

CHS INC
Form 10-K/A
August 15, 2005

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

for the fiscal year ended August 31, 2004

or

**o 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

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)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

8% Cumulative Redeemable Preferred Stock

(Title of Class)

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 and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter:

The registrant's voting and non-voting common equity has no market value (the registrant is a member cooperative).

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.

TABLE OF CONTENTS

Explanatory Note

PART II.

Item 8. Financial Statements and Supplementary Data

PART IV.

Item 15. Exhibits, Financial Statements and Reports Filed on Form 8-K

SIGNATURES

Consent of Independent Registered Public Accounting Firm

Independent Auditors' Consent

Certification Pursuant to Section 302

Certification Pursuant to Section 302

Certification Pursuant to Section 906

Certification Pursuant to Section 906

Table of Contents

CHS Inc.
Explanatory Note

This Form 10-K/A amends the Registrant's Annual Report on Form 10-K for the fiscal year ended August 31, 2004. This Form 10-K/A is being filed solely to amend Item 8, Item 15(a)(1) and Item 15(a)(3) to include, pursuant to the requirements of Section 210.3-09 of Regulation S-X and in place of those included in the Registrant's Annual Report, the separate financial statements of Ventura Foods, LLC, a nonconsolidated 50% owned equity investment. In addition, in connection with the filing of this Form 10-K/A and pursuant to the rules of the Securities and Exchange Commission, the Registrant is including with this Form 10-K/A certain currently dated certifications. No other changes have been made to the Annual Report. This Form 10-K/A does not modify or update the disclosure contained in the Form 10-K in any way other than as required to reflect the amendments discussed above and reflected below.

PART II.

Item 8. Financial Statements and Supplementary Data

Item 8 is hereby amended to add and replace the current financial statements of Ventura Foods, LLC, a non-consolidated 50% owned equity investment. The financial statements of Ventura Foods, LLC, which are included in this Form 10-K/A following the signatures, are hereby incorporated by reference in this Item 8.

PART IV.

Item 15. Exhibits, Financial Statements and Reports Filed on Form 8-K**(a)(1) FINANCIAL STATEMENTS**

Item 15(a)(1) is hereby amended to add and replace the following:

Ventura Foods, LLC, a non-consolidated 50% owned equity investment

Independent Auditors' Report	F-33
Balance Sheets as of March 31, 2005 and 2004	F-34
Statements of Income for the years ended March 31, 2005, 2004 and 2003	F-35
Statements of Members' Capital for the years ended March 31, 2005, 2004 and 2003	F-36
Statements of Cash Flows for the years ended March 31, 2005, 2004 and 2003	F-37
Notes to Financial Statements for the years ended March 31, 2005, 2004 and 2003	F-38

(a)(3) EXHIBITS

3.1	Articles of Incorporation of the Company, as amended.(13)
3.2	Articles of Amendment to the Articles of Incorporation.(17)
3.3	Bylaws of the Company, as amended.(13)
4.1	Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock.(14)
4.2	Form of Certificate Representing 8% Cumulative Redeemable Preferred Stock.(15)
4.3	Unanimous Written Consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock.(15)

Table of Contents

4.4	Unanimous Written consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock to change the record date for dividends.(16)
10.1	Lease between the Port of Kalama and North Pacific Grain Growers, Inc., dated November 22, 1960.(1)
10.2	Limited Liability Company Agreement for the Wilsey-Holsum Foods, LLC dated July 24, 1996.(1)
10.3	Long Term Supply Agreement between Wilsey-Holsum Foods, LLC and Harvest States Cooperatives dated August 30, 1996.*(1)
10.4	TEMCO, LLC Limited Liability Company Agreement between Cargill, Incorporated and Cenex Harvest States Cooperatives dated as of August 26, 2002.(12)
10.5	Cenex Harvest States Cooperatives Supplemental Savings Plan.(7)
10.6	Cenex Harvest States Cooperatives Supplemental Executive Retirement Plan.(7)
10.7	Cenex Harvest States Cooperatives Senior Management Compensation Plan.(7)
10.8	Cenex Harvest States Cooperatives Executive Long-Term Variable Compensation Plan.(7)
10.9	Cenex Harvest States Cooperatives Share Option Plan.(21)
10.9A	Amendment to Cenex Harvest States Share Option Plan, dated June 28, 2001.(10)
10.9B	Amendment No. 2 to Cenex Harvest States Share Option Plan, dated May 2, 2001.(21)
10.9C	Amendment No. 3 to Cenex Harvest States Share Option Plan, dated June 4, 2002.(21)
10.9D	Amendment No. 4 to Cenex Harvest States Share Option Plan, dated April 6, 2004.(21)
10.10	CHS Inc. Share Option Plan Option Agreement.(21)
10.11	CHS Inc. Share Option Plan Trust Agreement.(21)
10.11A	Amendment No. 1 to the Trust Agreement.(21)
10.12	\$225,000,000 Note Agreement (Private Placement Agreement) dated as of June 19, 1998 among Cenex Harvest States Cooperatives and each of the Purchasers of the Notes.(2)
10.12A	First Amendment to Note Agreement (\$225,000,000 Private Placement), effective September 10, 2003, among CHS Inc. and each of the Purchasers of the notes.(18)
10.13	Credit Agreement (Revolving Loan) dated as of May 21, 2003 among Cenex Harvest States Cooperatives, CoBank, ACB, SunTrust Bank, Cooperative Centrale Raiffeisen-Boerenleenbank B.A., BNP Paribas and the Syndication Parties.(16)
10.13A	First Amendment to Credit Agreement dated as of May 20, 2004 between CHS Inc., CoBank, ACB, and the Syndication Parties. (20)
10.14	\$200 Million Term Loan Credit Agreement dated as of June 1, 1998 among Cenex Harvest States Cooperatives, CoBank, ACB, and St. Paul Bank for Cooperatives, including Exhibit 2.4 (form of \$200 Million Promissory Note).(2)
10.14A	First Amendment to Credit Agreement (Term Loan), effective as of May 31, 1999 among Cenex Harvest States Cooperatives, CoBank, ACB, and St. Paul Bank for Cooperatives.(4)
10.14B	Second Amendment to Credit Agreement (Term Loan) dated May 23, 2000 by and among Cenex Harvest States Cooperatives, CoBank, ACB, St. Paul Bank for Cooperatives and the Syndication Parties.(6)
10.14C	Third Amendment to Credit Agreement (Term Loan) dated May 23, 2001 among Cenex Harvest States Cooperatives, CoBank, ACB, and the Syndication Parties.(9)
10.14D	Fourth Amendment to Credit Agreement (Term Loan) dated May 22, 2002 among Cenex Harvest States Cooperatives, CoBank, ACB and the Syndication Parties.(11)
10.14E	Fifth Amendment to Credit Agreement (Term Loan) dated May 21, 2003 by and among Cenex Harvest States Cooperatives, CoBank, ACB and the Syndication Parties.(21)
10.14F	Sixth Amendment to Credit Agreement (Term Loan) dated as of May 20, 2004 by and among CHS Inc., CoBank, ACB, and the Syndication Parties.(20)

10.15 Limited Liability Agreement of United Harvest, LLC dated November 9, 1998 between United Grain Corporation and Cenex Harvest States Cooperatives.(3)

2

Table of Contents

10.16	Joint Venture Agreement for Agriliance LLC, dated as of January 1, 2000 among Farmland Industries, Inc., Cenex Harvest States Cooperatives, United Country Brands, LLC and Land O Lakes, Inc.(5)
10.17	Employment Agreement dated November 6, 2003 by and between John D. Johnson and CHS Inc.(18)
10.18	CHS Inc. Special Supplemental Executive Retirement Plan.(18)
10.19	Note purchase and Private Shelf Agreement dated as of January 10, 2001 between Cenex Harvest States Cooperatives and The Prudential Insurance Company of America.(8)
10.19A	Amendment No. 1 to Note Purchase and Private Shelf Agreement, dated as of March 2, 2001.(8)
10.20	Note Purchase Agreement and Series D & E Senior Notes dated October 18, 2002.(12)
10.21	2003 Amended and Restated Credit Agreement (\$15 million, 2 Year Facility) dated December 16, 2003 between CoBank, ACB, U.S. AgBank, FCB and the National Cooperative Refinery Association, Inc.(19)
10.22	Note Purchase and Private Shelf Agreement between CHS Inc. and Prudential Capital Group dated as of April 13, 2004.(20)
21.1	Subsidiaries of the Registrant.(21)
23.1	Consent of Independent Registered Public Accounting Firm.(22)
23.2	Independent Auditors Consent.(22)
24.1	Power of Attorney.(21)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(22)
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(22)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(22)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(22)

* Pursuant to Rule 406 of the Securities Act of 1933, as amended, confidential portions of Exhibit 10.3 have been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 333-17865), filed February 7, 1997.
- (2) Incorporated by reference to the Company's Form 10-Q Transition Report for the period June 1, 1998 to August 31, 1998, filed October 14, 1998.
- (3) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended November 30, 1998, filed January 13, 1999.
- (4) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 1999, filed July 13, 1999.
- (5) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended February 29, 2000 filed April 11, 2000.
- (6)

Edgar Filing: CHS INC - Form 10-K/A

Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 2000, filed July 10, 2000.

- (7) Incorporated by reference to the Company's Form 10-K for the year ended August 31, 2000, filed November 22, 2000.
- (8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended February 28, 2001, filed April 10, 2001.
- (9) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 2001, filed July 3, 2001.

Table of Contents

- (10) Incorporated by reference to the Company's Registration Statement on Form S-2 (File No. 333-65364), filed October 26, 2001.
- (11) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 2002, filed July 3, 2002.
- (12) Incorporated by reference to the Company's Form 10-K for the year ended August 31, 2002, filed November 25, 2002.
- (13) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended November 30, 2002, filed January 9, 2003.
- (14) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-2 (File No. 333-101916), dated January 13, 2003.
- (15) Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003.
- (16) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 2003, filed July 2, 2003.
- (17) Incorporated by reference to the Company's Form 8-K, filed August 5, 2003.
- (18) Incorporated by reference to the Company's Form 10-K for the year ended August 31, 2003 filed on November 21, 2003.
- (19) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended February 29, 2004, filed April 7, 2004.
- (20) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 31, 2004, filed July 12, 2004.
- (21) Incorporated by reference to the Company's Form 10-K for the year ended August 31, 2004 filed November 18, 2004.

(22) Filed herewith.

