August 31, 2002 compared to the prior year primarily due to the reduced cost of energy products. The Energy segment cost of goods sold decreased by 2% during the year ended August 31, 2002 compared to the prior year, primarily due to the dissolution of CRLLC, as previously discussed. However, the volumes of refined fuels that were not associated with the dissolution of CRLLC increased by 49%, which was partially offset by an average cost decrease of \$0.18 per gallon compared to the year ended August 31, 2001. The average cost of propane decreased by \$0.19 per gallon, which was partially offset by a 28% volume increase compared to the prior year. These volume increases were primarily the result of acquisitions.

MARKETING, GENERAL AND ADMINISTRATIVE. Marketing, general and administrative expenses of \$187.3 million for the year ended August 31, 2002 increased by \$3.2 million (2%) compared to the year

19

ended August 31, 2001. The net increase is primarily due to additional expenses resulting from Energy segment acquisitions, which was partially offset by reduced expenses within the Processed Grains and Foods segment due to the formation of Horizon described earlier.

INTEREST. Interest expense of \$42.5 million for the year ended August 31, 2002 decreased by \$19.0 million (31%) compared to the year ended August 31,

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2001. The average level of short-term borrowings decreased 24% and the average short-term interest rate decreased 3.6% during the year ended August 31, 2002 compared to the prior year. The net decrease in interest expense from short-term borrowings was partially offset by an increase due to an additional \$80.0 million of long-term debt from a private placement, of which \$25.0 million and \$55.0 million were issued in January and March 2001, respectively.

**EQUITY INCOME FROM INVESTMENTS.** Equity income from investments of \$58.1 million for the year ended August 31, 2002 increased by \$29.6 million (104%) compared to the year ended August 31, 2001. The increase was primarily attributable to decreased losses from Corporate and Other technology investments of \$15.1 million that was dissolved. In addition, earnings from Agronomy, and Processed Grains and Foods segments investments increased in fiscal year 2002 by \$6.1 million and \$5.8 million, respectively compared to the prior year.

**MINORITY INTERESTS.** Minority interests of \$15.4 million for the year ended August 31, 2002 decreased by \$19.7 million (56%) compared to the year ended August 31, 2001. The change in minority interests during the year ended August 31, 2002 compared to the prior year was primarily a result of less profitable operations within the Company's majority-owned subsidiaries and the dissolution of CRLLC. Substantially all minority interests relate to National Cooperative Refinery Association (NCRA) an approximately 74.5% owned subsidiary.

**INCOME TAXES.** Income tax expense of \$18.7 million for the year ended August 31, 2002 compares to a tax benefit of \$25.6 million for the year ended August 31, 2001, resulting in effective tax rates of a 12.9% expense and a 16.7% benefit, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2002 and 2001. An income tax benefit of \$34.2 million for the year ended August 31, 2001 resulted from a change in the tax rate applied to the Company's cumulative temporary differences between income for financial statement purposes and income used for tax reporting purposes. The Company's calculation of its patronage distribution using earnings for financial statement purposes rather than tax basis earnings prompted the rate change. The Company recorded income tax expense of \$18.7 million for the year ended August 31, 2002, which compares to \$8.6 million for the year ended August 31, 2001, exclusive of the \$34.2 million benefit related to the change in patronage determination described above. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

### COMPARISON OF THE YEARS ENDED AUGUST 31, 2001 AND 2000

**NET INCOME.** The Company's consolidated net income of \$178.6 million for the year ended August 31, 2001 represents a \$91.2 million (104%) increase compared to the year ended August 31, 2000. This net increase in profitability is primarily attributable to an increase in income from the Company's Energy segment, which was partially offset by decreases from the Agronomy and Grain Marketing segments, and Corporate and Other.

**NET SALES.** Consolidated net sales of \$7.5 billion for the year ended August 31, 2001 represent a \$784.2 million (10%) decrease compared to the year ended August 31, 2000.

The Company did not record Agronomy sales during the year ended August 31, 2001 compared to sales of \$768.4 million net of intracompany elimination of \$40.3 million from the Agronomy segment to the Country Operations segment for the year ended August 31, 2000. During 2000, the Company exchanged its agronomy operations for an ownership interest in Agriliance, LLC, owned indirectly

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through United Country Brands, LLC. As of July 31, 2000, the Company recorded results of its 25% ownership in Agriliance, LLC on the equity method, and as such, income or losses are reflected in equity income from investments.

20

Energy net sales of \$2.7 billion decreased \$194.5 million (7%) during the year ended August 31, 2001 compared to the year ended August 31, 2000. Sales for the years ended August 31, 2001 and 2000 were \$2,781.2 million and \$2,959.6 million, respectively. The Company eliminated all intracompany sales from the Energy segment to the Country Operations segment of \$71.8 million and \$55.7 million for the years ended August 31, 2001 and 2000, respectively. The decrease is primarily attributable to a net volume decrease compared to the year ended August 31, 2000 due to the dissolution of CRLLC effective December 31, 2000. The Company owned 58% of CRLLC through its ownership in NCRA and therefore consolidated CRLLC business activity up to the time of dissolution. The decrease related to the dissolution was partially offset by an increase in refined fuels that were not part of CRLLC of \$0.12 per gallon in the average sales price and 2% in volume compared to the year ended August 31, 2000. In addition, propane volumes increased by 39% and the average sales price of propane increased by \$0.21 per gallon compared to the year ended August 31, 2000.

Country Operations farm supply sales of \$663.9 million increased \$73.0 million (12%) for the year ended August 31, 2001 compared to the year ended August 31, 2000. The net increase is primarily attributable to average sales price increases in agronomy and energy products and additional volumes from acquisitions.

Company-wide grain and oilseed net sales of \$3.4 billion increased \$27.7 million (1%) during the year ended August 31, 2001 compared to the year ended August 31, 2000. Sales for the year ended August 31, 2001 were \$3,416.2 million and \$913.4 million from Grain Marketing and Country Operations segments, respectively. Sales for the year ended August 31, 2000 were \$3,375.6 million and \$819.0 million from Grain Marketing and Country Operations segments, respectively. The Company eliminated all intracompany sales from the Country Operations segment to the Grain Marketing segment of \$900.6 million and \$793.3 million for the years ended August 31, 2001 and 2000, respectively. This increase in sales was primarily due to an increase of \$0.03 (1%) per bushel in the average sales price while volumes were essentially unchanged on all grain and oilseed marketed by the Company compared to the prior year.

Processed Grains and Foods segment net sales of \$661.9 million increased \$78.1 million (12%) for the year ended August 31, 2001 compared to the year ended August 31, 2000. Intracompany sales between segments were eliminated. This increase is primarily due to foods acquisitions, which increased sales by \$47.3 million compared to the prior year. In addition, sales of processed wheat increased by \$22.6 million compared to the prior year, primarily due to increased volumes from the acquisition of a wheat mill in April 2000 and an increase in the average sales price of all wheat products. Sales of processed oilseed increased by \$8.8 million primarily due to volume and price increases compared to the prior year.

OTHER REVENUES. Other revenues of \$116.3 million increased \$18.8 million (19%) for the year ended August 31, 2001 compared to the year ended August 31, 2000. The most significant increases were within the Country Operations and Grain Marketing segments. These increases were partially offset by a prior year

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gain of \$7.4 million from the sale of 1.455% of the Company's economic interest in Agrilience, LLC which was recorded in March 2000 in the Agronomy segment.

**COST OF GOODS SOLD.** Cost of goods sold of \$7.2 billion decreased \$869.6 million (11%) during the year ended August 31, 2001 compared to the year ended August 31, 2000. The decrease was primarily attributable to the impact of recording the Company's share of its agronomy operations on the equity method in 2001 as previously discussed, which caused a reduction in cost of goods sold of \$764.7 million compared to the year ended August 31, 2000. In addition, during the year ended August 31, 2001 the cost of goods sold of the Energy segment decreased by 11% primarily due to a decrease in volume as a result of the dissolution of CRLLC. The decrease was partially offset by volume and price increases on refined fuels purchases that were not part of CRLLC, and propane products. The cost of all grain and oilseed procured by the Company through its Grain Marketing and Country Operations segments increased 1% compared to the previous year end primarily due to a \$0.03 (1%) cost per bushel increase with volumes remaining essentially unchanged. Country Operations segment farm supply cost of goods sold increased by 14% during the year ended August 31, 2001 compared to the year ended August 31, 2000, primarily due to cost increases in agronomy and energy products and higher volumes due to acquisitions. Cost of goods sold within the Processed Grains and Foods segment increased by 13% due to volume increases primarily as a result of acquisitions.

21

**MARKETING, GENERAL AND ADMINISTRATIVE.** Marketing, general and administrative expenses of \$184.0 million for the year ended August 31, 2001 increased by \$28.7 million (19%) compared to the year ended August 31, 2000. This increase is primarily due to increases in expenses within the Processed Grains and Foods segment of \$23.4 million, which is primarily due to additional expenses of \$12.9 million related to acquisitions and a loss on assets held for disposal of \$7.5 million related to the closing of a wheat mill compared to the prior year. In addition, expenses within the Country Operations segment increased by \$9.3 million primarily due to acquisitions. These increases were partially offset by a decrease in expenses of \$12.3 million in the Agronomy segment.

**INTEREST.** Interest expense of \$61.4 million for the year ended August 31, 2001 increased by \$3.8 million (7%) compared to the year ended August 31, 2000. The average level of short-term borrowings increased 11% and the average short-term interest rate decreased 0.55% during the year ended August 31, 2001 compared to the previous year. Interest expense also increased due to an additional \$80.0 million of long-term debt from a private placement of which \$25.0 million and \$55.0 million were issued in January and March 2001, respectively.

**EQUITY INCOME FROM INVESTMENTS.** Equity income from investments of \$28.5 million for the year ended August 31, 2001 increased by \$0.2 million (1%) compared to the year ended August 31, 2000. The increase was primarily attributable to increases in earnings from investments within the Agronomy and Processed Grains and Foods segments of \$11.7 million and \$11.1 million, respectively, during the year ended August 31, 2001 compared to the prior year. The Company records its 25% share of its Agronomy segment investment in Agrilience, LLC on the equity method as previously discussed. The net increase was partially offset by losses from technology investments of \$15.1 million and decreased earnings of \$4.9 million and \$1.9 million from Energy and Grain Marketing segment investments, respectively.

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MINORITY INTERESTS. Minority interests of \$35.1 million for the year ended August 31, 2001 increased by \$10.6 million (43%) compared to the year ended August 31, 2000. Substantially all minority interests were related to NCRA. This net change in minority interests was reflective of more profitable operations within the Company's majority-owned subsidiaries during the year ended August 31, 2001 compared to the previous year.

INCOME TAXES. An income tax benefit of \$25.6 million for the year ended August 31, 2001 compares to expense of \$3.9 million for the year ended August 31, 2000 resulting in effective tax rates of 16.7% benefit and 4.3% expense, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2001 and 2000. An income tax benefit of \$34.2 million for the year ended August 31, 2001 resulted from a change in the tax rate applied to the Company's cumulative temporary differences between income for financial statement purposes and income used for tax reporting purposes. The Company's change in the calculation of its patronage distribution using earnings for financial statement purposes rather than tax basis earnings prompted the rate change. The Company recorded an income tax expense of \$8.6 million and \$3.9 million for the years ended August 31, 2001 and 2000 excluding the effects of the adjustment. The income taxes and effective tax rates vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

### LIQUIDITY AND CAPITAL RESOURCES

#### CASH FLOWS FROM OPERATIONS

Operating activities of the Company used net cash of \$41.7 million during the year ended August 31, 2002. Net income of \$126.1 million and net non-cash expenses of \$62.4 million were offset by increased working capital requirements of \$230.2 million. This increase in working capital requirements is primarily due to stronger commodity prices.

Operating activities of the Company provided net cash of \$252.8 million during the year ended August 31, 2001. Net income of \$178.6 million, net non-cash expenses of \$50.5 million and decreased working capital requirements of \$23.7 million provided this net cash from operating activities.

Operating activities of the Company provided net cash of \$128.4 million during the year ended August 31, 2000. Net income of \$87.4 million and net non-cash expenses of \$79.7 million were partially offset by increased working capital requirements of \$38.7 million.

22

#### CASH FLOWS FROM INVESTING ACTIVITIES

For the years ended August 31, 2002, 2001 and 2000, the net cash flows used in the Company's investing activities totaled \$141.8 million, \$69.1 million and \$184.9 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling \$140.2 million, \$97.6 million and \$153.8 million for the years ended August 31, 2002, 2001 and 2000, respectively. For the year ended August 31, 2003 the Company expects to spend approximately \$216.8 million for the acquisition of property, plant and equipment, which includes \$57.0 million of expenditures for the construction of an oilseed processing facility in Fairmont, Minnesota. Total expenditures related to the construction of the facility are projected to be approximately \$90.0 million, of which \$22.9 million was used for construction through the year ended August 31, 2002. Capital expenditures primarily related to the Environmental Protection Agency

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low sulfur fuel regulations required by 2006, are expected to be approximately \$340 million in total for the Company's Laurel, Montana and NCRA's McPherson, Kansas refineries over the next four years. It is expected that over 80% of the costs will be incurred at NCRA.

Investments made during the years ended August 31, 2002, 2001 and 2000 totaled \$6.2 million, \$14.2 million and \$35.3 million, respectively. Investments during the year ended August 31, 2000 included the purchase of an additional 10% interest in Ventura Foods, LLC, the Company's foods joint venture, for \$25.6 million. The Company has a 50% interest in that joint venture.

Acquisitions of intangibles were \$29.5 million, \$7.3 million and \$26.5 million for the years ended August 31, 2002, 2001 and 2000, respectively. During the year ended August 31, 2002, \$26.4 million of the acquisitions of intangibles were related to the purchase of Farmland's interest in its wholesale energy business, as previously discussed, and represents trademarks, tradenames and non-compete agreements. During the previous two years, the intangibles resulted primarily from the purchase of Rodriguez Festive Foods, Inc. in fiscal 2001 and the purchase of Sparta Foods, Inc. and the wholesale propane marketing business of Williams Energy Marketing and Trading Company in fiscal 2000.

During the year ended August 31, 2002 the changes in notes receivable resulted in a decrease of \$22.0 million primarily from related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the years ended August 31, 2001 and 2000 the changes in notes receivable resulted in increases of \$0.5 million and \$0.6 million, respectively.

