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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2002.

[ ] 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 and 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 __X___ NO _______

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

YES _____ NO ___X___

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 November 30, 2002
NONE	NONE

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CHS INC.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q amends the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2002, for certain sales and transfers related to the Company's Grain Marketing business segment that were not properly eliminated during the three months ended November 30, 2002 and 2001, as more fully explained in Note 11 to the Consolidated Financial

Statements. These changes had no effect on the Company's financial condition or changes in cash flows, and no effect on reported gross profit or net income for the periods stated above.

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Registrant is including with this Amendment certain currently dated certifications in Item 6(a).

PART I. FINANCIAL INFORMATION

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

This Quarterly Report on Form 10-Q may contain 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 Exhibit 99.1, under the caption "Cautionary Statement" to this Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2002.

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES
ITEM 1. FINANCIAL STATEMENTS

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(DOLLARS IN THOUSANDS)	NOVEMBER 30, 2002 (UNAUDITED)	AUGUST 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 138,823	$ 108,192
Receivables	824,899	741,578
Inventories	929,995	759,663
Other current assets	202,828	140,944
Total current assets	2,096,545	1,750,377
INVESTMENTS	489,289	496,607
PROPERTY, PLANT AND EQUIPMENT	1,068,786	1,057,421
OTHER ASSETS	181,068	177,322
Total assets	$3,835,688	$3,481,727

LIABILITIES AND EQUITIES		
CURRENT LIABILITIES:		
Notes payable	$ 246,061	$ 332,514
Current portion of long-term debt	89,026	89,032
Customer credit balances	91,792	26,461
Customer advance payments	222,137	169,123
Checks and drafts outstanding	70,150	84,251
Accounts payable	642,537	517,667
Accrued expenses	231,003	225,704
Patronage dividends and equity retirements payable	72,088	56,510
Total current liabilities	1,664,794	1,501,262
LONG-TERM DEBT	654,196	483,092
OTHER LIABILITIES	116,144	118,280
MINORITY INTERESTS IN SUBSIDIARIES	94,877	89,455
COMMITMENTS AND CONTINGENCIES		
EQUITIES	1,305,677	1,289,638
Total liabilities and equities	$3,835,688	$3,481,727

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

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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED NOVEMBER 30,	
	2002	2001
(DOLLARS IN THOUSANDS)	RESTATED (Note 11)	RESTATED (Note 11)
REVENUES:		
Net sales	$2,400,596	$1,729,453
Patronage dividends	166	721
Other revenues	35,089	32,076
	2,435,851	1,762,250
Cost of goods sold	2,336,762	1,661,865
Marketing, general and administrative	43,148	42,898
OPERATING EARNINGS	55,941	57,487
Interest	12,813	10,815
Equity income from investments	(8,165)	(3,942)
Minority interests	5,431	3,036
INCOME BEFORE INCOME TAXES	45,862	47,578

INCOME TAXES	5,506	6,223
NET INCOME	$ 40,356	$ 41,355

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

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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(DOLLARS IN THOUSANDS)	FOR THE THREE MONTHS ENDE NOVEMBER 30, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,356	$ 41,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,866	24,699
Noncash net income from equity investments	(8,165)	(3,942
Minority interests	5,431	3,036
Adjustment of inventories to market value	--	14,885
Noncash portion of patronage dividends received	(184)	(766
Loss (gain) on sale of property, plant and equipment	463	(2,348
Other, net	446	(60
Changes in operating assets and liabilities:		
Receivables	(72,422)	46,053
Inventories	(170,332)	(52,391
Other current assets and other assets	(66,814)	(25,890
Customer credit balances	65,331	24,104
Customer advance payments	53,014	(6,288
Accounts payable and accrued expenses	131,211	(44,259
Other liabilities	(2,136)	5,466
Net cash provided by operating activities	2,065	23,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(40,613)	(21,808
Proceeds from disposition of property, plant and equipment	4,748	6,116
Investments	(1,384)	(6,125
Equity investments redeemed	15,313	14,092
Investments redeemed	1,713	1,328
Changes in notes receivable	(11,241)	(2,163
Acquisition of intangibles	(379)	(27,469
Distribution to minority owners	(463)	(3,985
Other investing activities, net	444	1,090
Net cash used in investing activities	(31,862)	(38,924

CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in notes payable	(86,453)	13,620
Long-term debt borrowings	175,000	30,000
Principal payments on long-term debt	(3,902)	(5,780
Payments on derivative instruments	(7,574)	--
Changes in checks and drafts outstanding	(14,101)	(27,745
Proceeds from sale of preferred stock, net of expenses	64	--
Preferred stock dividends paid	(184)	--
Retirements of equities	(2,422)	(1,830
Net cash provided by financing activities	60,428	8,265
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,631	(7,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	108,192	113,458
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 138,823	$ 106,453

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLARS IN THOUSANDS)

NOTE 1. ACCOUNTING POLICIES

Effective August 5, 2003, Cenex Harvest States Cooperatives changed its name to CHS Inc. The unaudited consolidated balance sheets as of November 30, 2002 and 2001, and the statements of operations and cash flows for the three months ended November 30, 2002 and 2001 reflect, in the opinion of management of Cenex Harvest States Cooperatives (the Company), all normal recurring adjustments necessary for a fair presentation 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 the Company's businesses. The consolidated balance sheet data as of August 31, 2002 has been derived from 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 the accounts of the Company and all of its 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, 2002, included in the Company's Annual Report on Form 10-K, including two amendments on Form 10-K/A, filed with the Securities and Exchange Commission.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has $27.5 million of goodwill as of November 30, 2002, and during the three months then ended, the Company disposed of $0.4 million due to sales of related assets in the Energy segment.

Intangible assets subject to amortization primarily include trademarks, tradenames, customer lists and non-compete agreements, and are amortized on a straight-line basis over the number of years that approximate their respective useful lives (ranging from 2 to 15 years). The gross carrying amount of these intangible assets is $43.1 million with total accumulated amortization of $8.5 million as of November 30, 2002. Intangible assets of $0.4 million were acquired during the three months ended November 30, 2002. Total amortization expense for intangible assets during the three-month period ended November 30, 2002 was approximately $1.2 million. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate $4.0 million annually.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is in the process of finalizing its analysis of adopting this standard. The Company's Energy segment operates oil refineries and related pipelines for which the Company would be subject to Asset Retirement Obligations (ARO) if such assets were to be dismantled. The Company, however, expects to operate its refineries and related pipelines indefinitely. Since the time period to dismantle these assets is indeterminate, a corresponding ARO is not currently estimable and therefore has not been recorded. The Company continues to assess whether any other ARO's exist related to its remaining operations, however, based on available information to date, no other ARO's have been identified. As such, the Company believes that the effects of adopting this standard do not have a material effect on the Company.

NOTE 2. RECEIVABLES

	NOVEMBER 30, 2002	AUGUST 31, 2002	NOVEMBER 30, 2001
Trade	$797,559	$717,888	$636,935
Other	53,992	49,846	31,308
	851,551	767,734	668,243
Less allowances for doubtful accounts	26,652	26,156	25,701

	$824,899	$741,578	$642,542
	========	========	========

NOTE 3. INVENTORIES

	NOVEMBER 30, 2002	AUGUST 31, 2002	NOVEMBER 30, 2001
Grain and oilseed	$556,962	$393,095	$262,630
Energy	217,155	229,981	182,296
Feed and farm supplies	102,553	91,138	79,380
Processed grain and oilseed	44,904	36,264	19,770
Other	8,421	9,185	3,873
	--------	--------	--------
	$929,995	$759,663	$547,949
	========	========	========

NOTE 4. INVESTMENTS

The following provides summarized unaudited financial information for the Company's unconsolidated significant subsidiaries Ventura Foods, LLC and Agriliance, LLC, of which the Company has a 50% and 25% equity ownership, respectively, for the three-month periods as indicated below.

