OMEGA HEALTHCARE INVESTORS INC
Form DEF 14A
April 25, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
SCHEDULE 14A
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. __)
Filed by Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

Omega Healthcare Investors, Inc.

(Name of Registrant as Specified in Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1)
Title of each class of securities to which transaction applies:

(2)
Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1)
Amount previously paid:

(2)
Form, Schedule or Registration Statement No.:

(3)
Filing party:

(4)
Date filed:

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OMEGA HEALTHCARE INVESTORS, INC.
200 International Circle, Suite 3500
Hunt Valley, Maryland 21030
(410) 427-1700

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
June 9, 2016

To our Stockholders:
The Annual Meeting of Stockholders of Omega Healthcare Investors, Inc. ("Omega" or the "Company") will be held at the Company's principal executive offices at 200 International Circle, Suite 3500, Hunt Valley, Maryland, on Thursday, June 9, 2016, at 10:00 A.M. EDT, for the following purposes:

1. To elect six members to Omega's Board of Directors;

2. To ratify the selection of Ernst & Young LLP as our independent auditor for fiscal year 2016;

3. To hold an advisory vote on executive compensation; and

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The nominees for election as directors are Norman R. Bobins, Craig R. Callen, Bernard J. Korman, Edward Lowenthal, Ben W. Perks and Stephen D. Plavin each of whom presently serves as a director of Omega.
Our Board of Directors has fixed the close of business on April 19, 2016 as the record date for the determination of stockholders who are entitled to notice of and to vote at our Annual Meeting or any adjournments or postponements thereof.
We are choosing to follow the Securities and Exchange Commission ("SEC") rules that allow companies to furnish proxy materials to their stockholders primarily over the Internet. We believe this process helps to expedite stockholders' receipt of proxy materials, lowers the costs of the meeting and conserves natural resources. On or about April 26, 2016, we will mail to our stockholders a Notice Regarding the Availability of Proxy Materials (the "Notice"), which contains instructions on how to access our 2016 Proxy Statement and Annual Report to Stockholders for fiscal year 2015 and how to vote. The Notice also includes instructions on how to receive a paper copy of the proxy materials, including the meeting notice, 2016 Proxy Statement and proxy card.
We encourage you to attend our Annual Meeting. Whether you are able to attend or not, we urge you to indicate your vote (i) FOR the election of the director nominees, (ii) FOR the ratification of the selection of Ernst & Young LLP as our independent auditor, and (iii) FOR the approval of the Company's executive compensation in an advisory vote, by following the instructions for voting on the Notice, or, if you received a paper or electronic copy of our proxy materials, by completing, signing, dating and returning your proxy card or by Internet or telephone voting as described in the proxy statement. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card or otherwise submitted a vote by Internet or telephone voting.
By order of Omega's Board of Directors,

C. Taylor Pickett

April 25, 2016
Hunt Valley, Maryland

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the meeting, please vote by (1) using the Internet website shown on the Notice, (2) using the Internet website or toll-free telephone number shown on the proxy card (if included), or (3) completing, signing, dating and mailing the proxy card (if included) promptly in the enclosed envelope. It is important that you return the proxy card (if included) or otherwise submit a vote on the Internet or by telephone promptly whether or not you plan to attend the meeting, so that your shares are properly voted.

If you hold shares through a broker, bank or other nominee (in "street name"), you may receive a separate voting instruction form, or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the Internet or telephone.

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OMEGA HEALTHCARE INVESTORS, INC.
200 International Circle, Suite 3500
Hunt Valley, Maryland 21030
(410) 427-1700
PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
June 9, 2016
The accompanying proxy is solicited by the Board of Directors to be voted at the Annual Meeting of Stockholders of Omega Healthcare Investors, Inc. to be held at the Company's principal executive offices at 200 International Circle, Suite 3500, Hunt Valley, Maryland, at 10:00 A.M. EDT on June 9, 2016, and any adjournments or postponements of the meeting.
This Proxy Statement, and our Annual Report to Stockholders for fiscal year 2015, which includes our Annual Report on Form 10-K filed with the SEC on February 29, 2016, are available electronically at www.proxyvote.com.
RECORD DATE
Our Board of Directors has fixed April 19, 2016, as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof. As of the close of business on the record date, there were 188,170,595 shares of our common stock, par value $0.10 per share, outstanding and entitled to vote. As of the record date, our directors and executive officers beneficially owned 2.57% shares of our common stock.
QUORUM AND VOTING
Quorum. Holders of a majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting as of the record date must be present in person or represented by proxy at the Annual Meeting to constitute a quorum for the conduct of business at the Annual Meeting. Proxies marked as abstaining and "broker non-votes" will be treated as shares present for purposes of determining the presence of a quorum.
Voting. We are choosing to follow SEC rules that allow companies to furnish proxy materials to stockholders over the Internet. If you received a Notice by mail, you will not receive a printed copy of the proxy materials, unless you specifically request one. The Notice also instructs you on how to submit your proxy over the Internet. If you received the Notice and would still like to receive a printed copy of our proxy materials, you should follow the instructions for requesting these materials in the Notice. We plan to mail the Notice to stockholders by April 26, 2016.
Each holder of record of common stock on the record date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting. We urge stockholders to vote promptly either by:

- Online Internet Voting: Go to www.proxyvote.com and follow the instructions
- By Telephone: Call toll-free 1-800-690-6903 and follow the instructions
- By Mail: Complete, sign, date and return your proxy card in the enclosed envelope.

If your shares are held in "street name," the availability of telephone and internet voting will depend on the voting processes of the applicable bank or brokerage firm; therefore, it is recommended that you follow the voting instructions on the form you receive from your bank or brokerage firm.
If you vote by proxy, the individuals named on the enclosed proxy card will vote your shares in the manner you indicate. If you do not specify voting instructions, then the proxy will be voted in accordance with recommendations of the Board of Directors, as described in this Proxy Statement. If any other matter properly comes before the Annual Meeting, the designated proxies will vote on that matter in their discretion.

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Ability to Revoke Proxies. A stockholder voting by proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked by filing with our Secretary (i) a signed instrument revoking the proxy or (ii) a duly executed proxy bearing a later date. A proxy also may be revoked if the person executing the proxy is present at the meeting and elects to vote in person. If the proxy is not revoked, it will be voted by those named in the proxy.

Broker Non-Votes. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner.

The vast majority of our stockholders hold their shares through a broker, trustee or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

- Stockholder of Record — If your shares are registered directly in your name with our transfer agent, you are considered, with respect to those shares, the "stockholder of record." As the stockholder of record, you have the right to grant your voting proxy directly to us or to a third party, or to vote in person at the Annual Meeting.

- Beneficial Owner — If your shares are held in a brokerage account, by a trustee or by another nominee, you are considered, with respect to those shares, the "beneficial owner." As the beneficial owner of those shares, you have the right to direct your broker, trustee or nominee how to vote, and you also are invited to attend the Annual Meeting in person. Because a beneficial owner is not the stockholder of record, however, you may not vote these shares in person at the Annual Meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the Annual Meeting.

Each stockholder should instruct his/her/its broker on how to vote on the issues presented for consideration. Brokers who do not receive instructions are entitled to vote those shares ONLY with respect to the ratification of the selection of Ernst & Young LLP as our independent auditor for fiscal year 2016, but not with respect to any other matter to be presented at the Annual Meeting.

VOTES REQUIRED

Election of Directors. You may vote "FOR" or "WITHHELD" with respect to each nominee for the Board of Directors. Because the election of directors is not a contested election, each director will be elected by the vote of the majority of the votes cast. A "contested election" means an election in which the number of candidates exceeds the number of directors to be elected. A "majority of the votes cast" means that the number of the votes cast "for" a director exceeds the number of votes "withheld." Abstentions and broker non-votes, if any, will have no effect on the outcome of the election of directors.

Ratification of Selection of Ernst & Young LLP as Our Independent Auditor. The ratification of the selection of Ernst & Young LLP as our independent auditor for fiscal year 2016 will require the affirmative vote of a majority of the votes cast by all stockholders. Abstentions and broker non-votes, if any, will have no effect on the outcome of the vote on this proposal.

Advisory Vote on Executive Compensation. The approval, on an advisory basis, of the compensation of our executive officers will be decided by a majority of the votes cast by all stockholders. Abstentions and broker non-votes, if any, will have no effect on the outcome of the vote on this proposal. This vote on executive compensation is not binding on the Board of Directors or the Company. Our Board of Directors, however, will consider the results of the vote when considering future executive compensation arrangements.

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PROPOSAL 1 — ELECTION OF DIRECTORS

Director Nominees and Voting Requirements

Our Board of Directors currently consists of 11 directors. Mr. Thomas F. Franke will retire upon the completion of his current term as a director as of the Annual Meeting. The Company is grateful to Mr. Franke for his years of dedicated service since the founding of the Company. The Board of Directors has fixed the size of the whole Board at 10 directors as of the election of directors at the Annual Meeting.

Prior to 2015, stockholders elected approximately 1/3 of the members of the Board at each annual meeting of stockholders and directors were elected to staggered three-year terms. At the 2015 Annual Meeting, stockholders approved an amendment to our Charter to declassify our Board and provide for the annual election of directors, to be phased in as incumbent directors complete the terms to which they were previously elected. Four current members of the Board were previously elected to terms continuing beyond the 2016 Annual Meeting as shown below, and six directors are to be elected at the Annual Meeting.

Our Nominating and Corporate Governance Committee of the Board of Directors has nominated Norman R. Bobins, Craig R. Callen, Bernard J. Korman, Edward Lowenthal, Ben W. Perks and Stephen D. Plavin for election as directors. Unless authority to vote for the election of directors has been specifically withheld, the persons named in the accompanying proxy card intend to vote FOR the election of the nominees named above to hold office until the 2017 Annual Meeting or until their respective successors have been duly elected and qualified.

If any nominee becomes unavailable for any reason (which event is not anticipated), the shares represented by the enclosed proxy may (unless the proxy contains instructions to the contrary) be voted for such other person or persons as may be determined by the holders of the proxies.

Your broker may not vote your shares in the election of directors unless you have specifically directed your broker how to vote your shares. As a result, we urge you to instruct your broker how to vote your shares.

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Information Regarding Directors

Information about each director nominee, and the other individuals who currently serve on our Board of Directors, is set forth below. Individuals not standing for election at the Annual Meeting are presented under the heading "Continuing Directors."

Director Nominees

Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years
Norman R. Bobins (73)	2015	Mr. Bobins brings to our board years of banking experience, financial and accounting knowledge and experience as a director of public companies. Mr. Bobins was appointed to our Board effective April 1, 2015 pursuant to that certain Agreement and Plan of Merger, in connection with our acquisition of Aviv REIT Inc. ("Aviv") by merger. Mr. Bobins served as a director of Aviv from March 26, 2013 until our merger with Aviv on April 1, 2015. Prior to that, Mr. Bobins served as a member of the advisory board of Aviv Asset Management LLC from 2009 until March 26, 2013. Mr. Bobins was named Non-Executive Chairman of The PrivateBank and Trust Company, a bank subsidiary of PrivateBancorp, Inc., in July 2008. From May 2007 until October 2007, Mr. Bobins was Chairman of the Board of LaSalle Bank Corporation and thereafter served as Chairman Emeritus until July 2008. From 2003 to 2007, he was President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, he was President and Chief Executive Officer of ABN AMRO North America. Mr. Bobins also serves on the boards of directors of AAR Corp. and AGL Resources Inc. In the past five years, Mr. Bobins also served on the boards of Nicor, Inc. and SIMS Metal Management.
Craig R. Callen (60)	2013	Mr. Callen brings to our Board financial and operating experience as an advisor, investment banker and board member in the healthcare industry. Mr. Callen is currently a Senior Advisor at Crestview Partners, a private equity firm. Mr. Callen retired as Senior Vice President of Strategic Planning and Business Development for Aetna Inc., where he also served as a Member of the Executive Committee from 2004-2007. In his role at Aetna, Mr. Callen reported directly to the Chairman and CEO and was responsible for oversight and development of Aetna's corporate strategy, including mergers and acquisitions. Prior to joining Aetna in 2004, Mr. Callen was a Managing Director and Head of U.S. Healthcare Investment Banking at Credit Suisse and co-head of Health Care Investment Banking at Donaldson Lufkin & Jenrette. During his 20 year career as an investment banker in the healthcare practice, Mr. Callen successfully completed over l00 transactions for clients and contributed as an advisor to the boards of directors and managements of many of the leading healthcare companies in the U.S. Mr. Callen currently serves as a board member of HMS Holdings, Inc. (NYSE-HSMY), and Classical Homes Preservation Trust. Previously he served on the boards of Symbion, Inc., a Crestview portfolio company, Sunrise Senior Living, Inc.

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Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years
		(NYSE-SRZ) and Kinetic Concepts, Inc. (NYSE-KCI). Mr. Callen is a graduate of Boston University and the Harvard Business School.
Bernard J. Korman (84)	1993	Mr. Korman brings to our Board extensive experience in healthcare, experience as a director of a real estate investment trust (“REIT”), and experience as a Chairman from his former role as Chairman of Pep Boys. Mr. Korman has served as Chairman of the Board since March 8, 2004. Mr. Korman served as Chairman of the Board of Trustees of Philadelphia Health Care Trust, a private healthcare foundation, from December 1995 to June 30, 2010. Mr. Korman is also a Director of The New America High Income Fund, Inc. (NYSE:HYB) (financial services) and a past director of Medical Nutrition USA, Inc., a nutritional products company and NutraMax Products, Inc., a consumer health care products company. He was formerly President, Chief Executive Officer and director of MEDIQ Incorporated, a publicly held health care service provider from 1977 to 1995. Mr. Korman served as a Trustee of Kramont Realty Trust (NYSE:KRT), a publicly held REIT, from June 2000 until its merger in April 2005. Mr. Korman also served as a director of The Pep Boys, Inc. (NYSE:PBY) from 1983, and as Chairman of the Board from May 2003 until his retirement from such board in September 2004.
Edward Lowenthal (71)	1995	Mr. Lowenthal brings to our Board years of experience in the development and operation of real estate. Mr. Lowenthal currently serves as Chairman of the Board of Directors of American Campus Communities (NYSE:ACC) (a public developer, owner and operator of student housing at the university level and serves as a trustee of the Manhattan School of Music). From 2004 to 2013, he was a Director of Desarrolladora Homex (NYSE:HXM) (a Mexican homebuilder) and serves as a Trustee of the Manhattan School of Music. Mr. Lowenthal also served as non-executive Chairman of REIS, Inc. (a public provider of real estate market information and valuation technology (NASDAQ:REIS) from November 2010 until his term expired in 2012. From January 1997 to March 2002, Mr. Lowenthal served as President and Chief Executive Officer of Wellsford Real Properties, Inc. (a real estate merchant bank) and was President of the predecessor of Wellsford Real Properties, Inc. since 1986. He is co-founder of Wellsford Strategic Partners, a private real estate investment company and is non-executive Chairman of Tiburon Lockers, Inc., a private rental locker company.
Ben W. Perks (74)	2015	Mr. Perks brings to our Board years of public accounting, public company, financial and accounting reporting experience. Mr. Perks was appointed to our Board effective April 1, 2015 pursuant to the Merger Agreement with Aviv. Mr. Perks served as a director of Aviv since 2007 until our merger with Aviv on April 1, 2015. Mr. Perks was the

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Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years
		Executive Vice President and Chief Financial Officer of Navigant Consulting, Inc., an NYSE-listed company, from May 2000 until his retirement in August 2007. Prior to joining Navigant, Mr. Perks was with PricewaterhouseCoopers LLP and its predecessors for 32 years, including 22 years as a partner in the Audit and Financial Advisory Services groups.
Stephen D. Plavin (56)	2000	Mr. Plavin brings to our Board management experience in the banking and mortgage-based real estate investment trust sector, as well as significant experience in real estate capital markets transactions. Mr. Plavin is a Senior Managing Director of the Blackstone Group (since December, 2012) and the Chief Executive Officer and a Director of Blackstone Mortgage Trust, Inc., a New York City-based mortgage REIT that is managed by Blackstone. Prior to joining Blackstone, Mr. Plavin served as CEO of Capital Trust, Inc. (predecessor of Blackstone Mortgage Trust), since 2009. From 1998 until 2009, Mr. Plavin was Chief Operating Officer of Capital Trust and was responsible for all of the lending, investing and portfolio management activities of Capital Trust, Inc. Prior to that time, Mr. Plavin was employed for 14 years with Chase Manhattan Bank and its securities affiliate, Chase Securities Inc. Mr. Plavin held various positions within the real estate finance unit of Chase, and its predecessor, Chemical Bank, and in 1997 he became co-head of global real estate for Chase. Mr. Plavin is also Chairman of the Board of Directors of WCI Communities, Inc. (NYSE:WCIC), a publicly-held developer of residential communities.

Continuing Directors

Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years	Term to Expire in
Craig M. Bernfield (55)	2015	Mr. Bernfield brings to our Board extensive business, managerial and leadership experience based primarily on his service on the Chairman of the board and Chief Executive Officer of Aviv. Mr. Bernfield was appointed to our Board effective April 1, 2015 pursuant to the Merger Agreement with Aviv. Mr. Bernfield is former Chairman of the Board of Directors and Chief Executive Officer of Aviv and served in such capacity since he co-founded Aviv Healthcare Properties Limited Partnership in 2005 until our merger with Aviv on April 1, 2015. From 1990 until co-founding Aviv in 2005, Mr. Bernfield was Chief Executive Officer and President of Karell Capital Ventures, Inc., which managed the entities that were combined in 2005 in connection with the formation of Aviv's operating partnership. Mr. Bernfield has been an investor in the	2017

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Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years	Term to Expire in
		skilled nursing home industry for approximately 20 years.	
Barbara B. Hill (63)	2013	Ms. Hill brings to our Board years of experience in operating healthcare-related companies. Ms. Hill is currently an Operating Partner of NexPhase Capital (formerly Moelis Capital Partners), a private equity firm, where she focuses on healthcare-related investments and providing strategic and operating support for Moelis' healthcare portfolio companies. She began as an Operating Partner of Moelis Capital Partners in March 2011. From March 2006 to September 2010, Ms. Hill served as Chief Executive Officer and a director of ValueOptions, Inc., a managed behavioral health company, and FHC Health Systems, Inc., its parent company. From August 2004 to March 2006, she served as Chairman and Chief Executive Officer of Woodhaven Health Services, an institutional pharmacy company. In addition, from 2002 to 2003, Ms. Hill served as President and a director of Express Scripts, Inc., a pharmacy benefits management company. In previous positions, Ms. Hill was responsible for operations nationally for Cigna HealthCare, and also served as the CEO of health plans owned by Prudential, Aetna, and the Johns Hopkins Health System. She was active with the boards or committees of the Association of Health Insurance Plans and other health insurance industry groups. Currently, she serves as a board member of St. Jude Medical Corporation, a medical device company, Revera Inc., a Canadian company operating senior facilities throughout Canada and the U.S. and Integra LifeSciences Holdings Corporation, a medical device company.	2017
Harold J. Kloosterman (73)	1992	Mr. Kloosterman brings to our Board years of experience in the development and management of real estate. Mr. Kloosterman has served as President of Cambridge Partners, Inc., a company he formed in 1985, from 1985 thru 2014. He has been involved in the development and management of commercial, apartment and condominium projects in Grand Rapids and Ann Arbor, Michigan and in the Chicago area. Mr. Kloosterman was formerly a Managing	2017

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Director (age as of May 15)	Year First Became a Director	Business Experience During Past 5 Years	Term to Expire in
		Director of Omega Capital from 1986 to 1992. Mr. Kloosterman has been involved in the acquisition, development and management of commercial and multifamily properties since 1978. He has also been a senior officer of LaSalle Partners, Inc. (now Jones Lang LaSalle).	
C. Taylor Pickett (54)	2002	As Chief Executive Officer of our Company, Mr. Pickett brings to our Board a depth of understanding of our business and operations, as well as financial expertise in long-term healthcare services, mergers and acquisitions. Mr. Pickett has served as the Chief Executive Officer of our Company since 2001. Mr. Pickett is also a Director and has served in this capacity since 2002. Mr. Pickett also serves as a Director of Corporate Office Properties Trust (NYSE: OFC), an office property REIT. From 1998 to 2001, Mr. Pickett served as the Executive Vice President and Chief Financial Officer of Integrated Health Services, Inc. (“IHS”), a public company specializing in post-acute healthcare services. Mr. Pickett served in a variety of executive roles at IHS from 1993 through 1998. Prior to joining IHS, Mr. Pickett held various positions at PHH Corporation and KPMG Peat Marwick.	2017

Voting Required for Election

Each director will be elected by the vote of the majority of the votes cast. A “majority of the votes cast” means that the number of the votes cast “for” a director exceeds the number of votes “withheld.” Abstentions and broker non-votes, if any, will have no effect on the outcome of the election of directors.

Recommendation of the Board

The Board of Directors unanimously recommends a vote FOR the election of Messrs. Bobins, Callen, Korman, Lowenthal, Perks and Plavin.

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STOCK OWNERSHIP INFORMATION

The following table sets forth information regarding the beneficial ownership of our common stock as of April 19, 2016 for:

- each of our directors and the executive officers appearing in the table under "Executive Compensation Tables and Related Information — Summary Compensation Table" included elsewhere in this Proxy Statement; and

- all persons known to us to be the beneficial owner of more than 5% of our outstanding common stock.

Beneficial ownership of our common stock, for purposes of this Proxy Statement, includes shares of our common stock as to which a person has voting and/or investment power, or the right to acquire such power within 60 days of April 19, 2016. Except for shares of restricted stock and unvested units as to which the holder does not have investment power until vesting or as otherwise indicated in the footnotes, the persons named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them, subject to community property laws where applicable. The "Common Stock Beneficially Owned" columns do not include unvested time–based restricted stock units ("RSUs"), unvested performance-based restricted stock units ("PRSUs"), and deferred stock units under our Deferred Compensation Plan (except to the extent such units vest or the applicable deferral period expires within 60 days of April 19, 2016) or common stock issuable in respect of operating partnership units ("OP Units") or profits interests in OHI Healthcare Properties Limited Partnership ("Omega OP"). Accordingly, we have provided supplemental information regarding deferred stock units, unvested RSUs, and earned but not yet vested PRSUs under the caption "Common Stock Equivalents." For information regarding unearned, unvested PRSUs for performance periods not yet completed, see "Outstanding Equity Awards at Fiscal Year End" below.

The business address of the directors and executive officers is 200 International Circle, Suite 3500, Hunt Valley, Maryland 21030. As of April 19, 2016 there were 188,170,595 shares of our common stock outstanding and no preferred stock outstanding.

	Common Stock Beneficially Owned		Other Common Stock Equivalents			
Beneficial Owner	Number of Shares	Percent of Class	Unvested RSUs(1)	Deferred Stock Units(2)	Operating Partnership Units(3)	Percent of Class including Common Stock Equivalents(4)
Craig M. Bernfield	2,719,913(5)	1.43%			2,797,836(5)	2.75%
Norman R. Bobins	43,617(6)	*				*
Daniel J. Booth	216,283	0.11%	89,652			0.15%
Craig R. Callen	3,000	*		14,822(7)		*
R. Lee Crabill(8)	104,587	*				*
Thomas F. Franke	132,935(9)	*				*
Barbara B. Hill	13,390(10)	*				*
Steven J. Insoft	424,581(11)	0.22%	49,179		78,742(11)	0.28%
Harold J. Kloosterman	22,069	*		43,675(12)		*
Bernard J. Korman	674,967	0.35%		12,953(13)		0.34%
Edward Lowenthal	43,802(14)	*		5,324		*

Ben W. Perks	46,413(15)	*				*
C. Taylor Pickett	262,661	0.14%	164,322	269,181		0.35%
Stephen D. Plavin	71,346(16)	*				*
Michael D. Ritz	5,888	*	15,594	19,927		*
Robert O. Stephenson	219,027	0.11%	73,705			0.15%
Directors and executive officers as a group (15 persons)(17)	4,899,892	2.57%	392,452	365,882	2,876,578	4.26%

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Beneficial Owner	Common Stock Beneficially Owned		Other Common Stock Equivalents			
	Number of Shares	Percent of Class	Unvested RSUs(1)	Deferred Stock Units(2)	Operating Partnership Units(3)	Percent of Class including Common Stock Equivalents(4)
5% Beneficial Owners:(18)						
Cohen & Steers Inc.	27,548,727(19)	14.45%				
The Vanguard Group, Inc.	26,649,792(20)	13.98%				
BlackRock, Inc.	14,940,019(21)	7.84%				
Daiwa Asset Management Co. LTD	10,337,870(22)	5.42%				

*
Less than 0.10%

(1)
Incudes unvested RSUs, which in each case vest more than 60 days from April 19, 2016, subject to continued employment. Each unit represents the right to receive one share of common stock. See “Outstanding Equity Awards at Fiscal Year End.”

(2)
Deferred stock units representing the deferral of vested equity awards pursuant to the Company’s Deferred Stock Plan. Includes deferred stock units associated with RSUs and PRSUs vesting within 60 days which the holder has elected to defer. The deferred stock units will not be converted until the date or event specified in the applicable deferred stock agreement. See “Nonqualified Deferred Compensation.”

(3)
Messrs. Bernfield and Insoft beneficially own OP Units in Omega OP. OP Units are redeemable at the election of the holder for cash equal to the value of one share of our common stock priced at the average closing price for the 10-day trading period ending on the date of the holder’s notice of election to redeem the OP Units, subject to the Company’s election to exchange the OP Units tendered for redemption for shares of Omega common stock on a one-for-one basis, in each case subject to adjustment.

(4)
Percent of class reflects 188,170,595 outstanding shares of common stock outstanding as of April 19, 2016, plus a total of 12,298,674 common stock equivalents, consisting of 474,638 unvested restricted stock units, 365,882 deferred stock units, 2,510,809 options and approximately 8,947,345 OP Units.

(5)
Common Stock Beneficially Owned includes exercisable stock options of 2,175,265 shares held by Mr. Bernfield and 154,766 exercisable stock options held by each of the Generation Trust f/b/o Jamie Lauren Bernfield c/u Bernfield Exempt Family Trust dated December 20, 2012 and the Generation Trust f/b/o Sari Jessica Bernfield c/u Bernfield Exempt Family Trust dated December 20, 2012, trusts for the benefit of Mr. Bernfield’s children of which Mr. Bernfield’s spouse serves as trustee. OP Units include (i) 94,619 OP units held by CMB Aviv Acquisition, L.L.C.,

a limited liability company of which Mr. Bernfield is the sole member and manager and (ii) 2,797,836 OP units held by Craig M. Bernfield C Unit, L.L.C., a limited liability company of which Mr. Bernfield is a member and the sole manager. Mr. Bernfield disclaims beneficial ownership of the securities held by Craig M. Bernfield C Unit, L.L.C. and such trusts except to the extent of his pecuniary interest therein. A total of 16,065 of the OP Units are held by Mr. Bernfield subject to a phantom unit award grant to Mr. Insoft. Mr. Bernfield has no pecuniary interest in the OP Units subject to the phantom unit award and disclaims of such securities.

(6)
Includes 3,000 shares of restricted stock, subject to forfeiture until vested.

(7)
Includes deferred stock units with respect to 6,000 shares of restricted stock, subject to forfeiture until vested.

(8)
Retired July 31, 2015.

(9)
Includes (a) 47,182 shares owned by a family limited liability company (Franke Family LLC) of which Mr. Franke is a member and (b) 6,000 shares of restricted stock, subject to forfeiture until vested. Mr. Franke has pledged 100,557 shares to secure borrowings that may be from time to time outstanding under a lending facility.

(10)
Includes 6,000 shares of restricted stock, subject to forfeiture until vested.

(11)
Operating Partnership Units includes 78,742 Omega OP Units held by Steven J. Insoft Investments, L.L.C., which is 99% owned by Mr. Insoft and 1% owned by his wife, Susan M. Insoft. 48,194 of Mr. Insoft’s shares are pledged as collateral to secure a loan in favor of Mr. Insoft. Does not include 32,130 OP Units subject to a phantom unit award grant to Mr. Insoft because Mr. Insoft does not have the right to acquire voting or dispositive power with respect to such securities within 60 days.

(12)
Includes deferred stock units with respect to 6,000 shares of restricted stock, subject to forfeiture until vested.

(13)
Includes deferred stock units with respect to 6,999 shares of restricted stock, subject to forfeiture until vested.

(14)
Includes 6,000 shares of restricted stock, subject to forfeiture until vested.

(15)
Includes exercisable stock options for 26,012 options shares of common stock. Includes 3,000 shares of restricted stock, subject to forfeiture until vested.

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(16)
Includes 6,000 shares of restricted stock, subject to forfeiture until vested. The remainder of Mr. Plavin's shares are owned jointly with his wife.

(17)
Excludes R. Lee Crabill who retired from the Company effective July 31, 2015.

(18)
Except as otherwise indicated below, information regarding 5% beneficial owners is based on information reported on Schedule 13G filings by the beneficial owners indicated with respect to the common stock of Omega.

(19)
Based on a Schedule 13G/A filed Cohen & Steers Inc. on February 16, 2016. Cohen & Steers Inc. is located at 280 Park Avenue New York, New York 10017.

(20)
Based on a Schedule 13G/A filed by The Vanguard Group, Inc. on February 11, 2016. The Vanguard Group, Inc. is located at 100 Vanguard Blvd. Malvern, PA 19355. Includes 133,960 shares of common stock over which The Vanguard Group Inc. has shared voting power and 258,987 shares of common stock over which The Vanguard Group, Inc. has shared dispositive power.

(21)
Based on a Schedule 13G/A filed by BlackRock Inc. on February 10, 2016. BlackRock Inc. is located at 55 East 52nd Street New York, New York 10022.

(22)
Based on a Schedule 13G/A filed by Daiwa Asset Management Co. LTD on January 27, 2016 is located at 9-1 Marunouchi 1-chrome, Chiyoda-ku, Tokyo, Japan 100-6753.

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BOARD COMMITTEES AND CORPORATE GOVERNANCE

Board of Directors and Committees of the Board

The members of the Board of Directors on the date of this Proxy Statement and the Committees of the Board on which they serve are identified below.

