CHS INC
Form 10-K/A
January 30, 2004

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A-3

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE1 FISCAL YEAR ENDED AUGUST 31, 2002 OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______ TO _______.

COMMISSION FILE NUMBER: 0-50150

CHS INC.
(Exact name of registrant as specified in its charter)

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-0251095 (I.R.S. Employer Identification Number)
5500 CENEX DRIVE INVER GROVE HEIGHTS, MINNESOTA 55077 (Address of principal executive office)	(651) 355-6000 (Registrant's Telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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 __|X|__ NO ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: Not applicable

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

YES _____ NO __|X|__

State the aggregate market value of the voting stock held by non-affiliates of the registrant: The registrant has no voting stock outstanding.

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.

DOCUMENTS INCORPORATED BY REFERENCE

None.

CHS INC.

EXPLANATORY NOTE

This Amendment No. 3 on Form 10-K/A amends the Registrant's Annual Report on Form 10-K for the fiscal year ended August 31, 2002, and is being filed solely to amend Item 8 of the Annual Report to identify the auditor associated with the audit report appearing on page F-27. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Registrant is including with this Amendment certain currently dated certifications in Item 15(a)(3). No other changes have been made to the Annual Report. This Form 10-K/A does not modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the amendments discussed above and reflected below.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Item 8 is hereby amended to identify the auditor associated with the audit report appearing on page F-27 of the Company's consolidated financial statements for the years ended August 31, 2002, 2001 and 2000. The Company's consolidated financial statements which are included in this Form 10-K/A-3 following the signatures, are hereby incorporated by reference in this Item 8.

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS FILED ON FORM 8-K

(a)(1) FINANCIAL STATEMENTS

The following financial statements and the Reports of Independent Accountants are filed as part of this Form 10-K/A-3.

(a)(3) EXHIBITS

Item 15(a)(3) is amended to add the following exhibits:

23.1	Independent Auditors' Consent
23.2	Independent Auditors' Consent
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.

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.

CHS Inc.

By: /s/ JOHN SCHMITZ
John Schmitz
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

Date: January 30, 2004

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2002 AND 2001

	2002	2001
	(DOLLARS IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 108,192	$ 113,458
Receivables	741,578	686,140
Inventories	759,663	510,443
Other current assets	140,944	60,995
Total current assets	1,750,377	1,371,036
Investments	496,607	467,953
Property, plant and equipment	1,057,421	1,023,872
Other assets	177,322	194,458
TOTAL ASSETS	$3,481,727	$3,057,319
LIABILITIES AND EQUITIES		
CURRENT LIABILITIES:		
Notes payable	$ 332,514	$ 97,195
Current portion of long-term debt	89,032	17,754
Customer credit balances	26,461	38,486
Customer advance payments	169,123	109,135
Checks and drafts outstanding	84,251	87,808
Accounts payable	517,667	495,198
Accrued expenses	225,704	148,026
Patronage dividends and equity retirements payable	56,510	72,154
Total current liabilities	1,501,262	1,065,756
Long-term debt	483,092	542,243
Other liabilities	118,280	99,906
Minority interests in subsidiaries	89,455	88,261
Commitments and contingencies		
Equities	1,289,638	1,261,153
TOTAL LIABILITIES AND EQUITIES	$3,481,727	$3,057,319

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED AUGUST 31,

	2002 Restated (Note 16)	2001 Restated (Note 16)	2000 Restated (Note 16)
	(DOLLARS IN THOUSANDS)		
REVENUES:			
Net sales	$7,156,454	$7,464,242	$8,248,413
Patronage dividends	3,885	5,977	5,494
Other revenues	109,459	116,254	97,471
	7,269,798	7,586,473	8,351,378
Cost of goods sold	6,937,956	7,181,433	8,051,057
Marketing, general and administrative	187,292	184,046	155,266
Operating earnings	144,550	220,994	145,055
Interest	42,455	61,436	57,566
Equity income from investments	(58,133)	(28,494)	(28,325)
Minority interests	15,390	35,098	24,546
INCOME BEFORE INCOME TAXES	144,838	152,954	91,268
INCOME TAXES	18,700	(25,600)	3,880
NET INCOME	$ 126,138	$ 178,554	$ 87,388
DISTRIBUTION OF NET INCOME:			
Patronage refunds	$ 92,900	$ 128,900	$ 87,400
Unallocated capital reserve	33,238	49,654	(12)
Net income	$ 126,138	$ 178,554	$ 87,388

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

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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED AUGUST 31, 2002, 2001 AND 2000

	CAPITAL EQUITY CERTIFICATES	NONPATRONAGE EQUITY CERTIFICATES
	(DOLLARS IN THO	
BALANCES, SEPTEMBER 1, 1999	$ 912,294	$28,785
Patronage and equity retirement determination	25,750	
Patronage distribution	41,182	
Equities retired	(28,615)	(82)
Equities issued	7,921	
Other, net	(178)	(194)
Comprehensive income:		
Net income		
Other comprehensive loss		
Total comprehensive income		
Patronage dividends and equity retirements payable	(17,474)	
BALANCES, AUGUST 31, 2000	940,880	28,509
Patronage and equity retirement determination	17,474	
Patronage distribution	60,304	
Equities retired	(18,662)	(74)
Equities issued	5,481	
Equity Participation Units issued		
Equity Participation Units redeemed		
Other, net	(120)	(277)
Comprehensive income:		
Net income		
Other comprehensive income		
Total comprehensive income		
Patronage dividends and equity retirements payable	(33,484)	
BALANCES, AUGUST 31, 2001	971,873	28,158
Patronage and equity retirement determination	33,484	
Patronage distribution	92,484	
Equities retired	(31,099)	(46)
Equities issued	2,600	
Preferred stock issued, net		
Preferred stock dividends		
Other, net	(106)	(339)
Comprehensive income:		
Net income		
Other comprehensive loss		
Total comprehensive income		
Patronage dividends and equity retirements payable	(28,640)	
BALANCES, AUGUST 31, 2002	$1,040,596	$27,773

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED AUGUST 31, 2002, 2001 AND 2000

OILSEED PROCESSING & REFINING EPUS	PATRONAGE REFUNDS	UNALLOCATED CAPITAL RESERVE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ALLOCATED CAPITAL RESERVE	TOT EQUI
		(DOLLARS IN THOUSANDS)			
$ 4,188	$ 40,250	$115,883	$ (1,170)	$8,148	$1,117
	17,250				43
	(57,500)	(1,588)			(17
					(28
					7
(6)		453		(28)	
	87,400	(12)			87
			(1,257)		(1

