PAM TRANSPORTATION SERVICES INC
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

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: 0-15057

P.A.M. TRANSPORTATION SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	71-0633135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification no.)

297 West Henri De Tonti, Tontitown, Arkansas 72770
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (479) 361-9111

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for the past 90 days.
Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class	Outstanding at October 19, 2009
Common Stock, $.01 Par Value	9,413,607

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

ASSETS	September 30, 2009 (unaudited)	December 31, 2008 (see note)
Current assets:		
Cash and cash equivalents	$3,628	$858
Accounts receivable-net:		
Trade	47,637	43,815
Other	1,481	1,088
Inventories	767	858
Prepaid expenses and deposits	9,185	9,443
Marketable equity securities	14,459	12,540
Income taxes refundable	1,189	524
Total current assets	78,346	69,126
Property and equipment:		
Land	4,924	4,916
Structures and improvements	13,665	13,596
Revenue equipment	301,524	320,188
Office furniture and equipment	7,761	7,606
Total property and equipment	327,874	346,306
Accumulated depreciation	(136,182)	(125,742)
Net property and equipment	191,692	220,564
Other assets:		
Other	561	671
TOTAL ASSETS	$270,599	$290,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$17,039	$20,269
Accrued expenses and other liabilities	10,163	15,684
Current maturities of long-term debt	10,420	15,928
Deferred income taxes-current	1,481	157
Total current liabilities	39,103	52,038
Long-term debt-less current portion	29,797	35,492
Deferred income taxes-less current portion	51,128	47,354
Total liabilities	120,028	134,884
SHAREHOLDERS' EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized; 11,370,207 and		

11,368,207 shares issued; 9,411,607 and 9,409,607 shares outstanding		
at September 30, 2009 and December 31, 2008, respectively	114	114
Additional paid-in capital	77,696	77,659
Accumulated other comprehensive income	2,600	611
Treasury stock, at cost; 1,958,600 shares	(29,127)	(29,127)
Retained earnings	99,288	106,220
Total shareholders' equity	150,571	155,477
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$270,599	$290,361

Note: The consolidated balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. See notes to condensed consolidated financial statements.

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P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
OPERATING REVENUES:				
Revenue, before fuel surcharge	$67,668	$81,692	$190,305	$252,817
Fuel surcharge	9,075	24,266	20,733	69,891
Total operating revenues	76,743	105,958	211,038	322,708
OPERATING EXPENSES AND COSTS:				
Salaries, wages and benefits	26,091	30,915	74,176	97,028
Fuel expense	18,296	38,774	45,933	119,321
Rents and purchased transportation	10,171	10,347	28,791	30,709
Depreciation	8,336	9,289	25,716	27,574
Operating supplies and expenses	6,614	7,524	19,840	22,995
Operating taxes and licenses	3,194	3,953	9,737	12,476
Insurance and claims	3,175	3,842	9,347	12,498
Communications and utilities	649	657	1,985	2,225
Other	1,295	1,233	3,745	3,735
Loss on disposition of equipment	271	706	295	926
Total operating expenses and costs	78,092	107,240	219,565	329,487
OPERATING LOSS	(1,349)	(1,282)	(8,527)	(6,779)
NON-OPERATING INCOME (EXPENSE)	(160)	(3,377)	(827)	(3,597)
INTEREST EXPENSE	(563)	(614)	(1,856)	(1,714)
LOSS BEFORE INCOME TAXES	(2,072)	(5,273)	(11,210)	(12,090)
FEDERAL AND STATE INCOME TAX BENEFIT:				
Current	-	-	-	-
Deferred	(842)	(2,092)	(4,278)	(4,749)
Total federal and state income tax benefit	(842)	(2,092)	(4,278)	(4,749)
NET LOSS	$(1,230)	$(3,181)	$(6,932)	$(7,341)
LOSS PER COMMON SHARE:				
Basic	$(0.13)	$(0.33)	$(0.74)	$(0.76)
Diluted	$(0.13)	$(0.33)	$(0.74)	$(0.76)
AVERAGE COMMON SHARES OUTSTANDING:				
Basic	9,411	9,665	9,410	9,723
Diluted	9,415	9,665	9,414	9,723

See notes to condensed consolidated financial statements.

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P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
OPERATING ACTIVITIES:		
Net loss	$(6,932)	$(7,341)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	25,716	27,574
Bad debt expense	714	87
Stock compensation-net of excess tax benefits	29	97
Non-compete agreement amortization-net of payments	-	(17)
Deferred income taxes	(4,278)	(4,749)
Reclassification of unrealized loss on marketable equity securities	1,338	3,815
(Gain) loss on sale or reclass of marketable equity securities	(160)	443
Loss on sale or disposal of equipment	295	926
Changes in operating assets and liabilities:		
Accounts receivable	(4,732)	(5,819)
Prepaid expenses, inventories, and other assets	459	5,206
Income taxes refundable	7,450	1,097
Trade accounts payable	1,207	(3,878)
Accrued expenses	1,350	1,412
Net cash provided by operating activities	22,456	18,853
INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,421)	(39,942)
Proceeds from sale or disposal of equipment	8,844	6,296
Change in restricted cash	(196)	2,595
Net sales (purchases) of marketable equity securities	153	(3,559)
Net cash used in investing activities	(1,620)	(34,610)
FINANCING ACTIVITIES:		
Borrowings under line of credit	241,699	418,074
Repayments under line of credit	(245,443)	(433,654)
Borrowings of long-term debt	6,737	39,635
Repayments of long-term debt	(14,196)	(4,306)
Borrowings under margin account	12,990	11,112
Repayments under margin account	(19,861)	(959)
Exercise of stock options	8	-
Repurchases of common stock	-	(2,414)
Net cash (used in) provided by financing activities	(18,066)	27,488
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,770	11,731
CASH AND CASH EQUIVALENTS-Beginning of period	858	407

CASH AND CASH EQUIVALENTS-End of period	$3,628	$12,138
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION-		
Cash paid during the period for:		
Interest	$1,891	$1,686
Income taxes	$121	$294
NONCASH INVESTING AND FINANCING ACTIVITIES-		
Purchases of property and equipment included in accounts payable	$6	$3,542

See notes to condensed consolidated financial statements.

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P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity
(unaudited)
(in thousands)

	Common Stock Shares	/ Amount	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2008	9,410	$114	$77,659		$ 611	$(29,127)	$106,220	$155,477
Components of comprehensive loss:								
Net loss								

Interest, net. Net interest of $31.1 million for the year ended August 31, 2007 decreased $10.2 million (25%) compared to fiscal 2006. Interest expense for the years ended August 31, 2007 and 2006 was $51.8 million and $50.6 million, respectively. Interest income, generated primarily from marketable securities, was $20.7 million and $9.3 million, for the years ended August 31, 2007 and 2006, respectively. The interest expense increase of $1.2 million (2%)

includes an increase in short-term borrowings, primarily created by higher working capital needs, and an increase in the average short-term interest rate, partially offset by an increase in capitalized interest of $7.1 million. For the years ended August 31, 2007 and 2006, we capitalized interest of $11.7 million and $4.6 million, respectively, primarily related to construction projects in our Energy segment. The increase in capitalized interest primarily relates to financing interest on our coker project mostly during 2007, partially offset by the final stages of the ultra-low sulfur upgrades at our energy refineries during fiscal 2006. The average level of short-term borrowings increased $263.6 million during the year ended August 31, 2007 compared to fiscal 2006, and the average short-term interest rate increased 0.69%. The interest income increase of $11.4 million (124%) was primarily at NCRA within our Energy segment and relates to marketable securities and in Corporate and Other which relates to an increase in interest income on our hedging services.

Equity Income from Investments. Equity income from investments of $109.7 million for the year ended August 31, 2007 increased $25.5 million (30%) compared to fiscal 2006. We record equity income or loss primarily from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments in all of our business segments and Corporate and Other. These improvements included $0.6 million for Energy, $10.9 million for Ag Business, $13.0 million for Processing and $1.0 million for Corporate and Other.

Our Ag Business segment generated improved earnings of $10.9 million from equity investments. Our share of equity investment earnings or losses in Agriliance increased earnings by $3.0 million and is primarily attributable to improved margins for wholesale and retail crop nutrient products sold during the spring planting season, partially offset by an impairment related to repositioning of their retail operations. Our investment in a Canadian agronomy joint venture contributed an increase in earnings of $0.4 million. During the first fiscal quarter of 2007, we invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which was owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $4.8 million during the year ended August 31, 2007 for that equity investment. This income for Multigrain S.A. includes a gain of $2.1 million on a sale of 25% of its investment during the fourth fiscal quarter of 2007. At the same time, Mitsui Corporation invested in this business so that as of August 31, 2007, our ownership interest in Multigrain S.A. was 37.5%. Our wheat exporting investment in United Harvest contributed improved earnings of $0.2 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also reflected $2.7 million of improved earnings. Our country operations business reported an aggregate decrease in equity investment earnings of $0.2 million for several small equity investments.

Our Processing segment generated improved earnings of $13.0 million from equity investments. During fiscal 2006 and 2007, we invested $115.4 million in US BioEnergy, an ethanol manufacturing company, and recorded improved earnings of $9.3 million during the year ended August 31, 2007 compared to fiscal 2006, primarily from operating margins as US BioEnergy had additional plants put into production compared to fiscal 2006. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded improved earnings of $2.3 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, recorded improved earnings of $1.1 million compared to fiscal 2006. Ventura Foods improved results were primarily due to improved product margins. A shifting demand balance for soybeans for both food and renewable fuels meant addressing supply and price challenges for both CHS and our Ventura Foods joint venture. Horizon Milling s results are primarily affected by U.S. dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling capacity, which had been idled over the past few years because of lack of demand for flour products, can easily be put back into production as consumption of flour products increases, which may continue to depress gross margins in the milling industry.

Our Energy segment generated increased equity investment earnings of $0.6 million related to improved margins in an equity investment held by NCRA, and Corporate and Other generated improved earnings of

$1.0 million from equity investment earnings, primarily from Cofina Financial, our financial services equity investment, as compared to fiscal 2006.

Minority Interests. Minority interests of $143.2 million for the year ended August 31, 2007 increased by $57.2 million (67%) compared to fiscal 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to fiscal 2006. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $36.6 million for the year ended August 31, 2007 compares with $49.3 million for fiscal 2006, resulting in effective tax rates of 4.7% and 9.2%, respectively. During the year ended August 31, 2007, we recognized additional tax benefits of $9.6 million upon the receipt of a tax refund from the Internal Revenue Service related to export incentive credits. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2007 and 2006. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. The amounts recorded for the years ended August 31, 2006 and 2005 were $1.0 million income ($0.6 million in income, net of taxes), primarily the result of the sale of remaining assets, and $27.5 million loss ($16.8 million loss, net of taxes), respectively.

Comparison of the years ended August 31, 2006 and 2005

General. We recorded income from continuing operations before income taxes of $539.0 million in fiscal 2006 compared to $297.3 million in fiscal 2005, an increase of $241.7 million (81%). These results reflected increased pretax earnings in our Energy and Processing segments, and Corporate and Other, partially offset by slightly decreased earnings in our Ag Business segment.

Our Energy segment generated income from continuing operations before income taxes of $407.6 million for the year ended August 31, 2006 compared to $185.2 million in fiscal 2005. This increase in earnings of $222.4 million (120%) is primarily attributable to higher margins on refined fuels, which resulted mainly from limited refining capacity and increased global demand. With hurricane damages in the fall of 2005, the energy industry faced supply restrictions and distribution disruptions. Pipeline shutdowns later in fiscal 2006 also limited crude oil volumes. Earnings in our propane and transportation operations also improved compared to 2005. These improvements were partially offset by decreased earnings in our lubricants and petroleum equipment businesses.

Our Ag Business segment generated income from continuing operations before income taxes of $91.7 million for the year ended August 31, 2006 compared to $92.1 million in fiscal 2005, a decrease in earnings of $0.4 million (less than 1%). Strong domestic grain movement, much of it driven by increased U.S. ethanol production, contributed to good performances by both our country operations and grain marketing businesses. Our country operations earnings increased $14.3 million, primarily as a result of increased grain volumes and overall improved product margins, including historically high margins on grain and energy transactions. Market expansion into Oklahoma and Kansas also increased country operations volumes. Our grain marketing operations improved earnings by $11.0 million in fiscal 2006 compared with 2005, primarily from increased grain volumes and improved margins on those grains. Volatility in the grain markets creates opportunities for increased grain margins, and additionally during fiscal 2006, increased interest in renewable fuels, and higher transportation costs shifted marketing patterns and dynamics for our grain marketing business. These improvements in earnings in our country operations and grain marketing businesses were partially offset by reduced earnings generated through our wholesale and retail agronomy ownership interests, primarily Agriliance, net of allocated internal expenses, which decreased $16.1 million, primarily in reduced crop nutrients and crop protection margins. Weather-interrupted supply patterns and resulting price fluctuations dramatically reduced crop nutrients use and sales during fiscal 2006. High natural gas prices, increasing international demand for nitrogen, and hurricane damage to warehouse facilities and the resulting transportation grid led to price increases early in the year. Coupled with high energy costs and low grain prices, many crop producers elected to scale back nutrients applications for the 2006 growing year. As a result, larger remaining inventories later in the year drove significant devaluation and reduced revenues.