Director	Board	Audit Committee	Compensation Committee	Investment Committee	Nominating and Corporate Governance Committee
Craig M. Bernfield	Member				Member
Norman R. Bobins	Member			Member	
Craig R. Callen	Member			Member	
Thomas F. Franke	Member		Co-Chairman		Member
Barbara B. Hill	Member	Member			
Harold J. Kloosterman	Member	Member	Member	Chairman	Member
Bernard J. Korman	Chairman		Member	Member	Member
Edward Lowenthal	Member	Member	Co-Chairman		Chairman
Ben W. Perks	Member	Member			
C. Taylor Pickett	Member			Member	
Stephen D. Plavin	Member	Chairman	Member		Member

The Board of Directors held 13 meetings during 2015. Each member of the Board of Directors attended more than 75% of the meetings of the Board of Directors and of the committees of which such director was a member in 2015. Mr. Korman, as Chairman of the Board, presides over any meeting, including regularly scheduled executive sessions of the non-management directors. If Mr. Korman is not present at such a session, the presiding director is chosen by a vote of those present at the session. Except for Mr. Pickett, all of the members of the Board of Directors meet the NYSE listing standards for independence. While the Board of Directors has not adopted any categorical standards of independence, in making these independence determinations, the Board of Directors noted that no director other than Mr. Pickett (a) received direct compensation from our Company other than director annual retainers and meeting fees, (b) had any relationship with our Company or a third party that would preclude independence or (c) had any material business relationship with our Company and its management, other than as a director of our Company. Each of the members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee meets the NYSE listing standards for independence. While we invite our directors to attend our Annual Meeting of Stockholders, we currently do not have a formal policy regarding director attendance. Mr. Pickett was the only director who attended the Annual Meeting last year.

Board Leadership Structure and Risk Oversight

Since 2001, an independent non-employee director has served as the Chairman of the Board of Directors rather than our Chief Executive Officer. We separated the roles of Chief Executive Officer and Chairman of the Board in recognition of the difference between the two roles. The Chief Executive Officer is responsible for implementing the strategic direction for the Company as approved by the Board of Directors and the management of the day-to-day operations of the Company, while the Chairman of the Board provides guidance to the Chief Executive Officer, and sets the agenda for and presides over meetings of the Board.

The Board of Directors, as a whole and at the committee level, plays an important role in overseeing the management of risk. Management is responsible for identifying the significant risks facing the Company, implementing risk management strategies that are appropriate for the Company’s business and risk profile, integrating consideration of risk and risk management into the Company’s decision-making process and communicating information with respect to material risks to the Board or the appropriate committee.

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Portfolio and investment risk is one of the principal risks faced by the Company. We manage portfolio and investment risk by, among other things, seeking Investment Committee and/or Board approval for new investments over designated thresholds and providing detailed underwriting information on such proposed investments to the Investment Committee or the Board, as the case may be. In addition, our full Board regularly reviews the performance, credit information and coverage ratios of our operators.

Consistent with the rules of the NYSE, the Audit Committee provides oversight with respect to risk assessment and risk management, the Company’s financial statements and internal control over financial reporting. The Compensation Committee reviews risks associated with the Company’s compensation plans and arrangements. While each committee monitors certain risks and the management of such risks, the full Board is regularly informed about such matters. The full Board generally oversees risk and risk management issues otherwise arising in the Company’s business and operations.

Audit Committee

The Audit Committee met seven times in 2015, which included one joint meeting with the Board and other committees. Its primary function is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to: (i) the financial information to be provided to stockholders and the SEC; (ii) the system of internal controls that management has established; and (iii) the external independent audit process. In addition, the Audit Committee selects our Company’s independent auditors and provides an avenue for communication between the independent auditors, financial management and the Board of Directors.

Each of the members of the Audit Committee is independent and financially literate, as required of audit committee members by the NYSE. The Board of Directors has determined that Messrs. Plavin and Perks each qualify as an “audit committee financial expert” as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC. The Board of Directors made a qualitative assessment of Mr. Plavin’s level of knowledge and experience based on a number of factors, including his formal education and his experience as Chief Executive Officer and a director of Blackstone Mortgage Trust, Inc. (formerly Capital Trust, Inc.), a New York City-based mortgage REIT that is managed by Blackstone, where he is responsible for all management activities. Additionally, Mr. Plavin holds an M.B.A. from J.L. Kellogg Graduate School of Management at Northwestern University. The Board of Directors made a qualitative assessment of Mr. Perks’ level of knowledge and experience based on his 22 years of experience as an audit partner at PricewaterhouseCoopers and its predecessors, and his experience as Chief Financial Officer of Navigant Consulting, Inc.

Compensation Committee

The Compensation Committee has responsibility for the compensation of our key management personnel and administration of our equity incentive plans. During 2015, the Compensation Committee met eight times, which included one joint meeting of the Board and other committees. The responsibilities of the Compensation Committee are more fully described under “The Compensation Committee” on page 24 below and in its Charter, which is available on our website at www.omegahealthcare.com.

Investment Committee

The Investment Committee works with management to develop strategies for growing our portfolio and has authority to approve investments up to established thresholds. The Investment Committee met two times during 2015.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee met three times during 2015, which included one joint meeting of the Board and other committees and one joint meeting of the Board and the Nominating and Corporate Governance Committee. The Nominating and Governance Committee has responsibility for identifying potential nominees to the Board of Directors and reviewing their qualifications and experience. The process for identifying and evaluating nominees to the Board is initiated by identifying candidates who meet the criteria for selection as a nominee and have the specific qualities or

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skills being sought based on input from members of the Board of Directors and, if the Nominating and Corporate Governance Committee deems appropriate, a third-party search firm. Nominees for director are selected based on their depth and breadth of experience, industry experience, financial background, integrity, ability to make independent analytical inquiries and willingness to devote adequate time to director duties, among other criteria. The Company does not have a policy with regard to consideration of diversity in identifying nominees, and historically diversity has not been a material factor in selecting nominees to the Board. The Nominating and Corporate Governance Committee also develops and implements policies and practices relating to corporate governance.

The Nominating and Corporate Governance Committee will consider written proposals from stockholders for nominees as director. Any such nomination should be submitted to the Nominating and Corporate Governance Committee through our Secretary in accordance with the procedures and time frame described in our Bylaws and as set forth under "Stockholder Proposals" below.

Stock Plan Special Administrative Committee

In addition to the Committees listed above, in February 2015 the Board established a Special Administrative Committee under the 2013 Stock Incentive Plan (the "Stock Plan") consisting solely of Mr. Pickett, with the authority to allocate and grant awards under the Stock Plan to employees of the Company and its affiliates who are not executive officers of the Company up to a maximum number of units or shares authorized by the Board from time to time. For 2015, the Special Administrative Committee was authorized to grant awards of up to 120,000 RSUs, PRSUs and profits interests in Omega OP ("LTIP Units"), of which up to 30,000 can be time-based and up to 90,000 (at the high level of performance) can be performance-based. For 2016, the Special Administrative Committee is authorized to grant awards of up to 130,000 RSUs, PRSUs and LTIP Units, of which up to 40,000 can be time-based and up to 90,000 (at the high level of performance) can be performance-based.

Communicating with the Board of Directors and the Audit Committee

The Board of Directors and our Audit Committee have established procedures to enable anyone who has a concern about our conduct, or any employee who has a concern about our accounting, internal controls or auditing matters, to communicate that concern directly to the non-management members of the Board of Directors or the Audit Committee, as applicable. These communications may be confidential or anonymous and may be submitted in writing or through the Internet. The employees have been provided with direct and anonymous access to each of the members of the Audit Committee. Our Company's Code of Business Conduct and Ethics ("Code of Ethics") prohibits any employee of our Company from retaliating or taking adverse action against anyone raising or helping resolve a concern about our Company.

Interested parties may contact our non-management directors by writing to them at our headquarters: Omega Healthcare Investors, Inc., 200 International Circle, Suite 3500, Hunt Valley, Maryland 21030, or by contacting them through our website at www.omegahealthcare.com. Communications addressed to the non-management members of the Board of Directors will be reviewed by our corporate communications liaison, which is our outside legal counsel, and will be directed to the appropriate director or directors for their consideration. The corporate communications liaison may not "filter out" any direct communications from being presented to the non-management members of the Board of Directors and Audit Committee members without instruction from the directors or committee members. The corporate communications liaison is required to maintain a record of all communications received that were addressed to one or more directors, including those determined to be inappropriate communications. Such record will include the name of the addressee, the disposition by the corporate communications liaison and, in the case of communications determined to be inappropriate, a brief description of the nature of the communication. The corporate communications liaison is required to provide a copy of any additions to the record upon request of any member of the Board of Directors.

Policy on Related Party Transactions

We have a written policy regarding related party transactions under which we have determined that we will not engage in any purchase, sale or lease of property or other business transaction in which our officers or directors have a direct or indirect material interest without the approval by resolution of a majority of

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those directors who do not have an interest in such transaction. It is generally our policy to enter into or ratify related party transactions only when our Board of Directors, acting through our Audit Committee, determines that the related party transaction in question is in, or is not inconsistent with, our best interests and the interests of our stockholders.

As part of our acquisition of entities owning 143 skilled nursing facilities in June 2010, we acquired entities owning facilities with existing leases in place to LHCC Properties, LLC ("LHCC") a subsidiary of Laurel Healthcare Holdings, Inc. ("Laurel"). Thomas F. Franke, a member of our Board of Directors, was the Chairman Emeritus of Laurel and together with certain members of his immediate family, beneficially owned approximately 34% of the equity of Laurel. Our lease with LHCC generated approximately $1 million of rental income in both 2014 and 2013. In connection with our merger with Aviv, we acquired operating leases with LHCC for an additional 28 facilities. Together, our leases with LHCC generated approximately $23.0 million of rental income in 2015. On February 1, 2016, we acquired 10 facilities from Laurel for approximately $169.0 million in cash and leased them to an unrelated existing operator. Immediately following our acquisition, the unrelated existing operator acquired all of the outstanding equity interests of Laurel, including the interests previously held by Mr. Franke and his family. The new master lease has an initial annual cash yield of 8.5% and annual escalators of 2.0% and is cross defaulted to the operator's existing master lease.

Security Deposit Indemnification Agreements. Prior to 2002, certain of the entities that were combined in connection with the formation of Aviv's predecessor partnership distributed security deposits paid by certain of their tenants to the owners of those entities in exchange for an agreement by those owners to repay the amounts distributed if and when the applicable tenant became entitled to a return of the security deposit or the deposit was otherwise applied under the applicable lease. These arrangements were kept in place in connection with the formation of Aviv's predecessor partnership. As of December 31, 2014, entities controlled by Mr. Bernfield were obligated to potentially reimburse approximately $292,000.

Code of Business Conduct and Ethics

We have adopted a written Code of Ethics that applies to all of our directors and employees, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. A copy of our Code of Ethics is available on our website at www.omegahealthcare.com, and print copies are available upon request without charge. You can request print copies by contacting our Chief Financial Officer in writing at Omega Healthcare Investors, Inc., 200 International Circle, Suite 3500, Hunt Valley, Maryland 21030, or by telephone at 410-427-1700. Any amendment to our Code of Ethics or any waiver of our Code of Ethics will be disclosed on our website at www.omegahealthcare.com promptly following the date of such amendment or waiver.

Stock Ownership Guidelines

The Board of Directors has adopted stock ownership guidelines to foster long-term stock holdings by Company leadership. These guidelines create a strong link between stockholders' and management's interest. The Chief Executive Officer is required to own shares in the Company with a value equal to at least six times his annual base salary. The Chief Operating Officer, Chief Corporate Development Officer and Chief Financial Officer are required to own shares in the Company with a value equal to at least three times their respective annual base salaries. Each non-employee director is required to own shares in the Company with a value equal to at least five times the annual cash retainer for serving as a member of the Board of Directors within five years of the director's appointment. The complete stock ownership guidelines contained in the Corporate Governance Guidelines are available through our website at www.omegahealthcare.com.

Policy on Hedging and Pledging of Company Securities

We consider it inappropriate for any director or officer to enter into speculative transactions in our Company's securities. Therefore, we prohibit the purchase of or sale of puts, calls, options or other derivative instruments related to our Company's securities or debt. Our policy also prohibits hedging or monetization transactions, such as forward sale contracts, in which the stockholder continues to own the underlying security without all the risks or rewards of ownership. Additionally, directors and officers may

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not purchase our Company's securities on margin or borrow against any account in which our securities are held. Pledges existing as of February 27, 2015 (or April 1, 2015 for personnel who joined the Company in connection with the merger with Aviv) may remain in place through February 27, 2018 so long as the amount of Omega securities pledged is not increased thereafter except through the reinvestment of dividends.

Director Retirement Policy

It is the general policy of the Board of Directors that after reaching 75 years of age, directors shall not stand for re-election and thereafter shall retire from the Board of Directors upon the completion of the term of office to which they were elected. On the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors may waive this requirement as to any director if it deems such waiver to be in the best interests of the Company. On the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors determined that it is in the best interests of the Company to waive this requirement to permit the nomination of Mr. Korman for re-election at the Annual Meeting.

Corporate Governance Materials

The Corporate Governance Guidelines, Code of Ethics and the charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are available free of charge through our website at www.omegahealthcare.com and are available in print to any stockholder who requests them.

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PROPOSAL 2 — PROPOSAL TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITOR FOR THE FISCAL YEAR 2016

The Audit Committee has selected Ernst & Young LLP as our Company's independent auditor for the current fiscal year, and the Board of Directors is asking stockholders to ratify that selection. Although current law, rules and regulations, as well as the charter of the Audit Committee, require our Company's independent auditor to be engaged, retained and supervised by the Audit Committee, the Board of Directors considers the selection of the independent auditor to be an important matter of stockholder concern and is submitting the selection of Ernst & Young LLP for ratification by stockholders as a matter of good corporate governance. However, if the stockholders do not ratify the selection, the Board of Directors and the Audit Committee will reconsider whether or not to retain Ernst & Young LLP. Even if the selection is ratified, the Board of Directors and the Audit Committee in their discretion may change the appointment at any time during the year if they determine that such a change would be in the best interest of us and our stockholders. Information concerning the services Ernst & Young LLP provided to us can be found beginning on page 19 below.

Voting Required for Approval

The affirmative vote of holders of a majority of all votes cast on the matter is required to ratify the selection of Ernst & Young LLP as our Company's independent auditor for the current fiscal year. Accordingly, abstentions and broker non-votes, if any, will have no effect on the outcome of the vote on any of these proposals.

Recommendation of the Board

The Board of Directors and the members of the Audit Committee unanimously recommend a vote FOR the proposal to ratify the selection of Ernst & Young LLP as our independent auditor for the fiscal year 2016.

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AUDIT COMMITTEE AND INDEPENDENT AUDITOR MATTERS

The Audit Committee's purpose is to oversee the accounting and financial reporting processes of our Company, the audits of our financial statements, the qualifications of the public accounting firm engaged as our independent auditor to prepare and issue an audit report on our financial statements and the related internal control over financial reporting, and the performance of our independent auditors. The Audit Committee has the sole authority and responsibility to select, determine the compensation of, evaluate and, when appropriate, replace our Company's independent auditors. The Audit Committee's function is more fully described in its revised charter, which is available on our website at www.omegahealthcare.com. The Board of Directors reviews the Audit Committee Charter annually. The Board of Directors has determined that each Audit Committee member is independent under the standards of director independence established under our corporate governance policies and the NYSE listing requirements and is also "independent" for purposes of Section 10A (m)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, the Board of Directors has determined that Stephen Plavin and Ben Perks each qualify as an "audit committee financial experts," as defined by SEC rules.

Management is responsible for the preparation, presentation and integrity of our financial statements, accounting and financial reporting principles, internal control over financial reporting and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. Our Company's independent auditor, Ernst & Young LLP, is responsible for auditing and expressing opinions on the conformity of our Company's consolidated financial statements with accounting principles generally accepted in the United States, and the effectiveness of our Company's internal control over financial reporting based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Audit Committee Report

The Audit Committee, with respect to the audit of Omega's 2015 audited consolidated financial statements, reports as follows:

- The Audit Committee has reviewed and discussed our 2015 audited consolidated financial statements with Omega's management;

- The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T;

- The Audit Committee has received written disclosures and the letter from Ernst & Young LLP required by the PCAOB regarding Ernst & Young LLP's communications with the Audit Committee concerning independence and has discussed with Ernst & Young LLP its independence from Omega;

- Based on reviews and discussions of Omega's 2015 audited consolidated financial statements with management and discussions with Ernst & Young LLP, the Audit Committee recommended to the Board of Directors that Omega's 2015 audited consolidated financial statements be included in our Company's Annual Report on Form 10-K; and

- The Committee has also reviewed the services provided by Ernst & Young LLP discussed below and has considered whether provision of such services is compatible with maintaining auditor independence.

Audit Committee of the Board of Directors
Stephen D. Plavin, Chairman
Barbara B. Hill
Harold J. Kloosterman

Edward Lowenthal
Ben W. Perks
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Independent Auditors

Ernst & Young LLP audited our financial statements for each of the years ended December 31, 2015, 2014, and 2013. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions from stockholders at the Annual Meeting. Approval of our independent auditors is not a matter required to be submitted to stockholders; however, the Board considers the selection of the independent auditor to be an important matter of stockholder concern and is submitting the selection of Ernst & Young LLP for ratification by stockholders as a matter of good corporate practice.

Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of our Company's annual financial statements for the fiscal years 2015 and 2014 and fees billed for other services rendered by Ernst & Young LLP during those periods, all of which were pre-approved by the Audit Committee.

	Year Ended December 31,	
	2015 ($)	2014 ($)
Audit Fees	1,903,000	1,144,000
Audit-Related Fees	—	65,000
Tax Fees	1,538,000	262,000
All Other Fees	2,000	—
Total	3,443,000	1,471,000

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered to our Company for the audit of our Company's annual financial statements for fiscal years 2015 and 2014, the audit of the effectiveness of our Company's internal control over financial reporting related to Section 404 of the Sarbanes-Oxley Act of 2002 for fiscal years 2015 and 2014, the reviews of the financial statements included in our Company's Forms 10-Q for fiscal years 2015 and 2014, and services relating to securities and other filings with the SEC, including comfort letters and consents, were approximately $1,903,000 and $1,144,000 respectively.

Audit Related Fees

Ernst & Young LLP was engaged to perform services for our Company in connection with due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, or consultation concerning financial accounting and reporting standards for fiscal years 2015 and 2014. These services cost $0 and $65,000 for the fiscal years ended 2015 and 2014, respectively.

Tax Fees

The aggregate fees billed by Ernst & Young LLP for professional services to our Company relating to tax compliance, tax planning and tax advice for fiscal years 2015 and 2014 were approximately $1,538,000 and $262,000 respectively. The increase in tax fees primarily relates to tax compliance related to transitioning to an umbrella partnership REIT structure (UPREIT) and tax advice related to our U.K. investments.

All Other Fees

The aggregate other fees billed by Ernst & Young LLP to our Company for fiscal years 2015 and 2014 were approximately $2,000 and $0, respectively.

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Determination of Auditor Independence

The Audit Committee considered the provision of non-audit services by our independent auditor and has determined that the provision of such services was consistent with maintaining the independence of Ernst & Young LLP.

Audit Committee's Pre-Approval Policies

The Audit Committee has policies and procedures that require the pre-approval by the Audit Committee of all fees paid to, and all service performed by, our Company's independent auditor, provided, however, pre-approval requirements for non-audit services are not required if all such services: (1) do not aggregate to more than five percent of total revenues paid by us to our accountant in the fiscal year when services are provided; (2) were not recognized as non-audit services at the time of the engagement; and (3) are promptly brought to the attention of the Audit Committee and approved by the Audit Committee prior to the completion of the audit.

At the beginning of each year, the Audit Committee approves the proposed services, including the nature, type and scope of service contemplated and the related fees, to be rendered by the firm during the year. In addition, Audit Committee pre-approval is also required for those engagements that may arise during the course of the year that are outside the scope of the initial services and fees approved by the Audit Committee. For each category of proposed service, the independent accounting firm is required to confirm that the provision of such services does not impair its independence. Pursuant to the Sarbanes-Oxley Act of 2002, the fees and services provided as noted in the table above were authorized and approved by the Audit Committee in compliance with its pre-approval policies and procedures described herein.

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PROPOSAL 3 — ADVISORY VOTE ON EXECUTIVE COMPENSATION

Background on Advisory Vote

Federal legislation (Section 14A of the Exchange Act) requires that we include in this Proxy Statement a non-binding stockholder vote on our executive compensation as described in this Proxy Statement (commonly referred to as "Say-on-Pay").

Our Executive Compensation Program

As described more fully in our Compensation Discussion and Analysis section beginning on page 24 of this Proxy Statement ("CD&A") and the related tables and narrative, we design our executive compensation program to reward, retain and, in the case of new hires, attract executive officers to support our business strategy, achieve our short-term and long-term goals, and provide continued success for our customers, stockholders, employees and communities. At the core of our executive compensation program is our pay-for-performance philosophy that links competitive levels of compensation to achievements of our overall strategy and business goals, as well as predetermined objectives. We believe our executive compensation program is strongly aligned with the interests of our stockholders and sound corporate governance principles.

The Compensation Committee periodically engages in a comprehensive review to establish the annual salaries and the terms and conditions of annual cash bonus opportunities, long-term incentive awards and employment agreements with our executive officers. As a result of the most recently completed review in 2016, the Compensation Committee implemented a restructured executive compensation program as described in CD&A below. The compensation programs for 2014 and 2015, including long-term incentive awards thereunder covering periods from December 31, 2013 through December 31, 2017 were also described in the CD&A included in the Company's proxy statement for our 2015 annual meetings of stockholders, at which over 97% of the votes cast voted to approve the Company's executive compensation in the advisory "Say-on-Pay" vote. The Compensation Committee considered these results and believes the voting results reflect strong stockholder support for the Company's executive compensation.

We urge you to read the CD&A section of this Proxy Statement and the tables and narrative for the details on the Company's executive compensation program, including the executive compensation programs implemented for 2016-2018, 2015-2017 and 2014-2016. Our executive compensation programs emphasize pay for performance, such that the interests of our executive officers, including the Chief Executive Officer, are aligned with the interests of stockholders. In particular, we believe that stockholders should note the following in evaluating our executive compensation program, which should be read in conjunction with the more detailed discussion in our CD&A:

- The Company's history of generating total shareholder return (stock price growth plus dividends, referred to as "TSR") continues to lead the healthcare REIT sector and remains near the top of all publicly held REITs. The Company generated:

  - the highest TSR of all publicly traded healthcare REITs for each of the three-, four- and five-year periods ended December 31, 2015*;

  - the highest TSR of all publicly traded healthcare REITs for each of the ten-year periods ended December 31, 2015, 2014, 2013 and 2012*;

  - the third highest TSR of all publicly traded REITS for the ten-year period ended December 31, 2015*; and

  - annualized compounded TSR of 20.37% versus 4.75% for the FTSE NAREIT Equity Health Care Index and 11.06% for the MSCI U.S. REIT Index for the three-year period ended December 31, 2015.

*
TSR ranking information is based on data from KeyBanc Capital Markets.

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- 50% of the 2014-2016 and 2015-2017 long-term incentive compensation awards are time-based equity awards, and 50% are performance-based equity awards.

- For the 2014-2016 and 2015-2017 performance-based equity awards, 50% is based on TSR, and 50% is based on total shareholder return relative to an index ("Relative TSR") (in this case, the MSCI U.S. REIT Index).

- Our annual grants of time-based equity awards for 2014-2016, 2015-2017 and 2016-2018 are subject to three-year "cliff vesting," except in the case of death, disability, termination without cause or resignation for good reason. Unlike restricted stock grants at some companies, our time-based awards for 2014-2016 do not vest ratably over the term, but will generally only be earned if the executive officer remains employed for three years.

- Our Compensation Committee has established appropriately challenging performance goals for performance-based equity awards generally based on three-year performance periods. In addition, performance-based equity awards for three-year performance periods are subject to quarterly time-based vesting in the year following the end of the performance period. Accordingly, the required TSR and Relative TSR for the 2014-2016 and 2015-2017 performance-based equity awards are as follows:

Performance Goals for 2014-2016 and 2015-2017 Performance Periods			
Performance Units	Threshold	Target	High
TSR (annualized and compounded annually for the multi-year PRSUs)	8%	10%	12%
Relative TSR-Based Performance Units vs. Peer Group	-300 basis points	0	+300 basis points

- For the 2016-2018 long-term incentive compensation awards, we increased the performance-based proportion of the overall awards, so that 60% are performance-based equity awards and 40% are time-based equity awards.

- For the 2016-2018 performance-based equity awards, we are using the FTSE NAREIT Equity Health Care Index for measuring Relative TSR and we made the Relative TSR performance goals more robust, increasing the required Relative TSR by 50 basis points at each of the threshold, target and high performance levels (as compared to the required Relative TSR required for the 2014-2016 and 2015-2017 awards). Accordingly, the required Relative TSR for the 2016 awards is as follows:

Performance Goals for 2016-2018 Performance Period			
Relative TSR-Based PRSUs	Threshold	Target	High
Basis Points	-250	+50	+350

- At least 70% of each officer's annual cash bonus opportunity is based on objective performance metrics.

- The Compensation Committee is advised by an independent compensation consultant who provides no other services to the Company.

- The Company has implemented majority voting in the election of directors.

Proposed Vote

The following resolution will be submitted for a stockholder vote at the Annual Meeting:

RESOLVED, that the Company's stockholders approve the compensation of the Company's executive officers as described in this Proxy Statement, including the "Compensation Discussion and Analysis" section, the compensation tables and the other narrative compensation disclosures.

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Because the vote is advisory, it will not be binding upon the Board of Directors, the Compensation Committee or the Company, and neither the Board of Directors nor the Compensation Committee will be required to take any action as a result of the outcome on this proposal; however, the Compensation Committee will carefully consider the outcome of the vote when considering future executive compensation arrangements.

Voting Required for Approval

Approval, on an advisory basis, of the compensation of our executive officers will be decided by a majority of the votes cast by all stockholders entitled to vote. Abstentions and broker non-votes, if any, will have no effect on the outcome of the vote on this proposal.

Recommendation of the Board

The Board of Directors unanimously recommends a vote FOR the approval of the compensation of the Company's executive officers as described in this Proxy Statement.

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COMPENSATION DISCUSSION AND ANALYSIS

Our CD&A addresses the following topics:

- the members and role of our Compensation Committee, which we refer to as the "Committee" in this CD&A;
- our compensation-setting process;
- our philosophy and objectives regarding executive compensation;
- the components of our executive compensation program; and
- our compensation decisions for fiscal year 2015 and 2016.

The Compensation Committee

Each member of the Committee qualifies as an independent director under the NYSE listing standards and under our Board of Directors' standards of independence. The Committee's responsibilities and functions are governed by its charter, which is available at our website at www.omegahealthcare.com. The Committee determines the compensation of our executive officers and reviews with the Board of Directors all aspects of compensation for our executive officers. The Committee also periodically reviews the compensation of our directors and makes recommendations regarding possible adjustments for consideration by the Board of Directors. To the extent not otherwise inconsistent with its obligations and responsibilities, the Committee may form subcommittees (which shall consist of one or more members of the Committee) and delegate authority to such subcommittees as it deems appropriate. The Committee reports to the Board of Directors as it deems appropriate and as the Board of Directors may request.

The Committee is also responsible for the following activities in addition to the other activities listed in the Committee's charter:

- determining and approving the compensation for the Chief Executive Officer and our other executive officers following an evaluation of their performance in respect of goals and objectives established by the Committee and such other factors as the Committee deems appropriate;
- reviewing and recommending for the Board of Directors' approval (or approving, where applicable) the adoption and amendment of our director and executive officer incentive compensation and equity-based plans;
- administering our incentive compensation and equity-based plans and approving such awards thereunder as the Committee deems appropriate;
- reviewing and monitoring succession plans for the Chief Executive Officer and our other executive officers;
- preparing, reviewing and discussing with management the CD&A required by SEC rules and regulations and recommending to the Board of Directors whether the CD&A should be included in our proxy statement or other applicable SEC filings;

- overseeing and administering any employment agreements that are entered into between us and any executive officer; and

- performing such other activities consistent with its charter, our Bylaws, governing law, the rules and regulations of the NYSE and such other requirements applicable to us as the Committee or the Board of Directors deems necessary or appropriate.

Compensation Committee Meetings and Process

The Committee meets as often as necessary to perform its duties and responsibilities. The Committee met eight times during the year ended December 31, 2015. The Chairmen of the Committee work, from time to time, with the Chief Executive Officer and other members of the Committee to establish the agenda for the Committee’s meetings. The Committee typically meets in one or more executive sessions each year to evaluate the performance of our executive officers, to determine their bonuses for the prior year, to establish

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bonus metrics for the current year, to set salaries for the current year and to approve any grants of equity incentive compensation, as the case may be. Additionally, the Committee meets with Omega's legal counsel and from time to time with other outside advisors as the Committee determines appropriate.

The Committee receives and reviews materials in advance of its meetings. These materials include information that management believes will be helpful to the Committee as well as materials that the Committee may from time to time request. Depending upon the agenda for the particular meeting, these materials may include, among other things:

- reports from compensation consultants or legal counsel;
- an analysis of the compensation of our executive officers and directors as compared to the compensation paid to the executive officers and directors by the members of our peer group;
- financial reports on year-to-date performance versus budget and compared to prior year performance, as well as other financial data regarding us and our performance;
- reports on our strategic plan and budget for future periods;
- information on the executive officers' stock ownership and holdings of equity-based incentives; and
- reports on the levels of achievement by each executive officer of individual and corporate objectives.

The Committee periodically engages in a comprehensive review to establish the annual salaries and the terms and conditions of annual cash bonus opportunities, long-term incentive awards and employment agreements with our executive officers. Our Chief Executive Officer meets with the Committee at least annually to provide information to the Committee regarding management's views regarding its performance as well as other factors the Chief Executive Officer believes should impact the compensation of our executive officers. In addition, the Chief Executive Officer provides recommendations to the Committee regarding the compensation for each of the executive officers and the business and performance targets for long-term incentive awards and annual cash bonuses.