					86

	(26,220)				(43
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4,182	61,180	114,736	(2,427)	8,120	1,164
	26,220				43
	(87,400)	967			(26
					(18
					5
1,045		(1,045)			
(5,227)					(14
		445		(70)	
	128,900	49,654			178
			512		

					179

	(38,670)				(72
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--	90,230	164,757	(1,915)	8,050	1,261
	38,670				72
	(128,900)	(3,666)			(40
					(31
					2
		(3,428)			5
		(240)			
		100			
	92,900	33,238			126

			(49,982)		(49
					76
	(27,870)				(56
$ --	$ 65,030	$190,761	$ (51,897)	$8,050	$1,289

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31,

	2002	2001
		(DOLLARS IN T
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 126,138	$ 178,5
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	103,986	109,1
Noncash net income from equity investments	(58,133)	(28,4
Minority interests	15,390	35,0
Noncash portion of patronage dividends received	(2,327)	(3,8
(Gain) loss on sale of property, plant and equipment	(6,418)	(13,9
Deferred tax expense (benefit)	4,400	(46,6
Other, net	5,467	(8
Changes in operating assets and liabilities:		
Receivables	(32,881)	147,6
Inventories	(259,209)	37,5
Other current assets and other assets	(88,941)	(24,1
Customer credit balances	(12,025)	1,7
Customer advance payments	59,988	(22,8
Accounts payable and accrued expenses	93,802	(129,2
Other liabilities	9,079	13,0
Net cash (used in) provided by operating activities	(41,684)	252,8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(140,169)	(97,6
Proceeds from disposition of property, plant and equipment	20,205	35,2
Investments	(6,211)	(14,2
Equity investments redeemed	37,689	30,1
Investments redeemed	6,310	1,6
Changes in notes receivable	(22,031)	5
Acquisitions of intangibles	(29,501)	(7,3
Distribution to minority owners	(7,413)	(19,2
Other investing activities, net	(685)	1,7

Net cash used in investing activities	(141,806)	(69,0
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in notes payable	235,319	(120,7
Long-term debt borrowings	30,000	116,8
Principal payments on long-term debt	(17,968)	(67,3
Changes in checks and drafts outstanding	(3,557)	3,7
Proceeds from sale of preferred stock, net of expenses	5,897	
Preferred stock dividends paid	(240)	
Retirements of equity	(31,145)	(18,7
Equity Participation Units redeemed		(14,2
Cash patronage dividends paid	(40,082)	(26,1
Net cash provided by (used in) financing activities	178,224	(126,6
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,266)	57,0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	113,458	56,3
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 108,192	$ 113,4

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION -- Effective August 5, 2003, Cenex Harvest States Cooperatives changed its name to CHS, Inc. CHS, Inc. (CHS, Cenex Harvest States, CHS Cooperatives or the Company) is an agricultural cooperative organized for the mutual benefit of its members. Members of the cooperative are located throughout the United States. In addition to grain marketing, wheat milling, oilseed processing and refining and foods, the Company provides its patrons with energy and agronomy products as well as other farm supplies. Sales are both domestic and international.

Effective September 1, 2000, the Company's Board of Directors approved a resolution providing for the computation of patronage distributions based on earnings for financial statement purposes rather than federal income tax basis earnings. On December 1, 2000, this resolution was ratified by the Company's members, the by-laws were amended and beginning with fiscal year 2001 patronage distributions have been calculated based on financial statement earnings. The by-laws further provide that an amount of up to 10% of the distributable annual net savings from patronage sources be added to the unallocated capital reserve as determined by the Board of Directors.

CONSOLIDATION -- The consolidated financial statements include the accounts of CHS Cooperatives and all of its wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative

Refinery Association (NCRA). The effects of all significant intercompany transactions have been eliminated.

On September 1, 1999, NCRA and Farmland Industries, Inc. (Farmland) formed Cooperative Refining, LLC (CRLLC), which was established to operate and manage the refineries and related pipelines and terminals of NCRA and Farmland. On December 31, 2000, NCRA and Farmland signed an Agreement of Dissolution and dissolved CRLLC.

During 2000, the Company entered into a series of transactions, the result of which was the exchange of its agronomy operations, consisting primarily of its interests in and ownership of the Cenex/Land O'Lakes Agronomy Company and Agro Distribution, LLC and related entities for a 25% equity ownership interest in Agriliance, LLC (Agriliance). Agriliance is a distributor of crop nutrients, crop protection products and other agronomy inputs and services formerly owned by the Company, Land O'Lakes, Inc. (Land O'Lakes) and Farmland. The company accounts for the Agriliance investment under the equity method.

During 2002 and 2001, the Company had various other acquisitions, 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 and liabilities acquired based upon the estimated fair values. The excess purchase price over the estimated fair values of the net assets acquired has been reported as identifiable intangible assets and goodwill.

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

INVENTORIES -- Grain, processed grain, oilseed and processed oilseed 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) is 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.

DERIVATIVE FINANCIAL INSTRUMENTS -- The Company enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. 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 the Company's assessment of its

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exposure from expected price fluctuations. The Company also manages its 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 Company is exposed to loss in the event of nonperformance by the counterparties to the contracts. However, the Company does not anticipate nonperformance by counterparties.

Commodity trading in futures and options contracts is a natural extension of cash market trading. The commodity futures and options markets have underlying principles of increased liquidity and longer trading periods than the cash market, and hedging is one method of reducing exposure to price fluctuations. The Company's use of the derivative instruments described above reduces the effects of price volatility, thereby protecting against adverse short-term price movements while somewhat limiting the benefits of short-term price movements. Changes in market value of the derivative instruments described above are recognized in the consolidated statements of operations in the period such changes occur. The fair value of futures and options contracts are 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. At August 31, 2002, the Company's derivative assets and liabilities were $53.8 million and $67.9 million, respectively.

COMMODITY PRICE RISK. The Company utilizes futures and options contracts offered through regulated commodity exchanges to reduce risk. The Company is exposed to risk of loss in the market value of inventories and fixed or partially fixed purchase and sale contracts. So as to reduce that risk, the Company generally takes opposite and offsetting positions using future contracts or options. Certain commodities cannot be hedged with futures or options contracts because such contracts are not offered for these commodities by regulated commodity exchanges. Inventories and purchase contracts for those commodities are hedged with forward sales contracts, to the extent practical, so as to arrive at a net commodity position within the formal position limits set by the Company and deemed prudent for each of those commodities. Commodities for which future contracts and options are available are also typically hedged first in this manner, with futures and options used to hedge within position limits that portion not covered by forward contracts. These futures and options contracts and forward purchase and sales contracts used to hedge against price level change risks are effective economic hedges of specified risks, but they are not designated as and accounted for as hedging instruments for accounting purposes.