Distributions to minority owners for the years ended August 31, 2002, 2001 and 2000 were \$7.4 million, \$19.3 million and \$21.1 million, respectively, and were primarily related to NCRA. For the years ended August 31, 2001 and 2000, NCRA's distributions also included the distributions made by CRLLC.

Partially offsetting cash outlays in investing activities were proceeds from the disposition of property, plant and equipment of \$20.2 million, \$35.3 million and \$7.7 million for the years ended August 31, 2002, 2001 and 2000, respectively. During the year ended August 31, 2002, the proceeds were primarily from disposals of propane plants in the Energy segment and of non-strategic agri-operations locations in the Country Operations segment. During the year ended August 31, 2001, the proceeds were primarily from the disposal of feed plants and other assets in the Country Operations segment. Also partially offsetting cash usages were distributions received from joint ventures and investments totaling \$44.0 million, \$31.8 million and \$43.9 million for the years ended August 31, 2002, 2001 and 2000, respectively.

### CASH FLOWS FROM FINANCING ACTIVITIES

The Company finances its working capital needs through short-term lines of credit with a syndication of banks. In May 2002, the Company renewed its 364-day credit facility of \$550.0 million committed. In addition to these lines of credit, the Company has a 364-day credit facility dedicated to NCRA, with a syndication of banks in the amount of \$30.0 million committed. On August 31, 2002 and 2001, the Company had total short-term indebtedness outstanding on these various facilities and other short-term notes payable totaling \$332.5 million and \$97.2 million, respectively. The increase from 2001 to 2002 is primarily due to increases in inventories in the Grain Marketing and Energy segments related to higher grain prices and the purchase of Farmland's wholesale energy business, discussed previously.

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In June 1998, the Company established a five-year revolving credit facility with a syndication of banks, with \$200.0 million committed. On August 31, 2002 and 2001 the Company had outstanding balances on this facility of \$75.0 million and \$45.0 million, respectively. The outstanding balance on August 31, 2002 includes \$30.0 million, which was drawn during the first quarter of the fiscal year.

The Company has financed its long-term capital needs in the past, primarily for the acquisition of property, plant and equipment, with long-term agreements through the banks for cooperatives. In June 1998, the Company established a long-term credit agreement through the banks for cooperatives. This facility committed \$200.0 million of long-term borrowing capacity to the Company, with repayments through fiscal year 2009. The amount outstanding on this credit facility was \$144.3 million and \$150.9 million on August 31, 2002 and 2001, respectively. Repayments of \$6.6 million were made on this facility during each of the years ended August 31, 2002 and 2001.

Also in June 1998, the Company issued a private placement with several insurance companies for long-term debt in the amount of \$225.0 million. Repayments will be made in equal annual installments of \$37.5 million each in the years 2008 through 2013.

In January 2001, the Company entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of \$25.0 million will be repaid in equal annual installments of approximately \$3.6 million, in the years 2005 through 2011. A subsequent note for \$55.0 million was issued in March 2001, related to the private shelf facility. The \$55.0 million note will be repaid in equal annual installments of approximately \$7.9 million, in the years 2005 through 2011.

The Company, through NCRA, had revolving term loans outstanding of \$18.0 million and \$21.0 million for the years ended August 31, 2002 and 2001, respectively. Repayments of \$3.0 million were made during each of the years ended August 31, 2002 and 2001.

On August 31, 2002, the Company had total long-term debt outstanding of \$572.1 million, of which \$255.0 million was bank financing, \$305.0 million was private placement proceeds and \$12.1 million was industrial development revenue bonds, capitalized leases and other notes and contracts payable. On August 31, 2001, the Company had long-term debt outstanding of \$560.0 million. The aggregate amount of long-term debt payable as of August 31, 2002 was as follows (dollars in thousands):

2002 .....	\$ 89,032
2003 .....	15,079
2004 .....	34,511
2005 .....	34,938
2006 .....	41,709
Thereafter .....	356,855
	-----
	\$572,124
	=====

During the years ended August 31, 2002, 2001 and 2000, the Company borrowed on a long-term basis \$30.0 million, \$116.9 million and \$49.9 million, respectively, and during the same periods repaid long-term debt of \$18.0 million, \$67.4 million and \$22.5 million, respectively.

On October 18, 2002 (fiscal year 2003) the Company entered into a private



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placement with several insurance companies for long-term debt in the amount of \$175.0 million which was layered into two series. The first series of \$115.0 million has an interest rate of 4.96% and will be repaid in equal semi-annual installments of approximately \$8.8 million during the years 2007 through 2013. The second series of \$60.0 million has an interest rate of 5.60% and will be repaid in equal semi-annual installments of approximately \$4.6 million during fiscal years 2012 through 2018.

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Effective September 1, 2000, patronage refunds are calculated based on earnings for financial statement purposes rather than based on amounts reportable for federal income tax purposes as had been the Company's practice prior to this date. This change was authorized through a bylaw amendment at the Company's annual meeting on December 1, 2000. The patronage earnings from the fiscal year ended August 31,

24

2001 were distributed in January 2002. The cash portion of this distribution, deemed by the Board of Directors to be 30% was \$40.1 million. During the years ended August 31, 2001 and 2000, the Company distributed cash patronage of \$26.1 million and \$17.9 million, respectively.

Cash patronage for the year ended August 31, 2002, deemed by the Board of Directors to be 30% and to be distributed in fiscal year 2003, is expected to be approximately \$27.9 million and is classified as a current liability on the August 31, 2002 consolidated balance sheet.

The current equity redemption policy, as authorized by the Board of Directors, allows for the redemption of capital equity certificates held by inactive direct members and patrons and active direct members and patrons at age 72 or death that were of age 61 or older on June 1, 1998. For active direct members and patrons who were of age 60 or younger on June 1, 1998, and member cooperatives, equities older than 10 years will be redeemed annually based on a prorata formula where the numerator is dollars available for such purpose as determined by the Board of Directors, and the denominator is the sum of the patronage certificates older than 10 years held by such eligible members and patrons. For the years ended August 31, 2002, 2001 and 2000, the Company redeemed patronage related equities in accordance with authorization from the Board of Directors in the amounts of \$31.1 million, \$18.7 million and \$28.7 million, respectively. Total redemptions related to the year ended August 31, 2002, to be distributed in fiscal year 2003, are expected to be approximately \$28.6 million and are classified as a current liability on the August 31, 2002 consolidated balance sheet.

During the year ended May 31, 1997, the Company offered securities in the form of Equity Participation Units (EPUs) in its Wheat Milling and Oilseed Processing and Refining Defined Business Units. These EPUs gave the holder the right and obligation to deliver to the Company a stated number of bushels in return for a prorata share of the undiluted grain based patronage earnings of these respective Defined Business Units. The offering resulted in the issuance of such equity with a stated value of \$13,870,000 and generated additional capital and cash of \$10,837,000, after issuance cost and conversion privileges. Conversion privileges allowed a member to elect to use outstanding patrons' equities for the payment of up to one-sixth the purchase price of the EPUs. During 2001, the Company's Board of Directors adopted a resolution to issue, at no charge, to each Defined Member of the Oilseed Processing and Refining Defined Business Unit an additional 1/4 Equity Participation Unit (EPU) for

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each EPU held, due to increased crush volume.

In August 2001, the CHS Cooperatives Board of Directors approved and consummated a plan to end the Defined Investment Program. The Company redeemed all of the EPUs and allocated the assets of the Oilseed Processing and Refining and Wheat Milling Defined Business Units to the Company as provided in the plan. Due to loss carry-forwards incurred by the Wheat Milling Defined Business Unit the plan also provided for the cancellation of all outstanding Preferred Capital Certificates issued to the EPU holders, totaling \$0.2 million. The plan further provided to the Oilseed Processing Defined Member EPU holders for the redemption of all outstanding Preferred Capital Certificates issued and a 100% cash distribution during 2002 for the patronage refunds earned for the fiscal year ended August 31, 2001.

The Board of Directors authorized the sale and issuance of up to 50,000,000 shares of 8% Preferred Stock at a price of \$1.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering the Preferred Stock. The registration statement was declared effective on October 31, 2001 and sales of the Preferred Stock were \$9.3 million through August 31, 2002. Expenses related to the issuance of the Preferred Stock were \$3.4 million through the same period. Sales of the preferred shares have been suspended.

### OFF BALANCE SHEET FINANCING ARRANGEMENTS

#### LEASE COMMITMENTS:

The Company has commitments under operating leases for various refinery, manufacturing and transportation equipment, rail cars, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the leases.

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income for the years ended August 31, 2002, 2001 and 2000 was \$30.2 million, \$35.5 million and \$38.0 million, respectively.

25

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2002, were as follows:

	TOTAL
	-----
	(DOLLARS IN MILLIONS)
2003 .....	\$ 33.0
2004 .....	24.2
2005 .....	16.0
2006 .....	8.9
2007 .....	5.1
Thereafter .....	4.8
	-----
Total minimum future lease payments .....	\$ 92.0
	=====

#### GUARANTEES:

The Company is a guarantor for lines of credit for related companies totaling up to \$86.2 million, of which \$45.1 million was outstanding as of August 31, 2002. The Company's bank covenants allow maximum guarantees of

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\$100.0 million. All outstanding loans with respective creditors are current as of August 31, 2002.

### DEBT:

There is no material off balance sheet debt.

### CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the use of estimates as well as management's judgments and assumptions regarding matters that are subjective, uncertain or involve a high degree of complexity, all of which affect the results of operations and financial condition for the periods presented. The Company believes that of its significant accounting policies, the following may involve a higher degree of estimates, judgments, and complexity.

### ALLOWANCES FOR DOUBTFUL ACCOUNTS

The allowances for doubtful accounts are maintained at a level considered appropriate by management based on analyses of credit quality for specific accounts, historical trends of charge-offs and recoveries, and current and projected economic and market conditions. Different assumptions, changes in economic circumstances or the deterioration of the financial condition of the Company's customers could result in additional provisions to the allowances for doubtful accounts and increased bad debt expense.

### INVENTORY VALUATION AND RESERVES

Grain, processed grain, oilseed and processed oilseed are stated at net realizable values, which approximates market values. All other inventories are stated at the lower of cost or market. The cost of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out (LIFO) method; all other energy inventories are valued on the first-in, first-out (FIFO) and average cost methods. Estimates are used in determining the net realizable value of grain and oilseed and processed grain and oilseed inventories. These estimates include the measurement of grain in bins and other storage facilities, which use formulas in addition to actual measurements taken to arrive at appropriate quantity. Other determinations made by management include quality of the inventory and estimates for freight. Grain shrink reserves and other reserves that account for spoilage also affect inventory valuation. If estimates regarding the valuation of inventory or the adequacy of reserves are less favorable than management's assumptions, then additional reserves or write-downs of inventory may be required.

### DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered

practicable for minimizing risk. The Company does not use derivatives for speculative purposes. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and in part to the Company's assessment of its exposure from expected price fluctuations. The Company also manages its risks by entering into fixed price purchase contracts with pre-approved producers and establishing appropriate limits for individual suppliers. Fixed price sales

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contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The Company is exposed to loss in the event of nonperformance by the counterparties to the contracts. However, the Company does not anticipate nonperformance by counterparties. The fair value of futures and options contracts are determined primarily from quotes listed on regulated commodity exchanges. Fixed price purchase and sales contracts are with various counterparties, and the fair values of such contracts are determined from the market price of the underlying product.

The Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, as amended, a standard related to the accounting for derivative transactions and hedging activities, effective September 1, 2000. Such accounting is complex, evidenced by significant interpretations of the primary accounting standard, which continues to evolve.

### PENSION AND POSTRETIREMENT BENEFITS

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates, and other factors. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension and other postretirement obligations and future expense.

### DEFERRED TAX ASSETS

The Company assesses whether a valuation allowance is necessary to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income as well as other factors in assessing the need for the valuation allowance, in the event that the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

### LONG-LIVED ASSETS

Depreciation and amortization of the Company's property, plant and equipment is provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets. Economic circumstances or other factors may cause management's estimates of expected useful lives to differ from actual.

All long-lived assets, including property plant and equipment, goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows at least annually for goodwill, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows and may differ from actual.

### ENVIRONMENTAL LIABILITIES

Liabilities related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of these costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which

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recovery is considered probable. It is

27

often difficult to estimate the cost of environmental compliance, remediation and potential claims given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternate cleanup methods. All liabilities are monitored and adjusted as new facts or changes in law or technology occur and management believes adequate provisions have been made for environmental liabilities. Changes in facts or circumstances may have an adverse impact on the Company's financial results.

### EFFECT OF INFLATION AND FOREIGN CURRENCY TRANSACTIONS

The Company believes that inflation and foreign currency fluctuations have not had a significant effect on its operations.

### RECENT ACCOUNTING PRONOUNCEMENTS

Effective September 1, 2001 the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this statement does not have a material affect on the Company.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 retains and expands upon the fundamental provisions of existing guidance related to the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Generally, the provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement does not have a material affect on the Company.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144. The costs addressed in SFAS No. 146 include, but are not limited to, termination benefits, costs to terminate a contract that is not a capital lease and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Item 8 is hereby amended to replace the Company's financial statements for the years ended August 31, 2002, 2001 and 2000. The Company's financial statements which are included in this Form 10-K/A-2 following the signatures, are hereby incorporated by reference in this Item 8.

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28

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS FILED ON FORM 8-K

(a) (1) FINANCIAL STATEMENTS

The following financial statements and the Reports of Independent Accountants are filed as part of this Form 10-K/A-2.

	PAGE NO.
	-----
CENEX HARVEST STATES COOPERATIVES	
Consolidated Balance Sheets as of August 31, 2002 and 2001 .....	F-1
Consolidated Statements of Operations for the years ended	
August 31, 2002, 2001 and 2000 .....	F-2
Consolidated Statements of Equities and Comprehensive Income	
for the years ended August 31, 2002, 2001 and 2000 .....	F-4
Consolidated Statements of Cash Flows for the years ended	
August 31, 2002, 2001 and 2000 .....	F-6
Notes to Consolidated Financial Statements .....	F-7
Report of Independent Accountants .....	F-27
VENTURA FOODS, LLC, A NON-CONSOLIDATED 50% OWNED EQUITY INVESTMENT	
Independent Auditors' Report	F-28
Consolidated Balance Sheets as of March 31, 2003 and 2002	F-29
Consolidated Statements of Income for the years ended	
March 31, 2003 and 2002, the three months ended	
March 31, 2001 and the year ended December 31, 2000	F-30
Consolidated Statements of Members' Capital for the years ended	
March 31, 2003 and 2002, the three months ended	
March 31, 2001 and the year ended December 31, 2000	F-31
Consolidated Statements of Cash Flows for the years ended	
March 31, 2003 and 2002, the three months ended	
March 31, 2001 and the year ended December 31, 2000	F-32
Notes to Consolidated Financial Statements for the years ended	
March 31, 2003 and 2002, the three months ended	
March 31, 2001 and the year ended December 31, 2000	F-33

(a) (2) FINANCIAL STATEMENT SCHEDULES

Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a) (3) EXHIBITS

Item 15(a) (3) is amended to add the following exhibits:

23.3	Independent Auditors' Consent
23.4	Independent Auditors' Consent
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHS Inc.

