CHS INC
Form 10-Q
January 07, 2015
Table of Contents

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

Form 10-Q

þ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended November 30, 2014.

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission file number: 001-36079

CHS Inc. (Exact name of registrant as specified in its charter)	
Minnesota (State or other jurisdiction of incorporation or organization)	41-0251095 (I.R.S. Employer Identification Number)
5500 Cenex Drive Inver Grove Heights, Minnesota 55077 (Address of principal executive office, including zip code)	(651) 355-6000 (Registrant's Telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
YES þ NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: The Registrant has no common stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION
SAFE HARBOR STATEMENT UNDER THE PRIVATE
SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed in the forward-looking statements. These factors include those set forth in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, under the caption “Cautionary Statements for Purposes of the Safe Harbor Provisions of The Securities Litigation Reform Act” to this Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2014.

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

CHS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	November 30, 2014	August 31, 2014
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,668,522	$2,133,207
Receivables	2,991,371	2,988,563
Inventories	3,659,973	2,760,253
Derivative assets	700,566	603,933
Margin deposits	384,967	301,045
Supplier advance payments	623,623	331,345
Other current assets	569,588	279,304
Total current assets	10,598,610	9,397,650
Investments	979,675	923,227
Property, plant and equipment	4,235,060	4,031,023
Other assets	782,734	795,079
Total assets	$16,596,079	$15,146,979
LIABILITIES AND EQUITIES		
Current liabilities:		
Notes payable	$1,293,316	$1,159,473
Current portion of long-term debt	131,679	156,836
Current portion of mandatorily redeemable noncontrolling interest	149,707	65,981
Customer margin deposits and credit balances	284,307	265,556
Customer advance payments	722,111	602,374
Checks and drafts outstanding	123,322	167,846
Accounts payable	2,749,166	2,208,211
Derivative liabilities	629,339	599,990
Accrued expenses	536,279	547,781
Dividends and equities payable	552,188	409,961
Total current liabilities	7,171,414	6,184,009
Long-term debt	1,210,687	1,299,664
Mandatorily redeemable noncontrolling interest	—	148,756
Long-term deferred tax liabilities	586,769	566,647
Other liabilities	468,702	481,059
Commitments and contingencies		
Equities:		
Preferred stock	1,666,630	1,190,177
Equity certificates	3,801,034	3,816,428
Accumulated other comprehensive loss	(157,844)	(156,757)
Capital reserves	1,836,988	1,598,660
Total CHS Inc. equities	7,146,808	6,448,508
Noncontrolling interests	11,699	18,336
Total equities	7,158,507	6,466,844

Total liabilities and equities	$16,596,079	$15,146,979

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

Table of Contents

CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended November 30,	
	2014	2013
	(Dollars in thousands)	
Revenues	$9,499,468	$11,026,121
Cost of goods sold	8,908,745	10,625,205
Gross profit	590,723	400,916
Marketing, general and administrative	161,968	133,141
Operating earnings	428,755	267,775
(Gain) loss on investments	(2,875)	—
Interest, net	20,601	30,785
Equity (income) loss from investments	(24,629)	(32,678)
Income before income taxes	435,658	269,668
Income taxes	57,327	26,640
Net income	378,331	243,028
Net income (loss) attributable to noncontrolling interests	(372)	842
Net income attributable to CHS Inc.	$378,703	$242,186

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

3

Table of Contents

CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended November 30,	
	2014	2013
	(Dollars in thousands)	
Net income	$378,331	$243,028
Other comprehensive income (loss), net of tax:		
Postretirement benefit plan activity, net of tax expense (benefit) of $2,324 and $252, respectively	3,731	409
Unrealized net gain (loss) on available for sale investments, net of tax expense (benefit) of $388 and $1,182, respectively	630	1,918
Cash flow hedges, net of tax expense (benefit) of $(149) and $(1,931), respectively	(242)	(3,134)
Foreign currency translation adjustment, net of tax expense (benefit) of $(3,210) and $229, respectively	(5,206)	373
Other comprehensive income (loss), net of tax	(1,087)	(434)
Comprehensive income	377,244	242,594
Less: comprehensive income (loss) attributable to noncontrolling interests	(372)	842
Comprehensive income attributable to CHS Inc.	$377,616	$241,752