Also affecting the agronomy business of our Ag Business segment, in February 2005, the board of directors of CF Industries, Inc. (CF), a domestic fertilizer manufacturer in which CHS held a minority interest, determined after reviewing indicative values from strategic buyers that a greater value could be derived for the business through an initial public offering of stock in the company. The initial public offering (IPO) was completed in August 2005. Prior to the IPO, CHS held an ownership interest of approximately 20% in CF, with a carrying value of $153.0 million, which consisted primarily of noncash patronage refunds received from CF over the years. Through the IPO, CHS sold approximately 81% of its ownership interest for cash proceeds of $140.4 million. As a result, the Company recognized a pretax gain of $9.6 million pretax gain ($8.8 million net of taxes) during 2005.

Our Processing segment generated income from continuing operations before income taxes of $28.5 million for the year ended August 31, 2006 compared to $13.2 million in fiscal 2005, an increase in earnings of $15.3 million (116%). Oilseed processing earnings increased $13.8 million, which was primarily the result of improved crushing margins, partially offset by slightly decreased oilseed refining margins. Contrasting the two years, the soybean harvest in the geographical area near our two crushing facilities was greatly improved in the fall of 2005 (fiscal 2006) compared with the fall of 2004 (fiscal 2005) harvest. During fiscal 2005, basis levels we paid for soybeans were higher than in most of the other soybean producing areas of the country. The improved 2005 fall harvest (fiscal 2006) normalized soybean prices in our geographical area. These lower soybean prices translated into lower raw material costs and higher volumes of soybeans crushed at our two crushing facilities. Our share of earnings from Horizon Milling, our wheat milling joint venture, increased $1.9 million for the year ended August 31, 2006 compared to fiscal 2005. In addition, we recorded a loss of $2.4 million in fiscal 2005 on the disposition of wheat milling equipment at a closed facility. Our share of earnings from Ventura Foods, our packaged foods joint venture, decreased $2.0 million compared to fiscal 2005. During fiscal 2006, we invested $70.0 million in US BioEnergy, an ethanol manufacturing company, in which we recorded a loss of $0.7 million; including allocated interest and internal expenses we recorded a pretax loss of $3.2 million.

Corporate and Other generated income from continuing operations before income taxes of $11.1 million for the year ended August 31, 2006 compared to $6.8 million in fiscal 2005, an increase in earnings of $4.3 million (64%). The primary increase in earnings resulted from our business solutions operations which reflected improved earnings of $4.2 million, primarily as a result of improved hedging and financial services income and reduced internal expenses.

Net Income. Consolidated net income for the year ended August 31, 2006 was $490.3 million compared to $250.0 million for the year ended August 31, 2005, which represented a $240.3 million (96%) increase.

Revenues. Consolidated revenues of $14.4 billion for the year ended August 31, 2006 compared to $11.9 billion for the year ended August 31, 2005, which represented a $2.5 billion (21%) increase.

Total revenues include other revenues generated primarily within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevator and agri-service centers derives other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels.

Our Energy segment revenues, after elimination of intersegment revenues, of $7.2 billion increased $1,548.3 million (28%) during the year ended August 31, 2006 compared to the year ended August 31, 2005. During the years ended

August 31, 2006 and 2005, our Energy segment recorded revenues to our Ag Business segment of $242.4 million and $170.6 million, respectively. The revenues increase of $1,548.3 million was comprised of a net increase of $1,490.1 million related to price appreciation on refined fuels and propane products and $58.2 million related to a net increase in sales volume. Refined fuels revenues increased

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$1,186.1 million (28%), of which $1,452.4 million was related to a net average selling price increase, partially offset by $266.3 million, which was related to decreased volumes, compared to fiscal 2005. The increased revenues also included $220.6 million from ethanol marketing, which was partially offset by decreased volumes of other refined fuels and propane products. The sales price of refined fuels increased $0.53 per gallon (35%) while volumes decreased 5% when comparing the year ended August 31, 2006 with the fiscal 2005. Higher crude oil prices, strong global demand and limited refining capacity contributed to the increase in refined fuels selling prices. The decrease in refined fuels volumes reflected intentional reduction of lower margin unbranded volumes. Propane revenues increased by $57.8 million (9%), of which $125.8 million was related to a net average selling price increase, partially offset by $68.0 million which was related to decreased volumes compared to the same period in fiscal 2005. Propane prices increased $0.17 per gallon (19%) and sales volume decreased 9% in comparison to the same period of fiscal 2005. Propane prices tend to follow the prices of crude oil and natural gas, both of which increased during the year ended August 31, 2006 compared to the same period in 2005. The decrease in propane volumes reflected a loss of exclusive propane marketing rights at our former supplier s proprietary terminals.

Our Ag Business segment revenues, after elimination of intersegment revenues, of $6.6 billion increased $905.4 million (16%) during the year ended August 31, 2006 compared to the year ended August 31, 2005. Grain revenues in our Ag Business segment totaled $5,337.2 million and $4,613.6 million during the years ended August 31, 2006 and 2005, respectively. Of the grain revenues increase of $723.6 million (16%), $417.1 million was attributable to increased volumes and $306.5 million was due to increased average selling grain prices during the year ended August 31, 2006 compared to fiscal 2005. The average sales price of all grain and oilseed commodities sold reflected an increase of $0.27 per bushel (7%). Commodity prices in general increased following a strong fall 2005 harvest that produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. The higher average market price per bushel of spring wheat and corn were approximately $0.74 and $0.15, respectively, partially offset by lower average market price per bushel of soybeans of approximately $0.15, as compared to the prices of those same grains for the year ended August 31, 2005. Volumes increased 8% during the year ended August 31, 2006 compared with the same period of fiscal 2005. Corn, winter wheat and soybeans reflected the largest volume increases compared to the year ended August 31, 2005. While some areas of the U.S. experienced drought conditions there was a large harvest in 2006. Our Ag Business segment non-grain revenues of $1.2 billion increased by $181.8 million (17%) during the year ended August 31, 2006 compared to the year ended August 31, 2005, primarily the result of increased revenues of energy, crop nutrients, feed and crop protection products, in addition to seed and processed sunflower revenues. These increased non-grain revenues included expansion into Oklahoma and Kansas. The average selling price of energy products increased due to overall market conditions while volumes, not including acquisitions, were fairly consistent to the year ended August 31, 2005.

Our Processing segment revenues, after elimination of intersegment revenues, of $614.1 million increased $0.8 million (less than 1%) during the year ended August 31, 2006 compared to the year ended August 31, 2005. Because our wheat milling and packaged foods operations are operated through non-consolidated joint ventures, revenues reported in our Processing segment are entirely from our oilseed processing operations. Processed soybean volumes increased 10%, accounting for an increase in revenues of $22.6 million, and were partially offset by lower average sales price of processed oilseed and other revenues which reduced revenues by $21.8 million. Oilseed refining revenues decreased $14.3 million (5%), of which $9.3 million was due to lower average sales price and $5.0 million was due to a 2% net decrease in sales volume. The average selling price of processed oilseed decreased $7 per ton and the average selling price of refined oilseed products decreased $0.01 per pound compared to the same period of fiscal 2005. These changes in the selling price of products were primarily driven by the average price of soybeans.

Cost of Goods Sold. Cost of goods sold of $13.6 billion increased $2.1 billion (19%) during the year ended August 31, 2006 compared to the year ended August 31, 2005.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $6.6 billion increased by $1,275.1 million (24%) during the year ended August 31, 2006 compared to the same period of fiscal 2005, primarily due to increased average costs of refined fuels and propane products. On a more product-specific basis, the average cost of refined fuels increased by $0.49 (33%) per gallon, which included an increased cost of $220.8 million from ethanol marketing, and was partially offset by a 5% decrease in volumes compared to the year ended August 31, 2005. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost increase on refined fuels was reflective of higher input costs at our two crude oil refineries and higher average prices on the refined products that we purchased for resale compared to the year ended August 31, 2005. The average per unit cost of crude oil purchased for the two refineries increased 26% compared to the year ended August 31, 2005. The average cost of propane increased $0.16 (19%) per gallon, partially offset by a 9% decrease in volumes compared to the year ended August 31, 2005. The average price of propane increased due to higher procurement costs.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $6.4 billion increased $861.1 million (16%) during the year ended August 31, 2006 compared to the same period of fiscal 2005. Grain cost of goods sold in our Ag Business segment totaled $5,265.3 million and $4,550.2 million during the years ended August 31, 2006 and 2005, respectively. The cost of grains and oilseeds procured through our Ag Business segment increased $715.1 million (16%) compared to the year ended August 31, 2005. This was primarily the result of a 14% increase in bushels along with an increase of $0.07 (2%) average cost per bushel as compared to fiscal 2005. Corn, winter wheat and soybeans reflected the largest volume increases compared to the year ended August 31, 2005. Commodity prices on spring wheat and corn increased, while soybean commodity prices showed an average decrease, compared to the prices that were prevalent during the majority of fiscal 2005. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the year ended August 31, 2006 compared to the year ended August 31, 2005, primarily due to energy, crop nutrients, feed and crop protection products, in addition to seed and processed sunflower products. These increased costs for products included expansion into Oklahoma and Kansas. The average cost of energy products increased due to overall market conditions while volumes, not including acquisitions, were fairly consistent to the year ended August 31, 2005.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $588.4 million decreased $15.3 million (3%) compared to the year ended August 31, 2005, which was primarily due to decreased input costs of soybeans processed at our two crushing plants, partially offset by higher volumes of soybeans processed at those plants.

Marketing, General and Administrative. Marketing, general and administrative expenses of $231.2 million for the year ended August 31, 2006 increased by $31.9 million (16%) compared to the year ended August 31, 2005. The net increase of $31.9 million was primarily due to increased performance-based incentive plan expense, in addition to other compensation benefits, pension and general inflation.

Gain on Investments. During the fourth quarter of fiscal 2005, we sold approximately 81% of our investment in CF Industries, Inc. through an initial public offering of our equity in that company. We received cash proceeds of $140.4 million and recorded a gain of $9.6 million, net of an impairment charge of $35.0 million recognized during the first quarter of fiscal 2005. This gain is reflected within the results reported for our Ag Business segment.

During the second quarter of fiscal 2005, we sold stock representing a portion of our investment in a publicly-traded company for cash proceeds of $7.4 million and recorded a gain of $3.4 million.

Interest, net. Interest, net of $41.3 million for the year ended August 31, 2006 decreased $0.2 million (less than 1%) compared to the year ended August 31, 2005. Interest expense for the years ended August 31, 2006 and 2005 was $50.6 million and $51.5 million, respectively. Interest income, primarily from marketable securities, for the years ended August 31, 2006 and 2005 was $9.3 million and $10.0 million, respectively. The interest expense decrease of $0.9 million (2%) includes a decrease of short-term borrowings primarily related to a net decrease in working capital, partially offset by an increase in the average short-term interest rate and a reduction in capitalized interest. For the fiscal years ended August 31, 2006 and 2005, we capitalized interest of $4.7 million and $6.8 million, respectively, primarily related to capitalized construction projects in our Energy segment. The reduction in capitalized interest relates to the interest on financing the final stages of the ultra-low sulfur upgrades at our energy refineries. The average level of short-term borrowings decreased

$143.4 million during fiscal 2006 compared to the year ended August 31, 2005, while the average short-term interest rate increased 1.50%. The interest income decrease of $0.7 million (8%) was primarily in our Energy segment related to a decrease in interest income from short term investments, primarily at NCRA.

Equity Income from Investments. Equity income from investments of $84.2 million for the year ended August 31, 2006 decreased $11.6 million (12%) compared to the year ended August 31, 2005. We record equity income or loss from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net decrease in equity income from investments was attributable to reduced earnings from investments within our Ag Business and Processing segments of $14.6 million and $0.7 million, respectively and was partially offset by improved earnings within our Energy segment and Corporate and Other of $0.4 million and $3.3 million, respectively.

Our Ag Business segment generated reduced earnings of $14.6 million from equity investments. Our investment in a Canadian joint venture contributed reduced earnings of $1.5 million. Our share of equity investment earnings in Agriliance decreased $12.4 million and primarily relates to reduced crop nutrients and crop protection margins. Weather-interrupted supply patterns and resulting wide price fluctuations dramatically reduced crop nutrients use and sales during fiscal 2006. High natural gas prices, increasing international demand for nitrogen, and hurricane damage to warehouse facilities and the related transportation grid led to price increases early in fiscal 2006. Coupled with high energy costs and low grain prices, many crop producers elected to scale back nutrient applications for the 2006 growing year. As a result, larger remaining inventories later in fiscal 2006 drove significant devaluation and reduced revenues. Our equity income from our investment in TEMCO, a joint venture, which exports primarily corn and soybeans, recorded reduced earnings primarily on logistics of $4.2 million, while our wheat exporting investment in United Harvest contributed improved earnings of $2.4 million. Our country operations reported an aggregate increase in equity investment earnings of $1.1 million for several small equity investments.