Unrealized gains and losses on futures contracts and options used as economic hedges of grain and oilseed inventories and fixed price contracts are recognized in cost of goods sold for financial reporting. Inventories and fixed price contracts are marked to market so that gains or losses on the derivative contracts are offset by gains or losses on inventories and fixed price contracts during the same accounting period.

Through August 31, 2000, unrealized gains and losses on futures contracts and options used to hedge energy inventories and fixed price contracts were deferred until such future contracts and options were closed. Effective September 1, 2000, those gains and losses are recognized as a component of net income for financial reporting. The inventories hedged with these derivatives are valued at lower of cost or market, and effective September 1, 2000, the fixed price contracts are marked to market. Some derivatives related to propane in the Energy segment meet the normal purchase and sales exemption, and thus are not required to be marked to fair value.

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

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTEREST RATE RISK. The Company manages interest expense using a mix of fixed and floating rate debt. These debt instruments are carried at amounts approximating estimated fair value. Short-term debt used to finance inventories and receivables is represented by notes payable within thirty days or less so that the blended interest rate to the Company for all such notes approximates current market rates. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates as to minimize the effect of market interest rate changes. The effective interest rate to the Company on fixed rate debt outstanding on August 31, 2002 was approximately 6.4%; a 10% adverse change in market rates would not materially affect the Company's results of operations, financial position or liquidity.

In August 2002, the Company entered into interest rate swap instruments related to private placement debt issued on October 18, 2002. These derivative instruments are designated and effective as cash flow hedges for accounting purposes, and the changes in the fair values of these instruments are recorded as a component of other comprehensive income. The Company expects to record operating losses through interest expense of $0.8 million during the year ended August 31, 2003 related to these derivative instruments.

FOREIGN CURRENCY RISK. The Company conducts essentially all of its business in U.S. dollars and had minimal risk regarding foreign currency fluctuations on August 31, 2002. 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.

The Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, as amended, related to the accounting for derivative transactions and hedging activities, effective September 1, 2000. The effect of the adoption did not have a material effect on the Company's earnings or financial position.

INVESTMENTS -- 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 at the time qualified written notices of allocation are received. 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 under the equity method of accounting. Investments in other debt and equity securities are considered available for sale financial instruments and are stated at market value, with unrealized amounts included as a component of accumulated other comprehensive income (loss).

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 periodically 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. 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.

GOODWILL AND OTHER INTANGIBLE ASSETS -- Effective September 1, 2001 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets." This statement discontinued the amortization of goodwill and indefinite-lived intangible assets, subject to periodic impairment testing. At August 31, 2001, goodwill (net of accumulated amortization) prior to the adoption of SFAS No. 142, was $29.2 million and was included as a component of other assets. The effect of adopting the new standard will reduce goodwill amortization expense by approximately $2.0 million annually. The Company has completed its transitional impairment testing and no changes to the carrying value of goodwill and other intangible assets were required as a result of the adoption of SFAS No. 142. Subsequent impairment testing will take place annually as well as when a triggering event indicating impairment may have occurred. In addition, the classification of the intangible assets was reviewed, along with the remaining useful lives of intangibles being amortized, and no changes were required.

The Company's net income, net of taxes, of retroactive application of the discontinuance of the amortization of goodwill as if SFAS No. 142 had been in effect during the years ended August 31, 2001 and 2000 would have been $181.1 million and $88.5 million, respectively. For the years ended August 31, 2001 and 2000, discontinued amortization expense of goodwill included in other assets would have been $1.9 million and $0.8 million, respectively, and included in equity investments would have been $0.7 million and $0.3 million, respectively.

REVENUE RECOGNITION -- Grain and oilseed sales are recorded at time of settlement. All other sales are recognized upon shipment and transfer of title to customers. Amounts billed to a customer in a sale transaction related to shipping and handling are included in sales. Country Operations segment services revenue and rebates are included in other revenues.

ENVIRONMENTAL EXPENDITURES -- Liabilities related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of these 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 considered probable. 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. 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, at each year end, 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.

In October 2001, members of NCRA ratified a resolution to compute patronage distributions based on earnings for financial statement purposes rather than amounts reportable for federal income tax purposes, and beginning with the year ended August 31, 2002, NCRA's patronage distributions have been calculated based on financial statement earnings.

COMPREHENSIVE INCOME -- The Company accounts for comprehensive income (defined as the change in equity of a business enterprise during a period from sources other than those resulting from investments by owners and distribution to owners) in accordance with Financial Accounting Standards Board (FASB) SFAS No. 130, "Reporting Comprehensive Income." At August 31, 2002, comprehensive income for the Company primarily includes net income and the effects of minimum pension liability adjustments. Total comprehensive income is reflected in the consolidated statements of equities and comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 -- The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this statement does not have a material affect on the Company.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 retains and expands upon the fundamental provisions of existing guidance related to the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Generally, the provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement does not have a material affect on the Company.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144. The costs addressed in SFAS No. 146 include, but are not limited to, termination benefits, costs to terminate a contract that is not a capital lease and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

RECLASSIFICATIONS -- Certain amounts in the 2001 financial statements have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported net income, equities and comprehensive income, or cash flows.

2. RECEIVABLES

Receivables as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Trade	$717,888	$682,593
Other	49,846	28,864
	767,734	711,457
Less allowances for doubtful accounts	26,156	25,317
	$741,578	$686,140

2. RECEIVABLES (CONTINUED)

All international sales are denominated in U.S. dollars. International sales for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Africa	$ 135	$ 138	$ 191

Asia	407	403	552
Europe	282	255	304
North America	298	317	324
South America	100	101	119
	$1,222	$1,214	$1,490

3. INVENTORIES

Inventories as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Grain and oilseed	$393,095	$237,498
Energy	229,981	163,710
Feed and farm supplies	91,138	76,570
Processed grain and oilseed	36,264	28,648
Other	9,185	4,017
	$759,663	$510,443

As of August 31, 2002, the Company valued approximately 26% of inventories, primarily related to energy, using the lower of cost, determined on the LIFO method, or market (28% as of August 31, 2001). If the FIFO method of accounting for these inventories had been used, inventories would have been higher than the reported amount by $40.5 million and $34.0 million at August 31, 2002 and 2001, respectively.

