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 FEBRUARY 28, 2003.

[ ] 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	41-0251095
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5500 CENEX DRIVE, INVER GROVE HEIGHTS, MN 55077	(651) 355-6000
(Address of principal executive offices and zip code)	(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 February 28, 2003
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 February 28, 2003, for certain sales and transfers related to the Company's Grain Marketing business segment that were not properly eliminated during the three months and six months ended February 28, 2003 and 2002, as more fully explained in Note 12 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 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in the forward-looking statements. These factors include those set forth in Exhibit 99.1, under the caption "Cautionary Statement" to this Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2003.

ITEM 1. FINANCIAL STATEMENTS

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(DOLLARS IN THOUSANDS)	FEBRUARY 28, 2003 (UNAUDITED)	AUGUST 31, 2002	FEBRUARY 28, 2002 (UNAUDITED)
CURRENT ASSETS:			
Cash and cash equivalents	$ 108,886	$ 108,192	$ 86,498
Receivables	767,147	741,578	586,232
Inventories	861,753	759,663	601,650

Other current assets	254,841	140,944	105,096
Total current assets	1,992,627	1,750,377	1,379,476
INVESTMENTS	469,456	496,607	461,058
PROPERTY, PLANT AND EQUIPMENT	1,075,152	1,057,421	1,029,214
OTHER ASSETS	178,357	177,322	217,027
Total assets	$3,715,592	$3,481,727	$3,086,775

LIABILITIES AND EQUITIES

CURRENT LIABILITIES:			
Notes payable	$ 370,561	$ 332,514	$ 298,244
Current portion of long-term debt	59,987	89,032	14,658
Customer credit balances	103,420	26,461	63,244
Customer advance payments	159,538	169,123	83,154
Checks and drafts outstanding	55,750	84,251	69,535
Accounts payable	470,048	517,667	325,422
Accrued expenses	229,990	225,704	153,509
Dividends and equities payable	20,580	56,510	32,198
Total current liabilities	1,469,874	1,501,262	1,039,964
LONG-TERM DEBT	649,863	483,092	565,250
OTHER LIABILITIES	111,302	118,280	105,720
MINORITY INTERESTS IN SUBSIDIARIES	98,222	89,455	90,678
COMMITMENTS AND CONTINGENCIES			
EQUITIES	1,386,331	1,289,638	1,285,163
Total liabilities and equities	$3,715,592	$3,481,727	$3,086,775

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 FEBRUARY 28,		FOR THE SIX M FEBRUAR
	2003	2002	2003

(DOLLARS IN THOUSANDS)	RESTATED (Note 12)	RESTATED (Note 12)	RESTATED (Note 12)
REVENUES:			
Net sales	$2,328,154	$1,704,249	$4,728,750
Patronage dividends	793	1,188	959
Other revenues	27,790	23,648	62,879
	2,356,737	1,729,085	4,792,588
Cost of goods sold	2,295,436	1,666,840	4,632,198
Marketing, general and administrative	48,072	46,377	91,220
OPERATING EARNINGS	13,229	15,868	69,170
Interest	11,436	10,249	24,249
Equity loss (income) from investments	5,772	2,176	(2,393)
Minority interests	3,345	2,674	8,776
(LOSS) INCOME BEFORE INCOME TAXES	(7,324)	769	38,538
INCOME TAXES	(3,224)	(1,602)	2,282
NET (LOSS) INCOME	$ (4,100)	$ 2,371	$ 36,256

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 ENDED FEBRUARY 28, 2003	2002	FOR 2
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (4,100)	$ 2,371	$
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	25,768	26,845	
Noncash net loss (income) from equity investments	5,772	2,176	
Minority interests	3,345	2,674	
Adjustment of inventories to market value	--	(8,444)	

Noncash portion of patronage dividends received	(497)	(970)	
Gain on sale of property, plant and equipment	(733)	(395)	
Other, net	2,014	181	
Changes in operating assets and liabilities:			
Receivables	58,291	51,663	(
Inventories	68,242	(55,246)	(1
Other current assets and other assets	(51,237)	(15,732)	(1
Customer credit balances	11,628	654	
Customer advance payments	(62,599)	(19,693)	
Accounts payable and accrued expenses	(173,502)	(125,337)	(
Other liabilities	(4,842)	348	
Net cash used in operating activities	(122,450)	(138,905)	(1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(36,762)	(30,097)	(
Proceeds from disposition of property, plant and equipment	7,177	2,530	
Investments	(2,791)	(51)	
Equity investments redeemed	12,780	7,282	
Investments redeemed	1,670	700	
Changes in notes receivable	(275)	4,571	(
Acquisition of intangibles	(55)	(62)	
Distribution to minority owners	--	(366)	
Other investing activities, net	23	(29)	
Net cash used in investing activities	(18,233)	(15,522)	(
CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in notes payable	124,500	187,429	
Long-term debt borrowings	--	--	1
Principal payments on long-term debt	(33,377)	(4,348)	(
Payments on derivative instruments	--	--	
Changes in checks and drafts outstanding	(14,400)	9,472	(
Proceeds from sale of preferred stock, net of expenses	82,516	2,858	
Preferred stock dividends paid	(190)	(10)	
Retirements of equities	(21,938)	(21,357)	(
Cash patronage dividends paid	(26,365)	(39,572)	(
Net cash provided by financing activities	110,746	134,472	1
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,937)	(19,955)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	138,823	106,453	1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 108,886	$ 86,498	$ 1