Compensation Committee Advisors

The Committee charter grants the Committee the sole and direct authority to engage and terminate advisors and compensation consultants and to approve their fees and retention terms. These advisors and consultants report directly to the Committee, and we are responsible for paying their fees.

Executive Compensation Reviews

2013

The Committee undertook to review and update the Company's executive compensation program in 2013. In connection with the review, the Committee engaged FPL Associates, L.P. ("FPL") as a consultant to the Committee. FPL has not performed any work for us other than work for which it has been engaged by the Committee from time to time. FPL presented to the Committee FPL's analysis that included, but was not limited to, recommendations regarding the composition of a peer group of companies that would be the basis for a benchmarking evaluation of the Company's compensation programs, the status of our current compensation program as compared to those of our peer companies, the methodologies behind the research and analysis it used to prepare the comparisons, and a proposed plan covering all aspects of the compensation for our executive officers. The analysis and process resulted in executive employment agreements with each of our executive officers that were entered into in November 2013 and have terms that ran through December 31, 2016, and the design and implementation of a compensation program including long-term incentives for periods beginning December 31, 2013 and ending December 31, 2016.

2015

In 2015, the Committee again undertook to review and update the Company's executive compensation program in light of the then pending merger on April 1, 2015, of Aviv REIT, Inc. ("Aviv") with and into a wholly owned subsidiary of Omega (the "Merger"). The Committee considered that among other changes,

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the Company's market capitalization was projected to increase to approximately $10 billion after the Merger from $6.5 billion before the Merger. In connection with this comprehensive review of the compensation program for our executive officers, the Committee again engaged FPL as a consultant to the Committee to provide the same type of assistance and analysis as it had in 2013. The analysis and process resulted in the design and implementation of a compensation program including long-term incentives for the period beginning January 1, 2015 and ending December 31, 2017. In March 2015 (April 1 for Mr. Insoft), the Company entered into executive employment agreements with each of our executive officers having terms that ran through December 31, 2017.

2016

In 2016, the Committee again undertook to review and update the Company's executive compensation program as a result of the Company's increased market capitalization resulting in part from the 2015 Merger with Aviv. In connection with that review of the compensation system for our executive officers, the Committee again engaged FPL as a consultant to the Committee to advise the committee in structuring and benchmarking the compensation arrangements for the Executive Officers against information derived from a peer group compiled by FPL and approved by the Compensation Committee. The results of that review are summarized below and a more detailed discussion will be included in our 2017 proxy statement.

Peer Group Benchmarking

2013

Based on the analysis provided by FPL and with the input of the members of the Committee, the Committee determined that FPL's analysis would be benchmarked based on two peer groups of public REITs comparable to the Company, one based on size (the "Size Peer Group") and one based on asset class (the "Asset Peer Group"), that were identified by FPL in December 2013. The "Size Peer Group" consists of 11 REITs with market or total capitalization comparable to the Company. The "Asset Peer Group" is comprised of 7 public REITs, all of which operate in the health care sector. The "Size Peer Group" and "Asset Peer Group" are made up of the following REITs:

Size Peer Group	Asset Peer Group
BioMed Realty Trust, Inc.	HCP, Inc.
Corporate Office Properties Trust	Health Care REIT, Inc.
EPR Properties	Healthcare Realty Trust Incorporated
Federal Realty Investment Trust	LTC Properties, Inc.
Healthcare Realty Trust Incorporated	Medical Properties Trust, Inc.
LTC Properties, Inc.	National Health Investors, Inc.
Medical Properties Trust, Inc.	Ventas, Inc.
National Health Investors, Inc.	
National Retail Properties, Inc.	
Realty Income Corporation	
Washington Real Estate Investment Trust	

The Committee recognized that healthcare REITs can be viewed as a sub-sector of the REIT industry since healthcare REITs are often subject to different market conditions than the real estate industry generally, such as the impact of healthcare reimbursement policy. The Committee also recognized that compensation of REIT executives is generally correlated with the size of the REIT. Accordingly, the Committee considered both the Size Peer Group and the Asset Peer Group and with advice from FPL determined that the data relating to the Size Peer Group would be weighted

66-2/3% and the data relating to the Asset Peer Group would be weighted 33-1/3% for purposes of developing peer group compensation data. Analyses performed included a comparison of salaries, annual bonus programs, and equity-based incentive compensation of comparable officers for each company as well as total compensation over a three-year period as compared to total shareholder return generated over such period.

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2015
Based on analysis provided by FPL and with the input of the members of the Committee, the Committee determined that a new peer group should be composed in light of the projected increase in Omega's market capitalization of roughly 50% as a result of the then pending Merger. In January 2015, the Committee determined that FPL's analysis would be benchmarked based on one peer group of public REITs that were identified by FPL as being comparable to the Company after the Merger with Aviv based on asset size, asset class, geography and other factors. The 2015 Peer Group consists of the following 14 REITs:

2015 Peer Group
BioMed Realty Trust, Inc.
Duke Realty Corporation
EPR Properties
Federal Realty Investment Trust
HCP, Inc.
Health Care REIT, Inc.
Healthcare Trust of America
LaSalle Hotel Properties
Lexington Realty Trust
National Retail Properties, Inc.
Realty Income Corporation
Spirit Realty Capital, Inc.
Ventas, Inc.
W.P. Carey, Inc.

Analyses performed included a comparison of salaries, annual bonus programs, and equity-based incentive compensation of comparable officers for each company as well as total compensation over a three-year period as compared to total shareholder return generated over such period.
2016
For 2016, the Committee updated the 2015 Peer Group based on analysis provided by FPL. The criteria for selection included the following factors: similarity to Omega in terms of property focus, net lease structure, market capitalization, and geographic business region. In addition, the Committee also considered whether the proposed peer group company was a member of Omega's 2015 Peer Group, whether the company uses Omega as a peer for compensation benchmarking purposes, and whether ISS lists the company as an Omega peer. Not all criteria had to be met for inclusion in the peer group. FPL suggested that maintaining consistency in the peer group from 2015 was a worthwhile consideration. Accordingly, the Committee made minimal changes to the 2015 Peer Group for 2016, adding Care Capital Properties, which had then recently completed a spin-off from Ventas, Inc. and had a property focus that included post-acute care and skilled nursing facilities, and removed BioMed Realty Trust, Inc., which was then pending acquisition by Blackstone Real Estate.
Compensation Policy and Objectives
Our executive compensation programs are designed to attract and retain the highest quality executive talent possible and, more importantly, to provide meaningful incentives for our executive officers to strive to enhance shareholder value over both near and longer term periods in a manner that balances potentially competing incentives that could create risk. The Committee's current executive compensation philosophy is based on these fundamental principles: (i) all compensation should be referenced on an analysis of the practices of appropriate peer groups as well as industry surveys, (ii) compensation grants and changes to compensation should be performance- and responsibility-based, (iii) base salaries should be at approximately the median for similar positions of the applicable peer groups, and (iv) a substantial portion of executive compensation should be performance-based and tied to shareholder return over time.

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The policy and the guidelines followed by the Committee historically have been directed toward providing compensation and incentives to our executive officers in order to achieve the following objectives:

- reward performance and initiative;
- be competitive with other REITs viewed as competitors for executive talent;
- be significantly related to accomplishments and our short-term and long-term successes, particularly measured in terms of growth in adjusted funds from operations on a per share basis and total shareholder return;
- structure incentive programs utilizing various performance metrics to minimize the potential for risk associated with over-weighting any particular performance metric;
- align the interests of our executive officers with the interests of our stockholders; and
- encourage and facilitate our executive officers' ability to achieve meaningful levels of ownership of our common stock.

The Role of Stockholder Say-on-Pay Votes

The Company provides its stockholders with the opportunity to cast an annual advisory "say-on-pay" vote on executive compensation. At the Company's 2015 annual meeting of stockholders, over 97% of the votes cast were voted in favor of the 2015 say-on-pay proposal. The Committee believes the voting results reflect strong stockholder support for the Company's approach to executive compensation. The Committee considered these results in designing an executive compensation program going forward as described herein. The Committee will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for our executive officers.

In considering the voting results of prior say-on-pay proposals, the Committee was aware that the Company's past practice of granting long-term incentives once every three years resulted in significant year-to-year variation in the value of grants. Accordingly, for performance periods beginning in 2014, the Committee decided to move from the approach of making grants of long-term incentives once every three years to making grants of long-term incentives each year for rolling three year periods.

Employment Agreements

Effective March 31, 2015, the Committee approved new employment agreements with each of our then serving executive officers. Effective April 1, 2015, the Committee approved an employment agreement with Steven J. Insoft, which was executed as of April 1, 2015. Steven Insoft, previously Aviv's President and Chief Operating Officer, was appointed as Omega's Chief Corporate Development Officer effective as of the completion of the Merger with Aviv and, as such, became an executive officer of Omega on April 1, 2015. Pursuant to the employment agreements, our executive officers have similarly structured compensation plans consisting of base salary, annual cash bonus opportunity, and long-term incentive opportunity. All of the employment agreements were due to expire on December 31, 2017. On July 31, 2015, R. Lee Crabill retired and entered into a consulting agreement with the Company. Effective March 17, 2016, the Compensation Committee approved amendments to the employment agreements of the five remaining executive officers to update the non-competition provisions to reflect changes in the long-term care industry and extend the terms until December 31, 2018. See "Compensation and Severance Agreements" herein.

Elements of Compensation

Annual Base Salary

Our approach to annual base salary levels has been to offer competitive salaries in comparison with prevailing market practices for comparable positions at our peer group companies. The Committee evaluates and reviews the executive officers' annual base salaries in connection with its annual review of management's performance and based on input from our Chairman of the Board and our Chief Executive Officer. In undertaking the annual review, the Committee considers the decision-making responsibilities of

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each position and the experience, work performance and team-building skills of each incumbent executive officer, as well as our overall performance and the achievement of our strategic objectives and budgets. The Committee generally views work performance as the single most important measurement factor, followed by team-building skills and decision-making responsibilities. The Committee also reviews internal pay equity in the context of the target level of performance when making base salary decisions, although neither internal pay equity nor any performance level is a dispositive factor. The Committee also considers the effect of increasing base salary on other aspects of the overall executive compensation program.

In general, in connection with the Committee's retention of FPL to perform compensation reviews in 2013, 2015 and 2016, the Committee attempted to establish executive base salaries at the market median, based on analysis provided by FPL, with appropriate adjustments to preserve internal pay equity. The base salaries for our executive officers for 2015 are set forth below. For 2016, the aggregate base salaries for all the executive officers were increased by 2.67% over the aggregate base salaries for 2015.

Name	2015 Base Salary ($)
C. Taylor Pickett	$ 750,000
Daniel J. Booth	$ 470,000
Steven J. Insoft	$ 460,000
Robert O. Stephenson	$ 450,000
R. Lee Crabill	$ 350,000
Michael D. Ritz	$ 300,000

Annual Cash Bonus Opportunity

Our historical compensation practices have embodied the principle that annual cash bonuses based primarily on achieving objectives that enhance long-term stockholder value are desirable in aligning stockholder and management interests. The Committee strives to award individual annual bonuses for each executive officer consistent with market practices for positions with comparable decision-making responsibilities and that reward individual contributions by each executive officer.

We accrue estimated bonuses for our executive officers throughout the year service is performed relating to such bonuses, and thus bonuses are expensed in the year they are earned, assuming they are approved by the Compensation Committee. Each executive officer must include his bonus in his taxable income in the year the bonus is paid, which is the year following the year in which the bonus is earned.

2015 Annual Cash Bonus Opportunity

The Committee established the 2015 cash bonus opportunities for the executive officers subject to the achievement of the performance criteria established below:

	Annual Incentive (% of Base Salary)		
Name	Threshold	Target	High
C. Taylor Pickett	100%	125%	150%
Daniel J. Booth	50%	75%	100%
Stephen J. Insoft	50%	75%	100%
Robert O. Stephenson	50%	75%	100%
R. Lee Crabill	40%	60%	80%
Michael Ritz	40%	60%	80%

Steven Insoft's 2015 bonus was not prorated but was based on his full annual rate of base salary for 2015 reflecting the Committee's assessment of the value of his contribution in connection with the completion of the Merger with Aviv.

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The Committee established the cash bonus metrics and payout levels as set forth below:

% of Bonus Opportunity	Metric	Threshold(4)	Target(4)	High(4)
40%	Adjusted FFO per share(1)	$2.98	$3.01	$3.04
30%	Tenant quality(2)	Less than 2%	Less than 1.5%	Less than 1%
30%	Subjective(3)			

(1)
The adjusted funds from operations ("adjusted FFO") per share metric is subject to adjustment to reflect the pro forma impact of changes to the Company's capital structure that were not contemplated in the annual budget approved by the Board of Directors.

(2)
2015 uncollected rents as a percentage of 2015 gross revenues.

(3)
Subjective determination of the Committee, including among other things, factors such as subjective evaluation of individual performance, Funded Debt/Total Asset Value and/or credit rating upgrade from a rating agency.

(4)
As to any bonus metric except the subjective metric, if the level of achievement of the relevant performance metric is between threshold and target or between target and high, then the portion of the bonus earned with respect to that metric will be based on linear interpolation.

Funds from operations ("FFO") and adjusted FFO are non-GAAP financial measures. The Company calculates and reports FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts ("NAREIT"), and consequently, FFO is defined as net income available to common stockholders, adjusted for the effects of asset dispositions and certain non-cash items, primarily depreciation and amortization and impairment on real estate assets. Investors and potential investors in the Company's securities should not rely on non-GAAP financial measures as a substitute for any GAAP measure, including net income. Adjusted FFO is calculated as FFO available to common stockholders excluding the impact of certain non-cash stock-based compensation and certain revenue and expense items as more fully set forth in the reconciliation in the Company's earnings release included as Exhibit 99.1 to the Form 8-K furnished on February 10, 2016. The Company believes that adjusted FFO provides an enhanced measure of the operating performance of the Company's core portfolio as a REIT. The Company's computation of adjusted FFO is not comparable to the NAREIT definition of FFO or to similar measures reported by other REITs.

In connection with determining the level of subjective bonuses earned with respect to 2015 performance, the Chief Executive Officer provided the Committee with an assessment of each executive officer's performance in 2015 and his respective contribution to the Company's success in addressing the uncertain economy and challenging conditions in the capital markets. The Committee, after consultation with the Chief Executive Officer, determined to award each executive officer the full amount of the subjective portion of his bonus for 2015. The principal factors noted in the assessment of the executive officers' 2015 performance included:

•
The Company's history of generating TSR continues to lead the healthcare REIT sector and remains near the top of all publicly held REITs. The Company generated:

the highest TSR of all publicly traded healthcare REITs for each of the three-, four- and five-year periods ended December 31, 2015*;

the highest TSR of all publicly traded healthcare REITs for each of ten-year periods ended December 31, 2015, 2014, 2013 and 2012*;

the third highest TSR of all publicly traded REITS for the ten-year period ended December 31, 2015*; and

annualized compounded TSR of 20.37% versus 4.75% for the FTSE NAREIT Equity Health Care Index and 11.06% for the MSCI U.S. REIT Index for the three-year period ended December 31, 2015.

*
TSR ranking information is based on data from KeyBanc Capital Markets.

- an upgrade by Moody's of the Company's credit rating from BBB- to Baa3;
- an upgrade by Standard & Poor's of the Company's credit rating from BB+ to BBB-;
- the Company's sale of $440,000,000 of common stock in an underwritten public offering;
- the Company's sale of $1,300,000,000 in newly issued investment grade senior notes;
- the Company's successful closing of the Merger with Aviv and coordinated integration of Aviv's operations and personnel with the Company's including the restructuring of the Company to implement an UPREIT structure utilizing an operating partnership;
- the Company's closing on approximately $500,000,000 in acquisitions and capital expenditure funding (exclusive of the Aviv Merger); and
- The Company's successful completion of its Certificate of Need strategy in Florida, with eight awards and one pending as of the Committee's determination.

Adjusted FFO per share for 2015 was $3.08 and tenant quality (uncollected rents as a percentage of gross revenues) for 2015 was 0.11%, both of which exceeded the high level of performance for these metrics under the 2015 annual cash bonus program. Based on the achievement of the adjusted FFO and tenant quality components at the high level and the Committee's determination that the subjective performance goal had been achieved at the high level for each executive officer, the Committee approved the following cash bonuses relating to 2015 performance:

	Total Cash Bonus Paid for 2015 ($)					
	C. Taylor Pickett	Daniel J. Booth	Steven J. Insoft	Robert O. Stephenson	R. Lee Crabill	Michael D. Ritz
Adjusted FFO (40%)	450,000	188,000	184,000	180,000	112,000	96,000
Tenant Quality (30%)	337,500	141,000	138,000	135,000	84,000	72,000
Individual/Subjective Measures (30%)	337,500	141,000	138,000	135,000	84,000	72,000
Total Cash Bonus Paid for 2015	1,125,000	470,000	460,000	450,000	280,000	240,000

2016 Annual Cash Bonus Opportunity

In 2016, the Committee established the 2016 cash bonus opportunities for the executive officers using the same performance criteria and weightings as applied to the 2015 annual cash bonus opportunities, except that the required levels of adjusted FFO per share were increased to $3.25, $3.27 and $3.30, for threshold, target and high achievement respectively, based on the Company's 2016 operating budget approved by the Board. The opportunities as percentages of annual base salary for each of the five remaining executive officers at the various performance levels remain the same as for 2015, except that Mr. Pickett's opportunity at the high level of achievement was increased from 150% to

200% of annual base salary. The Committee made this change (which is consistent with several companies in the peer group) to bring Mr. Pickett's overall compensation at the high level of performance into line with that of the median of the peer group.

Stock Incentive Awards

Stock Incentives from December 31, 2013 Forward

Overview

The Committee designed, with assistance and advice from FPL, a new long-term incentive compensation program for periods beginning in 2014. Prior to 2014, The Company's last long-term incentive compensation grants were approved in 2011 for the period January 1, 2011 through December 31, 2013.

The Committee noted that the Company's historical practice of granting long-term incentive compensation only once every three years resulted in a substantial portion of long-term incentive compensation being dependent upon market price fluctuations of our common stock during the final

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month of the three-year performance period. The Committee also concluded that its past practice of granting long-term incentive awards only once every three years created the appearance of significantly higher compensation (based on the grant date fair value of the full award used for accounting purposes) in the year of grant and lower compensation in the remaining years of the program, even though the awards are earned over three years. Accordingly, rather than making a single round of restricted stock units that vest based on time in service ("RSUs" or "time-based RSUs") and performance-based restricted stock units ("PRSUs") for the 2014-2016 performance cycle with no additional long-term incentive awards until 2017, the Committee decided to implement a new long-term incentive compensation program effective January 1, 2014 with smaller annual equity grants than previous equity grants made once every three years. As a result, the long-term incentive compensation program was shifted from sequential "end-to-end" grant cycles (i.e., 2008-2010, 2011-2013) to "rolling three-year" grant cycles (i.e., 2014-2016, 2015-2017, 2016-2018).

The Committee worked with FPL to determine the appropriate size of the annual awards and appropriate adjustments to reflect the transition to an annual grant cycle. As of November 15, 2013, the Committee approved the grant, effective January 1, 2014, of long-term incentive compensation awards to each of the officers as the first grant under the new annual rolling three year long-term incentive compensation program. As of November 15, 2013, the Committee also approved the grant, effective December 31, 2013, of one-time transition awards to each of the executive officers to make up for the lost compensation opportunity that the executive officers would otherwise suffer in the Company's transition in 2014 from the three-year end-to-end long-term incentive compensation program to the annual rolling three-year long-term incentive compensation program.

As part of the 2013 process, the Committee considered granting equity-based awards in a manner that would provide executive officers the opportunity to earn, for superior total shareholder return performance above target levels, compensation at the 75th percentile of the 2013 peer group. However, the Committee noted that the grant date fair value of performance-based awards is significantly discounted to reflect the risk of achievement of the performance goals, and that as a result the projected estimated economic value of performance awards at the 75th percentile for high performance would be higher than the level that the Committee viewed as appropriate at the time. ("Projected estimated economic value" refers to the projected economic value of the awards, including projected dividends, potentially realizable by the executive officer at the end of the performance period assuming that TSR and Relative TSR are achieved at the threshold, target or high level, without any discount to reflect the risk of non-achievement of the performance goals.) As a result, in 2013 the Committee determined that stock incentive grants would be based on projected estimated economic value rather than the grant date fair value for accounting purposes, reducing the size of the awards from the levels initially considered. Accordingly, the number of shares of common stock of the Company issuable under the annual grants and the transition grants are based on projected estimated economic value, rather than the estimated aggregate compensation expense to be recognized by the Company for accounting purposes. The Company expects that the compensation expense associated with the annual and transition grants for accounting purposes will be substantially less than the projected estimated economic value determined at the target level.

The significant features of the long-term incentive compensation grants are summarized below. The timing of payment described below assumes that the officer has not elected to defer receipt of the common stock or dividend equivalents under the Company's Deferred Stock Plan.

One-Time Transition Grants effective December 31, 2013

The Committee noted that transitioning from the prior three-year end-to-end long-term incentive compensation program to the annual rolling three-year long-term incentive compensation program would result in a vesting shortfall until the fourth year of rolling three-year grants. FPL calculated this shortfall to be 175% of the projected estimated economic value of each executive officer's 2014 annual grants described below. The Committee determined to address this shortfall by making one-time transition grants of RSUs and PRSUs for the period from December 31, 2013 through December 31, 2016 with the projected estimated economic values at target shown in the table below. The threshold, target and high levels of long-term incentive compensation reflect the aggregate projected estimated economic value from the vesting of time-based RSUs and from PRSUs based on TSR and Relative TSR performance at the indicated performance level over the performance period.

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Name	Projected Aggregate Estimated Economic Value Transition Grants* ($) Threshold	Target	High
C. Taylor Pickett	3,598,312	7,425,496	13,558,791
Daniel J. Booth	2,113,236	4,076,529	7,276,645
Robert O. Stephenson	1,491,260	3,117,939	5,737,421
R. Lee Crabill			

Total patronage for the year ended August 31, 2010, is expected to be approximately $396.5 million. The cash portion of this distribution, determined by the Board of Directors to be 35% and to be distributed in fiscal 2011, is expected to be approximately $138.8 million and is classified as a current liability on the August 31, 2010 Consolidated Balance Sheet in dividends and equities payable.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them and another for individuals who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual receives under the pro-rata program in any year is determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2010, that will be distributed in fiscal 2011, to be approximately $67.6 million. These expected distributions are classified as a current liability on the August 31, 2010 Consolidated Balance Sheet.

For the years ended August 31, 2010, 2009 and 2008, we redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of $23.1 million, $49.7 million and $81.8 million, respectively. An additional $36.7 million, $49.9 million and $46.4 million of capital equity certificates were redeemed in fiscal 2010, 2009 and 2008, respectively, by issuance of shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock). The amount of equities redeemed with each share of Preferred Stock issued was $28.30, $25.90 and $25.65, which was the closing price per share of the stock on the NASDAQ Global Select Market on February 22, 2010, January 23, 2009 and February 11, 2008, respectively.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On August 31, 2010, we had 12,272,003 shares of Preferred Stock outstanding with a total redemption value of approximately $306.8 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at our option. At this time, we have no

current plan or intent to redeem any Preferred Stock. Dividends paid on our preferred stock during the years ended August 31, 2010, 2009 and 2008, were $23.2 million, $20.0 million and $16.3 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments:

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

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income for the years ended August 31, 2010, 2009 and 2008, was $64.3 million, $61.1 million and $58.3 million, respectively.

Minimum future lease payments required under noncancellable operating leases as of August 31, 2010 were as follows:

	Total (Dollars in millions)	
2011	$	42.8
2012		33.4
2013		24.2
2014		15.7
2015		10.9
Thereafter		17.5
Total minimum future lease payments	$	144.5

Guarantees:

We are a guarantor for lines of credit and performance obligations for related companies. Our bank covenants allow maximum guarantees of $500.0 million, of which $29.4 million was outstanding on August 31, 2010. We have collateral for a portion of these contingent obligations. We have not recorded a liability related to the contingent obligations as we do not expect to pay out any cash related to them, and the fair values are considered immaterial. The underlying loans to the counterparties for which we provide guarantees are current as of August 31, 2010.

Debt:

There is no material off balance sheet debt.

Cofina Financial:

As of August 31, 2010, loans receivable of $55.0 million were accounted for as sales when they were surrendered in accordance with accounting guidance on transfers of financial assets and extinguishments of liabilities.

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Contractual Obligations

We had certain contractual obligations at August 31, 2010 which require the following payments to be made:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
		Payments Due by Period (Dollars in thousands)			
Notes payable(1)	$ 262,090	$ 262,090			
Long-term debt(1)	986,241	112,503	$ 193,670	$ 309,997	$ 370,071
Interest payments(2)	236,747	57,479	94,903	57,825	26,540
Operating leases	144,558	42,846	57,648	26,552	17,512
Purchase obligations(3)	5,686,205	3,420,317	2,248,416	13,300	4,172
Other liabilities(4)	336,589		97,610	91,440	147,539
Total obligations	$ 7,652,430	$ 3,895,235	$ 2,692,247	$ 499,114	$ 565,834

(1) Included on our Consolidated Balance Sheet.

(2) Based on interest rates and long-term debt balances as of August 31, 2010.

(3) Purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions. Of our total purchase obligations at August 31, 2010, $1,561.5 million is included in accounts payable and accrued expenses on our Consolidated Balance Sheet.

(4) Other liabilities include the long-term portion of deferred compensation, deferred income taxes and contractual redemptions, and are included on our Consolidated Balance Sheet. Of our total other liabilities on our Consolidated Balance Sheet at August 31, 2010, in the amount of $475.5 million, the timing of the payments of $138.9 million of such liabilities cannot be determined.

Critical Accounting Policies

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

Inventory Valuation and Reserves

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

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Derivative Financial Instruments

We enter into exchange-traded commodity futures and options contracts to hedge our exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. We do not use derivatives for speculative purposes. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. We also use over-the-counter (OTC) instruments to hedge our exposure on flat price fluctuations. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and, in part, to our assessment of our exposure from expected price fluctuations. We also manage our risks by entering into fixed-price purchase contracts with preapproved producers and establishing appropriate limits for individual suppliers. Fixed-price sales contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The fair value of futures and options contracts is determined primarily from quotes listed on regulated commodity exchanges. Fixed-price purchase and sales contracts are with various counterparties, and the fair values of such contracts are determined from the market price of the underlying product. We are exposed to loss in the event of nonperformance by the counterparties to the contracts and, therefore, contract values are reviewed and adjusted to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of a counterparty s financial condition and also the risk that the counterparty will refuse to perform a contract during periods of price fluctuations where contract prices are significantly different than the current market prices.

Pension and Other Postretirement Benefits

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

Deferred Tax Assets and Uncertain Tax Positions

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

Tax benefits related to uncertain tax positions are recognized in our financial statements if it is more likely than not that the position would be sustained upon examination by a tax authority that has full knowledge of all relevant information. The benefits are measured using a cumulative probability approach. Under this approach, we record in our financial statements the greatest amount of tax benefits that have a more than 50% probability of being realized upon final settlement with the tax authorities. In determining these tax benefits, we assign probabilities to a range of outcomes that we feel we could ultimately settle on with the tax authorities using all relevant facts and information available at the reporting date.

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Long-Lived Assets

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

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

We have asset retirement obligations with respect to certain of our refineries and related assets due to various legal obligations to clean and/or dispose of various component parts at the time they are retired. However, these assets can be used for extended and indeterminate periods of time, as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain refinery and related assets and to continue making improvements to those assets based on technological advances. As a result, we believe that our refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire a refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery or related asset, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

Effect of Inflation and Foreign Currency Transactions

We believe that inflation and foreign currency fluctuations have not had a significant effect on our operations during the three years ended August 31, 2010, since we conduct essentially all of our business in U.S. dollars.

Recent Accounting Pronouncements

In June 2009, the FASB issued ASC 860-10-65-3, Accounting for Transfers of Financial Assets, which requires additional disclosures concerning a transferor s continuing involvement with transferred financial assets. ASC 860-10-65-3 eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The guidance is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2011.

In June 2009, the FASB issued ASC 860-10-65-2, Amendments to FASB Interpretation No. 46(R), which requires an enterprise to conduct a qualitative analysis for the purpose of determining whether, based on its variable interests, it also has a controlling interest in a variable interest entity. ASC 860-10-65-2 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. ASC 860-10-65-2 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. It also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. ASC 860-10-65-2 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2011.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends existing disclosure requirements under ASC 820. ASU No. 2010-06 requires new disclosures for significant transfers between Levels 1 and 2 in the fair value hierarchy and separate disclosures for purchases, sales, issuances, and settlements in the reconciliation of activity for Level 3 fair value measurements. This ASU also clarifies the existing fair value disclosures regarding the level of disaggregation and the valuation techniques and inputs used to measure fair value. ASU No. 2010-06 will only impact disclosures and is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures on purchases, sales, issuances and settlements in the roll-forward of activity for Level 3 fair value measurements. Those disclosures are effective for interim and annual periods beginning after December 15, 2010.

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires enhanced disclosures regarding the nature of credit risk inherent in an entity s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. It requires an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. ASU 2010-20 will only impact disclosures. Disclosures related to information as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Disclosures regarding activities that occur during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010.

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

COMMODITY PRICE RISK

When we enter into a commodity purchase or sales commitment, we incur risks related to price change and performance (including delivery, quality, quantity and shipment period). We are exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. We are also exposed to risk of loss on our fixed or partially fixed price sales contracts in the event market prices increase.