4. INVESTMENTS

Investments as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Cooperatives:		
CF Industries, Inc.	$152,996	$152,996
National Bank for Cooperatives (CoBank)	30,069	33,080
Ag Processing, Inc.	25,797	24,967
Land O'Lakes, Inc.	26,232	24,604
Joint ventures:		
Ventura Foods, LLC	108,981	101,089
United Country Brands, LLC	86,175	74,457
Tacoma Export Marketing Company	8,414	11,638
Other	57,943	45,122
	$496,607	$467,953

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENTS (CONTINUED)

In March 2000, the Company purchased an additional 10% interest in Ventura Foods, LLC, its consumer products and packaging joint venture, for $25.6 million, of which $13.8 million was goodwill. The Company has a 50% interest in this joint venture. The following provides summarized information for Ventura Foods, LLC, balance sheets as of August 31, 2002 and 2001 and statements of operations for the twelve months ended August 31, 2002, 2001 and 2000:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Current assets	$171,084	$159,062
Non-current assets	231,045	221,000
Current liabilities	133,230	114,883
Non-current liabilities	90,819	104,144

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Net sales	$1,013,475	$925,962	$896,941
Gross profit	181,217	161,405	143,394
Net income	75,368	71,148	55,115

Effective January 1, 2000, CHS Cooperatives, Farmland and Land O'Lakes created Agriliance, a distributor of crop nutrients, crop protection products and other agronomy inputs and services. At formation, Agriliance managed the agronomy marketing operations of CHS Cooperatives, Farmland and Land O'Lakes, with the Company exchanging the right to use its agronomy operations for 26.455% of the results of the jointly managed operations.

In March 2000, the Company sold 1.455% of its economic interest in Agriliance to Land O'Lakes, resulting in a gain of $7.4 million. On July 31, 2000, the Company exchanged its ownership interest in the Cenex/Land O'Lakes Agronomy Company and in Agro Distribution, LLC, with a total investment of $64.7 million, for a 25% equity interest in Agriliance. Agriliance ownership also includes Farmland (25%) and Land O'Lakes (50%). The interests of the Company and Farmland are held through equal ownership in United Country Brands, LLC, a joint venture holding company whose sole operations consist of the ownership of a 50% interest in Agriliance. Equity in the joint venture was recorded at historical carrying value of its ownership in Cenex/Land O'Lakes Agronomy Company and Agro Distribution, LLC and no gain or loss was recorded on the exchange. In July 2000, Agriliance secured its own financing, which is without recourse to the Company. Also in July 2000, Agriliance purchased the net working capital related to agronomy operations from each of its member owners, consisting primarily of trade accounts receivable and inventories, net of accounts payable.

The following provide summarized information for Agriliance balance sheets as of August 31, 2002 and 2001 and statements of operations for the years ended August 31, 2002 and 2001:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Current assets	$922,958	$956,496
Non-current assets	134,247	158,107

Current liabilities	700,903	802,341
Non-current liabilities	107,960	110,964

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENTS (CONTINUED)

	2002	2001
	(DOLLARS IN THOUSANDS)	
Net sales	$3,625,849	$4,072,248
Earnings from operations	57,604	50,423
Net income	47,044	25,053

The Company's contribution of its equity interest in Agriliance occurred on July 31, 2000, and as such, net sales, gross profits and net income for the one month ended August 31, 2000 have been excluded from the above summarized information of statements of operations, as they were not material.

Disclosure of the fair value of financial instruments to which the Company is a party includes estimates and assumptions which may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Financial instruments are carried at amounts that approximate estimated fair value. Investments in cooperatives and joint ventures have no quoted market prices and, as such, it is not practicable to estimate their fair value.

Various agreements with other owners of investee companies and a majority-owned subsidiary set out parameters whereby CHS Cooperatives 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.

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of August 31, 2002 and 2001 is as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Land and land improvements	$ 63,045	$ 55,092
Buildings	371,107	348,081
Machinery and equipment	1,470,475	1,434,598
Office and other	62,144	56,740
Construction in progress	71,540	38,723
	2,038,311	1,933,234
Less accumulated depreciation and amortization	980,890	909,362
	$1,057,421	$1,023,872

In January 2002, the Company formed a limited liability company (LLC) with Cargill, Incorporated to engage in wheat flour milling and processing. The Company holds a 24% interest in the entity, which is known as Horizon Milling, LLC (Horizon). The Company is leasing its wheat milling facilities and related equipment to Horizon under operating lease agreements. The book value of the leased milling assets at August 31, 2002 was $104.9 million, net of accumulated depreciation of $25.3 million.

For the years ended August 31, 2002, 2001 and 2000, the Company capitalized interest of $2.1 million, $1.2 million and $2.7 million, respectively, related to long-term construction projects.

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CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER ASSETS

Other assets as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS	
Goodwill	$ 27,926	$ 29,15
Non-compete covenants, less accumulated amortization of $2,896 and $1,329, respectively	11,204	1,76
Customer lists, less accumulated amortization of $3,511 and $1,946, respectively	8,447	8,09
Other intangible assets, less accumulated amortization of $2,462 and $1,513, respectively	15,795	23
Prepaid pension and other benefit assets	54,230	100,72
Deferred tax asset	50,544	44,31
Notes receivable	4,822	5,62
Other	4,354	4,53
	$177,322	$194,45

Intangible assets subject to amortization are amortized on a straight-line basis over the number of years that approximate their respective useful lives (ranging from 2 to 15 years). The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefit obtained by the Company in each reporting period. Amortization expense for the year ended August 31, 2002 was $4.2 million. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate $4.0 million annually.

Through Country Energy, LLC, formerly a joint venture with Farmland, the Company marketed refined petroleum products including gasoline, diesel fuel, propane and lubricants under the Cenex brand. On November 30, 2001, the Company purchased the wholesale energy business of Farmland, as well as all interest in Country Energy, LLC. Based on estimated fair values, $26.4 million of the purchase price was allocated to intangible assets, primarily trademarks, tradenames and non-compete agreements. The intangible assets have a weighted-average life of approximately 12 years. The Company also entered into an exclusive two-year supply agreement to purchase, at prevailing market prices, all of the refined fuels production from Farmland's Coffeyville, Kansas facility.

7. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt as of August 31, 2002 and 2001 consisted of the following:

	INTEREST RATES AT AUGUST 31, 2002	2002	
		(DOLLARS IN THOUS	
Notes payable (a)(g)	2.32% to 2.78%	$332,514	$ 9
Long-term debt:			
Revolving term loans from cooperative and other banks, payable in installments through 2009, when the balance is due (b)(c)(g)	2.16% to 13.00%	$254,962	$23
Private placement, payable in equal installments beginning in 2008 through 2013 (d)(g)	6.81%	225,000	22
Private placement, payable in equal installments beginning in 2005 through 2011 (e)(g)	7.43% to 7.90%	80,000	8
Industrial Revenue Bonds, payable in installments through 2011 (f)	5.23% to 12.97%	7,444	1
Other notes and contracts	4.00% to 14.00%	4,718	
Total long-term debt		572,124	55
Less current portion		89,032	1
Long-term portion		$483,092	$54

Weighted average interest rates at August 31:

	2002	2001
Short-term debt	2.58%	4.18%
Long-term debt	6.38%	6.91%

(a) The Company finances its working capital needs through short-term lines of credit with a syndication of banks. The Company has a 364-day credit facility of $550.0 million, all of which is committed, and of which $332.0 million was outstanding on August 31, 2002. In addition to this short-term line of credit, the Company has a 364-day credit facility dedicated to NCRA with a syndication of banks in the amount of $30.0 million, all of which is committed, with no amounts outstanding on August 31, 2002. Other miscellaneous notes payable totaled $0.5 million at August 31, 2002.

(b) The Company established a $200.0 million five-year revolving credit facility with a syndication of banks. On August 31, 2002, the Company had an outstanding balance of $75.0 million.

(c) The Company established a long-term credit agreement which committed $200.0 million of long-term borrowing capacity to the Company through May 31, 1999, of which $164.0 million was drawn before the expiration date of that commitment. On August 31, 2002, $144.3 million was outstanding. NCRA term loans of $18.0 million are collateralized by NCRA's investment in CoBank.

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

(e) 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. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility.

7. NOTES PAYABLE AND LONG-TERM DEBT (CONTINUED)

(f) Industrial Revenue Bonds in the amount of $2.7 million are collateralized by property, plant and equipment, primarily energy refinery equipment, with a cost of approximately $152.0 million, less accumulated depreciation of approximately $115.2 million on August 31, 2002.

(g) Restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios.

The fair value of long-term debt approximates book value as of August 31, 2002 and 2001.

The aggregate amount of long-term debt payable as of August 31, 2002 is as follows (dollars in thousands):

2003	$ 89,032
2004	15,079
2005	34,511
2006	34,938
2007	41,709
Thereafter	356,855
	$572,124

On October 18, 2002, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $175.0 million, which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and will be repaid in equal semi-annual installments of approximately $8.8 million during the years 2007 through 2013. The second series of $60.0 million has an interest rate of 5.60% and will be repaid in equal semi-annual installments of approximately $4.6 million during fiscal years 2012 through 2018. The proceeds were used to pay down the Company's short-term debt.

8. INCOME TAXES

As a result of the Company's by-law changes during 2001, and the by-law changes of its majority-owned subsidiary (NCRA) in 2002, to distribute patronage based on financial statement earnings (see Note 1), the statutory rate applied to the cumulative differences between financial statement earnings and tax basis earnings, has been changed. In connection with this change the Company recorded a deferred tax benefit of $10.9 million as of August 31, 2002 and $34.2 million as of August 31, 2001. The $10.9 million deferred tax benefit recorded as a result of the change in patronage distribution by NCRA as of August 31, 2002 has been offset by a $10.9 million NCRA valuation allowance. An additional $6.2 million of deferred tax benefit generated by NCRA was also offset by a valuation allowance.

The provision for income taxes for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Current	$ 14,300	$ 21,025	$4,347
Deferred	(12,700)	(49,025)	(467)
Valuation allowance	17,100	2,400	
Income taxes	$ 18,700	$ (25,600)	$3,880

8. INCOME TAXES (CONTINUED)

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of August 31, 2002 and 2001 is as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Deferred tax assets:		
Accrued expenses and valuation reserves	$ 49,236	$ 42,704
Postretirement health care and deferred compensation	32,671	24,842
Property, plant and equipment	11,532	9,570

Alternative minimum tax credit and patronage loss carryforward	6,993	4,540
Other	12,439	12,885
Total deferred tax assets	112,871	94,541
Deferred tax liabilities:		
Pension, including minimum liability	2,635	9,536
Equity method investments	20,482	27,893
Other	730	1,314
Total deferred tax liabilities	23,847	38,743
Deferred tax assets valuation reserve	(19,466)	(2,400)
Net deferred tax asset	$ 69,558	$ 53,398

As of August 31, 2002, net deferred tax assets of $19.0 million and $50.5 million are included in current assets and other assets, respectively ($9.1 million and $44.3 million, respectively, as of August 31, 2001). At August 31, 2002, NCRA recognized a valuation allowance for the entire tax benefit associated with its net deferred tax assets, as it is considered more likely than not, based on the weight of available information, that the future tax benefits related to these items will not be realized. At August 31, 2002, NCRA's net deferred tax assets of approximately $19.5 million were comprised of deferred tax assets of $23.4 million and deferred tax liabilities of $3.9 million. Deferred tax assets are comprised of basis differences related to inventories, investments, lease obligations, accrued liabilities and certain federal and state tax credits. NCRA files a separate tax return and, as such, these items must be assessed independently of the Company's deferred tax assets when determining recoverability. At August 31, 2001, NCRA also recorded a valuation allowance of $2.4 million to account for uncertainties regarding the recoverability of certain state tax credits.

The reconciliation of the statutory federal income tax rate to the effective tax rate for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001
Statutory federal income tax rate	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	3.9	3.9
Patronage earnings	(25.0)	(32.8)
Tax effect of changes in deferred patronage		
Change in patronage determination	(7.5)	(22.4)
Export activities at rates other than the U.S. statutory rate	(1.9)	
Deferred tax asset valuation allowance	11.8	1.6
Rate changes on deferred tax assets and liabilities		
Other	(3.4)	(2.0)
Effective tax rate	12.9%	(16.7)%

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. INCOME TAXES (CONTINUED)

The principal differences between financial statement income and taxable income for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Income before income taxes	$ 144,838	$ 152,954	$ 91,268
Financial reporting/tax differences:			
Environmental reserves	1,939	4,453	(728)
Oil and gas activities, net	1,540	(22,230)	2,600
Energy inventory market reserves	(933)	(2,441)	(19)
Pension and compensation	(21,491)	8,981	
Investments in other entities	1,898	26,495	
Export activities	(7,141)		
Other, net	(2,291)	10,038	3,255
Patronage refund provisions	(92,900)	(128,900)	(87,400)
Taxable income	$ 25,459	$ 49,350	$ 8,976

9. EQUITIES

In accordance with the by-laws and by action of the Board of Directors, annual net savings from patronage sources are distributed to consenting patrons following the close of each 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.

