CHS INC
Form 10-Q
January 11, 2008

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

Form 10-Q

(Mark One)

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

for the quarterly period ended November 30, 2007.

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

for the transition period from_____to _____.

Commission File Number 0-50150

CHS Inc.
(Exact name of registrant as specified in its charter)

Minnesota *(State or other jurisdiction of incorporation or organization)*	**41-0251095** *(I.R.S. Employer Identification Number)*
5500 Cenex Drive **Inver Grove Heights, MN 55077** *(Address of principal executive offices, including zip code)*	**(651) 355-6000** *(Registrant s telephone number, including area code)*

Include by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

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

Class	Number of Shares Outstanding at January 11, 2008
NONE	NONE

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PART I. FINANCIAL INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties that may cause the Company s actual results to differ materially from the results discussed in the forward-looking statements. These factors include those set forth in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, under the caption Cautionary Statement Regarding Forward-Looking Statements to this Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2007.

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Item 1. ***Financial Statements***

CHS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	November 30, 2007	August 31, 2007 *	November 30, 2006 *
		(dollars in thousands)	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 186,754	$ 357,712	$ 112,232
Receivables	1,966,793	1,401,251	1,141,811
Inventories	2,235,967	1,666,632	1,180,498
Other current assets	1,164,723	505,417	593,341
Total current assets	5,554,237	3,931,012	3,027,882
Investments	806,610	880,592	713,382
Property, plant and equipment	1,836,372	1,728,171	1,525,028
Other assets	241,540	208,752	284,189
Total assets	$ 8,438,759	$ 6,748,527	$ 5,550,481
LIABILITIES AND EQUITIES			
Current liabilities:			
Notes payable	$ 443,413	$ 672,571	$ 291,422
Current portion of long-term debt	96,123	98,977	61,443
Customer credit balances	123,699	110,818	75,907
Customer advance payments	697,357	161,525	118,319
Checks and drafts outstanding	170,038	143,133	77,558
Accounts payable	1,785,143	1,120,822	917,719
Accrued expenses	484,322	432,840	387,735
Dividends and equities payable	488,727	374,294	254,539
Total current liabilities	4,288,822	3,114,980	2,184,642
Long-term debt	975,391	589,344	665,756
Other liabilities	381,438	371,362	374,409
Minority interests in subsidiaries	190,936	197,386	163,426
Commitments and contingencies			
Equities	2,602,172	2,475,455	2,162,248
Total liabilities and equities	$ 8,438,759	$ 6,748,527	$ 5,550,481

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2

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

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CHS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended November 30, 2007	2006 *
	(dollars in thousands)	
Revenues	$ 6,525,386	$ 3,751,070
Cost of goods sold	6,210,749	3,528,636
Gross profit	314,637	222,434
Marketing, general and administrative	66,459	52,102
Operating earnings	248,178	170,332
Gain on investments	(94,948)	(5,348)
Interest, net	13,537	7,688
Equity income from investments	(31,190)	(4,531)
Minority interests	22,979	18,912
Income before income taxes	337,800	153,611
Income taxes	36,900	17,232
Net income	$ 300,900	$ 136,379

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2

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

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CHS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended November 30, 2007	2006 *
	(dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 300,900	$ 136,379
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,517	34,201
Amortization of deferred major repair costs	6,664	6,244
Income from equity investments	(31,190)	(4,531)
Distributions from equity investments	12,332	15,272
Minority interests	22,979	18,912
Noncash patronage dividends received	(445)	(321)
Gain on sale of property, plant and equipment	(899)	(302)
Gain on investments	(94,948)	(5,348)
Deferred taxes	36,900	17,232
Other, net	(244)	375
Changes in operating assets and liabilities:		
Receivables	(545,482)	(39,841)
Inventories	(394,715)	(45,118)
Other current assets and other assets	(403,839)	(298,720)
Customer credit balances	12,881	9,439
Customer advance payments	329,580	35,932
Accounts payable and accrued expenses	716,854	79,021
Other liabilities	6,662	7,858
Net cash provided by (used in) operating activities	14,507	(33,316)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(108,698)	(80,192)
Proceeds from disposition of property, plant and equipment	2,653	1,415
Expenditures for major repairs	(21,662)	(1,297)
Investments	(267,317)	(77,420)
Investments redeemed	66	1,376
Proceeds from sale of investments	114,198	10,918
Acquisition of business transaction, net	(13,024)	
Changes in notes receivable	(18,912)	(32,546)
Acquisition of intangibles	(4,721)	(548)
Other investing activities, net	432	(2,549)

