

CHS INC  
Form S-2/A  
February 13, 2004

**Table of Contents**

As filed with the Securities and Exchange Commission on February 13, 2004

Registration No. 333-110810

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

---

**Amendment No. 2  
to  
FORM S-2  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

---

**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 No.)

**5500 Cenex Drive**

**Inver Grove Heights, Minnesota 55077**

**(651) 355-6000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David Kastelic

Senior Vice President and General Counsel

CHS Inc.

5500 Cenex Drive

Inver Grove Heights, Minnesota 55077

(651) 355-3712

Fax (651) 355-4554

(Name, address, including zip code, and telephone number, including area code, of agent for service)

---

Copy to:

**William B. Payne**

**Dorsey & Whitney LLP**

**50 South Sixth Street**

**Minneapolis, Minnesota 55402**

**(612) 340-2600**

**Fax (612) 340-8738**

**Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this form, check the following box.

Edgar Filing: CHS INC - Form S-2/A

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a) of the Securities Act, may determine.**

---

**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION**

**DATED FEBRUARY 13, 2004**

**PRELIMINARY PROSPECTUS**

**516,487 Shares**

**CHS Inc.**

**8% Cumulative Redeemable Preferred Stock**

We are issuing up to 516,487 shares of our 8% Cumulative Redeemable Preferred Stock to redeem up to \$13,000,000 of our patrons equities that have been outstanding for at least 10 years and that are held by active members. For those members whose redemption amount is less than \$500, that amount will be paid in cash. For those members whose redemption amount is equal to or greater than \$500, that amount will be paid by the issuance of preferred stock, subject to the exceptions described below in Plan of Distribution. See Membership in CHS and Authorized Capital Patrons Equities for a description of patrons equities and our annual pro rata redemptions of patrons equities. The amount of patrons equities that will be redeemed with each share of preferred stock issued will be \$ , which is the greater of \$ (equal to the \$25.00 liquidation preference per share of preferred stock plus \$ of accumulated dividends from and including January 1, 2004 to and including February , 2004) and the \$ closing price for one share of the preferred stock on The NASDAQ National Market on February , 2004. We will not issue any fractional shares of preferred stock. The amount of patrons equities that would otherwise be issued as a fractional share to any member will instead be retained as part of that member's patrons equities. There will not be any cash proceeds from the issuance of the preferred stock. However, by issuing shares of preferred stock in redemption of patrons equities we will make the cash that we would otherwise have used to redeem those patrons equities available for working capital purposes.

Holders of the preferred stock are entitled to receive cash dividends at the rate of \$2.00 per share per year. Dividends are payable quarterly in arrears when, as and if declared on March 31, June 30, September 30 and December 31 of each year (each, a payment date ), except that if a payment date is a Saturday, Sunday or legal holiday, the dividend is paid without interest on the next day that is not a Saturday, Sunday or legal holiday. Dividends payable on the preferred stock are cumulative. The preferred stock is subject to redemption and has the preferences described in this prospectus. The preferred stock is not convertible into any of our other securities and is non-voting except in certain limited circumstances.

The preferred stock is traded on The NASDAQ National Market under the trading symbol CHSCP. On February 12, 2004 the closing price of the preferred stock was \$27.73 per share.

**Ownership of our preferred stock involves risks. See Risk Factors beginning on page 7.**

We expect to issue the preferred stock on or about February , 2004.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**CHS Inc.**

5500 Cenex Drive  
Inver Grove Heights, Minnesota 55077  
(651) 355-6000

**The date of this prospectus is February 13, 2004.**

**TABLE OF CONTENTS**

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

PROSPECTUS SUMMARY

RISK FACTORS

USE OF PROCEEDS

BUSINESS

SELECTED CONSOLIDATED FINANCIAL DATA

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DESCRIPTION OF THE PREFERRED STOCK

COMPARISON OF RIGHTS OF HOLDERS OF PATRONS' EQUITIES AND RIGHTS OF HOLDERS OF PREFERRED STOCK

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

PLAN OF DISTRIBUTION

LEGAL MATTERS

EXPERTS

WHERE YOU CAN FIND MORE INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PART II