(c) Reports on Form 8-K

We filed an 8-K on May 4, 2005 for changes to our Articles of Incorporation and Bylaws which allow us to take advantage of the repeal of the Federal Dividend Allocation Rule.

We filed an 8-K on May 16, 2005 to announce the filing of a registration statement with the Securities and Exchange Commission by CF Industries Holdings, Inc., a holding company for CF Industries, Inc., of which we have an equity interest in.

We filed an 8-K on June 1, 2005 to announce the completion of the sale of our Mexican Foods tortilla and chip businesses to Gruma Corporation.

We filed an 8-K on June 8, 2005 for the renewal and expansion of our committed lines of revolving credit.

(c) Exhibits

The exhibits shown in Item 15(a)(3) above are being filed herewith.

(d) Schedules

None.

Supplemental Information

As a cooperative, the Company does not utilize proxy statements.

4

Table of Contents

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.

By: /s/ JOHN SCHMITZ

Date: August 15, 2005

John Schmitz
*Executive Vice President and
Chief Financial Officer*

Table of Contents

**CHS INC.
CONSOLIDATED BALANCE SHEETS**

August 31

2004

2003

(Dollars in thousands)

ASSETS			
Current assets:			
Cash and cash equivalents	\$	136,491	\$ 168,249
Receivables		834,965	763,780
Inventories		723,893	801,883
Other current assets		273,355	178,661
Total current assets		1,968,704	1,912,573
Investments		575,816	532,893
Property, plant and equipment		1,249,655	1,122,982
Other assets		237,117	239,520
Total assets	\$	4,031,292	\$ 3,807,968

LIABILITIES AND EQUITIES			
Current liabilities:			
Notes payable	\$	116,115	\$ 251,131
Current portion of long-term debt		35,117	14,951
Customer credit balances		88,686	58,417
Customer advance payments		64,042	123,383
Checks and drafts outstanding		64,584	85,239
Accounts payable		717,501	627,250
Accrued expenses		305,650	254,415
Dividends and equities payable		83,569	39,049
Total current liabilities		1,475,264	1,453,835
Long-term debt		648,701	648,222
Other liabilities		148,526	111,555
Minority interests in subsidiaries		130,715	112,645
Commitments and contingencies			
Equities		1,628,086	1,481,711
Total liabilities and equities	\$	4,031,292	\$ 3,807,968

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

Table of Contents

CHS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended August 31

	2004	2003	2002
(Dollars in thousands)			
Revenues:			
Net sales	\$ 10,909,333	\$ 9,270,734	\$ 7,156,454
Other revenues	141,303	122,578	107,351
	11,050,636	9,393,312	7,263,805
Cost of goods sold	10,604,245	9,060,555	6,940,050
Marketing, general and administrative	208,284	183,757	182,175
Operating earnings	238,107	149,000	141,580
Gain on sale of investment	(14,666)		
Gain on legal settlements	(692)	(10,867)	(2,970)
Interest	51,625	48,675	42,455
Equity income from investments	(79,022)	(47,299)	(58,133)
Minority interests	33,830	21,950	15,390
Income before income taxes	247,032	136,541	144,838
Income taxes	25,700	12,700	18,700
Net income	\$ 221,332	\$ 123,841	\$ 126,138
Distribution of net income:			
Patronage refunds	\$ 166,850	\$ 90,000	\$ 92,900
Unallocated capital reserve	54,482	33,841	33,238
Net income	\$ 221,332	\$ 123,841	\$ 126,138

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

Table of Contents

CHS INC.
CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME

For the Years Ended August 31, 2004, 2003 and 2002

	Capital Equity Certificates	Nonpatronage Equity Certificates	Preferred Stock	Patronage Refunds	Unallocated Capital Reserve	Accumulated Other Comprehensive Income (Loss)	Allocated Capital Reserve	Total Equities
(Dollars in thousands)								
Balances, September 1, 2001	\$ 971,873	\$ 28,158		\$ 90,230	\$ 164,757	\$ (1,915)	\$ 8,050	\$ 1,261,153
Dividends and equity retirement determination	33,484			38,670				72,154
Patronage distribution	92,484			(128,900)	(3,666)			(40,082)
Equities retired	(31,099)	(46)						(31,145)
Equities issued	2,600							2,600
Preferred stock issued, net			\$ 9,325		(3,428)			5,897
Preferred stock dividends					(240)			(240)
Other, net	(106)	(339)			100			(345)
Comprehensive income:								
Net income				92,900	33,238			126,138
Other comprehensive loss						(49,982)		(49,982)
Total comprehensive income								76,156
Dividends and equities payable	(28,640)			(27,870)				(56,510)
Balances, August 31, 2002	1,040,596	27,773	9,325	65,030	190,761	(51,897)	8,050	1,289,638
Dividends and equity retirement determination	28,639			27,870				56,509
Patronage distribution	61,784			(92,900)	4,638			(26,478)
Equities retired	(31,092)	(52)						(31,144)

Edgar Filing: CHS INC - Form 10-K/A

Equities issued	350							350
Preferred stock issued, net			86,379		(3,895)			82,484
Preferred stock redeemed			(2,002)					(2,002)
Preferred stock dividends					(3,575)			(3,575)
Other, net	(2,440)	(3)			(4)			(2,447)
Comprehensive income:								
Net income				90,000	33,841			123,841
Other comprehensive income						33,584		33,584
Total comprehensive income								157,425
Dividends and equities payable	(10,800)			(27,000)	(1,249)			(39,049)
Balances, August 31, 2003	1,087,037	27,718	93,702	63,000	220,517	(18,313)	8,050	1,481,711
Dividends and equity retirement determination	10,800			27,000	1,249			39,049
Patronage distribution	66,500			(90,000)	(5,222)			(28,722)
Equities retired	(10,292)	(47)						(10,339)
Capital equity certificates exchanged for preferred stock	(12,990)		12,990		(150)			(150)
Equities issued	13,355							13,355
Preferred stock redeemed, treasury								
Preferred stock dividends					(7,975)			(7,975)
Other, net	(7,669)	(85)			(30)			(7,784)
Comprehensive income:								
Net income				166,850	54,482			221,332
Other comprehensive income						11,178		11,178
Total comprehensive income								232,510

Dividends and equities payable	(32,100)		(50,060)	(1,409)				(83,569)
--------------------------------	----------	--	----------	---------	--	--	--	----------

Balances,

August 31, 2004	\$ 1,114,641	\$ 27,586	\$ 106,692	\$ 116,790	\$ 261,462	\$ (7,135)	\$ 8,050	\$ 1,628,086
-----------------	--------------	-----------	------------	------------	------------	------------	----------	--------------

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

F-3

Table of Contents

CHS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended August 31

	2004	2003	2002
(Dollars in thousands)			
Cash flows from operating activities:			
Net income	\$ 221,332	\$ 123,841	\$ 126,138
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	108,399	111,347	103,986
Noncash income from equity investments	(79,022)	(47,299)	(58,133)
Minority interests	33,830	21,950	15,390
Noncash portion of patronage dividends received	(4,986)	(1,795)	(2,327)
Loss (gain) on sale of property, plant and equipment	775	741	(6,418)
Deferred tax expense	8,500	9,000	4,400
Gain on sale of investment	(14,666)		
Other, net	1,150	4,052	5,467
Changes in operating assets and liabilities:			
Receivables	(59,039)	(18,669)	(32,517)
Inventories	88,261	(25,692)	(255,107)
Other current assets and other assets	(89,237)	(83,347)	(86,636)
Customer credit balances	27,639	30,238	(12,025)
Customer advance payments	(59,354)	(45,740)	59,988
Accounts payable and accrued expenses	121,647	135,310	92,781
Other liabilities	28,060	2,569	9,079
Net cash provided by (used in) operating activities	333,289	216,506	(35,934)
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(245,148)	(175,689)	(140,169)
Proceeds from disposition of property, plant and equipment	34,530	26,886	20,205
Investments	(49,757)	(43,478)	(6,211)
Equity investments redeemed	65,158	35,939	37,689
Investments redeemed	9,481	8,467	6,310
Proceeds from sale of investment	25,000		
Changes in notes receivable	(6,888)	(6,630)	(22,031)
Acquisitions of intangible assets		(767)	(29,501)
Acquisitions of working capital, net		(13,030)	(5,750)
Distributions to minority owners	(15,908)	(4,444)	(7,413)
Other investing activities, net	2,248	(507)	(685)
Net cash used in investing activities	(181,284)	(173,253)	(147,556)
Cash flows from financing activities:			
Changes in notes payable	(135,016)	(81,383)	235,319

Edgar Filing: CHS INC - Form 10-K/A

Borrowings on long-term debt	35,457	175,000	30,000
Principal payments on long-term debt	(15,299)	(89,512)	(17,968)
Payments on derivative financial instruments, net	(287)	(7,574)	
Changes in checks and drafts outstanding	(21,431)	988	(3,557)
Proceeds from sale of preferred stock, net of expenses	(151)	82,484	5,897
Redemptions of preferred stock		(2,002)	
Preferred stock dividends paid	(7,975)	(3,575)	(240)
Retirements of equities	(10,339)	(31,144)	(31,145)
Cash patronage dividends paid	(28,722)	(26,478)	(40,082)
Net cash (used in) provided by financing activities	(183,763)	16,804	178,224
Net (decrease) increase in cash and cash equivalents	(31,758)	60,057	(5,266)
Cash and cash equivalents at beginning of period	168,249	108,192	113,458
Cash and cash equivalents at end of period	\$ 136,491	\$ 168,249	\$ 108,192

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

F-4

Table of Contents

**CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies:

Organization:

CHS Inc. (CHS 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, oilseed processing, foods and wheat milling, the Company provides its patrons with energy and agronomy products, as well as other production agricultural inputs. Sales are both domestic and international.

Consolidation:

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

The Company had various acquisitions, which 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 the 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. Costs for inventories produced or modified by the Company through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw materials over the amount charged to cost of goods sold. Costs for inventories purchased for resale include the cost of products and freight incurred to place the products at the Company's points of sales. 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 inventories of non-grain products purchased for resale 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 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 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 and therefore, contract values are reviewed and adjusted to reflect potential nonperformance.

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 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 values of 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 underlying product. Included in other current assets on August 31, 2004 and 2003 are derivative assets of \$91.3 million and \$54.5 million, respectively. Included in accrued expenses on August 31, 2004 and 2003 are derivative liabilities of \$110.8 million and \$46.5 million, respectively.