Our hedging activities reduce the effects of price volatility, thereby protecting against adverse short-term price movements, but also limit the benefits of short-term price movements. To reduce the price change risks associated with holding fixed price commitments, we generally take opposite and offsetting positions by entering into commodity futures contracts or options, to the extent practical, in order to arrive at a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are purchased and sold on regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. We also use over-the-counter (OTC) instruments to hedge our exposure on flat price fluctuations. The price risk we encounter for crude oil and most of the grain and oilseed volume we handle can be hedged. Price risk associated with fertilizer and certain grains cannot be hedged because there are no futures for these commodities and, as a result, risk is managed through the use of forward sales contracts and other pricing arrangements and, to some extent, cross-commodity futures hedging. These contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes in any of our operations with the exception of some contracts included in our Energy segment. The contracts are recorded on our Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges or are based on the market prices of the underlying products listed on the exchanges, with the exception of fertilizer and propane contracts, which are accounted for as normal purchase and normal sales transactions. With the exception of some contracts included in our Energy segment, unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices. Beginning in the third quarter of fiscal 2010, certain contracts within our Energy segment were entered into for the spread between crude oil purchase price and distillate selling price, and have been designated and accounted for as hedging instruments (cash flow hedges). The unrealized gains or losses of these contracts are deferred to accumulated comprehensive loss in the equity section of our Consolidated Balance Sheet and will be included in earnings upon settlement. A loss of $2.4 million, net of taxes, was recorded in accumulated other comprehensive income for the year ended August 31, 2010, for the change in the fair value of cash flow hedges related to these derivatives. No gains or losses were recorded in our Consolidated Statement of Operations during the year ended August 31, 2010, since there were no settlements. The contracts expire in fiscal 2011, and we expect a loss of $2.4 million, net of taxes, to be included in earnings during the next 12 months.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a short futures contract increases, then an additional maintenance margin deposit would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

Our policy is to primarily maintain hedged positions in grain and oilseed. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At any one time, inventory and purchase contracts for delivery to us may be substantial. We have risk management policies and procedures that include net position limits. These limits are defined for each commodity and include both trader and management limits. This policy and computerized procedures in our grain marketing operations require a review by operations management when any trader is outside of position limits and also a review by our senior management if operating areas are outside of position limits. A similar process is used in our energy and wholesale crop nutrients operations. The position limits are reviewed, at least annually, with our management and Board of Directors. We monitor current market conditions and may expand or reduce our net position limits or procedures in response to changes in those conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

Hedging arrangements do not protect against nonperformance by counterparties to contracts. We primarily use exchange traded instruments, which minimizes our counterparty exposure. We evaluate that exposure by reviewing contracts and adjusting the values to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of a counterparty s financial condition and also the risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than the current market prices. We manage our risks by entering into fixed price purchase and sales contracts with preapproved producers and by establishing appropriate limits for individual suppliers. Fixed price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. Historically, we have not experienced significant events of nonperformance on open contracts. Accordingly, we only adjust the estimated fair values of specifically identified contracts for nonperformance. Although we have established policies and procedures, we make no assurances that historical nonperformance experience will carry forward to future periods.

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

INTEREST RATE RISK

We use fixed and floating rate debt to lessen the effects of interest rate fluctuations on interest expense. Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that our blended interest rate for all such notes approximates current market rates. During fiscal 2009, we entered into an interest rate swap with a notional amount of $150.0 million, expiring in September 2010, to lock in the variable interest rate for $150.0 million of our five-year revolving line of credit. Cofina Financial has interest rate swaps that lock the interest rates of the underlying loans with a combined notional amount of $16.8 million expiring at various times through fiscal 2018, with $0.2 million of the notional amount expiring during fiscal 2011 and the balance expiring during or after fiscal 2013. As of August 31, 2010, all of our interest rate swaps, including those of Cofina Financial, do not qualify for hedge accounting due to ineffectiveness caused by repayment of the borrowings or differences in underlying terms. As a result of these not qualifying for hedge accounting, changes in fair value are recorded in earnings within interest, net in our Consolidated Statements of Operations. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates to minimize the effects of market interest

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rate changes. Our weighted-average interest rate on fixed rate debt outstanding on August 31, 2010 was approximately 5.9%.

The table below provides information about our outstanding debt and derivative financial instruments that are sensitive to change in interest rates. For debt obligations, the table presents scheduled contractual principal payments and related weighted average interest rates for the fiscal years presented. For interest rate swaps, the table presents notional amounts for payments to be exchanged by expected contractual maturity dates for the fiscal years presented and interest rates noted in the table.

Expected Maturity Date

	2011	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**	**Fair Value**
				(Dollars in thousands)				
iabilities								
ariable rate niscellaneous hort-term otes payable	$ 29,776						$ 29,776	$ 29,776
verage nterest rate	2.2%						2.2%	
ariable rate ofina inancial hort-term otes payable	$ 232,314						$ 232,314	$ 232,314
verage nterest rate	1.8%						1.8%	
ixed rate ong-term debt	$ 112,503	$ 92,481	$ 101,189	$ 155,020	$ 154,977	$ 370,071	$ 986,241	$ 1,020,927
verage nterest rate	5.9%	5.9%	5.9%	5.9%	5.9%	6.0%	5.9%	
nterest Rate erivatives								
ariable to xed notes ayable nterest rate wap	$ 150,000						$ 150,000	$ 349
verage pay ate	3.00%							
verage eceive rate(a)	0.28%							
ariable to xed Cofina inancial otes payable nterest rate	$ 16,793	$ 16,560	$ 10,521	$ 9,054	$ 6,466	$ 2,662	$ 62,056	$ 878

waps						
verage pay						
ate(b)	range	range	range	range	range	range
verage						
eceive rate(a)	0.28%	0.28%	0.28%	0.28%	0.28%	0.28%

(a) One month London Interbank Offered Rate (LIBOR) at August 31, 2010

(b) Swaps expiring in fiscal 2011 through fiscal 2018 (15 total) with a range of rates from 1.00% to 5.23%

FOREIGN CURRENCY RISK

We conduct essentially all of our business in U.S. dollars, except for grain marketing operations primarily in Brazil and Switzerland, and purchases of products from Canada. We had minimal risk regarding foreign currency fluctuations during fiscal 2010 and in prior years, as substantially all international sales were denominated in U.S. dollars. From time to time, we enter into foreign currency contracts to mitigate currency fluctuations. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. As of August 31, 2010, we had $0.2 million in foreign currency contracts outstanding.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The financial statements listed in Item 15(a)(1) are set forth beginning on page F-1. Financial statement schedules are included in Schedule II in Item 15(a)(2). Supplementary financial information required by

Item 302 of Regulation S-K for each quarter during the fiscal years ended August 31, 2010 and 2009 is presented below.

	November 30, 2009	February 28, 2010	May 31, 2010	August 31, 2010
		(Unaudited) (Dollars in thousands)		
Revenues	$ 6,195,241	$ 5,878,493	$ 6,575,978	$ 6,618,219
Gross profit	202,661	166,725	251,978	249,157
Income before income taxes	138,109	93,120	181,478	171,128
Net income	122,535	86,159	159,495	167,208
Net income attributable to CHS Inc.	119,950	82,668	145,449	154,092

	November 30, 2008	February 28, 2009	May 31, 2009	August 31, 2009
Revenues	$ 7,733,919	$ 5,177,069	$ 6,163,119	$ 6,655,809
Gross profit	320,507	214,977	158,268	186,263
Income before income taxes	178,338	115,618	90,798	118,924
Net income	159,407	101,597	76,572	102,798
Net income attributable to CHS Inc.	137,251	82,280	64,569	97,307

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

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure of Controls and Procedures:

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

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2010. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of August 31, 2010, the end of the period covered in this Annual Report on Form 10-K.

Management s Annual Report on Internal Control Over Financial Reporting:

The financial statements, financial analyses and all other information included in this Annual Report on Form 10-K were prepared by our management, which is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and our dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition and use or disposition of our assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and operating effectiveness of our internal control over financial reporting as of August 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on management s assessment using this framework, we believe that, as of August 31, 2010, our internal control over financial reporting is effective.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our independent registered public accounting firm pursuant to the Financial Reform Bill passed in July 2010, that permits us to provide only management s report in this Annual Report on Form 10-K.

Change in Internal Control over Financial Reporting:

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

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

None.

PART III.

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

BOARD OF DIRECTORS

The table below lists our directors as of August 31, 2010.

Name and Address	Age	Director Region	Since
Bruce Anderson 13500 42nd St NE Glenburn, ND 58740-9564	58	3	1995
Donald Anthony	60	8	2006

43970 Road 758 Lexington, NE 68850			
Robert Bass E 6391 Bass Road Reedsburg, WI 53959	56	5	1994
David Bielenberg 16425 Herigstad Road NE Silverton, OR 97381	61	6	2009

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Name and Address	Age	Director Region	Since
Dennis Carlson 3255 50th Street Mandan, ND 58554	49	3	2001
Curt Eischens 2153 330th Street North Minneota, MN 56264-1880	58	1	1990
Steve Fritel 2851 77th Street NE Barton, ND 58384	55	3	2003
Jerry Hasnedl 12276 150th Avenue SE St. Hilaire, MN 56754 -9776	64	1	1995
David Kayser 42046 257th Street Alexandria, SD 57311	51	4	2006
Randy Knecht 40193 112th Street Houghton, SD 57449	60	4	2001
Greg Kruger N 49494 County Road Y Eleva, WI 54738	51	5	2008
Michael Mulcahey 8109 360th Avenue Waseca, MN 56093	62	1	2003
Richard Owen 1591 Hawarden Road Geraldine, MT 59446	56	2	1999
Steve Riegel 12748 Ridge Road Ford, KS 67842	58	8	2006
Daniel Schurr 3009 Wisconsin Street LeClaire, IA 52753	45	7	2006
Michael Toelle 5085 St. Anthony Drive Browns Valley, MN 56219	48	1	1992

The qualifications for our board of directors are listed below under Director Elections and Voting . In general, our directors operate large commercial agricultural enterprises requiring expertise in all areas of management, including financial oversight. They also have experience in serving on local cooperative association boards, and participate in a variety of agricultural and community organizations. Each director has completed the National Association of Corporate Directors comprehensive Director Professionalism course, and was subsequently awarded the Certificate of Director Education.

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

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Donald Anthony (2006): Serves on Audit and CHS Foundation Finance and Investment committees. Served as director and chairman for All Points Cooperative of Gothenburg, Neb., and Lexington (Neb.) Co-op Oil. Former director of Farmland Industries. Serves as chairman of Nebraska Beginning Farm Board and is a member of Ag Valley Co-op, CHS Agri-Service Center, Ag Builders of Nebraska, Nebraska Farm Bureau and Nebraska Corn Growers. Holds a bachelor s degree in agricultural economics from the University of Nebraska. Raises corn, soybeans and alfalfa near Lexington, Neb. Mr. Anthony s principal occupation has been farming for the last five years or longer.

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

David Bielenberg (2009): Serves on Audit and Government Relations committees. Previously served on the CHS Board of Directors from 2002-2006. Chair of the East Valley Water District and former director and board president for Wilco Farmers Cooperative, Mount Angel, Ore. Active in a broad range of agricultural and cooperative organizations. Holds a bachelor s of science degree in agricultural engineering from Oregon State University, is a graduate of Texas A & M University executive program for agricultural producers and achieved accreditation from the National Association of Corporate Directors. Operates a diverse agricultural business near Silverton, Oregon, including seed crops, vegetables, greenhouse plant production and timberland. Mr. Bielenberg s principal occupation has been farming for the last five years or longer.

Dennis Carlson (2001): Chairs CHS Foundation Finance and Investment Committee and serves on Capital Committee. Former director and past chairman of Farmers Union Oil Company, Bismarck/Mandan, N.D., and is active in several agricultural and cooperative organizations. Operates a diverse grain and livestock operation near Mandan, N.D. Mr. Carlson s principal occupation has been farming for the last five years or longer.

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

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

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

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

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

Greg Kruger (2008): Serves on Government Relations and Corporate Responsibility committees. Chairman of Countryside Cooperative, Durand, Wis., since its creation in 1998, after more than a dozen years as a cooperative director. Served two years each on the CHS Resolutions and CHS Rules and Credentials committees. Serves a wide range of agricultural and local government roles, including as president of Trempealeau County Farm Bureau and chairman of the local land use planning committee. Operates an 80-cow dairy and crop enterprise near Eleva, Wis. Mr. Kruger s principal occupation has been farming for the last five years or longer.

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

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

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

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

Michael Toelle, chairman (elected in 1992; chairman since 2002): Chairman of CHS Foundation. Served more than 15 years as director and chairman of Country Partners Cooperative of Browns Valley, Minn., and its predecessor companies. Serves as a CHS representative on the Nationwide Insurance sponsors committee, serves on the 25x 25

Renewable Fuels Steering Committee, has served as director and chairman of Agriculture Council of America, and is active in several cooperative and commodity organizations. Holds a bachelor s degree in industrial technology from Moorhead (Minn.) State University. Operates a grain, hog and

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beef farm near Browns Valley, Minn. Mr. Toelle s principal occupation has been farming for the last five years or longer.

Director Elections and Voting

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

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

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

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

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

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

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

The following positions on the Board of Directors will be up for re-election at the 2010 Annual Meeting of Members:

Region	Current Incumbent
Region 1 (Minnesota)	Mike Toelle
Region 3 (North Dakota)	Dennis Carlson
Region 4 (South Dakota)	Randy Knecht
Region 5 (Connecticut, Delaware, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Wisconsin)	Bob Bass
Region 8 (Colorado, Nebraska, Kansas, New Mexico, Oklahoma, Texas)	Steve Riegel
Region 8 (Colorado, Nebraska, Kansas, New Mexico, Oklahoma, Texas)	Open *

* New position created through the transfer of a directorship from Region 1 to Region 8.

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

EXECUTIVE OFFICERS

The table below lists our executive officers as of August 31, 2010. Officers are appointed by the Board of Directors.

Name	Age	Position
John D. Johnson (1)	62	President and Chief Executive Officer
Jay Debertin	50	Executive Vice President and Chief Operating Officer, Processing
Patrick Kluempke	62	Executive Vice President Corporate Administration
Thomas D. Larson (2)	62	Executive Vice President Business Solutions
Mark Palmquist	53	Executive Vice President and Chief Operating Officer, Ag Business
John Schmitz (2)	59	Executive Vice President and Chief Financial Officer
Leon E. Westbrock (2)	63	Executive Vice President and Chief Operating Officer, Energy

(1) We announced in a Current Report on Form 8-K filed on June 21, 2010, that Mr. Johnson is retiring effective December 31, 2010.

(2) We announced in a Current Report on Form 8-K filed on October 6, 2010, that Mr. Larson s and Mr. Westbrock s retirements are effective October 29, 2010, and that Mr. Schmitz is retiring effective December 31, 2010.

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

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

Patrick Kluempke, Executive Vice President Corporate Administration, is responsible for human resources, information technology, business risk control, building and office services, board coordination, corporate planning and international relations. Served in the U.S. Army with tours in South Vietnam and South Korea as an aide to General J.

Guthrie. Began his career in grain trading and export marketing. Joined CHS in 1983, has held various positions in both the operations and corporate level, and was named to his current position in 2000. Serves on the board of Ventura Foods, LLC. Holds a bachelor s degree from St. Cloud (Minn.) State University.

Thomas D. Larson, Executive Vice President Business Solutions, began his career as a vocational agriculture teacher and later joined the former Cenex in agronomy sales. Managed a local cooperative in Hoffman, Minn., and then returned to Cenex to hold positions in marketing, planning, agronomy services and retail operation management. Was named Executive Vice President Member and Public Affairs in 1999 and named to his current position in 2005. Responsibilities include Ag States Group; Country Hedging, Inc.; and Cofina Financial, LLC; along with business solutions consulting, communications, public and governmental affairs, and the CHS Foundation. Serves on the boards of Cofina Financial, Ag States Group, Norick and Country Hedging, Inc. Received the National FFA Organization s Honorary American Farmer Degree in 2006. Holds a bachelor s degree in agricultural education from South Dakota State University.

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

John Schmitz, Executive Vice President and Chief Financial Officer (CFO), joined the former Harvest States Cooperatives in 1974. Held accounting and finance positions within the Company, including division controller. Named vice president and controller in 1986 and became CFO for CHS in 1999. Serves on the boards of National Cooperative Refinery Association and Multigrain AG. Former board member of Ventura Foods, LLC and Cofina Financial, LLC. Member of the American Institute of Certified Public Accountants, the Minnesota Society of Certified Public Accountants and the National Society of Accountants for Cooperatives. Holds a bachelor s degree in accounting from St. Cloud (Minn.) State University.

Leon E. Westbrock, Executive Vice President and Chief Operating Officer Energy, joined the former Cenex in 1976 in merchandising, and managed local cooperatives in North Dakota and Minnesota. Returned to Cenex to hold various positions, including lubricants manager, director of retailing, and executive vice president of energy. Named to his current position in 2000. Serves as chairman of National Cooperative Refinery Association. Former board member of Agriliance LLC and Universal Cooperatives. Named 2009 Agribusiness Leader of the Year by National Agri-Marketing Association. Holds a bachelor s degree from St. Cloud (Minn.) State University and serves on the St. Cloud State University Foundation Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based solely upon a review of copies of reports on Forms 3 and 4 and amendments thereto furnished to us during, and reports on Form 5 and amendments thereto furnished to us with respect to, the fiscal year ended August 31, 2010, and based further upon written representations received by us with respect to the need to file reports on Form 5, the following persons filed late reports required by Section 16(a) of the Exchange Act: Mr. Larson was late in filing a Form 4 relating to a transaction in April 2010 and Mr. Kluempke was late in filing a Form 4 relating to a transaction in September 2010.

Code of Ethics

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

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

Audit Committee Matters

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

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

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

ITEM 11. ***EXECUTIVE COMPENSATION***

Compensation Discussion and Analysis

Executive Compensation

Overview

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

Compensation Philosophy and Objectives

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

- Maintaining a strong external market focus in order to attract and retain top talent by:
  - Aligning pay structures and total direct compensation at the market median through our benchmarking process

Obtaining applicable and available survey data of similar sized companies

Maintaining reasonable internal pay equity among executives in order to allow for broad-based development opportunities in support of our talent management objectives

Driving strong business performance through annual and long-term incentive programs by:

Rewarding executives for company, business unit and individual performance

Aligning executive rewards with competitive returns to our owner members

Ensuring compensation components are mutually supportive and not contradictory

Aligning annual and long-term results with performance goals

Ensuring compliance with federal and state regulations

There are no material changes anticipated to our compensation philosophy or plans for fiscal 2011.

Components of Executive Compensation and Benefits

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

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

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

Components of Compensation

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

Pay Element	**Definition of Pay Element**	**Purpose of Pay Element**
Base Salary	Competitive base level of compensation provided relative to skills, experience, knowledge and contributions	Provides the fundamental element of compensation based on competitive market practice and internal equity considerations
Annual Variable Pay	Broad-based employee short-term performance based variable pay incentive for achieving predetermined annual financial and individual performance objectives	Provide a direct link between pay and annual business objectives Pay for performance to motivate and encourage the achievement of critical business initiatives
Profit Sharing	Broad-based employee short-term performance based variable pay program for achieving predetermined return on equity performance levels	Provide a direct link between employee pay and CHS s profitability Encourage proper expense control and containment

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Pay Element	Definition of Pay Element	Purpose of Pay Element
Long-Term Incentive Plans	Long-term performance based variable pay incentive for senior management to achieve predetermined triennial return on equity performance goals	Provide a direct link between senior management pay and long-term strategic business objectives Align management and member-owner interests Encourage retention of key management
Retirement Benefits	Retirement benefits under the qualified retirement benefits are identical to the broad-based retirement plans generally available to all full-time employees	These benefits are a part of our broad-based employee total rewards program
	The supplemental plans include non-qualified retirement benefits that restore qualified benefits contained in our broad-based plans for employees whose retirement benefits are limited by salary caps under the Internal Revenue Code. In addition, the plans allow participants to voluntarily defer receipt of a portion of their income	These benefits are provided to attract and retain senior managers with total rewards programs that are competitive with comparable companies
Health & Welfare Benefits	Medical, dental, vision, life insurance and disability benefits generally available to all full-time employees with supplemental executive long-term disability	These benefits are a part of our broad-based employee total rewards program
Additional Benefits and Perquisites	Additional benefits and perquisites provided to certain officers, including our Named Executive Officers	These benefits are provided to remain competitive with comparable companies, retain individuals who are critical to CHS, facilitate the executives relationships with customers and to support their roles in the community

Base Pay:

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

Base salaries for the Named Executive Officers are reviewed on an annual basis or at the time of significant changes in scope and level of responsibilities. Changes in base salaries are determined by competitive pay of comparable positions in the market, as well as individual performance and contribution. Changes are not governed by pre-established weighting factors or merit metrics. The CEO is responsible for this process for the other Named Executive Officers. The Corporate Responsibility Committee is responsible for this process for the President and Chief Executive Officer. In accordance with Mr. Johnson s contract, he

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received no increase in base pay for fiscal 2010. None of the other Named Executive Officers received a base salary increase in fiscal 2010.

Annual Variable Pay:

Each Named Executive Officer is eligible to participate in our Annual Variable Pay Plan for our fiscal year ended August 31, 2010. Target award levels are set with reference to competitive market compensation levels and are intended to motivate our executives by providing variable pay awards for the achievement of predetermined goals. Our incentive program is based on financial performance and specific management business objectives with payout dependent on CHS triggering threshold financial performance. The financial performance components include return on equity (ROE) level for both CHS and the executive s business unit. The CHS threshold, target and maximum ROE levels for fiscal 2010 were 8%, 10% and 14%, respectively. The threshold, target and maximum ROE goals for each business unit vary by unit. The management business objectives include individual performance against specific goals such as business profitability, strategic initiatives or talent development.

For fiscal 2010, CHS financial performance goals and award opportunities under our Annual Variable Pay Plan were as follows:

Performance Level	CHS Company Performance Goal	Business Unit Performance Goal	Management Business Objectives	Percent of Target Award
Maximum	14% Return on Equity	Threshold, Target	Individual	200%
Target	10% Return on Equity	and Maximum	performance goals	100%
Threshold	8% Return on Equity	Return on Equity		20%
Below Threshold		goals vary by		0%
		business unit		

The annual variable pay awards for the Named Executive Officers are calculated by applying the percent of target award to the applicable fiscal 2010 salary range midpoint for the Named Executive Officer.

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

The CHS Board of Directors approves the Annual Variable Pay Plan total Company ROE objectives and determines the CEO s individual goals. The weighting of the Chief Executive Officer s goals is 70% CHS total company ROE and 30% principle accountabilities and personal goals. The CEO approves business unit ROE objectives and determines non-financial objectives for the Named Executive Officers. The weighting of goals for the Named Executive Officers is 70% ROE and 30% principle accountabilities and personal goals. The ROE goals for the Named Executive Officers are either total CHS, or combined CHS and business unit, depending on whether the position is responsible for an operating group or not. The variable pay plan is designed such that if one-year threshold non-financial and financial performance is achieved, the annual variable pay award would equal 20 percent of market competitive awards; if target non-financial and financial performance goals are achieved, the award would equal 100% of market competitive awards and if maximum non-financial and financial performance goals are achieved, the award would equal 200% of market competitive awards.

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

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For fiscal 2010, CHS achieved an ROE of 16.2%. Annual variable pay payments for the Named Executive Officers are as follows:

John D. Johnson	$ 1,800,000
John Schmitz	$ 749,980
Leon E. Westbrock	$ 763,146
Mark Palmquist	$ 823,200
Jay Debertin	$ 630,000

Profit Sharing:

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

Return On Equity	Equates to Net Income for Fiscal 2010	Profit Sharing Award
14.0%	$432.6 Million	5%
12.0%	$370.8 Million	4%
10.0%	$309.0 Million	3%
9.0%	$278.1 Million	2%
8.0%	$247.2 Million	1%

Effective for fiscal 2011, threshold, target and maximum ROE goals are:

Return On Equity	Equates to Net Income for Fiscal 2011	Profit Sharing Award
14.0%	$467.0 Million	5%
12.0%	$400.3 Million	4%
10.0%	$333.6 Million	3%
9.0%	$300.2 Million	2%
8.0%	$266.9 Million	1%

Long-Term Incentive Plans:

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

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

Award opportunities are expressed as a percentage of a participant s average salary range midpoint for the three-year performance period. Threshold and maximum award opportunities are set between 20 percent and 200 percent of target payout. CHS must meet a three-year period threshold level of ROE for LTIP to trigger a payout. The threshold, target and maximum ROE for fiscal 2008-2010 performance period were 8%, 10% and 14%, respectively.

Awards from the LTIP are contributed to the CHS Deferred Compensation Plan after the end of each performance period. These awards are earned over a three-year period and vest over an additional 28-month period following the performance period end date. The extended earning and vesting provisions of the LTIP are designed to help CHS retain key executives. Participants who terminate from CHS prior to retirement forfeit all unearned and unvested LTIP award balances. Like the Annual Variable Pay Plan, award levels for the LTIP are set with regard to competitive considerations.

For the fiscal year 2008-2010 performance period, CHS reached the maximum level ROE for awards under the LTIP. Payments for the Named Executive Officers under the LTIP are as follows:

John D. Johnson	$ 1,800,000
John Schmitz	$ 736,914
Leon E. Westbrock	$ 814,800
Mark Palmquist	$ 804,860
Jay Debertin	$ 617,074

Retirement Benefits:

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

CHS Inc. Pension Plan

CHS Inc. 401(k) Plan

CHS Inc. Supplemental Executive Retirement Plan

CHS Inc. Deferred Compensation Plan

CHS Inc. Pension Plan

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

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

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

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Pay credits are earned according to the following schedule:

Regular Pay Credits

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

Mid Career Pay Credits

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

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

Special Career Credits

Participants who were in the former Harvest States Cooperative Cash Balance Retirement Plan on January 1, 1988 and met certain age and service requirements on January 1, 1988 are eligible for additional credit. Mr. Johnson and Mr. Schmitz meet the requirement to receive an additional credit based on the following table:

Total Age and Service As of 1/01/1988	Additional Credit of
50 - 54	1%
55 - 59	2%
60 - 64	3%
65 - 69	4%
70 or more	5%

Investment Credits

We credit a Named Executive Officer s account at the end of the year with an investment credit based on the balance at the beginning of the year. The investment credit is based on the average return for one-year U.S. Treasury bills for the preceding 12-month period. The minimum interest rate under the Pension Plan is 4.65% and the maximum is 10%.

CHS Inc. 401(k) Plan

The 401(k) Plan is a tax-qualified defined contribution retirement plan. Most full-time, non-union CHS employees are eligible to participate in the 401(k) Plan, including each Named Executive Officer. Participants may contribute between 1% and 50% of their pay on a pretax basis. We match 100% of the first 1% and 50% of the next 5% of pay contributed each year (maximum 3.5%). The Board of Directors may elect to reduce or eliminate matching contributions for any year or any portion thereof. Participants are 100% vested in their own contributions and are fully vested after two years of service in matching contributions made on the participant s behalf by CHS.

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Non-participants are automatically enrolled in the plan at 3% contribution rate and effective each January 1st, the participant s contribution will be automatically increased by 1%. This escalation will stop once the participant s contribution reaches 6%. The participant may elect to cancel or change these automatic deductions at any time.

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

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

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

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

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

Certain Named Executive Officers may have accumulated non-qualified plan balances or benefits that have been carried over from predecessor companies as a result of past mergers and acquisitions. Some of the benefits from the SERP are funded in a rabbi trust, with a balance at August 31, 2010 of $4.5 million. No further contributions to the trust are planned. Currently, the plans are not being funded and do not qualify for special tax treatment under the Internal Revenue Code.

The Deferred Compensation Plan allows eligible Named Executive Officers to voluntarily defer receipt of up to 30% of their base salary and up to 100% of their annual variable pay. The election must occur prior to the beginning of the calendar year in which the compensation will be earned. During the fiscal year ending August 31, 2010, all of the Named Executive Officers participated in the non-elective portion of the Deferred Compensation Plan and only Mr. Debertin participated in the elective portion of the Deferred Compensation Plan.

Some of the benefits from a previous deferred compensation plan are funded in a rabbi trust, with a balance at August 31, 2010 of $46.3 million. No further contributions to the trust are planned.

Health & Welfare Benefits:

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

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Medical Plans

Named Executive Officers and their dependents may participate in our medical plan on the same basis as other eligible full-time employees. The plan provides each an opportunity to choose a level of coverage and coverage options with varying deductibles and co-pays in order to pay for hospitalization, physician and prescription drugs expenses. The cost of this coverage is shared by both CHS and the covered Named Executive Officer.

Dental, Vision, and Hearing Plan

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

Life, AD&D and Dependent Life Insurance

Named Executive Officers and their dependents may participate in our basic life, optional life, accidental death and dismemberment (AD&D) and dependent life plans on the same basis as other eligible full-time employees. The plans allow Named Executive Officers an opportunity to purchase group life insurance on the same basis as other eligible full-time employees. Basic life insurance equal to one times pay will be provided at CHS expense on the same basis as other eligible full-time employees. Named Executive Officers can choose various coverage levels of optional life insurance at their own expense on the same basis as other eligible full-time employees.

Short- and Long-term Disability

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

Flexible Spending Accounts/Health Savings Accounts

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

Travel Assistance Program

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

Additional Benefits and Perquisites:

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

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Summary Compensation Table

Name and Principal Position	Year	Salary(5)	Non-Equity Incentive Plan Compensation(1)(5)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings(2)(6)	All Other Compensation(3)(4)	Total
John D. Johnson	2010	$ 900,000	$ 3,600,000	$ 2,001,285	$ 251,423	$ 6,752,708
President &	2009	900,000	3,415,680	1,666,170	262,086	6,243,936
Chief Executive Officer	2008	900,000	3,557,000	1,161,571	279,193	5,897,764
John Schmitz	2010	535,700	1,486,894	438,452	115,595	2,576,641
Executive Vice President &	2009	535,700	1,394,997	362,542	118,721	2,411,960
Chief Financial Officer	2008	507,700	1,403,220	221,711	114,197	2,246,828
Leon E. Westbrock	2010	588,000	1,577,946	1,816,363	151,712	4,134,021
Executive Vice President	2009	588,000	1,588,346	1,653,176	138,083	3,967,605
	2008	570,700	1,576,074	1,106,259	135,199	3,388,232
Mark Palmquist	2010	588,000	1,637,060	568,334	129,081	2,922,475
Executive Vice President	2009	588,000	1,433,448	393,335	145,841	2,560,624
	2008	548,700	1,516,574	186,642	156,707	2,408,623
Jay Debertin	2010	450,000	1,247,074	458,099	112,656	2,267,829
Executive Vice President	2009	450,000	1,202,513	309,297	166,720	2,128,530
	2008	422,300	1,163,586	115,784	102,039	1,803,709

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

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

Above-market earnings represent earnings exceeding 120% of the Federal Reserve long-term rate as determined by the Internal Revenue Service (IRS) on applicable funds. The following Named Executive Officers had above market earnings in 2010: Mr. Johnson- $294,417; Mr. Schmitz- $43,836; Mr. Westbrock- $46,090; Mr. Palmquist- $32,787; and Mr. Debertin- $70,292, and above market earnings in 2009: Mr. Johnson- $350,846; Mr. Schmitz- $58,418; Mr. Westbrock- $63,714; Mr. Palmquist- $48,082; and Mr. Debertin- $83,791, and above market earnings in 2008: Mr. Johnson- $114,047; Mr. Schmitz- $9,951; Mr. Westbrock- $12,893; Mr. Palmquist- $10,502; and Mr. Debertin- $1,725.