By: /s/ JOHN SCHMITZ

Date: November 14, 2003

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John Schmitz  
EXECUTIVE VICE PRESIDENT  
AND CHIEF FINANCIAL OFFICER

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CONSOLIDATED BALANCE SHEETS  
AUGUST 31, 2002 AND 2001

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 108,192	\$ 113,458
Receivables .....	741,578	686,140
Inventories .....	759,663	510,443
Other current assets .....	140,944	60,995
	-----	-----
Total current assets .....	1,750,377	1,371,036
Investments .....	496,607	467,953
Property, plant and equipment .....	1,057,421	1,023,872
Other assets .....	177,322	194,458
	-----	-----
TOTAL ASSETS .....	\$3,481,727	\$3,057,319
	=====	=====
LIABILITIES AND EQUITIES		
CURRENT LIABILITIES:		
Notes payable .....	\$ 332,514	\$ 97,195
Current portion of long-term debt .....	89,032	17,754
Customer credit balances .....	26,461	38,486
Customer advance payments .....	169,123	109,135
Checks and drafts outstanding .....	84,251	87,808
Accounts payable .....	517,667	495,198
Accrued expenses .....	225,704	148,026
Patronage dividends and equity retirements payable .....	56,510	72,154
	-----	-----
Total current liabilities .....	1,501,262	1,065,756
Long-term debt .....	483,092	542,243
Other liabilities .....	118,280	99,906
Minority interests in subsidiaries .....	89,455	88,261
Commitments and contingencies		
Equities .....	1,289,638	1,261,153
	-----	-----
TOTAL LIABILITIES AND EQUITIES .....	\$3,481,727	\$3,057,319
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

F-1

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED AUGUST 31,



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	2002	2001	2000
	Restated (Note 16)	Restated (Note 16)	Restated (Note 16)
	(DOLLARS IN THOUSANDS)		
<b>REVENUES:</b>			
Net sales .....	\$7,156,454	\$7,464,242	\$8,248,413
Patronage dividends .....	3,885	5,977	5,494
Other revenues .....	109,459	116,254	97,471
	-----	-----	-----
Cost of goods sold .....	7,269,798	7,586,473	8,351,378
Marketing, general and administrative .....	6,937,956	7,181,433	8,051,057
	-----	-----	-----
Operating earnings .....	187,292	184,046	155,266
	-----	-----	-----
Interest .....	144,550	220,994	145,055
Equity income from investments .....	42,455	61,436	57,566
Minority interests .....	(58,133)	(28,494)	(28,325)
	-----	-----	-----
INCOME BEFORE INCOME TAXES .....	15,390	35,098	24,546
	-----	-----	-----
INCOME TAXES .....	144,838	152,954	91,268
	-----	-----	-----
NET INCOME .....	18,700	(25,600)	3,880
	-----	-----	-----
	\$ 126,138	\$ 178,554	\$ 87,388
	=====	=====	=====
<b>DISTRIBUTION OF NET INCOME:</b>			
Patronage refunds .....	\$ 92,900	\$ 128,900	\$ 87,400
Unallocated capital reserve .....	33,238	49,654	(12)
	-----	-----	-----
Net income .....	\$ 126,138	\$ 178,554	\$ 87,388
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

F-2

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F-3

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED AUGUST 31, 2002, 2001 AND 2000

CAPITAL EQUITY CERTIFICATES	NONPATRONAGE EQUITY CERTIFICATES
-----------------------------------	--

(DOLLARS IN THO

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BALANCES, SEPTEMBER 1, 1999 .....	\$ 912,294	\$28,785
Patronage and equity retirement determination .....	25,750	
Patronage distribution .....	41,182	
Equities retired .....	(28,615)	(82)
Equities issued .....	7,921	
Other, net .....	(178)	(194)
Comprehensive income:		
Net income .....		
Other comprehensive loss .....		
Total comprehensive income .....		
Patronage dividends and equity retirements payable .....	(17,474)	
	-----	-----
BALANCES, AUGUST 31, 2000 .....	940,880	28,509
Patronage and equity retirement determination .....	17,474	
Patronage distribution .....	60,304	
Equities retired .....	(18,662)	(74)
Equities issued .....	5,481	
Equity Participation Units issued .....		
Equity Participation Units redeemed .....		
Other, net .....	(120)	(277)
Comprehensive income:		
Net income .....		
Other comprehensive income .....		
Total comprehensive income .....		
Patronage dividends and equity retirements payable .....	(33,484)	
	-----	-----
BALANCES, AUGUST 31, 2001 .....	971,873	28,158
Patronage and equity retirement determination .....	33,484	
Patronage distribution .....	92,484	
Equities retired .....	(31,099)	(46)
Equities issued .....	2,600	
Preferred stock issued, net .....		
Preferred stock dividends .....		
Other, net .....	(106)	(339)
Comprehensive income:		
Net income .....		
Other comprehensive loss .....		
Total comprehensive income .....		
Patronage dividends and equity retirements payable .....	(28,640)	
	-----	-----
BALANCES, AUGUST 31, 2002 .....	\$1,040,596	\$27,773
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

F-4

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED AUGUST 31, 2002, 2001 AND 2000

OILSEED PROCESSING & REFINING EPUS	PATRONAGE REFUNDS	UNALLOCATED CAPITAL RESERVE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ALLOCATED CAPITAL RESERVE	TOT EQUI
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(DOLLARS IN THOUSANDS)					
\$ 4,188	\$ 40,250	\$115,883	\$ (1,170)	\$8,148	\$1,117
	17,250				43
	(57,500)	(1,588)			(17)
(6)		453		(28)	(28)
	87,400	(12)			7
			(1,257)		87
					(1)
	(26,220)				86
4,182	61,180	114,736	(2,427)	8,120	(43)
	26,220				43
	(87,400)	967			(26)
1,045		(1,045)			(18)
(5,227)		445		(70)	5
	128,900	49,654			(14)
			512		178
	(38,670)				179
--	90,230	164,757	(1,915)	8,050	(72)
	38,670				1,261
	(128,900)	(3,666)			72
		(3,428)			(40)
		(240)			(31)
		100			2
	92,900	33,238			5
			(49,982)		126
	(27,870)				(49)
\$ --	\$ 65,030	\$190,761	\$ (51,897)	\$8,050	76
					(56)

The accompanying notes are an integral part of the consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31,

	2002	2001
	(DOLLARS IN THOUSANDS)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income .....	\$ 126,138	\$ 178,500
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization .....	103,986	109,100
Noncash net income from equity investments .....	(58,133)	(28,400)
Minority interests .....	15,390	35,000
Noncash portion of patronage dividends received .....	(2,327)	(3,800)
(Gain) loss on sale of property, plant and equipment .....	(6,418)	(13,900)
Deferred tax expense (benefit) .....	4,400	(46,600)
Other, net .....	5,467	(800)
Changes in operating assets and liabilities:		
Receivables .....	(32,881)	147,600
Inventories .....	(259,209)	37,500
Other current assets and other assets .....	(88,941)	(24,100)
Customer credit balances .....	(12,025)	1,700
Customer advance payments .....	59,988	(22,800)
Accounts payable and accrued expenses .....	93,802	(129,200)
Other liabilities .....	9,079	13,000
	(41,684)	252,800
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment .....	(140,169)	(97,600)
Proceeds from disposition of property, plant and equipment .....	20,205	35,200
Investments .....	(6,211)	(14,200)
Equity investments redeemed .....	37,689	30,100
Investments redeemed .....	6,310	1,600
Changes in notes receivable .....	(22,031)	500
Acquisitions of intangibles .....	(29,501)	(7,300)
Distribution to minority owners .....	(7,413)	(19,200)
Other investing activities, net .....	(685)	1,700
	(141,806)	(69,000)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Changes in notes payable .....	235,319	(120,700)
Long-term debt borrowings .....	30,000	116,800
Principal payments on long-term debt .....	(17,968)	(67,300)
Changes in checks and drafts outstanding .....	(3,557)	3,700
Proceeds from sale of preferred stock, net of expenses .....	5,897	
Preferred stock dividends paid .....	(240)	
Retirements of equity .....	(31,145)	(18,700)
Equity Participation Units redeemed .....		(14,200)
Cash patronage dividends paid .....	(40,082)	(26,100)
	178,224	(126,600)
	-----	-----
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> .....	(5,266)	57,000
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b> .....	113,458	56,300

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CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 108,192	\$ 113,4
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

F-6

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION -- Effective August 5, 2003, Cenex Harvest States Cooperatives changed its name to CHS, Inc. CHS, Inc. (CHS, Cenex Harvest States, CHS Cooperatives or the Company) is an agricultural cooperative organized for the mutual benefit of its members. Members of the cooperative are located throughout the United States. In addition to grain marketing, wheat milling, oilseed processing and refining and foods, the Company provides its patrons with energy and agronomy products as well as other farm supplies. Sales are both domestic and international.

Effective September 1, 2000, the Company's Board of Directors approved a resolution providing for the computation of patronage distributions based on earnings for financial statement purposes rather than federal income tax basis earnings. On December 1, 2000, this resolution was ratified by the Company's members, the by-laws were amended and beginning with fiscal year 2001 patronage distributions have been calculated based on financial statement earnings. The by-laws further provide that an amount of up to 10% of the distributable annual net savings from patronage sources be added to the unallocated capital reserve as determined by the Board of Directors.

CONSOLIDATION -- The consolidated financial statements include the accounts of CHS Cooperatives and all of its wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative Refinery Association (NCRA). The effects of all significant intercompany transactions have been eliminated.

On September 1, 1999, NCRA and Farmland Industries, Inc. (Farmland) formed Cooperative Refining, LLC (CRLLC), which was established to operate and manage the refineries and related pipelines and terminals of NCRA and Farmland. On December 31, 2000, NCRA and Farmland signed an Agreement of Dissolution and dissolved CRLLC.

During 2000, the Company entered into a series of transactions, the result of which was the exchange of its agronomy operations, consisting primarily of its interests in and ownership of the Cenex/Land O'Lakes Agronomy Company and Agro Distribution, LLC and related entities for a 25% equity ownership interest in Agriliance, LLC (Agriliance). Agriliance is a distributor of crop nutrients, crop protection products and other agronomy inputs and services formerly owned by the Company, Land O'Lakes, Inc. (Land O'Lakes) and Farmland. The company accounts for the Agriliance investment under the equity method.

During 2002 and 2001, the Company had various other acquisitions, which

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have been accounted for using the purchase method of accounting. Operating results of the acquisitions are included in the consolidated financial statements since the respective acquisition dates. The respective purchase prices were allocated to the assets and liabilities acquired based upon the estimated fair values. The excess purchase price over the estimated fair values of the net assets acquired has been reported as identifiable intangible assets and goodwill.

**CASH EQUIVALENTS** -- Cash equivalents include short-term highly liquid investments with original maturities of three months or less at date of acquisition.

**INVENTORIES** -- Grain, processed grain, oilseed and processed oilseed are stated at net realizable values which approximates market values. All other inventories are stated at the lower of cost or market. The cost of certain energy inventories (wholesale refined products, crude oil and asphalt) is determined on the last-in, first-out (LIFO) method; all other energy inventories are valued on the first-in, first-out (FIFO) and average cost methods.

**DERIVATIVE FINANCIAL INSTRUMENTS** -- The Company enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and in part to the Company's assessment of its

F-7

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exposure from expected price fluctuations. The Company also manages its risks by entering into fixed price purchase contracts with preapproved producers and establishing appropriate limits for individual suppliers. Fixed price sales contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The Company is exposed to loss in the event of nonperformance by the counterparties to the contracts. However, the Company does not anticipate nonperformance by counterparties.

Commodity trading in futures and options contracts is a natural extension of cash market trading. The commodity futures and options markets have underlying principles of increased liquidity and longer trading periods than the cash market, and hedging is one method of reducing exposure to price fluctuations. The Company's use of the derivative instruments described above reduces the effects of price volatility, thereby protecting against adverse short-term price movements while somewhat limiting the benefits of short-term price movements. Changes in market value of the derivative instruments described above are recognized in the consolidated statements of operations in the period such changes occur. The fair value of futures and options contracts are determined primarily from quotes listed on regulated commodity exchanges. Fixed price purchase and sales contracts are with various counterparties, and the fair values of such contracts are determined from the market price of the

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underlying product. At August 31, 2002, the Company's derivative assets and liabilities were \$53.8 million and \$67.9 million, respectively.

COMMODITY PRICE RISK. The Company utilizes futures and options contracts offered through regulated commodity exchanges to reduce risk. The Company is exposed to risk of loss in the market value of inventories and fixed or partially fixed purchase and sale contracts. So as to reduce that risk, the Company generally takes opposite and offsetting positions using future contracts or options. Certain commodities cannot be hedged with futures or options contracts because such contracts are not offered for these commodities by regulated commodity exchanges. Inventories and purchase contracts for those commodities are hedged with forward sales contracts, to the extent practical, so as to arrive at a net commodity position within the formal position limits set by the Company and deemed prudent for each of those commodities. Commodities for which future contracts and options are available are also typically hedged first in this manner, with futures and options used to hedge within position limits that portion not covered by forward contracts. These futures and options contracts and forward purchase and sales contracts used to hedge against price level change risks are effective economic hedges of specified risks, but they are not designated as and accounted for as hedging instruments for accounting purposes.

Unrealized gains and losses on futures contracts and options used as economic hedges of grain and oilseed inventories and fixed price contracts are recognized in cost of goods sold for financial reporting. Inventories and fixed price contracts are marked to market so that gains or losses on the derivative contracts are offset by gains or losses on inventories and fixed price contracts during the same accounting period.