Commodity Price Risk:

The Company utilizes futures and options contracts offered through regulated commodity exchanges to reduce price risk. The Company is exposed to risk of loss in the market value of inventories and fixed or partially fixed purchase and sales contracts. In order to reduce that risk, the Company generally takes opposite and offsetting positions using futures 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, in order 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 with forward contracts, with futures and options used to hedge within position limits the remaining portion. These futures and options contracts and forward purchase and sales contracts used to hedge against commodity price changes are effective economic hedges of price risk, 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 using market-based prices. Inventories and fixed-price contracts are marked to fair value using market-based prices so that gains or losses on the derivative contracts are offset by gains or losses on inventories and fixed-price contracts.

Unrealized gains and losses on futures contracts and options used as economic hedges of energy inventories and fixed-price contracts are recognized in cost of goods sold for financial reporting using market-based prices. The inventories hedged with these derivatives are valued at the lower of cost or fair value, and fixed-price contracts are marked to fair value using market-based prices. Certain fixed-price contracts 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.

Interest Rate Risk:

The Company manages interest expense using 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 to minimize the effect of

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

market interest rate changes. The effective interest rate to the Company on fixed-rate debt outstanding on August 31, 2004, was approximately 6.4%.

In fiscal years 2002 and 2004, the Company entered into interest rate treasury lock instruments to secure the interest rates related to a portion of its private placement debts issued on October 18, 2002, and September 21, 2004. These instruments were designated and are effective as cash flow hedges for accounting purposes and, accordingly, the net loss on settlements were recorded as a component of other comprehensive income. Interest expense for the years ended August 31, 2004 and 2003, includes \$0.9 million and \$0.7 million, respectively, related to the interest rate derivatives. The additional interest expense is an offset to the lower actual interest paid on the outstanding debt instruments.

Foreign Currency Risk:

The Company conducts essentially all of its business in U.S. dollars, except for grain marketing operations in Brazil and purchases of products from Canada, and had minimal risk regarding foreign currency fluctuations during 2004 and in prior years. 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.

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 in other revenues 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.

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:

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets acquired and liabilities assumed. Goodwill is no longer amortized in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, but reviewed for impairment annually, or more frequently if certain impairment conditions arise, on the basis of undiscounted cash flows. After analysis,

Table of Contents

CHS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets that are deemed to require impairment are written down to fair market value. Other intangible assets consists primarily of trademarks, patents, customer lists and agreements not to compete. Intangible assets subject to amortization are provided on a straight-line basis over the number of years that approximate their respective useful lives (ranging from 5 to 15 years).

Revenue Recognition:

The Company provides a wide variety of products and services, from production agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products. Grain and oilseed sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the transactions. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in net sales. Service revenues are recorded only after such services have been rendered, and are included in other revenues.

Environmental Expenditures:

Liabilities, including legal costs, related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of environmental 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 fiscal 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.

Comprehensive Income:

Comprehensive income 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.

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.

Table of Contents

**CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Recent Accounting Pronouncements:

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in certain circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Adoption of this standard did not have an effect on the Company.

In December 2003, the FASB issued SFAS No. 132R, Employers' Disclosures about Pensions and Other Postretirement Benefits. This statement requires additional disclosures to be made by employers regarding pensions and other postretirement benefit plans, but does not change the measurement or recognition of those plans. Under this Statement, the disclosure provisions regarding foreign plans and estimated future benefit payments are effective for fiscal years ending after December 15, 2003 and interim periods beginning after December 15, 2003. The Company has adopted the interim and annual disclosure provisions of this Statement during the current fiscal year.

In December 2003, the FASB revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities. The interpretation addresses consolidation of certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. It also requires consolidation by the primary beneficiary. For public entities the interpretation applies to interests in variable interest entities for periods ending after March 15, 2004, the Company's third quarter. Adoption of this standard did not have an effect on the Company.

On May 19, 2004, the FASB issued a FASB Staff Position (FSP) regarding SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, discusses the effects of the Medicare Prescription Drug, Improvement and Modernization Act (the Act) enacted on December 8, 2003. FSP 106-2 considers the effect of the two new features introduced in the Act in determining accumulated postretirement benefit obligation (APBO) and net periodic postretirement benefit cost, which may serve to reduce a company's post-retirement benefit costs. Companies may elect to defer accounting for this benefit or may attempt to reflect the best estimate of the impact of the Act on net periodic costs. The Company has chosen to defer accounting for the benefit until the FASB issues final accounting guidance due to various uncertainties related to this legislation. The Company's measures of APBO and net periodic postretirement benefit costs as of and for the year ended August 31, 2004 do not reflect the effect of the Act as permitted by the FSP.

In March 2004, the FASB Emerging Issues Task Force (EITF) reached a consensus on and the FASB ratified EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired. On September 30, 2004, the FASB issued FSP EITF 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, which delayed the effective date of the application guidance on impairment of securities included within EITF 03-1. The Company is still evaluating the potential impact of the adoption of EITF 03-1.

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications:

Certain reclassifications have been made to prior year's amounts to conform to current year classifications. These reclassifications and changes had no effect on previously reported net income, equities and comprehensive income, or cash flows.

2. Receivables:

Receivables as of August 31, 2004 and 2003 are as follows:

	2004	2003
	(Dollars in thousands)	
Trade	\$ 835,066	\$ 748,398
Other	55,708	47,000
	890,774	795,398
Less allowances for doubtful accounts	55,809	31,618
	\$ 834,965	\$ 763,780

All international sales are denominated in U.S. dollars. International sales for the years ended August 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
	(Dollars in millions)		
Africa	\$ 112	\$ 99	\$ 135
Asia	1,104	815	407
Europe	158	156	282
North America, excluding U.S.	456	367	298
South America	209	166	100
	\$ 2,039	\$ 1,603	\$ 1,222

3. Inventories:

Inventories as of August 31, 2004 and 2003 are as follows:

	2004	2003
	(Dollars in thousands)	
Grain and oilseed	\$ 308,207	\$ 370,381
Energy	277,801	292,095
Feed and farm supplies	110,885	95,589
Processed grain and oilseed	25,740	42,688
Other	1,260	1,130

\$ 723,893 \$ 801,883

As of August 31, 2004, the Company valued approximately 24% of inventories, primarily related to energy, using the lower of cost, determined on the LIFO method, or market (24% as of August 31, 2003). If the FIFO method of accounting for these inventories had been used, inventories would have been higher than the reported amount by \$160.3 million and \$86.3 million at August 31, 2004 and 2003, respectively.

F-10

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Investments:**

Investments as of August 31, 2004 and 2003 are as follows:

	2004	2003
	(Dollars in thousands)	
Cooperatives:		
CF Industries, Inc.	\$ 152,996	\$ 152,996
Land O Lakes, Inc.	31,057	27,105
Ag Processing, Inc.	24,866	24,481
CoBank ACB (CoBank)	16,625	22,505
Joint ventures:		
United Country Brands, LLC (Agriliance, LLC)	167,597	129,286
Ventura Foods, LLC	107,719	107,464
TEMCO, LLC	5,776	9,087
Other	69,180	59,969
	\$ 575,816	\$ 532,893

The CHS investment in CF Industries, Inc. (CF) is carried at cost, including allocated patronage refunds. CHS recognizes income from this investment when qualified patronage refunds are received. In each of the years 1998 through 2003, CF has generated operating losses, none of which were allocated to its owners. CHS management has performed the appropriate impairment tests of this investment, and based upon those tests, believes that the fair market value exceeds its carrying value. CHS will continue to perform impairment tests annually, or as circumstances dictate, including reviewing operating results, which could result in impairment to its CF investment.

The Company has a 50% interest in Ventura Foods, LLC, a joint venture, which produces and distributes oilseed-based products. The following provides summarized unaudited financial information for Ventura Foods, LLC balance sheets as of August 31, 2004 and 2003, and statements of operations for the twelve months ended August 31, 2004, 2003 and 2002:

	2004	2003
	(Dollars in thousands)	
Current assets	\$ 286,613	\$ 193,632
Non-current assets	258,270	231,649
Current liabilities	171,269	227,400
Non-current liabilities	194,547	21,738

	2004	2003	2002
	(Dollars in thousands)		
Net sales	\$ 1,425,061	\$ 1,165,823	\$ 1,013,475
Gross profit	167,581	155,274	181,217
Net income	44,696	42,837	75,368

Agriliance, LLC (Agriliance) is owned and governed by Land O Lakes, Inc. (50%) and United Country Brands, LLC (50%). United Country Brands, LLC, was initially owned and governed 50% by the Company and 50% by Farmland Industries, Inc. (Farmland), and was formed solely to hold a 50% interest in Agriliance. Initially, the Company's indirect share of earnings (economic interest) in Agriliance was 25%, which was the same as the Company's ownership or governance interest. In April 2003, the Company acquired an additional 13.1% economic interest in the wholesale crop protection business of

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Agriliance (the CPP Business), which constituted only a part of the Agriliance business operations, for a cash payment of \$34.3 million. After the transaction, the economic interests in Agriliance were owned 50% by Land O Lakes, Inc. 25% plus an additional 13.1% of the CPP Business by the Company and 25% less 13.1% of the CPP Business by Farmland. The ownership or governance interests in Agriliance did not change with the purchase of this additional economic interest. Agriliance's earnings were split among the members based upon the respective economic interests of each member. On April 30, 2004, the Company purchased all of Farmland's remaining interest in Agriliance for \$27.5 million in cash. The Company now owns 50% of the economic and governance interests in Agriliance, and continues to account for this investment using the equity method of accounting.

The following provides summarized financial information for Agriliance balance sheets as of August 31, 2004 and 2003, and statements of operations for the years ended August 31, 2004, 2003 and 2002:

	2004	2003
	(Dollars in thousands)	
Current assets	\$ 1,123,671	\$ 1,249,891
Non-current assets	123,106	119,615
Current liabilities	878,814	1,083,693
Non-current liabilities	128,780	27,061

	2004	2003	2002
	(Dollars in thousands)		
Net sales	\$ 3,477,528	\$ 3,485,623	\$ 3,625,849
Earnings from operations	82,221	67,239	57,604
Net income	71,278	60,741	47,044

During the year ended August 31, 2004, NCRA exercised its right of first refusal to purchase a partial interest in a crude oil pipeline for \$16.0 million, increasing their holding to 100%. NCRA subsequently sold a 50% interest in the same pipeline to another third party for proceeds of \$25.0 million and recorded a pre-tax gain on the sale of \$14.7 million.

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 values. Investments in cooperatives and joint ventures have no quoted market prices.

Various agreements with other owners of investee companies and a majority-owned subsidiary set out parameters whereby CHS 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.