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

Table of Contents

CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended November 30,	
	2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$378,331	$243,028
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73,322	63,104
Amortization of deferred major repair costs	8,817	12,519
(Income) loss from equity investments	(24,629)	(32,678)
Distributions from equity investments	15,558	37,231
Noncash patronage dividends received	(863)	(366)
(Gain) loss on sale of property, plant and equipment	(759)	(1,122)
(Gain) loss on investments	(2,875)	—
Unrealized (gain) loss on crack spread contingent liability	(28,397)	16,857
Deferred taxes	26,656	638
Other, net	15,013	(638)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	170,897	58,994
Inventories	(875,486)	(373,627)
Derivative assets	(88,264)	104,742
Margin deposits	(83,740)	61,161
Supplier advance payments	(292,278)	(305,377)
Other current assets and other assets	33,879	(8,903)
Customer margin deposits and credit balances	(10,498)	(34,263)
Customer advance payments	119,737	217,116
Accounts payable and accrued expenses	510,966	496,197
Derivative liabilities	28,754	(57,827)
Other liabilities	6,867	21,716
Net cash provided by (used in) operating activities	(18,992)	518,502
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(267,279)	(168,024)
Proceeds from disposition of property, plant and equipment	2,241	1,384
Expenditures for major repairs	(1,088)	—
Purchase of short-term investments	(315,000)	—
Investments in joint ventures and other	(40,375)	(10,941)
Investments redeemed	49	19
Proceeds from sale of investments	6,084	—
Changes in notes receivable, net	(180,189)	(209,789)
Business acquisitions, net of cash acquired	5,501	(7,873)
Other investing activities, net	(5,028)	(3,489)
Net cash provided by (used in) investing activities	(795,084)	(398,713)
Cash flows from financing activities:		
Changes in notes payable	133,034	170,502
Long-term debt borrowings	—	1,426

Principal payments on long-term debt	(116,709)	(112,267)
Mandatorily redeemable noncontrolling interest payments	(65,981)	(65,981)
Payments on crack spread contingent liability	—	(8,670)
Changes in checks and drafts outstanding	(43,239)	(34,113)
Preferred stock issued	492,500	282,979
Preferred stock issuance costs	(16,047)	(9,255)
Preferred stock dividends paid	(22,486)	(6,136)
Retirements of equities	(2,591)	(2,520)
Cash patronage dividends paid	(555)	—
Other financing activities, net	(118)	(2,236)
Net cash provided by (used in) financing activities	357,808	213,729
Effect of exchange rate changes on cash and cash equivalents	(8,417)	602
Net increase (decrease) in cash and cash equivalents	(464,685)	334,120
Cash and cash equivalents at beginning of period	2,133,207	1,808,532
Cash and cash equivalents at end of period	$1,668,522	$2,142,652

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

Table of Contents

CHS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The unaudited Consolidated Balance Sheet as of November 30, 2014, the Consolidated Statements of Operations for the three months ended November 30, 2014 and 2013, the Consolidated Statements of Comprehensive Income for the three months ended November 30, 2014 and 2013, and the Consolidated Statements of Cash Flows for the three months ended November 30, 2014 and 2013, reflect in the opinion of our management, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for interim periods are not necessarily indicative of results for a full fiscal year because of, among other things, the seasonal nature of our businesses. Our Consolidated Balance Sheet data as of August 31, 2014, has been derived from our audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP).

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

These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended August 31, 2014, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a lesser 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 certain interest rate swap contracts which are accounted for as cash flow hedges or fair value hedges. Derivative instruments are recorded on our Consolidated Balance Sheets at fair value. See Note 10, Derivative Financial Instruments and Hedging Activities and Note 11, Fair Value Measurements for additional information.

Even though we have netting arrangements for our exchange-traded futures and options contracts and certain over-the-counter (OTC) contracts, we report our derivatives on a gross basis on our Consolidated Balance Sheets. Our associated margin deposits are also reported on a gross basis.

Major Maintenance Activities

In our Energy segment, major maintenance activities (turnarounds) at our 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 to 4 years. The amortization expense related to turnaround costs is included in cost of goods sold in our 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 our Consolidated Statements of Cash Flows, whereas expensing these costs as incurred, would result in classifying the cash outflows as operating activities.