SIGNATURES

EXHIBIT INDEX

Opinion and Consent of Dorsey & Whitney LLP

Consent of PricewaterhouseCoopers LLP

Consent of Deloitte & Touche LLP

---

**Table of Contents**

**TABLE OF CONTENTS**

	<u>Page</u>
IMPORTANT INFORMATION ABOUT THIS PROSPECTUS	1
PROSPECTUS SUMMARY	2
RISK FACTORS	7
USE OF PROCEEDS	12
BUSINESS	12
MEMBERSHIP IN CHS AND AUTHORIZED CAPITAL	24
SELECTED CONSOLIDATED FINANCIAL DATA	27
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	30
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	50
DESCRIPTION OF THE PREFERRED STOCK	51
COMPARISON OF RIGHTS OF HOLDERS OF PATRONS' EQUITIES AND RIGHTS OF HOLDERS OF PREFERRED STOCK	55
MATERIAL FEDERAL INCOME TAX CONSEQUENCES	56
PLAN OF DISTRIBUTION	59
LEGAL MATTERS	60
EXPERTS	60
WHERE YOU CAN FIND MORE INFORMATION	60
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	61
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-i

**Table of Contents**

**IMPORTANT INFORMATION ABOUT THIS PROSPECTUS**

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different or additional information. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates. We are not making an offer of these securities in any state where the offer is not permitted. The information in this prospectus may only be current as of the date on the front of this prospectus. Our business, financial condition or results of operations may have changed since that date.

References in this prospectus, and the documents incorporated by reference in this prospectus, to CHS, CHS Cooperatives, Cenex Harvest States Cooperatives, the Company, we, our and us refer to CHS Inc., a Minnesota cooperative, and its subsidiaries. We maintain a web site at <http://www.chsinc.com>. Information contained in our website does not constitute part of this prospectus.

All references to preferred stock in this prospectus are to our 8% Cumulative Redeemable Preferred Stock unless the context requires otherwise.

**Table of Contents**

**PROSPECTUS SUMMARY**

*The following summary highlights information we present in greater detail elsewhere in this prospectus and in the information incorporated by reference in it. This summary may not contain all of the information that is important to you and you should carefully consider all of the information that is important to you and you should consider all of the information contained or incorporated by reference in this prospectus. This prospectus contains forward-looking statements that are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. These factors include those listed under Risk Factors and elsewhere in this prospectus.*

**CHS Inc.**

CHS Inc. is one of the nation's leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We buy commodities from and provide products and services to our members and other customers. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2003, our total revenues were \$9.4 billion.

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

Only producers of agricultural products and associations of producers of agricultural products may be members of CHS. Our earnings or losses derived from business conducted with these members are allocated to members based on the volume of business they do with us. Members receive earnings in the form of patronage refunds in cash and patron's equities, which may be redeemed over time. Earnings derived from non-members are taxed at regular corporate rates and are retained by CHS as unallocated equity.

The origins of CHS Inc. date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. Cenex Harvest States Cooperatives emerged as the result of the merger of the two entities in 1998. In August 2003 we changed our name to CHS Inc. We are headquartered in Inver Grove Heights, Minnesota. Our address is 5500 Cenex Drive, Inver Grove Heights, Minnesota 55077. Our telephone number is (651) 355-6000.

***Agronomy***

Through our Agronomy business segment, we are engaged in the manufacture of crop nutrients and the wholesale distribution of crop nutrients and crop protection products. We conduct our agronomy operations primarily through two investments—a 20% cooperative ownership interest in CF Industries, Inc. (CF Industries) and a 25% ownership interest in Agriliance, LLC (Agriliance). CF Industries manufactures crop nutrient products, particularly nitrogen and phosphate fertilizers, and is one of the largest suppliers to Agriliance. Agriliance is one of North America's largest wholesale distributors of crop nutrients, crop protection products and other agronomy products based on sales. Our minority ownership



## **Table of Contents**

interests in CF Industries and Agriliance are treated as investments and, therefore, those entities' revenues and expenses are not reflected in our operating results.

### ***Energy***

We are the nation's largest cooperative energy company based on sales, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel, and other energy products); the blending, sale and distribution of lubricants; and the wholesale and retail supply of propane. Our Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly owned) and McPherson, Kansas (National Cooperative Refinery Association, a cooperative in which we have an approximate 74.5% ownership interest) and sells those products under the Cenex brand to our member cooperatives and others through a network of approximately 1,500 independent retailers, including approximately 800 that operate Cenex/ Ampride convenience stores.

### ***Country Operations and Services***

Our Country Operations and Services business segment purchases a variety of grains from our producer members and provides our members and producers with access to a full range of products and services including farm supplies, programs for crop and livestock production, hedging and insurance services, and agricultural operations financing. Country Operations and Services operates at approximately 282 locations dispersed throughout Minnesota, North Dakota, South Dakota, Nebraska, Montana, Idaho, Washington and Oregon. Most of these locations purchase grain from farmers and sell agronomy products, energy products and feed to those same producers and others, although not all locations provide every product and service.