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property, Plant and Equipment:

A summary of property, plant and equipment as of August 31, 2004 and 2003 is as follows:

	2004	2003
(Dollars in thousands)		
Land and land improvements	\$ 64,709	\$ 60,453
Buildings	422,545	380,940
Machinery and equipment	1,618,428	1,515,976
Office and other	65,296	61,356
Construction in progress	214,988	159,555
	2,385,966	2,178,280
Less accumulated depreciation and amortization	1,136,311	1,055,298
	\$ 1,249,655	\$ 1,122,982

In January 2002, the Company formed a limited liability company 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. The Company is leasing certain of its wheat milling facilities and related equipment to Horizon Milling, LLC under an operating lease agreement. The book value of the leased milling assets at August 31, 2004, was \$93.6 million, net of accumulated depreciation of \$37.1 million.

For the years ended August 31, 2004, 2003 and 2002, the Company capitalized interest of \$2.8 million, \$3.9 million and \$2.1 million, respectively, related to capitalized construction projects.

During 2003, the Company adopted 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 Company's Energy segment operates oil refineries and related pipelines for which the Company would be subject to Asset Retirement Obligations (ARO) if such assets were to be dismantled. The Company, however, expects to operate its refineries and related pipelines indefinitely. Since the time period to dismantle these assets is indeterminate, a corresponding ARO is not estimable and therefore has not been recorded.

F-13

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Assets:

Other assets as of August 31, 2004 and 2003 are as follows:

	2004	2003
(Dollars in thousands)		
Goodwill	\$ 26,896	\$ 27,052
Customer lists, less accumulated amortization of \$7,445 and \$5,112, respectively	7,087	9,414
Non-compete covenants, less accumulated amortization of \$2,115 and \$11,774, respectively	1,638	1,766
Other intangible assets, less accumulated amortization of \$3,113 and \$1,986, respectively	13,498	14,607
Prepaid pension and other benefit assets	182,773	151,389
Deferred tax asset		28,689
Notes receivable	1,186	1,991
Other	4,039	4,612
	\$ 237,117	\$ 239,520

Intangible assets amortization expenses for the years ended August 31, 2004, 2003 and 2002 were \$3.8 million, \$12.2 million and \$4.2 million, respectively. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate \$2.7 million annually for the first four years, and \$1.7 million for the fifth year.

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 had a weighted-average life of approximately 12 years. During the year ended August 31, 2003, the Company accelerated the amortization of the non-compete agreement due to Farmland's July 31, 2003 notification that it intended to liquidate its assets in bankruptcy. The Company had additional amortization expense of \$7.5 million during 2003 related to the acceleration, and the asset had a zero book value as of August 31, 2003.

F-14

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Notes Payable and Long-Term Debt:

Notes payable and long-term debt as of August 31, 2004 and 2003 consisted of the following:

	Interest Rates at August 31, 2004	2004	2003
(Dollars in thousands)			
Notes payable(a)(h)	2.01% to 2.23%	\$ 116,115	\$ 251,131
Long-term debt:			
Revolving term loans from cooperative and other banks, payable in installments through 2009, when the balance is due(b)(h)	2.27% to 13.00%	\$ 155,784	\$ 168,032
Private placement, payable in equal installments beginning in 2008 through 2013(c)(h)	6.81%	225,000	225,000
Private placement, payable in installments beginning in 2007 through 2018(d)(h)	4.96% to 5.60%	175,000	175,000
Private placement, payable in equal installments beginning in 2005 through 2011(e)(h)	7.43% to 7.90%	80,000	80,000
Private placement, payable in its entirety in 2010(f)(h)	4.08%	15,000	
Private placement, payable in its entirety in 2011(f)(h)	4.39%	15,000	
Industrial revenue bonds, payable in its entirety in 2011	5.23%	3,925	5,831
Other notes and contracts(g)	5.70% to 12.17%	14,109	9,310
Total long-term debt		683,818	663,173
Less current portion		35,117	14,951
Long-term portion		\$ 648,701	\$ 648,222
		2004	2003
Weighted-average interest rates at August 31:			
Short-term debt		2.16%	1.83%
Long-term debt		6.35%	6.52%

(a) The Company finances its working capital needs through short-term lines of credit with a syndication of domestic and international banks. These revolving lines of credit include a 364-day facility of \$750.0 million, and a

three-year facility of \$150.0 million, both of which are committed. On August 31, 2004, \$115.0 million was outstanding on the 364-day facility. In addition to these short-term lines of credit, the Company has a two-year credit facility dedicated to NCRA, with a syndication of banks in the amount of \$15.0 million, all of which is committed, with no amounts outstanding on August 31, 2004. Other miscellaneous notes payable totaled \$1.1 million on August 31, 2004.

- (b) 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, 2004, \$131.2 million was outstanding. NCRA term loans of \$12.0 million are collateralized by NCRA's investment in CoBank.

F-15

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (c) In June 1998, the Company entered into a private placement with several insurance companies for long-term debt in the amount of \$225.0 million.
- (d) In October 2002, the Company entered into a private placement with several insurance companies for long-term debt in the amount of \$175.0 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 and a subsequent note for \$55.0 million was issued in March 2001.
- (f) In March 2004, the Company entered into a note purchase and private shelf agreement with Prudential Capital Group. In April 2004, two long-term notes were issued for \$15.0 million each.
- (g) Other notes payable of \$10.0 million are collateralized by property, plant and equipment, with a cost of approximately \$16.9 million, less accumulated depreciation of approximately \$1.4 million on August 31, 2004.
- (h) The debt is unsecured, however 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, 2004 and 2003.
The aggregate amount of long-term debt payable as of August 31, 2004 is as follows:

	(Dollars in thousands)
2005	\$ 35,117
2006	35,582
2007	60,122
2008	98,626
2009	117,285
Thereafter	337,086
	\$ 683,818

The Company is in compliance with all debt covenants and restrictions as of August 31, 2004.

On September 21, 2004, the Company entered into a private placement with several insurance companies for long-term debt in the amount of \$125.0 million with an interest rate of 5.25%. The debt will be repaid in equal annual installments of \$25.0 million during fiscal years 2011 through 2015. The proceeds were used to pay down the Company's short-term debt.

8. Income Taxes:

In October 2001, NCRA's members ratified a resolution passed by NCRA's Board of Directors to compute patronage distributions for all years ending after August 31, 2001, based on earnings for financial statement purposes, rather than amounts reportable for federal income tax purposes. As a result of this by-law change, NCRA's 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. The \$10.9 million deferred tax benefit 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. Additional valuation

allowances of \$1.7 million and \$6.2 million were provided to offset deferred tax benefits generated by NCRA as of August 31, 2003 and 2002, respectively. For the year ended August 31, 2004, NCRA decreased its valuation allowance by \$5.0 million due to a reduction in NCRA's deferred tax benefits. The Company recorded a \$4.4 million

F-16

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

valuation allowance to offset deferred tax benefits relating to a capital loss carryforward in that same period.

The provision for income taxes for the years ended August 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
	(Dollars in thousands)		
Current	\$ 17,200	\$ 3,700	\$ 14,300
Deferred	7,900	7,300	(12,700)
Valuation allowance	600	1,700	17,100
Income taxes	\$ 25,700	\$ 12,700	\$ 18,700

The tax effect of temporary differences of deferred tax assets and liabilities as of August 31, 2004 and 2003 is as follows:

	2004	2003
	(Dollars in thousands)	
Deferred tax assets:		
Accrued expenses and valuation reserves	\$ 49,151	\$ 53,521
Postretirement health care and deferred compensation	37,067	29,153
Property, plant and equipment		9,369
Alternative minimum tax credit and loss carryforward	28,268	8,948
Other	21,464	19,316
Total deferred tax assets	135,950	120,307
Deferred tax liabilities:		
Pension, including minimum liability	47,155	34,531
Equity method investments	7,407	23,310
Property, plant and equipment	35,737	
Other	1,184	
Total deferred tax liabilities	91,483	57,841
Deferred tax assets valuation reserve	(11,212)	(11,765)
Net deferred tax assets	\$ 33,255	\$ 50,701

As of August 31, 2004, net deferred tax assets of \$43.4 million and \$10.1 million are included in current assets and other liabilities, respectively (\$22.0 million and \$28.7 million in current assets and other assets, respectively, as of August 31, 2003). As of August 31, 2004, NCRA recognized a valuation allowance for the entire tax benefit associated with its net deferred tax asset, 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. As of August 31, 2004, NCRA's net deferred tax assets of \$6.8 million were comprised of deferred tax assets of \$18.4 million and deferred tax liabilities of

\$11.6 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.

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reconciliation of the statutory federal income tax rates to the effective tax rates for the years ended August 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	3.9	3.9	3.9
Patronage earnings	(25.8)	(25.7)	(25.0)
Change in patronage determination			(7.5)
Export activities at rates other than the U.S. statutory rate	(4.5)	(3.2)	(1.9)
Deferred tax asset valuation allowance	0.2	1.3	11.8
Other	1.6	(2.0)	(3.4)
Effective tax rate	10.4%	9.3%	12.9%

9. Equities:

In accordance with the by-laws 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, 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. Redemptions are at the discretion of the Board of Directors.

A new policy was adopted effective September 1, 2004, whereby redemptions of capital equity certificates approved by the Board of Directors will be divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities older than 10 years, and another for individual members who are eligible for equity redemptions at age 72 or upon death. The amount that each non-individual member receives under the pro-rata program in any year will be determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates older than 10 years held by that member, and the denominator is the sum of the patronage certificates older than 10 years held by all eligible non-individuals.

For the years ended August 31, 2004, 2003 and 2002, the Company redeemed in cash, patronage related equities in accordance with authorization from the Board of Directors in the amounts of \$10.3 million, \$31.1 million and \$31.1 million, respectively. An additional \$13.0 million of capital equity certificates were redeemed in fiscal 2004, by issuance of shares of the Company's 8% Cumulative Redeemable Preferred Stock (New Preferred) pursuant to a registration statement on Form S-2 filed with the Securities and Exchange Commission. The amount of equities redeemed with each share of preferred stock issued was \$27.10, which was the closing price per share of the stock on the NASDAQ National Market on March 2, 2004. On August 31, 2004, the Company had 4,226,428 shares of the New Preferred outstanding with a total redemption value of approximately \$105.7 million, excluding accumulated dividends.

The Company expects cash redemptions related to the year ended August 31, 2004, to be distributed in fiscal year 2005, to be approximately \$32.1 million and are classified as a current liability on the August 31, 2004 consolidated balance sheet. The Company expects to redeem an additional \$20.0 million

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of capital equity certificates in fiscal year 2005 by issuing shares of the Company's New Preferred, pending approval from the Securities and Exchange Commission.