For the three months ended November 30, 2014, major repairs turnaround expenditures were $1.1 million. There were no turnaround expenditures for the three months ended November 30, 2013.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers." ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The guidance also requires an entity to disclose sufficient qualitative and

Table of Contents

quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts from customers. This ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The amendments in this standard are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and we are currently evaluating the impact the adoption will have on our consolidated financial statements in fiscal 2018.

Note 2 Receivables

	November 30, 2014	August 31, 2014
	(Dollars in thousands)	
Trade accounts receivable	$1,926,566	$2,153,929
CHS Capital notes receivable	816,257	633,475
Other	354,784	304,798
	3,097,607	3,092,202
Less allowances and reserves	106,236	103,639
Total receivables	$2,991,371	$2,988,563

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. Subsequently, trade accounts receivable are carried at net realizable value, which includes an allowance for estimated uncollectible amounts. We calculate this allowance based on our history of write-offs, level of past due accounts, and our relationships with, and the economics status of, our customers.

CHS Capital, LLC (CHS Capital), our wholly-owned subsidiary, has notes receivable from commercial borrowers and producer borrowings. The short-term notes receivable generally have terms of 12-14 months and are reported at their outstanding principle balances as CHS Capital has the ability and intent to hold these notes to maturity. The carrying value of CHS Capital notes receivable approximates fair value, given their short duration and the use of market pricing adjusted for risk. The notes receivable from commercial borrowers are collateralized by various combinations of mortgages, personal property, accounts and notes receivable, inventories and assignments of certain regional cooperative’s capital stock. These loans are primarily originated in the states of Minnesota, Wisconsin, North Dakota and Michigan. CHS Capital also has loans receivable from producer borrowers which are collateralized by various combinations of growing crops, livestock, inventories, accounts receivable, personal property and supplemental mortgages. In addition to the short-term amounts included in the table above, CHS Capital had long-term notes receivable with durations of not more than 10 years of $157.4 million and $159.7 million at November 30, 2014 and August 31, 2014, respectively. The long-term notes receivable are included in other assets on our Consolidated Balance Sheets. As of November 30, 2014 and August 31, 2014 the commercial notes represented 57% and 46%, respectively, and the producer notes represented 43% and 54%, respectively, of the total CHS Capital notes receivable.

CHS Capital evaluates the collectability of both commercial and producer notes on a specific identification basis, based on the amount and quality of the collateral obtained, and records specific loan loss reserves when appropriate. A general reserve is also maintained based on historical loss experience and various qualitative factors. In total, our specific and general loan loss reserves related to CHS Capital are not material to our consolidated financial statements, nor are the historical write-offs. The accrual of interest income is discontinued at the time the loan is 90 days past due unless the credit is well-collateralized and in process of collection. The amount of CHS Capital notes that were past due was not material at any reporting date presented.

CHS Capital has commitments to extend credit to a customer as long as there is no violation of any condition established in the contract. As of November 30, 2014, CHS Capital's customers have additional available credit of $899.9 million.

Table of Contents

Note 3 Inventories

	November 30, 2014	August 31, 2014
	(Dollars in thousands)	
Grain and oilseed	$1,749,134	$961,327
Energy	891,913	875,719
Crop nutrients	377,039	374,023
Feed and farm supplies	545,191	448,454
Processed grain and oilseed	81,890	84,498
Other	14,806	16,232
Total inventories	$3,659,973	$2,760,253

As of November 30, 2014, we valued approximately 12% of inventories, primarily related to Energy, using the lower of cost, determined on the LIFO method, or market (16% as of August 31, 2014). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by $359.5 million and $538.7 million at November 30, 2014 and August 31, 2014, respectively. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs, and are subject to the final year-end LIFO inventory valuation.

Note 4 Investments

As of August 31, 2014, we owned 84.0% of NCRA and with the closing purchases in September 2014, our ownership increased to 88.9%. In fiscal 2012, we entered into an agreement to purchase the remaining shares of NCRA from Growmark Inc. and MFA Oil Company in separate closings to be held annually through fiscal 2016. Pursuant to this agreement, we made payments during the three months ended November 30, 2014 and 2013 of $66.0 million and $66.0 million, respectively. The present value of the remaining payments is included as mandatorily redeemable noncontrolling interest on our Consolidated Balance Sheets. In addition to these payments, we paid $16.5 million during the three months ended November 30, 2013 related to the associated crack spread contingent liability. The fair value of the remaining contingent liability was $86.5 million as of November 30, 2014.