VENTURA FOODS, LLC

	FOR THE THREE MONTHS ENDED NOVEMBER 30,	
	2002	2001
Net sales	$287,025	$258,400
Gross profit	49,728	41,101
Net income	20,791	15,244

AGRILIANCE, LLC

	FOR THE THREE MONTHS ENDED NOVEMBER 30,	
	2002	2001
Net sales	$ 592,730	$ 677,047
Gross profit	48,522	45,904
Net income	(20,110)	(21,152)

NOTE 5. DEBT

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

NOTE 6 EQUITIES

As of November 30, 2002 the Company had $9.5 million (9,454,874 shares) of 8% Preferred Stock outstanding, and expenses related to the issuance of the shares were $3.5 million. Sales of the preferred shares have been suspended, as the Company is in the process of registering a new offering as noted below.

The Board of Directors authorized the sale and issuance of up to 2,875,000 shares of 8% Cumulative Redeemable Preferred Stock at a price of $25.00 per share. The Company filed a registration statement on Form S-2 on December 17, 2002 with the Securities and Exchange Commission registering the preferred shares, however, the registration statement is not yet effective.

NOTE 7. COMPREHENSIVE INCOME

For the three months ended November 30, 2002 and 2001, total comprehensive income amounted to $34.6 million and $42.4 million, respectively. Accumulated other comprehensive loss on November 30, 2002, August 31, 2002 and November 30, 2001 was $57.7 million, $51.9 million and $0.9 million, respectively.

NOTE 8. NON-CASH FINANCING ACTIVITIES

During the three months ended November 30, 2002 and 2001 the Company accrued patronage dividends and equity retirements payable of $18.0 million and $20.7 million, respectively.

NOTE 9. SEGMENT REPORTING

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

Segment information for the three months ended November 30, 2002 and 2001 is as follows:

	AGRONOMY	ENERGY	COUNTRY OPERATIONS
FOR THE THREE MONTHS ENDED			

NOVEMBER 30, 2002			
Net sales		$ 911,589	$ 489,066
Patronage dividends		13	51
Other revenues		2,736	24,537
		914,338	513,654
Cost of goods sold		860,329	486,113
Marketing, general and administrative	$ 1,140	14,185	12,603
Interest	(298)	4,010	5,388
Equity loss (income) from investments	4,018	(320)	(215)
Minority interests		5,135	296
(Loss) income before income taxes	$ (4,860)	$ 30,999	$ 9,469
Goodwill assets		$ 3,667	$ 262
Capital expenditures		$ 17,959	$ 10,322
Depreciation and amortization	$ 312	$ 14,538	$ 5,421
Total identifiable assets at November 30, 2002	$232,942	$1,311,583	$1,035,287
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2001			
Net sales		$ 554,242	$ 374,666
Patronage dividends		423	61
Other revenues		2,619	20,489
		557,284	395,216
Cost of goods sold		497,975	374,217
Marketing, general and administrative	$ 1,167	15,000	12,452
Interest	(427)	4,082	3,143
Equity loss (income) from investments	3,302	1,376	(6)
Minority interests		2,895	141
(Loss) income before income taxes	$ (4,042)	$ 35,956	$ 5,269
Goodwill assets		$ 5,127	$ 326
Capital expenditures		$ 9,680	$ 5,748
Depreciation and amortization	$ 312	$ 13,860	$ 5,373
Total identifiable assets at November 30, 2001	$226,437	$1,144,175	$ 713,175