In 2001 and 2002 the Company issued 9,454,874 shares of 8% Preferred Stock (Old Preferred). In late 2002, the Company suspended sales of the Old Preferred, and on February 25, 2003 the Company filed a post-effective amendment to terminate the offering of the Old Preferred shares. In January 2003, the Board of Directors authorized the sale and issuance of up to 3,500,000 shares of 8% Cumulative Redeemable Preferred Stock (New Preferred) at a price of \$25.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering 3,000,000 shares of the New Preferred (with an additional over-allotment option of 450,000 shares granted to the underwriters), which was declared effective on January 27, 2003. The shares were subsequently sold for gross proceeds of \$86.3 million (3,450,000 shares). The New Preferred is listed on the NASDAQ National Market under the symbol CHSCP. Expenses related to the issuance of the New Preferred were \$3.8 million.

On March 5, 2003, the Company's Board of Directors authorized the redemption and conversion of the Old Preferred shares. A redemption notification and a conversion election form were sent to holders of the Old Preferred shares on March 31, 2003 explaining that on April 25, 2003 all shares of the Old Preferred would be redeemed by the Company for \$1.00 per share unless they were converted into shares of the Company's New Preferred. The conversion did not change the base liquidation amount or dividend amount of the Old Preferred, since 25 shares of the Old Preferred converted to 1 share of the New Preferred. The total Old Preferred converted to the New Preferred was 7,452,439 shares, and the balance of the Old Preferred (2,002,435 shares) was redeemed in cash at \$1.00 per share.

The New Preferred accumulates dividends at a rate of 8% per year, and dividends are payable quarterly.

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 sheets status as of August 31, 2004 and 2003 is as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2004	2003	2004	2003	2004	2003
(Dollars in thousands)						
Change in benefit obligation:						
Benefit obligation at beginning of period	\$ 289,906	\$ 253,868	\$ 13,834	\$ 14,543	\$ 29,255	\$ 24,915
Service cost	11,548	10,840	601	800	754	648
Interest cost	17,203	17,503	822	1,033	1,758	1,722
Plan participants contributions		1,771				215
Plan amendments	105				(839)	88
Transfers					1,206	
Actuarial loss (gain)	4,539	22,049	77	(766)	(2,162)	2,527
Special agreement			1,003			
Assumption change		4,659			502	1,469
Benefits paid	(22,865)	(20,784)	(2,211)	(1,776)	(2,147)	(2,329)

Edgar Filing: CHS INC - Form 10-K/A

Benefit obligation at end of period	\$ 300,436	\$ 289,906	\$ 14,126	\$ 13,834	\$ 28,327	\$ 29,255
--	------------	------------	-----------	-----------	-----------	-----------

F-19

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2004	2003	2004	2003	2004	2003
(Dollars in thousands)						
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 280,217	\$ 201,563				
Actual income on plan assets	31,500	14,915				
Company contributions	10,700	84,523	\$ 2,211	\$ 1,776	\$ 2,147	\$ 2,114
Participants contributions						215
Benefits paid	(22,865)	(20,784)	(2,211)	(1,776)	(2,147)	(2,329)
Fair value of plan assets at end of period	\$ 299,552	\$ 280,217	\$	\$	\$	\$
Funded status	\$ (884)	\$ (9,689)	\$ (14,126)	\$ (13,834)	\$ (28,327)	\$ (29,255)
Employer contributions after measurement date			32	84	222	247
Unrecognized actuarial loss (gain)	114,401	118,025	130	(899)	(1,061)	707
Unrecognized transition obligation					8,325	9,261
Unrecognized prior service cost	6,730	7,467	2,977	3,503	(1,742)	(1,076)
Special agreement			(1,003)			
Prepaid benefit cost (accrued)	\$ 120,247	\$ 115,803	\$ (11,990)	\$ (11,146)	\$ (22,583)	\$ (20,116)
Amounts recognized on balance sheets consist of:						
Accrued benefit liability	\$ 120,247	\$ 95,917	\$ (11,990)	\$ (12,125)	\$ (22,583)	\$ (20,116)
Intangible assets		2,425		253		
Accumulated other comprehensive loss		17,461		726		
Net amounts recognized	\$ 120,247	\$ 115,803	\$ (11,990)	\$ (11,146)	\$ (22,583)	\$ (20,116)

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2004. The rate was assumed to decrease gradually to 6.0% for 2006 and remain at that level thereafter. Components of net periodic benefit costs for the years ended August 31, 2004, 2003 and 2002 are as follows:

	Qualified Pension Benefits			Non-Qualified Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
(Dollars in thousands)									
Components of net periodic benefit cost:									
Service cost	\$ 11,548	\$ 10,840	\$ 9,275	\$ 601	\$ 800	\$ 1,168	\$ 754	\$ 648	\$ 557
Interest cost	17,203	17,503	17,673	822	1,033	886	1,758	1,722	1,586
Expected return on assets	(27,489)	(23,788)	(21,386)						
Prior service cost amortization	843	806	740	526	564	574	(174)	(172)	(197)
Actuarial loss (gain) amortization	4,149	2,623	1,369	103	159	18	108	(215)	(505)
Transition amount amortization			(708)				936	936	936
Net periodic benefit cost	\$ 6,254	\$ 7,984	\$ 6,963	\$ 2,052	\$ 2,556	\$ 2,646	\$ 3,382	\$ 2,919	\$ 2,377
Average assumptions:									
Discount rate	6.40%	6.30%	7.10%	6.25%	6.00%	7.25%	6.40%	6.30%	7.10%
Expected return on plan assets	9.00%	9.00%	9.00%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase	4.30%	5.00%	5.00%	5.00%	5.00%	5.00%	4.30%	5.00%	5.00%

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, 2004 and 2003:

	Qualified Pension Benefits		Non-Qualified Pension Benefits	
	2004	2003	2004	2003

	(Dollars in thousands)			
Projected benefit obligation	\$	\$ 120,068	\$ 14,126	\$ 13,834
Accumulated benefit obligation		107,760	12,463	12,209
Fair value of plan assets		104,560		

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%	1%
	Increase	Decrease
	(Dollars in thousands)	
Effect on total of service and interest cost components	\$ 254	\$ (229)
Effect on postretirement benefit obligation	2,418	(2,190)

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 substantially all employees. Total contributions by the Company to these plans were; \$8.6 million, \$8.5 million and \$11.0 million, for the years ended August 31, 2004, 2003 and 2002, respectively.

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company contributed \$10.7 million to qualified pension plans in 2004. Because the plan is fully funded, the Company does not expect to contribute to the pension plans in 2005. The Company expects to pay \$2.3 million to participants of the non-qualified pension and postretirement benefit plans during 2005.

The Company's retiree benefit payments which reflect expected future service are anticipated to be paid as follows:

	Qualified Pension Benefits	Non-Qualified Pension Benefits	Other Benefits
	(Dollars in thousands)		
2005	\$ 30,586	\$ 241	\$ 2,166
2006	22,738	240	2,278
2007	26,394	244	2,658
2008	24,977	237	2,882
2009	26,950	235	3,298
2010-2014	150,883	1,134	23,716

The Company has master trusts that hold the assets for the cash balance, production and NCRA pension plans. The Company and NCRA have qualified plan committees that set investment guidelines with the assistance of an external consultant. Investment objectives for the Company's plan assets are to:

Optimize the long-term returns on plan assets at an acceptable level of risk, and

Maintain broad diversification across asset classes and among investment managers, and

Focus on long-term return objectives.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. An annual analysis on the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. The Company generally uses long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall investment markets.

The investment portfolio contains a diversified portfolio of investment categories, including domestic and international equities, fixed income securities and real estate. Securities are also diversified in terms of domestic and international securities, short and long-term securities, growth and value equities, large and small cap stocks, as well as active and passive management styles.

The Committee believes with prudent risk tolerance and asset diversification, the plan should be able to meet its pension obligations in the future.

The Company's pension plans' average asset allocations by asset categories are as follows:

	2004	2003
Cash	2.7%	1.8%
Debt	29.9%	29.5%
Equities	62.0%	63.2%
Real estate	3.8%	3.8%
Other	1.6%	1.7%

Total

100.0%

100.0%

F-22

Table of Contents

CHS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Segment Reporting:

The Company operates five business segments, which are based on products and services; Agronomy, Energy, Country Operations and Services, Grain Marketing, and Processed Grains and Foods. The Agronomy segment consists of joint ventures and other investments, from which the Company derives investment income based upon the profitability of these investments. The Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. The Country Operations and Services segment derives its revenues through the origination and marketing of grain, through the retail sales of petroleum and agronomy products, and processed sunflowers, feed and farm supplies. The Country Operations and Services segment also derives revenues from service activities related to crop production. The Grain Marketing segment derives its revenues from the sale of grains and oilseeds and from service activities conducted at its export terminals. The Processed Grains and Foods segment derives its revenues from the sales of soybean meal and soybean refined oil, from equity income in two wheat milling joint ventures, from equity income in an oilseed food manufacturing and distribution joint venture, and from the sales of Mexican food products.

Reconciling Amounts represent the elimination of sales between segments. Such transactions are conducted at market prices to more accurately evaluate the profitability of the individual business segments.

The Company assigns certain corporate general and administrative expenses to its business segments, based on use of such services and allocates other services based on factors or considerations relevant to the costs incurred.

Expenses that are incurred at the corporate level for the purpose of the general operation of the Company are allocated to the segments based upon factors which management considers to be non-asymmetrical. Nevertheless, due to efficiencies in scale, 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.