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 February 28, 2003 and 2002, and the statements of operations and cash flows for the three and six months ended February 28, 2003 and 2002 reflect, in the opinion of management of Cenex Harvest States Cooperatives (CHS or 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 the 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 had $27.5 million of goodwill as of February 28, 2003, and during the six 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 $42.8 million with total accumulated amortization of $9.3 million as of February 28, 2003. Intangible assets of $0.4 million were acquired during the six months ended February 28, 2003. Total amortization expense for intangible assets during the three-month and six-month periods ended February 28, 2003 was approximately $1.2 million and $2.3 million, respectively. 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 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 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.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". The interpretation addresses consolidation of certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to

variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company believes that the effects of adopting this standard do not have a material effect on the Company.

NOTE 2. RECEIVABLES

	FEBRUARY 28, 2003	AUGUST 31, 2002	FEBRUARY 28, 2002
Trade	$727,301	$717,888	$584,512
Other	66,362	49,846	27,540
	793,663	767,734	612,052
Less allowances for doubtful accounts	26,516	26,156	25,820
	$767,147	$741,578	$586,232

NOTE 3. INVENTORIES

	FEBRUARY 28, 2003	AUGUST 31, 2002	FEBRUARY 28, 2002
Grain and oilseed	$411,584	$393,095	$256,503
Energy	274,008	229,981	213,954
Feed and farm supplies	134,446	91,138	112,247

Processed grain and oilseed	35,225	36,264	15,933
Other	6,490	9,185	3,013
	$861,753	$759,663	$601,650

NOTE 4. INVESTMENTS

During the three months ended February 28, 2003 the Company impaired the balance of its investment in Farmland Industries, Inc. in the amount of $1.7 million.

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 and six-month periods as indicated below.

VENTURA FOODS, LLC

	FOR THE THREE MONTHS ENDED FEBRUARY 28,		FOR THE SIX MONTHS ENDED FEBRUARY 28,	
	2003	2002	2003	2002
Net sales	$275,392	$238,219	$562,417	$496,619
Gross profit	29,643	36,997	79,371	78,098
Net income	1,612	10,584	22,403	25,828

AGRILIANCE, LLC

	FOR THE THREE MONTHS ENDED FEBRUARY 28,		FOR THE SIX MONTHS ENDED FEBRUARY 28,	
	2003	2002	2003	2002
Net sales	$ 553,390	$ 576,171	$1,146,120	$1,253,218
Gross profit	44,924	39,082	93,446	84,986
Net loss	(25,246)	(31,956)	(45,356)	(53,108)

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

During the three months ended February 28, 2003 the Country Operations segment recorded impairments of $3.2 million related to facilities where the undiscounted projected income and related cash flows were less than the carrying value of the facilities.

NOTE 6. 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 7. EQUITIES

In January 2003, the Board of Directors authorized the sale and issuance of up to 3,500,000 shares of 8% Cumulative Redeemable Preferred Stock (New Preferred) at a price of $25.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering 3,000,000 shares of the New Preferred (with an additional over-allotment option of 450,000 shares granted to the underwriters), which was declared effective on January 27, 2003. The shares were subsequently sold and are listed on the Nasdaq National Market. As of February 28, 2003, the Company had $86.3 million (3,450,000 shares) of the New Preferred outstanding. Expenses related to the issuance of the New Preferred were $3.7 million through the same period.

As of February 28, 2003, the Company had $9.5 million (9,454,874 shares) of 8% Preferred Stock (Old Preferred) outstanding. The Company had previously suspended sales of the Old Preferred, and on February 25, 2003 the Company filed a post-effective amendment to terminate the offering of the Old Preferred shares. On March 5, 2003, the Company's Board of Directors authorized the redemption and conversion of the Old Preferred shares. A redemption notification and a conversion election form were sent to holders of the Old Preferred shares on March 21, 2003 explaining that on April 25, 2003 all shares of the Old Preferred will be redeemed by the Company for $1 per share unless they are converted into shares of the Company's New Preferred. The conversion will not change the base liquidation amount or dividend amount of the Old Preferred since 25 shares of the Old Preferred will convert to 1 share of the New Preferred.

NOTE 8. COMPREHENSIVE INCOME

For the three months ended February 28, 2003 and 2002, total comprehensive income amounted to $4.9 million loss and $1.6 million income, respectively. For the six months ended February 28, 2003 and 2002, total comprehensive income amounted to $29.7 million and $44.0 million, respectively. Accumulated other comprehensive loss on February 28, 2003, August 31, 2002 and February 28, 2002 was $58.5 million, $51.9 million and $1.7 million, respectively.

NOTE 9. NON-CASH FINANCING ACTIVITIES

During the six months ended February 28, 2003 and 2002 the Company accrued dividends and equities payable of $16.3 million and $21.9 million, respectively.