PROCESSED

	GRAIN MARKETING Restated (Note 11)	GRAINS AND FOODS	OTHER	RECONCILING AMOUNTS Restated (Note 11)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2002				
Net sales	$1,161,554	$ 113,833		$ (275,446)
Patronage dividends	78		$ 24	
Other revenues	6,604	909	303	
	1,168,236	114,742	327	(275,446)
Cost of goods sold	1,159,447	106,319		(275,446)
Marketing, general and administrative	6,071	8,088	1,061	
Interest	1,858	2,346	(491)	
Equity loss (income) from investments	(814)	(10,834)		
Minority interests				
(Loss) income before income taxes	$ 1,674	$ 8,823	$ (243)	$ --
Goodwill assets		$ 23,605		
Capital expenditures	$ 517	$ 11,156	$ 659	
Depreciation and amortization	$ 1,605	$ 3,135	$ 855	
Total identifiable assets at November 30, 2002	$ 594,278	$ 457,480	$204,118	
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2001				
Net sales	$ 880,184	$ 163,049		$ (242,688)
Patronage dividends	179		$ 58	
Other revenues	8,452	25	491	
	888,815	163,074	549	(242,688)
Cost of goods sold	880,284	152,077		(242,688)
Marketing, general and administrative	5,477	7,579	1,223	
Interest	1,629	2,596	(208)	
Equity loss (income) from investments	(989)	(7,625)		
Minority interests				
(Loss) income before income taxes	$ 2,414	$ 8,447	$ (466)	$ --
Goodwill assets		$ 23,605		
Capital expenditures	$ 1,015	$ 5,179	$ 186	
Depreciation and amortization	$ 1,344	$ 3,021	$ 789	
Total identifiable assets at November 30, 2001	$ 359,103	$ 434,522	$215,019	

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company expects to incur capital expenditures related to the Environmental Protection Agency low sulfur fuel regulations required by 2006. These expenditures are expected to be approximately $387.0 million in total for the Company's Laurel, Montana and NCRA's McPherson, Kansas refineries over the next three years, of which $9.5 million has been spent so far at NCRA. It is expected that approximately 80% of the costs will be incurred at NCRA. The Company expects to fund the refinery expenditures with a combination of cash, future earnings and additional borrowings.

NOTE 11. NET SALES AND COST OF GOODS SOLD RESTATEMENT:

Recently the Company determined that certain sales and transfers within the Grain Marketing segment and between the Grain Marketing segment and the Processed Grains and Foods segment, were not appropriately eliminated. The appropriate changes have been made to the consolidated statements of operations and segment reporting (see Note 9). These changes had no effect on the Company's financial condition or changes in cash flows, and no effect on reported gross profit or net income for the periods stated.

	FOR THE THREE MONTHS ENDED NOVEMBER 30,	
	AS REPORTED	AS RESTATED
Grain Marketing Net Sales		
2002	1,387,278	1,161,554
2001	981,897	880,184
Grain Marketing Cost of Goods Sold		
2002	1,385,171	1,159,447
2001	981,997	880,284
Reconciling Amounts - Net Sales & Cost of Goods Sold		
2002	(275,138)	(275,446)
2001	(201,902)	(242,688)
Net Sales		
2002	2,626,628	2,400,596
2001	1,871,952	1,729,453
Cost of Goods Sold		
2002	2,562,794	2,336,762
2001	1,804,364	1,661,865

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The Company has five distinct business segments: Agronomy, Energy, Country Operations, Grain Marketing and Processed Grains and Foods. Summary data for each of these segments for the three months ended November 30, 2002 and 2001 is shown in Note 9.

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

While the Company's sales and operating earnings are derived from businesses and operations which are wholly-owned and majority-owned, a portion of business operations are conducted through companies in which the Company holds ownership interests of 50% or less and does not control the operations. The Company accounts for these investments primarily using the equity method of accounting, wherein CHS Cooperatives records as equity income from investments its proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in the Company's consolidated statements of operations. These investments principally include the Company's 25% ownership in Agriliance, LLC (Agriliance), the 50% ownership in TEMCO, LLC, the 50% ownership in United Harvest, LLC, the 24% ownership in Horizon Milling, LLC (Horizon) and the 50% ownership in Ventura Foods, LLC (Ventura).

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED NOVEMBER 30, 2002 AND 2001

NET INCOME. Consolidated net income for the three months ended November 30, 2002 was $40.4 million compared to $41.4 million for the three months ended November 30, 2001, which represents a $1.0 million (2%) decrease. Although net income slightly decreased in total, the net income from the various business segments had changed. Reduced income in the Energy segment was partially offset by increased income in the Country Operations segment compared to the three months ended November 30, 2001.

NET SALES. Consolidated net sales of $2.4 billion for the three months ended November 30, 2002 increased $671.1 million (39%) compared to the three months ended November 30, 2001.