Our Processing segment generated reduced earnings of $0.7 million from equity investments. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded reduced earnings of $2.0 million, partially offset by Horizon Milling, our wheat milling joint venture, which recorded improved earnings of $1.9 million compared to fiscal 2005. During 2006, we invested $70.0 million in US BioEnergy Corporation (US BioEnergy), an ethanol manufacturing company, representing an approximate 24% ownership and recorded losses of $0.7 million. A shifting demand balance for soybeans for both food and renewable fuels meant addressing supply and price challenges for both CHS and our joint venture with Ventura Foods. Ventura Foods also completed integration of its dressing and dips acquisition, and exited a large part of its nutritional products business, all of which resulted in increased general expenses. Horizon Milling s results are primarily affected by U.S. dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling capacity, which had been idled over the past few years because of lack of demand for flour products, can easily be put back in production as consumption of flour products increases, which will continue to depress gross margins in the milling industry.

Our Energy segment generated improved earnings of $0.4 million related to improved margins in an NCRA equity investment, and Corporate and Other generated improved earnings of $3.3 million from equity investments, primarily from Cofina Financial, our financial services equity investment, as compared to the year ended August 31, 2005.

Minority Interests. Minority interests of $86.0 million for the year ended August 31, 2006 increased by $38.2 million (80%) compared to the year ended August 31, 2005. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to fiscal 2005. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $49.3 million for the year ended August 31, 2006 compares with $30.4 million for the year ended August 31, 2005, resulting in effective tax rates of 9.2% and 10.2%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2006 and 2005. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. The amounts recorded for the years ended August 31, 2006 and 2005 were $1.0 million income ($0.6 million in income, net of taxes), primarily the result of the sale of remaining assets, and $27.5 million loss ($16.8 million loss, net of taxes), respectively.

Liquidity and Capital Resources

On August 31, 2007, we had working capital, defined as current assets less current liabilities, of $815.6 million and a current ratio, defined as current assets divided by current liabilities of 1.3 to 1.0, compared to working capital of $829.0 million and a current ratio of 1.5 to 1.0 on August 31, 2006.

On August 31, 2007 our committed line of credit consisted of a five-year revolving facility in the amount of $1.1 billion, with a $200.0 million potential addition for future expansion accordion feature. On October 1, 2007, we exercised the accordion feature of the agreement and obtained additional commitments in the amount of $200.0 million from certain lenders under the agreement. The additional commitments increased the total to $1.3 billion on the facility. This credit facility was established with a syndicate of domestic and international banks, and our inventories and receivables financed with it are highly liquid. On August 31, 2007, we had $600.0 million outstanding on this line of credit compared with no amount outstanding on August 31, 2006. In addition, we have two commercial paper programs totaling $125.0 million with banks participating in our five-year revolver. On August 31, 2007, we had $51.9 million of commercial paper outstanding. Late summer and early fall are typically our lowest points of seasonal borrowings however, due to recent appreciation in commodity prices, further discussed in Cash Flows from Operations , our borrowings have been much higher in comparison to prior years. In addition to exercising the accordion feature of our five-year revolver, on October 4, 2007, we entered into a private placement note purchase agreement and received proceeds of $400.0 million which were used to pay down the five-year revolver. With this recent additional borrowing capacity, we believe that we have adequate liquidity to cover any increase in net operating assets and liabilities in the foreseeable future.

Cash Flows from Operations

Cash flows from operations are generally affected by commodity prices and the seasonality of our businesses. These commodity prices are affected by a wide range of factors beyond our control, including weather, crop conditions, drought, the availability and the adequacy of supply and transportation, government regulations and policies, world events, and general political and economic conditions. These factors are described in the cautionary statement in Part I, Item 1A of this Form 10-K, and may affect net operating assets and liabilities, and liquidity.

Cash flows provided by operating activities were $372.6 million, $454.9 million and $276.5 million for the years ended August 31, 2007, 2006 and 2005, respectively. Volatility in cash flows from operations between fiscal 2007 and 2006 is primarily the result of an increase in operating assets and liabilities partially offset by greater net income during fiscal 2007. Grain prices during fiscal 2007 have been quite volatile. Because we hedge most of our grain positions with futures contracts on regulated exchanges, volatile prices create margin calls, reflected in other current assets, which are a use of cash. In addition, higher commodity prices affect inventory and receivable balances which consume cash until inventories are sold and receivables are collected. Volatility in cash flows from operations between fiscal 2006 and 2005 is primarily the result of greater net income during fiscal 2006.

Our operating activities provided net cash of $372.6 million during the year ended August 31, 2007. Net income of $750.3 million and net non-cash expenses and cash distributions from equity investments of

$261.0 million were partially offset by an increase in net operating assets and liabilities of $638.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included minority interests of $143.2 million, depreciation and amortization of $140.6 million and deferred taxes of $46.8 million, which were partially offset by income from equity investments, net of distributions, of $43.0 million and a pretax gain on investments of $20.6 million. The increase in net operating assets and liabilities was caused primarily by increased commodity prices reflected in increased inventories, receivables, and derivative assets and hedging deposits, both included in other current assets, partially offset by an increase in accounts payable and accrued expenses on August 31, 2007 when compared to August 31, 2006. On August 31, 2007, the market prices of our three primary grain commodities, soybeans, spring wheat and corn, increased by $3.26 (60%) per bushel, $2.37 (52%) per bushel and $0.92 (40%) per bushel, respectively, when compared to the prices on August 31, 2006. In addition, grain inventories in our Ag Business segment increased by 39.6 million bushels (36%) when comparing inventories at August 31, 2007 and 2006. In general, crude oil prices increased $3.78 (5%) per barrel on August 31, 2007 when compared to August 31, 2006.

Our operating activities provided net cash of $454.9 million during the year ended August 31, 2006. Net income of $490.3 million and net non-cash expenses and cash distributions from equity investments of $255.3 million were partially offset by an increase in net operating assets and liabilities of $290.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $126.8 million, minority interests of $86.0 million and deferred taxes of $78.3 million, which were partially offset by income from equity investments, net of distributions, of $25.9 million. The increase in net operating assets and liabilities was caused primarily by an increase in inventories and a decrease in payables on August 31, 2006 when compared to August 31, 2005. The increase in inventories was primarily due to an increase in grain prices and grain inventory quantities in our Ag Business segment. On August 31, 2006, the market prices of two of our primary grain commodities, spring wheat and corn, increased by $1.04 (29%) per bushel and $0.31 (15%) per bushel, respectively, and soybeans, another high volume commodity, saw a decline in price of $0.45 (8%) per bushel when compared to August 31, 2005. Grain inventories in our Ag Business segment increased by 16.3 million bushels (18%) when comparing inventories at August 31, 2006 and 2005. In addition, energy inventories at NCRA increased by 763 thousand barrels (26%) on August 31, 2006 when compared to August 31, 2005, and were also valued using prices that were 46% higher than the previous year. The decrease in accounts payable is related to NCRA, and is primarily due to a decrease in payables for crude oil purchased. The decrease in crude oil payables was related to the planned major maintenance turnaround, during which time the refinery was shut down and inventory was not used for production. The turnaround was completed by the end of August 2006.

Our operating activities provided net cash of $276.5 million during the year ended August 31, 2005. Net income of $250.0 million and net non-cash expenses and cash distributions from equity investments of $137.3 million were partially offset by an increase in net operating assets and liabilities of $110.8 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $110.3 million, minority interests of $47.7 million and deferred tax expense of $26.4 million, which were partially offset by income from equity investments, net of distributions, of $30.9 million, and a pretax gain on the sale of investments of $13.0 million. The increase in net operating assets and liabilities was caused primarily by an increase in crude oil prices of $26.82 per barrel (64%) on August 31, 2005 when compared to August 31, 2004, and an increase in grain and oilseed inventories in our Ag Business segment of 36.1 million bushels (64%) when comparing those same fiscal year-end dates.

Crude oil prices are expected to be volatile in the foreseeable future, but related inventories and receivables are turned in a relatively short period, thus somewhat mitigating the effect on operating assets and liabilities. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest. Demand for corn by the ethanol industry created an incentive to divert acres, from soybeans and wheat, to corn this past planting year. The affect has been to stabilize corn prices at a relatively high level, and also to appreciate the prices for soybeans and wheat. Grain prices were volatile during fiscal 2007, and have continued to be volatile into the first quarter of fiscal 2008. We anticipate that high demand for all grains and oilseeds will likely continue to create high prices and price volatility for those commodities into fiscal 2008.

Cash Flows from Investing Activities

For the years ended August 31, 2007, 2006 and 2005, the net cash flows used in our investing activities totaled $495.3 million, $265.3 million and $91.9 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $373.3 million, $235.0 million and $257.5 million for the years ended August 31, 2007, 2006 and 2005, respectively. Capital expenditures primarily related to the U.S. Environmental Protection Agency (EPA) low sulfur fuel regulations required by 2006 are complete at our Laurel, Montana refinery and NCRA s McPherson, Kansas refinery. We incurred capital expenditures from fiscal 2003 through 2006 related to these projects of $88.1 million for our Laurel, Montana refinery and $328.7 million for NCRA s McPherson, Kansas refinery. Expenditures for the projects at the two refineries in total during the years ended August 31, 2006 and 2005 were $71.5 million and $165.1 million, respectively.

For the year ending August 31, 2008, we expect to spend approximately $355.0 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal 2008 is completion of the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively low value asphalt, that is expected to increase yields by about 14 percent. The total cost for this project is expected to be approximately $380.0 million, with completion planned during fiscal 2008. Funding of the project is expected to continue to be from cash flows from operations and long-term borrowings. Total expenditures for this project as of August 31, 2007, were $284.3 million, of which $221.5 million and $62.8 million were incurred during the years ended August 31, 2007 and 2006, respectively.

In October 2003, we and NCRA reached agreements with the EPA and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. District Court for the District of Kansas. Each consent decree details potential capital improvements, supplemental environmental projects and operational changes that we and NCRA have agreed to implement at the relevant refinery over several years. The consent decrees also required us, and NCRA, to pay approximately $0.5 million in aggregate civil cash penalties. As of August 31, 2007, the aggregate capital expenditures for us and NCRA related to these settlements was approximately $22 million, and we anticipate spending an additional $9 million over the next four years. We do not believe that the settlements will have a material adverse effect on us, or NCRA.

Investments made during the years ended August 31, 2007, 2006 and 2005 totaled $95.8 million, $73.0 million and $25.9 million, respectively. During the year ended August 31, 2007, we invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil, and currently have a 37.5% ownership interest which is included in our Ag Business segment. This venture, which includes grain storage and export facilities, builds on our South American soybean origination, and helps meet customer needs year-round. We plan to continue to expand our presence in South America by exploring processing opportunities in other commodity areas. Our grain marketing operations have also added to our global presence by opening offices in Geneva and Hong Kong, and continue to explore other opportunities to establish a presence in emerging grain origination and export markets. We have also invested $15.6 million in Horizon Milling G.P. (24% CHS ownership) during the year ended August 31, 2007, a joint venture included in our Processing segment, that acquired the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, which includes three flour milling operations and two dry baking mixing facilities in

Canada. During the year ended August 31, 2007, we made additional investments of $45.4 million in US BioEnergy, bringing our total cash investment for common stock in that company to $115.4 million. Prior investments in US BioEnergy include $70.0 million of stock purchased during the year ended August 31, 2006. In December

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2006, US BioEnergy completed an initial public offering (IPO), and the effect of the issuance of additional shares of its stock was to dilute our ownership interest from approximately 25% to 21%. In addition, on August 29, 2007, US BioEnergy completed an acquisition with total aggregate net consideration comprised of the issuance of US BioEnergy common stock and cash. Due to US BioEnergy s increase in equity, primarily from these two transactions, we recognized a non-cash net gain of $15.3 million on our investment during the year ended August 31, 2007, to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. This gain is reflected in our Processing segment. On August 31, 2007, our ownership interest in US BioEnergy was approximately 19%, and based upon the market price of $10.41 per share on that date, our investment had a fair value of approximately $159.3 million. During the first quarter of fiscal 2008, we purchased additional shares of US BioEnergy common stock for $6.5 million, which increased our ownership interest to approximately 20%. We are recognizing earnings of US BioEnergy to the extent of our ownership interest using the equity method of accounting. During the year ended August 31, 2005, we contributed $19.6 million in cash (plus an additional $18.5 million in net assets, primarily loans) to Cofina Financial for a 49% equity interest. Cofina Financial was formed by us and Cenex Finance Association to provide financing for agricultural cooperatives and businesses, and to producers of agricultural products

During the years ended August 31, 2007, 2006 and 2005, changes in notes receivable resulted in a decrease in cash flows of $29.3 million, an increase in cash flows of $21.0 million and a decrease in cash flows of $23.8 million, respectively. The notes were primarily from related party notes receivable at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company.

Various cash acquisitions of intangibles totaled $15.6 million during the year ended August 31, 2007. The largest intangible acquired was $6.5 million, which was included in the $15.1 million total acquisition price of a distillers dried grain business included in our Ag Business segment. The balance of this business acquisition included $8.6 million of net working capital. During the years ended August 31, 2006 and 2005, acquisitions of intangibles totaled $2.9 million and $0.4 million, respectively.