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

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

(5) Amounts reflect the gross compensation and include any applicable deferrals. Mr. Debertin deferred $483,286 in 2010, $517,976 in 2009, and $585,890 in 2008.

(6) The 2008 Change in Pension value is for the period July 1, 2007 to June 30, 2008. The 2009 Change in Pension Value is an annualized value based on the 14-month period from June 30, 2008 to August 31, 2009. The total change in value is annualized by multiplying by 12/14. The 2010 Change in Pension Value is for the period September 1, 2009 to August 31, 2010.

Material Terms of Named Executive Officer Employment Agreement

On August 1, 2007, CHS entered into an employment agreement with Mr. Johnson, its President and Chief Executive Officer. A copy of this agreement was previously filed and is listed as Exhibit 10.1 to this Annual Report on Form 10-K. Under the Agreement, Mr. Johnson s employment renewed for additional one year periods unless terminated by CHS upon at least one year s prior written notice to Mr. Johnson.

As previously announced, Mr. Johnson will be retiring from CHS on December 31, 2010. In accordance with the provisions of the CHS annual variable pay plan and the CHS three year long term incentive plan,

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Mr. Johnson will receive future prorated incentive awards for the time he was employed during the terms of both plans. In accordance with his employment agreement, Mr. Johnson will be subject to a two year non-compete agreement following his retirement.

Explanation of Ratio of Salary and Bonus to Total Compensation

The structure of our executive compensation package is focused on a suitable mix of base pay, annual variable pay and long-term incentive awards in order to encourage executive officers and employees to strive to achieve goals that benefit our shareholders interests over the long term, and to better align our programs with general market practices.

2010 Grants of Plan-Based Awards
Estimated Future Payouts Under Non-Equity Incentive Plan Awards

Name	Grant Date	Threshold	Target	Maximum
John D. Johnson	9-1-09(1)	$ 180,000	$ 900,000	$ 1,800,000
	9-1-09(2)	180,000	900,000	1,800,000
John Schmitz	9-1-09(1)	74,998	374,990	749,980
	9-1-09(2)	74,998	374,990	749,980
Leon E. Westbrock	9-1-09(1)	82,320	411,600	823,200
	9-1-09(2)	82,320	411,600	823,200
Mark Palmquist	9-1-09(1)	82,320	411,600	823,200
	9-1-09(2)	82,320	411,600	823,200
Jay Debertin	9-1-09(1)	63,000	315,000	630,000
	9-1-09(2)	63,000	315,000	630,000

(1) Represents range of possible awards under our 2010 Annual Variable Pay Plan. The actual amount of the award earned for fiscal 2010 is presented in the Non-Equity Incentive Plan Compensation column of our Summary Compensation Table. The Annual Variable Pay Plan is described in the Compensation Discussion and Analysis.

(2) Represents range of possible awards under our Long-Term Incentive Plan for the fiscal 2010-2012 performance period. Goals are based on achieving a three-year ROE of 8%, 10% and 14%. Awards are earned over a three-year period and vest over an additional 28-month period.

Grants Based Award Table Material Terms of Awards Disclosed in Table

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

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Pension Benefits Table

Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefits	Payments During Last Fiscal Year
John D. Johnson(1)	CHS Inc. Pension Plan	33.8333	$ 753,441	$ 0
	SERP	33.8333	5,588,846	0
	Special SERP	33.8333	3,640,873	0
John Schmitz(1)	CHS Inc. Pension Plan	35.9167	707,391	0
	SERP	35.9167	1,402,370	0
Leon E. Westbrock(1)	CHS Inc. Pension Plan	29.1667	825,709	0
	SERP	29.1667	8,644,927	0
Mark Palmquist	CHS Inc. Pension Plan	31.0000	625,870	0
	SERP	31.0000	1,591,044	0
Jay Debertin	CHS Inc. Pension Plan	26.2500	477,843	0
	SERP	26.2500	830,726	0

(1) An executive is eligible for early retirement in both the CHS Inc. Pension Plan and the Supplemental Executive Retirement Plan.

The above table shows the present value of accumulated retirement benefits that Named Executive Officers are entitled to under the CHS Inc. Pension Plan and CHS Inc. SERP. It also includes the accrued benefit of Mr. Johnson s Special SERP.

For a discussion of the material terms and conditions of the Pension Plan, the SERP and the Special SERP, see the Compensation Discussion and Analysis.

The present value of accumulated benefits is determined in accordance with the same assumptions outlined in Note 10 of our consolidated financial statements in Part II, Item 8 to this Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

Discount rate of 4.50%;

RP-2000 Combined Healthy Participant mortality table (post-decrement only);

Each Named Executive Officer is assumed to retire at the earliest retirement age at which unreduced benefits are available (age 62 for Mr. Westbrock and age 65 for all others). The early retirement benefits under the CENEX formula and the Farmer s Union Central Exchange, Inc. formula are both currently described under the

Pension Benefits Table. The early retirement benefit under the cash balance plan formula is equal to the participant s account balance. Early retirement is not defined under the Special SERP; and

Payments under the cash balance formula of the Pension Plan assume a lump sum payment and payments under the grandfather formula of the Pension Plan assume a single-life annuity. SERP benefits are payable as a lump sum.

The normal form of benefit for a single employee is a life only annuity and for a married employee the normal form of benefit is a 50% joint and survivor annuity. Other annuity forms are also available on an actuarial equivalent basis. A lump sum option is also available.

Mr. Johnson s benefit at retirement will be equal to his accumulated benefit under the Pension Plan and SERP converted to a monthly single-life only annuity.

As Chief Executive Officer of CHS, in addition to the Pension Plan and Supplemental Executive Retirement Plan, Mr. Johnson is also eligible for a Special SERP benefit. Under the Special SERP, at the end of each year for which Mr. Johnson completes a year of service, an amount is credited to his account. There

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are two components to the contribution amount: 1) a base portion and 2) a performance-based portion. The base portion is determined by the following table:

Year	Amount
2003-2007	$ 263,663
2008	306,163
2009	350,428
2010	395,481

The annual performance-based amount for any year shall not exceed $83,272. This amount shall be computed as $83,272 multiplied by a percentage. The percentage is determined by the Board of Directors and is based on Mr. Johnson s performance for the plan year for which such determination is made pursuant to the performance standards under the CHS Annual Incentive Plan.

Mr. Johnson s Special SERP account will receive interest at 8% per year. Vesting in this plan is immediate. At retirement or termination, Mr. Johnson will receive a lump sum.

Mr. Schmitz s retirement benefit at retirement will be equal to his accumulated benefit under the Pension Plan and SERP, as described in Components of Executive Compensation and Benefits section converted to a life only monthly annuity. The normal form of benefit for a single employee is a life only annuity and for a married employee the normal form of benefit is a 50% joint and survivor annuity. Other annuity forms are also available on an actuarial equivalent basis. A lump sum option is also available.

Mr. Westbrock will receive benefits under a combination of qualified and non-qualified benefit formulas that produces the greatest benefit at the earlier of termination of employment or retirement.

Initial cash balance account balances in the CHS Inc. Pension Plan were established January 1, 1999. All former CENEX employees who were at least age 50 with 10 years of credited service as of January 1, 1999, were eligible to continue to accrue pension benefits determined under the prior plan formula (CENEX formula). Mr. Westbrock was eligible for this transition benefit. This plan provides for a monthly benefit for the employee s lifetime beginning at normal retirement age (social security retirement age), calculated according to the following formula: [[1.08% x Final Average Pay] + [.75% x (Final Average Pay-Covered Compensation)]] x years of credited service (up to a maximum of 30 years).

For the period from January 1, 1999 through December 31, 2001, CENEX grandfathered participants received the greater of the benefit derived under the CENEX formula or the cash balance plan benefit. In late 2001 and effective January 1, 2002, all CENEX grandfathered participants were given a one-time choice of which plan formula to continue benefit accruals under. Mr. Westbrock chose the cash balance formula under the Pension Plan.

Because of prior CENEX service, Mr. Westbrock is also grandfathered under the Farmers Union Central Exchange, Inc. formula. This formula provides for a monthly benefit for the employee s lifetime beginning at normal retirement age (age 65), calculated according to the following formula: [[(63% x Final Average Pay) Primary Social Security Benefit] x (years of credited service (up to a maximum of 30 years)/30)]. The formula provides for a non-qualified lump sum benefit upon retirement (age 65), calculated according to the following formula: [[(63% x Final Average Pay) Primary Social Security Benefit] x (years of credited service (up to a maximum of 30 years)/30)] benefit payable under the qualified plan.

Under the CENEX formula, terminated or retired employees who are at least age 55 with 10 years of vesting service may elect a reduced early retirement benefit. These reductions are 62/3% per year for five years and 31/3% per year thereafter. Mr. Westbrock is currently eligible for early retirement under this plan benefit.

Under the Farmers Union Central Exchange, Inc. formula, terminated or retired employees who are at least 55 with 15 years of vesting service or at least age 60 with 10 years of vesting service may elect a reduced early retirement benefit. Unreduced benefits are payable at age 62. Early retirement reductions are 62/3% per year from age 62 for up to five years and 31/3% per year thereafter. Mr. Westbrock is currently eligible for early retirement under this plan benefit.

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Final Average Pay under the CENEX plan formula and the Farmer s Union Central Exchange, Inc. formula is defined as the average monthly compensation for the highest paid 60 consecutive months of employment out of the last 132 months (over the entire service period for the Farmers Union Central Exchange, Inc. Plan) worked. Covered Compensation is an amount used to coordinate pension benefits with Social Security benefits. Covered Compensation varies based on the employee s year of birth and the year in which employment ends.

Mr. Palmquist s retirement benefit at retirement will be equal to his accumulated benefit under the Pension Plan and SERP, as described in the Compensation Discussion and Analysis converted to a life only monthly annuity.

Mr. Debertin s retirement benefit at retirement will be equal to his accumulated benefit under the Pension Plan and SERP, as described in the Compensation Discussion and Analysis converted to a life only monthly annuity.

2010 Nonqualified Deferred Compensation Table

Name	Executive Contributions in Last Fiscal Year(3)	Registrant Contributions in Last Fiscal Year(1)	Aggregate Earnings (Loss) in Last Fiscal Year(4)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year End (1),(2)
John D. Johnson	$ 0	$ 2,600,553	$ 1,026,895	$ 2,305,216	$ 19,334,473
John Schmitz	0	797,824	251,294	0	4,523,625
Leon E. Westbrock	0	893,212	264,414	0	4,775,071
Mark Palmquist	0	863,113	179,115	839,824	2,978,757
Jay Debertin	483,286	665,870	389,668	0	6,614,273

(1) Deferrals under the Deferred Compensation Plan are made by the Named Executive Officer. Amounts include LTIP, retirement contributions on amounts exceeding IRS compensation limits, Profit Sharing, 401(k) match plus Mr. Johnson s Special SERP.

(2) Amounts vary in accordance with individual pension plan provisions and voluntary employee deferrals and withdrawals. These amounts include roll-overs, voluntary salary and voluntary incentive plan contributions from predecessor plans with predecessor employers that have increased in value over the course of the executive s career. Named Executive Officers may defer up to 30% of their base salary and up to 100% of their annual variable pay to the Deferred Compensation Plan. Earnings on amounts deferred under the plan are determined based on the investment election made by the Named Executive Officer from five market based notional investments with a varying level of risk selected by CHS, and a fixed rate fund. Named Executive Officers may change their investment election daily with a maximum of 12 changes per year. Payments of amounts deferred are made in accordance with elections by the Named Executive Officer and in accordance with Section 409A under the Internal Revenue Code. Payments under the Deferred Compensation Plan may be made at a specified date elected by the Named Executive Officer or deferred until retirement, disability, or death. Payments would be made in a lump sum. In the event of retirement, the Named Executive Officer can elect to receive payments either in a lump sum or annual installments up to 10 years.

(3) Includes amounts deferred from salary and annual incentive pay reflected in the Summary Compensation Table.

(4) The amounts in this column include the change in value of the balance, not including contributions made by the Named Executive Officer.

Post Employment

The Named Executive Officers are covered by a broad-based employee severance program which provides two weeks of pay per year of service with a 12-month cap. The CEO is the only Named Executive Officer with an employment agreement which was for a one-year term, and provides for a one-year notice in the case employment is terminated without just cause. His severance package follows the same broad-based severance

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plan as other employees including the other Named Executive Officers. In accordance with their years of service and current base pay levels, the Named Executive Officers severance pay would be as follows:

John D. Johnson	$ 900,000
John Schmitz	$ 535,700
Leon E. Westbrock	$ 588,000
Mark Palmquist	$ 588,000
Jay Debertin	$ 450,000

These payments would be made if their positions are eliminated and the executives are laid off. There are no other severance benefits except for up to $5,000 of outplacement assistance, which would be included as imputed income, and government mandated benefits such as COBRA. The method of payment would be a lump sum.

Named Executive Officers are not offered any special postretirement medical benefits that aren t offered to other similarly situated (i.e. age and service) salaried employees.

As previously disclosed, in addition to Mr. Johnson, two other Named Executive Officers will be retiring in 2011. Leon Westbrock will be retiring on October 29, 2010 and John Schmitz will be retiring on December 31, 2010. As with Mr. Johnson, in accordance with the provisions of the CHS annual variable pay plan and the CHS three year long term incentive plan, both Mr. Westbrock and Mr. Schmitz will receive future pro-rated incentive awards for the time they were employed during the terms of both plans.

Director Compensation

Overview

The Board of Directors met monthly during the year ended August 31, 2010. Through August 31, 2010, each director was provided annual compensation of $54,000, paid in 12 monthly payments, plus actual expenses and travel allowance, with the Chairman of the Board receiving additional annual compensation of $18,000, and the First Vice Chairman, the Secretary-Treasurer and all board committee chairs receiving an additional annual compensation of $3,600. Each director receives a per diem of $300 plus actual expenses and travel allowance for each day spent on meetings other than regular board meetings and the CHS Annual Meeting. Effective September 1, 2006, the number of days per diem may not exceed 55 days annually, except that the Chairman of the Board will be exempt from this limit.

Director Retirement and Healthcare Benefits

Members of the Board of Directors are eligible for certain retirement and healthcare benefits. The retirement plan is a defined benefit plan and provides for a monthly benefit for the director s lifetime, beginning at age 60. Benefits are immediately vested and the monthly benefit is determined according to the following formula: $200 times years of service on the board (up to a maximum of 15 years). Under no event will the benefit payment be payable for less than 120 months. Payment shall be made to the retired director s beneficiary in the event of the director s death before 120 payments are made. Prior to 2005, directors could elect to receive their benefit as an actuarial equivalent lump sum. In order to comply with IRS requirements, directors were required in 2005 to make a one-time irrevocable election whether to receive their accrued benefit in a lump sum or a monthly annuity upon retirement. If the lump sum was elected, the director would commence benefits upon expiration of board term.

Retirement benefits are funded by a rabbi trust, with a balance at August 31, 2010 of $6.2 million. The Board of Director s intent is to fully fund benefits through the rabbi trust.

Directors of CHS in place as of September 1, 2005, and their eligible dependents, will be eligible to participate in the medical, life, dental, vision and hearing plans. CHS will pay 100% of the life and medical premium for the director and eligible dependents until the director is eligible for Medicare. Term life insurance cost is paid by the director. Retired directors and their dependents are eligible to continue medical and dental insurance at the cost of CHS after they leave the board. In the event a director s coverage ends due to death or

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Medicare eligibility, CHS will pay 100% of the premium for the eligible spouse and eligible dependents until the spouse reaches Medicare age or upon death, if earlier.

New directors elected on or after December 1, 2006, and their eligible dependents, will be eligible to participate in the medical, dental, vision and hearing plans. CHS will pay 100% of the premium for the director and eligible dependents until the director is eligible for Medicare. In the event a director leaves the board prior to Medicare eligibility, premiums will be shared based on the following schedule:

Years of Service	Director	CHS
0 to 3	100%	0%
3 to 6	50%	50%
6+	0%	100%

Director Life Insurance

Current and retired directors were required to take possession of their whole life insurance policies by December 31, 2008. For directors whose policies are not yet paid up, they have 12 months from the date the last premium was paid to take possession of the policy. As of August 31, 2009, the ownership of each policy was transferred to the Director. We discontinued offering whole life insurance to new directors beginning service after September 1, 2006. However, those directors will have the ability to purchase additional term insurance that is offered to our active CHS employees, but at their own expense. Directors may purchase additional optional supplemental coverage and dependent life insurance at their own expense.

CHS Inc. Deferred Compensation Plan

Directors are eligible to participate in the Deferred Compensation Plan. Each participating director may elect to defer up to 100% of his or her monthly director fees into the Deferred Compensation Plan. This must be done prior to the beginning of the calendar year in which the fees will be earned, or in the case of newly elected directors, upon election. Directors are eligible to participate in the Deferred Compensation Plan which allows Directors to voluntarily defer receipt of up to 100% of their board fees. The election must occur prior to the beginning of the calendar year in which the compensation will be earned. During the year, the following Directors deferred board fees pursuant to the Deferred Compensation Plan: Mr. Bass, Mr. Hasnedl, Mr. Mulcahey and Mr. Toelle.

Some of the benefits from a previous deferred compensation plan are funded in a rabbi trust, with a total balance at August 31, 2010 of $46.2 million. This amount includes both director and executive accounts. No further contributions to the trust are planned. Except for the $46.2 million, both non-elective and voluntary deferrals under the Deferred Compensation Plan are not funded and do not qualify for special tax treatment under the Internal Revenue Code.

Director Compensation Table

Name(1)	Fees Earned or Paid in Cash(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	All Other Compensation(3)	Total
Bruce Anderson	$ 64,500	$ 106,051	$ 11,206	$ 181,757
Donald Anthony	61,200	47,275	11,206	119,681
Robert Bass	71,700	91,567	12,042	175,309
David Bielenberg	46,200	34,096	7,762	88,058
Dennis Carlson(5)	66,300	42,972	12,004	121,276
Curt Eischens	60,900	82,301	12,590	155,791
Steven Fritel	67,200	58,899	14,479	140,578
Jerry Hasnedl(5)	70,800	21,950	11,206	103,956
David Kayser	60,750	38,078	19,226	118,054
James Kile	23,300	41,220	17,300	81,820
Randy Knecht	68,550	73,101	11,206	152,857
Greg Kruger	66,300	22,577	250	89,127
Michael Mulcahey	62,400	47,824	11,206	121,430
Richard Owen	68,700	81,353	12,470	162,523
Steve Riegel	67,800	45,933	12,221	125,954
Daniel Schurr	60,900	31,746	19,789	112,435
Duane Stenzel(5)	19,200		9,966	29,166
Michael Toelle	81,000	80,613	19,226	180,839

(1) Change in board membership includes: Mr. Kile retired from the Board effective December 3, 2009, and Mr. Bielenberg was elected to the Board, effective December 4, 2009. Mr. Stenzel passed away December 12, 2009, and his vacant position has transferred from Region 1 to Region 8.

(2) This column represents both changes in pension value and above-market earnings on deferred compensation. Change in pension value is the aggregate change in the actuarial present value of the director s benefit under their retirement program, and nonqualified earnings, if applicable. The change in pension value will vary by director based on several factors including age, service, pension benefit elected (lump sum or annuity see above), discount rate and mortality factor used to calculate the benefit due.

Above-market earnings represent earnings exceeding 120% of the Federal Reserve long-term rate as determined by the IRS on applicable funds. The following directors had above market earnings during the year: Mr. Bass, $443; Mr. Toelle, $118; Mr. Fritel, $52; Mr. Hasnedl, $172; Mr. Knecht, $116; and Mr. Mulcahey, $29.

(3) All other compensation includes health and life insurance premiums, conference and registration fees, meals and related spouse expenses for trips made with a director on CHS business. Total amounts vary primarily due to the variations in life and health insurance premiums which are due to several factors including the director s age, length of service and the number of dependents covered by health care benefits.

Health care premiums paid for directors include: Mr. Anderson, $10,956; Mr. Anthony, $10,956; Mr. Bass, $11,792; Mr. Bielenberg, $7,512; Mr. Carlson, $10,956; Mr. Eischens, $12,340; Mr. Fritel, $13,632; Mr. Hasnedl, $10,956; Mr. Kayser, $18,976; Mr. Kile, $15,396; Mr. Knecht, $10,956; Mr. Mulcahey, $10,956; Mr. Owen, $10,956; Mr. Riegel, $10,956; Mr. Schurr, $18,976; Mr. Stenzel, $9,716; and Mr. Toelle, $18,976;

(4) Of this amount, the following directors defer the succeeding amounts to the Deferred Compensation Plan: Mr. Bass, $3,200; Mr. Hasnedl, $6,000; Mr. Mulcahey, $6,000; and Mr. Toelle, $6,000.

(5) Made a one-time irrevocable retirement election in 2005 to receive a lump sum benefit under the director s retirement plan. All other directors will receive a monthly annuity upon retirement.

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Compensation Committee Interlocks and Insider Participation

As noted above, the Board of Directors does not have a compensation committee. The Corporate Responsibility Committee recommends to the entire Board of Directors salary actions relative to our Chief Executive Officer. The entire Board of Directors determines the compensation and the terms of the employment agreement with our President and Chief Executive Officer. Our President and Chief Executive Officer determines the compensation for all other Executive Officers.

None of the directors are officers of CHS. See Item 13 for directors that were a party to related transactions.

Report of the Corporate Responsibility Committee

The Corporate Responsibility Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Corporate Responsibility Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Respectfully submitted,

Curt Eischens Chairman
Greg Kruger
Steven Fritel

Disclosure for Item 402(s) of Regulation S-K.

Our compensation policies and practices were reviewed by the appropriate corporate personnel in light of the requirements of Item 402(s) of Regulation S-K. A comprehensive risk assessment of our base and variable compensation programs was also conducted. All plans are performance based and in total are designed in such a manner as to limit unnecessary risk to CHS. Because we concluded that the risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on us, we did not include any disclosure in response to Item 402(s) of Regulation S-K.

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ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Beneficial ownership of equity securities as of August 31, 2010 is shown below:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	% of Class(1)
8% Cumulative Redeemable Preferred Stock	Directors:		
	Michael Toelle	520 shares(2)	*
	Bruce Anderson	351 shares	*
	Donald Anthony	100 shares	*
	Robert Bass	120 shares	*
	David Bielenberg	9,130 shares	*
	Dennis Carlson	710 shares(2)	*
	Curt Eischens	120 shares	*
	Steve Fritel	1,655 shares	*
	Jerry Hasnedl	975 shares	*
	David Kayser	0 shares	*
	Randy Knecht	863 shares(2)	*
	Gregory Kruger	0 shares	*
	Michael Mulcahey	100 shares	*
	Richard Owen	240 shares	*
	Steve Riegel	210 shares	*
	Daniel Schurr	0 shares	*
	Named Executive Officers:		
	John D. Johnson	7,220 shares(2)	*
	Jay Debertin	1,200 shares(2)	*
	Patrick Kluempke	2,800 shares	*
	Thomas D. Larson	1,813 shares(2)	*
	Mark Palmquist	283 shares	*
	John Schmitz	1,400 shares(2)	*
	Leon E. Westbrock	3,000 shares	*
	Directors and executive officers as a group	32,810 shares	*

(1) As of August 31, 2010, there were 12,272,003 shares of 8% Cumulative Redeemable Preferred Stock outstanding.

(2) Includes shares held by spouse, children and Individual Retirement Accounts (IRA).

* Less than 1%.

We have no compensation plans under which our equity securities are authorized for issuance.

To our knowledge, there is no person who owns beneficially more than 5% of our 8% Cumulative Redeemable Preferred Stock.

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ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Because our directors must be active patrons of CHS, or of an affiliated association, transactions between us and our directors are customary and expected. Transactions include the sales of commodities to us and the purchases of products and services from us, as well as patronage refunds and equity redemptions received from us. During the year ended August 31, 2010, the value of those transactions between a particular director (and any immediate family member of a director, which includes any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and any person (other than a tenant or employee) sharing the household of such director) and us in which the amount involved exceeded $120,000 are shown below.

Name	Product Sales and Purchases	Patronage Dividends
Bruce Anderson	$ 221,003	$ 10,407
Donald Anthony	200,032	
Curt Eischens	703,315	15,549
Steve Fritel	264,648	6,682
Jerry Hasnedl	883,145	24,044
David Kayser	1,085,868	8,149
Michael Mulcahey	227,403	3,388
Michael Toelle	1,101,382	72,159

Review, Approval or Ratification of Related Party Transaction

Pursuant to its amended and restated charter, our Audit Committee has responsibility for the review and approval of all transactions between CHS and any related parties or affiliates of CHS, including its officers and directors, other than transactions in the ordinary course of business and on market terms as described above.

Related persons can include any of our directors or executive officers and any of their immediate family members, as defined by the Securities and Exchange Commission. In evaluating related person transactions, the committee members apply the same standards they apply to their general responsibilities as members of the committee of the Board of Directors. The committee will approve a related person transaction when, in its good faith judgment, the transaction is in the best interest of CHS. To identify related person transactions, each year we require our directors and officers to complete a questionnaire identifying any transactions with CHS in which the officer or director or their family members have an interest. In addition, we have a written policy in regard to related persons, included in our Corporate Compliance Code of Ethics that describes our expectation that all directors, officers and employees who may have a potential or apparent conflict of interest will notify our legal department.

Director Independence

We are a Minnesota cooperative corporation managed by a Board of Directors made up of seventeen members. Nomination and election of the directors is done by eight separate regions. In addition to meeting other requirements for directorship, candidates must reside in the region from which they are elected. Directors are elected for three-year terms. The terms of directors are staggered and no more than six director positions are elected at an annual meeting. Nominations for director elections are made by the members at the region caucuses at our annual meeting. Neither the Board of Directors, nor management, of CHS participates in the nomination process. Accordingly, we have no nominating committee.

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The following directors satisfy the definition of director independence set forth in the rules of the NASDAQ Global Select Market:

Bruce Anderson	Donald Anthony
Robert Bass	David Bielenberg
Dennis Carlson	Steve Fritel
Jerry Hasnedl	David Kayser
Greg Kruger	Randy Knecht
Richard Owen	Michael Mulcahey
Daniel Schurr	Steve Riegel
Michael Toelle	

Further, although we do not need to rely upon an exemption for the Board of Directors as a whole, we are exempt pursuant to the NASDAQ rules from the NASDAQ director independence requirements as they relate to the makeup of the Board of Directors as a whole and the makeup of the committee performing the functions of a compensation committee. The NASDAQ exemption applies to cooperatives that are structured to comply with relevant state law and federal tax law and that do not have a publicly traded class of common stock. All of the members of our Audit Committee are independent.

Independence of CEO and Board Chairman Positions

Our Bylaws prohibit any employee of CHS from serving on the Board of Directors. Accordingly, our Chief Executive Officer may not serve as Chairman of the Board or in any Board capacity. We believe that this leadership structure creates independence between the Board and management and is an important check and balance in the governance of CHS.

Board of Directors Role in Risk Oversight

Our management and Board of Directors have jointly developed and documented a Risk Identification and Assessment analysis for CHS. The assessment identifies and analyzes eighteen broad categories of risk exposure. The assessment also identifies methods for managing or mitigating the risks reflected in the assessment. Each risk area is reviewed periodically by management with the Board of Directors and/or a committee of the Board, on an annual, semi-annual, quarterly or monthly basis, as appropriate for the particular risk identified. The review includes an analysis by the Board of Directors and management of the continued applicability of the risk, our performance in mitigating the risk and possible additional risks which should be included in the assessment.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The following table shows the aggregate fees billed to us by PricewaterhouseCoopers LLP for services rendered during the fiscal years ended August 31, 2010 and 2009:

	(Dollars in thousands)	
Description of Fees	**2010**	**2009**
Audit Fees(1)	$ 2,357	$ 1,609
Audit Related Fees(2)	102	90

Tax Fees(3)	24	24
All Other Fees		
Total	$ 2,483	$ 1,723

(1) Includes fees for audit of annual financial statements and reviews of the related quarterly financial statements, certain statutory audits, work related to filings of registration statements, and services for 404 readiness efforts.

(2) Includes fees for employee benefit plan audits.

(3) Includes fees related to tax compliance, tax advice and tax planning.

In accordance with the CHS Inc. Audit Committee Charter, as amended, our Audit Committee adopted the following policies and procedures for the approval of the engagement of an independent registered public accounting firm for audit, review or attest services and for preapproval of certain permissible non-audit services, all to ensure auditor independence.

Our independent registered public accounting firm will provide audit, review and attest services only at the direction of, and pursuant to engagement fees and terms approved by our Audit Committee. Our Audit Committee approves, in advance, all non-audit services to be performed by the independent auditors and the fees and compensation to be paid to the independent auditors. Our Audit Committee approved all of the services listed above in advance.

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PART IV.

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a)(1) *FINANCIAL STATEMENTS*

The following financial statements and the Reports of Independent Registered Public Accounting Firms are filed as part of this Form 10-K.