### ***Grain Marketing***

We are the nation's largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales, handling about 1.1 billion bushels annually. During fiscal year 2003, we purchased approximately 67% of our total grain volumes from individual and member cooperatives and the Country Operations and Services business segment, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators awaiting delivery to domestic and foreign purchasers. We conduct most of our Grain Marketing operations directly, although we do conduct some of our business through two joint ventures in which we have a 50% ownership.

### ***Processed Grain and Foods***

Our Processed Grains and Foods business segment converts raw agricultural commodities into ingredients for finished food products or into finished consumer food products. We have focused on areas that utilize the products supplied by our member producers. These areas are oilseed processing and refining, wheat milling and foods, including oilseed-based products (such as margarine and salad dressing) and Mexican foods.

## **The Issuance**

We are issuing up to 516,487 shares of our 8% Cumulative Redeemable Preferred Stock in connection with our redemption of up to \$13,000,000 of our patrons' equities that have been outstanding for at least 10 years and that are held by active members. For those members whose redemption amount is less than \$500, that amount will be paid in cash. For those members whose redemption amount is equal to or greater than \$500, that amount will be paid by the issuance of shares of preferred stock, subject to the exceptions described below in "Plan of Distribution". See "Membership in CHS and Authorized Capital Patrons' Equities" for a description of patrons' equities and our annual pro rata redemptions of patrons' equities. The amount of patrons' equities that will be redeemed with each share of preferred stock

**Table of Contents**

issued will be \$ \_\_\_\_\_, which is the greater of \$ \_\_\_\_\_ (equal to the \$25.00 liquidation preference per share of preferred stock plus \$ \_\_\_\_\_ of accumulated dividends from and including January 1, 2004 to and including February \_\_\_\_\_, 2004) and the \$ \_\_\_\_\_ closing price for one share of the preferred stock on The NASDAQ National Market on February \_\_\_\_\_, 2004. We will not issue any fractional shares of preferred stock. The amount of patrons' equities that would otherwise be issued as a fractional share to any member will instead be retained as part of that member's patrons' equities. There will not be any cash proceeds from the issuance of the preferred stock. However, by issuing shares of preferred stock in redemption of patrons' equities we will make the cash that we would otherwise have used to redeem those patrons' equities available for working capital purposes.

**Terms of the Preferred Stock**

**Dividends**

Holders of the preferred stock are entitled to receive cash dividends at the rate of \$2.00 per share per year when, as and if declared by our board of directors. Dividends are cumulative and are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (each, a payment date), except that if a payment date is a Saturday, Sunday or legal holiday, the dividend is paid without interest on the next day that is not a Saturday, Sunday or legal holiday.

**Liquidation Rights**

In the event of our liquidation, holders of the preferred stock are entitled to receive \$25.00 per share plus all dividends accumulated and unpaid on the shares to and including the date of liquidation, subject, however, to the rights of any of our securities that rank senior or on parity with the preferred stock.

**Rank**

As to payment of dividends and as to distributions of assets upon the liquidation, dissolution or winding up of CHS, whether voluntary or involuntary, the preferred stock ranks prior to:

- any patronage refund;
- any other class or series of our capital stock designated by our board of directors as junior to the preferred stock; and
- our common stock, if any.

Shares of any class or series of our capital stock that are not junior to the preferred stock, rank equally with the preferred stock as to the payment of dividends and the distribution of assets.

**Redemption at our Option**

We may not redeem the preferred stock prior to February 1, 2008. On or after that date we may, at our option, redeem the preferred stock, in whole or from time to time in part, for cash at a price of \$25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption.

**Redemption at the Holder's Option**

In the event of a change in control initiated by our board of directors, holders of the preferred stock will

**Table of Contents**

have the right, for a period of 90 days from the date of the change in control, to require us to repurchase their shares of preferred stock at a price of \$25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption. Change in control is defined in Description of the Preferred Stock-Redemption at the Holder's Option.

**No Exchange or Conversion Rights, No Sinking Fund**

The preferred stock is not exchangeable for or convertible into shares of any other shares of our capital stock or any other securities or property. The preferred stock is not subject to the operation of any purchase, retirement or sinking fund.

**Voting Rights**

Holders of the preferred stock do not have voting rights, except as required by applicable law; provided, that the affirmative vote of two-thirds of the outstanding preferred stock will be required to approve:

- any amendment to our articles of incorporation or the resolutions establishing the terms of the preferred stock if the amendment adversely affects the rights or preferences of the preferred stock; and
- the creation of any class or series of equity securities having rights senior to the preferred stock as to the payment of dividends or distribution of assets upon the liquidation, dissolution or winding up of CHS.

**No Preemptive Rights**

Holders of the preferred stock have no preemptive right to acquire shares of any class or series of our capital stock.