NOTE 10. 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 and six months ended February 28, 2003 and 2002 is as follows:

	AGRONOMY	ENERGY	COUNTRY OPERATIONS	GRAIN MARKETING RESTATED (Note 12)	PROCESSED GRAINS AND FOODS	
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2003						
Net sales		$900,029	$430,832	$1,104,296	$128,291	
Patronage dividends	$ (57)	50	795	(52)	27	$
Other revenues		1,993	16,448	6,232	947	
	(57)	902,072	448,075	1,110,476	129,265	
Cost of goods sold		887,705	420,857	1,102,203	119,965	
Marketing, general and administrative	1,578	13,577	15,332	5,912	10,057	
Interest	(380)	4,001	2,616	1,024	3,319	
Equity loss (income) from investments	6,012	(235)	(255)	1,710	(1,460)	
Minority interests		3,070	275			
(Loss) income before income taxes	$ (7,267)	$ (6,046)	$ 9,250	$ (373)	$ (2,616)	$
Capital expenditures		$ 16,065	$ 3,029	$ 399	$ 16,808	$
Depreciation and amortization	$ 311	$ 14,510	$ 5,333	$ 1,605	$ 3,267	$
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2002						
Net sales		$588,564	$312,089	$ 877,562	$126,143	
Patronage dividends		25	947	173		$
Other revenues		820	15,793	5,838	538	
		589,409	328,829	883,573	126,681	
Cost of goods sold		563,148	309,590	874,563	119,648	
Marketing, general and administrative	$ 1,637	15,667	11,953	5,590	10,394	
Interest	(306)	4,218	2,661	1,398	2,393	
Equity loss (income) from investments	8,304	157	219	(976)	(5,528)	
Minority interests		2,462	212			
(Loss) income before income taxes	$ (9,635)	$ 3,757	$ 4,194	$ 2,998	$ (226)	$

Capital expenditures		$ 15,970	$ 4,790	$ 2,713	$ 6,306	$
Depreciation and amortization	$ 311	$ 15,814	$ 5,170	$ 1,347	$ 3,408	$

	AGRONOMY	ENERGY	COUNTRY OPERATIONS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2003			
Net sales		$1,811,618	$919,898
Patronage dividends	$ (57)	63	846
Other revenues		4,729	40,985
	(57)	1,816,410	961,729
Cost of goods sold		1,748,034	906,970
Marketing, general and administrative	2,718	27,762	27,935
Interest	(678)	8,011	8,004
Equity loss (income) from investments	10,030	(555)	(470)
Minority interests		8,205	571
(Loss) income before income taxes	$ (12,127)	$ 24,953	$ 18,719
Goodwill assets		$ 3,647	$ 262
Capital expenditures		$ 34,024	$ 13,351
Depreciation and amortization	$ 623	$ 29,048	$ 10,754
Total identifiable assets at February 28, 2003	$ 222,578	$1,363,611	$986,896
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2002			
Net sales		$1,142,806	$686,755
Patronage dividends		448	1,008
Other revenues		3,439	36,282
		1,146,693	724,045
Cost of goods sold		1,061,123	683,807
Marketing, general and administrative	$ 2,804	30,667	24,405
Interest	(733)	8,300	5,804
Equity loss (income) from investments	11,606	1,533	213
Minority interests		5,357	353
(Loss) income before income taxes	$ (13,677)	$ 39,713	$ 9,463
Goodwill assets		$ 4,892	$ 325

Capital expenditures		$ 25,650	$ 10,538
Depreciation and amortization	$ 623	$ 29,674	$ 10,543
Total identifiable assets at February 28, 2002	$ 217,822	$1,202,734	$784,546

[WIDE TABLE CONTINUED FROM ABOVE]

	GRAIN MARKETING	PROCESSED GRAINS AND FOODS	OTHER	RECONCILING AMOUNTS
	RESTATED (Note 12)			RESTATED (Note 12)
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2003				
Net sales	$2,265,850	$ 242,124		$ (510,740)
Patronage dividends	26	27	$ 54	
Other revenues	12,836	1,856	2,473	
	2,278,712	244,007	2,527	(510,740)
Cost of goods sold	2,261,650	226,284		(510,740)
Marketing, general and administrative	11,983	18,145	2,677	
Interest	2,882	5,665	365	
Equity loss (income) from investments	896	(12,294)		
Minority interests				
(Loss) income before income taxes	$ 1,301	$ 6,207	$ (515)	$ --
Goodwill assets		$ 23,605		
Capital expenditures	$ 916	$ 27,964	$ 1,120	
Depreciation and amortization	$ 3,210	$ 6,402	$ 1,597	
Total identifiable assets at February 28, 2003	$ 466,919	$ 454,453	$221,135	
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2002				
Net sales	$1,757,746	$ 289,192		$ (442,797)
Patronage dividends	352		$ 101	
Other revenues	14,290	563	1,150	
	1,772,388	289,755	1,251	(442,797)
Cost of goods sold	1,754,847	271,725		(442,797)
Marketing, general and administrative	11,067	17,973	2,359	
Interest	3,027	4,989	(323)	

Equity loss (income) from investments	(1,965)	(13,153)		
Minority interests				
(Loss) income before income taxes	$ 5,412	$ 8,221	$ (785)	$ --
Goodwill assets		$ 23,605		
Capital expenditures	$ 3,728	$ 11,485	$ 504	
Depreciation and amortization	$ 2,691	$ 6,429	$ 1,584	
Total identifiable assets at February 28, 2002	$ 306,445	$ 396,734	$178,494	

NOTE 11. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL

The Company, including NCRA, 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 $0.1 million has been spent at the Laurel refinery and $15.5 million has been spent by NCRA at the McPherson refinery as of February 28, 2003. It is expected that approximately 80% of the costs for these projects will be incurred at NCRA's McPherson facility. The Company expects to fund the refinery expenditures with a combination of cash, future earnings and additional borrowings.