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Segment information for the years ended August 31, 2004, 2003 and 2002 is as follows:

	Agronomy	Energy	Country Operations and Services	Grain Marketing	Processed Grains and Foods	Corporate and Other	Reconciling Amounts	Total
(Dollars in thousands)								
For the year ended August 31, 2004:								
Net sales		\$ 4,028,248	\$ 2,227,764	\$ 5,006,029	\$ 802,102		\$ (1,154,810)	\$ 10,909,333
Other revenues	\$ (15)	9,193	94,381	28,710	2,836	\$ 6,198		141,303
	(15)	4,037,441	2,322,145	5,034,739	804,938	6,198	(1,154,810)	11,050,636
Cost of goods sold		3,784,260	2,199,700	5,006,704	768,391		(1,154,810)	10,604,245
Marketing, general and administrative	8,482	66,493	70,196	25,071	31,811	6,231		208,284
Operating (losses) earnings	(8,497)	186,688	52,249	2,964	4,736	(33)		238,107
Gain on sale of investment		(14,666)						(14,666)
Gain on legal settlements			(692)					(692)
Interest	(352)	13,819	16,019	5,874	15,307	958		51,625
Equity (income) from investments	(35,725)	(1,399)	(519)	(11,413)	(29,966)			(79,022)
Minority interests		32,507	1,323					33,830
Income (loss) before income taxes	\$ 27,580	\$ 156,427	\$ 36,118	\$ 8,503	\$ 19,395	\$ (991)		\$ 247,032
Intersegment sales		\$ (121,199)	\$ (987,145)	\$ (45,103)	\$ (1,363)		\$ 1,154,810	\$
Goodwill		\$ 3,041	\$ 250		\$ 23,605			\$ 26,896
		\$ 187,937	\$ 28,537	\$ 6,835	\$ 18,783	\$ 3,056		\$ 245,148

Capital
expenditures

Depreciation and amortization	\$ 1,247	\$ 57,195	\$ 22,087	\$ 8,040	\$ 15,789	\$ 4,041	\$ 108,399
-------------------------------------	----------	-----------	-----------	----------	-----------	----------	------------

Total
identifiable
assets at
August 31,
2004

\$ 327,448	\$ 1,591,254	\$ 862,645	\$ 487,807	\$ 475,004	\$ 287,134	\$ 4,031,292
------------	--------------	------------	------------	------------	------------	--------------

F-24

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Agronomy	Energy	Country Operations and Services	Grain Marketing	Processed Grains and Foods	Corporate and Other	Reconciling Amounts	Total
(Dollars in thousands)								
For the year ended August 31, 2003:								
Net sales		\$ 3,648,093	\$ 1,885,825	\$ 4,139,226	\$ 491,931		\$ (894,341)	\$ 9,270,734
Other revenues	\$ (84)	5,655	84,206	25,676	2,411	\$ 4,714		122,578
	(84)	3,653,748	1,970,031	4,164,902	494,342	4,714	(894,341)	9,393,312
Cost of goods sold		3,470,726	1,876,811	4,133,677	473,682		(894,341)	9,060,555
Marketing, general and administrative	8,138	63,740	55,887	21,072	29,715	5,205		183,757
Operating (losses) earnings	(8,222)	119,282	37,333	10,153	(9,055)	(491)		149,000
Gain on legal settlements			(10,867)					(10,867)
Interest	(974)	16,401	14,975	4,738	12,845	690		48,675
Equity (income) loss from investments	(20,773)	(1,353)	(788)	1,673	(26,056)	(2)		(47,299)
Minority interests		20,782	1,168					21,950
Income (loss) before income taxes	\$ 13,525	\$ 83,452	\$ 32,845	\$ 3,742	\$ 4,156	\$ (1,179)		\$ 136,541
Intersegment sales		\$ (94,209)	\$ (796,999)	\$ (2,435)	\$ (698)		\$ 894,341	
Goodwill		\$ 3,185	\$ 262		\$ 23,605			\$ 27,052
Capital expenditures		\$ 80,837	\$ 26,738	\$ 5,298	\$ 60,576	\$ 2,240		\$ 175,689
	\$ 1,247	\$ 65,868	\$ 21,039	\$ 6,718	\$ 13,321	\$ 3,154		\$ 111,347

Edgar Filing: CHS INC - Form 10-K/A

Depreciation
and
amortization

Total identifiable assets at August 31, 2003	\$ 285,906	\$ 1,449,652	\$ 857,523	\$ 450,415	\$ 498,872	\$ 265,600		\$ 3,807,968
--	------------	--------------	------------	------------	------------	------------	--	--------------

For the year
ended
August 31,
2002:

Net sales		\$ 2,657,689	\$ 1,474,553	\$ 3,281,469	\$ 496,084		\$ (753,341)	\$ 7,156,454
Other revenues	\$ (89)	857	83,361	22,399	(1,209)	\$ 2,032		107,351

	(89)	2,658,546	1,557,914	3,303,868	494,875	2,032	(753,341)	7,263,805
--	------	-----------	-----------	-----------	---------	-------	-----------	-----------

Cost of goods sold		2,483,359	1,474,392	3,272,985	462,655		(753,341)	6,940,050
-----------------------	--	-----------	-----------	-----------	---------	--	-----------	-----------

Marketing, general and administrative	8,957	66,731	47,995	22,213	31,813	4,466		182,175
---	-------	--------	--------	--------	--------	-------	--	---------

Operating (losses) earnings	(9,046)	108,456	35,527	8,670	407	(2,434)		141,580
-----------------------------------	---------	---------	--------	-------	-----	---------	--	---------

Gain on legal settlements			(2,970)					(2,970)
------------------------------	--	--	---------	--	--	--	--	---------

Interest	(1,403)	16,875	13,851	4,807	9,514	(1,189)		42,455
----------	---------	--------	--------	-------	-------	---------	--	--------

Equity (income) loss from investments	(13,425)	1,166	(283)	(4,257)	(41,331)	(3)		(58,133)
--	----------	-------	-------	---------	----------	-----	--	----------

Minority interests		14,604	786					15,390
-----------------------	--	--------	-----	--	--	--	--	--------

Income (loss) before income taxes	\$ 5,782	\$ 75,811	\$ 24,143	\$ 8,120	\$ 32,224	\$ (1,242)	\$	\$ 144,838
---	----------	-----------	-----------	----------	-----------	------------	----	------------

Intersegment sales		\$ (67,367)	\$ (615,853)	\$ (69,561)	\$ (560)		\$ 753,341	\$
-----------------------	--	-------------	--------------	-------------	----------	--	------------	----

Capital expenditures		\$ 54,576	\$ 34,305	\$ 14,851	\$ 35,144	\$ 1,293		\$ 140,169
-------------------------	--	-----------	-----------	-----------	-----------	----------	--	------------

Depreciation and amortization	\$ 1,247	\$ 58,701	\$ 21,214	\$ 6,235	\$ 13,436	\$ 3,153		\$ 103,986
-------------------------------------	----------	-----------	-----------	----------	-----------	----------	--	------------

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the years ended August 31, 2004, 2003 and 2002, the Company received cash proceeds and recorded gains of \$0.7 million, \$10.9 million and \$3.0 million, respectively, related to legal settlements from several vitamin product suppliers against whom the Company alleged certain price-fixing claims.

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 probable future costs of remediation of identified issues, which are included in cost of goods sold and marketing, general and administrative expenses in the consolidated statements of operations. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

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 \$87.0 million for the Company's Laurel, Montana, refinery and \$311.0 million for NCRA's McPherson, Kansas, refinery, of which \$49.2 million has been spent at the Laurel refinery and \$131.0 million has been spent by NCRA at the McPherson refinery as of August 31, 2004. The Company expects all of these compliance capital expenditures at the refineries to be completed by December 31, 2005, and anticipates funding these projects with a combination of cash flows from operations and debt proceeds.

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 affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

Grain Storage:

As of August 31, 2004 and 2003, the Company stored grain and processed grain products for third parties totaling \$157.1 million and \$155.2 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 of which \$32.0 million was outstanding as of August 31, 2004. The Company's bank covenants allow maximum guarantees of \$150.0 million. In addition, the Company's bank covenants allow for guarantees dedicated solely for NCRA in the amount of \$125.0 million. All outstanding loans with respective creditors are current as of August 31, 2004.

The Company has adopted FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which requires disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

by a guarantor at the inception of the guarantee for obligations the guarantor has undertaken in issuing the guarantee.

The Company makes seasonal and term loans to member cooperatives, and its wholly-owned subsidiary, Fin-Ag, Inc., makes loans for agricultural purposes to individual producers. Some of these loans are sold to CoBank, and the Company guarantees a portion of the loans sold. In addition, the Company also guarantees certain debt and obligations under contracts for its subsidiaries and members.

The Company's obligations pursuant to its guarantees as of August 31, 2004 are as follows:

Entities	Guarantee/ Maximum Exposure	Exposure on August 31, 2004	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
(Dollars in thousands)							
The Company's financial services cooperative loans sold to CoBank	*	\$ 5,927	10% of the obligations of borrowers (agricultural cooperatives) under credit agreements for loans sold	None stated, but may be terminated by either party upon 60 days prior notice in regard to future obligations	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Fin-Ag, Inc. agricultural loans sold to CoBank	*	25,076	15% of the obligations of borrowers under credit agreements for some of the loans sold, 50% of the obligations of borrowers for other loans sold, and 100% of the obligations of borrowers for the remaining loans sold	None stated, but may be terminated by either party upon 90 days prior notice in regard to future obligations	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Horizon Milling, LLC	\$	5,000	Indemnification and reimbursement of 24% of damages related to Horizon Milling, LLC's	None stated, but may be terminated by any party upon 90 days prior notice in regard to future	Non-performance under flour sale agreement	Subrogation against Horizon Milling, LLC	None

		performance under a flour sales agreement	obligations		
TEMCO, LLC	\$ 15,000	Obligations by TEMCO, LLC under credit agreement	None stated	Credit agreement default	Subrogation against TEMCO, LLC None

F-27

Table of Contents

CHS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guarantee	Exposure on August 31, 2004	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
Third parties	* 1,000	Surety for, or indemnification of surety for sales contracts between affiliates and sellers of grain under deferred payment contracts	Annual renewal on December 1st in regard to surety for one third party, otherwise none stated and may be terminated by the Company at any time in regard to future obligations	Nonpayment	Subrogation against affiliates	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure

\$ 32,003

* The Company's bank covenants allow for guarantees of up to \$150.0 million, but the Company is under no obligation to extend these guarantees. The maximum exposure on any given date is equal to the actual guarantees extended as of that date.

Lease Commitments:

The Company leases approximately 1,900 rail cars with remaining lease terms of one to ten 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 term.

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income was \$35.3 million, \$31.7 million and \$30.7 million for the years ended August 31, 2004, 2003 and 2002, respectively. Mileage credits and sublease income totaled \$7.2 million, \$7.1 million and \$9.5 million for the years ended August 31, 2004, 2003 and 2002, respectively.