**Trading**

The preferred stock is listed on The NASDAQ National Market under the symbol CHSCP.

**Comparison of Rights**

Holders of the preferred stock have different rights from those of holders of patrons' equities. See Comparison of Rights of Holders of Patrons' Equities and Rights of Holders of Preferred Stock.

**Risk Factors**

Ownership of our preferred stock involves risks. See Risk Factors beginning on page 7.

**Table of Contents****Summary Consolidated Financial Data**

The selected consolidated financial data below has been derived from our consolidated financial statements for the periods indicated below. The selected consolidated financial information for August 31, 2003, 2002 and 2001 should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this filing. The selected consolidated financial data for the three months ended November 30, 2003 and 2002 are unaudited and have been derived from, and should be read together with, our unaudited consolidated financial statements and notes thereto contained in the quarterly report on Form 10-Q for the quarterly period ended November 30, 2003, incorporated by reference in this prospectus. In the opinion of our management, the unaudited historical financial data were prepared on the same basis as the audited historical financial data and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of this information. Results of operations for the three-month periods are not necessarily indicative of results of operations that may be expected for the full fiscal year.

**Summary Consolidated Financial Data**

	Three Months Ended November 30,		Years Ended August 31,				
	2003	2002	2003	2002	2001	2000	1999
	(Unaudited)	(Unaudited)	(dollars in thousands)				
Income statement data:							
Revenues:							
Net sales	\$ 2,489,344	\$ 2,400,596	\$ 9,270,734	\$ 7,156,454	\$ 7,464,242	\$ 8,248,413	\$ 6,198,843
Patronage dividends	320	166	3,257	3,885	5,977	5,494	5,876
Other revenues	32,713	35,089	124,542	109,459	116,254	97,471	81,180
	<u>2,522,377</u>	<u>2,435,851</u>	<u>9,398,533</u>	<u>7,269,798</u>	<u>7,586,473</u>	<u>8,351,378</u>	<u>6,285,899</u>
Cost of goods sold	2,414,530	2,338,559	9,058,951	6,940,926	7,181,433	8,051,057	6,010,796
Marketing, general and administrative	47,732	43,148	190,582	187,292	184,046	155,266	152,031
	<u>60,115</u>	<u>54,144</u>	<u>149,000</u>	<u>141,580</u>	<u>220,994</u>	<u>145,055</u>	<u>123,072</u>
Operating earnings	60,115	54,144	149,000	141,580	220,994	145,055	123,072
Gain on legal settlements		(1,797)	(10,867)	(2,970)			
Interest	11,540	12,813	48,675	42,455	61,436	57,566	42,438
Equity income from investments	(13,707)	(8,165)	(47,299)	(58,133)	(28,494)	(28,325)	(22,363)
Minority interests	3,922	5,431	21,950	15,390	35,098	24,546	10,017
	<u>58,360</u>	<u>45,862</u>	<u>136,541</u>	<u>144,838</u>	<u>152,954</u>	<u>91,268</u>	<u>92,980</u>
Income before income taxes	58,360	45,862	136,541	144,838	152,954	91,268	92,980
Income taxes	7,621	5,506	12,700	18,700	(25,600)	3,880	6,980
	<u>\$ 50,739</u>	<u>\$ 40,356</u>	<u>\$ 123,841</u>	<u>\$ 126,138</u>	<u>\$ 178,554</u>	<u>\$ 87,388</u>	<u>\$ 86,000</u>
Net income	\$ 50,739	\$ 40,356	\$ 123,841	\$ 126,138	\$ 178,554	\$ 87,388	\$ 86,000
Balance sheet data (at end of period):							
Working capital	\$ 489,333	\$ 431,751	\$ 458,738	\$ 249,115	\$ 305,280	\$ 214,223	\$ 219,045
Net property, plant and equipment	1,135,351	1,068,786	1,122,982	1,057,421	1,023,872	1,034,768	968,333
Total assets	4,156,283	3,835,688	3,807,968	3,481,727	3,057,319	3,172,680	2,787,664
Long-term debt, including current maturities	659,624	743,222	663,173	572,124	559,997	510,500	482,666
Total equities	1,516,134	1,305,677	1,481,711	1,289,638	1,261,153	1,164,426	1,117,636
Ratio of earnings to fixed charges and preferred dividends(1)	5.2x	4.5x	3.0x	3.4x	3.4x	2.6x	2.5x

- (1) For purposes of computing the ratio of earnings to fixed charges and preferred dividends, earnings consist of earnings before income taxes on consolidated operations, distributed income from equity investees and fixed charges. Fixed charges consist of interest expense and one-third of rental expense, considered representative of that portion of rental expense estimated to

be attributable to interest.