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

Inactive direct members and patrons and active direct members and patrons age 61 and older on June 1, 1998 are eligible for redemption of their capital equity certificates at age 72 or death. For other active direct members and patrons and member cooperatives, equities will be redeemed annually as determined by the Board of Directors.

On May 31, 1997, the Company completed an offering for the sale of Equity Participation Units (EPUs) in its Wheat Milling Defined Business Unit and its Oilseed Processing and Refining Defined Business Unit to qualified subscribers. Qualified subscribers were identified as Defined Members or representatives of Defined Members who were persons or associations of producers actually engaged in the production of agricultural products. Subscribers were allowed to purchase a portion of their EPUs by exchanging existing patronage certificates. The purchasers of EPUs had the right and obligation to deliver annually the number of bushels of wheat or soybeans equal to the number of units held. Unit holders participated in the net patronage-sourced income from operations of the applicable Defined Business Unit as patronage refunds. Retirements of patrons' equities attributable to EPUs, were at the discretion of the Board of Directors, and it was the Board's goal to retire such equity on a revolving basis seven years after declaration.

During 2001, the Company's Board of Directors adopted a resolution to issue, at no charge, to each Defined Member of the Oilseed Processing and Refining Defined Business Unit an additional 1/4 EPU, for each EPU held, due to increased crush volume.

In August 2001, the CHS Cooperatives Board of Directors approved and consummated a plan to end the Defined Investment Program. The Company redeemed all of the EPUs and allocated the assets

9. EQUITIES (CONTINUED)

of the Oilseed Processing and Refining and Wheat Milling Defined Business Units to the Company as provided in the plan. The amounts redeemed to the Oilseed Processing and Refining and Wheat Milling Defined Member EPU holders were $5.2 million and $9.1 million, respectively. Due to loss carry-forwards incurred by the Wheat Milling Defined Business Unit, the plan also provided for the cancellation of all outstanding Preferred Capital Certificates issued to the Wheat Milling EPU holders, totaling $0.2 million. The plan further provided to the Oilseed Processing and Refining Defined Member EPU holders for the redemption of all outstanding Preferred Capital Certificates issued of $0.2 million and a 100% cash distribution during 2002 for the patronage refunds earned for the fiscal year ended August 31, 2001.

The Board of Directors has authorized the sale and issuance of up to 50,000,000 shares of 8% Preferred Stock at a price of $1.00 per share. The Company filed a registration statement on Form S-2 with the Securities and Exchange Commission registering the Preferred Stock. The registration statement was declared effective on October 31, 2001 and sales of the Preferred Stock were $9.3 million (9,325,374 shares) through August 31, 2002. Cash dividends are paid at a rate of 8% per annum per share and are fully cumulative. There is no sinking fund requirement and the Company may redeem all or any portion of the preferred stock upon 30 days written notice at $1.00 per share. Expenses related to the issuance of the Preferred Stock were $3.4 million through the year ended August 31, 2002 and have been included as a component of unallocated capital reserve.

10. EMPLOYEE BENEFIT PLANS

The Company has various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate.

Financial information on changes in benefit obligation and plan assets funded and balance sheet status as of August 31, 2002 and 2001 is as follows:

	PENSION BENEFITS	OTHER BENE

	2002	2001	2002
		(DOLLARS IN THOUSANDS)	
Change in benefit obligation:			
Benefit obligation at beginning of period	$ 253,564	$ 258,059	$ 22,667
Service cost	10,443	8,506	557
Interest cost	18,559	18,487	1,586
Plan participants contributions			189
Plan amendments	2,383	6	
Transfers	3,677	(2,387)	
Actuarial loss (gain)	2,764	(2,842)	1,716
Assumption change		2,534	638
Settlements		643	
Benefits paid	(22,979)	(29,442)	(2,438)
Benefit obligation at end of period	$ 268,411	$ 253,564	$ 24,915

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

	PENSION BENEFITS		
	2002	2001	20
		(DOLLARS IN THOUSAN	
Change in plan assets:			
Fair value of plan assets at beginning of period	$ 230,121	$ 266,896	
Actual loss on plan assets	(14,810)	(16,206)	
Company contributions	5,554	11,669	$ 2
Participants contributions			
Net transfers	3,677	(2,796)	
Benefits paid	(22,979)	(29,442)	(2
Fair value of plan assets at end of period	$ 201,563	$ 230,121	$
Funded status	$ (66,848)	$ (23,443)	$ (24
Employer contributions after measurement date	31,394	1,262	
Unrecognized actuarial loss (gain)	85,082	47,368	(3
Unrecognized transition (asset) obligation		(708)	10
Unrecognized prior service cost	10,569	9,639	(1
Prepaid benefit cost (accrued)	$ 60,197	$ 34,118	$ (19
Amounts recognized on balance sheets consist of:			
Prepaid benefit cost		$ 43,918	
Accrued benefit liability	$ (23,837)	(12,214)	$ (19
Intangible asset	7,995	1,055	
Minority interests	6,195		

Accumulated other comprehensive loss	69,844	1,359	
Net amounts recognized	$ 60,197	$ 34,118	$ (19

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, 2002. The rate was assumed to decrease gradually to 6.0% for 2004 and remain at that level thereafter. Components of net periodic benefit costs for the years ended August 31, 2002, 2001 and 2000 are as follows:

	PENSION BENEFITS			
	2002	2001	2000	2
			(DOLLARS IN THOUS	
Components of net periodic benefit cost:				
Service cost	$ 10,443	$ 8,506	$ 8,777	$
Interest cost	18,559	18,487	18,058	1
Expected return on assets	(21,386)	(22,855)	(20,485)	
Prior service cost amortization	1,314	1,193	1,182	
Actuarial loss (gain) amortization	1,387	375	(530)	
Transition amount amortization	(708)	(861)	(1,120)	
Other				
Net periodic benefit cost	$ 9,609	$ 4,845	$ 5,882	$2
Weighted-average assumptions:				
Discount rate	7.10%	7.30%	7.50%	
Expected return on plan assets	9.00%	9.00%	9.00%	
Rate of compensation increase	5.00%	5.00%	5.00%	

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were as follows as of August 31, 2002 and 2001:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Projected benefit obligation	$268,411	$23,247
Accumulated benefit obligation	256,795	18,599
Fair value of plan assets	201,563	6,385

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% POINT INCREASE	1% POINT DECREASE
	(DOLLARS IN THOUSANDS)	
Effect on total of service and interest cost components	$ 177	$ (202)
Effect on postretirement benefit obligation	1,435	(1,210)

The Company provides defined life insurance and health care benefits for certain retired employees. 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 $11.0 million, $6.1 million and $4.6 million, for the years ended August 31, 2002, 2001 and 2000, respectively.