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2004 are as follows:

	Rail Cars	Vehicles	Equipment and Other	Total
	(Dollars in thousands)			
2005	\$ 8,539	\$ 16,207	\$ 5,676	\$ 30,422
2006	6,090	13,233	5,180	24,503

Edgar Filing: CHS INC - Form 10-K/A

2007	5,034	10,392	4,589	20,015
2008	4,179	9,133	3,241	16,553
2009	3,036	6,110	2,906	12,052
Thereafter	9,151	5,511	4,588	19,250
Total minimum future lease payments	\$ 36,029	\$ 60,586	\$ 26,180	\$ 122,795

F-28

Table of Contents

CHS INC.
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, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
(Dollars in thousands)			
Net cash paid during the period for:			
Interest	\$ 52,004	\$ 45,239	\$ 44,231
Income taxes	27,997	956	27,965
Other significant noncash transactions:			
Capital equity certificates exchanged for preferred stock	12,990		
Capital equity certificates issued in exchange for elevator properties	13,355	350	1,842
Exchange of preferred stock		7,452	
Accrual of dividends and equities payable	(83,569)	(39,049)	(56,510)
Other comprehensive income (loss)	11,178	33,584	(49,982)

14. Related Party Transactions:

Related party transactions with equity and cooperative investees as of August 31, 2004 and 2003 are as follows:

	2004	2003
(Dollars in thousands)		
Sales	\$ 1,185,366	\$ 779,857
Purchases	632,993	637,357
Receivables	17,679	13,393
Payables	28,118	29,113

These related party transactions were primarily with TEMCO, LLC, CF Industries, Inc., Horizon Milling, LLC, Agriliance, LLC, United Harvest, LLC and Ventura Foods, LLC.

15. Comprehensive Income:

The components of comprehensive income, net of taxes, for the years ended August 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
(Dollars in thousands)			
Net income	\$ 221,332	\$ 123,841	\$ 126,138
Additional minimum pension liability	10,016	36,106	(48,797)
Financial instruments	698	1,045	(548)
Cash flow hedges	356	(3,549)	(637)
Foreign currency translation adjustment	108	(18)	
Comprehensive income	\$ 232,510	\$ 157,425	\$ 76,156

Table of Contents**CHS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of accumulated other comprehensive loss, net of taxes, as of August 31, 2004 and 2003 are as follows:

	2004	2003
	(Dollars in thousands)	
Additional minimum pension liability	\$ 3,930	\$ 13,946
Financial instruments	(534)	164
Cash flow hedges	3,829	4,185
Foreign currency translation adjustment	(90)	18
Accumulated other comprehensive loss	\$ 7,135	\$ 18,313

F-30

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members and Patrons of CHS Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equities and comprehensive income and of cash flows present fairly, in all material respects, the financial position of CHS Inc. and subsidiaries at August 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2004, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

October 28, 2004

Minneapolis, Minnesota

F-31

Table of Contents

**VENTURA FOODS, LLC
Financial Statements as of March 31, 2005
and 2004 and for the Years Ended March 31,
2005, 2004, and 2003 and Independent
Auditors Report**

F-32

Table of Contents

INDEPENDENT AUDITORS REPORT

To the Members Committee of Ventura Foods, LLC:

We have audited the accompanying balance sheets of Ventura Foods, LLC (the Company) as of March 31, 2005 and 2004, and the related statements of income, members capital and cash flows for the years ended March 31, 2005, 2004, and 2003. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Ventura Foods, LLC as of March 31, 2005 and 2004, and the results of their operations and their cash flows for the years ended March 31, 2005, 2004, and 2003 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
June 20, 2005

Table of Contents**VENTURA FOODS, LLC
BALANCE SHEETS**

	March 31,	
	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 115,099,000	\$ 117,783,000
Trade receivables, net of allowance for doubtful accounts of \$2,723,000 and \$1,929,000 at 2005 and 2004, respectively (Notes 2 and 4)	72,929,000	79,877,000
Inventories (Notes 2 and 4)	94,523,000	108,605,000
Prepaid expenses and other current assets	5,184,000	4,609,000
Derivative contract asset (Notes 2 and 4)	20,709,000	31,073,000
 Total current assets	 308,444,000	 341,947,000
PROPERTY (Note 2):		
Land, buildings, and improvements	118,732,000	103,903,000
Machinery and equipment	158,654,000	145,001,000
Construction-in-progress	6,823,000	13,692,000
Other property	13,916,000	13,856,000
 Total	 298,125,000	 276,452,000
Less accumulated depreciation and amortization	129,206,000	118,074,000
 Property net	 168,919,000	 158,378,000
GOODWILL (NOTE 2)	43,156,000	43,156,000
TRADEMARKS (NOTE 2)	19,318,000	19,318,000
DEFERRED COMPENSATION PLAN TRUST (Note 5)	23,307,000	15,626,000
OTHER ASSETS Net of amortization of \$3,775,000 and \$3,670,000 at 2005 and 2004 (Note 2)	4,108,000	4,319,000
 TOTAL	 \$ 567,252,000	 \$ 582,744,000
LIABILITIES AND MEMBERS CAPITAL		
CURRENT LIABILITIES:		
Accounts payable (Note 4)	\$ 74,137,000	\$ 81,199,000
Accrued liabilities (Note 4)	50,896,000	53,325,000
Dividends payable	14,571,000	16,091,000
Current portion of long-term debt (Note 3)	2,987,000	2,804,000
Derivative contract liability (Notes 2 and 4)	8,839,000	21,900,000
 Total current liabilities	 151,430,000	 175,319,000
LONG-TERM DEBT (Note 3)	192,165,000	195,152,000
DEFERRED COMPENSATION OBLIGATIONS (Note 5)	27,653,000	26,513,000
 Total liabilities	 371,248,000	 396,984,000

Edgar Filing: CHS INC - Form 10-K/A

COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)

MEMBERS CAPITAL	196,004,000	185,760,000
TOTAL	\$ 567,252,000	\$ 582,744,000

See notes to financial statements.

F-34

Table of Contents

VENTURA FOODS, LLC
STATEMENTS OF INCOME

Years Ended March 31,

	2005	2004	2003
Net sales (note 2)	\$ 1,453,661,000	\$ 1,312,356,000	\$ 1,096,425,000
Cost of goods sold (note 2)	1,292,803,000	1,126,761,000	915,432,000
Gross profit	160,858,000	185,595,000	180,993,000
Operating expenses:			
Selling, general, and administrative (notes 2 and 5)	115,301,000	109,096,000	102,694,000
Amortization of intangibles (note 2)	60,000	83,000	223,000
Total operating expenses	115,361,000	109,179,000	102,917,000
Operating income	45,497,000	76,416,000	78,076,000
Interest expense net (note 3)	10,366,000	8,640,000	6,679,000
Other expense (income)	2,267,000	(1,466,000)	839,000
Net income	\$ 32,864,000	\$ 69,242,000	\$ 70,558,000

See notes to financial statements.

F-35

Table of Contents

VENTURA FOODS, LLC
STATEMENTS OF MEMBERS' CAPITAL

Years Ended March 31, 2005, 2004, and 2003

	Wilsey Foods, Inc.	CHS Inc.	Total
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
Net income	34,621,000	34,621,000	69,242,000
Dividends	(24,987,000)	(24,987,000)	(49,974,000)
Balance March 31, 2004	92,880,000	92,880,000	185,760,000
Net income	16,432,000	16,432,000	32,864,000
Dividends	(11,310,000)	(11,310,000)	(22,620,000)
Balance March 31, 2005	\$ 98,002,000	\$ 98,002,000	\$ 196,004,000

See notes to financial statements.

F-36

Table of Contents

VENTURA FOODS, LLC
STATEMENTS OF CASH FLOWS

Years Ended March 31,

	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 32,864,000	\$ 69,242,000	\$ 70,558,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,956,000	13,437,000	12,416,000
Amortization of intangibles	60,000	83,000	223,000
Long-term incentive expense (Note 5)	802,000	3,621,000	4,263,000
Write-off of acquired assets	3,166,000	984,000	
Deferred rent	69,000	1,095,000	515,000
Loss on disposal of assets	561,000	646,000	872,000
Derivative contract asset	(2,697,000)	(2,632,000)	2,637,000
Changes in operating assets and liabilities:			
Trade receivables	7,984,000	(15,564,000)	(7,174,000)
Inventories	15,576,000	(16,239,000)	(29,567,000)
Prepaid expenses and other current assets	(553,000)	1,169,000	(3,639,000)
Accounts payable	(7,408,000)	28,347,000	12,766,000
Accrued liabilities	(4,945,000)	15,246,000	10,685,000
Deferred compensation obligations	901,000	344,000	552,000
Due from (to) affiliates		309,000	(309,000)
Net cash provided by operating activities	60,336,000	100,088,000	74,798,000
Cash flows from investing activities:			
Business acquisition (net of cash of \$152,000)	(7,518,000)		
Acquisition of property	(20,606,000)	(19,698,000)	(16,062,000)
Proceeds from sale of assets	34,000	58,000	1,845,000
Investment in rabbi trust	(8,243,000)		
Other assets	(89,000)	(569,000)	(1,332,000)
Net cash used in investing activities	(36,422,000)	(20,209,000)	(15,549,000)
Cash flows from financing activities:			
Borrowing of long-term debt		175,000,000	
Repayment of long-term debt	(2,804,000)	(74,223,000)	(12,758,000)
Net (payments on) borrowings from line of credit		(20,500,000)	12,500,000
Payment to Wilsey Foods, Inc. (Note 1)			(491,000)

Edgar Filing: CHS INC - Form 10-K/A

Bank overdraft (Note 2)	346,000	(5,543,000)	(6,416,000)
Dividends paid	(24,140,000)	(39,630,000)	(58,584,000)
Net cash (used in) provided by financing activities	(26,598,000)	35,104,000	(65,749,000)
Net (decrease) increase in cash and cash equivalents	(2,684,000)	114,983,000	(6,500,000)
Cash and cash equivalents beginning of period	117,783,000	2,800,000	9,300,000
Cash and cash equivalents end of period	\$ 115,099,000	\$ 117,783,000	\$ 2,800,000
Supplemental disclosure of cash flow information cash paid during the period for interest	\$ 11,629,000	\$ 6,250,000	\$ 7,183,000

See notes to financial statements.

F-37

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2005, 2004, and 2003

1. General Matters

Ventura Foods, LLC (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 CHS Inc. (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. The amount was payable in five equal installments of \$487,000 plus a final installment of \$491,000. The final installment of \$491,000 was paid during fiscal year 2003.

2. Accounting Policies

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Included in accounts payable are bank overdrafts of \$1,448,000 and \$1,102,000 at March 31, 2005 and 2004, respectively.