Equity Method Investments

Joint ventures and other investments, in which we have significant ownership and influence, but not control, are accounted for in our consolidated financial statements using the equity method of accounting. Our significant equity method investments are summarized below.

In fiscal 2014, we formed Ardent Mills LLC (Ardent Mills), a joint venture with Cargill Incorporated (Cargill) and ConAgra Foods, Inc., which combines the North American flour milling operations of the three parent companies, including the Horizon Milling, LLC and Horizon Milling G.P. (Horizon Milling) assets and CHS-owned mills, with CHS holding a 12% interest in Ardent Mills. Prior to closing, we contributed $32.8 million to Horizon Milling to pay off existing debt as a pre-condition to close. Upon closing, Ardent Mills was financed with funds from third-party borrowings, which did not require credit support from the owners. We received $121.2 million of cash proceeds distributed to us in proportion to our ownership interest, adjusted for deviations in specified working capital target amounts, and recognized a gain of $109.2 million associated with this transaction. In connection with the closing, the parties also entered into various ancillary and non-compete agreements including, among other things, an agreement for us to supply Ardent Mills with certain wheat and durum products. As we hold one of the five board seats, we account for Ardent Mills as an equity method investment included in Corporate and Other. As of November 30, 2014, the carrying value of our investment in Ardent Mills was $206.5 million.

We have 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 Corporate and Other. We account for Ventura Foods as an equity method investment, and as of November 30, 2014, our carrying value of Ventura Foods exceeded our share of their equity by $12.9 million, which represents equity method goodwill. As of November 30, 2014, the carrying value of our investment in Ventura Foods was $327.6 million.

TEMCO, LLC (TEMCO) is owned and governed by Cargill (50%) and CHS (50%). Both partners have committed to sell all of their feedgrains, wheat, oilseeds and by-product origination that are tributary to the Pacific Northwest, United States

Table of Contents

(Pacific Northwest) to TEMCO and to use TEMCO as their exclusive export-marketing vehicle for such grains exported through the Pacific Northwest through January 2037. We account for TEMCO as an equity method investment included in our Ag segment. As of November 30, 2014, the carrying value of our investment in TEMCO was $62.9 million.

Other Short-Term Investments

As of November 30, 2014, we have invested $315.0 million of the proceeds from the September Class B Series 3 Preferred Stock issuance (see Note 7, Equities for additional information) in time deposits with original maturities of six and nine months with select highly-rated financial institution counterparties. These short-term investments are included in other current assets on our Consolidated Balance Sheet.

Note 5 Goodwill and Other Intangible Assets

Goodwill of $157.1 million and $158.7 million on November 30, 2014 and August 31, 2014, respectively, is included in other assets on our Consolidated Balance Sheets. Changes in the net carrying amount of goodwill for the three months ended November 30, 2014, by segment, are as follows:

	Energy	Ag	Corporate and Other	Total
	(Dollars in thousands)			
Balances, August 31, 2014	$552	$151,246	$6,898	$158,696
Goodwill acquired during the period	—	388	—	388
Effect of foreign currency translation adjustments	—	(2,025)	—	(2,025)
Balances, November 30, 2014	$552	$149,609	$6,898	$157,059

Intangible assets subject to amortization primarily include customer lists, trademarks and agreements not to compete, and are amortized over their respective useful lives (ranging from 2 to 30 years). Information regarding other intangible assets included in other assets on our Consolidated Balance Sheets is as follows:

	November 30, 2014			August 31, 2014		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	(Dollars in thousands)					
Customer lists	$70,153	$ (27,280)	$42,873	$69,862	$ (26,114)	$43,748
Trademarks and other intangible assets	41,386	(30,208)	11,178	41,293	(29,587)	11,706
Total intangible assets	$111,539	$ (57,488)	$54,051	$111,155	$ (55,701)	$55,454

Total amortization expense for intangible assets during the three months ended November 30, 2014 and 2013, was $1.8 million and $2.3 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years is as follows:

	(Dollars in thousands)
Year 1	$7,018
Year 2	6,533
Year 3	4,706
Year 4	3,635
Year 5	3,282

9

Table of Contents

Note 6 Notes Payable and Long-Term Debt

Our notes payable and long-term debt are subject to various restrictive requirements for maintenance of minimum consolidated net worth and other financial ratios. We were in compliance with our debt covenants as of November 30, 2014.