Partially offsetting our cash outlays for investing activities were proceeds from the disposition of property, plant and equipment of $13.5 million, $13.9 million and $21.1 million for the years ended August 31, 2007, 2006 and 2005, respectively. During the year ended August 31, 2005, we sold the majority of our Mexican foods business for proceeds of $38.3 million. The proceeds from the sale of our Mexican foods business includes $13.8 million received for equipment that was used to buy out operating leases during the same period. Also partially offsetting cash usages were investments redeemed totaling $4.9 million, $7.3 million and $13.5 million for the years ended August 31, 2007, 2006 and 2005, respectively. During the year ended August 31, 2007, we sold 540,000 shares of our CF stock, included in our Ag Business segment, for proceeds of $10.9 million, and recorded a pretax gain of $5.3 million, reducing our ownership interest in CF to approximately 2.9%. During the first quarter of fiscal 2008, we sold all of our remaining 1,610,396 shares of CF stock for proceeds of $108.3 million and recorded a pretax gain of $91.7 million. During the year ended August 31, 2005, we received proceeds of $140.4 million from the sale of our CF Industries, Inc. investment and recorded a pretax gain of $9.6 million.

Cash Flows from Financing Activities

We finance our working capital needs through short-term lines of credit with a syndication of domestic and international banks. In May 2006, we renewed and expanded our committed lines of revolving credit to include a five-year revolver in the amount of $1.1 billion, with a $200.0 million potential addition for future expansion accordion feature. On August 31, 2007, the committed amount on this facility was $1.1 billion. On October 1, 2007, we exercised the accordion feature of the agreement and obtained additional commitments in the amount of $200.0 million from certain lenders under the agreement. The additional commitments increased the total to $1.3 billion on the facility. In addition to this line of credit, we have a revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million committed. In December 2006, the line of credit dedicated to NCRA was renewed for an additional year. We also have a committed revolving line of credit dedicated to Provista Renewable Fuels Marketing, LLC (Provista), which expires in November 2009, in the amount of $25.0 million. On August 31, 2007 and 2006, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $620.7 million and $22.0 million, respectively, with interest rates ranging from 1.00% to 8.25%.

During the year ended August 31, 2007, we instituted two commercial paper programs, totaling up to $125.0 million, with two banks participating in our five-year revolving credit facility. Terms of our five-year revolving credit facility allow a maximum usage of commercial paper of $100.0 million at any point in time. The commercial paper programs do not increase our committed borrowing capacity in that we are required to have at least an equal amount of undrawn capacity available on our five-year revolving facility as to the amount of commercial paper issued. On August 31, 2007, we had $51.9 million of commercial paper outstanding, all with maturities of less than 60 days from their issuance with interest rates ranging from 5.45% to 6.29%.

We typically finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks. In June 1998, we established a long-term credit agreement through the cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal 2009. The amount outstanding on this credit facility was $75.4 million and $98.4 million on August 31, 2007 and 2006, respectively. Interest rates on August 31, 2007 ranged from 6.17% to 7.13%. Repayments of $23.0 million, $16.4 million and $16.4 million were made on this facility during the three years ended August 31, 2007, 2006 and 2005, respectively.

Also in June 1998, we completed a private placement offering with several insurance companies for long-term debt in the amount of $225.0 million with an interest rate of 6.81%. Repayments are due in equal annual installments of $37.5 million each in the years 2008 through 2013.

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of $25.0 million has an interest rate of 7.9% and is due in equal annual installments of approximately $3.6 million, in the years 2005 through 2011. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility. The $55.0 million note has an interest rate 7.43% and is due in equal annual installments of approximately $7.9 million, in the years 2005 through 2011. During each of the years ended August 31, 2007, 2006 and 2005, repayments on these notes totaled $11.4 million.

In October 2002, we completed a private placement with several insurance companies for long-term debt in the amount of $175.0 million, which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and is due in equal semi-annual installments of approximately $8.8 million during the years 2007 through 2013. The second series of $60.0 million has an interest rate of 5.60% and is due in equal semi-annual installments of approximately $4.6 million during years 2012 through 2018. Repayments of $17.7 million were made on the first series notes during the year ended August 31, 2007.

In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group, and in April 2004, we borrowed $30.0 million under this arrangement. One long-term note in the amount of $15.0 million has an interest rate of 4.08% and is due in full at the end of the six-year term in 2010. Another long-term note in the amount of $15.0 million has an interest rate of 4.39% and is due in full at the end of the seven-year term in 2011. In April 2007, we amended our Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million.

In September 2004, we 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 is due in equal annual installments of $25.0 million during years 2011 through 2015.

We, through NCRA, had revolving term loans outstanding of $3.0 million and $6.0 million for the years ended August 31, 2007 and 2006, respectively. Interest rates on August 31, 2007 ranged from 6.48% to 6.99%. Repayments of $3.0 million were made during each of the three years ended August 31, 2007, 2006 and 2005.

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On August 31, 2007, we had total long-term debt outstanding of $688.3 million, of which $80.6 million was bank financing, $583.0 million was private placement debt and $24.7 million was industrial development revenue bonds and other notes and contracts payable. On August 31, 2006, we had long-term debt outstanding of $744.7 million. Our long-term debt is unsecured except for NCRA term loans of $3.0 million and other notes and contracts in the amount of $8.3 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. In addition, NCRA term loans of $3.0 million are collateralized by NCRA s investment in CoBank, ACB. We were in compliance with all debt covenants and restrictions as of August 31, 2007. The aggregate amount of long-term debt payable as of August 31, 2007 was as follows (dollars in thousands):

2008	$ 98,977
2009	117,910
2010	82,634
2011	111,665
2012	94,517
Thereafter	182,618
	$ 688,321

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets, with a cost of approximately $325.0 million. The City of McPherson issued $325.0 million of Industrial Revenue Bonds (IRBs) which were transferred to NCRA as consideration in a financing agreement between the City of McPherson and NCRA related to the ultra-low sulfur fuel assets. The term of the financing obligation is ten years, at which time NCRA has the option of extending the financing obligation or purchasing the assets for a nominal amount. NCRA has the right at anytime to offset the financing obligation to the City of McPherson against the IRBs. No cash was exchanged in the transaction and none is anticipated to be exchanged in the future. Due to the structure of the agreement, the financing obligation and the IRBs are shown net in our consolidated financial statements. On March 18, 2007, notification was sent to the bond trustees to pay the IRBs down by $324.0 million, at which time the financing obligation to the City of McPherson was offset against the IRBs. The balance of $1.0 million will remain outstanding until final maturity in ten years.

During the years ended August 31, 2007 and 2005, we borrowed on a long-term basis, $4.1 million and $125.0 million, respectively. There were no long-term borrowings during the year ended August 31, 2006. During the years ended August 31, 2007, 2006 and 2005, we repaid long-term debt of $60.9 million, $36.7 million and $36.0 million, respectively.

Subsequent to our fiscal year-end, on October 4, 2007, we entered into a private placement with several insurance companies and banks for long-term debt in the amount of $400.0 million with an interest rate of 6.18%. The debt is due in equal annual installments of $80.0 million during years 2013 through 2017.

Distributions to minority owners for the years ended August 31, 2007, 2006 and 2005 were $76.8 million, $80.5 million and $29.9 million, respectively, and were primarily related to NCRA. NCRA s cash distributions to members were lower as a percent of earnings in 2005 and 2004 when compared to other years, due to the funding requirements for environmental capital expenditures previously discussed.

During the years ended August 31, 2007, 2006 and 2005, changes in checks and drafts outstanding resulted in an increase in cash flows of $85.4 million, a decrease in cash flows of $10.5 million and an increase in cash flows of

$2.8 million, respectively.

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Patronage refunds are calculated 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. The patronage earnings from the fiscal year ended August 31, 2006, were primarily distributed during the second fiscal quarter of the year ended August 31, 2007. The cash portion of this

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distribution deemed by the Board of Directors to be 35% was $133.1 million. During the years ended August 31, 2006 and 2005, we distributed cash patronage of $62.5 million and $51.6 million, respectively.

Cash patronage for the year ended August 31, 2007, determined by the Board of Directors to be 35% and to be distributed in fiscal 2008, is expected to be approximately $192.5 million and is classified as a current liability on the August 31, 2007 Consolidated Balance Sheet in dividends and equities payable.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them, and another for individuals who are eligible for equity redemptions at age 72 or upon death. Commencing in fiscal 2008, until further resolution, the Board of Directors has reduced the age for individuals who are eligible for equity redemptions to age 70. The amount that each non-individual receives under the pro-rata program in any year is 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 eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions targeting older capital equity certificates which were paid in fiscal 2007 and that are authorized to be paid in fiscal 2008. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2007, that will be distributed in fiscal 2008, to be approximately $179.4 million. These expected distributions are classified as a current liability on the August 31, 2007 Consolidated Balance Sheet.

For the years ended August 31, 2007, 2006 and 2005, we redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of $70.8 million, $55.9 million and $23.7 million, respectively. An additional $35.9 million, $23.8 million and $20.0 million of capital equity certificates were redeemed in fiscal 2007, 2006 and 2005, respectively, by issuance of shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock). The amount of equities redeemed with each share of Preferred Stock issued was $26.09, $26.10 and $27.58, which was the closing price per share of the stock on the NASDAQ Global Select Market on February 8, 2007, January 23, 2006 and January 24, 2005, respectively.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On August 31, 2007, we had 7,240,221 shares of Preferred Stock outstanding with a total redemption value of approximately $181.0 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at our option after February 1, 2008. At this time, we have no intention of redeeming any Preferred Stock. Dividends paid on our preferred stock during the years ended August 31, 2007, 2006 and 2005 were $13.1 million, $10.8 million and $9.2 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments:

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

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income for the years ended August 31, 2007, 2006 and 2005, was $44.3 million, $38.5 million and $31.0 million, respectively.

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Minimum future lease payments required under noncancellable operating leases as of August 31, 2007 were as follows:

	Total (Dollars in millions)
2008	$ 32.9
2009	24.6
2010	20.1
2011	13.0
2012	8.7
Thereafter	8.2
Total minimum future lease payments	$ 107.5

Guarantees:

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $150.0 million, of which $33.2 million was outstanding on August 31, 2007. In addition, our bank covenants allow for guarantees dedicated solely for NCRA in the amount of $125.0 million, for which there are no outstanding guarantees. All outstanding loans with respective creditors are current as of August 31, 2007.

Debt:

There is no material off balance sheet debt.

Contractual Obligations

We had certain contractual obligations at August 31, 2007 which require the following payments to be made:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
		(Dollars in thousands)			
Notes payable(1)	$ 672,571	$ 672,571			
Long-term debt(1)	688,321	98,977	$ 200,544	$ 206,182	$ 182,618
Interest payments(2)	147,300	40,394	59,981	32,692	14,233
Operating leases	107,476	32,877	44,754	21,663	8,182
Purchase obligations(3)	3,686,847	2,434,178	1,244,419	2,212	6,038
Other liabilities(4)	215,611		21,237	48,187	146,187
Total obligations	$ 5,518,126	$ 3,278,997	$ 1,570,935	$ 310,936	$ 357,258

(1) Included on our Consolidated Balance Sheet.

(2) Based on interest rates and long-term debt balances as of August 31, 2007.

(3) Purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions. Of our total purchase obligations, $1,199.8 million is included in accounts payable and accrued expenses on our Consolidated Balance Sheet.

(4) Other liabilities includes the long-term portion of deferred compensation, deferred income taxes, accrued turnaround and contractual redemptions, and is included on our Consolidated Balance Sheet. Of our total other liabilities on our Consolidated Balance Sheet in the amount of $359.2 million, the timing of the payments of $143.6 million of such liabilities cannot be determined.

Critical Accounting Policies

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

Allowances for Doubtful Accounts

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

Inventory Valuation and Reserves

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

Derivative Financial Instruments

We enter into exchange-traded commodity futures and options contracts to hedge our exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. We do not use derivatives for speculative purposes. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and, in part, to our assessment of our exposure from expected price fluctuations. We also manage our 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 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. We are 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.

Pension and Other Postretirement Benefits

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

Deferred Tax Assets

We assess whether a valuation allowance is necessary to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income, as well as other factors, in assessing the need for the valuation allowance, in the event that we were to determine that we would not be able to realize all, or part of, our net deferred tax assets in the future, an adjustment to our deferred tax assets would be charged to income in the period such determination was made. We are also significantly impacted by the utilization of loss carryforwards and tax benefits primarily passed to us from National Cooperative Refinery Association (NCRA), which are associated with refinery upgrades that enable NCRA to produce ultra-low sulfur fuels. Our net operating loss carryforwards for tax purposes are available to offset future taxable income. If our loss carryforwards are not used, these loss carryforwards will expire.

Long-Lived Assets

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

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

Environmental Liabilities

Liabilities, 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 these costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is considered probable. It is often difficult to estimate the cost of environmental compliance, remediation and potential claims given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternate cleanup methods. All liabilities are monitored and adjusted as new facts or changes in law or technology occur and management believes adequate provisions have been made for environmental liabilities. Changes in facts or circumstances may have an adverse impact on our consolidated financial results.

Revenue Recognition

We record revenue from grain and oilseed sales 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 transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in revenues. Service revenues are recorded only after such services have been rendered and are included in other revenues.