Through August 31, 2000, unrealized gains and losses on futures contracts and options used to hedge energy inventories and fixed price contracts were deferred until such future contracts and options were closed. Effective September 1, 2000, those gains and losses are recognized as a component of net income for financial reporting. The inventories hedged with these derivatives are valued at lower of cost or market, and effective September 1, 2000, the fixed price contracts are marked to market. Some derivatives related to propane in the Energy segment meet the normal purchase and sales exemption, and thus are not required to be marked to fair value.

A 10% adverse change in market prices would not materially affect the Company's results of operations, financial position or liquidity, since the Company's operations have effective economic hedging requirements as a general business practice.

F-8

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTEREST RATE RISK. The Company manages interest expense using a mix of fixed and floating rate debt. These debt instruments are carried at amounts approximating estimated fair value. Short-term debt used to finance inventories and receivables is represented by notes payable within thirty days or less so that the blended interest rate to the Company for all such notes approximates current market rates. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates as to minimize the

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effect of market interest rate changes. The effective interest rate to the Company on fixed rate debt outstanding on August 31, 2002 was approximately 6.4%; a 10% adverse change in market rates would not materially affect the Company's results of operations, financial position or liquidity.

In August 2002, the Company entered into interest rate swap instruments related to private placement debt issued on October 18, 2002. These derivative instruments are designated and effective as cash flow hedges for accounting purposes, and the changes in the fair values of these instruments are recorded as a component of other comprehensive income. The Company expects to record operating losses through interest expense of \$0.8 million during the year ended August 31, 2003 related to these derivative instruments.

**FOREIGN CURRENCY RISK.** The Company conducts essentially all of its business in U.S. dollars and had minimal risk regarding foreign currency fluctuations on August 31, 2002. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply.

The Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, as amended, related to the accounting for derivative transactions and hedging activities, effective September 1, 2000. The effect of the adoption did not have a material effect on the Company's earnings or financial position.

**INVESTMENTS --** Investments in other cooperatives are stated at cost, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded at the time qualified written notices of allocation are received. Joint ventures and other investments, in which the Company has significant ownership and influence, but not control, are accounted for in the consolidated financial statements under the equity method of accounting. Investments in other debt and equity securities are considered available for sale financial instruments and are stated at market value, with unrealized amounts included as a component of accumulated other comprehensive income (loss).

**PROPERTY, PLANT AND EQUIPMENT --** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets (primarily 15 to 40 years for land improvements and buildings and 3 to 20 years for machinery, equipment, office and other). The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in operations. Expenditures for maintenance and repairs and minor renewals are expensed, while costs of major renewals and betterments are capitalized.

The Company periodically reviews property, plant and equipment and other long-lived assets in order to assess recoverability based on projected income and related cash flows on an undiscounted basis. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

**GOODWILL AND OTHER INTANGIBLE ASSETS --** Effective September 1, 2001 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other



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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets." This statement discontinued the amortization of goodwill and indefinite-lived intangible assets, subject to periodic impairment testing. At August 31, 2001, goodwill (net of accumulated amortization) prior to the adoption of SFAS No. 142, was \$29.2 million and was included as a component of other assets. The effect of adopting the new standard will reduce goodwill amortization expense by approximately \$2.0 million annually. The Company has completed its transitional impairment testing and no changes to the carrying value of goodwill and other intangible assets were required as a result of the adoption of SFAS No. 142. Subsequent impairment testing will take place annually as well as when a triggering event indicating impairment may have occurred. In addition, the classification of the intangible assets was reviewed, along with the remaining useful lives of intangibles being amortized, and no changes were required.

The Company's net income, net of taxes, of retroactive application of the discontinuance of the amortization of goodwill as if SFAS No. 142 had been in effect during the years ended August 31, 2001 and 2000 would have been \$181.1 million and \$88.5 million, respectively. For the years ended August 31, 2001 and 2000, discontinued amortization expense of goodwill included in other assets would have been \$1.9 million and \$0.8 million, respectively, and included in equity investments would have been \$0.7 million and \$0.3 million, respectively.

REVENUE RECOGNITION -- Grain and oilseed sales are recorded at time of settlement. All other sales are recognized upon shipment and transfer of title to customers. Amounts billed to a customer in a sale transaction related to shipping and handling are included in sales. Country Operations segment services revenue and rebates are included in other revenues.

ENVIRONMENTAL EXPENDITURES -- Liabilities related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of these costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is considered probable. Liabilities are monitored and adjusted as new facts or changes in law or technology occur. Environmental expenditures are capitalized when such costs provide future economic benefits.

INCOME TAXES -- The Company is a nonexempt agricultural cooperative and files a consolidated federal income tax return with its 80% or more owned subsidiaries. The Company is subject to tax on income from nonpatronage sources and undistributed patronage-sourced income. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, at each year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

In October 2001, members of NCRA ratified a resolution to compute patronage distributions based on earnings for financial statement purposes rather than amounts reportable for federal income tax purposes, and beginning with the year ended August 31, 2002, NCRA's patronage distributions have been

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calculated based on financial statement earnings.

COMPREHENSIVE INCOME -- The Company accounts for comprehensive income (defined as the change in equity of a business enterprise during a period from sources other than those resulting from investments by owners and distribution to owners) in accordance with Financial Accounting Standards Board (FASB) SFAS No. 130, "Reporting Comprehensive Income." At August 31, 2002, comprehensive income for the Company primarily includes net income and the effects of minimum pension liability adjustments. Total comprehensive income is reflected in the consolidated statements of equities and comprehensive income.

F-10

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS -- The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this statement does not have a material affect on the Company.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 retains and expands upon the fundamental provisions of existing guidance related to the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Generally, the provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement does not have a material affect on the Company.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144. The costs addressed in SFAS No. 146 include, but are not limited to, termination benefits, costs to terminate a contract that is not a capital lease and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

RECLASSIFICATIONS -- Certain amounts in the 2001 financial statements have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported net income, equities and

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comprehensive income, or cash flows.

### 2. RECEIVABLES

Receivables as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Trade .....	\$717,888	\$682,593
Other .....	49,846	28,864
	767,734	711,457
Less allowances for doubtful accounts .....	26,156	25,317
	\$741,578	\$686,140

F-11

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. RECEIVABLES (CONTINUED)

All international sales are denominated in U.S. dollars. International sales for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Africa .....	\$ 135	\$ 138	\$ 191
Asia .....	407	403	552
Europe .....	282	255	304
North America .....	298	317	324
South America .....	100	101	119
	\$1,222	\$1,214	\$1,490

### 3. INVENTORIES

Inventories as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	

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Grain and oilseed .....	\$393,095	\$237,498
Energy .....	229,981	163,710
Feed and farm supplies .....	91,138	76,570
Processed grain and oilseed .....	36,264	28,648
Other .....	9,185	4,017
	-----	-----
	\$759,663	\$510,443
	=====	=====

As of August 31, 2002, the Company valued approximately 26% of inventories, primarily related to energy, using the lower of cost, determined on the LIFO method, or market (28% as of August 31, 2001). If the FIFO method of accounting for these inventories had been used, inventories would have been higher than the reported amount by \$40.5 million and \$34.0 million at August 31, 2002 and 2001, respectively.

4. INVESTMENTS

Investments as of August 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Cooperatives:		
CF Industries, Inc. ....	\$152,996	\$152,996
National Bank for Cooperatives (CoBank) .....	30,069	33,080
Ag Processing, Inc. ....	25,797	24,967
Land O'Lakes, Inc. ....	26,232	24,604
Joint ventures:		
Ventura Foods, LLC .....	108,981	101,089
United Country Brands, LLC .....	86,175	74,457
Tacoma Export Marketing Company .....	8,414	11,638
Other .....	57,943	45,122
	-----	-----
	\$496,607	\$467,953
	=====	=====

F-12

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENTS (CONTINUED)

In March 2000, the Company purchased an additional 10% interest in Ventura Foods, LLC, its consumer products and packaging joint venture, for \$25.6 million, of which \$13.8 million was goodwill. The Company has a 50% interest in this joint venture. The following provides summarized information for Ventura Foods, LLC, balance sheets as of August 31, 2002 and 2001 and statements of operations for the twelve months ended August 31, 2002, 2001 and 2000:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Current assets .....	\$171,084	\$159,062
Non-current assets .....	231,045	221,000
Current liabilities .....	133,230	114,883

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Non-current liabilities ..... 90,819 104,144

	2002	2001	2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Net sales .....	\$1,013,475	\$925,962	\$896,941
Gross profit .....	181,217	161,405	143,394
Net income .....	75,368	71,148	55,115

Effective January 1, 2000, CHS Cooperatives, Farmland and Land O'Lakes created Agrilience, a distributor of crop nutrients, crop protection products and other agronomy inputs and services. At formation, Agrilience managed the agronomy marketing operations of CHS Cooperatives, Farmland and Land O'Lakes, with the Company exchanging the right to use its agronomy operations for 26.455% of the results of the jointly managed operations.

In March 2000, the Company sold 1.455% of its economic interest in Agrilience to Land O'Lakes, resulting in a gain of \$7.4 million. On July 31, 2000, the Company exchanged its ownership interest in the Cenex/Land O'Lakes Agronomy Company and in Agro Distribution, LLC, with a total investment of \$64.7 million, for a 25% equity interest in Agrilience. Agrilience ownership also includes Farmland (25%) and Land O'Lakes (50%). The interests of the Company and Farmland are held through equal ownership in United Country Brands, LLC, a joint venture holding company whose sole operations consist of the ownership of a 50% interest in Agrilience. Equity in the joint venture was recorded at historical carrying value of its ownership in Cenex/Land O'Lakes Agronomy Company and Agro Distribution, LLC and no gain or loss was recorded on the exchange. In July 2000, Agrilience secured its own financing, which is without recourse to the Company. Also in July 2000, Agrilience purchased the net working capital related to agronomy operations from each of its member owners, consisting primarily of trade accounts receivable and inventories, net of accounts payable.

The following provide summarized information for Agrilience balance sheets as of August 31, 2002 and 2001 and statements of operations for the years ended August 31, 2002 and 2001:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Current assets .....	\$922,958	\$956,496
Non-current assets .....	134,247	158,107
Current liabilities .....	700,903	802,341
Non-current liabilities .....	107,960	110,964

F-13

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENTS (CONTINUED)

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Net sales .....	\$3,625,849	\$4,072,248
Earnings from operations .....	57,604	50,423

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Net income ..... 47,044 25,053

The Company's contribution of its equity interest in Agriliance occurred on July 31, 2000, and as such, net sales, gross profits and net income for the one month ended August 31, 2000 have been excluded from the above summarized information of statements of operations, as they were not material.

Disclosure of the fair value of financial instruments to which the Company is a party includes estimates and assumptions which may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Financial instruments are carried at amounts that approximate estimated fair value. Investments in cooperatives and joint ventures have no quoted market prices and, as such, it is not practicable to estimate their fair value.

Various agreements with other owners of investee companies and a majority-owned subsidiary set out parameters whereby CHS Cooperatives may buy and sell additional interests in those companies, upon the occurrence of certain events, at fair values determinable as set forth in the specific agreements.

### 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of August 31, 2002 and 2001 is as follows:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Land and land improvements .....	\$ 63,045	\$ 55,092
Buildings .....	371,107	348,081
Machinery and equipment .....	1,470,475	1,434,598
Office and other .....	62,144	56,740
Construction in progress .....	71,540	38,723
	-----	-----
	2,038,311	1,933,234
Less accumulated depreciation and amortization .....	980,890	909,362
	-----	-----
	\$1,057,421	\$1,023,872
	=====	=====

In January 2002, the Company formed a limited liability company (LLC) with Cargill, Incorporated to engage in wheat flour milling and processing. The Company holds a 24% interest in the entity, which is known as Horizon Milling, LLC (Horizon). The Company is leasing its wheat milling facilities and related equipment to Horizon under operating lease agreements. The book value of the leased milling assets at August 31, 2002 was \$104.9 million, net of accumulated depreciation of \$25.3 million.

For the years ended August 31, 2002, 2001 and 2000, the Company capitalized interest of \$2.1 million, \$1.2 million and \$2.7 million, respectively, related to long-term construction projects.

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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6. OTHER ASSETS

Other assets as of August 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Goodwill .....	\$ 27,926	\$ 29,15
Non-compete covenants, less accumulated amortization of \$2,896 and \$1,329, respectively .....	11,204	1,76
Customer lists, less accumulated amortization of \$3,511 and \$1,946, respectively .....	8,447	8,09
Other intangible assets, less accumulated amortization of \$2,462 and \$1,513, respectively .....	15,795	23
Prepaid pension and other benefit assets .....	54,230	100,72
Deferred tax asset .....	50,544	44,31
Notes receivable .....	4,822	5,62
Other .....	4,354	4,53
	-----	-----
	\$177,322	\$194,45
	=====	=====

Intangible assets subject to amortization are amortized on a straight-line basis over the number of years that approximate their respective useful lives (ranging from 2 to 15 years). The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefit obtained by the Company in each reporting period. Amortization expense for the year ended August 31, 2002 was \$4.2 million. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate \$4.0 million annually.

Through Country Energy, LLC, formerly a joint venture with Farmland, the Company marketed refined petroleum products including gasoline, diesel fuel, propane and lubricants under the Cenex brand. On November 30, 2001, the Company purchased the wholesale energy business of Farmland, as well as all interest in Country Energy, LLC. Based on estimated fair values, \$26.4 million of the purchase price was allocated to intangible assets, primarily trademarks, tradenames and non-compete agreements. The intangible assets have a weighted-average life of approximately 12 years. The Company also entered into an exclusive two-year supply agreement to purchase, at prevailing market prices, all of the refined fuels production from Farmland's Coffeyville, Kansas facility.