	November 30, 2014	August 31, 2014
	(Dollars in thousands)	
Notes payable	$896,342	$840,699
CHS Capital notes payable	396,974	318,774
Total notes payable	$1,293,316	$1,159,473

On November 30, 2014, our primary line of credit was a five-year revolving facility with a committed amount of $2.5 billion. We had no amounts outstanding as of November 30, 2014 and August 31, 2014.

Interest, net for the three months ended November 30, 2014 and 2013 is as follows:

	For the Three Months Ended November 30,	
	2014	2013
	(Dollars in thousands)	
Interest expense	$21,036	$23,519
Interest-purchase of NCRA noncontrolling interests	14,068	11,124
Capitalized interest	(11,905)	(2,265)
Interest income	(2,598)	(1,593)
Interest, net	$20,601	$30,785

Note 7 Equities

Preferred Stock

In June 2014, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC). Under the shelf registration, which has been declared effective by the SEC, we may offer and sell, from time to time, up to $2.0 billion of our Class B cumulative redeemable preferred stock over a three-year period. In September 2014, we issued 19,700,000 shares of Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 3 (Class B Series 3 Preferred Stock) with a total redemption value of $492.5 million, excluding accumulated dividends. Net proceeds from the sale of our Class B Series 3 Preferred Stock, after deducting the underwriting discount and offering expenses payable by us, were approximately $476.8 million. The Class B Series 3 Preferred Stock is listed on the NASDAQ Stock Market LLC under the symbol CHSCM and accumulates dividends at a rate of 6.75% per year to, but excluding, September 30, 2024, and at a rate equal to the three-month LIBOR plus 4.155%, not to exceed 8.00% per annum thereafter, which are payable quarterly. Our Class B Series 3 Preferred Stock may be redeemed at our option beginning September 30, 2024.

Table of Contents

Changes in Equities

Changes in equities for the three months ended November 30, 2014 are as follows:

	Equity Certificates							
	Capital Equity Certificates	Nonpatronage Equity Certificates	Nonqualified Equity Certificates	Preferred Stock	Accumulated Other Comprehensive Loss	Capital Reserves	Noncontrolling Interests	Total Equities
	(Dollars in thousands)							
Balances, August 31, 2014	$3,508,473	$23,256	$284,699	$1,190,177	$(156,757)	$1,598,660	$18,336	$6,466,844
Reversal of prior year redemption estimates	2,591	—	—	—	—	—	—	2,591
Distribution of 2014 patronage refunds	1,027	—	—	—	—	(1,582)	—	(555)
Redemptions of equities	(2,565)	(25)	(1)	—	—	—	—	(2,591)
Equities issued	12,075	—	—	476,453	—	—	—	488,528
Preferred stock dividends	—	—	—	—	—	(29,504)	—	(29,504)
Distributions to noncontrolling interests	—	—	—	—	—	—	(102)	(102)
Other, net	4	—	—	—	—	11	(6,163)	(6,148)
Net income	—	—	—	—	—	378,703	(372)	378,331
Other comprehensive income (loss), net of tax	—	—	—	—	(1,087)	—	—	(1,087)
Estimated 2015 cash patronage refunds	—	—	—	—	—	(109,300)	—	(109,300)
Estimated 2015 equity redemptions	(28,500)	—	—	—	—	—	—	(28,500)
Balances, November 30, 2014	$3,493,105	$23,231	$284,698	$1,666,630	$(157,844)	$1,836,988	$11,699	$7,158,507

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component, net of tax, were as follows for the three months ended November 30, 2014:

	Pension and Other	Unrealized Net Gain on	Cash Flow Hedges	Foreign Currency	Total

	Postretirement Benefits	Available for Sale Investments		Translation Adjustment	
	(Dollars in thousands)				
Balance as of August 31, 2014	$(151,852)	$4,398	$(2,722)	$(6,581)	$(156,757)
Current period other comprehensive income (loss), net of tax	348	630	(368)	(5,206)	(4,596)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	3,383	—	126	—	3,509
Net other comprehensive income (loss), net of tax	3,731	630	(242)	(5,206)	(1,087)
Balance as of November 30, 2014	$(148,121)	$5,028	$(2,964)	$(11,787)	$(157,844)

Amounts reclassified from accumulated other comprehensive income (loss) were primarily related to pension and other postretirement benefits and were recorded to net income. Pension and other postretirement reclassifications include amortization of net actuarial loss, prior service credit and transition amounts as disclosed in Note 8, Benefit Plans.