Energy net sales of $887.6 million increased $347.3 million (64%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. Sales for the three months ended November 30, 2002 and 2001 were $911.6 million and $554.2 million, respectively. The Company eliminated all intracompany sales from the Energy segment to the Country Operations segment of $24.0 million and $13.9 million for the three months ended November 30, 2002 and 2001, respectively. The increase was primarily a result of increased refined fuels volumes of 66% and an average sales price

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increase of $0.08 per gallon compared to the three months ended November 30, 2001. In addition, propane sales volumes increased 75%, which was partially offset by an average sales price decrease of $0.03 per gallon compared to the three months ended November 30, 2001. Refined fuels and propane volume increases were primarily a result of the acquisition of the wholesale energy business of Farmland Industries, Inc. (Farmland), as well as all interest in Country Energy, LLC a joint venture formerly with Farmland at a purchase price of $39.2 million. In addition, there was increased demand for propane due to a strong crop drying season.

Country Operations farm supply sales of $154.5 million increased by $22.2 million (17%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. The increase is primarily due to increased volumes from an acquisition and volume and price increases for feed and agronomy products.

Company-wide grain and oilseed net sales of $1.2 billion increased $350.9 million (39%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. Sales for the three months ended November 30, 2002 were $1,161.6 million and $334.5 million from Grain Marketing and Country Operations segments, respectively. Sales for the three months ended November 30, 2001 were $880.2 million and $242.3 million from Grain Marketing and Country Operations segments, respectively. The Company eliminated all intracompany sales from the Country Operations segment to the Grain Marketing segment, of $251.4 million and $228.7 million, for the three months ended November 30, 2002 and 2001, respectively. The net increase in sales was primarily due to an increase of $1.52 (56%) per bushel in the average sales price of all grain and oilseed marketed by the Company, which was partially offset by a decrease in grain volume of 11% compared to the three months ended November 30, 2001.

Processed Grains and Foods net sales of $113.8 million decreased $49.2 million (30%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. The net decrease in sales is primarily due to the formation of Horizon, a wheat flour milling and processing joint venture that was formed in January 2002. After that date, the Company has accounted for operating results of Horizon under the equity method of accounting. The Company has a 24% interest in Horizon, and Cargill, Incorporated (Cargill) has a 76% interest. The Company is leasing its five mills and related equipment to Horizon under an operating lease.

PATRONAGE DIVIDENDS. Patronage dividends received of $0.2 million decreased $0.6 million (77%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001.

OTHER REVENUES. Other revenues of $35.1 million increased $3.0 million (9%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. The most significant changes were due to increased service revenues within the Country Operations segment compared to the three months ended November 30, 2001.

COST OF GOODS SOLD. Cost of goods sold of $2.3 billion increased $674.9 million (41%) during the three months ended November 30, 2002, compared to the three months ended November 30, 2001. The cost of all grains and oilseed procured by the Company through its Grain Marketing and Country Operations segments increased $347.1 million (39%) compared to the three months ended November 30, 2001 primarily due to a $1.51 (56%) average cost per bushel increase, which was partially offset by a 11% decrease in volume. The Energy segment cost of goods sold increased by $362.4 million (73%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. The volumes of refined fuels increased by 66%, primarily the result of acquisitions, and the average cost increased by $0.11 per gallon compared to the three months ended November 30, 2001. Propane volumes increased by 75%, which was partially offset by an average cost decrease of $0.03 per gallon compared to the three months ended November 30, 2001. These volume increases were primarily the result of acquisitions and increased propane demand due to a strong crop drying season. Country Operations segment farm supply cost of goods sold increased by $16.8 million (15%) during the three months ended November 30, 2002 compared to the three months ended November 30, 2001 primarily due to an acquisition and volume and cost increases on feed and agronomy products. These increases were partially offset by decreased cost of goods sold in the Processed Grains and Foods segment of

$45.8 million (30%) compared to the three months ended November 30, 2001, primarily due to the formation of Horizon, as previously discussed.