GAIN ON LEGAL SETTLEMENTS

During the six months ended February 28, 2003 the Company received cash proceeds and recorded gains of $10.7 million, of which $8.9 million was received during the current quarter then ended, related to legal settlements from several vitamin product suppliers against whom the Company alleged certain price-fixing claims. The Company has recorded these gains in cost of goods sold.

GUARANTEES

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for obligations the guarantor has undertaken in issuing the guarantee.

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

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The Company's obligations pursuant to its guarantees as of February 28, 2003 were as follows:

	(DOLLARS IN THOUSANDS)		
SUBSIDIARY/AFFILIATE	GUARANTEE MAXIMUM EXPOSURE	EXPOSURE ON FEBRUARY 28, 2003	NATURE OF GUARANTEE
The Company's Financial Services cooperative loans sold to CoBank, ACB		$ 8,481	10% of the obligations of borrowers (agricultural cooperatives) under credit agreements for loans sold
Fin-Ag, Inc. agricultural loans sold to CoBank, ACB		$31,102	15% of the obligations of borrowers under credit agreements for some of the loans sold, and 100% of the obligations of borrowers for the remaining loans sold
TEMCO, LLC	$ 7,500	$ 6,288	Obligations by TEMCO, LLC under credit agreement
North Valley Petroleum, LLC	$ 194	$ 194	Obligations by North Valley Petroleum, LLC under credit agreement
Third parties		$ 407	Surety for, or indemnification of surety for sales contracts between affiliates and sellers of grain under deferred payment contracts
		$46,472	

[WIDE TABLE CONTINUED FROM ABOVE]

SUBSIDIARY/AFFILIATE	EXPIRATION DATE	TRIGGERING EVENT	RECOURSE PROVISIONS	ASSETS HELD AS COLLATERAL
The Company's Financial Services cooperative loans sold to CoBank, ACB	None stated, but may be terminated by either party upon 60 days prior notice in regard to future obligations	Credit Agreement Default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Fin-Ag, Inc. agricultural loans sold to CoBank, ACB	None stated, but may be terminated by either party upon 90 days prior notice in regard to future obligations	Credit Agreement Default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
TEMCO, LLC	None stated	Credit Agreement Default	Subrogation against TEMCO, LLC	None
North Valley Petroleum, LLC	None stated	Credit Agreement Default	Subrogation against North Valley Petroleum, LLC	None
Third parties	Annual renewal on December 1st in regard to surety for one third party, otherwise none stated and may be terminated by the Company at any time in regard to future obligations	Nonpayment	Subrogation against affiliates	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure

NOTE 12. 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 10). 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 FEBRUARY 28,		F
	AS REPORTED	AS RESTATED	AS R
Grain Marketing Net Sales			
2003	1,224,746	1,104,296	2,6
2002	1,006,680	877,562	1,9
Grain Marketing Cost of Goods Sold			
2003	1,222,653	1,102,203	2,6
2002	1,003,681	874,563	1,9
Reconciling Amounts - Net Sales & Cost of Goods Sold			
2003	(234,768)	(235,294)	(5
2002	(173,665)	(200,109)	(3
Net Sales			
2003	2,449,130	2,328,154	5,0
2002	1,859,811	1,704,249	3,7
Cost of Goods Sold			
2003	2,416,412	2,295,436	4,9
2002	1,822,402	1,666,840	3,6

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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 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 and six months ended February 28, 2003 and 2002 is shown in Note 10 to the Consolidated Financial Statements.

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 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 FEBRUARY 28, 2003 AND 2002

NET (LOSS) INCOME. Consolidated net loss for the three months ended February 28, 2003 was $4.1 million compared to net income of $2.4 million for the three months ended February 28, 2002, which represents a $6.5 million variance. Losses in the Energy segment were partially offset by increased income in the Country Operations segment compared to the three months ended February 28, 2002.

NET SALES. Consolidated net sales of $2.3 billion for the three months ended February 28, 2003 increased $623.9 million (37%) compared to the three months ended February 28, 2002.

Energy net sales of $877.1 million increased $304.6 million (53%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. Sales for the three months ended February 28, 2003 and 2002

were $900.0 million and $588.6 million, respectively. The Company eliminated all intracompany sales from the Energy segment to the Country Operations segment of $22.9 million and $16.1 million for the three months ended February 28, 2003 and 2002, respectively. The net increase in sales was primarily a result of a refined fuels average sales price increase of $0.34 per gallon and a volume increase of 5% compared to the three months ended February 28, 2002.
In addition,

propane sales volumes increased 20% and the average sales price increased $0.08 per gallon compared to the three months ended February 28, 2002. Refined fuels commodity price increases were primarily the result of worldwide market uncertainties and a colder winter compared to the prior year. The propane volume increases were primarily a result of increased demand due to a colder winter compared to the prior year.