11. SEGMENT REPORTING

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

Segment information for the years ended August 31, 2002, 2001 and 2000 is as follows:

	AGRONOMY	ENERGY	COUNTRY OPERATIONS	GRAIN MARKETING	PROCESSED GRAINS AND FOODS	C
				Restated (Note 16)		
				(DOLLARS IN THOUSANDS)		
For the year ended August 31, 2002:						
Net sales		$2,657,689	$1,474,553	$3,281,469	$ 496,084	
Patronage dividends	$ (89)	458	2,572	497	260	$
Other revenues		6,392	80,789	21,902	(1,469)	
	(89)	2,664,539	1,557,914	3,303,868	494,875	
Cost of goods sold		2,489,352	1,471,422	3,272,985	457,538	
Marketing, general and administrative	8,957	66,731	47,995	22,213	36,930	
Interest	(1,403)	16,875	13,851	4,807	9,514	
Equity (income) loss from investments	(13,425)	1,166	(283)	(4,257)	(41,331)	
Minority interests		14,604	786			
Income (loss) before						

income taxes	$ 5,782	$ 75,811	$ 24,143	$ 8,120	$ 32,224	$

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. SEGMENT REPORTING (CONTINUED)

	AGRONOMY	ENERGY	COUNTRY OPERATIONS	GRAIN MARKETING Restated (Note 16)	PROCESSED GRAINS AND FOODS	COR O
	(DOLLARS IN THOUSANDS)				(DOLLARS I	
For the year ended August 31, 2002:						
Goodwill		$ 4,059	$ 262		$ 23,605	
Capital expenditures		$ 54,576	$ 34,305	$ 14,851	$ 35,144	$
Depreciation and amortization	$ 1,247	$ 58,701	$ 21,214	$ 6,235	$ 13,436	$
Total identifiable assets at August 31, 2002	$ 242,015	$1,305,828	$ 799,711	$ 481,232	$ 439,942	$ 2
For the year ended August 31, 2001:						
Net sales		$2,781,243	$1,577,268	$3,416,239	$ 662,726	
Patronage dividends	$ 196	712	3,683	840	339	$
Other revenues		4,036	80,479	22,964	(238)	
	196	2,785,991	1,661,430	3,440,043	662,827	
Cost of goods sold		2,549,099	1,569,884	3,416,500	619,184	
Marketing, general and administrative	8,503	48,432	53,417	22,396	44,870	
Interest	(4,529)	25,097	15,695	8,144	13,026	
Equity (income) loss from investments	(7,360)	4,081	(246)	(4,519)	(35,505)	
Minority interests		34,713	385			
Income (loss) before income taxes	$ 3,582	$ 124,569	$ 22,295	$ (2,478)	$ 21,252	$ (
Goodwill		$ 5,175	$ 373		$ 23,605	
Capital expenditures		$ 38,984	$ 32,448	$ 3,715	$ 20,485	$
Depreciation and amortization	$ 1,250	$ 55,343	$ 21,738	$ 4,917	$ 22,304	$

Total identifiable assets at August 31, 2001	$ 230,051	$1,154,036	$ 679,053	$ 345,696	$ 430,871	$ 2
For the year ended August 31, 2000:						
Net sales	$ 808,659	$2,959,622	$1,409,892	$3,375,616	$ 584,052	
Patronage dividends	224	311	3,830	861	100	$
Other revenues	5,817	2,792	68,436	15,440	(10)	
	814,700	2,962,725	1,482,158	3,391,917	584,142	
Cost of goods sold	764,744	2,862,715	1,404,120	3,361,672	547,234	
Marketing, general and administrative	20,832	43,332	44,136	21,412	21,462	
Interest	(3,512)	27,926	12,782	8,701	9,851	
Equity loss (income) from investments	4,336	(856)	(1,007)	(6,452)	(24,367)	
Minority interests		24,443	103			
Income (loss) before income taxes	$ 28,300	$ 5,165	$ 22,024	$ 6,584	$ 29,962	$
Capital expenditures		$ 65,017	$ 38,514	$ 12,096	$ 36,494	$
Depreciation and amortization	$ 106	$ 52,017	$ 21,717	$ 3,803	$ 11,440	$

12. 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 future costs of remediation of identified issues, which are

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

included in cost of goods sold in the consolidated statements of operations. Additional costs for matters, which may be identified in the future, cannot be presently determined. The resolution of any such matters may have an impact on the Company's consolidated financial results for a particular reporting period; however, management believes any such matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

In connection with certain refinery upgrades and enhancements that are necessary in order to comply with existing environmental regulations, the Company expects to incur additional capital expenditures of approximately $340 million in relation to these projects over the next four years, primarily at the NCRA refinery. The Company anticipates funding these projects with a combination of cash flows from operations and additional indebtedness.

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 have an impact on the Company's consolidated financial results for a particular reporting period; however, management believes any resulting liability will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

GRAIN STORAGE -- As of August 31, 2002 and 2001, the Company stored grain and processed grain products for third parties totaling $148.0 million and $177.0 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 for related companies totaling up to $86.2 million, of which $45.1 million was outstanding as of August 31, 2002. All outstanding loans with respective creditors are current as of August 31, 2002.

LEASE COMMITMENTS -- The Company leases approximately 1,700 rail cars with remaining lease terms of one to 10 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 leases.

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income was $30.2 million, $35.5 million and $38.0 million for the years ended August 31, 2002, 2001 and 2000, respectively. Mileage credits and sublease income were $9.5 million, $11.0 million and $10.6 million for the years ended August 31, 2002, 2001 and 2000, respectively.

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2002, are as follows:

	RAIL CARS	VEHICLES	EQUIPMENT AND OTHER	TO
		(DOLLARS IN THOUSANDS)		
2003	$ 9,100	$ 9,436	$14,417	$32,
2004	7,091	6,992	10,116	24,
2005	5,525	5,183	5,286	15,
2006	2,018	3,321	3,561	8,
2007	1,042	1,657	2,433	5,
Thereafter	4,025	255	515	4,
Total minimum future lease payments	$28,801	$26,844	$36,328	$91,

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Net cash paid during the period for:			
Interest	$ 44,231	$ 63,034	$ 57,062
Income taxes	27,965	11,709	3,785
Other significant noncash transactions:			
(Distributions)/contributions of inventories of minority interests		(54,399)	54,399
Capital equity certificates issued in exchange for elevator properties	1,842	5,481	7,921
Equity Participation Units issued		1,045	
Accrual of patronage dividends and equity retirements payable	(56,510)	(72,154)	(43,694
Other comprehensive (loss) income	(49,982)	512	(1,257

14. RELATED PARTIES TRANSACTIONS

As of August 31, 2002, the Company had related party transactions, which consisted of sales of $550.0 million, purchases of $502.4 million, receivables of $21.2 million and payables of $18.3 million with its equity investees. These related party transactions were primarily with Agriliance, CF Industries, Inc., Horizon Milling, Tacoma Export Marketing Company and Ventura Foods, LLC.