Table of Contents

Note 8 Benefit Plans

We have various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. We also have non-qualified supplemental executive and Board retirement plans.

Components of net periodic benefit costs for the three months ended November 30, 2014 and 2013 are as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2014	2013	2014	2013	2014	2013
Components of net periodic benefit costs for the three months ended November 30 are as follows:	(Dollars in thousands)					
Service cost	$9,058	$7,467	$225	$179	$472	$482
Interest cost	7,014	6,698	352	336	415	519
Expected return on assets	(12,438)	(12,734)	—	—	—	—
Prior service cost (credit) amortization	407	399	57	57	(30)	(30)
Actuarial (gain) loss amortization	4,901	4,644	261	227	(105)	—
Transition amount amortization	—	—	—	—	—	124
Net periodic benefit cost	$8,942	$6,474	$895	$799	$752	$1,095

Employer Contributions

Total contributions to be made during fiscal 2015, including the NCRA plan, will depend primarily on market returns on the pension plan assets and minimum funding level requirements. During the three months ended November 30, 2014, CHS and NCRA made no contributions to the pension plans. At this time, we do not anticipate having to make a required contribution for our benefit plans in fiscal 2015, but we may make a voluntary contribution during our fourth quarter.

Note 9 Segment Reporting

We have aligned our segments based on an assessment of how our businesses are operated and the products and services they sell.

Our Energy segment produces and provides primarily for the wholesale distribution of petroleum products and transportation of those products. Our Ag segment purchases and further processes or resells grains and oilseeds originated by our country operations business, by our member cooperatives and by third parties, and also serves as a wholesaler and retailer of crop inputs. Corporate and Other primarily represents our non-consolidated wheat milling and packaged food joint ventures, as well as our business solutions operations, which consist of commodities hedging, insurance and financial services related to crop production.

Corporate administrative expenses are allocated to each business segment, and Corporate and Other, based on direct usage for services that can be tracked, such as information technology and legal, and other factors or considerations relevant to the costs incurred.

Prior to fiscal 2015, our renewable fuels marketing business was included in our Energy segment and our renewable fuels production business was included in our Ag segment. Effective in the first quarter of fiscal 2015, we reorganized certain parts of our business to better align our ethanol supply chain. As a result, our renewable fuels marketing business is now managed together with our renewable fuels production business within our Ag segment. In accordance with Accounting Standards Codification (ASC) Topic 280, Segment Reporting, we have identified our operating segments to reflect the manner in which our chief operating decision maker evaluates performance and manages the business, and we have aggregated those operating segments into our reportable Energy and Ag segments. Prior period segment information below has been revised to reflect this change to ensure comparability.

Many of our business activities are highly seasonal and operating results will vary throughout the year. Historically, our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. For example, in our Ag segment, agronomy and country operations businesses experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Also in our Ag segment, our grain marketing operations are subject to fluctuations in volumes and earnings based on producer harvests, world grain prices and demand. Our Energy segment

Table of Contents

generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds, crop nutrients and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can affect revenues and operating earnings. Commodity prices are affected by a wide range of factors beyond our control, including the weather, crop damage due to disease or insects, the availability and adequacy of supply, government regulations and policies, world events, and general political and economic conditions.

While our revenues and operating results are derived from businesses and operations which are wholly-owned and majority-owned, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. In our Ag segment, this principally includes our 50% ownership in TEMCO. In Corporate and Other, these investments principally include our 50% ownership in Ventura Foods and our 12% ownership in Ardent Mills.

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

Table of Contents

Segment information for the three months ended November 30, 2014 and 2013 is as follows:

	Energy	Ag	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended November 30, 2014:	(Dollars in thousands)				
Revenues	$3,018,453	$6,636,975	$18,993	$(174,953)	$9,499,468
Cost of goods sold	2,699,370	6,384,332	(4)	(174,953)	8,908,745
Gross profit	319,083	252,643	18,997	—	590,723
Marketing, general and administrative	33,368	103,877			