Country Operations farm supply sales of $119.8 million increased by $25.0 million (26%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. The increase is primarily due to increased volumes from an acquisition, price increases on energy products and additional tons of feed sold.

Company-wide grain and oilseed net sales of $1.2 billion increased $292.2 million (32%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. Sales for the three months ended February 28, 2003 were $1,104.3 million and $311.1 million from the Grain Marketing and Country Operations segments, respectively. Sales for the three months ended February 28, 2002 were $877.6 million and $217.3 million from the Grain Marketing and Country Operations segments, respectively. The Company eliminated all intracompany sales from the Country Operations segment to the Grain Marketing segment, of $212.4 million and $184.1 million, for the three months ended February 28, 2003 and 2002, respectively. The net increase in sales was primarily due to an increase of $0.80 per bushel (24%) in the average sales price of all grain and oilseed marketed by the Company and an increase in grain volume of 6% compared to the three months ended February 28, 2002.

Processed Grains and Foods net sales of $128.3 million increased $2.1 million (2%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. This increase is primarily due to a sales volume increase of 3% and an average sales price increase of $0.08 per pound on refined oil. This increase was partially offset by a decrease in wheat milling sales due to the formation of Horizon, a 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 $0.8 million decreased $0.4 million (33%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002.

OTHER REVENUES. Other revenues of $27.8 million increased $4.1 million (18%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. The most significant changes were increased revenues within the Energy and Other segments compared to the three months ended

February 28, 2002.

COST OF GOODS SOLD. Cost of goods sold of $2.3 billion increased $628.6 million (38%) during the three months ended February 28, 2003, compared to the three months ended February 28, 2002. The Energy segment cost of goods sold increased by $324.6 million (58%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. Refined fuels average cost increased by $0.36 per gallon and volumes increased by 5% compared to the three months ended February 28, 2002, primarily the result of worldwide market uncertainties and a colder winter compared to the prior year. Propane volumes increased by 20% and the average cost increased by $0.09 per gallon compared to the three months ended February 28, 2002, which was primarily the result of a colder winter compared to the prior year. The cost of all grains and oilseed procured by the Company through its Grain Marketing and Country Operations segments increased $290.3 million (32%) compared to the three months ended February 28, 2002 primarily due to a $0.79 average cost per bushel increase (24%) and a 6% increase in volume. Country Operations segment farm supply cost of goods sold increased by $17.9 million (25%) during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. Volumes increased due to acquisitions and additional feed volumes and the average cost per unit increased on energy products. In addition, during the three months ended February 28, 2003 the Country Operations segment recorded impairments of $3.2 million on its facilities. The increase in the Country Operations segment was partially offset by $8.9 million of cash received in January 2003 from a class action lawsuit, alleging illegal price-fixing against various feed vitamin product suppliers. Processed

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Grains and Foods segment cost of goods sold increased $0.3 million compared to the three months ended February 28, 2002, primarily due to increased volumes of 3% and an average cost of raw materials increase of $0.07 per pound on soybeans, which was offset by decreased cost of goods sold due to the formation of Horizon, as previously discussed.

MARKETING, GENERAL AND ADMINISTRATIVE. Marketing, general and administrative expenses of $48.1 million for the three months ended February 28, 2003 increased by $1.7 million (4%) compared to the three months ended February 28, 2002. Marketing, general and administrative expenses increased by $1.7 million related to an impairment on the balance of the Company's investment in Farmland Industries, Inc. (Farmland), of which $1.6 million was in the Country Operations segment. In addition, marketing, general and administrative expense changes in Country Operations and Energy segments were primarily due to acquisitions.

INTEREST. Interest expense of $11.4 million for the three months ended February 28, 2003 increased by $1.2 million (12%) compared to the three months ended February 28, 2002. The average level of short-term borrowings increased $33.2 million to finance working capital needs, primarily due to increased inventories related to higher commodity prices. The average short-term interest rate increased 0.4% during the three months ended February 28, 2003 compared to the three months ended February 28, 2002.

EQUITY LOSS (INCOME) FROM INVESTMENTS. Equity loss from investments of $5.8 million for the three months ended February 28, 2003 increased by $3.6 million compared to the three months ended February 28, 2002. The additional equity loss was primarily attributable to decreased earnings from Ventura, a Processed

Grains and Foods segment investment and losses in Grain Marketing investments due to tighter grain margins compared to February 28, 2002. These decreases were partially offset by decreased losses in Agriliance, an Agronomy segment investment, compared to the three-month period ended February 28, 2002.

MINORITY INTERESTS. Minority interests of $3.3 million for the three months ended February 28, 2003 increased by $0.7 million (25%) compared to the three months ended February 28, 2002. The net change in minority interests was primarily a result of more profitable operations within the Company's majority-owned subsidiaries during the three months ended February 28, 2003 compared to the three months ended February 28, 2002. Substantially all minority interests relate to National Cooperative Refinery Association (NCRA), an approximately 74.5% owned subsidiary.