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Effect of Inflation and Foreign Currency Transactions

We believe that inflation and foreign currency fluctuations have not had a significant effect on our operations during the three years ended August 31, 2007, since we conduct essentially all of our business in U.S. dollars.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We do not expect that the adoption of FIN 48 will have a material impact on our financial statements.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities , addressing the accounting for planned major maintenance activities which includes refinery turnarounds. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods but allows the alternative deferral method. The FSP is effective for fiscal years beginning after December 15, 2006. We are currently using the accrue-in-advance method of accounting and are in the final stages of determining the impact this FSP will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157) to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 157 will have on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value, with changes in fair value reported in earnings, and requires additional disclosures related to an entity s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 159 will have on our consolidated results of operations and financial condition.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

COMMODITY PRICE RISK

We are exposed to price fluctuations on energy, grain and oilseed transactions due to fluctuations in the market value of inventories and fixed or partially fixed purchase and sales contracts. Our use of derivative instruments, reduces the effects of price volatility, thereby protecting against adverse short-term price movements, while somewhat limiting the benefits of short-term price movements. However, fluctuations in inventory valuations 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 our assessment of our exposure from expected price fluctuations.

We generally enter into opposite and offsetting positions using futures contracts or options to the extent practical, in order to arrive at a net commodity position within the formal position limits we have established and deemed prudent for each of those commodities. These contracts are purchased and sold through regulated commodity exchanges. The contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes in any of our operations, with the exception of some contracts included in our Energy segment operations discussed below. These contracts are recorded on the Consolidated Balance Sheet at fair values based on quotes listed on regulated commodity exchanges. Unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

We also manage our risks by entering into fixed-price purchase and sales contracts with pre-approved producers and by establishing appropriate limits for individual suppliers. Fixed-price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. We are also 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. These contracts are recorded on the Consolidated Balance Sheet at fair values based on the market prices of the underlying products listed on regulated commodity exchanges, except for certain fixed-price contracts related to propane in our Energy segment. The propane contracts within our Energy segment meet the normal purchase and sales exemption, and thus are not required to be marked to fair value. Unrealized gains and losses on fixed-price contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

Changes in the fair values of derivative instruments described above are recognized in cost of goods sold, in our Consolidated Statements of Operations; in the period such changes occur for all operations with the exception of some derivative instruments included in our Energy segment. Included in other current assets on August 31, 2007 and 2006, are derivative assets of $247.1 million and $74.3 million, respectively. Included in accrued expenses on August 31, 2007 and 2006, are derivative liabilities of $177.2 million and $97.8 million, respectively.

In our Energy segment, certain financial contracts entered into for the spread between crude oil purchase value and distillate selling price have been designated and accounted for as hedging instruments (cash flow hedges). The unrealized gains or losses of these contracts are deferred to accumulated other comprehensive income in the equity section of our Consolidated Balance Sheet for the fiscal year ended August 31, 2006, and will be included in earnings upon settlement. Settlement dates for cash flow hedges extend through December 31, 2007. At August 31, 2007, the cash flow hedges did not qualify for hedge accounting and, therefore, are recorded in cost of goods sold in our Consolidated Statements of Operations. A loss of $2.8 million and a gain of $2.8 million, net of taxes, were recorded in accumulated other comprehensive income for the years ended August 31, 2007 and 2006, respectively, for the change in the fair value of cash flow hedges related to these derivatives. During the year ended August 31, 2007, net gains of $9.7 million from these contract settlements were recorded in the Consolidated Statement of Operations. No gains or losses were recorded in the Consolidated Statement of Operations during the year ended August 31, 2006, since there were no settlements.

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

INTEREST RATE RISK

We use fixed and floating rate debt to lessen the effects of interest rate fluctuations on interest expense. Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that our blended interest rate 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 market interest rate changes. Our effective interest rate on fixed rate debt outstanding on August 31, 2007, was approximately 6.0%.

We entered into interest rate treasury lock instruments to fix interest rates related to a portion of our private placement debts. These instruments were designated and are effective as cash flow hedges for accounting purposes and, accordingly, changes in fair value of $2.2 million, net of taxes, are included in accumulated other comprehensive income. Interest expense for each of the years ended August 31, 2007, 2006 and 2005, includes $0.9 million which relates 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

We conduct essentially all of our 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 2007 or in recent 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.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The financial statements listed in 15(a)(1) are set forth beginning on page F-1. Financial statement schedules are included in Schedule II in 15(a)(2). Supplementary financial information required by Item 302 of Regulation S-K for each quarter during the years ended August 31, 2007 and 2006 is presented below.

	November 30, 2006	February 28, 2007	May 31, 2007	August 31, 2007
		(Unaudited) (Dollars in thousands)		
Revenues	$ 3,751,070	$ 3,734,580	$ 4,732,465	$ 4,997,877
Gross profit	222,276	145,708	327,925	380,392
Income from continuing operations	153,453	87,359	259,734	286,387
Net income	136,282	82,309	237,773	293,969

	November 30, 2005	February 28, 2006	May 31, 2006	August 31, 2006
Revenues	$ 3,453,549	$ 3,156,834	$ 3,743,021	$ 4,030,431
Gross profit	254,481	114,668	218,528	225,651
Income from continuing operations	154,026	40,247	136,563	158,836
Net income	154,234	40,148	136,593	159,322

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure of Controls and Procedures:

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure. In designing and evaluating our disclosure procedures, we recognize that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2007. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer

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have concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of August 31, 2007, the end of the period covered in this annual report on Form 10-K.

Change in Internal Control over Financial Reporting:

During our fourth fiscal quarter, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***

None.

PART III.

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

BOARD OF DIRECTORS

The table below lists our directors of as of August 31, 2007.

Name and Address	Age	Director Region	Since
Bruce Anderson 13500 42nd St NE Glenburn, ND 58740-9564	55	3	1995
Donald Anthony 43970 Road 758 Lexington, NE 68850	57	8	2006
Robert Bass E 6391 Bass Road Reedsburg, WI 53959	53	5	1994
Dennis Carlson 3255 50th Street Mandan, ND 58554	46	3	2001
Curt Eischens 2153 330th Street North Minneota, MN 56264-1880	55	1	1990
Steve Fritel 2851 77th Street NE Barton, ND 58384	52	3	2003
Robert Grabarski 1770 Highway 21 Arkdale, WI 54613	58	5	1999
Jerry Hasnedl 12276 150th Avenue SE St. Hilaire, MN 56754 -9776	61	1	1995

David Kayser 42046 257th Street Alexandria, SD 57311	49	4	2006
James Kile 508 W. Bell Lane St. John, WA 99171	59	6	1992

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Name and Address	Age	Director Region	Since
Randy Knecht 40193 112th Street Houghton, SD 57449	57	4	2001
Michael Mulcahey 8109 360th Avenue Waseca, MN 56093	59	1	2003
Richard Owen 1591 Hawarden Road Geraldine, MT 59446	53	2	1999
Steve Riegel 12748 Ridge Road Ford, KS 67842	55	8	2006
Daniel Schurr 3009 Wisconsin Street LeClaire, IA 52753	42	7	2006
Duane Stenzel 62904 295th Street Wells, MN 56097	61	1	1993
Michael Toelle 5085 St. Anthony Drive Browns Valley, MN 56219	45	1	1992

Bruce Anderson, secretary-treasurer (1995): Chairman of the Governance Committee. Vice chairman of the North Dakota Agricultural Products Utilization Commission and past board secretary for North Dakota Farmers Union and Farmers Union Mutual Insurance Company. Served two terms in the North Dakota House of Representatives. Raises small grains near Glenburn, N.D. Mr. Anderson s principal occupation has been farming for the last five years or longer.

Donald Anthony (2006): Serves on Corporate Responsibility and CHS Foundation Finance and Investment committees. Served as director and chairman for All Points Cooperative of Gothenburg, Neb., and Lexington Co-op Oil. Former director of Farmland Industries. Active in several state and local cooperative and agricultural organizations. Holds a bachelor s degree in agricultural economics from the University of Nebraska. Raises corn, soybeans and alfalfa near Lexington, Neb. Mr. Anthony s principal occupation has been farming for the last five years or longer.

Robert Bass, first vice chairman (1994): Chairman of Audit Committee. Director and officer for the former Co-op Country Partners Cooperative, Baraboo, Wis., and its predecessors for 15 years, and vice chairman of Wisconsin Federation of Cooperatives. Holds a bachelor s of science degree in agricultural education from the University of Wisconsin Madison. Operates a crop and dairy operation near Reedsburg, Wis. Mr. Bass principal occupation has been farming for the last five years or longer.

Dennis Carlson (2001): Serves on Audit and CHS Foundation Finance and Investment committees. Director and past chairman of Farmers Union Oil Co., Bismarck/Mandan, N.D., and is active in several agricultural and cooperative organizations. Operates a diverse grain and livestock business near Mandan, N.D. Mr. Carlson s principal occupation has been farming for the last five years or longer.

Curt Eischens (1990): Chairman of Corporate Responsibility Committee. Served as a director and chairman of Farmers Co-op Association, Canby, Minn., and as chairman for the Minnesota Association of Cooperatives. Holds a certificate in farm management from Canby Vocational-Technical College. Operates a corn and soybean farm near Minneota, Minn. Mr. Eischens principal occupation has been farming for the last five years or longer.

Steve Fritel (2003): Serves on Corporate Responsibility and Government Relations committees. Director for Rugby (N.D.) Farmers Union Oil Co., former director and chairman for Rugby Farmers Union Elevator, and previous member of the former CHS Wheat Milling Defined Board. Director of North Central Experiment Station Board of Visitors, past member of the Adult Farm and Ranch Business Management Advisory Board and member of numerous agricultural and cooperative organizations. Earned a bachelor s degree from North Dakota State College of Science, Wahpeton. Raises small grains, corn, soybeans and sunflowers near Barton, N.D. Mr. Fritel s principal occupation has been farming for the last five years or longer.

Robert Grabarski, assistant secretary-treasurer (1999): Chairman of the Capital Committee and serves on Government Relations Committee. Director, first vice chairman and former interim president of Alto Dairy Cooperative. Chairman of Wisconsin River Cooperative. Holds a certificate in production agriculture from the University of Wisconsin-Madison. Recipient of 2004 Wisconsin Federation of Cooperatives Co-op Builder Award. Operates a diversified dairy and crop farm near Arkdale, Wis. Mr. Grabarski s principal occupation has been farming for the last five years or longer.

Jerry Hasnedl (1995): Serves on Capital and Government Relations committees. Previous chairman of the former CHS Wheat Milling Defined Member Board. Former director and secretary for St. Hilaire (Minn.) Cooperative Elevator and Northwest Grain. Member of American Coalition for Ethanol and the Minnesota Association of Cooperatives. Earned associate s of arts degree in agricultural economics and has certification in advanced farm business from Northland College, Thief River Falls, Minn. Operates a diverse operation near St. Hilaire, Minn., which includes small grains, corn, soybeans, sunflowers, malting barley, canola and alfalfa. Mr. Hasnedl s principal occupation has been farming for the last five years or longer.

David Kayser (2006): Serves on Governance and CHS Foundation Finance and Investment committees. Chairman of South Dakota Association of Cooperatives and previously served on CHS Resolutions Committee. Former director and chairman for Farmer s Alliance, Mitchell, S.D., and operates a cow-calf and feeder-calf business. Mr. Kayser s principal occupation has been farming for the last five years or longer.

James Kile, second vice chairman (1992): Chairman of Government Relations Committee and serves on Governance Committee. Served nearly two decades as a director and chairman of St. John (Wash.) Grange Supply. Represents CHS on the Washington State Council of Farmer Cooperatives and the Idaho Cooperative Council. Director and secretary for the SJE High School Foundation. Holds a bachelor s degree in agricultural economics from Washington State University. Was employed in banking before returning to St. John, Wash., to operate a dryland wheat farm. Mr. Kile s principal occupation has been farming for the last five years or longer.

Randy Knecht (2001): Serves on Government Relations and Corporate Responsibility committees. Representative to CHS Managers Council. President of Four Seasons Cooperative, Britton, S.D. Former director and chairman of Northern Electric Cooperative and director of Dakota Value Capture Cooperative. Involved in local school, government and civic organizations, as well agricultural and cooperative associations, including the American Coalition for Ethanol. Holds a bachelor s of science degree in agriculture from South Dakota State University. Operates a diversified crop farm and cattle ranch near Houghton, S.D. Mr. Knecht s principal occupation has been farming for the last five years or longer.

Michael Mulcahey (2003): Serves on Capital and CHS Foundation Finance and Investment committees. Served for three decades as a director and officer for Crystal Valley Co-op, Mankato, Minn., and its predecessors. Has served as a director and chairman for South Central Federated Feeds and is active in many agricultural, cooperative and civic organizations. Attended Mankato (Minn.) State University and the University of Minnesota-Waseca. Operates a grain farm and raises beef cattle near Waseca, Minn. Mr. Mulcahey s principal occupation has been farming for the last five years or longer.

Richard Owen (1999): Serves on Audit and Government Relations committees. Director of Mountain View, LLC, president of the Montana Cooperative Development Center and president of ArmorAuto, LLC. Previously served as director and officer of Central Montana Cooperative, Lewistown, Mont., and its predecessor organization. Holds a bachelor s of science degree in agricultural economics from Montana State University. Raises small grains and specialty crops near Geraldine, Mont. Mr. Owen s principal occupation has been farming for the last five years or longer.