MARKETING, GENERAL AND ADMINISTRATIVE. Marketing, general and administrative expenses of $43.1 million for the three months ended November 30, 2002 increased by $0.3 million (1%) compared to the three months ended November 30, 2001. Although marketing, general and administrative expenses were essentially unchanged in total, expenses attributable to the Company's various business segments changed. Marketing, general and administrative in the Energy segment increased due to the wholesale energy acquisition and Processed Grains and Foods segment decreased due to the formation of Horizon as previously discussed.

INTEREST. Interest expense of $12.8 million for the three months ended November 30, 2002 increased by $2.0 million (18%) compared to the three months ended November 30, 2001. The average level of short-term borrowings increased $249.0 million to finance working capital needs, primarily due to increases in inventories in the Grain Marketing, Country Operations and Energy segments, related to higher grain prices and the purchase of Farmland's wholesale energy business, discussed previously. The average short-term interest rate decreased 0.7% during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. Long-term debt borrowings increased due to an additional $175.0 million of private placement debt which was issued in October 2002.

EQUITY INCOME FROM INVESTMENTS. Equity income from investments of $8.2 million for the three months ended November 30, 2002 increased by $4.2 million (107%) compared to the three months ended November 30, 2001. The increase was primarily attributable to increased earnings from Ventura, a Processed Grains and Foods segment investment. In addition, the Energy segment recorded losses from the Country Energy investment in the prior fiscal year.

MINORITY INTERESTS. Minority interests of $5.4 million for the three months ended November 30, 2002 increased by $2.4 million (79%) compared to the three months ended November 30, 2001. The change in minority interests was primarily a result of more profitable operations within the Company's majority-owned subsidiaries during the three months ended November 30, 2002 compared to the three months ended November 30, 2001. Substantially all minority interests relate to National Cooperative Refinery Association (NCRA), an approximately 74.5% owned subsidiary.

INCOME TAXES. Income tax expense of $5.5 million for the three months ended November 30, 2002 decreased $0.7 million (12%) compared to the three months ended November 30, 2001, resulting in effective tax rates of a 12.0% and 13.1%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the three months ended November 30, 2002 and 2001. The income taxes and effective tax rate vary each period based upon profitability and nonpatronage business activity during each of the comparable periods.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATIONS

Operating activities of the Company provided net cash of $2.1 million during the three months ended November 30, 2002. Net income of $40.4 million and net non-cash expenses of $23.8 million were partially offset by increased working capital requirements of $62.1 million. The increase in working capital requirements is primarily due to higher commodity prices and increased grain inventory balances.

Operating activities of the Company provided net cash of $23.7 million during the three months ended November 30, 2001. Net income of $41.4 million and net non-cash expenses of $35.5 million were partially offset by increased working capital requirements of $53.2 million.

CASH FLOWS FROM INVESTING ACTIVITIES

For the three months ended November 30, 2002 and 2001, the net cash flows used in the Company's investing activities totaled $31.9 million and $38.9 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $40.6 million and $21.8 million for the three months ended November 30, 2002 and 2001, respectively. For the year ended August 31, 2003 the Company expects to spend approximately $216.8 million for the

acquisition of property, plant and equipment, which includes $57.0 million of expenditures for the construction of an oilseed processing facility in Fairmont, Minnesota. Total expenditures related to the construction of the facility are projected to be approximately $90.0 million, of which $32.2 million was used for construction through November 30, 2002. Capital expenditures primarily related to the Environmental Protection Agency low sulfur fuel regulations required by 2006, are expected to be approximately $387.0 million in total for the Company's Laurel, Montana and NCRA's McPherson, Kansas refineries over the next three years, of which $9.5 million has been spent so far at NCRA. It is expected that approximately 80% of the costs will be incurred at NCRA. The Company expects to fund the refinery expenditures with a combination of cash, future earnings and additional borrowings.

Investments made during the three months ended November 30, 2002 and 2001 totaled $1.4 million and $6.1 million, respectively.

Acquisitions of intangibles were $0.4 million and $27.5 million for the three months ended November 30, 2002 and 2001, respectively. During the three months ended November 30, 2001, the acquisitions of intangibles were primarily related to the purchase of Farmland's interest in its wholesale energy business, as previously discussed, and represents trademarks, tradenames and non-compete agreements.