(a)(2) *FINANCIAL STATEMENT SCHEDULES*

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions: Write-offs, net of Recoveries	Balance at End of Year
		(Dollars in thousands)			
Allowances for Doubtful Accounts					
2010	$ 99,025	$ 6,688		$ (6,178)	$ 99,535
2009	73,651	32,019		(6,645)	99,025
2008	62,960	20,691		(10,000)	73,651

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Report of Independent Registered Public Accounting Firm on

Financial Statement Schedule

To the Board of Directors and Members and Patrons of CHS Inc.:

Our audits of the consolidated financial statements referred to in our report dated November 10, 2010 appearing on page F-1 in this Annual Report on Form 10-K of CHS Inc. and subsidiaries also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
November 10, 2010

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(a)(3) *EXHIBITS*

3.1	Articles of Incorporation of CHS Inc., as amended. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
3.1A	Amended Article III, Section 3(b) of Bylaws of CHS Inc. (Incorporated by reference to our Current Report on Form 8-K, filed May 5, 2010).
3.2	Bylaws of CHS Inc. (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-156255), filed December 17, 2008).
4.1	Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 1 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 13, 2003).
4.2	Form of Certificate Representing 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
4.3	Unanimous Written Consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
4.4	Unanimous Written consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock to change the record date for dividends. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2003, filed July 2, 2003).
10.1	Amended and Restated Employment Agreement between John D. Johnson and CHS Inc., effective as of August 1, 2007 (Incorporated by reference to our Current Report on Form 8-K filed August 10, 2007).
10.2	Cenex Harvest States Cooperatives Supplemental Savings Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).
10.2A	Amendment No. 3 to the CHS Inc. Supplemental Savings Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006).
10.3	CHS Inc. Supplemental Executive Retirement Plan (2010 Restatement). (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2010, filed July 8, 2010).
10.4	Cenex Harvest States Cooperatives Senior Management Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).
10.5	Cenex Harvest States Cooperatives Executive Long-Term Variable Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).

10.6	Cenex Harvest States Cooperatives Share Option Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6A	Amendment to Cenex Harvest States Share Option Plan, dated June 28, 2001. (Incorporated by reference to our Registration Statement on Form S-2 (File No. 333-65364), filed July 18, 2001).
10.6B	Amendment No. 2 to Cenex Harvest States Share Option Plan, dated May 2, 2001. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6C	Amendment No. 3 to Cenex Harvest States Share Option Plan, dated June 4, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6D	Amendment No. 4 to Cenex Harvest States Share Option Plan, dated April 6, 2004. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.7	CHS Inc. Share Option Plan Option Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.8	CHS Inc. Share Option Plan Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).

10.8A	Amendment No. 1 to the Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.9	CHS Inc. Nonemployee Director Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2010, filed July 8, 2010).
10.10	Trust Under the CHS Inc. Nonemployee Director Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2010, filed July 8, 2010).
10.11	CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.11A	Amendment No. 1 to the CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.12	2006 Second Amended and Restated Credit Agreement (Revolving Loan) by and between CHS Inc. and the Syndication Parties dated as of June 2, 1010. (Incorporated by reference to our Current Report on Form 8-K, filed June 3, 2010).
10.13	2010 Credit Agreement (Revolving Loan) by and between CHS Inc. and the Syndication Parties dated as of June 2, 2010. (Incorporated by reference to our Current Report on Form 8-K, filed June 3, 2010).
10.14	$225,000,000 Note Agreement (Private Placement Agreement) dated as of June 19, 1998 among Cenex Harvest States Cooperatives and each of the Purchasers of the Notes. (Incorporated by Reference to our Form 10-Q Transition Report for the period June 1, 1998 to August 31, 1998, filed October 14, 1998).
10.14A	First Amendment to Note Agreement ($225,000,000 Private Placement), effective September 10, 2003, among CHS Inc. and each of the Purchasers of the notes. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.15	Note purchase and Private Shelf Agreement dated as of January 10, 2001 between Cenex Harvest States Cooperatives and The Prudential Insurance Company of America. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2001, filed April 10, 2001).
10.15A	Amendment No. 1 to Note Purchase and Private Shelf Agreement, dated as of March 2, 2001. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2001, filed April 10, 2001).
10.16	Note Purchase Agreement and Series D & E Senior Notes dated October 18, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2002, filed November 25, 2002).
10.17	2003 Amended and Restated Credit Agreement ($15 million, 2 Year Facility) dated December 16, 2003 between CoBank, ACB, U.S. AgBank, FCB and the National Cooperative Refinery Association, Inc. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2004, filed April 7, 2004).
10.17A	

	First Amendment to the 2003 Amended and Restated Credit Agreement between the National Cooperative Refinery Association and the Syndication Parties. (Incorporated by reference to our Current Report on Form 8-K filed December 20, 2005).
10.17B	Third Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.17C	Fifth Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007).
10.17D	Sixth Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-156255), filed December 17, 2008).
10.17E	Seventh Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2009, filed January 11, 2010).

10.18	Note Purchase and Private Shelf Agreement between CHS Inc. and Prudential Capital Group dated as of April 13, 2004. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2004, filed July 12, 2004).
10.18A	Amendment No. 1 to Note Purchase and Private Shelf Agreement dated April 9, 2007, among CHS Inc., Prudential Investment Management, Inc. and the Prudential Affiliate parties (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2007 filed April 9, 2007).
10.18B	Amendment No. 2 to Note Purchase and Private Shelf Agreement and Senior Series J Notes totaling $50 million issued February 8, 2008 (Incorporated by reference to our Current Report on Form 8-K filed February 11, 2008).
10.19	Note Purchase Agreement for Series H Senior Notes ($125,000,000 Private Placement) dated September 21, 2004. (Incorporated by reference to our Current Report on Form 8-K filed September 22, 2004).
10.20	Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-121161), filed December 10, 2004).
10.20A	First Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-129464), filed November 4, 2005).
10.20B	Second Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.20C	Third Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.20D	Fourth Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.21	New Plan Participants 2008 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009).
10.22	Beneficiary Designation Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009).
10.23	Share Option Plan Participants 2005 Plan Agreement and Election Form. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-129464), filed November 4, 2005).
10.24	CHS Inc. Deferred Compensation Plan Appendix B to Prospectus dated October 28, 2008 (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009).
10.25	New Plan Participants (Board of Directors) 2009 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended

August 31, 2009, filed November 10, 2009).

10.26	City of McPherson, Kansas Taxable Industrial Revenue Bond Series 2006 registered to National Cooperative Refinery Association in the amount of $325 million (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.27	Bond Purchase Agreement between National Cooperative Refinery Association, as purchaser, and City of McPherson, Kansas, as issuer, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.28	Trust Indenture between City of McPherson, Kansas, as issuer, and Security Bank of Kansas City, Kansas City, Kansas, as trustee, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.29	Lease agreement between City of McPherson, Kansas, as issuer, and National Cooperative Refinery Association, as tenant, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.30	Commercial Paper Placement Agreement by and between CHS Inc. and Marshall & Ilsley Bank dated October 30, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).

10.31	Commercial Paper Dealer Agreement by and between CHS Inc. and SunTrust Capital Markets, Inc. dated October 6, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
10.32	Note Purchase Agreement ($400,000,000 Private Placement) and Series I Senior Notes dated as of October 4, 2007 (Incorporated by reference to our Current Report on Form 8-K filed October 4, 2007).
10.33	Agreement Regarding Distribution of Assets, by and among CHS Inc., United Country Brands, LLC, Land O Lakes, Inc. and Winfield Solutions, LLC, made as of September 4, 2007. (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 20, 2007).
10.34	$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of December 12, 2007 (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007).
10.34A	First Amendment to $150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of May 1, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.34B	Second Amendment to $150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of June 2, 2010 (Incorporated by reference to our Current Report on Form 8-K, filed June 3, 2010).
10.35	$75 Million Uncommitted Demand Facility by and between CHS Europe S.A. and Fortis Bank (Nederland) N.V. dated April 18, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.36	$60 Million Uncommitted Trade Finance Facility by and between CHS Europe S.A. and Societe Generale dated June 6, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.37	$70 Million Uncommitted Transactional Facility by and between CHS Europe S.A. and BNP Paribas dated July 17, 2008 (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.38	$50 Million Private Shelf Agreement by and between CHS Inc. and John Hancock Life Insurance Company dated as of August 11, 2008 (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.39	Base Indenture dated August 10, 2005 between Cofina Funding, LLC as Issuer and U.S. Bank National Association as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.40	Amendment No. 1 to Base Indenture dated as of November 18, 2005 by and among Cofina Funding, LLC (the Issuer), Cofina Financial, LLC (the Servicer), Bank Hapoalim B.M. (the Funding Agent) and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.41	Lockbox Agreement dated August 10, 2005 between Cofina Financial, LLC and M&I Marshall & Isley Bank (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.42	Purchase and Sale Agreement dated as of August 10, 2005 between Cofina Funding, LLC, as Purchaser and Cofina Financial, LLC, as Seller (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.43	Custodian Agreement dated August 10, 2005 between Cofina Funding, LLC, as Issuer; U.S. Bank National Association, as Trustee; and U.S. Bank National Association, as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.44	Servicing Agreement dated as of August 10, 2005 among Cofina Funding, LLC, as Issuer; Cofina Financial, LLC, as Servicer; and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.45 Omnibus Amendment and Agreement dated as of August 30, 2005 by and among Cofina Funding, LLC (the Issuer); Cofina Financial, LLC (the Servicer), Cenex Finance Association, Inc. (the Guarantor), Bank Hapoalim B.M. (the Funding Agent) and U.S. Bank National Association, as Trustee and as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.46 Series 2005-A Supplement dated as of August 10, 2005 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.47 Note Purchase Agreement dated as of August 10, 2005 among Cofina Funding, LLC, as Issuer; Bank Hapoalim B.M. as Funding Agent; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.48 Series 2005-B Supplement dated as of November 18, 2005 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.49 Note Purchase Agreement dated as of November 18, 2005 among Cofina Funding, LLC, as Issuer; Venus Funding Corporation, as the Conduit Purchaser; Bank Hapoalim, B.M., as Funding Agent for the Purchasers; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.50 First Amendment to Note Purchase Agreement dated as of November 6, 2008 among Cofina Funding, LLC (the Issuer); Venus Funding Corporation (the Conduit Purchaser); Bank Hapoalim, B.M., as Funding Agent and as a Committed Purchaser (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.51 Omnibus Amendment and Agreement dated as of May 11, 2007 among Cofina Funding, LLC (the Issuer); Cofina Financial, LLC (the Servicer), Bank Hapoalim B.M. (the Funding Agent); and U.S. Bank National Association as Trustee and as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.52 Omnibus Amendment and Agreement No. 2 dated as of October 1, 2007 among Cofina Funding, LLC (the Issuer); Cofina Financial, LLC (the Servicer), Bank Hapoalim B.M. (the Funding Agent); and U.S. Bank National Association as Trustee and as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.53 Omnibus Amendment and Agreement No. 3 dated as of May 16, 2008 among Cofina Funding, LLC (the Issuer); Cofina Financial, LLC (the Servicer), Bank Hapoalim B.M. (the Funding Agent); Venus Funding Corporation (the Conduit Purchaser) and U.S. Bank National Association as Trustee and as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.54 Series 2006-A Supplement dated as of February 21, 2006 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.55 Note Purchase Agreement dated as of February 21, 2006 among Cofina Funding, LLC, as Issuer; Venus Funding Corporation, as the Conduit Purchaser; Bank Hapoalim, B.M., as Funding Agent for the Purchasers; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.56 First Amendment to Note Purchase Agreement dated as of February 20, 2007 among Cofina Funding, LLC (the Issuer); Venus Funding Corporation (the Conduit Purchaser); Bank Hapoalim, B.M. (the Funding Agent); and the Committed Purchasers party thereto. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.57 Second Amendment to Note Purchase Agreement dated as of February 19, 2008 among Cofina Funding, LLC (the Issuer); Venus Funding Corporation (the Conduit Purchaser); Bank Hapoalim, B.M. (the Funding Agent); and the Committed Purchasers party thereto. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.58 Series 2006-B Supplement dated as of May 16, 2006 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.59 Note Purchase Agreement dated as of May 16, 2006 among Cofina Funding, LLC, as Issuer; Voyager Funding Corporation, as the Conduit Purchaser; Bank Hapoalim, B.M., as Funding Agent for the Purchasers; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.60 First Amendment to Note Purchase Agreement dated as of May 15, 2007 among Cofina Funding, LLC (the Issuer); Voyager Funding Corporation (the Conduit Purchaser); Bank Hapoalim, B.M. (the Funding Agent); and the Committed Purchasers party thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.61 Second Amendment to Note Purchase Agreement dated as of May 13, 2008 among Cofina Funding, LLC (the Issuer); Voyager Funding Corporation (the Conduit Purchaser); Bank Hapoalim, B.M. (the Funding Agent); and the Committed Purchasers party thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.62 Series 2008-A Supplement dated as of November 21, 2008 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.63 Note Purchase Agreement dated as of November 21, 2008 among Cofina Funding, LLC, as Issuer; Victory Receivables Corporation, as the Conduit Purchaser; The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Funding Agent for the Purchasers; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.64 Amendment No. 1 to Note Purchase Agreement (Series 2008-A) dated February 25, 2009, by and among Cofina Funding, LLC as the Issuer; Victory Receivables Corporation, as the Conduit Purchaser; and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Current Report on Form 8-K, filed March 2, 2009).

10.65 Amendment No. 2 to Note Purchase Agreement (Series 2008-A) dated November 20, 2009, by and among Cofina Funding, LLC as the Issuer; Victory Receivables Corporation, as the Conduit Purchaser; and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-163608), filed December 9, 2009).

10.66 Amended and Restated Loan Origination and Participation Agreement dated as of October 31, 2006 by and among AgStar Financial Services, PCA d/b/a ProPartners Financial; CHS Inc.; and Cofina Financial, LLC (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.67 Amendment dated December 11, 2006 to Amended and Restated Loan Origination and Participation Agreement by and among AgStar Financial Services, PCA d/b/a ProPartners Financial; CHS Inc.; and Cofina Financial, LLC (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.68 Amendment dated January 5, 2007 to Amended and Restated Loan Origination and Participation Agreement by and among AgStar Financial Services, PCA d/b/a ProPartners Financial; CHS Inc.; and Cofina Financial, LLC (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

10.69	Amendment dated December 12, 2007 to Amended and Restated Loan Origination and Participation Agreement by and among AgStar Financial Services, PCA d/b/a ProPartners Financial; CHS Inc.; and Cofina Financial, LLC (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
21.1	Subsidiaries of the Registrant.(*)
23.1	Consent of Independent Registered Public Accounting Firm.(*)
24.1	Power of Attorney.(*)
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.(*)

(*) Filed herewith.

(b) *EXHIBITS*

The exhibits shown in Item 15(a)(3) above are being filed herewith.

(c) *SCHEDULES*

None.

SUPPLEMENTAL INFORMATION

As a cooperative, we do not utilize proxy statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 12, 2010.

CHS INC.

By: /s/ John D. Johnson
John D. Johnson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on November 12, 2010:

Signature	Title
/s/ John D. Johnson John D. Johnson	President and Chief Executive Officer (principal executive officer)
/s/ John Schmitz John Schmitz	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Jodell Heller Jodell Heller	Vice President and Controller (principal accounting officer)
Michael Toelle*	Chairman of the Board of Directors
Bruce Anderson*	Director
Don Anthony*	Director
Robert Bass*	Director

	Director
David Bielenberg*	
	Director
Dennis Carlson*	
	Director
Curt Eischens*	
	Director
Steve Fritel*	

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Signature	Title
Jerry Hasnedl*	Director
David Kayser*	Director
Randy Knecht*	Director
Greg Kruger*	Director
Michael Mulcahey*	Director
Richard Owen*	Director
Steve Riegel*	Director
Dan Schurr*	Director

*By /s/ John D. Johnson

John D. Johnson
Attorney-in-fact

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members and Patrons of CHS Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equities and comprehensive income and of cash flows present fairly, in all material respects, the financial position of CHS Inc. and its subsidiaries at August 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2010, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, CHS Inc. changed the manner in which it accounts for noncontrolling interests effective September 1, 2009.

November 10, 2010
Minneapolis, Minnesota

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Consolidated Financial Statements
CONSOLIDATED BALANCE SHEETS

	August 31 2010	August 31 2009
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 394,663	$ 772,599
Receivables	1,908,068	1,827,749
Inventories	1,961,376	1,526,280
Derivative assets	246,621	171,340
Other current assets	805,741	447,655
Total current assets	5,316,469	4,745,623
Investments	719,392	727,925
Property, plant and equipment	2,253,071	2,099,325
Other assets	377,196	296,972
Total assets	$ 8,666,128	$ 7,869,845
LIABILITIES AND EQUITIES		
Current liabilities:		
Notes payable	$ 262,090	$ 246,872
Current portion of long-term debt	112,503	83,492
Customer credit balances	423,571	274,343
Customer advance payments	435,224	320,688
Checks and drafts outstanding	134,250	86,845
Accounts payable	1,472,145	1,289,139
Derivative liabilities	286,018	306,116
Accrued expenses	376,239	308,720
Dividends and equities payable	210,435	203,056
Total current liabilities	3,712,475	3,119,271
Long-term debt	873,738	988,461
Other liabilities	475,464	428,949
Commitments and contingencies		
Equities:		
Equity certificates	2,401,514	2,214,824
Preferred stock	319,368	282,694
Accumulated other comprehensive loss	(205,267)	(156,270)
Capital reserves	820,049	749,054
Total CHS Inc. equities	3,335,664	3,090,302
Noncontrolling interests	268,787	242,862

Total equities	3,604,451	3,333,164
Total liabilities and equities	$ 8,666,128	$ 7,869,845

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended August 31		
	2010	2009	2008
	(Dollars in thousands)		
Revenues	$ 25,267,931	$ 25,729,916	$ 32,167,461
Cost of goods sold	24,397,410	24,849,901	30,993,899
Gross profit	870,521	880,015	1,173,562
Marketing, general and administrative	366,582	355,299	329,965
Operating earnings	503,939	524,716	843,597
(Gain) loss on investments	(29,433)	56,305	(29,193)
Interest, net	58,324	70,487	76,460
Equity income from investments	(108,787)	(105,754)	(150,413)
Income before income taxes	583,835	503,678	946,743
Income taxes	48,438	63,304	71,861
Net income	535,397	440,374	874,882
Net income attributable to noncontrolling interests	33,238	58,967	71,837
Net income attributable to CHS Inc.	$ 502,159	$ 381,407	$ 803,045

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

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Consolidated Financial Statements
CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME

For the Years Ended August 31, 2010, 2009 and 2008

	Equity Certificates				Accumulated			
	Capital Equity Certificates	Nonpatronage Equity Certificates	Patronage Refunds	Preferred Stock	Other Comprehensive Income (Loss)	Capital Reserves	Noncontrolling Interests	Total Equities
				(Dollars in thousands)				
ances, September 1, 7	$ 1,265,051	$ 26,646	$ 357,500	$ 186,411	$ 13,036	$ 626,811	$ 197,386	$ 2,672,8
idends and equity ement determination	179,381		192,500			2,413		374,2
onage distribution	362,206		(550,000)			(7,210)		(195,0
ities retired	(81,295)	(500)						(81,7
ital equity ificates exchanged preferred stock	(46,364)			46,364		(135)		(1
ities issued	4,680							4,6
erred stock dends						(16,288)		(16,2
ributions to controlling interests							(63,123)	(63,1
nges in dividends equities payable							6,080	6,0
er, net	(2,057)	(804)				412	(4,395)	(6,8
nprehensive income:								
income			652,000			151,045	71,837	874,8
er comprehensive					(81,078)		(2,053)	(83,1
l comprehensive ome								791,7
idends and equities able	(93,823)		(228,200)			(3,016)		(325,0
ances, August 31, 8	1,587,779	25,342	423,800	232,775	(68,042)	754,032	205,732	3,161,4
idends and equity ement determination	93,823		228,200			3,016		325,0
onage distribution	421,289		(652,000)			3,101		(227,6
ities retired	(49,291)	(361)						(49,6
ital equity ificates exchanged preferred stock	(49,944)			49,944		(130)		(1

ities issued	19,594							19,5
ferred stock dends						(20,024)		(20,0
ributions to controlling interests							(21,139)	(21,1
nges in dividends equities payable							2,747	2,7
ption of retirement measurement date nge						(2,603)		(2,6
er, net	(324)	(186)		(25)		414	2,960	2,8
nprehensive income:								
(loss) income	(60,000)		426,500			14,907	58,967	440,3
er comprehensive					(88,228)		(6,405)	(94,6
al comprehensive ome								345,7
idends and equities able	(50,122)		(149,275)			(3,659)		(203,0
ances, August 31, 9	1,912,804	24,795	277,225	282,694	(156,270)	749,054	242,862	3,333,1
idends and equity ement determination	50,122		149,275			3,659		203,0
onage distribution	284,128		(426,500)			(11,522)		(153,8
ities retired	(22,732)	(403)						(23,1
ital equity ificates exchanged preferred stock	(36,674)			36,674		(142)		(1
ities issued	616							6
ferred stock dends						(23,248)		(23,2
ributions to controlling interests							(4,870)	(4,8
nges in dividends equities payable							(1,743)	(1,7
er, net	(1,479)	181				680	2,025	1,4
nprehensive income:								
income			396,500			105,659	33,238	535,3
er comprehensive					(48,997)		(2,725)	(51,7
al comprehensive ome								483,6
idends and equities able	(67,569)		(138,775)			(4,091)		(210,4
	$ 2,119,216	$ 24,573	$ 257,725	$ 319,368	$ (205,267)	$ 820,049	$ 268,787	$ 3,604,4

ances, August 31,
0

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

Consolidated Financial Statements
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended August 31		
	2010	2009	2008
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income including noncontrolling interests	$ 535,397	$ 440,374	$ 874,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	202,922	196,350	181,263
Amortization of deferred major repair costs	18,532	24,999	29,146
Income from equity investments	(108,787)	(105,754)	(150,413)
Distributions from equity investments	89,689	80,403	110,013
Noncash patronage dividends received	(9,918)	(9,717)	(4,083)
Gain on sale of property, plant and equipment	(5,094)	(3,176)	(5,668)
(Gain) loss on investments	(29,433)	56,305	(29,193)
Deferred taxes	39,507	43,976	26,011
Other, net	1,597	2,466	719
Changes in operating assets and liabilities:			
Receivables	(123,630)	692,540	(832,146)
Inventories	(426,328)	895,882	(517,515)
Derivative assets	(73,597)	198,163	(122,421)
Other current assets and other assets	(355,848)	186,217	(98,625)
Customer credit balances	149,228	47,946	113,501
Customer advance payments	114,032	(328,854)	275,386
Accounts payable and accrued expenses	221,776	(664,160)	827,997
Derivative liabilities	(25,740)	32,525	96,382
Other liabilities	(64,344)	(51,708)	30,152
Net cash provided by operating activities	149,961	1,734,777	805,388
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(324,262)	(315,505)	(318,559)
Proceeds from disposition of property, plant and equipment	10,139	10,769	9,336
Expenditures for major repairs	(7,554)	(1,771)	(21,662)
Investments	(38,062)	(120,181)	(370,248)
Investments redeemed	119,331	39,787	43,046
Proceeds from sale of investments		41,822	122,075
Joint venture distribution transaction, net		850	(4,737)
Changes in notes receivable	(41,925)	123,307	(67,119)
Business acquisitions	(6,307)	(76,364)	(47,001)
Acquisition of intangibles	(1,014)	(2,431)	(3,399)
Other investing activities, net	65	9,273	(5,469)
Net cash used in investing activities	(289,589)	(290,444)	(663,737)

Cash flows from financing activities:			
Changes in notes payable	15,217	(251,225)	(565,022)
Long-term debt borrowings			600,000
Principal payments on long-term debt	(84,792)	(118,864)	(99,479)
Payments for bank fees on debt	(10,296)	(1,584)	(3,486)
Changes in checks and drafts outstanding	47,280	(119,301)	61,110
Distributions to noncontrolling interests	(4,870)	(21,139)	(63,123)
Preferred stock dividends paid	(23,248)	(20,024)	(16,288)
Retirements of equities	(23,135)	(49,652)	(81,795)
Cash patronage dividends paid	(153,894)	(227,610)	(195,004)
Other financing activities, net	952	370	(110)
Net cash used in financing activities	(236,786)	(809,029)	(363,197)
Effect of exchange rate changes on cash and cash equivalents	(1,522)	755	374
Net (decrease) increase in cash and cash equivalents	(377,936)	636,059	(221,172)
Cash and cash equivalents at beginning of period	772,599	136,540	357,712
Cash and cash equivalents at end of period	$ 394,663	$ 772,599	$ 136,540

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Note 1 Summary of Significant Accounting Policies

Organization

CHS Inc. (CHS or the Company) is an agricultural supply, energy and grain-based foods cooperative company organized for the mutual benefit of its members. Members of the cooperative are located across the United States. The Company provides a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and agronomy products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. Revenues are both domestic and international.

Basis of Presentation and Reclassifications

The consolidated financial statements include the accounts of CHS and all of its wholly-owned and majority-owned subsidiaries and limited liability companies, which is primarily National Cooperative Refinery Association (NCRA), included in the Energy segment. The effects of all significant intercompany transactions have been eliminated.

The Company had various acquisitions during the three years ended August 31, 2010, which have been accounted for using the purchase method of accounting. Operating results of the acquisitions are included in the consolidated financial statements since the respective acquisition dates. The respective purchase prices were allocated to the assets, liabilities and identifiable intangible assets acquired based upon the estimated fair values. The excess purchase prices over the estimated fair values of the net assets acquired have been reported as goodwill.

In December 2007, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 860-10-65-1, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. ASC 860-10-65-1 establishes accounting and reporting standards that require the following: the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent s equity; the amount of consolidated net earnings attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statements of operations; and changes in a parent s ownership interest, while the parent retains its controlling financial interest in its subsidiary, to be accounted for consistently.

The Company adopted ASC 860-10-65-1 at the beginning of fiscal 2010. In accordance with the accounting guidance, in order to conform to the current period presentation, the Company made reclassifications within its Consolidated Statements of Operations to present the income attributable to noncontrolling interests as a reconciling item between net income and net income attributable to CHS Inc. Also, noncontrolling interests previously reported as minority interests have been reclassified to a separate section in equity on the Consolidated Balance Sheets. In addition, certain other reclassifications to our previously reported financial information have been made to conform to the current period presentation.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less at the date of acquisition.

Inventories

Grain, processed grain, oilseed and processed oilseed are stated at net realizable values which approximate market values. All other inventories are stated at the lower of cost or market. Costs for inventories produced or modified by the Company through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw materials. Costs for inventories purchased for resale

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

include the cost of products and freight incurred to place the products at the Company s points of sale. The costs of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out (LIFO) method; all other inventories of non-grain products purchased for resale are valued on the first-in, first-out (FIFO) and average cost methods.

Derivative Financial Instruments and Hedging Activities

The Company s derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a minor degree, may include foreign currency and interest rate swap contracts. These contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes, with the exception of some derivative instruments included in the Energy segment. Derivative instruments are recorded on the Company s Consolidated Balance Sheets at fair values as discussed in Note 12, Fair Value Measurements.

Beginning in the third quarter of fiscal 2010, certain financial contracts within the Energy segment were entered into for the spread between heavy and light crude oil purchase prices, and have been designated and accounted for as hedging instruments (cash flow hedges). The unrealized gains or losses of these contracts are deferred to accumulated other comprehensive loss in the equity section of the Consolidated Balance Sheet and will be included in earnings upon settlement.

The Company has netting arrangements for its exchange traded futures and options contracts and certain over-the-counter (OTC) contracts which are recorded on a net basis in the Company s Consolidated Balance Sheets. Although accounting standards permit a party to a master netting arrangement to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or the obligation to return cash collateral under the same master netting arrangement, the Company has not elected to net its margin deposits.

As of August 31, 2010 and 2009, the Company had the following outstanding contracts:

	2010		2009	
	Purchase Contracts	**Sales Contracts**	**Purchase Contracts**	**Sales Contracts**
	(Units in thousands)			
Grain and oilseed bushels	747,334	1,039,363	591,639	715,914
Energy products barrels	8,633	10,156	8,879	12,456
Crop nutrients tons	1,257	1,215	933	1,016
Ocean and barge freight metric tons	1,385	279	3,493	3,316

As of August 31, 2010 and 2009, the gross fair values of the Company s derivative assets and liabilities not designated as hedging instruments were as follows:

	2010	2009
	(Dollars in thousands)	
Derivative Assets:		
Commodity and freight derivatives	$ 461,580	$ 296,416

Derivative Liabilities:		
Commodity and freight derivatives	$ 495,569	$ 426,281
Foreign exchange derivatives	222	
Interest rate derivatives	1,227	4,911
	$ 497,018	$ 431,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of August 31, 2010, the gross fair values of the Company s derivative liabilities designated as cash flow hedging instruments were as follows:

	2010 (Dollars in thousands)
Derivative Liabilities:	
Commodity and freight derivatives	$ 3,959

The following table sets forth the pretax gains (losses) on derivatives as hedging instruments that have been included in the Company s Consolidated Statements of Operation during fiscal 2010. The amended disclosure requirements of ASC Topic 815 were first implemented for the period ended February 28, 2009, and as a result, comparative year-to-date information is not available for fiscal year 2009 or 2008.

	Location of Gain (Loss)	2010 (Dollars in thousands)	
Commodity and freight derivatives	Cost of goods sold	$	95,876
Foreign exchange derivatives	Cost of goods sold		(675)
Interest rate derivatives	Interest, net		(430)
		$	94,771

No gains or losses were recorded in the Consolidated Statement of Operations for derivatives designated as cash flow hedging instruments during the year ended August 31, 2010, since there were no settlements. The contracts were entered into during fiscal 2010 and expire in fiscal 2011, with a $2.4 million loss, net of taxes, expected to be included in earnings during the next 12 months. As of August 31, 2010, the unrealized losses deferred to accumulated other comprehensive loss were $2.4 million, net of tax benefit of $1.5 million.

Commodity and Freight Contracts:

When the Company enters into a commodity or freight purchase or sales commitment, it incurs risks related to price change and performance (including delivery, quality, quantity and shipment period). The Company is exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. The Company is also exposed to risk of loss on fixed or partially fixed price sales contracts in the event market prices increase.