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Steve Riegel (2006): Serves on Capital and Government Relations committees. Director and chairman of Dodge City (Kan.), Cooperative Exchange. Previously served as director and officer for Co-op Service, Inc., advisory director for Bucklin (Kan.) National Bank, and has served on local school board. Attended Fort Hays (Kan.) State University, majoring in agriculture, business and animal science. Operates a 300-head cow-calf and stocker cattle business and raises irrigated corn, soybeans, alfalfa, dryland wheat and milo near Ford, Kan. Mr. Riegel s principal occupation has been farming for the last five years or longer.

Daniel Schurr (2006): Serves on Audit and Government Relations committees. Served as director and officer for River Valley Cooperative of Clarence, Iowa. Director and loan committee member for Great River Bank. Local school board member and active in numerous agricultural and community organizations. Named Iowa Jaycees Outstanding Young Farmer in 2004. Holds bachelor s degree in agriculture from Iowa State University. Raises corn, soybeans and alfalfa near LeClaire, Iowa. Also owns and manages a beef feedlot and cow-calf herd. Mr. Schurr s principal occupation has been farming for the last five years or longer.

Duane Stenzel (1993): Chairman of CHS Foundation Finance and Investment Committee and serves on Governance Committee. Previous chairman of the former CHS Oilseed Processing and Refining Defined Member Board. Active in a wide range of agricultural and cooperative organizations. Member of WFS and Wells Farmers Elevator, where he served as board president and secretary. Raises soybeans, corn and sweet corn near Wells, Minn. Mr. Stenzel s principal occupation has been farming for the last five years or longer.

Michael Toelle, chairman (elected in 1992; chairman since 2002): Chairman of CHS Foundation. Served more than 15 years as director and chairman of Country Partners Cooperative of Browns Valley, Minn., and its predecessor companies. Serves as a CHS representative on the Nationwide Insurance sponsors committee, serves on the 25x 25 Renewable Fuels steering committee, has served as director and chairman of Agriculture Council of America, and is active in several cooperative and commodity organizations. Holds a bachelor s of science degree in industrial technology from Moorhead (Minn.) State University. Operates a grain, hog and beef farm near Browns Valley, Minn. Mr. Toelle s principal occupation has been farming for the last five years or longer.

Director Elections and Voting

Director elections are for three-year terms and are open to any qualified candidate. The qualifications for the office of director are as follows:

At the time of declaration of candidacy, the individual (except in the case of an incumbent) must have the written endorsement of a locally elected producer board that is part of the CHS system and located within the region from which the individual is to be a candidate.

At the time of the election, the individual must be less than the age of 68.

The remaining qualifications set forth below must be met at all times commencing six months prior to the time of election and while the individual holds office.

The individual must be a member of this cooperative or a member of a Cooperative Association Member.

The individual must reside in the region from which he or she is to be elected.

The individual must be an active farmer or rancher. Active farmer or rancher means an individual whose primary occupation is that of a farmer or rancher, excluding anyone who is an employee of ours or of a Cooperative Association Member.

The following positions on the Board of Directors will be elected at the 2007 Annual Meeting of Members:

Region	Current Incumbent
Region 1 (Minnesota)	Michael Toelle
Region 3 (North Dakota)	Dennis Carlson
Region 4 (South Dakota)	Randy Knecht
Region 5 (Wisconsin, Connecticut, Indiana, Illinois, Kentucky, Michigan, Ohio)	Robert Bass
Region 8 (Colorado, Nebraska, Kansas, New Mexico, Oklahoma, Texas)	Steve Riegel

Voting rights, including those in regard to director elections, arise by virtue of membership in CHS, not because of ownership of any equity or debt instruments; therefore, our preferred stockholders can not recommend nominees to our Board of Directors unless they are members of CHS.

EXECUTIVE OFFICERS

The table below lists our executive officers as of August 31, 2007. Officers are appointed by the Board of Directors.

Name	Age	Position
John D. Johnson	59	President and Chief Executive Officer
Jay Debertin	47	Executive Vice President and Chief Operating Officer, Processing
Patrick Kluempke	59	Executive Vice President Corporate Administration
Thomas D. Larson	59	Executive Vice President Business Solutions
Mark Palmquist	50	Executive Vice President and Chief Operating Officer, Ag Business
John Schmitz	57	Executive Vice President and Chief Financial Officer
Leon E. Westbrock	60	Executive Vice President and Chief Operating Officer, Energy

John D. Johnson, President and Chief Executive Officer (CEO), began his career with the former Harvest States in 1976 as a feed consultant in the GTA Feeds Division, later becoming regional sales manager, director of sales and marketing and general manager of GTA Feeds. Named group vice president of Harvest States Farm Marketing and Supply in 1992 and president and CEO of Harvest States in 1995. Selected president and general manager of CHS upon its creation in 1998 and was named president and CEO in 2000. Serves on the boards of Ventura Foods, LLC, CF Industries Holdings, Inc. and National Council of Farmer Cooperatives. Holds a degree in business administration from Black Hills State University, Spearfish, S.D.

Jay Debertin, Executive Vice President and Chief Operating Officer Processing, joined the former Cenex in 1984 in its energy division and held positions in energy marketing operations. Named vice president of crude oil supply in 1998 and added responsibilities for raw material supply, refining, pipelines and terminals, trading and risk management, and transportation in 2001. Named to his current position in 2005 where he is responsible for oilseed processing operations, and CHS joint venture relationships in wheat milling through Horizon Milling, LLC, and in vegetable oil-based foods through Ventura Foods, LLC. Responsible for CHS strategic direction in renewable energy. Serves on the boards of directors of US BioEnergy Corporation, National Cooperative Refinery Association, Horizon

Milling, LLC and Ventura Foods, LLC. Earned a bachelor s degree in economics from the University of North Dakota and a master s of business administration degree from the University of Wisconsin Madison.

Patrick Kluempke, Executive Vice President Corporate Administration, is responsible for human resources, information technology, business risk control, building and office services, board coordination,

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corporate planning and international relations. Served in the U.S. Army with tours in South Vietnam and South Korea, as Aide to General J. Guthrie. Began his career in grain trading and export marketing. Joined the former Harvest States in 1983, has held various positions within CHS in both the operations and corporate level, and was named to his current position in 2000. Serves on the board of Ventura Foods, LLC. Earned a bachelor s degree from St. Cloud (Minn.) State University.

Thomas D. Larson, Executive Vice President Business Solutions, began his career as a vocational agriculture teacher and later joined the former Cenex in agronomy sales. Managed a local cooperative in Hoffman, Minn., and then returned to Cenex in 1978 to hold positions in marketing, planning, agronomy services and retail operation management. Was named Executive Vice President Member and Public Affairs in 1999 which included responsibility for communications, corporate giving, meeting and travel and governmental affairs. Named to his current position in 2005. Serves on the board of Cofina Financial, LLC. Holds a bachelor s degree in agricultural education from South Dakota State University.

Mark Palmquist, Executive Vice President and Chief Operating Officer Ag Business, joined the former Harvest States in 1979 as a grain buyer, then moved into grain merchandising. Named vice president and director of grain marketing in 1990 and senior vice president in 1993. Assumed his current responsibilities for grain, crop nutrients and country operations businesses in 2005. Serves on the boards of Agriliance LLC, Horizon Milling, LLC, InTrade/ACTI, National Cooperative Refinery Association and Schnitzer Steel Industries, Inc. Graduated from Gustavus Adolphus College, St. Peter, Minn., and attended the University of Minnesota MBA program.

John Schmitz, Executive Vice President and Chief Financial Officer joined the former Harvest States in 1974 where he held accounting and finance positions, including division controller. Named vice president and controller of Harvest States in 1986 and served in that position up to the time of the merger with Cenex in 1998, when he became vice president, finance. Appointed to the position of Chief Financial Officer in 1999. Serves as a director on the boards of National Cooperative Refinery Association, Ventura Foods, LLC and Cofina Financial, LLC. Member of the American Institute of Certified Public Accountants, the Minnesota Society of Certified Public Accountants and the National Society of Accountants for Cooperatives. Holds a bachelor s of science degree in accounting from St. Cloud (Minn.) State University,

Leon E. Westbrock, Executive Vice President and Chief Operating Officer Energy, joined the former Cenex in 1976 in merchandising and previously managed local cooperatives in North Dakota and Minnesota. Returned to Cenex to hold various positions, including lubricants manager, director of retailing, and since 1987, executive vice president of energy for what is now CHS. Appointed to his current position in 2000. Serves as chairman of National Cooperative Refinery Association. Holds a bachelor s degree from St. Cloud (Minn.) State University and serves on the St. Cloud State University Foundation Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than 10% of our 8% Cumulative Redeemable Preferred Stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Such executive officers, directors and greater than 10% beneficial owners are required by the regulations of the Commission to furnish us with copies of all Section 16(a) reports they file.

Based solely upon a review of copies of reports on Forms 3 and 4 and amendments thereto furnished to us during, and reports on Form 5 and amendments thereto furnished to us with respect to, the fiscal year ended August 31, 2007, and based further upon written representations received by us with respect to the need to file reports on Form 5, the following persons filed late reports required by Section 16(a) of the Exchange Act:

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Mr. Johnson was late in filing a Form 4 relating to a transaction in January, 2007 and Mr. Browne was late in filing a report on Form 4 relating to a transaction in June, 2007.

Code of Ethics

We have adopted a code of ethics within the meaning of Item 406(b) of Regulation S-K of the Securities and Exchange Commission. This code of ethics applies to all of our officers and employees. We will provide to any person, without charge, upon request, a copy of such code of ethics. A person may request a copy by writing or telephoning us at the following address:

CHS Inc.
Attention: Dave Kastelic
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-6000

Audit Committee Matters

The Board of Directors has a separately designated standing Audit Committee for the purpose of overseeing our accounting and financial reporting processes and audits of our financial statements. The Audit Committee is comprised solely of directors Mr. Bass, Mr. Carlson, Mr. Owen and Mr. Schurr, each of whom is an independent director. The Audit Committee has oversight responsibility to our owners relating to our financial statements and the financial reporting process, preparation of the financial reports and other financial information provided by us to any governmental or regulatory body, the systems of internal accounting and financial controls, the internal audit function and the annual independent audit of our financial statements. The Audit Committee assures that the corporate information gathering and reporting systems developed by management represent a good faith attempt to provide senior management and the Board of Directors with information regarding material acts, events and conditions within the company. In addition, the Audit Committee is directly responsible for the appointment, compensation and oversight of the independent registered public accounting firm.

We do not believe that any member of the Audit Committee of the Board of Directors is an audit committee financial expert as defined in the Sarbanes-Oxley Act of 2002 and rules and regulations thereunder. As a cooperative, our 17-member Board of Directors is nominated and elected by our members. To ensure geographic representation of our members, the Board of Directors represent eight (8) regions in which our members are located. The members in each region nominate and elect the number of directors for that region as set forth in our bylaws. To be eligible for service as a director, a nominee must (i) be an active farmer or rancher, (ii) be a member of CHS or a Cooperative Association Member and (iii) reside in the geographic region from which he or she is nominated. Neither management nor the incumbent directors have any control over the nominating process for directors. Because of the nomination procedure and the election process, we cannot ensure that an elected director will be an audit committee financial expert .

However, many of our directors, including all of the Audit Committee members, are financially sophisticated and have experience or background in which they have had significant financial oversight responsibilities. The current Audit Committee includes directors who have served as presidents or chairmen of local cooperative association boards. Members of the Board of Directors, including the Audit Committee, also operate large commercial enterprises requiring expertise in all areas of management, including financial oversight.

ITEM 11. *EXECUTIVE COMPENSATION*

Compensation Discussion and Analysis

Executive Compensation

Overview

CHS views employees as valued assets, and strives to provide total reward programs that are equitable and competitive within the market segments in which we compete, and within the framework of the CHS vision, mission and values. In this section, we will outline the compensation and benefit programs as well as the materials and factors used to assist us in making compensation decisions.

Compensation Philosophy and Objectives

The Corporate Responsibility Committee of our CHS Board of Directors oversees the administration of, and the fundamental changes to, the executive compensation and benefits programs. The primary principles and objectives in compensating executive officers include:

- Maintaining a strong external market focus in order to attract and retain top talent by:
  - Aligning pay structures and total direct compensation at the market median through our benchmarking process
  - Obtaining applicable and available survey data of similar sized companies
- Maintaining reasonable internal pay equity among executives in order to allow for broad based development opportunities in support of our talent management objectives
- Driving strong business performance through annual and long-term incentive programs by:
  - Rewarding executives for company, business unit and individual performance
  - Aligning executive rewards with competitive returns to our owner members
  - Ensuring compensation components are mutually supportive and not contradictory
  - Aligning annual and long-term results with performance goals
- Ensuring compliance with federal and state regulations

There are no material changes anticipated to our compensation philosophy or plans for fiscal 2008.

Components of Executive Compensation and Benefits

Our executive compensation programs are designed to attract and retain highly qualified executives and to motivate them to optimize member owner returns by achieving specified goals. The compensation program links executive compensation directly to our annual and long-term financial performance. A significant portion of each executive s compensation is dependent upon meeting financial goals and a smaller portion is linked to other individual performance objectives.