**Table of Contents**

**RISK FACTORS**

*You should be aware that ownership of our preferred stock involves risks. In consultation with your own financial and legal advisers, you should carefully consider the following discussion of risks that we believe to be significant, together with the other information contained or incorporated by reference in this prospectus, including the section entitled "Special Note Regarding Forward-Looking Statements" and our consolidated financial statements and the notes to them. The value of any preferred stock that you own may decline and you could lose the entire value of your preferred stock.*

**Risks Related to our Operations**

*OUR REVENUES AND OPERATING RESULTS COULD BE ADVERSELY AFFECTED BY CHANGES IN COMMODITY PRICES.* Our revenues and earnings are affected by market prices for commodities such as crude oil, natural gas, grain, oilseeds, and flour. Commodity prices generally are affected by a wide range of factors beyond our control, including the weather, disease, insect damage, drought, the availability and adequacy of supply, government regulation and policies, and general political and economic conditions. We are also exposed to fluctuating commodity prices as the result of our inventories of commodities, typically grain and petroleum products, and purchase and sale contracts at fixed or partially fixed prices. At any time, our inventory levels and unfulfilled fixed or partially fixed price contract obligations may be substantial. Increases in market prices for commodities that we purchase without a corresponding increase in the prices of our products or our sales volume or a decrease in our other operating expenses could reduce our revenues and net income.

In our energy operations, profitability depends largely on the margin between the cost of crude oil that we refine and the selling prices that we obtain for our refined products. Prices for both crude oil and for gasoline, diesel fuel, and other refined petroleum products fluctuate widely. Factors influencing these prices, many of which are beyond our control, include:

levels of worldwide and domestic supplies;

capacities of domestic and foreign refineries;

the ability of the members of OPEC to agree to and maintain oil price and production controls, and the price and level of foreign imports generally;

political instability or armed conflict in oil-producing regions;

the level of consumer demand;

the price and availability of alternative fuels;

the availability of pipeline capacity; and

domestic and foreign governmental regulations and taxes.

The long-term effects of these and other conditions on the prices of crude oil and refined petroleum products are uncertain and ever-changing. Accordingly, we expect our margins on and the profitability of our energy business to fluctuate, possibly significantly, over time.

*OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED IF OUR MEMBERS WERE TO DO BUSINESS WITH OTHERS RATHER THAN WITH US.* We do not have an exclusive relationship with our members and our members are not obligated to supply us with their products or purchase products from us. Our members often have a variety of distribution outlets and product sources available to them. If our members were to sell their products to other purchasers or purchase products from other sellers, our revenues would decline and our results of operations could be adversely affected.

*WE PARTICIPATE IN HIGHLY COMPETITIVE BUSINESS MARKETS IN WHICH WE MAY NOT BE ABLE TO CONTINUE TO COMPETE SUCCESSFULLY.* We operate in several highly competitive business segments and our competitors may succeed in developing new or enhanced products that are better than ours, and may be more successful in marketing and selling their products than we are



**Table of Contents**

with ours. Competitive factors include price, service level, proximity to markets, product quality and marketing. In some of our business segments, such as Energy, we compete with companies that are larger, better known and have greater marketing, financial, personnel and other resources. As a result, we may not be able to continue to compete successfully with our competitors.

*CHANGES IN FEDERAL INCOME TAX LAWS OR IN OUR TAX STATUS COULD INCREASE OUR TAX LIABILITY AND REDUCE OUR NET INCOME.* Current federal income tax laws, regulations and interpretations regarding the taxation of cooperatives, which allow us to exclude income generated through business with or for a member (patronage income) from our taxable income, could be changed. If this occurred, or if in the future we were not eligible to be taxed as a cooperative, our tax liability would significantly increase and our net income significantly decrease.

*WE INCUR SIGNIFICANT COSTS IN COMPLYING WITH APPLICABLE LAWS AND REGULATIONS. ANY FAILURE TO MAKE THE CAPITAL INVESTMENTS NECESSARY TO COMPLY WITH THESE LAWS AND REGULATIONS COULD EXPOSE US TO FINANCIAL LIABILITY.* We are subject to numerous federal, state and local provisions regulating our business and operations and we incur and expect to incur significant capital and operating expenses to comply with these laws and regulations. We may be unable to pass on those expenses to customers without experiencing volume and margin losses. For example, capital expenditures for upgrading our refineries, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products, are expected to be approximately \$87.0 million for our Laurel, Montana refinery and \$324.0 million for National Cooperative Refinery Association's McPherson, Kansas refinery, of which \$13.4 million had been spent at the Laurel refinery and \$53.7 million had been spent by NCRA at the McPherson refinery as of November 30, 2003. We expect all of these compliance capital expenditures at the refineries to be complete by December 31, 2005, and anticipate funding these projects with a combination of cash flows from operations and debt proceeds.