F-15

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. NOTES PAYABLE AND LONG-TERM DEBT

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Notes payable and long-term debt as of August 31, 2002 and 2001 consisted of the following:

	INTEREST RATES AT AUGUST 31, 2002	2002	2001
		(DOLLARS IN THOUSANDS)	
Notes payable (a) (g) .....	2.32% to 2.78%	\$332,514	\$ 9
		=====	=====
Long-term debt:			
Revolving term loans from cooperative and other banks, payable in installments through 2009, when the balance is due (b) (c) (g) .....	2.16% to 13.00%	\$254,962	\$23
Private placement, payable in equal installments beginning in 2008 through 2013 (d) (g) .....	6.81%	225,000	22
Private placement, payable in equal installments beginning in 2005 through 2011 (e) (g) .....	7.43% to 7.90%	80,000	8
Industrial Revenue Bonds, payable in installments through 2011 (f) .....	5.23% to 12.97%	7,444	1
Other notes and contracts .....	4.00% to 14.00%	4,718	
		-----	-----
Total long-term debt .....		572,124	55
Less current portion .....		89,032	1
		-----	-----
Long-term portion .....		\$483,092	\$54
		=====	=====

Weighted average interest rates at August 31:

	2002	2001
Short-term debt .....	2.58%	4.18%
Long-term debt .....	6.38%	6.91%

- 
- (a) The Company finances its working capital needs through short-term lines of credit with a syndication of banks. The Company has a 364-day credit facility of \$550.0 million, all of which is committed, and of which \$332.0 million was outstanding on August 31, 2002. In addition to this short-term line of credit, the Company has a 364-day credit facility dedicated to NCRA with a syndication of banks in the amount of \$30.0 million, all of which is committed, with no amounts outstanding on August 31, 2002. Other miscellaneous notes payable totaled \$0.5 million at August 31, 2002.
- (b) The Company established a \$200.0 million five-year revolving credit facility with a syndication of banks. On August 31, 2002, the Company had an outstanding balance of \$75.0 million.
- (c) The Company established a long-term credit agreement which committed \$200.0 million of long-term borrowing capacity to the Company through May 31, 1999, of which \$164.0 million was drawn before the expiration date of that commitment. On August 31, 2002, \$144.3 million was outstanding. NCRA term loans of \$18.0 million are collateralized by NCRA's investment in CoBank.



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- (d) The Company entered into a private placement with several insurance companies for long-term debt in the amount of \$225.0 million.
- (e) In January 2001, the Company entered into a note purchase and private shelf agreement with Prudential Insurance Company. A long-term note was issued for \$25.0 million. A subsequent note for \$55.0 million was issued in March 2001, related to the private shelf facility.

F-16

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### 7. NOTES PAYABLE AND LONG-TERM DEBT (CONTINUED)

- (f) Industrial Revenue Bonds in the amount of \$2.7 million are collateralized by property, plant and equipment, primarily energy refinery equipment, with a cost of approximately \$152.0 million, less accumulated depreciation of approximately \$115.2 million on August 31, 2002.
- (g) Restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios.

The fair value of long-term debt approximates book value as of August 31, 2002 and 2001.

The aggregate amount of long-term debt payable as of August 31, 2002 is as follows (dollars in thousands):

2003 .....	\$ 89,032
2004 .....	15,079
2005 .....	34,511
2006 .....	34,938
2007 .....	41,709
Thereafter .....	356,855
	-----
	\$572,124
	=====

On October 18, 2002, the Company entered into a private placement with several insurance companies for long-term debt in the amount of \$175.0 million, which was layered into two series. The first series of \$115.0 million has an interest rate of 4.96% and will be repaid in equal semi-annual installments of approximately \$8.8 million during the years 2007 through 2013. The second series of \$60.0 million has an interest rate of 5.60% and will be repaid in equal semi-annual installments of approximately \$4.6 million during fiscal years 2012 through 2018. The proceeds were used to pay down the Company's short-term debt.

##### 8. INCOME TAXES

As a result of the Company's by-law changes during 2001, and the by-law changes of its majority-owned subsidiary (NCRA) in 2002, to distribute patronage based on financial statement earnings (see Note 1), the statutory rate applied to the cumulative differences between financial statement earnings and tax basis earnings, has been changed. In connection with this change the Company recorded a deferred tax benefit of \$10.9 million as of August 31, 2002 and \$34.2 million as of August 31, 2001. The \$10.9 million deferred tax benefit

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recorded as a result of the change in patronage distribution by NCRA as of August 31, 2002 has been offset by a \$10.9 million NCRA valuation allowance. An additional \$6.2 million of deferred tax benefit generated by NCRA was also offset by a valuation allowance.

The provision for income taxes for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Current .....	\$ 14,300	\$ 21,025	\$4,347
Deferred .....	(12,700)	(49,025)	(467)
Valuation allowance .....	17,100	2,400	
	-----	-----	-----
Income taxes .....	\$ 18,700	\$ (25,600)	\$3,880
	=====	=====	=====

F-17

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 8. INCOME TAXES (CONTINUED)

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of August 31, 2002 and 2001 is as follows:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Deferred tax assets:		
Accrued expenses and valuation reserves .....	\$ 49,236	\$ 42,704
Postretirement health care and deferred compensation .....	32,671	24,842
Property, plant and equipment .....	11,532	9,570
Alternative minimum tax credit and patronage loss carryforward .....	6,993	4,540
Other .....	12,439	12,885
	-----	-----
Total deferred tax assets .....	112,871	94,541
	-----	-----
Deferred tax liabilities:		
Pension, including minimum liability .....	2,635	9,536
Equity method investments .....	20,482	27,893
Other .....	730	1,314
	-----	-----
Total deferred tax liabilities .....	23,847	38,743
	-----	-----
Deferred tax assets valuation reserve .....	(19,466)	(2,400)
	-----	-----
Net deferred tax asset .....	\$ 69,558	\$ 53,398
	=====	=====

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As of August 31, 2002, net deferred tax assets of \$19.0 million and \$50.5 million are included in current assets and other assets, respectively (\$9.1 million and \$44.3 million, respectively, as of August 31, 2001). At August 31, 2002, NCRA recognized a valuation allowance for the entire tax benefit associated with its net deferred tax assets, as it is considered more likely than not, based on the weight of available information, that the future tax benefits related to these items will not be realized. At August 31, 2002, NCRA's net deferred tax assets of approximately \$19.5 million were comprised of deferred tax assets of \$23.4 million and deferred tax liabilities of \$3.9 million. Deferred tax assets are comprised of basis differences related to inventories, investments, lease obligations, accrued liabilities and certain federal and state tax credits. NCRA files a separate tax return and, as such, these items must be assessed independently of the Company's deferred tax assets when determining recoverability. At August 31, 2001, NCRA also recorded a valuation allowance of \$2.4 million to account for uncertainties regarding the recoverability of certain state tax credits.

The reconciliation of the statutory federal income tax rate to the effective tax rate for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001
Statutory federal income tax rate .....	35.0%	35.0%
State and local income taxes, net of federal income tax benefit .....	3.9	3.9
Patronage earnings .....	(25.0)	(32.8)
Tax effect of changes in deferred patronage .....	(7.5)	(22.4)
Change in patronage determination .....	(7.5)	(22.4)
Export activities at rates other than the U.S. statutory rate .....	(1.9)	
Deferred tax asset valuation allowance .....	11.8	1.6
Rate changes on deferred tax assets and liabilities .....		
Other .....	(3.4)	(2.0)
	-----	-----
Effective tax rate .....	12.9%	(16.7)%
	=====	=====

F-18

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 8. INCOME TAXES (CONTINUED)

The principal differences between financial statement income and taxable income for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Income before income taxes .....	\$ 144,838	\$ 152,954	\$ 91,268

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Financial reporting/tax differences: .....			
Environmental reserves .....	1,939	4,453	(728)
Oil and gas activities, net .....	1,540	(22,230)	2,600
Energy inventory market reserves .....	(933)	(2,441)	(19)
Pension and compensation .....	(21,491)	8,981	
Investments in other entities .....	1,898	26,495	
Export activities .....	(7,141)		
Other, net .....	(2,291)	10,038	3,255
Patronage refund provisions .....	(92,900)	(128,900)	(87,400)
	-----	-----	-----
Taxable income .....	\$ 25,459	\$ 49,350	\$ 8,976
	=====	=====	=====

9. EQUITIES

In accordance with the by-laws and by action of the Board of Directors, annual net savings from patronage sources are distributed to consenting patrons following the close of each year, and are based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates.

Annual net savings from sources other than patronage may be added to the unallocated capital reserve or, upon action by the Board of Directors, allocated to members in the form of nonpatronage equity certificates.

Inactive direct members and patrons and active direct members and patrons age 61 and older on June 1, 1998 are eligible for redemption of their capital equity certificates at age 72 or death. For other active direct members and patrons and member cooperatives, equities will be redeemed annually as determined by the Board of Directors.

On May 31, 1997, the Company completed an offering for the sale of Equity Participation Units (EPUs) in its Wheat Milling Defined Business Unit and its Oilseed Processing and Refining Defined Business Unit to qualified subscribers. Qualified subscribers were identified as Defined Members or representatives of Defined Members who were persons or associations of producers actually engaged in the production of agricultural products. Subscribers were allowed to purchase a portion of their EPUs by exchanging existing patronage certificates. The purchasers of EPUs had the right and obligation to deliver annually the number of bushels of wheat or soybeans equal to the number of units held. Unit holders participated in the net patronage-sourced income from operations of the applicable Defined Business Unit as patronage refunds. Retirements of patrons' equities attributable to EPUs, were at the discretion of the Board of Directors, and it was the Board's goal to retire such equity on a revolving basis seven years after declaration.

During 2001, the Company's Board of Directors adopted a resolution to issue, at no charge, to each Defined Member of the Oilseed Processing and Refining Defined Business Unit an additional 1/4 EPU, for each EPU held, due to increased crush volume.

In August 2001, the CHS Cooperatives Board of Directors approved and consummated a plan to end the Defined Investment Program. The Company redeemed all of the EPUs and allocated the assets

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## CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 9. EQUITIES (CONTINUED)

of the Oilseed Processing and Refining and Wheat Milling Defined Business Units to the Company as provided in the plan. The amounts redeemed to the Oilseed Processing and Refining and Wheat Milling Defined Member EPU holders were \$5.2 million and \$9.1 million, respectively. Due to loss carry-forwards incurred by the Wheat Milling Defined Business Unit, the plan also provided for the cancellation of all outstanding Preferred Capital Certificates issued to the Wheat Milling EPU holders, totaling \$0.2 million. The plan further provided to the Oilseed Processing and Refining Defined Member EPU holders for the redemption of all outstanding Preferred Capital Certificates issued of \$0.2 million and a 100% cash distribution during 2002 for the patronage refunds earned for the fiscal year ended August 31, 2001.

The Board of Directors has authorized the sale and issuance of up to 50,000,000 shares of 8% Preferred Stock at a price of \$1.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering the Preferred Stock. The registration statement was declared effective on October 31, 2001 and sales of the Preferred Stock were \$9.3 million (9,325,374 shares) through August 31, 2002. Cash dividends are paid at a rate of 8% per annum per share and are fully cumulative. There is no sinking fund requirement and the Company may redeem all or any portion of the preferred stock upon 30 days written notice at \$1.00 per share. Expenses related to the issuance of the Preferred Stock were \$3.4 million through the year ended August 31, 2002 and have been included as a component of unallocated capital reserve.

#### 10. EMPLOYEE BENEFIT PLANS

The Company has various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate.

Financial information on changes in benefit obligation and plan assets funded and balance sheet status as of August 31, 2002 and 2001 is as follows:

	PENSION BENEFITS		OTHER BENE
	2002	2001	2002
	(DOLLARS IN THOUSANDS)		
Change in benefit obligation:			
Benefit obligation at beginning of period .....	\$ 253,564	\$ 258,059	\$ 22,667
Service cost .....	10,443	8,506	557
Interest cost .....	18,559	18,487	1,586
Plan participants contributions .....			189
Plan amendments .....	2,383	6	
Transfers .....	3,677	(2,387)	
Actuarial loss (gain) .....	2,764	(2,842)	1,716
Assumption change .....		2,534	638
Settlements .....		643	
Benefits paid .....	(22,979)	(29,442)	(2,438)
	-----	-----	-----
Benefit obligation at end of period .....	\$ 268,411	\$ 253,564	\$ 24,915
	=====	=====	=====

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

	PENSION BENEFITS		
	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Change in plan assets:			
Fair value of plan assets at beginning of period .....	\$ 230,121	\$ 266,896	
Actual loss on plan assets .....	(14,810)	(16,206)	
Company contributions .....	5,554	11,669	\$ 2
Participants contributions .....			
Net transfers .....	3,677	(2,796)	
Benefits paid .....	(22,979)	(29,442)	(2)
	-----	-----	-----
Fair value of plan assets at end of period .....	\$ 201,563	\$ 230,121	\$
	=====	=====	=====
Funded status .....	\$ (66,848)	\$ (23,443)	\$ (24)
Employer contributions after measurement date	31,394	1,262	
Unrecognized actuarial loss (gain) .....	85,082	47,368	(3)
Unrecognized transition (asset) obligation .....		(708)	10
Unrecognized prior service cost .....	10,569	9,639	(1)
	-----	-----	-----
Prepaid benefit cost (accrued) .....	\$ 60,197	\$ 34,118	\$ (19)
	=====	=====	=====
Amounts recognized on balance sheets			
consist of:			
Prepaid benefit cost .....		\$ 43,918	
Accrued benefit liability .....	\$ (23,837)	(12,214)	\$ (19)
Intangible asset .....	7,995	1,055	
Minority interests .....	6,195		
Accumulated other comprehensive loss .....	69,844	1,359	
	-----	-----	-----
Net amounts recognized .....	\$ 60,197	\$ 34,118	\$ (19)
	=====	=====	=====

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2002. The rate was assumed to decrease gradually to 6.0% for 2004 and remain at that level thereafter. Components of net periodic benefit costs for the years ended August 31, 2002, 2001 and 2000 are as follows:

	PENSION BENEFITS		
	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
	-----	-----	-----
	2002	2001	2000
	-----	-----	-----

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Components of net periodic benefit cost:				
Service cost .....	\$ 10,443	\$ 8,506	\$ 8,777	\$
Interest cost .....	18,559	18,487	18,058	1
Expected return on assets .....	(21,386)	(22,855)	(20,485)	
Prior service cost amortization .....	1,314	1,193	1,182	
Actuarial loss (gain) amortization .....	1,387	375	(530)	
Transition amount amortization .....	(708)	(861)	(1,120)	
Other .....				
	-----	-----	-----	-----
Net periodic benefit cost .....	\$ 9,609	\$ 4,845	\$ 5,882	\$2
	=====	=====	=====	=====
Weighted-average assumptions:				
Discount rate .....	7.10%	7.30%	7.50%	
Expected return on plan assets .....	9.00%	9.00%	9.00%	
Rate of compensation increase .....	5.00%	5.00%	5.00%	

F-21

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were as follows as of August 31, 2002 and 2001:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Projected benefit obligation .....	\$268,411	\$23,247
Accumulated benefit obligation .....	256,795	18,599
Fair value of plan assets .....	201,563	6,385

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	1% POINT INCREASE	1% POINT DECREASE
	-----	-----
	(DOLLARS IN THOUSANDS)	
Effect on total of service and interest cost components .....	\$ 177	\$ (202)
Effect on postretirement benefit obligation .....	1,435	(1,210)

The Company provides defined life insurance and health care benefits for certain retired employees. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually.