Each year, the Corporate Responsibility Committee of the Board of Directors, reviews our executive compensation policies with respect to the correlation between executive compensation and the creation of member owner value, as well as the competitiveness of the executive compensation programs. The Corporate Responsibility Committee, with input from a third party consultant if necessary, determines what, if any, changes are appropriate to our executive compensation programs including the incentive plan goals for the Named Executive Officers. The third party consultant is chosen and hired directly by the Corporate Responsibility Committee to provide guidance regarding market competitive levels of base pay, annual incentive pay and long-term incentive pay as well as market competitive allocations between base pay, annual variable pay and long-term incentive pay for the Chief Executive Officer. The data is shared with our Board of Directors who together make final decisions regarding the Chief Executive Officer s base bay, annual incentive pay and long-term incentive pay, as well as the allocation of compensation between base pay, annual incentive pay and long-term incentive pay. There are no formal policies for allocation between long-term and cash compensation other than the intention of being competitive with the external market median level of compensation for comparable positions and being consistent with our compensation philosophy and objectives. The Corporate Responsibility Committee recommends to the Board of Directors salary actions relative to our Chief Executive Officer and approves annual and long-term incentive awards based on goal attainment. In turn, the Board communicates this pay information to the Chief Executive Officer. The Chief Executive Officer is not involved with the selection of the third party consultant and does not participate in or observe Corporate Responsibility Committee meetings. Based on review of compensation market data provided by our human resources department (survey sources and pricing methodology are explained under Components of Compensation), the Chief Executive Officer decides base compensation levels for the other Named Executive Officers, recommends for Board of Directors approval the annual and long-term incentive levels for the Named Executive Officers and communicates base and incentive compensation levels to the Named Executive Officers. The day-to-day design and administration of compensation and benefit plans are managed by our human resources, finance and legal departments.

We intend to preserve the deductibility, under the Internal Revenue Code, of compensation paid to our executive officers while maintaining compensation programs to attract and retain highly qualified executives in a competitive environment.

Components of Compensation

The executive compensation and benefits programs consist of seven components. Each component is designed to be competitive within the executive compensation market. In determining competitive compensation levels, we analyze information from independent compensation surveys, which include information regarding comparable industries, markets, revenues and companies that compete with us for executive talent. The surveys used for this analysis included a combination of any of the following sources: Hay Executive Compensation Report, Hewitt Total Compensation Measurement, Mercer US Benchmark Database-Executive Positions, Towers Perrin US General Industry Executive Database and Watson Wyatt Survey of Top Management Compensation. The data extracted from these surveys includes median market rates for base salary, annual incentive, total cash compensation and total direct compensation. Companies included in the surveys vary by industry, revenue and number of employees, and represent both public and private ownership, as well as non-profit, government and mutual organizations. The number of companies participating in these surveys ranged from 389 to 2,486, with an average of 1,118. We have recently shifted the emphasis of our executive compensation package to focus more on pay-at-risk through annual variable pay and long-term incentive awards in order to better align our programs with general market practices. The goal is to provide our executives with an overall compensation package that is competitive to median compensation in comparable industries, companies and markets. We target the market median for base pay, annual variable pay and long-term incentive pay. In actuality, the Chief Executive Officer (CEO) and Named Executive Officers are paid in line with market median base pay and annual variable pay for comparable positions and are paid less than the market median for long-term compensation in relation to comparable positions. The following table presents a more detailed break out of each compensation element:

Pay Element	Definition of Pay Element	Purpose of Pay Element
Base Salary	Competitive base level of compensation provided relative to skills, experience, knowledge and contributions	These factors provide the fundamental element of compensation based on competitive market practice and internal equity considerations

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Pay Element	Definition of Pay Element	Purpose of Pay Element
Annual Variable Pay	Broad based employee short term pay-at-risk incentive for achieving predetermined annual financial and individual performance objectives	Provide a direct link between pay and annual business objectives Pay for performance to motivate and encourage the achievement of critical business initiatives
Profit Sharing	Broad based employee short term pay-at-risk program for achieving predetermined Return On Equity performance levels	Provide a direct link between employee pay and CHS s profitability Encourage proper expense control and containment
Long-Term Incentive Plans	Long-term pay-at-risk incentive for Senior Management to achieve predetermined triennial Return On Equity performance goals	Provide a direct link between senior management pay and long-term strategic business objectives Align management and member owner interests Encourage retention of key management
Retirement Benefits	Retirement benefits under the qualified retirement benefits are identical to the broad based retirement plans generally available to all full-time employees	These benefits are a part of our broad-based employee total rewards program
	The supplemental plans include non-qualified retirement benefits that restore qualified benefits contained in our broad based plans for employees whose retirement benefits are limited by salary caps under the Internal Revenue Code. In addition, the plans allow participants to voluntarily defer receipt of a portion of their income	These benefits are provided to attract and retain senior managers with total rewards programs that are competitive with comparable companies
Health & Welfare Benefits	Medical, dental, vision, life insurance and disability benefits generally available to all full-time employees with supplemental executive long-term disability	These benefits are a part of our broad-based employee total rewards program
Additional Benefits and Perquisites	Additional benefits and perquisites provided to certain officers, including our Named Executive Officers	These benefits are provided to remain competitive with comparable companies, retain individuals who are critical to CHS, facilitate the

	executives relationships with customers and to support their roles in the community.

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Base Pay:

Base salaries of the Named Executive Officers represent a fixed form of compensation paid on a semi-monthly basis. The base salaries are generally set at the median level of market data collected through our benchmarking process against other equivalent positions of comparable revenue-size companies. The individual s actual salary relative to the market median is based on a number of factors, which include, but are not limited to: scope of responsibilities, individual experience and individual performance.

Base salaries for the Named Executive Officers are reviewed on an annual basis or at the time of significant changes in scope and level of responsibilities. Changes in base salaries are determined by competitive pay of comparable positions in the market, as well as individual performance and contribution. Changes are not governed by preestablished weighting factors or merit metrics. The Chief Executive Officer is responsible for this process for the Named Executive Officers. The Corporate Responsibility Committee is responsible for this process for the President and Chief Executive Officer. As a result of the changes in our executive compensation package mentioned above, more compensation is at risk. In accordance with Mr. Johnson s contract, he received no increase in base pay for fiscal 2007. All other Named Executive Officers received base salary increases of up to 4.0 percent in fiscal 2007.

Annual Variable Pay:

Each Named Executive Officer is eligible to participate in our Annual Variable Pay Plan (the Incentive Program) for our fiscal year ended August 31, 2007. Target award levels are set with reference to competitive market compensation levels and are intended to motivate our executives by providing incentive payments for the achievement of predetermined goals. Our Incentive Program is based on financial performance and specific management business objectives with payout dependent on CHS triggering threshold financial performance. The financial performance components include return on equity (ROE) level for both CHS and the executive s business unit. The CHS threshold, target and maximum ROE levels for fiscal 2007 were 7%, 10% and 12%, respectively. The threshold, target and maximum ROE goals for each business unit varies by unit. The management business objectives include individual performance against specific goals such as business profitability, strategic initiatives or talent development. Effective for fiscal 2008, threshold, target and maximum ROE goals are 8%, 10% and 14%, respectively.

For fiscal 2007, CHS financial performance goals and award opportunities under our Annual Variable Pay Plan were as follows:

Performance Level	**CHS Company Performance Goal**	**Business Unit Performance Goal**	**Management Business Objectives**	**Percent of Target Award**
Maximum	12% Return on Equity	Threshold, Target	Individual performance	200%
Target	10% Return on Equity	and Maximum	goals	100%
Threshold	7% Return on Equity	Return on Equity		20%
Below Threshold		goals vary by		0%
		business unit		

The annual variable pay awards for the Named Executive Officers are calculated by applying the percent of target award to the applicable fiscal 2007 salary range midpoint for the Named Executive Officer.

The types and relative importance of specific financial and other business objectives varies among executives depending upon their positions and the particular business unit for which they were responsible. Financial objectives are given greater weight than other individual performance objectives in determining individual awards.

The CHS Board of Directors approves the Annual Variable Pay Plan total Company ROE objectives and determines the Chief Executive Officer s individual goals. The weighting of the Chief Executive Officer s goals is 70% CHS total company ROE, and 30% principle accountabilities and personal goals. The Chief Executive Officer approves business unit ROE objectives and determines non-financial objectives for the Named Executive Officers. The weighting of goals for the Named Executive Officers is 70% ROE, and 30% principle accountabilities and personal goals. The ROE goals for the Named Executive Officers are either total CHS, or combined CHS and business unit, depending on whether the position is responsible for an operating

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group or not. The Plan is designed such that if one-year threshold non-financial and financial performance is achieved, the annual variable pay award would equal 20 percent of market competitive awards; if target non-financial and financial performance goals are achieved, the Plan award would equal 100% of market competitive awards; and if maximum non-financial and financial performance goals are achieved, the Plan award would equal 200% of market competitive awards.

In conjunction with the annual performance appraisal process, the Board of Directors reviews the non-financial objectives, and in turn, determines and approves this portion of the annual variable pay award based upon completion or partial completion of the previously specified goals for the Chief Executive Officer. Likewise, the Chief Executive Officer uses the same process for determining individual goal attainment for the other Named Executive Officers. Named Executive Officers are covered by the same broad based Annual Variable Pay Plan as other employees, and based on the plan provisions, when they retire they receive awards pro-rated to the number of months in the plan.

For fiscal 2007, CHS reached the Company s maximum financial goal for ROE. Annual variable pay payments for the Named Executive Officers are as follows:

John D. Johnson	$ 1,775,700
John Schmitz	$ 690,060
Leon E. Westbrock	$ 775,740
Mark Palmquist	$ 745,780
Jay Debertin	$ 574,000

Profit Sharing:

Each Named Executive Officer is eligible to participate in our Profit Sharing Plan applicable to other employees. The purpose of the Profit Sharing Plan is to provide a direct link between employee pay and CHS profitability. Annual profit sharing contributions are calculated as a percent of base pay and annual variable pay (total earnings) and are made to the CHS 401(k) savings plan account and Deferred Compensation Plan account of each Named Executive Officer. The levels of profit sharing awards vary in relation to the level of CHS ROE achieved and are displayed in the following table:

Return On Equity	**Equates to Net Income for Fiscal 2007**	**Profit Sharing Award**
13.0%	$260.2 Million	5%
12.0%	$240.2 Million	4%
10.0%	$200.2 Million	3%
9.0%	$180.2 Million	2%
7.0%	$140.2 Million	1%

Effective fiscal 2008, threshold, target and maximum ROE goals are:

Return On Equity	**Profit Sharing Award**

14.0%	5%
12.0%	4%
10.0%	3%
9.0%	2%
8.0%	1%

Long-Term Incentive Plans:

Each Named Executive Officer is eligible to participate in our Long-Term Incentive Plan (LTIP). The purpose of the LTIP is to align results with long-term performance goals, encouraging our Named Executive Officers to maximize long-term shareholder value and retain key executives.

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The LTIP consists of three-year performance periods to ensure consideration is made for long-term CHS sustainability with a new plan beginning every year if approved by the Board of Directors. The LTIP is based on CHS ROE over three-year periods. The CHS Board of Directors approves the LTIP ROE goals.

Award opportunities are expressed as a percentage of a participant s average salary range midpoint for the three-year performance period. Threshold and maximum award opportunities are set between 20 percent and 200 percent of target payout. CHS must meet a three-year period threshold level of ROE for this plan to trigger a payout. The threshold, target and maximum return on equity for fiscal 2005-2007 performance period were 7%, 10% and 12%, respectively.

Awards from the LTIP are contributed to the CHS Deferred Compensation Plan after the end of each plan period. These awards are earned over a three-year period and vest over an additional twenty-six-month period. The extended earning and vesting provisions of the LTIP are designed to help CHS retain key executives. Participants who terminate from CHS prior to retirement forfeit all unearned and unvested LTIP award balances. Like the Annual Variable Pay Plan, award levels for the LTIP are set with regard to competitive considerations.

For fiscal 2007, CHS reached the Company s maximum level ROE for awards under the LTIP. Incentive payments for the Named Executive Officers are as follows:

John D. Johnson	$ 1,766,666
John Schmitz	$ 672,326
Leon E. Westbrock	$ 755,814
Mark Palmquist	$ 736,074
Jay Debertin	$ 552,160

Retirement Benefits:

We provide the following retirement and deferral programs to executive officers:

CHS Inc. Pension Plan

CHS Inc. Savings Plan

CHS Inc. Supplemental Executive Retirement Plan, and

CHS Inc. Deferred Compensation Plan

CHS Inc. Pension Plan

The CHS Inc. Pension Plan (the Pension Plan) is a tax-qualified defined benefit pension plan. Most full-time, non-union CHS employees are eligible to participate in the plan. All Named Executive Officers participate in the Pension Plan. A Named Executive Officer is fully vested in the plan after three or five years (depending on hire date) of vesting service. The Pension Plan provides for a monthly benefit (or a lump sum if elected) for the Named Executive Officer s lifetime beginning at normal retirement age. Compensation includes total salary and annual variable pay. Compensation and benefits are limited based on limits imposed by the Internal Revenue Code. The normal form of benefit for a single Named Executive Officer is a life annuity and for a married Named Executive Officer the normal form is a 50% joint and survivor annuity. Other annuity forms are also available on an actuarial equivalent basis.