INCOME TAXES. An income tax benefit of $3.2 million for the three months ended February 28, 2003 increased $1.6 million compared to the three months ended February 28, 2002. The income taxes and the effective tax rate vary each period based upon profitability and nonpatronage business activity during each of the comparable periods.

COMPARISON OF THE SIX MONTHS ENDED FEBRUARY 28, 2003 AND 2002

NET (LOSS) INCOME. Consolidated net income for the six months ended February 28, 2003 was $36.3 million compared to $43.7 million for the six months ended February 28, 2002, which represents a $7.4 million (17%) decrease. Reduced income in the Energy segment was partially offset by increased income in the Country Operations segment compared to the six months ended February 28, 2002.

NET SALES. Consolidated net sales of $4.7 billion for the six months ended February 28, 2003 increased $1.3 billion (38%) compared to the six months ended February 28, 2002.

Energy net sales of $1.8 billion increased $651.9 million (59%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. Sales for the six months ended February 28, 2003 and 2002 were $1,811.6 million and $1,142.8 million, respectively. The Company eliminated all intracompany sales from the Energy segment to the Country Operations segment of $46.9 million and $30.0 million for the six months ended February 28, 2003 and 2002, respectively. The increase was primarily the result of increased refined fuels volumes of 32% and an average sales price increase of $0.22 per gallon compared to the six months ended February 28, 2002. In addition, propane sales volumes increased 38% and the average sales price increased $0.04 per gallon compared to the six months ended February 28, 2002. Refined fuels and propane increases were primarily a result of the

acquisition of the wholesale energy business of 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, refined fuels commodity prices increased as a result of worldwide market uncertainties and a colder winter compared to the prior year. Propane volumes increased due to a colder winter compared to the prior year.

Country Operations farm supply sales of $274.3 million increased by $47.2 million (21%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. The increase is primarily due to increased volumes from an acquisition, increased tons of feed sold and price increases on energy products.

Company-wide grain and oilseed net sales of $2.4 billion increased $643.1 million (36%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. Sales for the six months ended February 28, 2003 were $2,265.9 million and $645.6 million from Grain Marketing and Country Operations segments, respectively. Sales for the six months ended February 28, 2002 were $1,757.7 million and $459.6 million from the Grain Marketing and Country Operations segments, respectively. The Company eliminated all intracompany sales from the Country Operations segment to the Grain Marketing segment, of $463.8 million and $412.7 million, for the six months ended February 28, 2003 and 2002, respectively. The net increase in sales was primarily due to an increase of $1.19 per bushel (40%) 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 3% compared to the six months ended February 28, 2002.

Processed Grains and Foods net sales of $242.1 million decreased $47.1 million (16%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. The net decrease in sales is primarily due to the formation of Horizon, as previously discussed. This decrease was partially offset by increased refined oil sales primarily due to a volume increase of 1% and an average price increase of $0.05 per pound.

PATRONAGE DIVIDENDS. Patronage dividends received of $1.0 million decreased $1.0 million during the six months ended February 28, 2003 compared to the six months ended February 28, 2002.

OTHER REVENUES. Other revenues of $62.9 million increased $7.2 million (13%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. The most significant changes were due to increased service and other revenues within the Country Operations segment compared to the six months ended February 28, 2002.

COST OF GOODS SOLD. Cost of goods sold of $4.6 billion increased $1.3 billion (39%) during the six months ended February 28, 2003, compared to the six months ended February 28, 2002. Cost of goods sold in the Energy segment increased by $686.9 million (65%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. Refined fuels volumes increased by 32% and the average cost increased by $0.24 per gallon compared to the six months ended February 28, 2002, primarily the result of the acquisition previously discussed, worldwide market uncertainties and a colder winter compared to the prior year. Propane volumes increased by 38% and the average cost increased by $0.04 per gallon compared to the six months ended February 28, 2002, primarily the result of the acquisition previously discussed and a colder winter compared to the prior year. The cost of all grains and oilseed procured by the Company through its Grain Marketing and Country Operations segments increased $637.4 million (36%) compared to the six months ended February 28, 2002 primarily due to a $1.18 average cost per bushel increase (40%), which was partially offset by a 3% decrease in volume. Country Operations segment farm supply cost of goods sold increased by $34.7 million (19%) during the six months ended February 28, 2003 compared to the six months ended February 28, 2002 primarily due to an acquisition, volume increases on feed, and an average cost per unit increase on energy products. In addition, during the six months ended February 28, 2003 the Country Operations segment recorded impairments of $3.2 million on its facilities. The increase in the Country Operations segment was partially offset by $10.7 million of cash received from a class action lawsuit, alleging illegal price fixing against various feed vitamin product suppliers.

Cost of goods sold in the Processed Grains and Foods segment decreased by $45.4 million (17%) compared to the six months ended February 28, 2002, primarily due to the formation of Horizon, as previously discussed, which was partially offset by refined oil volume increases of 1% and cost of raw material increases of $0.04 per pound.