The Company has other contributory defined contribution plans covering

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substantially all employees. Total contributions by the Company to these plans were \$11.0 million, \$6.1 million and \$4.6 million, for the years ended August 31, 2002, 2001 and 2000, respectively.

11. SEGMENT REPORTING

The Company manages five business segments, which are based on products and services, and are Agronomy, Energy, Country Operations, Grain Marketing, and Processed Grains and Foods. Reconciling Amounts represent the elimination of sales between segments. Due to cost allocations and intersegment activity, management does not represent that these segments, if operated independently, would report the income before income taxes and other financial information as presented.

Segment information for the years ended August 31, 2002, 2001 and 2000 is as follows:

	AGRONOMY	ENERGY	COUNTRY OPERATIONS	GRAIN MARKETING	PROCESSED GRAINS AND FOODS	COR
	-----	-----	-----	-----	-----	-----
				Restated (Note 16)		
				(DOLLARS IN THOUSANDS)		
For the year ended August 31, 2002:						
Net sales .....		\$2,657,689	\$1,474,553	\$3,281,469	\$ 496,084	\$
Patronage dividends .....	\$ (89)	458	2,572	497	260	\$
Other revenues .....		6,392	80,789	21,902	(1,469)	
	-----	-----	-----	-----	-----	-----
	(89)	2,664,539	1,557,914	3,303,868	494,875	
Cost of goods sold .....		2,489,352	1,471,422	3,272,985	457,538	
Marketing, general and administrative .....	8,957	66,731	47,995	22,213	36,930	
Interest .....	(1,403)	16,875	13,851	4,807	9,514	
Equity (income) loss from investments .....	(13,425)	1,166	(283)	(4,257)	(41,331)	
Minority interests .....		14,604	786			
	-----	-----	-----	-----	-----	-----
Income (loss) before income taxes .....	\$ 5,782	\$ 75,811	\$ 24,143	\$ 8,120	\$ 32,224	\$
	=====	=====	=====	=====	=====	=====

F-22

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. SEGMENT REPORTING (CONTINUED)

	COUNTRY	GRAIN	PROCESSED GRAINS AND	COR
--	---------	-------	----------------------	-----



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	AGRONOMY	ENERGY	OPERATIONS	MARKETING	FOODS	O
	-----	-----	-----	-----	-----	-----
				Restated (Note 16)		
	(DOLLARS IN THOUSANDS)				(DOLLARS I	
For the year ended						
August 31, 2002:						
Goodwill .....		\$ 4,059	\$ 262		\$ 23,605	
		=====	=====		=====	
Capital expenditures ....		\$ 54,576	\$ 34,305	\$ 14,851	\$ 35,144	\$
		=====	=====	=====	=====	=====
Depreciation and amortization .....	\$ 1,247	\$ 58,701	\$ 21,214	\$ 6,235	\$ 13,436	\$
	=====	=====	=====	=====	=====	=====
Total identifiable assets at August 31, 2002 .....	\$ 242,015	\$1,305,828	\$ 799,711	\$ 481,232	\$ 439,942	\$ 2
	=====	=====	=====	=====	=====	=====
For the year ended						
August 31, 2001:						
Net sales .....		\$2,781,243	\$1,577,268	\$3,416,239	\$ 662,726	
Patronage dividends .....	\$ 196	712	3,683	840	339	\$
Other revenues .....		4,036	80,479	22,964	(238)	
	-----	-----	-----	-----	-----	-----
	196	2,785,991	1,661,430	3,440,043	662,827	
Cost of goods sold .....		2,549,099	1,569,884	3,416,500	619,184	
Marketing, general and administrative .....	8,503	48,432	53,417	22,396	44,870	
Interest .....	(4,529)	25,097	15,695	8,144	13,026	
Equity (income) loss from investments .....	(7,360)	4,081	(246)	(4,519)	(35,505)	
Minority interests .....		34,713	385			
	-----	-----	-----	-----	-----	-----
Income (loss) before income taxes .....	\$ 3,582	\$ 124,569	\$ 22,295	\$ (2,478)	\$ 21,252	\$ (
	=====	=====	=====	=====	=====	=====
Goodwill .....		\$ 5,175	\$ 373		\$ 23,605	
		=====	=====		=====	
Capital expenditures ....		\$ 38,984	\$ 32,448	\$ 3,715	\$ 20,485	\$
		=====	=====	=====	=====	=====
Depreciation and amortization .....	\$ 1,250	\$ 55,343	\$ 21,738	\$ 4,917	\$ 22,304	\$
	=====	=====	=====	=====	=====	=====
Total identifiable assets at August 31, 2001 .....	\$ 230,051	\$1,154,036	\$ 679,053	\$ 345,696	\$ 430,871	\$ 2
	=====	=====	=====	=====	=====	=====
For the year ended						
August 31, 2000:						
Net sales .....	\$ 808,659	\$2,959,622	\$1,409,892	\$3,375,616	\$ 584,052	
Patronage dividends .....	224	311	3,830	861	100	\$
Other revenues .....	5,817	2,792	68,436	15,440	(10)	
	-----	-----	-----	-----	-----	-----
	814,700	2,962,725	1,482,158	3,391,917	584,142	
Cost of goods sold .....	764,744	2,862,715	1,404,120	3,361,672	547,234	
Marketing, general and administrative .....	20,832	43,332	44,136	21,412	21,462	
Interest .....	(3,512)	27,926	12,782	8,701	9,851	
Equity loss (income) from investments .....	4,336	(856)	(1,007)	(6,452)	(24,367)	
Minority interests .....		24,443	103			
	-----	-----	-----	-----	-----	-----
Income (loss) before						

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income taxes .....	\$ 28,300	\$ 5,165	\$ 22,024	\$ 6,584	\$ 29,962	\$
	=====	=====	=====	=====	=====	=====
Capital expenditures ....		\$ 65,017	\$ 38,514	\$ 12,096	\$ 36,494	\$
		=====	=====	=====	=====	=====
Depreciation and amortization .....	\$ 106	\$ 52,017	\$ 21,717	\$ 3,803	\$ 11,440	\$
	=====	=====	=====	=====	=====	=====

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL -- The Company is required to comply with various environmental laws and regulations incidental to its normal business operations. In order to meet its compliance requirements, the Company establishes reserves for the future costs of remediation of identified issues, which are

F-23

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

included in cost of goods sold in the consolidated statements of operations. Additional costs for matters, which may be identified in the future, cannot be presently determined. The resolution of any such matters may have an impact on the Company's consolidated financial results for a particular reporting period; however, management believes any such matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

In connection with certain refinery upgrades and enhancements that are necessary in order to comply with existing environmental regulations, the Company expects to incur additional capital expenditures of approximately \$340 million in relation to these projects over the next four years, primarily at the NCRA refinery. The Company anticipates funding these projects with a combination of cash flows from operations and additional indebtedness.

OTHER LITIGATION AND CLAIMS -- The Company is involved as a defendant in various lawsuits, claims and disputes which are in the normal course of the Company's business. The resolution of any such matters may have an impact on the Company's consolidated financial results for a particular reporting period; however, management believes any resulting liability will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

GRAIN STORAGE -- As of August 31, 2002 and 2001, the Company stored grain and processed grain products for third parties totaling \$148.0 million and \$177.0 million, respectively. Such stored commodities and products are not the property of the Company and therefore are not included in the Company's inventories.

GUARANTEES -- The Company is a guarantor for lines of credit for related companies totaling up to \$86.2 million, of which \$45.1 million was outstanding as of August 31, 2002. All outstanding loans with respective creditors are current as of August 31, 2002.

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LEASE COMMITMENTS -- The Company leases approximately 1,700 rail cars with remaining lease terms of one to 10 years. In addition, the Company has commitments under other operating leases for various refinery, manufacturing and transportation equipment, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the leases.

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income was \$30.2 million, \$35.5 million and \$38.0 million for the years ended August 31, 2002, 2001 and 2000, respectively. Mileage credits and sublease income were \$9.5 million, \$11.0 million and \$10.6 million for the years ended August 31, 2002, 2001 and 2000, respectively.

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2002, are as follows:

	RAIL CARS	VEHICLES	EQUIPMENT AND OTHER	TO
	(DOLLARS IN THOUSANDS)			
2003 .....	\$ 9,100	\$ 9,436	\$14,417	\$32,
2004 .....	7,091	6,992	10,116	24,
2005 .....	5,525	5,183	5,286	15,
2006 .....	2,018	3,321	3,561	8,
2007 .....	1,042	1,657	2,433	5,
Thereafter .....	4,025	255	515	4,
	-----	-----	-----	-----
Total minimum future lease payments .....	\$28,801	\$26,844	\$36,328	\$91,
	=====	=====	=====	=====

F-24

### CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 13. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Net cash paid during the period for:			
Interest .....	\$ 44,231	\$ 63,034	\$ 57,062
Income taxes .....	27,965	11,709	3,785
Other significant noncash transactions:			
(Distributions)/contributions of inventories of minority interests .....		(54,399)	54,399
Capital equity certificates issued in exchange for elevator properties .....	1,842	5,481	7,921
Equity Participation Units issued .....		1,045	

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Accrual of patronage dividends and equity			
retirements payable .....	(56,510)	(72,154)	(43,694)
Other comprehensive (loss) income .....	(49,982)	512	(1,257)

### 14. RELATED PARTIES TRANSACTIONS

As of August 31, 2002, the Company had related party transactions, which consisted of sales of \$550.0 million, purchases of \$502.4 million, receivables of \$21.2 million and payables of \$18.3 million with its equity investees. These related party transactions were primarily with Agriliance, CF Industries, Inc., Horizon Milling, Tacoma Export Marketing Company and Ventura Foods, LLC.

### 15. COMPREHENSIVE INCOME

The components of comprehensive income for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Net income .....	\$ 126,138	\$178,554	\$ 87,
Additional minimum pension liability, net of taxes .....	(48,797)	(15)	
Financial instruments, net of taxes .....	(548)	527	(1,
Cash flow hedges, net of taxes .....	(637)		
	-----	-----	-----
Comprehensive income .....	\$ 76,156	\$179,066	\$ 86,
	=====	=====	=====

The components of accumulated other comprehensive loss as of August 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(DOLLARS IN THOUSANDS)	
Additional minimum pension liability, net of taxes .....	\$50,051	\$1,254
Financial instruments, net of taxes .....	1,209	661
Cash flow hedges, net of taxes .....	637	
	-----	-----
Accumulated other comprehensive loss .....	\$51,897	\$1,915
	=====	=====

F-25

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. NET SALES AND COST OF GOODS SOLD RESTATEMENT:

Recently the Company determined that certain sales and transfers within the

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Grain Marketing segment and between the Grain Marketing segment and the Processed Grains and Foods segment, were not appropriately eliminated. The appropriate changes have been made to the consolidated statements of operations and segment reporting (see Note 11). These changes had no effect on the Company's financial condition or changes in cash flows, and no effect on reported gross profit or net income for the periods stated.

	----- As Reported -----	----- As Restated -----
Grain Marketing Net Sales		
2002	3,787,322	3,281,469
2001	3,514,314	3,416,239
2000	3,453,807	3,375,616
Grain Marketing Cost of Goods Sold		
2002	3,778,838	3,272,985
2001	3,514,575	3,416,500
2000	3,439,863	3,361,672
Reconciling Amounts - Net Sales & Cost of Goods Sold		
2002	(683,781)	(753,341)
2001	(782,539)	(973,234)
2000	(718,182)	(889,428)
Net Sales		
2002	7,731,867	7,156,454
2001	7,753,012	7,464,242
2000	8,497,850	8,248,413
Cost of Goods Sold		
2002	7,513,369	6,937,956
2001	7,470,203	7,181,433
2000	8,300,494	8,051,057

F-26

### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Members and Patrons of  
Cenex Harvest States Cooperatives:

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In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equities and comprehensive income and of cash flows, after the restatement described in Note 16, present fairly, in all material respects, the financial position of Cenex Harvest States Cooperatives and subsidiaries as of August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 16 to the consolidated financial statements, the Company has restated its Consolidated Statements of Operations for the years ended August 31, 2002, 2001 and 2000.

October 18, 2002, except for Notes 11 and 16,  
which are as of October 31, 2003  
Minneapolis, Minnesota

F-27

### INDEPENDENT AUDITORS' REPORT

Members Committee  
Ventura Foods, LLC

We have audited the accompanying consolidated balance sheets of Ventura Foods, LLC and subsidiary (the "Company") as of March 31, 2003 and 2002 and the related consolidated statements of income, members' capital and cash flows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000. These financial statements are the responsibility of the Company'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 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, such consolidated financial statements present fairly,

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in all material respects, the financial position of Ventura Foods, LLC and subsidiary as of March 31, 2003 and 2002 and the results of their operations and their cash flows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, effective April 1, 2002.