A Named Executive Officer s benefit under the Pension Plan depends on 1) *pay credits* to the employee s account, which are based on the Named Executive Officer s total salary and annual variable pay for each year of employment, date of hire, age at date of hire and the length of service and 2) *investment credits* which are computed using the interest crediting rate and the Named Executive Officer s account balance at the beginning of the year.

The amount of pay credits added to an Named Executive Officer s account each year is a percentage of the Named Executive Officer s base salary and annual variable pay plus compensation reduction pursuant to

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the CHS Inc. Savings Plan, the (401(k) Plan), and any pretax contribution to any of our welfare benefit plans, paid vacations, paid leaves of absence and pay received if away from work due to a sickness or injury. The pay credits percentage received is determined on a yearly basis, based on the years of benefit service completed as of December 31 of each year. A Named Executive Officer receives one year of benefit service for every calendar year of employment in which the Named Executive Officer completed at least 1,000 hours of service.

Pay credits are earned according to the following schedule:

Regular Pay Credits

Years of Benefit Service	**Pay Below Social Security Taxable Wage Base**	**Pay Above Social Security Taxable Wage Base**
1 - 3 years	3%	6%
4 - 7 years	4%	8%
8 - 11 years	5%	10%
12 - 15 years	6%	12%
16 years or more	7%	14%

Mid Career Pay Credits

Employees hired after age 40 qualify for the following minimum pay credit:

	Minimum Pay Credit	
Age at Date of Hire	**Pay Below Social Security Taxable Wage Base**	**Pay Above Social Security Taxable Wage Base**
Age 40 - 44	4%	8%
Age 45 - 49	5%	10%
Age 50 or more	6%	12%

Special Career Credits

A Named Executive Officer who was a participant in the former Harvest States Cooperative Cash Balance Retirement Plan on January 1, 1988 and met certain age and service requirements on January 1, 1988 receives an additional credit based on the following table:

Total Age and Service As of 1/01/1988	**Additional Credit of**
50 - 54	1%
55 - 59	2%
60 - 64	3%

65 - 69	4%
70 or more	5%

Investment Credits

We credit a Named Executive Officer s account at the end of the year with an investment credit based on the balance at the beginning of the year. The investment credit is based on the average return for one-year U.S. Treasury bills for the preceding 12-month period.

CHS Inc. Savings Plan

This 401(k) Plan is a tax-qualified defined contribution retirement plan. Most full-time, non-union CHS employees are eligible to participate in the plan. Each Named Executive Officer is eligible to participate in the 401(k) Plan. Participants may contribute between 1% and 50% of their pay on a pretax basis. IRS regulations limit highly compensated employees, including the Named Executive Officers, to 6% deferrals. We match

50% of the first 6% of pay contributed each year. The Board of Directors may elect to reduce or eliminate matching contributions for any year or any portion thereof. Participants are 100% vested in their own contributions and are fully vested after three years of service in matching contributions made on the participant s behalf by CHS.

CHS Inc. Supplemental Executive Retirement Plan and CHS Inc. Deferred Compensation Plan

Because the Internal Revenue Code limits the benefits that may be paid from the tax-qualified plan, the CHS Inc. Supplemental Executive Retirement Plan (the SERP) and CHS Inc. Deferred Compensation Plan were established to provide certain employees participating in the qualified plans with supplemental benefits such that, in the aggregate, benefits they would have been entitled to receive under the qualified plan had these limits not been in effect. The SERP also includes compensation deferred under the Deferred Compensation Plan that is excluded under the qualified retirement plan. All Named Executive Officers participate in the SERP. Participants in the plans are select management or highly compensated employees who have been designated as eligible by our President and Chief Executive Officer to participate.

All Named Executive Officers are eligible to participate in the Deferred Compensation Plan. Furthermore, Mr. Westbrock is eligible for pension benefits determined under additional formulas as described in the following Pension Benefits table.

Mr. Johnson is eligible to participate in our Special Supplemental Executive Retirement Plan (the Special SERP). The Special SERP retirement benefit will be credited at the end of each plan year for which the participant completes a year of service. The amount credited shall be an amount equal to that set forth in a schedule of benefits stated in the Special SERP, as disclosed in the Pension Benefits table. The Special SERP is not funded and does not qualify for special tax treatment under the Internal Revenue Code.

Compensation includes total salary and annual variable pay without regard to limitations on compensation imposed by the Internal Revenue Code. Compensation waived under the Deferred Compensation Plan is not eligible for pay credits or company contributions under the Pension Plan and 401(k) Plan.

Certain Named Executive Officers may have accumulated non-qualified plan balances or benefits that have been carried over from predecessor companies as a result of past mergers and acquisitions. Some of the benefits from the SERP are funded by a rabbi trust, with a balance at August 31, 2007 of $7.2 million. No further contributions are being made to the trust. Currently, the plans are not being funded and do not qualify for special tax treatment under the Internal Revenue Code.

The Deferred Compensation Plan allows eligible Named Executive Officers to voluntarily defer receipt of up to 30% of their base salary and up to 100% of their annual variable pay. The election must occur prior to the beginning of the calendar year in which the compensation will be earned. During the fiscal year ended August 31, 2007, all of the Named Executive Officers participated in the non-elective portion of the Deferred Compensation Plan and only Mr. Debertin participated in the elective portion of the Deferred Compensation Plan.

Some of the benefits from a previous deferred compensation plan are funded in a rabbi trust, with a balance at August 31, 2007 of $57.5 million. No further contributions to the trust are planned.

Health & Welfare Benefits:

Like other CHS employees, each of the Named Executive Officers is entitled to receive benefits under our comprehensive health & welfare program. Like other non-executive full-time employees, participation in the individual benefit plans is based on each Named Executive Officer s annual benefit elections and varies by individual.

Medical Plans

Named Executive Officers and their dependents may participate in our medical plan on the same basis as other eligible full-time employees. The plan provides each an opportunity to choose a level of coverage and

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coverage options with varying deductibles and co-pays in order to pay for hospitalization, physician and prescription drugs expenses. The cost of this coverage is shared by both CHS and the covered Named Executive Officer.

Dental, Vision, Hearing Plan

Named Executive Officers and their dependents may participate in our Dental, Vision, and Hearing plan on the same basis as other eligible full-time employees. The plan provides coverage for basic dental, vision, and hearing expenses. The cost of this coverage is shared by both CHS and the covered Named Executive Officer.

Life, AD&D and Dependent Life Insurance

Named Executive Officers and their dependents may participate in our basic Life, Accidental Death and Dismemberment and dependent life plans on the same basis as other eligible full-time employees. The plans allow Named Executive Officers an opportunity to purchase group life insurance on the same basis as other eligible full-time employees. Named Executive Officers can choose various coverage levels as a multiple of pay. The cost of this coverage is paid by the Named Executive Officer.

Short- and Long-term disability

Named Executive Officers participate in our Short-Term Disability (STD) Plan on the same basis as other eligible full- time employees. The Named Executive Officers also participate in an executive Long-Term Disability (LTD) Plan. These plans replace a portion of income in the event that a Named Executive Officer is disabled under the terms of the plan and is unable to work full-time. The cost of STD coverage is paid by CHS. The cost of LTD is shared by both CHS and the covered Named Executive Officer.

Flexible Spending Accounts/Health Savings Accounts

Named Executive Officers may participate in our Flexible Spending Account (FSA) or Health Savings Account (HSA) on the same basis as other eligible full-time employees. The plan provides Named Executive Officers an opportunity to pay for certain eligible medical expenses on a pretax basis. Contributions to these plans are made by the Named Executive Officer.

Travel Assistance Program

Like other non-executive full-time CHS employees, each of the Named Executive Officers is covered by the travel assistance program. This broad based program provides accidental death and dismemberment protection should a covered injury occur while on a CHS business trip.

Additional Benefits and Perquisites:

Certain benefits and perquisites such as a car allowance, club membership, executive physical and limited financial planning assistance are available to the Named Executive Officers. These are provided as part of an overall total rewards package that strives to be competitive with comparable companies, retain individuals who are critical to CHS, facilitate the Named Executive Officers relationships with customers and to support their roles in the community.

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Summary Compensation Table

Name and Principal Position	Year	Salary(5)	Non-Equity Incentive Plan Compensation(1),(5)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings(2)	All Other Compensation(3),(4)	Total
John D. Johnson President & Chief Executive Officer	2007	$ 900,000	$ 3,542,366	$ 1,050,906	$ 267,018	$ 5,760,290
John Schmitz Executive Vice President & Chief Financial Officer	2007	492,900	1,362,386	208,021	112,868	2,176,175
Leon E. Westbrock Executive Vice President	2007	554,100	1,531,554	991,223	129,683	3,206,560
Mark Palmquist Executive Vice President	2007	532,700	1,481,854	193,536	143,447	2,351,537
Jay Debertin Executive Vice President	2007	410,000	1,126,160	123,906	107,526	1,767,592

(1) Amounts include CHS annual variable pay awards and long-term incentive awards.

(2) This column represents both changes in pension value and above-market earnings on deferred compensation. Change in pension value is the aggregate change in the actuarial present value of the Named Executive Officers benefit under their retirement program and non qualified earnings, if applicable.

Above-market earnings represent earnings exceeding 120% of the Federal Reserve long-term rate as determined by the Internal Revenue Service (IRS) on applicable funds. The following Named Executive Officers had above market earnings: John D. Johnson- $26,787; John Schmitz- $291; Leon E. Westbrock- $835; and Mark Palmquist- $342.

(3) Amounts include CHS paid executive LTD, travel accident insurance, executive physical, CHS contributions to qualified and non-qualified defined contribution plans, car allowance, spousal travel, sporting tickets, club dues/memberships and financial planning.

(4) This column includes car allowance amounts as follows: John D. Johnson- $25,800; and $15,120 each for John Schmitz, Leon E. Westbrock, Mark Palmquist and Jay Debertin.

(5) Amounts reflect the gross compensation and include any applicable deferrals. Mr. Debertin deferred $206,043.

Material Terms of Named Executive Officer Employment Agreement

On August 1, 2007, CHS entered into an employment agreement with Mr. Johnson, its President and Chief Executive Officer. The agreement is effective August 1, 2007 and continues, subject to the agreement s termination provisions, through August 31, 2009. Thereafter the agreement renews for additional one year periods unless terminated by CHS upon at least one year s prior written notice to Mr. Johnson. Mr. Johnson is entitled to receive an initial annual base salary of $900,000, subject to review annually, and is eligible to receive the benefits and incentive compensation described in the agreement. If Mr. Johnson s employment is terminated for cause (as defined in the agreement), or for a reason other than cause (as defined in the agreement) upon at least one year s prior written notice, CHS incurs no further obligations under the agreement. After August 31, 2009, if CHS does not renew the agreement upon at least one year s prior written notice, CHS incurs no further obligations under the agreement. Mr. Johnson may terminate his employment in his sole discretion upon thirty days notice, in which event he is not entitled to receive further compensation or severance. In the event of Mr. Johnson s death during the term of the agreement, his legal representative is entitled to his base salary for the month in which his death occurred and to any other benefits otherwise due in respect of his death. In the event of Mr. Johnson s disability during the term of the agreement, Mr. Johnson is entitled to certain continued benefits for a period not to exceed twelve months as set forth in the agreement. Under the agreement, Mr. Johnson is subject to a two-year non-compete following termination of his employment. This summary is subject to the full text of the agreement, a copy of which was previously filed and is listed as Exhibit 10.17A to this Annual Report on Form 10-K.

Explanation of Ratio of Salary and Bonus to Total Compensation

We have recently shifted the emphasis of our executive compensation package to focus more on pay-at-risk through annual variable pay and long-term incentive awards in order to better align our programs with general market practices.

Grants of Plan-Based Awards
Estimated Future Payouts Under Non-Equity Incentive Plan Awards

Name	Grant Date	Threshold	Target	Maximum
John D. Johnson	9-1-06(1)	$ 180,000	$ 900,000	$ 1,800,000
	9-1-06(2)	180,000	900,000	1,800,000
John Schmitz	9-1-06(1)	71,078	355,390	710,780
	9-1-06(2)	70,387	351,937	703,873
Leon E. Westbrock	9-1-06(1)	79,800	399,000	798,000
	9-1-06(2)	79,058	395,290	790,580
Mark Palmquist	9-1-06(1)	76,818	384,090	768,180
	9-1-06(2)	76,071	380,357	760,713
Jay Debertin	9-1-06(1)	59,122	295,610	591,220
	9-1-06(2)	58,548	292,740	585,480

(1) Represents range of possible awards under our Annual Variable Pay Plan. The actual amount of the award earned for fiscal 2007 is presented in the Non-Equity Incentive Plan Compensation column of our Summary Compensation Table. The Annual Variable Pay Plan is described in the Compensation Discussion and Analysis.

(2) Represents range of possible awards under our Long-Term Incentive Plan for the fiscal 2007-2009 performance period. Goals are based on achieving a three-year ROE of 7%, 10% and 12%. Awards are earned over a three-year period and vest over an additional twenty-six-month period.

Grants Based Award Table Material Terms of Awards Disclosed in Table

The material terms of annual variable pay and long term incentive awards that are disclosed in this table, including the vesting schedule, are discussed in the Compensation, Discussion and Analysis.

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Pension Benefits Table

Number of Years of	Present Value of	Payments