We establish reserves for the future cost of meeting known compliance obligations, such as remediation of identified environmental issues. However, these reserves may prove inadequate to meet our actual liability. Moreover, amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of currently unknown compliance issues may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Furthermore, our failure to comply with applicable laws and regulations could subject us to administrative penalties and injunctive relief, civil remedies including fines and injunctions, and recalls of our products.

*ENVIRONMENTAL LIABILITIES COULD ADVERSELY AFFECT OUR RESULTS AND FINANCIAL CONDITION.* Many of our current and former facilities have been in operation for many years and, over that time, we and other operators of those facilities have generated, used, stored and disposed of substances or wastes that are or might be considered hazardous under applicable environmental laws, including chemicals and fuels stored in underground and above-ground tanks. Any past or future actions in violation of applicable environmental laws could subject us to administrative penalties, fines and injunctions. Moreover, future or unknown past releases of hazardous substances could subject us to private lawsuits claiming damages and to adverse publicity.

*ACTUAL OR PERCEIVED QUALITY, SAFETY OR HEALTH RISKS ASSOCIATED WITH OUR PRODUCTS COULD SUBJECT US TO LIABILITY AND DAMAGE OUR BUSINESS AND REPUTATION.* If any of our food or feed products became adulterated or misbranded, we would need to recall those items and could experience product liability claims if consumers were injured as a result. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time or a loss of consumer confidence in our products. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. In addition, general public perceptions regarding the quality, safety or health risks associated with particular



**Table of Contents**

food or feed products, such as the concern in some quarters regarding genetically modified crops, could reduce demand and prices for some of the products associated with our businesses. To the extent that consumer preferences evolve away from products that our members or we produce for health or other reasons, such as the growing demand for organic food products, and we are unable to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

*OUR OPERATIONS ARE SUBJECT TO BUSINESS INTERRUPTIONS AND CASUALTY LOSSES; WE DO NOT INSURE AGAINST ALL POTENTIAL LOSSES AND COULD BE SERIOUSLY HARMED BY UNEXPECTED LIABILITIES.* Our operations are subject to business interruptions due to unanticipated events such as explosions, fires, pipeline interruptions, transportation delays, equipment failures, crude oil or refined product spills, inclement weather and labor disputes. For example:

our oil refineries and other facilities are potential targets for terrorist attacks that could halt or discontinue production;

our inability to negotiate acceptable contracts with unionized workers in our operations could result in strikes or work stoppages; and

the significant inventories that we carry could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination.

We maintain insurance against many, but not all, potential losses or liabilities arising from these operating hazards, but uninsured losses or losses above our coverage limits are possible. Uninsured losses and liabilities arising from operating hazards could have a material adverse effect on our financial position or results of operations.

*OUR COOPERATIVE STRUCTURE LIMITS OUR ABILITY TO ACCESS EQUITY CAPITAL.* As a cooperative, we may not sell common equity in our company. In addition, existing laws and our articles of incorporation and bylaws contain limitations on dividends of 8% of any preferred stock that we may issue. These limitations restrict our ability to raise equity capital and may adversely affect our ability to compete with enterprises that do not face similar restrictions.

*CONSOLIDATION AMONG THE PRODUCERS OF PRODUCTS WE PURCHASE AND CUSTOMERS FOR PRODUCTS WE SELL COULD ADVERSELY AFFECT OUR REVENUES AND OPERATING RESULTS.* Consolidation has occurred among the producers of products we purchase, including crude oil and grain, and it is likely to continue in the future. Consolidation could increase the price of these products and allow suppliers to negotiate pricing and other contract terms that are less favorable to us. Consolidation also may increase the competition among consumers of these products to enter into supply relationships with a smaller number of producers resulting in potentially higher prices for the products we purchase.

Consolidation among purchasers of our products and in wholesale and retail distribution channels has resulted in a smaller customer base for our products and intensified the competition for these customers. For example, ongoing consolidation among distributors and brokers of food products and food retailers has altered the buying patterns of these businesses, as they have increasingly elected to work with product suppliers who can meet their needs nationwide rather than just regionally or locally. If these distributors, brokers, and retailers elect not to purchase our products, our sales volumes, revenues, and profitability could be significantly reduced.