Inventories Inventories consist of the following at March 31:

	2005	2004
Bulk oil	\$ 30,364,000	\$ 46,682,000
Finished goods	39,988,000	40,948,000
Ingredients and supplies	24,171,000	20,975,000
Total	\$ 94,523,000	\$ 108,605,000

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 inbound 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 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

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

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 statements of income, through cost of sales, in the periods such changes occur. The market value of futures contracts, Basis Contracts, and forward purchase and sales contracts is recorded separately on the 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, 2005 and 2004 (pounds and dollars in thousands):

Forward Contracts and Commitments	Pounds	Net Unrealized Gain (Loss)
March 31, 2005		
Forward purchases	306,300	\$ 11,154
Forward sales	416,900	(3,563)
Basis purchase	284,700	2,115
Basis sales	32,100	(22)
Futures contracts	152,600	2,186
	1,192,600	\$ 11,870
March 31, 2004		
Forward purchases	412,000	\$ 12,164
Forward sales	630,000	(19,493)
Basis purchase	810,600	6,462
Basis sales	65,100	(185)
Futures contracts	421,400	10,225
	2,339,100	\$ 9,173

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 nor has it experienced 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.

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 of the

F-39

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

\$20,152,000 6.55% fixed rate debt as of March 31, 2005 to be \$19,247,000. The Company estimates the fair value of the \$175,000,000 senior notes fixed rate debt as of March 31, 2005 to approximate carrying value.

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, 2005, 2004, and 2003, net sales to one customer were 24%, 23% and 23% of total net sales, respectively. This customer represents approximately 20% and 19% of trade receivables at March 31, 2005 and 2004, respectively. The Company performs 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 on equity securities are recognized in net income and totaled \$1,055,000 and \$2,052,000 for the years ended March 31, 2005 and 2004, respectively (see Note 5). The marketable securities are related to the rabbi trust investments (see Note 5). The Company holds an investment in a non-publicly traded company accounted for under the cost method. During 2004, an impairment loss of \$984,000 was recorded.

Goodwill and Trademarks The Company accounts for goodwill and other intangible assets in accordance with Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The Company performed an annual impairment test on the value of goodwill and indefinite-life intangible assets on March 31, 2005 and concluded that, other than noted in Note 7, goodwill and indefinite-life intangible assets were not impaired. 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.

Amortization expense for other intangible assets subject to amortization was \$60,000, \$83,000, and \$223,000 for the years ended March 31, 2005, 2004, and 2003, respectively. Estimated annual amortization for each of the years in the five-year period ending March 31, 2010 is \$40,000.

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, 2005, 2004, and 2003, the Company incurred advertising expenses of approximately \$8,294,000, \$8,366,000, and \$9,039,000, 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,

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

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 from those estimates.

Recent Accounting Pronouncements In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that . . . under some circumstances, items such as idle facilities expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . SFAS No. 151 requires that those items be recognized as current-period charges regardless of whatever they meet the criterion of so abnormal. In addition, SFAS No. 151 requires that allocation of fixed production overhead to the conversion costs be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The Company has not completed the process of evaluating the impact that will result from adopting FASB Statement No. 151 and such impact on the Company's financial position and results of operations has not yet been determined.

Reclassifications Certain reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

3. Line of Credit and Long-Term Debt

Line of Credit At March 31, 2005, the Company had a revolving line-of-credit agreement with a banking group to provide for borrowings of up to an aggregate of \$75,000,000. There were no outstanding borrowings at March 31, 2005 and 2004. 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 line of credit matures on December 20, 2005.

Long-Term Debt In December 2003, the Company issued, in a private placement, a series of senior unsecured notes in the aggregate amount of \$175,000,000. The Company issued Series A, B and C notes in the amounts of \$40,000,000, \$70,000,000 and \$65,000,000, respectively. The Series A and C notes have maturity dates of December 23, 2013 and December 23, 2018, respectively. The notes bear interest at an annualized rate of 5.65% and 5.95%, respectively. Interest is paid semiannually on June 23 and December 23 and principal is due on the maturity date. The Series B notes mature on December 23, 2015 and bear interest at an annualized rate of 5.65%. Interest is paid semiannually on June 23 and December 23. Beginning on December 23, 2011, the Company is required to make semi-annual payments of \$7,777,778 on December 23 and June 23 through December 23, 2015 for principal and interest. Accrued interest at March 31, 2005 and 2004 was \$2,736,000 and \$2,801,000, respectively. Proceeds from the borrowing in the amount of \$71,600,000 were used to retire the long-term debt described above. The Company incurred \$632,000 of debt issuance costs, included in other assets, which have been deferred and are being amortized as a component of interest expense over the term of the notes.

The Company has a standby letter of credit available of \$10,000,000 as of March 31, 2005.

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

At March 31, 2005 and 2004, balances outstanding on a term loan with a bank were \$20,152,000 and \$22,950,000, 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%. Accrued interest at March 31, 2005 and 2004 was \$110,000 and \$125,000, respectively. The term loan with the bank matures in November 2010.

The line of credit, term loan agreement and senior notes contain various covenants, including compliance with debt limitations, members' capital minimums, interest coverage ratio and other financial ratios, restrictions on mergers, consolidations, sale of assets, transactions with affiliates, and limitations on liens.

Annual maturities of long-term debt are as follows at March 31, 2005:

2006	\$	2,987,000
2007		3,187,000
2008		3,401,000
2009		3,629,000
2010		3,873,000
Thereafter		178,075,000
Total		195,152,000
Less current portion		2,987,000
Long-term debt	\$	192,165,000

4. Transactions with Affiliates

Purchases from CHS for the years ended March 31, 2005, 2004, and 2003 were \$90,863,000, \$83,592,000 and \$66,682,000, respectively. Sales to CHS for the years ended March 31, 2005, 2004, and 2003 totaled \$2,148,000, \$2,294,000, and \$1,056,000, respectively. Included in accounts payable at March 31, 2005 and 2004 were \$6,953,000 and \$10,000,000, respectively, payable to CHS for purchases of oil.

During the years ended March 31, 2005, 2004, and 2003, the Company recorded expenses of \$12,091,000, \$10,006,000, and \$9,402,000, respectively, to Mitsui USA for the Company's participation in Mitsui USA's insurance plans. Included in accounts payable at March 31, 2005 and 2004 were \$1,211,000 and \$1,001,000, respectively, due to Mitsui USA in connection with the Company's participation in such plans.

Sales to Mitsui USA for the years ended March 31, 2005, 2004, and 2003 totaled \$1,027,000, \$1,231,000, and \$1,423,000, respectively. Included in trade receivables at March 31, 2005 and 2004 were \$91,000 and \$133,000, respectively, of receivables from Mitsui USA for product sales.

Forward purchase contracts as of March 31, 2005 included commitments for purchases of 26,162,467 pounds of oil from CHS. The Company recognized gains of \$62,000, \$763,000, and \$1,081,000 on such related party commitments for the years ended March 31, 2005, 2004, and 2003, respectively.

5. Employee Benefit Plans

The Company has long-term incentive arrangements for certain key executives. Benefits under the plans were based on earnings over a three- to five-year period (as defined) from January 1, 1997 through December 31, 2004. An amount equal to the obligation incurred under the plans 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

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

securities). The assets in the trust are to be distributed to the employees upon retirement. The liability under the arrangements was \$23,307,000 and \$23,643,000 as of March 31, 2005 and 2004, respectively, and is included in deferred compensation obligation in the accompanying balance sheets.

On January 1, 2005, 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 targets over a three-month period. At the end of the defined period, assets equaling amounts earned by individual executives will be paid in cash. At March 31, 2005, a liability for the plan of \$575,000 is included in long-term deferred compensation obligation in the accompanying balance sheets.

For the years ended March 31, 2005, 2004, and 2003, the Company recognized compensation expense under the long-term incentive arrangements of \$1,055,000, \$2,148,000, and \$4,264,000, 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. Expenses under this plan for the years ended March 31, 2005, 2004, and 2003 were \$4,555,000, \$4,576,000, and \$6,484,000, respectively. 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. Certain of the Company's union employees are participants in multiemployer plans. Payments to multiemployer pension plans are negotiated in various collective bargaining agreements and aggregated \$2,295,000, \$2,660,000, and \$2,367,000 for the years ended March 31, 2005, 2004, and 2003, respectively. The actuarial present value of accumulated plan benefits and net assets available for benefits to union employees under these multiemployer 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, 2005 and 2004 was \$4,649,000 and \$3,922,000, respectively. A liability of \$3,771,000 and \$2,862,000 as of March 31, 2005 and 2004, respectively, is included in long-term deferred compensation obligation in the accompanying balance sheets. The plan is unfunded. During the years ended March 31, 2005, 2004, and 2003, the Company recorded an expense related to the plan of \$909,000, \$642,000, and \$552,000, respectively.

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

	March 31		
	2005	2004	2003
Discount rate	5.75%	6.0%	6.0%
Rate of compensation increase	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.

Table of Contents

VENTURA FOODS, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Commitments and Contingencies

Future minimum annual payments under noncancelable operating leases with lease terms in excess of one year are as follows at March 31, 2005:

	Gross Rent	Sublease Income	Net Lease Commitment
2006	\$ 7,338,000	\$ 942,000	\$ 6,396,000
2007	5,679,000	942,000	4,737,000
2008	4,603,000	707,000	3,896,000
2009	3,442,000		3,442,000
2010	3,234,000		3,234,000
Thereafter	8,885,000		8,885,000
Total	\$ 33,181,000	\$ 2,591,000	\$ 30,590,000

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, 2005, 2004, and 2003 under operating leases totaled \$8,509,000, \$8,336,000, and \$7,138,000, respectively.

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.

7. Acquisition

On April 2, 2004, the Company acquired substantially all the assets and liabilities of Mardale Specialty Foods LLC (Mardale) for \$10,117,000 consisting of a cash payment of \$7,518,000 and accrued liabilities of \$2,447,000. Mardale produces portion-packed wet and dry condiments for the food service industry. An officer of the Company formerly served on the Mardale Board of Directors through April 8, 2003. The acquisition has been accounted for as a purchase, and accordingly, the purchase price has been allocated based on the fair values of the assets and liabilities acquired. During the process of allocating the excess of the purchase price over the fair value of the assets acquired, the Company determined that approximately \$2,678,000 of excess purchase price could not be realized. The Company expensed this amount, which is included in other expense in the accompanying statement of income for the year ended March 31, 2005. Additionally, based upon the Company's expected utilization of the acquired assets, a write down of property and equipment of \$483,000 was recorded during 2005.

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

Cash	\$ 152,000
Accounts receivable	1,036,000
Inventory	1,494,000
Other current assets	270,000
Property and equipment	4,487,000
Total assets acquired	7,439,000
Less: Accrued liabilities	2,447,000
Net assets acquired	\$ 4,992,000

* * * * *

F-44