MARKETING, GENERAL AND ADMINISTRATIVE. Marketing, general and administrative expenses of $91.2 million for the six months ended February 28, 2003 increased by $1.9 million (2%) compared to the six months ended February 28, 2002. Marketing, general and administrative expenses increased by $1.7 million related to an impairment on the balance of the Company's investment in Farmland, of which $1.6 million was in the Country Operations segment. In addition, marketing, general and administrative expense changes in Country Operations and Energy segments were primarily due to acquisitions.

INTEREST. Interest expense of $24.2 million for the six months ended February 28, 2003 increased by $3.2 million (15%) compared to the six months ended February 28, 2002. The average level of short-term borrowings increased $142.1 million to finance working capital needs, primarily due to increases in inventories in the Grain Marketing, Country Operations and Energy segments, related to higher commodity prices and the purchase of Farmland's wholesale energy business, discussed previously. The average short-term interest rate decreased 0.4% during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. Long-term debt borrowings increased due to an additional $175.0 million of private placement debt which was issued in October 2002.

EQUITY (LOSS) INCOME FROM INVESTMENTS. Equity income from investments of $2.4 million for the six months ended February 28, 2003 increased by $0.6 million (36%) compared to the six months ended February 28, 2002. The increase was primarily attributable to increased earnings from the Energy segment investments and decreased losses from Agriliance, an Agronomy segment investment. The increase was partially offset by decreased investment earnings in the Grain Marketing and Processed Grain and Foods segments.

MINORITY INTERESTS. Minority interests of $8.8 million for the six months ended February 28, 2003 increased by $3.1 million (54%) compared to the six months ended February 28, 2002. The net change in minority interests was primarily a result of more profitable operations within the Company's majority-owned subsidiaries during the six months ended February 28, 2003 compared to the six months ended February 28, 2002. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary.

INCOME TAXES. Income tax expense of $2.3 million for the six months ended February 28, 2003 decreased $2.3 million (51%) compared to the six months ended February 28, 2002, resulting in effective tax rates of a 5.9% and 9.6%, respectively. The income taxes and the 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 used net cash of $122.5 million and

$138.9 million during the three months ended February 28, 2003 and 2002, respectively. For the three-month period ended in 2003, net non-cash expenses of $35.6 million were offset by a net loss for the period of $4.1 million and increased working capital requirements of $154.0 million. For the three-month period ended in 2002, net income of $2.4 million and net non-cash expenses of $22.1 million were offset by increased working capital requirements of $163.4 million.

Operating activities of the Company used net cash of $120.4 million and $115.3 million during the six months ended February 28, 2003 and 2002, respectively. For the six-month period ended in 2003, net income of $36.3 million and net non-cash expenses of $59.5 million were offset by increased working capital requirements of $216.2 million. For the six-month period ended in 2002, net income of $43.7 million and net non-cash expenses of $57.6 million were offset by increased working capital requirements of $216.6 million.

CASH FLOWS FROM INVESTING ACTIVITIES

For the three months ended February 28, 2003 and 2002, the net cash flows used in the Company's investing activities totaled $18.2 million and $15.5 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $36.8 million and $30.1 million for the three months ended February 28, 2003 and 2002, 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 $80.0 million, of which $47.4 million was used for construction through February 28, 2003. 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 $0.1 million has been spent at the Laurel refinery and $15.5 million has been spent by NCRA at the McPherson refinery as of February 28, 2003. It is expected that approximately 80% of the costs will be incurred at NCRA's McPherson refinery. 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 February 28, 2003 and 2002 totaled $2.8 million and $0.1 million, respectively.

Acquisitions of intangibles were $0.1 million for each of the three months ended February 28, 2003 and 2002, respectively.

During the three months ended February 28, 2003 the changes in notes receivable resulted in a decrease in cash flows of $0.3 million, and during the three months ended February 28, 2002 the changes in notes receivable resulted in an increase in cash flows of $4.6 million.

Partially offsetting cash outlays in investing activities were proceeds from the disposition of property, plant and equipment of $7.2 million and $2.5 million for the three months ended February 28, 2003 and 2002, respectively. Also partially offsetting cash outlays were distributions received from joint ventures and investments totaling $14.5 million and $8.0 million for the three months ended February 28, 2003 and 2002, respectively.

For the six months ended February 28, 2003 and 2002, the net cash flows used in the Company's investing activities totaled $50.1 million and $54.4 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $77.4 million and $51.9 million for the six months ended February 28, 2003 and 2002, respectively.

Investments made during the six months ended February 28, 2003 and 2002 totaled $4.2 million and $6.2 million, respectively.

Acquisitions of intangibles were $0.4 million and $27.5 million for the six months ended February 28, 2003 and 2002, respectively. During the six months ended February 28, 2002, 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 six months ended February 28, 2003 the changes in notes receivable resulted in a decrease in cash flows of $11.5 million primarily from additional related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the six months ended February 28, 2002 the changes in notes receivable resulted in an increase of $2.4 million.

Distributions to minority owners for the six months ended February 28, 2003 and 2002 were $0.5 million and $4.4 million, respectively, and were primarily related to NCRA.