During the three months ended November 30, 2002 the changes in notes receivable resulted in a decrease in cash flows of $11.2 million primarily from related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the three months ended November 30, 2001 the changes in notes receivable resulted in a decrease of $2.2 million.

Distributions to minority owners for the three months ended November 30, 2002 and 2001 were $0.5 million and $4.0 million, respectively, and were primarily related to NCRA.

Partially offsetting cash outlays in investing activities were proceeds from the disposition of property, plant and equipment of $4.7 million and $6.1 million for the three months ended November 30, 2002 and 2001, respectively. Also partially offsetting cash usages were distributions received from joint ventures and investments totaling $17.0 million and $15.4 million for the three months ended November 30, 2002 and 2001, respectively.

CASH FLOWS FROM FINANCING ACTIVITIES

The Company finances its working capital needs through short-term lines of credit with a syndication of banks. In May 2002, the Company renewed its 364-day credit facility of $550.0 million committed. In addition to these lines of credit, the Company has a 364-day credit facility dedicated to NCRA, with a syndication of banks in the amount of $30.0 million committed. On November 30, 2002, August 31, 2002 and November 30, 2001, the Company had total short-term indebtedness outstanding on these various facilities and other short-term notes payable totaling $246.1 million, $332.5 million and $110.8 million, respectively. The increase in 2002 is primarily due to increases in inventories in the Grain Marketing, Country Operations and Energy segments, related to higher grain prices and the purchase of Farmland's wholesale energy business, discussed previously. In October 2002, $175.0 million received from private placement proceeds was used to pay down the Company's 364-day credit facility.

In June 1998, the Company established a five-year revolving credit facility with a syndication of banks, with $200.0 million committed. The Company had outstanding balances on this facility of $75.0 million on November 30, 2002, August 31, 2002 and November 30, 2001, respectively.

The Company has financed its long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements through the banks for cooperatives. In June 1998, the Company established a long-term credit agreement through the cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to the Company, with repayments through fiscal year 2009. The amount outstanding on this credit facility was $142.7 million, $144.3 million and $149.2 million on November 30, 2002, August 31, 2002 and November 30, 2001, respectively. Repayments of $1.6 million were made on this facility during each of the three months ended November 30, 2002 and 2001.

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

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

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

The Company, through NCRA, had revolving term loans outstanding of $17.3 million, $18.0 million and $20.3 million for the periods ended November 30, 2002, August 31, 2002 and November 30, 2001, respectively. Repayments of $0.8 million were made during each of the three months ended November 30, 2002 and 2001.

On November 30, 2002, the Company had total long-term debt outstanding of $743.2 million, of which $251.4 million was bank financing, $480.0 million was private placement proceeds and $11.8 million was industrial development revenue bonds and other notes and contracts payable. The aggregate amount of long-term debt payable presented in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended August 31, 2002 has not materially changed during the three months ended November 30, 2002 other than for the $175.0 million of private placement debt discussed previously, of which repayments will not start until 2007. The Company is in compliance with all debt covenants and restrictions as of November 30, 2002.

During the three months ended November 30, 2002 and 2001, the Company borrowed on a long-term basis $175.0 million and $30.0 million, respectively, and during the same periods repaid long-term debt of $3.9 million and $5.8 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. Effective September 1, 2000, patronage refunds are calculated based on earnings for financial statement purposes rather than based on amounts reportable for federal income tax purposes as had been the Company's practice prior to this date. This change was authorized through a bylaw amendment at the Company's annual meeting on December 1, 2000. The patronage earnings from the fiscal year ended August 31, 2002 are expected to be distributed during the second quarter of fiscal year 2003. The cash portion of this distribution, deemed by the Board of Directors to be 30%, is expected to be approximately $26.2 million and is classified as a current liability on the November 30, 2002 and August 31, 2002 consolidated balance sheets.