*IF OUR CUSTOMERS CHOSE ALTERNATIVES TO OUR REFINED PETROLEUM PRODUCTS OUR REVENUES AND PROFITS MAY DECLINE.* Numerous alternative energy sources currently under development could serve as alternatives to our gasoline, diesel fuel and other refined petroleum products. If any of these alternative products become more economically viable or preferable to our products for environmental or other reasons, demand for our energy products would decline. Demand for our gasoline, diesel fuel and other refined petroleum products also could be adversely affected by increased fuel efficiencies.

## **Table of Contents**

*OUR AGRONOMY BUSINESS IS DEPRESSED AND COULD CONTINUE TO UNDERPERFORM IN THE FUTURE.* Demand for agronomy products in general has been adversely affected in recent years by drought and poor weather conditions, idle acreage and development of insect and disease-resistant crops. These factors could cause Agriliance, LLC, an agronomy marketing and distribution venture in which we own a minority interest, to be unable to operate at profitable margins. In addition, these and other factors, including fluctuations in the price of natural gas and other raw materials, an increase in recent years in domestic and foreign production of fertilizer, and intense competition within the industry, in particular from lower-cost foreign producers, have created particular pressure on producers of fertilizers. As a result, CF Industries, Inc., a fertilizer manufacturer in which we hold a minority cooperative interest, has suffered significant losses in recent years as it has incurred increased prices for raw materials but has been unable to pass those increased costs on to its customers.

*TECHNOLOGICAL IMPROVEMENTS IN AGRICULTURE COULD DECREASE THE DEMAND FOR OUR AGRONOMY PRODUCTS.* Technological advances in agriculture could decrease the demand for crop nutrients, and other crop input products and services that we provide. Genetically engineered seeds that resist disease and insects or meet certain nutritional requirements could affect the demand for our crop nutrients and crop protection products, as well as the demand for fuel that we sell and which is used to operate application equipment relating to these products.

*WE OPERATE SOME OF OUR BUSINESS THROUGH JOINT VENTURES IN WHICH OUR RIGHTS TO CONTROL BUSINESS DECISIONS ARE LIMITED.* Several parts of our business, including in particular our agronomy business segment and portions of our grain marketing, wheat milling and foods businesses, are operated through joint ventures with unaffiliated third parties. By operating a business through a joint venture, we have less control over business decisions than we have in our wholly owned businesses. In particular, we generally cannot act on major business initiatives in our joint ventures without the consent of the other party or parties in that venture.

### **Risks Related to the Preferred Stock**

*THE PREFERRED STOCK MAY NOT CONTINUE TO QUALIFY FOR LISTING ON THE NASDAQ NATIONAL MARKET.* Although the preferred stock is listed on The NASDAQ National Market, it may not continue to qualify for listing. For example, we may be unable to satisfy the requirements regarding independent directors as now or subsequently in effect. If our preferred stock were delisted, the liquidity of the market for the preferred stock could be reduced, possibly significantly.

*THE TRADING MARKET FOR THE PREFERRED STOCK MAY NOT BE MAINTAINED, WHICH MAY LIMIT YOUR ABILITY TO RESELL YOUR SHARES.* The trading market for the preferred stock may not be maintained or provide any significant liquidity. If you decide to sell your preferred stock there may be either no or only a limited number of potential buyers. This, in turn, may affect the price you receive for your preferred stock or your ability to sell your preferred stock at all.

*IF YOU ARE ABLE TO RESELL YOUR PREFERRED STOCK, MANY FACTORS MAY AFFECT THE PRICE YOU RECEIVE, WHICH MAY BE LOWER THAN YOU BELIEVE TO BE APPROPRIATE.* As with other publicly traded securities, many factors could affect the market price of our preferred stock. In addition to those factors relating to CHS and the preferred stock described elsewhere in this Risk Factors section and elsewhere in this prospectus, the market price of our preferred stock could be affected by conditions in and perceptions of agricultural and energy markets and companies and also by broader, general market, political and economic conditions.

**Table of Contents**

Furthermore, U.S. stock markets have experienced price and volume volatility that has affected many companies' stock prices, often for reasons unrelated to the operating performance of those companies. Fluctuations such as these also may affect the market price of our preferred stock. As a result of these factors, you may only be able to sell your preferred stock at prices below those you believe to be appropriate. The trading price for the preferred stock may at any time be less than its issue price pursuant to this prospectus or its liquidation value.

*ISSUANCES OF SUBSTANTIAL AMOUNTS OF PREFERRED STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR PREFERRED STOCK.* From time to time in the future we expect to again issue shares of preferred stock to our members in redemption of a portion of their patrons' equities or other equity securities and may do so as frequently as annually. We expect these shares to be freely tradeable upon issuance to our members, and some or all members who receive preferred stock may seek to sell their shares in the public market. Furthermore, from time to time we may sell additional shares of preferred stock to the public. Future issuances or sales of our preferred stock or the availability of our preferred stock for sale may adversely affect the market price for our preferred stock or our ability to raise capital by offering equity securities.