The Company s commodity contracts primarily relate to grain, oilseed, energy and fertilizer commodities. The Company s freight contracts primarily relate to rail, barge and ocean freight transactions. The Company s use of commodity and freight contracts reduces the effects of price volatility, thereby protecting against adverse short-term price movements, while limiting the benefits of short-term price movements. To reduce the price change risks associated with holding fixed price commitments, the Company generally takes opposite and offsetting positions by entering into commodity futures contracts or options, to the extent practical, in order to arrive at a net commodity position within the formal position limits it has established and deemed prudent for each commodity. These contracts are purchased and sold through regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. The Company also uses OTC instruments to hedge its exposure on flat price fluctuations. The price risk the Company encounters for crude oil and most of the grain and oilseed volumes it handles can be hedged. Price risk associated with fertilizer and certain grains cannot be hedged because there are no futures for these commodities and, as a result, risk is managed through the use of forward sales contracts and other pricing arrangements and, to some extent, cross-commodity futures hedging. Fertilizer and propane contracts are accounted for as normal purchase and normal sales transactions. The Company expects all normal purchase and normal sales transactions to result in physical settlement.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. These margin deposits are included in other current assets in the Company s Consolidated Balance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sheets. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a short futures contract increases, then an additional maintenance margin deposit would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

The Company s policy is to primarily maintain hedged positions in grain and oilseed. The Company s profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At any one time, inventory and purchase contracts for delivery to the Company may be substantial. The Company has risk management policies and procedures that include net position limits. These limits are defined for each commodity and include both trader and management limits. This policy and computerized procedures in the Company s grain marketing operations require a review by operations management when any trader is outside of position limits and also a review by the Company s senior management if operating areas are outside of position limits. A similar process is used in the Company s energy and wholesale crop nutrients operations. The position limits are reviewed, at least annually, with the Company s management and the Board of Directors. The Company monitors current market conditions and may expand or reduce its net position limits or procedures in response to changes in conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

Hedging arrangements do not protect against nonperformance by counterparties to contracts. The Company primarily uses exchange traded instruments which minimize its counterparty exposure. The Company evaluates exposure by reviewing contracts and adjusting the values to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of the counterparty s financial condition and also the risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than current market prices. The Company manages its risks by entering into fixed price purchase and sales contracts with preapproved producers and by establishing appropriate limits for individual suppliers. Fixed price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. Historically, the Company has not experienced significant events of nonperformance on open contracts. Accordingly, the Company only adjusts the estimated fair values of specifically identified contracts for nonperformance. Although the Company has established policies and procedures, it makes no assurances that historical nonperformance experience will carry forward to future periods.

Interest Rate Contracts:

The Company uses fixed and floating rate debt to lessen the effects of interest rate fluctuations on interest expense. Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that the Company s blended interest rate for all such notes approximates current market rates. During fiscal 2009, the Company entered into an interest rate swap with a notional amount of $150.0 million, expiring in September 2010, to lock in the interest rate for $150.0 million of its revolving line of credit. Cofina Financial, LLC (Cofina Financial) has interest rate swaps that lock the variable interest rates of the underlying loans with a combined notional amount of $16.8 million expiring at various times through fiscal 2018, with $0.2 million of the notional amount expiring during fiscal 2011 and the balance expiring during or after fiscal 2013. As of August 31, 2010, all of the Company s interest rate swaps, including those of Cofina Financial, do not qualify for hedge accounting due to ineffectiveness caused by repayment of borrowings or differences in underlying terms. As a result of the swaps not qualifying for hedge accounting, changes in fair value are recorded in earnings within interest, net on the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Exchange Contracts:

The Company conducts essentially all of its business in U.S. dollars, except for grain marketing operations primarily in Brazil and Switzerland, and purchases of products from Canada. The Company had minimal risk regarding foreign currency fluctuations during fiscal 2010 and in prior years, as substantially all international sales were denominated in U.S. dollars. From time to time, the Company enters into foreign currency futures contracts to mitigate currency fluctuations. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. As of August 31, 2010, the Company had $0.2 million in foreign currency contracts outstanding.

Investments

Joint ventures and other investments, in which the Company has significant ownership and influence, but not control, are accounted for in the consolidated financial statements using the equity method of accounting. Investments in other cooperatives are stated at cost, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded as a reduction to cost of goods sold at the time qualified written notices of allocation are received. Investments in other debt and equity securities are considered available for sale financial instruments and are stated at fair value, with unrealized amounts included as a component of accumulated other comprehensive income (loss). Investments in debt and equity instruments are carried at amounts that approximate fair values. Investments in joint ventures and cooperatives have no quoted market prices.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets (primarily 15 to 40 years for land improvements and buildings and 3 to 20 years for machinery, equipment, office and other). The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in operations. Expenditures for maintenance and repairs and minor renewals are expensed, while costs of major renewals and betterments are capitalized.

The Company reviews property, plant and equipment and other long-lived assets in order to assess recoverability based on projected income and related cash flows on an undiscounted basis when triggering events occur. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

The Company has asset retirement obligations with respect to certain of its refineries and related assets due to various legal obligations to clean and/or dispose of various component parts at the time they are retired. However, these assets can be used for extended and indeterminate periods of time, as long as they are properly maintained and/or upgraded. It is the Company s practice and current intent to maintain its refineries and related assets and to continue making improvements to those assets based on technological advances. As a result, the Company believes that its refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which the Company would retire a refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery or related asset, the Company will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets acquired and liabilities assumed. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if impairment conditions arise, and those that are impaired are written down to fair value. Other intangible assets consist primarily of customer lists, trademarks and agreements not to compete. Intangible assets subject to amortization are expensed over their respective useful lives (ranging from 2 to 30 years). The Company has no material intangible assets with indefinite useful lives.

In the Company s Energy segment, major maintenance activities (turnarounds) at the two refineries are accounted for under the deferral method. Turnarounds are the scheduled and required shutdowns of refinery processing units. The costs related to the significant overhaul and refurbishment activities include materials and direct labor costs. The costs of turnarounds are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs, which is generally 2-3 years. The amortization expense related to turnaround costs are included in cost of goods sold in the Consolidated Statements of Operations. The selection of the deferral method, as opposed to expensing the turnaround costs when incurred, results in deferring recognition of the turnaround expenditures. The deferral method also results in the classification of the related cash outflows as investing activities in the Consolidated Statements of Cash Flows, whereas expensing these costs as incurred, would result in classifying the cash outflows as operating activities.

Revenue Recognition

The Company provides a wide variety of products and services, from production agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products. Grain and oilseed sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the terms of the transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in revenues. Service revenues are recorded only after such services have been rendered.

Environmental Expenditures

Liabilities, including legal costs, related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of environmental costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is received. Liabilities are monitored and adjusted as new facts or changes in law or technology occur. Environmental expenditures are capitalized when such costs provide future economic benefits.

Income Taxes

The Company is a nonexempt agricultural cooperative and files a consolidated federal income tax return with its 80% or more owned subsidiaries. The Company is subject to tax on income from nonpatronage sources and undistributed patronage-sourced income. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Valuation allowances have been established primarily for capital loss carryforwards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive Income

Comprehensive income primarily includes net income attributable to CHS Inc. and actuarial changes in pension and other postretirement plans. Total comprehensive income is reflected in the Consolidated Statements of Equities and Comprehensive Income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 2009, the FASB issued ASC 860-10-65-3, Accounting for Transfers of Financial Assets, which requires additional disclosures concerning a transferor s continuing involvement with transferred financial assets. ASC 860-10-65-3 eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The guidance is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2011.

In June 2009, the FASB issued ASC 860-10-65-2, Amendments to FASB Interpretation No. 46(R), which requires an enterprise to conduct a qualitative analysis for the purpose of determining whether, based on its variable interests, it also has a controlling interest in a variable interest entity. ASC 860-10-65-2 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. ASC 860-10-65-2 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. It also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. ASC 860-10-65-2 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2011.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends existing disclosure requirements under ASC 820. ASU No. 2010-06 requires new disclosures for significant transfers between Levels 1 and 2 in the fair value hierarchy and separate disclosures for purchases, sales, issuances, and settlements in the reconciliation of activity for Level 3 fair value measurements. This ASU also clarifies the existing fair value disclosures regarding the level of disaggregation and the valuation techniques and inputs used to measure fair value. ASU No. 2010-06 will only impact disclosures and is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures on purchases, sales, issuances and settlements in the roll-forward of activity for Level 3 fair value measurements. Those disclosures are effective for interim and annual periods beginning after December 15, 2010.

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires enhanced disclosures regarding the nature of credit risk inherent in an entity s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. It requires an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. ASU 2010-20 will only impact disclosures. Disclosures related to information as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Disclosures regarding activities that occur during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Receivables

Receivables as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Trade accounts receivable	$ 1,543,530	$ 1,482,921
Cofina Financial notes receivable	340,303	254,419
Other	123,770	189,434
	2,007,603	1,926,774
Less allowances and reserves	99,535	99,025
	$ 1,908,068	$ 1,827,749

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. Cofina Financial notes receivable are reported at their outstanding principle balances as the Company has the ability and intent to hold these notes to maturity.

Note 3 Inventories

Inventories as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Grain and oilseed	$ 983,846	$ 638,622
Energy	515,930	496,114
Crop nutrients	135,526	114,832
Feed and farm supplies	242,482	198,440
Processed grain and oilseed	74,064	69,344
Other	9,528	8,928
	$ 1,961,376	$ 1,526,280

As of August 31, 2010, the Company valued approximately 12% of inventories, primarily crude oil and refined fuels within the Energy segment, using the lower of cost, determined on the LIFO method, or market (17% as of August 31, 2009). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by $345.4 million and $311.4 million at August 31, 2010 and 2009, respectively. During 2010 and 2009, energy inventory quantities were reduced. In 2010, the reduction resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2010 purchases, the effect of which decreased cost of goods sold by approximately $5.7 million. In 2009, the reduction resulted in liquidation of LIFO inventory quantities carried at higher costs prevailing in prior years as compared with the cost of 2009 purchases, the effect of which increased cost of goods sold by approximately $5.3 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Investments

Investments as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Joint ventures:		
Ventura Foods, LLC	$ 262,550	$ 245,525
Multigrain AG	148,528	141,179
Horizon Milling, LLC	69,873	56,999
TEMCO, LLC	29,128	27,181
Horizon Milling G.P.	20,166	19,137
United Country Brands, LLC (Agriliance LLC)	18,357	80,436
Cooperatives:		
Land O Lakes, Inc.	48,854	45,747
Ag Processing Inc.	18,245	18,594
CoBank, ACB	15,704	19,891
Other	87,987	73,236
	$ 719,392	$ 727,925

The Company has a 50% interest in Ventura Foods, LLC, (Ventura Foods), a joint venture which produces and distributes primarily vegetable oil-based products, and is included in the Company s Processing segment. During the years ended August 31, 2009 and 2008, the Company made capital contributions to Ventura Foods of $35.0 million and $20.0 million, respectively. The Company accounts for Ventura Foods as an equity method investment, and as of August 31, 2010, its carrying value of Ventura Foods exceeded its share of their equity by $14.2 million, of which $1.3 million is being amortized with a remaining life of approximately two years. The remaining basis difference represents equity method goodwill. The following provides summarized unaudited financial information for Ventura Foods balance sheets as of August 31, 2010 and 2009, and statements of operations for the twelve months ended August 31, 2010, 2009 and 2008:

	2010	2009
	(Dollars in thousands)	
Current assets	$ 512,554	$ 441,406
Non-current assets	459,346	464,356
Current liabilities	166,408	141,844
Non-current liabilities	308,795	303,665

	2010	2009	2008
		(Dollars in thousands)	
Net sales	$ 1,954,289	$ 2,055,768	$ 2,120,332

Gross profit	259,388	269,269	162,756
Net earnings	95,480	125,174	31,090
Earnings attributable to CHS Inc.	47,740	62,587	15,545

During fiscal 2007, the Company invested in Multigrain AG (Multigrain), for a 37.5% equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil. This venture, included in the Company s Ag Business segment, includes grain storage, export facilities and grain production and builds on the Company s South American soybean origination. During the year ended August 31, 2008, the Company increased its equity position through a purchase from an existing equity holder for $10.0 million, and also invested an additional $30.3 million which was used by Multigrain to invest in a joint venture that acquired production farmland and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

related operations. During the year ended August 31, 2009, the Company invested $76.3 million for Multigrain s increased capital needs resulting from expansion of its operations, and during the year ended August 31, 2010, the Company invested an additional $24.0 million. The Company s current ownership interest is approximately 45%.

Agriliance LLC (Agriliance) is owned and governed by United Country Brands, LLC (50%) and Land O Lakes, Inc. (Land O Lakes) (50%). United Country Brands, LLC is 100% owned by CHS. The Company accounts for its Agriliance investment using the equity method of accounting within the Ag Business segment. Prior to September 1, 2007, Agriliance was a wholesale and retail crop nutrients and crop protection products company. In September 2007, Agriliance distributed the assets of the crop nutrients business to the Company, and the assets of the crop protection business to Land O Lakes. Due to the Company s 50% ownership interest in Agriliance and the 50% ownership interest of Land O Lakes, each company was entitled to receive 50% of the distributions from Agriliance. Given the different preliminary values assigned to the assets of the crop nutrients and the crop protection businesses of Agriliance, at the closing of the distribution transactions Land O Lakes owed the Company $133.5 million. Land O Lakes paid the Company $32.6 million in cash, and in order to maintain equal capital accounts in Agriliance, they also paid down certain portions of Agriliance s debt on the Company s behalf in the amount of $100.9 million. Values of the distributed assets were finalized after the closing, and in October 2007, the Company made a true-up payment to Land O Lakes in the amount of $45.7 million, plus interest. During fiscal 2009, the final true-up amount was determined, and the Company received $0.9 million from Land O Lakes.

The distribution of assets the Company received from Agriliance for the crop nutrients business had a book value of $248.2 million. The Company recorded 50% of the value of the net assets received at book value due to the Company s ownership interest in those assets when they were held by Agriliance, and 50% of the value of the net assets at fair value using the purchase method of accounting.

During the year ended August 31, 2008, the Company s net contribution to Agriliance was $235.0 million which supported its working capital requirements for ongoing operations, with Land O Lakes making equal contributions to Agriliance. During the years ended August 31, 2010 and 2009, the Company received $105.0 million and $25.0 million of distributions from Agriliance as a return of capital, respectively. The distributions received during the year ended August 31, 2010, were primarily for proceeds Agriliance received from the sale of many of its retail facilities. The Company recorded a $28.4 million gain during fiscal 2010 related to the continuing sales of Agriliance retail facilities. Agriliance continues to exist as a 50-50 joint venture as the company winds down its business activity and primarily holds long-term liabilities.

A summary of combined financial information for the Company s major equity investments, excluding Ventura Foods is as follows:

	2010	2009
	(Dollars in thousands)	
Current assets	$ 1,254,966	$ 1,167,072
Non-current assets	881,998	801,867
Current liabilities	765,393	928,070
Non-current liabilities	491,643	190,167

	2010	2009	2008
		(Dollars in thousands)	

Net sales	$ 7,212,848	$ 6,748,412	$ 9,732,635
Gross profit	356,708	306,158	521,228
Net earnings	150,798	128,807	313,176
Earnings attributable to CHS Inc.	50,731	45,728	117,758

On August 31, 2007, the Company held a minority ownership interest in US BioEnergy Corporation (US BioEnergy), an ethanol production company, which was reflected in the Processing segment. During the first quarter of fiscal 2008, the Company purchased additional shares of US BioEnergy common stock for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$6.5 million. Through March 31, 2008, the Company was recognizing its share of the earnings of US BioEnergy using the equity method of accounting. Effective April 1, 2008, US BioEnergy and VeraSun Energy Corporation (VeraSun) completed a merger, and the Company s ownership interest in the combined entity was reduced to approximately 8%, compared to approximately 20% interest in US BioEnergy prior to the merger. As a result of the Company s change in ownership interest, it no longer had significant influence, and therefore, no longer accounted for VeraSun using the equity method. Due to the continued decline of the ethanol industry and other considerations, the Company determined that an impairment of its VeraSun investment was necessary during fiscal 2008, and as a result, based on VeraSun s market value of $5.76 per share on August 29, 2008, an impairment charge of $71.7 million was recorded in (gain) loss on investments. Subsequent to August 31, 2008, the market value of VeraSun s stock price continued to decline, and on October 31, 2008, VeraSun filed for relief under Chapter 11 of the U.S. Bankruptcy Code. Consequently, the Company s management determined an additional impairment was necessary based on VeraSun s market value of $0.28 per share on November 3, 2008, and recorded an impairment charge of $70.7 million, during its first quarter of fiscal 2009. Due to the outcome of the VeraSun bankruptcy, during the third quarter of fiscal 2009, the Company wrote off the remaining investment of $3.6 million. The impairments did not affect the Company s cash flows and did not have a bearing upon its compliance with any covenants under its credit facilities.

Cofina Financial, a finance company formed in fiscal 2005, makes seasonal and term loans to member cooperatives and businesses and to individual producers of agricultural products. Through August 31, 2008, the Company accounted for its 49% ownership interest in Cofina Financial, within Corporate and Other, using the equity method of accounting. On September 1, 2008, Cofina became a wholly-owned subsidiary when the Company purchased the remaining 51% ownership interest for $53.3 million. The purchase price included cash of $48.5 million and the assumption of certain liabilities of $4.8 million.

During the year ended August 31, 2009, the Company sold its available-for-sale investment of common stock in the New York Mercantile Exchange (NYMEX Holdings) for proceeds of $16.1 million and recorded a pretax gain of $15.7 million. The Company also received proceeds of $25.5 million from the sale of a Canadian agronomy investment during the year ended August 31, 2009, and recorded a gain of $2.8 million.

After a fiscal 2005 initial public offering (IPO) transaction for CF Industries Inc., CHS held an ownership interest in CF Industries Holdings, Inc. (the post-IPO name) of approximately 3.9% or 2,150,396 shares. During the year ended August 31, 2007, CHS sold 540,000 shares of the stock for proceeds of $10.9 million, and recorded a pretax gain of $5.3 million. During the year ended August 31, 2008, CHS sold all of its remaining 1,610,396 shares of stock for proceeds of $108.3 million and recorded a pretax gain of $91.7 million.

Various agreements with other owners of investee companies and a majority-owned subsidiary set out parameters whereby CHS may buy and sell additional interests in those companies, upon the occurrence of certain events, at fair values determinable as set forth in the specific agreements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Property, Plant and Equipment

A summary of property, plant and equipment as of August 31, 2010 and 2009 is as follows:

	2010	2009
	(Dollars in thousands)	
Land and land improvements	$ 118,337	$ 110,635
Buildings	499,346	497,956
Machinery and equipment	3,072,866	2,879,984
Office and other	93,099	94,429
Construction in progress	359,933	243,929
	4,143,581	3,826,933
Less accumulated depreciation and amortization	1,890,510	1,727,608
	$ 2,253,071	$ 2,099,325

Depreciation expense for the years ended August 31, 2010, 2009 and 2008, was $187.5 million, $180.9 million and $162.9 million, respectively.

The Company is leasing certain of its wheat milling facilities and related equipment to Horizon Milling, LLC under an operating lease agreement. The net book value of the leased milling assets at August 31, 2010 and 2009 was $59.3 million and $65.3 million, respectively, net of accumulated depreciation of $69.7 million and $65.1 million, respectively.

Note 6 Other Assets

Other assets as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Goodwill	$ 23,038	$ 17,346
Customer lists, less accumulated amortization of $18,666 and $12,336, respectively	19,392	22,689
Non-compete covenants, less accumulated amortization of $4,701 and $3,173, respectively	4,950	6,785
Trademarks and other intangible assets, less accumulated amortization of $16,489 and $17,291, respectively	17,794	20,862
Notes receivable	152,140	133,243
Long-term receivable	63,072	
Prepaid pension and other benefits	57,729	52,934
Capitalized major maintenance	19,097	30,075
Other	19,984	13,038
	$ 377,196	$ 296,972

During the years ended August 31, 2010 and 2009, the Company had acquisitions in its Ag Business segment which resulted in $6.5 million and $8.4 million of goodwill, respectively, reflecting the purchase price allocations. On September 1, 2008, the Company purchased the remaining 51% ownership interest of Cofina Financial, resulting in $6.9 million of goodwill. Also, during the years ended August 31, 2010 and 2009, dispositions in the Company s Energy and Ag Business segments resulted in decreases in goodwill of $0.8 million and $1.7 million, respectively.

Intangible assets acquired as part of business acquisitions during the years ended August 31, 2010, 2009 and 2008, totaled $1.4 million, $10.6 million and $18.6 million, respectively, and during fiscal 2010 and 2009, were from acquisitions in our Ag Business segment. During fiscal 2008, the Company purchased a soy-based

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

food ingredients business included in the Processing segment and a distillers dried grain business included in the Ag Business segment, acquired and paid for in fiscal 2008 and 2007. Various other cash acquisitions of intangibles totaled $1.0 million, $2.4 million and $3.4 million during the years ended August 31, 2010, 2009 and 2008, respectively.

Intangible assets amortization expense for the years ended August 31, 2010, 2009 and 2008, was $11.4 million, $12.2 million and $15.9 million, respectively. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate $10.4 million for each of the first two years, $5.7 million for the next year, and $2.8 million for each of the following two years.

The capitalized major maintenance activity is as follows:

	Balance at Beginning of Year	Cost Deferred	Amortization	Write-Offs	Balance at End of Year
	(Dollars in thousands)				
2010	$ 30,075	$ 7,554	$ (18,532)		$ 19,097
2009	53,303	1,771	(24,999)		30,075
2008	60,787	21,662	(29,146)		53,303

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Notes Payable and Long-Term Debt

Notes payable and long-term debt as of August 31, 2010 and 2009 consisted of the following:

	Interest Rates at August 31, 2010	2010	2009
		(Dollars in thousands)	
Notes payable(a)(j)	1.00% to 8.50%	$ 29,776	$ 19,183
Cofina Financial notes payable(k)	0.85% to 2.29%	232,314	227,689
		$ 262,090	$ 246,872
Long-term debt:			
Revolving term loans from cooperative and other banks, payable in equal installments beginning in 2013 through 2018(b)(j)	5.59%	$ 150,000	$ 150,000
Private placement, payable in equal installments beginning in 2014 through 2018(c)(j)	6.18%	400,000	400,000
Private placement, payable in equal installments through 2013(d)(j)	6.81%	112,500	150,000
Private placement, payable in installments through 2018(e)(j)	4.96% to 5.60%	104,231	121,923
Private placement, payable in equal installments beginning in 2011 through 2015(f)(j)	5.25%	125,000	125,000
Private placement, payable in equal installments through 2011(g)(j)	7.43% to 7.90%	11,428	22,857
Private placement, payable in its entirety in 2010(h)(j)	4.08%		15,000
Private placement, payable in its entirety in 2011(h)(j)	4.39%	15,000	15,000
Private placement, payable in equal installments beginning in 2014 through 2018(h)(j)	5.78%	50,000	50,000
Industrial revenue bonds, payable in its entirety in 2011	5.23%	3,925	3,925
Other notes and contracts(i)	1.89% to 12.17%	14,157	18,248
Total long-term debt		986,241	1,071,953
Less current portion		112,503	83,492
Long-term portion		$ 873,738	$ 988,461

	2010	2009
Weighted-average interest rates at August 31:		
Notes payable	2.24%	2.84%
Cofina Financial notes payable	1.75%	1.71%
Long-term debt	5.92%	5.93%

(a) The Company finances its working capital needs through short-term lines of credit with a syndication of domestic and international banks. One of these revolving lines of credit was a five-year $1.3 billion committed facility, with no amount outstanding on August 31, 2009. In June 2010, the Company amended this facility and reduced the committed amount from $1.3 billion to $700 million, with the May 2011 maturity date remaining the same, and no amount outstanding on August 31, 2010. Also in June 2010, the Company entered into a new five-year $900 million committed facility that expires in June 2015, which had

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

no amount outstanding on August 31, 2010. The Company previously had a $300 million 364-day revolving line of credit that expired in February 2010, which had no amount outstanding on August 31, 2009. In addition to these short-term lines of credit, the Company has a one-year committed credit facility dedicated to NCRA expiring in December 2010, with a syndication of banks in the amount of $15.0 million, with no amounts outstanding on August 31, 2010 and 2009. Our wholly-owned subsidiaries, CHS Europe S.A. and CHS do Brasil Ltda., have uncommitted lines of credit to finance their normal trade grain transactions, of which $27.1 million and $15.7 million were outstanding on August 31, 2010 and 2009, respectively, and were collateralized by certain inventories and receivables. The Company has two commercial paper programs totaling up to $125.0 million with two banks participating in the five-year revolving credit facility. The commercial paper programs do not increase the committed borrowing capacity in that the Company is required to have at least an equal amount of undrawn capacity available on the five-year revolving facility as to the amount of commercial paper issued. On August 31, 2010 and 2009, there was no commercial paper outstanding. Miscellaneous short-term notes payable totaled $2.7 million and $3.5 million on August 31, 2010 and 2009, respectively.

(b) In December 2007, the Company established a 10-year long-term credit agreement through a syndication of cooperative banks in the amount of $150.0 million.

(c) In October 2007, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $400.0 million.

(d) In June 1998, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $225.0 million.

(e) 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.

(f) In September 2004, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $125.0 million.

(g) In January 2001, the Company entered into a note purchase and private shelf agreement with Prudential Insurance Company. A long-term note was issued for $25.0 million and a subsequent note for $55.0 million was issued in March 2001.

(h) In March 2004, the Company entered into a note purchase and private shelf agreement with Prudential Capital Group. In April 2004, two long-term notes were issued for $15.0 million each. In April 2007, the agreement was amended with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million. In February 2008, the Company borrowed $50.0 million under the shelf arrangement.

(i) Other notes and contracts payable of $9.1 million are collateralized by property, plant and equipment, with a cost of $24.4 million, less accumulated depreciation of $10.0 million on August 31, 2010.

(j) The debt is unsecured; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios.

(k) Cofina Funding, LLC (Cofina Funding), a wholly-owned subsidiary of Cofina Financial, has available credit totaling $200.0 million as of August 31, 2010, under note purchase agreements with various purchasers, through the issuance of short-term notes payable. Cofina Financial sells eligible commercial loans receivable it has originated to Cofina Funding, which are then pledged as collateral under the note purchase agreements. The notes payable issued by Cofina Funding bear interest at variable rates based on commercial paper, with a weighted-average commercial paper interest rate of 1.82% as of August 31, 2010. Borrowings by Cofina Funding utilizing the issuance of commercial paper under the note purchase agreements totaled $130.0 million as of August 31, 2010. As of August 31, 2010, $55.0 million of related loans receivable were accounted for as sales when they were surrendered in accordance with authoritative guidance on accounting for transfers of financial assets and extinguishments of liabilities. As a result, the net borrowings under the note purchase agreements were $75.0 million. Cofina Financial also sells loan commitments it has originated to ProPartners Financial (ProPartners) on a recourse basis. The total

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

capacity for commitments under the ProPartners program is $120.0 million. The total outstanding commitments under the program totaled $90.2 million as of August 31, 2010, of which $71.4 million was borrowed under these commitments with an interest rate of 2.29%. In addition, Cofina Financial borrows funds under short-term notes issued as part of a surplus funds program. Borrowings under this program are unsecured and bear interest at variable rates ranging from 0.85% to 1.35% as of August 31, 2010, and are due upon demand. Borrowings under these notes totaled $85.9 million as of August 31, 2010.

Based on quoted market prices of similar debt, the carrying value of the Company s long-term debt approximated its fair value.

The aggregate amount of long-term debt payable as of August 31, 2010 is as follows:

	(Dollars in thousands)
2011	$ 112,503
2012	92,481
2013	101,189
2014	155,020
2015	154,977
Thereafter	370,071
	$ 986,241

Interest, net for the years ended August 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
	(Dollars in thousands)		
Interest expense	$ 69,901	$ 85,669	$ 100,123
Capitalized interest	(6,212)	(5,201)	(9,759)
Interest income	(5,365)	(9,981)	(13,904)
Interest, net	$ 58,324	$ 70,487	$ 76,460

Note 8 Income Taxes

The provision for income taxes for the years ended August 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
	(Dollars in thousands)		
Current	$ 8,931	$ 19,328	$ 45,850
Deferred	34,691	31,665	15,578
Valuation allowance	4,816	12,311	10,433

Income taxes	$ 48,438	$ 63,304	$ 71,861

The Company s current tax provision is significantly impacted by the utilization of loss carryforwards and tax benefits passed to the Company from NCRA. The passthrough tax benefits are associated with refinery upgrades that enable NCRA to produce ultra-low sulfur fuels as mandated by the Environmental Protection Agency.

Deferred taxes are comprised of basis differences related to investments, accrued liabilities and certain federal and state tax credits. NCRA files separate tax returns and, as such, these items must be assessed independent of the Company s deferred tax assets when determining recoverability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets and liabilities as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Deferred tax assets:		
Accrued expenses	$ 88,246	$ 83,896
Postretirement health care and deferred compensation	111,437	98,922
Tax credit carryforwards	57,449	56,987
Loss carryforwards	50,171	65,180
Other	35,060	35,435
Total deferred tax assets	342,363	340,420
Deferred tax liabilities:		
Pension	36,341	34,103
Investments	56,744	63,780
Major maintenance	6,017	9,041
Property, plant and equipment	337,654	308,179
Other	6,647	32,681
Total deferred tax liabilities	443,403	447,784
Deferred tax assets valuation reserve	(36,935)	(32,119)
Net deferred tax liabilities	$ 137,975	$ 139,483

As of August 31, 2010, a valuation allowance was established in the amount of $2.6 million to reduce the Company s deferred tax asset related to certain foreign subsidiary losses. During the fiscal year ended August 31, 2009, the Company provided a valuation allowance of $16.3 million related to the carryforward of certain capital losses that will expire on August 31, 2014. This valuation allowance was reduced by $0.9 million during fiscal 2010 due to the existence of offsetting capital gains.

The Company generated a $5.4 million foreign tax credit carryforward during the fiscal year ended August 31, 2009, that will expire on August 31, 2014. The Company s general business credit carryforward of $51.5 million will begin to expire on August 31, 2027. During the year ended August 31, 2007, NCRA provided a $9.4 million valuation allowance related to its carryforward of certain state tax credits. This allowance was reduced by $5.1 million as of August 31, 2009 and increased to $7.5 million as of August 31, 2010, due to a change in the amount of credits that are estimated to be used. The remaining allowance is necessary due to the limited amount of taxable income generated by NCRA on an annual basis.