The current equity redemption policy, as authorized by the Board of Directors, allows for the redemption of capital equity certificates held by inactive direct members and patrons and active direct members and patrons at age 72 or death that were of age 61 or older on June 1, 1998. For active direct members and patrons who were of age 60 or younger on June 1, 1998, and member cooperatives, equities older than 10 years will be redeemed annually based on a prorata formula where the numerator is dollars available for such purpose as determined by the Board of Directors, and the denominator is the sum of the patronage certificates older than 10 years held by such eligible members and patrons. Total redemptions related to the year ended August 31, 2002, to be distributed in fiscal year 2003, are expected to be approximately $30.3 million, of which $2.4 million was redeemed during the three months ended November 30, 2002. During the three months ended November 30, 2001 the Company redeemed $1.8 million of equity.

As of November 30, 2002 the Company had $9.5 million (9,454,874 shares) of 8% Preferred Stock outstanding, and expenses related to the issuance of the shares were $3.5 million. Sales of the preferred shares have been suspended, as the Company is in the process of registering a new offering as noted below.

The Board of Directors authorized the sale and issuance of up to 2,875,000 shares of 8% Cumulative Redeemable Preferred Stock at a price of $25.00 per share. The Company filed a registration statement on Form S-2 on December 17, 2002 with the Securities and Exchange Commission registering the preferred shares, however, the registration statement is not yet effective.

OFF BALANCE SHEET FINANCING ARRANGEMENTS

LEASE COMMITMENTS:

The Company's lease commitments presented in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended August 31, 2002 have not materially changed during the three months ended November 30, 2002.

GUARANTEES:

The Company is a guarantor for lines of credit for related companies totaling up to $86.2 million, of which $39.0 million was outstanding as of November 30, 2002. The Company's bank covenants allow maximum guarantees of $100.0 million. All outstanding loans with respective creditors are current as of November 30, 2002.

DEBT:

There is no material off balance sheet debt.

CRITICAL ACCOUNTING POLICIES

The Company's Critical Accounting Policies are presented in the Company's Annual Report on Form 10-K for the year ended August 31, 2002.

EFFECT OF INFLATION AND FOREIGN CURRENCY TRANSACTIONS

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

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is in the process of finalizing its analysis of adopting this standard. The Company's Energy segment operates oil refineries and related pipelines for which the Company would be subject to Asset Retirement Obligations (ARO) if such assets were to be dismantled. The Company, however, expects to operate its refineries and related pipelines indefinitely. Since the time period to dismantle these assets is indeterminate, a corresponding ARO is not currently estimable and therefore has not been recorded. The Company continues to assess whether any other ARO's exist related to its remaining operations, however, based on available information to date, no other ARO's have been identified. As such, the Company believes that the effects of adopting this standard do not have a material effect on the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the period ended November 30, 2002 the Company did not experience any adverse changes in market risk exposures that materially affect the quantitative and qualitative disclosures presented in the Company's Annual Report on Form 10-K for the year ended August 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that the Company's disclosure controls and procedures are adequately designed to ensure that information required to be disclosed by the Company

in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms. There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect those controls, subsequent to the date of such evaluation, including any corrective actions taken with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting held on December 5-6, 2002, the following directors were re-elected to the Board of Directors: Bruce Anderson, Curt Eischens, Robert Grabarski, Jerry Hasnedl, Glen Keppy and Richard Owen. The following director was newly elected to the Board of Directors, replacing Steven Burnet: David Bielenberg. The following directors' terms of office continued after the meeting: Robert Bass, Dennis Carlson, Robert Elliott, James Kile, Randy Knecht, Leonard Larsen, Duane Stenzel, Michael Toelle, Merlin Van Walleghen and Elroy Webster.

At the same Annual Meeting, Members adopted a resolution amending Articles II and III of the Company's Bylaws to eliminate producer-members from the vote calculation and to instead base the vote calculation on sales and equity, beginning with votes occurring in 2003. A copy of the amended Bylaws is attached as Exhibit 3.2.

ITEM 6. EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT	DESCRIPTION
3.1	Articles of Incorporation of the Company, as amended (previously filed).
3.2	Bylaws of the Company, as amended (previously filed).
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Cautionary Statement (previously filed).

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHS INC.
(Registrant)

DATE	SIGNATURE
November 14, 2003	/s/ JOHN SCHMITZ
(Date)	John Schmitz Executive Vice President and Chief Financial Officer