Net cash used in investing activities	(316,985)	(180,843)
Cash flows from financing activities:		
Changes in notes payable	(229,120)	269,415
Long-term debt borrowings	400,000	
Principal payments on long-term debt	(18,675)	(17,641)
Payments for bank fees on debt	(1,794)	
Changes in checks and drafts outstanding	26,906	20,475
Distribution to minority owners	(38,409)	(8,313)
Costs incurred capital equity certificates redeemed		(4)
Preferred stock dividends paid	(3,620)	(2,932)
Retirements of equities	(3,768)	(47,134)
Net cash provided by financing activities	131,520	213,866
Net decrease in cash and cash equivalents	(170,958)	(293)
Cash and cash equivalents at beginning of period	357,712	112,525
Cash and cash equivalents at end of period	$ 186,754	$ 112,232

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2

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

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(dollars in thousands)

Note 1. Accounting Policies

The unaudited consolidated balance sheets as of November 30, 2007 and 2006, the statements of operations for the three months ended November 30, 2007 and 2006, and the statements of cash flows for the three months ended November 30, 2007 and 2006 reflect, in the opinion of our management, all normal recurring adjustments necessary for a fair statement of the financial position and results of operations and cash flows for the interim periods presented. The results of operations and cash flows for interim periods are not necessarily indicative of results for a full fiscal year because of, among other things, the seasonal nature of our businesses. The consolidated balance sheet data as of August 31, 2007 has been derived from our audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The consolidated financial statements include our accounts and the accounts of all of our wholly-owned and majority-owned subsidiaries and limited liability companies. The effects of all significant intercompany accounts and transactions have been eliminated.

These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended August 31, 2007, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

Goodwill and Other Intangible Assets

Goodwill was $3.8 million, $3.8 million and $3.9 million on November 30, 2007, August 31, 2007 and November 30, 2006, respectively, and is included in other assets in the Consolidated Balance Sheets.

Intangible assets subject to amortization primarily include trademarks, customer lists, supply contracts and agreements not to compete, and are amortized over the number of years that approximate their respective useful lives (ranging from 1 to 15 years). The gross carrying amount of these intangible assets was $56.3 million with total accumulated amortization of $14.2 million as of November 30, 2007. Intangible assets of $11.9 million (includes $7.2 million related to the crop nutrients business transaction) and $2.7 million ($2.1 million non-cash) were acquired during the three months ended November 30, 2007 and 2006, respectively. Total amortization expense for intangible assets during the three-month periods ended November 30, 2007 and 2006, was $2.7 million and $0.7 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years will approximate $10.0 million annually for the first year, $6.5 million for the next three years and $3.0 million for the following year.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. We are currently evaluating the impact SFAS No. 141R will have on our process of analyzing business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in our Consolidated Balance Sheets. Income and comprehensive income attributed to the noncontrolling interest will be included in our Consolidated Statements of Operations and our Consolidated Statements of Equities and Comprehensive Income. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of this standard must be applied retrospectively upon adoption. We are in the process of evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior period s amounts to conform to current period classifications. These reclassifications had no effect on previously reported net income, equities or total cash flows.

Note 2. Change in Accounting Principle Turnarounds

During the first fiscal quarter of 2008, we changed our accounting method for the costs of turnarounds from the accrual method to the deferral method. Turnarounds are the scheduled and required shutdowns of refinery processing units for significant overhaul and refurbishment. Under the deferral accounting method, the costs of turnarounds are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs. The new method of accounting for turnarounds was adopted in order to adhere to FASB Staff Position (FSP) No. AUG AIR-1 Accounting for Planned Major Maintenance Activities which prohibits the accrual method of accounting for planned major maintenance activities. The comparative financial statements for the three months ended November 30, 2006 have been adjusted to apply the new method retrospectively. These deferred costs are included in our Consolidated Balance Sheets in other assets. The amortization expenses are included in cost of goods sold in our Consolidated Statements of Operations. The following consolidated financial statement line items as of August 31, 2007 and November 30, 2006, and for the three months ended November 30, 2006 were affected by this change in accounting principle.

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	August 31, 2007		
	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted
Consolidated Balance Sheets			
Other current assets	$ 511,263	$ (5,846)	$ 505,417
Other assets	147,965	60,787	208,752
Accrued expenses	439,084	(6,244)	432,840
Other liabilities	359,198	12,164	371,362
Minority interests in subsidiaries	190,830	6,556	197,386
Equities	2,432,990	42,465	2,475,455

	November 30, 2006		
	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted
Consolidated Balance Sheets			
Other current assets	$ 600,990	$ (7,649)	$ 593,341
Other assets	237,553	46,636	284,189
Accrued expenses	410,433	(22,698)	387,735
Other liabilities	355,452	18,957	374,409
Minority interests in subsidiaries	156,870	6,556	