/s/ Deloitte & Touche LLP

Los Angeles, California  
June 16, 2003

F-28

### VENTURA FOODS, LLC AND SUBSIDIARY

#### CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	2003	2002
	-----	-----
ASSETS (NOTE 4)		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2) .....	\$ 2,800,000	\$ 9,300,000
Trade receivables--net of allowance for doubtful accounts of \$1,909,000 and \$1,543,000 at 2003 and 2002, respectively (Notes 2, 4 and 5) .....	64,313,000	57,130,000
Inventories (Notes 2, 4 and 5) .....	92,366,000	62,790,000
Prepaid expenses and other current assets .....	5,922,000	2,280,000
Due from Wilsey Foods, Inc. (Note 5) .....	309,000	
Derivative contract asset (Notes 2 and 5) .....	18,703,000	13,290,000
Total current assets .....	184,413,000	144,810,000
PROPERTY (Notes 2 and 4):		
Land, buildings and improvements .....	102,768,000	98,840,000
Machinery and equipment .....	139,264,000	129,130,000
Construction-in-progress .....	6,905,000	6,480,000
Other property .....	10,798,000	10,490,000
Total .....	259,735,000	244,950,000
Less accumulated depreciation and amortization .....	106,914,000	95,050,000
Property--net .....	152,821,000	149,900,000
GOODWILL--Net of amortization of \$18,087,000 at 2003 and 2002 (Notes 2, 3 and 8) .....	43,156,000	43,156,000
TRADEMARKS--Net of amortization of \$8,526,000 and \$8,685,000		

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at 2003 and 2002 (Notes 2 and 8) .....	19,318,000	19,57
DEFERRED COMPENSATION PLAN TRUST (Note 6) .....	13,574,000	14,24
OTHER ASSETS--Net of amortization of \$3,520,000 and \$4,310,000 at 2003 and 2002 (Notes 2 and 8) .....	4,673,000	5,29
TOTAL .....	\$417,955,000	\$376,98
=====		
LIABILITIES AND MEMBERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable (Note 5) .....	\$ 58,395,000	\$ 52,04
Accrued liabilities (Note 5) .....	36,984,000	25,78
Dividends payable .....	5,748,000	9,55
Bank lines of credit (Note 4) .....	20,500,000	8,00
Current portion of long-term debt (Note 4) .....	74,228,000	12,75
Current portion of long-term liability--Wilsey Foods, Inc. (Note 1) ...		49
Derivative contract liability (Notes 2 and 5) .....	12,162,000	4,12
Total current liabilities .....	208,017,000	112,74
LONG-TERM DEBT (Note 4) .....	22,950,000	97,17
DEFERRED COMPENSATION OBLIGATIONS (Note 6) .....	20,496,000	16,34
Total liabilities .....	251,463,000	226,27
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
MEMBERS' CAPITAL .....	166,492,000	150,71
TOTAL .....	\$417,955,000	\$376,98
=====		

See notes to consolidated financial statements.

F-29

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001  
AND THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED MARCH 31, 2003	YEAR ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	-----	-----	-----
NET SALES (Notes 2 and 5) .....	\$1,096,425,000	\$ 965,521,000	\$ 215,158,000
COST OF GOODS SOLD (Notes 2 and 5) ....	912,702,000	791,061,000	177,492,000
GROSS PROFIT .....	183,723,000	174,460,000	37,666,000
OPERATING EXPENSES:			
Selling, general and administrative (Notes 2 and 5) .....	105,424,000	91,827,000	20,092,000



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Amortization of intangibles (Notes 2 and 8) .....	223,000	6,227,000	1,581,000
	-----	-----	-----
Total operating expenses .....	105,647,000	98,054,000	21,673,000
	-----	-----	-----
OPERATING INCOME .....	78,076,000	76,406,000	15,993,000
INTEREST EXPENSE--Net (Note 4) .....	6,785,000	7,474,000	2,071,000
OTHER EXPENSE (INCOME) (Note 7) .....	733,000	(1,554,000)	(446,000)
	-----	-----	-----
NET INCOME .....	\$ 70,558,000	\$ 70,486,000	\$ 14,368,000
	=====	=====	=====

See notes to consolidated financial statements.

F-30

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' CAPITAL  
YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001  
AND THE YEAR ENDED DECEMBER 31, 2000

	WILSEY FOODS, INC.	CENEX HARVEST STATES COOPERATIVES	TOTAL
	-----	-----	-----
BALANCE, JANUARY 1, 2000 .....	\$ 67,315,000	\$ 44,877,000	\$ 112,192,000
Net income .....	30,593,000	26,913,000	57,506,000
Transfer of interest (Note 1) .	(11,775,000)	11,775,000	
Dividends .....	(23,288,000)	(20,720,000)	(44,008,000)
	-----	-----	-----
BALANCE, DECEMBER 31, 2000 .....	62,845,000	62,845,000	125,690,000
Net income .....	7,184,000	7,184,000	14,368,000
Dividends .....	(4,157,000)	(4,157,000)	(8,314,000)
	-----	-----	-----
BALANCE, MARCH 31, 2001 .....	65,872,000	65,872,000	131,744,000
Net income .....	35,243,000	35,243,000	70,486,000
Dividends .....	(25,757,000)	(25,757,000)	(51,514,000)
	-----	-----	-----
BALANCE, MARCH 31, 2002 .....	75,358,000	75,358,000	150,716,000
Net income .....	35,279,000	35,279,000	70,558,000
Dividends .....	(27,391,000)	(27,391,000)	(54,782,000)
	-----	-----	-----
BALANCE, MARCH 31, 2003 .....	\$ 83,246,000	\$ 83,246,000	\$ 166,492,000
	=====	=====	=====

See notes to consolidated financial statements.

F-31

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## VENTURA FOODS, LLC AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001 AND THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED MARCH 31, 2003	YEAR ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income .....	\$ 70,558,000	\$ 70,486,000	\$ 14,368,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	12,416,000	12,186,000	2,833,000
Amortization of intangibles .....	223,000	6,227,000	1,581,000
Deferred rent .....	515,000		
Loss (gain) on disposal of assets .....	872,000	324,000	128,000
Derivative contract asset .....	2,637,000	(1,803,000)	(7,375,000)
Changes in operating assets and liabilities:			
Trade receivables .....	(7,174,000)	(771,000)	980,000
Inventories .....	(29,567,000)	3,881,000	5,089,000
Prepaid expenses and other current assets ...	(3,639,000)	(793,000)	330,000
Accounts payable .....	6,350,000	(4,491,000)	(2,943,000)
Accrued liabilities .....	10,685,000	2,893,000	(2,540,000)
Deferred compensation obligations .....	4,815,000	4,866,000	(1,767,000)
Due from/to affiliates .....	(309,000)	47,000	1,000
	-----	-----	-----
Net cash provided by operating activities .	68,382,000	93,052,000	10,685,000
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property .....	(16,062,000)	(13,268,000)	(4,869,000)
Proceeds from sale of assets .....	1,845,000	69,000	23,000
Acquisitions--net of cash acquired (Note 3) .....			
Acquisition of trademarks .....			
Investment in rabbi trust .....		(13,976,000)	
Other assets .....	(1,332,000)	(48,000)	67,000
	-----	-----	-----
Net cash used in investing activities .....	(15,549,000)	(27,223,000)	(4,779,000)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of long-term debt .....	(12,758,000)	(12,603,000)	(554,000)
Net borrowings from (payments on) line of credit .	12,500,000	3,000,000	5,000,000
Payment to Wilsey Foods, Inc. (Note 1) .....	(491,000)	(487,000)	(487,000)
Dividends paid .....	(58,584,000)	(60,589,000)	
	-----	-----	-----
Net cash (used in) provided by financing activities	(59,333,000)	(70,679,000)	3,959,000
	-----	-----	-----
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> .....	(6,500,000)	(4,850,000)	9,865,000
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b> .....	9,300,000	14,150,000	4,285,000
	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b> .....	\$ 2,800,000	\$ 9,300,000	\$ 14,150,000
	=====	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

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INFORMATION--Cash paid during the period for interest .....	\$ 7,183,000	\$ 8,129,000	\$ 653,000
	=====	=====	=====

See notes to consolidated financial statements

F-32

VENTURA FOODS, LLC AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED  
 MARCH 31, 2001 AND THE YEAR ENDED DECEMBER 31, 2000

1. GENERAL MATTERS

Ventura Foods, LLC and its subsidiary (the "Company") is a processor and distributor of edible oils used in food preparation and a packager of food products. The Company sells its products to national and regional restaurant chains, food wholesalers and retail chains.

The Company was formed pursuant to a Joint Venture Agreement (the "Agreement") dated August 30, 1996 between Wilsey Foods, Inc. ("Wilsey") and Cenex Harvest States Cooperatives ("CHS") whereby substantially all the assets and liabilities of Wilsey and Holsum Foods (a division of CHS) were transferred and assigned, with certain exclusions, to the Company. Wilsey is a majority-owned subsidiary of Mitsui & Co., Ltd. From the period of inception through March 31, 2000, Wilsey and CHS owned 60% and 40%, respectively, of the Company. On March 31, 2000, Wilsey sold a 10% interest in the Company to CHS. Accordingly, Wilsey and CHS each own 50% of the Company.

At the formation date, a liability equal to the net deferred income tax liability of Wilsey at August 30, 1996 was assumed by the Company and was included in long-term liability--Wilsey Foods, Inc. The amount was payable in five equal annual installments of \$487,000 plus a final installment of \$491,000. The final installment of \$491,000 was paid during fiscal 2003.

2. ACCOUNTING POLICIES

**BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION**--The consolidated financial statements include the accounts of Ventura Foods, LLC and its 100%-owned subsidiary, Ventura Jets, Inc. All material intercompany transactions have been eliminated.

**FISCAL YEAR END**--During 2001, the Company changed its fiscal year end to March 31. Prior to such change, the Company's fiscal year end had been December 31.

**CASH AND CASH EQUIVALENTS**--The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**INVENTORIES**--Inventories consist of the following at March 31:

	2003	2002
	-----	-----

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Bulk oil .....	\$38,751,000	\$17,654,000
Finished goods .....	34,119,000	27,696,000
Ingredients and supplies .....	19,496,000	17,449,000
	-----	-----
Total .....	\$92,366,000	\$62,799,000
	=====	=====

Inventories are accounted for at the lower of cost or market, using the first-in, first-out method. Cost for inventories produced or modified by the Company through a manufacturing process includes fixed and variable production costs and raw materials costs, and in-bound freight costs. Cost for inventories purchased for resale includes the cost of the product and freight and handling costs incurred to place the product at the Company's point of sale.

DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is limited to forwards, futures and certain other delivery contracts as discussed below. The Company enters into these contracts to limit its exposure to price volatility of various food oils that are critical to its processing and distribution activities. It is the Company's policy to remain substantially hedged with respect to edible oil product price risk; derivative contracts are used to maintain this hedged position. Forward purchase and sales contracts with established market participants as well as exchange traded futures contracts are entered into in amounts necessary to protect against price changes on raw materials needed for the Company's food oil processing and distribution activities. The Company also enters into purchase and sales commitments with major suppliers and customers at a specified premium or discount

F-33

from a future market price ("Basis Contracts"). Additionally, the Company's policies do not permit speculative trading of such contracts. All of these qualify as derivatives under Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, and are stated at market value. Changes in market value are recognized in the consolidated statements of income, through cost of sales, in the periods such changes occur. The adoption of SFAS No. 133 on January 1, 2001 did not have a significant impact on the Company's results of operations, as the Company historically recorded its financial instruments at market value. Prior to the adoption of SFAS No. 133, the market value of futures contracts, Basis Contracts, and forward purchase and sales contracts were recorded as a component of inventory. Beginning with the adoption of SFAS No. 133, the market value of these contracts is now recorded separately on the consolidated balance sheets as derivative contract assets or liabilities. These contracts have maturities of less than one year.

The following summarizes the Company's various derivative contracts outstanding at March 31, 2003 and 2002 (pounds and dollars in thousands)

FORWARD CONTRACTS AND COMMITMENTS	POUNDS	NET UNREALIZED GAIN (LOSS)
-----	-----	-----
MARCH 31, 2003		
Forward purchases .....	334,100	\$ 11,060
Forward sales .....	433,300	(6,208)
Basis purchase .....	259,800	857

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Basis sales .....	17,500	(126)
Futures contracts .....	146,000	958
	-----	-----
	1,190,700	\$ 6,541
	=====	=====
MARCH 31, 2002		
Forward purchases .....	490,500	\$ 7,873
Forward sales .....	454,100	(1,117)
Basis purchase .....	390,300	2,304
Basis sales .....	62,600	(303)
Futures contracts .....	96,100	421
	-----	-----
	1,493,600	\$ 9,178
	=====	=====

The fair value of futures contracts is determined from quotes listed on the Chicago Board of Trade or other market makers. Forward purchase and sales contracts are with various counterparties, and the fair values of such contracts, are determined from the market price of the underlying product.

The Company is exposed to loss in the event of nonperformance by the other parties to the contracts. However, the Company does not anticipate nonperformance by counterparties.

PROPERTY AND DEPRECIATION--Property is stated at cost. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings .....	40 years
Leasehold improvements .....	3-19 years
Machinery and equipment .....	10-25 years
Other property .....	3-20 years

FAIR VALUE OF FINANCIAL INSTRUMENTS--The Company estimates the fair value of financial instruments using the following methods and assumptions:

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE--The carrying amounts approximate fair value due to the short maturities of these instruments.

LINES OF CREDIT--The carrying amounts approximate fair value, as the interest rates are based upon variable reference rates.

LONG-TERM DEBT--The fair value of long-term fixed rate debt is estimated based upon prevailing market interest rates available to the Company. The Company estimates the fair value on the \$25,573,000 6.55% fixed rate debt as of March 31, 2003 to be \$27,804,000.

F-34

FUTURES CONTRACTS--The fair value of futures contracts (used for hedging purposes) is determined from quotes listed principally on the Chicago Board of Trade.

CONCENTRATION OF CREDIT RISK--During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, net sales to one customer were 23%, 22%, 22% and 21% of total net sales, respectively. This customer represents approximately 23% and 19% of trade receivables at March 31, 2003 and 2002, respectively. The Company performs

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ongoing credit evaluations of its customers and maintains an allowance for potential credit losses.

The Company maintains cash deposits with various financial institutions. The Company periodically evaluates the credit standing of these financial institutions and has not sustained any credit losses relating to such balances.

MARKETABLE SECURITIES--The Company's marketable securities comprise equity securities that have been classified as trading securities. The equity securities are carried at fair market value based upon quoted market prices. Unrealized gains and losses on equity securities are recognized in net income and totaled \$666,000 and \$(264,000) for the years ended March 31, 2003 and 2002, respectively (see Note 6).

GOODWILL AND TRADEMARKS--The Company adopted SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, effective April 1, 2002, the first day of its 2003 fiscal year. As a result, goodwill and indefinite life intangible assets ("trademarks") are no longer amortized, but reviewed for impairment annually, or more frequently if certain impairment indicators arise. See Note 8 for the effect of adopting SFAS No. 142.

Other identifiable intangible assets consist of patents, deferred financing costs and other assets, which are amortized using the straight-line method over 5 to 15 years.

IMPAIRMENT OF LONG-LIVED ASSETS--Long-lived assets, including identifiable intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recorded under the discounted future cash flow method.

ADVERTISING COSTS--The Company expenses advertising costs in the period incurred. For the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company incurred advertising expenses of approximately \$9,039,000, \$7,100,000, \$1,300,000 and \$6,100,000, respectively.

INCOME TAXES--The Company is a limited liability company and has no liability for federal and state income taxes. Income is taxed to the members based on their allocated share of taxable income or loss. However, certain states tax the income of limited liability companies. The Company's liability for such state income taxes is not significant.