Partially offsetting cash outlays in investing activities were distributions received from joint ventures and investments totaling $31.5 million and $23.4 million for the six months ended February 28, 2003 and 2002, respectively. Also partially offsetting cash outlays were proceeds from the disposition of property, plant and equipment of $11.9 million and $8.6 million for the six months ended February 28, 2003 and 2002, 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 February 28, 2003,

August 31, 2002 and February 28, 2002, the Company had total short-term indebtedness outstanding on these various facilities and other short-term notes payable totaling $370.6 million, $332.5 million and $298.2 million, respectively. The increase in 2003 is primarily due to increases in inventories in the Grain Marketing and Country Operations segments related to higher grain prices. In October 2002, $175.0 million received from private placement proceeds was used to pay down the Company's 364-day credit facility. In January 2003, $83.0 million of proceeds received from the issuance of the Company's preferred stock (net of broker commissions of $3.2 million) was also used to pay down the 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 $45.0 million, $75.0 million and $75.0 million on February 28, 2003, August 31, 2002 and February 28, 2002, respectively. Repayments of $30.0 million were made on this facility during the three months ended February 28, 2003.

The Company finances its long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and cooperative banks. 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 $141.0 million, $144.3 million and $147.6 million on February 28, 2003, August 31, 2002 and February 28, 2002, respectively. Repayments of $1.6 million and $3.3 million were made on this facility during each of the three months and six months ended February 28, 2003 and 2002.

Also in June 1998, the Company completed 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.

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 completed a private placement with several insurance companies for long-term debt in the amount of $175.0 million which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and 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 $16.5 million, $18.0 million and $19.5 million on February 28, 2003, August 31, 2002 and February 28, 2002, respectively. Repayments of $0.8 million and $1.5 million were made during each of the three months and six months ended February 28, 2003 and 2002.

On February 28, 2003, the Company had total long-term debt outstanding of $709.9 million, of which $219.1 million was bank financing, $480.0 million was private placement proceeds and $10.8 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 six months ended February 28, 2003 other than for the $30.0 million repayment on the five-year revolver which was classified as a current payable on August 31, 2002, and 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 February 28, 2003.

During the three months ended February 28, 2003 and 2002, the Company received no proceeds from borrowings on a long-term basis, and repaid long-term debt of $33.4 million and $4.3 million, respectively.

During the six months ended February 28, 2003 and 2002, 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 $37.3 million and $10.1 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 were distributed during the three months ended February 28, 2003. The cash portion of this distribution, deemed by the Board of Directors to be 30%, was $26.4 million. During the three months ended February 28, 2002 the Company distributed cash patronage of $39.6 million from the patronage earnings of the fiscal year ended August 31, 2001.

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 that have been outstanding for more 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 that have been outstanding for more 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 $24.4 million was redeemed during the six months ended February 28, 2003. During the six months ended February 28, 2002 the Company redeemed $23.2 million of equity. Redemptions of equity by the Company during the three-month periods ended February 28, 2003 and 2002 were $21.9 million and $21.4 million, respectively.

In January 2003, the Board of Directors authorized the sale and issuance of up to 3,500,000 shares of 8% Cumulative Redeemable Preferred Stock (New Preferred) at a price of $25.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering 3,000,000 shares of the New Preferred (with an additional over-allotment option of 450,000 shares granted to the underwriters), which was declared effective on January 27, 2003. The shares were subsequently sold and are listed on the Nasdaq National Market. As of February 28, 2003 the Company had $86.3 million (3,450,000 shares) of the New Preferred outstanding. Expenses related to the issuance of the New Preferred were $3.7 million through the same period.

As of February 28, 2003 the Company had $9.5 million (9,454,874 shares) of 8% Preferred Stock (Old Preferred) outstanding. The Company had previously suspended sales of the Old Preferred, and on February 25, 2003 the Company filed a post-effective amendment to terminate the offering of the Old Preferred shares. On March 5, 2003 the Company's Board of Directors authorized the redemption and conversion of the Old Preferred shares. A redemption notification and a conversion election form were sent to holders of the Old Preferred shares on March 21, 2003 explaining that on April 25, 2003 all shares of the Old Preferred will be redeemed by the Company for $1 per share unless they are converted into shares of the Company's New Preferred. The conversion will not change the base liquidation amount or dividend amount of the Old Preferred since 25 shares of the Old Preferred will convert to 1 share of the New Preferred.

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 six months ended February 28, 2003.

GUARANTEES:

The Company is a guarantor for lines of credit for related companies of which $46.5 million was outstanding on February 28, 2003. The Company's bank covenants allow maximum guarantees of $100.0 million. All outstanding loans with respective creditors are current as of February 28, 2003.

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. The Company has recently opened a grain marketing office in Brazil that will impact its exposure to foreign currency fluctuations.

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 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.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for obligations the guarantor has undertaken in issuing the guarantee. The Company has adopted this interpretation for the quarter ended February 28, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". The interpretation addresses consolidation of certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. 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 February 28, 2003 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 6. EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT	DESCRIPTION
4.1	Resolution amending the Certificate of Designations for the Company's 8% Preferred Stock (previously filed).
10.1	2002 Amended and Restated Credit Agreement (364-Day Revolving Loan) dated December 17, 2002 by and among National Cooperative Refinery Association, CoBank, ACB and Farm Credit Bank of Wichita, D/B/A U.S. AgBank, FCB (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

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(Date)	John Schmitz Executive Vice President and Chief Financial Officer