As of August 31, 2010, net deferred taxes of $45.5 million and $183.5 million are included in current assets and other liabilities, respectively ($39.2 million and $178.7 million in current assets and other liabilities, respectively, as of August 31, 2009).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation of the statutory federal income tax rates to the effective tax rates for the years ended August 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	0.8	0.0	0.0
Patronage earnings	(23.8)	(25.5)	(24.1)
Export activities at rates other than the U.S. statutory rate	1.0	0.3	(0.1)
Valuation allowance	0.8	2.4	1.1
Tax credits	(0.2)	(0.7)	(2.1)
Other	(5.3)	1.1	(2.2)
Effective tax rate	8.3%	12.6%	7.6%

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years ending on or before August 31, 2005.

The Company accounts for its income tax provisions of ASC Topic 740, Income Taxes, which prescribes a minimum threshold that a tax provision is required to meet before being recognized in the consolidated financial statements. This interpretation requires the Company to recognize in the consolidated financial statements tax positions determined more likely than not to be sustained upon examination, based on the technical merits of the position. A reconciliation of the gross beginning and ending amounts of unrecognized tax benefits for the periods presented is as follows:

	2010	2009	2008
	(Dollars in thousands)		
Beginning balances	$ 72,519	$ 5,840	$ 7,259
Increases for current year tax positions		1,381	
Increases for tax positions of prior years		65,697	
Reductions for tax positions of prior years			(1,419)
Reductions attributable to statute expiration	(3,162)	(399)	
Balances at August 31	$ 69,357	$ 72,519	$ 5,840

The increase in the unrecognized tax benefit of $65.7 million during fiscal 2009 relates to clarifications received from the Internal Revenue Service on the method used for calculating the Company s production tax credits under Section 199 for which the ultimate deductibility is highly certain but for which there is uncertainty about the amount deductible in prior periods. The unrecognized tax benefit, if recognized, would affect the annual effective tax rate. The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next 12 months.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the years ended August 31, 2010 and 2009, the Company recognized approximately $0.3 million and $0.3 million in interest, respectively. The Company had approximately $0.9 million and $0.6 million for the payment of interest accrued on August 31, 2010 and 2009, respectively.

Note 9 Equities

In accordance with the by-laws 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, and are based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates. Total

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

patronage refunds for fiscal 2010 are estimated to be $396.5 million, while the cash portion, determined by the Board of Directors to be 35%, is estimated to be $138.8 million. The actual patronage refunds and cash portion for fiscal years 2009 and 2008 were $438.0 million ($153.9 million in cash) and $648.9 million ($227.6 million in cash), respectively. By action of the Board of Directors, patronage losses incurred in fiscal 2009 from the wholesale crop nutrients business, totaling $60.2 million, were offset against the fiscal 2008 wholesale crop nutrients and CF patronage through the cancellation of capital equity certificates in fiscal 2010.

Annual net savings from sources other than patronage may be added to the unallocated capital reserve or, upon action by the Board of Directors, may be allocated to members in the form of nonpatronage equity certificates. Redemptions are at the discretion of the Board of Directors.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them and another for individual members who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual member receives under the pro-rata program in any year will be determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In accordance with authorization from the Board of Directors, the Company expects total redemptions related to the year ended August 31, 2010, that will be distributed in fiscal 2011, to be approximately $67.6 million. These expected distributions are classified as a current liability on the August 31, 2010 Consolidated Balance Sheet.

For the years ended August 31, 2010, 2009 and 2008, the Company redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of $23.1 million, $49.7 million and $81.8 million, respectively. An additional $36.7 million, $49.9 million and $46.4 million of capital equity certificates were redeemed in fiscal years 2010, 2009 and 2008, respectively, by issuance of shares of the Company s 8% Cumulative Redeemable Preferred Stock (Preferred Stock). The amount of equities redeemed with each share of Preferred Stock issued was $28.30, $25.90 and $25.65, which was the closing price per share of the stock on the NASDAQ Global Select Market on February 22, 2010, January 23, 2009 and February 11, 2008, respectively.

The Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On August 31, 2010, the Company had 12,272,003 shares of Preferred Stock outstanding with a total redemption value of approximately $306.8 million, excluding accumulated dividends. The Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at the Company s option. At this time, the Company has no current plan or intent to redeem any Preferred Stock.

Note 10 Benefit Plans

The Company has various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. The Company also has non-qualified supplemental executive and board retirement plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial information on changes in benefit obligation and plan assets funded and balance sheets status as of August 31, 2010 and 2009 is as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2010	2009	2010	2009	2010	2009
	(Dollars in thousands)					
Change in benefit obligation:						
Benefit obligation at beginning of period	$ 415,469	$ 354,134	$ 40,524	$ 38,190	$ 38,202	$ 34,378
Service cost	20,774	18,252	1,220	1,385	1,386	1,153
Interest cost	23,034	25,296	2,235	2,781	2,153	2,971
Actuarial loss (gain)	5,634	6,872	239	(2,940)	1,016	(2,024)
Assumption change	53,587	38,815	4,995	3,274	4,368	3,317
Plan amendments	392					
Special agreements					1,722	283
Medicare D					105	356
Benefits paid	(25,289)	(27,900)	(1,980)	(2,166)	(2,690)	(2,232)
Benefit obligation at end of period	$ 493,601	$ 415,469	$ 47,233	$ 40,524	$ 46,262	$ 38,202
Change in plan assets:						
Fair value of plan assets at beginning of period	$ 410,181	$ 366,550				
Actual gain (loss) on plan assets	23,469	(38,169)				
Company contributions	70,000	109,700	$ 1,980	$ 2,166	$ 2,690	$ 2,232
Benefits paid	(25,289)	(27,900)	(1,980)	(2,166)	(2,690)	(2,232)
Fair value of plan assets at end of period	$ 478,361	$ 410,181	$	$	$	$
Funded status at end of period	$ (15,240)	$ (5,288)	$ (47,233)	$ (40,524)	$ (46,262)	$ (38,202)
Amounts recognized on balance sheet:						
Non-current assets		$ 5,404				
Accrued benefit cost:						
Current liabilities			$ (8,231)	$ (2,936)	$ (2,834)	$ (2,168)
Non-current liabilities	$ (15,240)	(10,692)	(39,002)	(37,588)	(43,428)	(36,034)
Ending balance	$ (15,240)	$ (5,288)	$ (47,233)	$ (40,524)	$ (46,262)	$ (38,202)
Amounts recognized in accumulated other comprehensive loss (pretax):						

Net transition obligation					$ 2,586	$ 3,522
Prior service cost (credit)	$ 13,185	$ 14,985	$ 638	$ 1,055	(312)	(498)
Net loss	289,853	227,803	13,527	8,912	6,199	827
Noncontrolling interests	(25,112)	(21,115)	(184)	(195)	(1,997)	(1,402)
Ending balance	$ 277,926	$ 221,673	$ 13,981	$ 9,772	$ 6,476	$ 2,449

The accumulated benefit obligation of the qualified pension plans was $459.5 million and $386.5 million at August 31, 2010 and 2009, respectively. The accumulated benefit obligation of the non-qualified pension plans was $31.3 million and $26.5 million at August 31, 2010 and 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assumption changes for the fiscal years ended August 31, 2010 and 2009, relates to reductions in the discount rate for both CHS and NCRA qualified pension plans. The reduction in the discount rate was due to the reduction in the yield curves for investment grade corporate bonds that CHS and NCRA have historically used.

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2010. The rate was assumed to decrease gradually to 5.0% by 2043 and remain at that level thereafter. Components of net periodic benefit costs for the years ended August 31, 2010, 2009 and 2008 are as follows:

	Qualified Pension Benefits			Non-Qualified Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
	(Dollars in thousands)								
Components of net periodic benefit costs:									
Service cost	$ 20,774	$ 16,318	$ 15,387	$ 1,220	$ 1,200	$ 1,246	$ 1,385	$ 1,101	$ 1,175
Interest cost	23,034	22,837	21,266	2,235	2,399	2,190	2,154	2,771	1,814
Expected return on assets	(36,875)	(31,258)	(31,274)						
Special agreements						467	1,722	283	4,000
Prior service cost (credit) amortization	2,193	2,115	2,164	419	546	579	(186)	347	(320)
Actuarial loss (gain) amortization	10,578	5,046	4,887	617	667	841	11	(215)	(165)
Transition amount amortization							936	936	935
Net periodic benefit cost	$ 19,704	$ 15,058	$ 12,430	$ 4,491	$ 4,812	$ 5,323	$ 6,022	$ 5,223	$ 7,439
Adjustment to retained earnings for measurement date change		$ 1,593			$ 763			$ 294	
Weighted average assumptions to determine the net periodic benefit cost:									
Discount rate	5.75%	6.05%	6.25%	5.75%	6.05%	6.25%	5.75%	6.05%	6.25%
Expected return on plan assets	8.25%	8.25%	8.75%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

ncrease									
Weighted average assumptions to determine the benefit obligations:									
Discount rate	4.75%	5.75%	6.75%	4.75%	5.75%	6.75%	4.75%	5.75%	6.75%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

The estimated amortization in fiscal 2011 from accumulated other comprehensive income into net periodic benefit cost is as follows:

	Qualified Pension Benefits	Non-Qualified Pension Benefits	Other Benefits
		(Dollars in thousands)	
Amortization of transition obligation			$ 936
Amortization of prior service cost (benefit)	$ 2,327	$ 140	(123)
Amortization of net actuarial loss	15,856	998	366
Noncontrolling interests	(1,634)	(7)	(141)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
	(Dollars in thousands)	
Effect on total of service and interest cost components	$ 468	$ (391)
Effect on postretirement benefit obligation	4,249	(3,710)

The Company provides defined life insurance and health care benefits for certain retired employees and Board of Directors participants. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually.

The Company has other contributory defined contribution plans covering substantially all employees. Total contributions by the Company to these plans were $17.3 million, $14.9 million and $12.2 million, for the years ended August 31, 2010, 2009 and 2008, respectively.

The Company contributed $70.0 million to qualified pension plans in fiscal 2010. Based on the funded status of the qualified pension plans as of August 31, 2010, the Company does not expect to contribute to these plans in fiscal 2011. The Company expects to pay $11.1 million to participants of the non-qualified pension and postretirement benefit plans during fiscal 2011.

The Company s retiree benefit payments which reflect expected future service are anticipated to be paid as follows:

	Qualified Pension Benefits	Non-Qualified Pension Benefits	Other Benefits Gross	Other Benefits Medicare D
	(Dollars in thousands)			
2011	$ 28,494	$ 8,231	$ 2,833	$ 100
2012	30,302	4,743	3,189	100
2013	32,933	4,301	3,165	100
2014	34,998	3,078	3,332	100
2015	38,719	3,075	3,430	100
2016-2020	227,291	18,636	18,438	600

The Company has trusts that hold the assets for the defined benefit plans. The Company and NCRA have qualified plan committees that set investment guidelines with the assistance of external consultants. Investment objectives for the Company s plan assets are:

optimization of the long-term returns on plan assets at an acceptable level of risk, and

maintenance of a broad diversification across asset classes and among investment managers, and

focus on long-term return objectives.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. The plans target allocation percentages are 35% in fixed income securities and 65% in equity securities. An annual analysis of the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. The Company generally uses long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption, when deemed necessary, based upon revised expectations of future investment performance of the overall investment markets.

The discount rate reflects the rate at which the associated benefits could be effectively settled as of the measurement date. In estimating this rate, the Company looks at rates of return on fixed-income investments

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of similar duration to the liabilities in the plans that receive high, investment-grade ratings by recognized ratings agencies.

The investment portfolio contains a diversified portfolio of investment categories, including domestic and international equities, fixed-income securities and real estate. Securities are also diversified in terms of domestic and international securities, short and long-term securities, growth and value equities, large and small cap stocks, as well as active and passive management styles.

The committees believe that with prudent risk tolerance and asset diversification, the plans should be able to meet pension obligations in the future.

The Company s pension plans fair value measurements at August 31, 2010 are as follows:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
Mutual funds	$ 459,089	$ 7,158		$ 466,247
Real estate fund		2	$ 9,407	9,409
Other assets hedge funds			2,705	2,705
Total	$ 459,089	$ 7,160	$ 12,112	$ 478,361

Definitions for valuation levels are found in Note 12. The Company uses the following valuation methodologies for assets measured at fair value.

Mutual funds: Valued at quoted market prices, which are based on the net asset value of shares held by the plan at year end. Mutual funds traded in active markets are classified within Level 1 of the fair value hierarchy. Certain of the mutual fund investments held by the plan are money market mutual funds, which have observable inputs other than Level 1. The money market mutual funds are classified within Level 2 of the fair value hierarchy.

Real Estate funds: Valued quarterly at estimated fair value based on the underlying investee funds in which the real estate fund invests. This information is compiled, in addition to any other assets and liabilities (accrued expenses and unit-holder transactions), to determine the fund s unit value. The real estate fund is not traded on an active market and is classified within Level 3 of the fair value hierarchy.

Hedge funds: Valued at estimated fair value based on prices quoted by various national markets and publications and/or independent financial analysts. These investments are classified within Level 3 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth a summary of changes in the fair value of the plan s Level 3 assets for the year ended August 31, 2010.

	Real Estate Funds	Hedge Funds	Total
	(Dollars in thousands)		
Balances at beginning of period	$ 10,335	$ 1,091	$ 11,426
Unrealized (losses) gains	(939)	126	(813)
Purchases, sales, issuances and settlements, net	11	1,488	1,499
Total	$ 9,407	$ 2,705	$ 12,112

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Note 11 Segment Reporting

The Company aligned its segments based on an assessment of how its businesses operate and the products and services it sells. As a result of this assessment, the Company has three segments: Energy, Ag Business and Processing.

The Energy segment derives its revenues through refining, wholesaling, marketing and retailing of petroleum products. The Ag Business segment derives its revenues through the sales of wholesale crop nutrients, the origination and marketing of grain, including service activities conducted at export terminals, through the retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies, and records equity income from investments in the Company s agronomy joint ventures, grain export joint ventures and other investments. The Processing segment derives its revenues from the sales of soybean meal, soybean refined oil and soy-based food products, and records equity income from two wheat milling joint ventures, a vegetable oil-based food manufacturing and distribution joint venture, and during fiscal 2009 and 2008, an ethanol manufacturing company. The Company includes other business operations in Corporate and Other because of the nature of their products and services, as well as the relative revenue size of those businesses. These businesses primarily include the Company s financing, insurance, hedging and other service activities related to crop production.

Reconciling Amounts represent the elimination of revenues between segments. Such transactions are conducted at market prices to more accurately evaluate the profitability of the individual segments.

The Company assigns certain corporate general and administrative expenses to its segments based on use of such services and allocates other services based on factors or considerations relevant to the costs incurred.

Expenses that are incurred at the corporate level for the purpose of the general operation of the Company are allocated to the segments based upon factors which management considers non-symmetrical. Due to efficiencies in scale, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment information for the years ended August 31, 2010, 2009 and 2008 is as follows:

	Energy	AG Business	Processing	Corporate and Other	Reconciling Amounts	Total
			(Dollars in thousands)			
For the year ended August 31, 2010:						
Revenues	$ 8,799,890	$ 15,678,160	$ 1,061,654	$ 44,922	$ (316,695)	$ 25,267,931
Cost of goods sold	8,437,504	15,261,056	1,018,731	(3,186)	(316,695)	24,397,410
Gross profit	362,386	417,104	42,923	48,108		870,521
Marketing, general and administrative	123,834	173,766	25,764	43,218		366,582
Operating earnings	238,552	243,338	17,159	4,890		503,939
Gain on investments	(269)	(28,807)		(357)		(29,433)
Interest, net	9,939	28,033	19,605	747		58,324
Equity income from investments	(5,554)	(25,173)	(77,159)	(901)		(108,787)
Income before income taxes	$ 234,436	$ 269,285	$ 74,713	$ 5,401	$	$ 583,835
Intersegment revenues	$ (295,536)	$ (19,259)	$ (1,900)		$ 316,695	$
Goodwill	$ 1,165	$ 14,975		$ 6,898		$ 23,038
Capital expenditures	$ 197,637	$ 116,175	$ 6,293	$ 4,157		$ 324,262
Depreciation and amortization	$ 118,071	$ 58,972	$ 17,027	$ 8,852		$ 202,922
Total identifiable assets at August 31, 2010	$ 3,004,471	$ 3,583,341	$ 696,738	$ 1,381,578		$ 8,666,128
For the year ended August 31, 2009:						
Revenues	$ 7,639,838	$ 17,196,448	$ 1,142,636	$ 45,298	$ (294,304)	$ 25,729,916
Cost of goods sold	7,110,324	16,937,877	1,099,177	(3,173)	(294,304)	24,849,901
Gross profit	529,514	258,571	43,459	48,471		880,015
Marketing, general and administrative	125,104	158,395	25,724	46,076		355,299
Operating earnings	404,410	100,176	17,735	2,395		524,716

(Gain) loss on investments	(15,748)	(2,285)	74,338			56,305
Interest, net	5,483	46,995	21,841	(3,832)		70,487
Equity income from investments	(4,044)	(18,222)	(82,525)	(963)		(105,754)
Income before income taxes	$ 418,719	$ 73,688	$ 4,081	$ 7,190	$	$ 503,678
Intersegment revenues	$ (251,626)	$ (39,919)	$ (2,759)		$ 294,304	$
Goodwill	$ 1,983	$ 8,465		$ 6,898		$ 17,346
Capital expenditures	$ 233,112	$ 72,155	$ 7,444	$ 2,794		$ 315,505
Depreciation and amortization	$ 118,260	$ 53,421	$ 16,805	$ 7,864		$ 196,350
Total identifiable assets at August 31, 2009	$ 3,025,522	$ 2,987,394	$ 685,865	$ 1,171,064		$ 7,869,845
For the year ended August 31, 2008:						
Revenues	$ 11,499,814	$ 19,696,907	$ 1,299,209	$ 31,363	$ (359,832)	$ 32,167,461
Cost of goods sold	11,027,459	19,088,079	1,240,944	(2,751)	(359,832)	30,993,899
Gross profit	472,355	608,828	58,265	34,114		1,173,562
Marketing, general and administrative	111,121	160,364	26,089	32,391		329,965
Operating earnings	361,234	448,464	32,176	1,723		843,597
(Gain) loss on investments	(35)	(100,830)	72,602	(930)		(29,193)
Interest, net	(5,227)	63,665	21,995	(3,973)		76,460
Equity income from investments	(5,054)	(83,053)	(56,615)	(5,691)		(150,413)
Income (loss) before income taxes	$ 371,550	$ 568,682	$ (5,806)	$ 12,317	$	$ 946,743
Intersegment revenues	$ (322,522)	$ (36,972)	$ (338)		$ 359,832	$
Capital expenditures	$ 251,401	$ 56,704	$ 5,994	$ 4,460		$ 318,559
Depreciation and amortization	$ 107,949	$ 50,933	$ 15,902	$ 6,479		$ 181,263

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

International sales for the years ended August 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
	(Dollars in millions)		
Africa	$ 395	$ 305	$ 505
Asia	2,891	3,664	3,000
Europe	209	371	488
North America, excluding U.S.	1,210	1,253	1,399
South America	736	491	922
	$ 5,441	$ 6,084	$ 6,314

Note 12 Fair Value Measurements

ASC 820 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in a principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determines the fair market values of its readily marketable inventories, derivative contracts and certain other assets, based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. ASC 820 describes three levels within its hierarchy that may be used to measure fair value, which are:

Level 1: Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets and liabilities include the Company s exchange traded derivative contracts, Rabbi Trust investments and available-for-sale investments.

Level 2: Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. These assets and liabilities include the Company s readily marketable inventories, interest rate swaps, forward commodity and freight purchase and sales contracts, flat price or basis fixed derivative contracts and other OTC derivatives whose value is determined with inputs that are based on exchange traded prices, adjusted for location specific inputs that are primarily observable in the market or can be derived principally from, or corroborated by, observable market data.

Level 3: Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. These unobservable inputs would reflect the Company s own estimates of assumptions that market participants would use in pricing related assets or liabilities. Valuation techniques might include the use of pricing models, discounted cash flow models or similar techniques. These assets previously included certain short-term investments made by NCRA.

The following table presents assets and liabilities, included in the Company s Consolidated Balance Sheets, that are recognized at fair value on a recurring basis, and indicates the fair value hierarchy utilized to determine such fair value. Assets and liabilities are classified, in their entirety, based on the lowest level of input that is a significant component of the fair value measurement. The lowest level of input is considered Level 3. The Company s assessment of the significance of a particular input to the fair value measurement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requires judgment, and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels. Fair value measurements at August 31, 2010 and 2009 are as follows:

	Fair Value Measurements at August 31, 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Dollars in thousands)			
Assets:				
Readily marketable inventories		$ 1,057,910		$ 1,057,910
Commodity and freight derivatives	$ 38,342	208,279		246,621
Other assets	62,612			62,612
Total Assets	$ 100,954	$ 1,266,189		$ 1,367,143
Liabilities:				
Commodity and freight derivatives	$ 79,940	$ 204,629		$ 284,569
Foreign currency derivatives	222			222
Interest rate swap derivatives		1,227		1,227
Total Liabilities	$ 80,162	$ 205,856		$ 286,018

	Fair Value Measurements at August 31, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Dollars in thousands)			
Assets:				
Readily marketable inventories		$ 706,104		$ 706,104
Commodity and freight derivatives	$ 68,116	103,224		171,340
Short-term investments			$ 1,932	1,932
Other assets	53,326			53,326
Total Assets	$ 121,442	$ 809,328	$ 1,932	$ 932,702

Liabilities:				
Commodity and freight derivatives	$ 27,145	$ 274,060		$ 301,205
Interest rate swap derivatives		4,911		4,911
Total Liabilities	$ 27,145	$ 278,971		$ 306,116

Readily marketable inventories The Company s readily marketable inventories primarily include its grain and oilseed inventories that are stated at fair values. These commodities are readily marketable, have quoted market prices and may be sold without significant additional processing. The Company estimates the fair market values of these inventories included in Level 2 primarily based on exchange quoted prices, adjusted for differences in local markets. Changes in the fair market values of these inventories are recognized in the Company s Consolidated Statements of Operations as a component of cost of goods sold.

Commodity, freight and foreign currency derivatives Exchange traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified within Level 1. The Company s forward commodity purchase and sales contracts, flat price or basis fixed derivative contracts, ocean freight contracts and other OTC derivatives are determined using inputs that are generally based on exchange traded

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prices and/or recent market bids and offers, adjusted for location specific inputs, and are classified within Level 2. The location specific inputs are generally broker or dealer quotations, or market transactions in either the listed or OTC markets. Changes in the fair values of these contracts are recognized in the Company s Consolidated Statements of Operations as a component of cost of goods sold.

Short term investments The Company s short-term investments represented an enhanced cash fund at NCRA that was closed due to credit-market turmoil, and were classified within Level 3. These investments were valued using discounted cash flows to determine the fair market values.

Other assets The Company s available-for-sale investments in common stock of other companies and its Rabbi Trust assets are valued based on unadjusted quoted prices on active exchanges and are classified within Level 1.

Interest rate swap derivatives Fair values of the Company s interest rate swap liabilities are determined utilizing valuation models that are widely accepted in the market to value such OTC derivative contracts. The specific terms of the contracts, as well as market observable inputs such as interest rates and credit risk assumptions, are factored into the models. As all significant inputs are market observable, all interest rate swaps are classified within Level 2.

The table below represents reconciliations at August 31, 2010 and 2009 for assets measured at fair value using significant unobservable inputs (Level 3). This consists of certain short-term investments of NCRA that were carried at fair value and reflect assumptions a marketplace participant would use.

	2010	2009
	(Dollars in thousands)	
Balances, September 1	$ 1,932	$ 6,900
Realized/unrealized losses included in marketing, general and administrative	38	(643)
Settlements	(1,970)	(4,325)
Balances, August 31	$	$ 1,932

Note 13 Commitments and Contingencies

Environmental

The Company is required to comply with various environmental laws and regulations incidental to its normal business operations. In order to meet its compliance requirements, the Company establishes reserves for the probable future costs of remediation of identified issues, which are included in cost of goods sold and marketing, general and administrative in the Consolidated Statements of Operations. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

The Environmental Protection Agency has passed a regulation that requires the reduction of the benzene level in gasoline by January 1, 2011. As a result of this regulation, the Company s refineries will incur capital expenditures to reduce the current gasoline benzene levels to the regulated levels. The Company anticipates the combined capital expenditures for the Laurel, Montana and NCRA refineries to be approximately $114 million, of which $76 million has been spent through August 31, 2010.

Other Litigation and Claims

The Company is involved as a defendant in various lawsuits, claims and disputes, which are in the normal course of the Company s business. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

Grain Storage

As of August 31, 2010 and 2009, the Company stored grain for third parties totaling $246.2 million and $283.0 million, respectively. Such stored commodities and products are not the property of the Company and therefore are not included in the Company s inventories.

Guarantees

The Company is a guarantor for lines of credit and performance obligations of related companies. The Company s bank covenants allow maximum guarantees of $500.0 million, of which $29.4 million was outstanding on August 31, 2010. The Company has collateral for a portion of these contingent obligations. The Company has not recorded a liability related to the contingent obligations as it does not expect to pay out any cash related to them, and the fair values are considered immaterial. The underlying loans to the counterparties for which we provide guarantees are current as of August 31, 2010.

Lease Commitments

The Company is committed under operating lease agreements for approximately 2,000 rail cars with remaining terms of one to ten years. In addition, the Company has commitments under other operating leases for various refinery, manufacturing and transportation equipment, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the lease terms.

Total rental expense for all operating leases, net of rail car mileage credits received from railroad and sublease income, was $64.3 million, $61.1 million and $58.3 million for the years ended August 31, 2010, 2009 and 2008, respectively. Mileage credits and sublease income totaled $1.4 million, $1.3 million and $3.8 million for the years ended August 31, 2010, 2009 and 2008, respectively.

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2010 are as follows:

	Rail Cars	Vehicles	Equipment and Other	Total
		(Dollars in thousands)		
2011	$ 11,531	$ 22,067	$ 9,248	$ 42,846
2012	8,560	17,132	7,749	33,441
2013	6,161	12,439	5,607	24,207
2014	4,069	8,111	3,507	15,687
2015	3,147	4,657	3,061	10,865
Thereafter	7,509	722	9,280	17,511
Total minimum future lease payments	$ 40,977	$ 65,128	$ 38,452	$ 144,557

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Supplemental Cash Flow and Other Information

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
		(Dollars in thousands)	
Net cash paid during the period for:			
Interest	$ 65,400	$ 81,146	$ 79,590
Income taxes	15,899	76,670	20,772
Other significant noncash investing and financing transactions:			
Capital equity certificates exchanged for Preferred Stock	36,674	49,944	46,364
Capital equity certificates cancelled for fiscal 2009 patronage losses in wholesale crop nutrients	60,154		
Capital equity certificates issued in exchange for Ag Business acquisitions	616	19,594	4,680
Accrual of dividends and equities payable	(210,435)	(203,056)	(325,039)

Note 15 Related Party Transactions

Related party transactions with equity investees for the years ended August 31, 2010, 2009 and 2008, respectively, and balances as of August 31, 2010 and 2009, respectively, are as follows:

	2010	2009	2008
		(Dollars in thousands)	
Sales	$ 2,276,682	$ 2,528,330	$ 3,451,365
Purchases	961,062	1,215,786	1,248,436

	2010	2009
	(Dollars in thousands)	
Receivables	$ 31,792	$ 14,987
Payables	34,438	30,741

The related party transactions were primarily with TEMCO, LLC, Horizon Milling, LLC, United Harvest, LLC, Ventura Foods, LLC and Agriliance LLC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16 Comprehensive Income

The components of comprehensive income, net of taxes, for the years ended August 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
	(Dollars in thousands)		
Net income including noncontrolling interests	$ 535,397	$ 440,374	$ 874,882
Pension and other postretirement, net of tax benefit of $30,847, $53,408 and $12,675 in 2010, 2009 and 2008, respectively	(47,667)	(82,069)	(19,317)
Unrealized net loss on available for sale investments, net of tax benefit of $477, $6,687 and $40,979 in 2010, 2009 and 2008, respectively	(750)	(10,503)	(64,366)
Amortization of treasury locks, net of tax expense of $227, $258 and $297 in 2010, 2009 and 2008, respectively	356	405	465
Energy derivative instruments qualified for hedge accounting, net of tax benefit of $1,540 in 2010	(2,419)		
Foreign currency translation adjustment, net of tax (benefit) expense of $(791), $(1,570) and $56 in 2010, 2009 and 2008, respectively	(1,242)	(2,466)	87
Other comprehensive loss	(51,722)	(94,633)	(83,131)
Total comprehensive income, including noncontrolling interests	483,675	345,741	791,751
Comprehensive income attributable to noncontrolling interests	30,513	52,562	69,784
Comprehensive income attributable to CHS Inc.	$ 453,162	$ 293,179	$ 721,967

The components of accumulated other comprehensive income, net of taxes, as of August 31, 2010 and 2009 are as follows:

	2010	2009
	(Dollars in thousands)	
Pension and other postretirement, net of tax benefit of $141,097 and $110,250 in 2010 and 2009, respectively	$ (218,512)	$ (170,845)
Unrealized net gain on available for sale investments, net of tax expense of $204 and $681 in 2010 and 2009, respectively	320	1,070
Treasury locks, net of tax benefit of $616 and $843 in 2010 and 2009, respectively	(968)	(1,324)
Energy derivative instruments qualified for hedge accounting, net of tax benefit of $1,540 in 2010	(2,419)	
Foreign currency translation adjustment, net of tax (benefit) expense of $(34) and $757 in 2010 and 2009, respectively	(54)	1,188

Accumulated other comprehensive loss, including noncontrolling interests	(221,633)	(169,911)
Accumulated other comprehensive loss attributable to noncontrolling interests	(16,366)	(13,641)
Accumulated other comprehensive loss attributable to CHS Inc.	$ (205,267)	$ (156,270)

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