*THE TERMS OF THE PREFERRED STOCK ARE FIXED AND CHANGES IN MARKET CONDITIONS, INCLUDING MARKET INTEREST RATES, MAY DECREASE THE MARKET PRICE FOR THE PREFERRED STOCK.* The terms of the preferred stock, such as the 8% dividend rate, the amount of the liquidation preference and the redemption terms, are fixed and will not change, even if market conditions with respect to these terms fluctuate. This may mean that you could obtain a higher return from an investment in other securities. It also means that an increase in market interest rates is likely to decrease the market price for the preferred stock.

*YOU WILL HAVE LIMITED VOTING RIGHTS.* As a holder of the preferred stock, you will be entitled to vote only on actions that would amend, alter or repeal our articles of incorporation or the resolutions establishing the preferred stock if the amendment, alteration or repeal would adversely affect the rights or preferences of the preferred stock or that would create a series of senior equity securities. You will not have the right to vote on actions customarily subject to shareholder vote or approval, including the election of directors, the approval of significant transactions, and other amendments to our articles of incorporation that would not adversely affect the rights and preferences of the preferred stock.

*PAYMENT OF DIVIDENDS ON THE PREFERRED STOCK IS NOT GUARANTEED.* Although dividends on the preferred stock accumulate, our board of directors must approve the actual payment of those dividends. Our board of directors can elect at any time or from time to time, and for an indefinite duration, not to pay the accumulated dividends. Our board of directors could do so for any reason, including the following:

- unanticipated cash requirements;
- the need to make payments on our indebtedness;
- concluding that the payment of dividends would cause us to breach the terms of any agreement, such as financial ratio covenants; or
- determining that the payment of dividends would violate applicable law regarding unlawful distributions to shareholders.

*WE CAN REDEEM THE PREFERRED STOCK AT OUR DISCRETION, WHICH REDEMPTION MAY BE AT A PRICE LESS THAN ITS MARKET PRICE AND MAY LIMIT THE TRADING PRICE FOR THE PREFERRED STOCK.* We have the option of redeeming your shares at any time on or after February 1, 2008 for \$25.00 per share plus any accumulated and unpaid dividends. If we redeem your shares, the redemption price may be less than the price you might receive if you were to sell your shares in the open market. In addition, the fact that the shares are redeemable may limit the price at which they trade.

*THE AMOUNT OF YOUR LIQUIDATION PREFERENCE OR REDEMPTION PAYMENT IS FIXED AND YOU WILL HAVE NO RIGHT TO RECEIVE ANY GREATER PAYMENT*

**Table of Contents**

*REGARDLESS OF THE CIRCUMSTANCES.* The payment due upon a liquidation or redemption is fixed at \$25.00 per share plus accumulated and unpaid dividends. If we have value remaining after payment of this amount, you will have no right to participate in that value. If the market price for our preferred stock is greater than the redemption price, you will have no right to receive the market price from us upon liquidation or redemption.

*YOUR LIQUIDATION RIGHTS WILL BE SUBORDINATE TO THOSE OF HOLDERS OF OUR INDEBTEDNESS AND OF ANY SENIOR EQUITY SECURITIES WE HAVE ISSUED OR MAY ISSUE IN THE FUTURE AND MAY BE SUBJECT TO THE EQUAL RIGHTS OF OTHER EQUITY SECURITIES.* There are no restrictions in the terms of the preferred stock on our ability to incur indebtedness. We can also, with the consent of two-thirds of the outstanding preferred stock, issue preferred equity securities that are senior with respect to liquidation payments to the preferred stock. If we were to liquidate our business, we would be required to repay all of our outstanding indebtedness and to satisfy the liquidation preferences of any senior equity securities that we may issue in the future before we could make any distributions to holders of our preferred stock. We could have insufficient cash available to do so, in which case you would not receive any payment on the amounts due you. Moreover, there are no restrictions on our ability to issue preferred equity securities that rank on a parity with the preferred stock as to liquidation preferences and any amounts remaining after the payment of senior securities would be split equally among all holders of those securities, which might result in your receiving less than the full amount due you.

**USE OF PROCEEDS**

The up to 516,487 shares of preferred stock that are being issued pursuant to this prospectus and the registration statement of which it is a part are being issued to redeem up to \$13,000,000 of our patrons equities that have been outstanding for at least 10 years and that are held by active members whose pro rata portion of the total amount of patrons equities to be redeemed is equal to or greater than \$500, subject to the exceptions described bel