REVENUE RECOGNITION--The Company is a processor and distributor of edible oils used in food preparation and a packager of food products. Revenue is recognized upon transfer of title to the customer, which occurs generally upon shipment. In certain instances, title is transferred upon receipt by the customer, at which time the Company records revenue. Amounts billed to the customer as part of a sales transaction related to shipping and handling are included in sales. Revenue is recorded net of discounts, rebates and certain sales incentives.

USE OF ESTIMATES--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ

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from those estimates.

RECLASSIFICATIONS--Certain reclassifications have been made to the prior periods' financial statements to conform to the 2003 presentation.

F-35

RECENT ACCOUNTING PRONOUNCEMENTS--In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. As required, the Company will apply the provisions of SFAS No. 143 prospectively to retirements of tangible long-lived assets, if any, initiated for fiscal years beginning after June 15, 2002.

In July 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS. This statement retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset, and establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In November 2001, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 01-09, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER OR RESELLER OF THE VENDOR'S PRODUCTS, which addresses the accounting for consideration given by a vendor or a reseller of the vendor's products. This new guidance requires companies to report certain consideration given by a vendor to a customer as a reduction in revenues rather than as marketing expense. This consensus was required to be adopted no later than the first quarter of 2002, and upon adoption, companies were required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement classification requirements of the consensus. The Company adopted the provisions of EITF Issue No. 01-09 during fiscal 2003. The effect of the adoption of EITF Issue No. 01-09 was a reduction in both revenues and selling, general and administrative expenses of \$690,000, \$207,000, \$29,000 and \$267,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

In June 2002, the FASB issued SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-03, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN RESTRUCTURING). This statement requires that the fair value of an initial liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when the entity commits to an exit plan, thereby eliminating the definition and requirements for recognition of exit costs. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. As required,

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the Company will apply the provisions of SFAS No. 146 prospectively to exit or disposal activities, if any, initiated after December 31, 2002.

In September 2002, the EITF issued EITF Issue No. 02-16, ACCOUNTING BY A CUSTOMER (INCLUDING A RESELLER) FOR CERTAIN CONSIDERATION RECEIVED FROM A VENDOR, which addresses the accounting for consideration received by the reseller of the vendor's products. This new guidance provides that the consideration represents a reimbursement of costs incurred by the customer to sell the vendor's products and is generally presumed to be a reduction of the cost of the vendor's products and, therefore, should be characterized as a reduction of cost of sales in the customers' income statement. The Company adopted EITF Issue No. 02-16 during fiscal 2003. The effect of the adoption of EITF Issue No. 02-16 was a reduction in cost of goods sold and other income of \$2,987,000, \$1,628,000, \$256,000 and \$991,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS.

F-36

FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 specifically identifies certain obligations that are excluded from the provisions related to recognizing a liability at inception; however, these guarantees are subject to the disclosure requirements of FIN 45. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

On April 30, 2003, the FASB issued SFAS No. 149, AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("DIG") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently assessing, but has not yet determined, the impact this statement will have on its consolidated financial statements.

### 3. ACQUISITIONS

During the year ended December 31, 2000, the Company acquired substantially all the assets and liabilities of Sona and Hollen for \$5,740,000. Sona and Hollen was a portion packing company located in Los Alamitos,



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California. The acquisition has been accounted for as a purchase, and accordingly, the purchase price has been allocated based on the estimated fair values of the assets acquired. The excess of the purchase price over the fair value of the assets acquired, approximately \$4,276,000, was recorded as goodwill. Prior to the adoption of SFAS No. 142 on April 1, 2002, goodwill had been amortized using a 15-year life (see Note 8).

The following is a summary of the assets acquired at estimated fair market value:

Inventories .....	\$ 637,000
Prepaid expenses and other assets .....	208,000
Property and equipment .....	600,000
Trademark .....	19,000
Goodwill .....	4,276,000
	-----
Net assets of business acquired .....	\$5,740,000
	=====

#### 4. LINES OF CREDIT AND LONG-TERM DEBT

**LINES OF CREDIT**--At March 31, 2003, the Company had a revolving line-of-credit agreement with a banking group to provide for borrowings of up to an aggregate of \$72,000,000. Outstanding borrowings at March 31, 2003 and 2002 were \$20,500,000 and \$8,000,000, respectively. The applicable interest rates are based, at the option of the Company, at a London Interbank Offered Rate ("LIBOR") or a term federal funds rate ("TFFR") option. The weighted-average interest rate at March 31, 2003 and 2002 was 1.72% and 2.24%, respectively. The lines of credit mature at varying dates between November 2003 and February 2004.

**LONG-TERM DEBT**--At March 31, 2003 and 2002, balances outstanding on term loans with a banking group were \$71,605,000 and \$81,905,000, respectively. The interest rate applicable to these term loans is based, at the option of the Company, at a TFFR-based, LIBOR-based or a fixed rate option. The weighted-average interest rate on such borrowings at March 31, 2003 and 2002 was 6.53% and 6.59%, respectively. The term loans with the banking group mature on December 23, 2003.

F-37

At March 31, 2003 and 2002, balances outstanding on a term loan with a bank were \$25,573,000 and \$28,031,000, respectively. The agreement requires quarterly principal and interest payments of \$1,058,000. The interest rate on this term loan is fixed at 6.55%. The term loan with the bank matures in October 2011.

The term loans are collateralized by substantially all property, equipment and intellectual property rights, and the lines of credit are collateralized by substantially all trade receivables and inventories of the Company. The lines of credit and term loan agreements contain various covenants, including compliance with tangible net worth (as defined) and other financial ratios, restrictions on the payment of dividends, and restrictions on the incurrence of additional debt.

Annual maturities of long-term debt at March 31, 2003 are as follows:

2004 .....	\$74,228,000
2005 .....	2,799,000

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2006 .....	2,987,000
2007 .....	3,187,000
2008 .....	3,401,000
Thereafter .....	10,576,000
	-----
Total .....	97,178,000
Less current portion .....	74,228,000
	-----
Long-term debt .....	\$22,950,000
	=====

### 5. TRANSACTIONS WITH AFFILIATES

At March 31, 2003, the Company had a receivable balance of \$309,000 due from Wilsey for reimbursement of expenses paid by the Company on behalf of Wilsey.

Included in accounts payable at March 31, 2003 and 2002 were \$8,035,000 and \$5,976,000, respectively, payable to CHS for purchases of oil. Purchases from CHS for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 were \$66,682,000, \$47,745,000, \$8,575,000 and \$48,916,000, respectively. Sales to CHS for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 totaled \$1,056,000, \$883,000, \$109,000 and \$950,000, respectively.

Included in accounts payable at March 31, 2003 and 2002 were \$790,000 and \$817,000, respectively, payable to Mitsui USA for the Company's participation in Mitsui USA's insurance plans. During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recorded expenses of \$9,402,000, \$8,487,000, \$1,380,000 and \$5,049,000, respectively, in connection with its participation in such plans.

Included in trade receivables at March 31, 2003 and 2002 were \$123,000 and \$69,000, respectively, of receivables from Mitsui USA for product sales. Sales to Mitsui USA for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 totaled \$1,423,000, \$1,406,000, \$341,000 and \$1,569,000, respectively.

Forward purchase contracts as of March 31, 2003 included commitments for purchases of 86,964,000 pounds of oil from CHS. The Company recognized gains (losses) of \$1,081,000, \$934,000, \$1,788,000 and \$(363,000) on such related party commitments for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

### 6. EMPLOYEE BENEFIT PLANS

The Company has long-term incentive arrangements for certain key executives. Benefits under the initial plan were based on earnings over a three-to-five year period (as defined) from January 1, 1997 through December 31, 2001. An amount equal to the obligation incurred under the plan was contributed to a rabbi trust that would be available to general creditors in the event of bankruptcy. The trust holds investments primarily in marketable securities that are recorded at market value (classified as trading securities). The assets in the trust are to be distributed to the employees upon retirement. The liability

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under the arrangements was \$13,574,000 and \$14,240,000 as of March 31, 2003 and 2002, respectively, and is included in deferred compensation obligation in the accompanying consolidated balance sheets.

On January 1, 2002, the Company established new long-term incentive arrangements with certain key executives. Under these arrangements, the amount of additional compensation is based on the attainment of cumulative income-based or equity-based targets over a two- to three-year period. At the end of the defined periods, amounts earned by individual executives will be contributed to a rabbi trust, unless representatives of Wilsey and CHS elect to pay such amounts directly to the respective key executives. At March 31, 2003 and 2002, a liability for the plan of \$4,702,000 and \$439,000, respectively, is classified as long-term deferred compensation obligation in the accompanying consolidated balance sheets.

For the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recognized compensation expense under the long-term incentive arrangements of \$4,264,000, \$5,658,000, \$750,000 and \$5,889,000, respectively.

The Company has a combined 401(k) and defined contribution profit-sharing plan (the "Plan") covering substantially all employees not covered by collective bargaining agreements. Under the Plan, employees can make annual voluntary contributions not to exceed the lesser of an amount equal to 15% of their compensation or limits established by the Internal Revenue Code. The Company is required, by the Plan, to make certain matching contributions of up to 4% of each participant's salary and may make discretionary profit-sharing contributions. The Company also established a 401(k) defined contribution plan covering employees under certain collective bargaining agreements. Under this plan, employees can make annual voluntary contributions of up to 15% of their compensation. Expense for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 was \$6,484,000, \$5,855,000, \$1,343,000 and \$5,139,000, respectively. Certain of the Company's union employees are participants in multi-employer plans. Payments to multi-employer pension plans are negotiated in various collective bargaining agreements and aggregated \$2,367,000, \$1,162,000, \$416,000 and \$1,641,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively. The actuarial present value of accumulated plan benefits and net assets available for benefits to union employees under these multi-employer pension plans is not available, as the Company does not administer these plans.

Effective January 1, 1999, the Company established a Supplemental Executive Retirement Plan for certain of its employees. The projected benefit obligation as of March 31, 2003 and 2002 was \$2,955,000 and \$2,049,000, respectively. A liability of \$2,220,000 and \$1,668,000 as of March 31, 2003 and 2002, respectively, is included in long-term deferred compensation obligation in the accompanying consolidated balance sheets. The plan is unfunded. During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recorded an expense related to the plan of \$552,000, \$111,000, \$420,000 and \$379,000, respectively.

The assumptions used in the measurement of the Company's benefit obligation are as follows:

	MARCH 31		DECEMBER 31	
	-----		-----	
	2003	2002	2001	2000
	----	----	----	----

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Discount rate .....	6.0%	7.0%	7.0%	7.0%
Rate of compensation increase .....	3.0%	3.0%	3.0%	3.0%

The Company accrues the actuarially determined amount necessary to fund the participants' benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

F-39

### 7. COMMITMENTS AND CONTINGENCIES

Future minimum annual payments under noncancelable operating leases with lease terms in excess of one year at March 31, 2003 are as follows:

2004 .....	\$ 7,263,000
2005 .....	7,431,000
2006 .....	5,792,000
2007 .....	4,217,000
2008 .....	3,659,000
Thereafter .....	16,217,000
	-----
Total .....	\$ 44,579,000
	=====

Under the lease agreements, the Company is obligated to pay certain property taxes, insurance and maintenance costs. Certain leases contain renewal and purchase options. Rental expense for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 under operating leases totaled \$7,138,000, \$5,671,000, \$1,476,000 and \$5,205,000, respectively.

During the year ended December 31, 2000, the Company received a payment of approximately \$2,400,000 in connection with the settlement of a class action lawsuit. This amount has been recorded as a component of other income in the accompanying consolidated statement of income.

The Company is involved from time to time in routine legal matters incidental to its business. The Company believes that the resolution of such matters will not have a material adverse effect on the Company's business, financial condition or results of operations.

### 8. GOODWILL

In June 2001, the FASB issued SFAS No. 141, BUSINESS COMBINATIONS, and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These statements, among other things, eliminate the pooling-of-interests method of accounting for business combinations as of June 30, 2001, eliminate the amortization of goodwill and indefinite life intangible assets for all fiscal years beginning after December 15, 2001, and require that goodwill and indefinite life intangible assets be reviewed annually for impairment, or more frequently if impairment indicators arise. The Company adopted SFAS Nos. 141 and 142 with respect to new goodwill as of July 1, 2001 and adopted SFAS No. 142 with respect to existing goodwill and indefinite life intangible assets as of April 1, 2002, the first day of its 2003 fiscal year. The adoption of SFAS No. 141 did not impact the Company's financial condition or results of operations. Upon the adoption of SFAS No. 142, the Company ceased amortizing existing goodwill and trademarks.

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The Company completed the transitional test of goodwill and trademarks during 2003. Based on the result of the test, the Company determined that there was no impairment of goodwill and trademarks as of April 1, 2002. Pursuant to SFAS No. 142, goodwill and trademarks will be tested for impairment at least annually and more frequently if an event occurs which indicates that goodwill or trademarks may be impaired. During 2003, the Company abandoned the use of certain trademarks with a net book value of \$100,000.

A reconciliation of net income to the amount adjusted for the exclusion of goodwill and trademarks amortization follows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000:

	MARCH 31			DECEMBER 31
	2003	2002	2001	2000
Reported net income ....	\$70,558,000	\$70,486,000	\$14,368,000	\$57,506,000
Add:				
Goodwill amortization ..	--	3,972,000	1,036,000	4,001,000
Trademark amortization .	--	1,853,000	421,000	1,684,000
Adjusted net income ....	\$70,558,000	\$76,311,000	\$15,825,000	\$63,191,000
	=====	=====	=====	=====

Amortization expense for other intangible assets subject to amortization was \$223,000, \$402,000, \$124,000 and \$746,000 for the years ended March 31, 2003 and 2002, the three months ended March 31,

F-40

2001 and the year ended December 31, 2000, respectively. Estimated annual amortization for each of the years in the five-year period ending March 31, 2008 is \$180,000.

### 9. QUARTERLY INFORMATION (UNAUDITED)

As discussed in Note 2, the Company changed its fiscal year end to March 31. Audited financial information for the three months ended March 31, 2001 has been included herein. For comparison purposes, selected unaudited financial information for the three months ended March 31, 2000 is as follows:

Sales .....	\$211,815,000
Cost of goods sold .....	172,818,000
Net income .....	17,123,000
Total assets .....	362,382,000
Total liabilities .....	231,789,000
Members' capital .....	130,593,000

F-41