15. COMPREHENSIVE INCOME

The components of comprehensive income for the years ended August 31, 2002, 2001 and 2000 are as follows:

	2002	2001	200
	(DOLLARS IN THOUSANDS)		
Net income	$ 126,138	$178,554	$ 87,
Additional minimum pension liability, net of taxes	(48,797)	(15)	
Financial instruments, net of taxes	(548)	527	(1,
Cash flow hedges, net of taxes	(637)		
Comprehensive income	$ 76,156	$179,066	$ 86,

The components of accumulated other comprehensive loss as of August 31, 2002 and 2001 are as follows:

	2002	2001
	(DOLLARS IN THOUSANDS)	
Additional minimum pension liability, net of taxes	$50,051	$1,254

Financial instruments, net of taxes	1,209	661
Cash flow hedges, net of taxes	637	
Accumulated other comprehensive loss	$51,897	$1,915

CENEX HARVEST STATES COOPERATIVES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. NET SALES AND COST OF GOODS SOLD RESTATEMENT:

Recently the Company determined that certain sales and transfers within the Grain Marketing segment and between the Grain Marketing segment and the Processed Grains and Foods segment, were not appropriately eliminated. The appropriate changes have been made to the consolidated statements of operations and segment reporting (see Note 11). These changes had no effect on the Company's financial condition or changes in cash flows, and no effect on reported gross profit or net income for the periods stated.

	As Reported	As Restated
Grain Marketing Net Sales		
2002	3,787,322	3,281,469
2001	3,514,314	3,416,239
2000	3,453,807	3,375,616
Grain Marketing Cost of Goods Sold		
2002	3,778,838	3,272,985
2001	3,514,575	3,416,500
2000	3,439,863	3,361,672
Reconciling Amounts - Net Sales & Cost of Goods Sold		
2002	(683,781)	(753,341)
2001	(782,539)	(973,234)
2000	(718,182)	(889,428)
Net Sales		
2002	7,731,867	7,156,454
2001	7,753,012	7,464,242
2000	8,497,850	8,248,413
Cost of Goods Sold		
2002	7,513,369	6,937,956
2001	7,470,203	7,181,433
2000	8,300,494	8,051,057

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Members and Patrons of
Cenex Harvest States Cooperatives:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equities and comprehensive income and of cash flows, after the restatement described in Note 16, present fairly, in all material respects, the financial position of Cenex Harvest States Cooperatives and subsidiaries as of August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2002, 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 auditing standards generally accepted in the United States of America, which 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 16 to the consolidated financial statements, the Company has restated its Consolidated Statements of Operations for the years ended August 31, 2002, 2001 and 2000.

PricewaterhouseCoopers, LLP

October 18, 2002, except for Notes 11 and 16,
which are as of October 31, 2003
Minneapolis, Minnesota

INDEPENDENT AUDITORS' REPORT

Members Committee
Ventura Foods, LLC

We have audited the accompanying consolidated balance sheets of Ventura Foods, LLC and subsidiary (the "Company") as of March 31, 2003 and 2002 and the related consolidated statements of income, members' capital and cash flows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000. 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 in accordance with auditing standards generally accepted in the United States of America. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ventura Foods, LLC and subsidiary as of March 31, 2003 and 2002 and the results of their operations and their cash flows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, effective April 1, 2002.

/s/ Deloitte & Touche LLP

Los Angeles, California
June 16, 2003

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	2003	200
ASSETS (NOTE 4)		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 2,800,000	$ 9,30
Trade receivables--net of allowance for doubtful accounts		

of $1,909,000 and $1,543,000 at 2003 and 2002, respectively (Notes 2, 4 and 5)	64,313,000	57,13
Inventories (Notes 2, 4 and 5)	92,366,000	62,79
Prepaid expenses and other current assets	5,922,000	2,28
Due from Wilsey Foods, Inc. (Note 5)	309,000	
Derivative contract asset (Notes 2 and 5)	18,703,000	13,29
Total current assets	184,413,000	144,81
PROPERTY (Notes 2 and 4):		
Land, buildings and improvements	102,768,000	98,84
Machinery and equipment	139,264,000	129,13
Construction-in-progress	6,905,000	6,48
Other property	10,798,000	10,49
Total	259,735,000	244,95
Less accumulated depreciation and amortization	106,914,000	95,05
Property--net	152,821,000	149,90
GOODWILL--Net of amortization of $18,087,000 at 2003 and 2002 (Notes 2, 3 and 8)	43,156,000	43,15
TRADEMARKS--Net of amortization of $8,526,000 and $8,685,000 at 2003 and 2002 (Notes 2 and 8)	19,318,000	19,57
DEFERRED COMPENSATION PLAN TRUST (Note 6)	13,574,000	14,24
OTHER ASSETS--Net of amortization of $3,520,000 and $4,310,000 at 2003 and 2002 (Notes 2 and 8)	4,673,000	5,29
TOTAL	$417,955,000	$376,98
LIABILITIES AND MEMBERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable (Note 5)	$ 58,395,000	$ 52,04
Accrued liabilities (Note 5)	36,984,000	25,78
Dividends payable	5,748,000	9,55
Bank lines of credit (Note 4)	20,500,000	8,00
Current portion of long-term debt (Note 4)	74,228,000	12,75
Current portion of long-term liability--Wilsey Foods, Inc. (Note 1)		49
Derivative contract liability (Notes 2 and 5)	12,162,000	4,12
Total current liabilities	208,017,000	112,74
LONG-TERM DEBT (Note 4)	22,950,000	97,17
DEFERRED COMPENSATION OBLIGATIONS (Note 6)	20,496,000	16,34
Total liabilities	251,463,000	226,27
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
MEMBERS' CAPITAL	166,492,000	150,71
TOTAL	$417,955,000	$376,98

See notes to consolidated financial statements.

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001
AND THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED MARCH 31, 2003	YEAR ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
NET SALES (Notes 2 and 5)	$1,096,425,000	$ 965,521,000	$ 215,158,000
COST OF GOODS SOLD (Notes 2 and 5)	912,702,000	791,061,000	177,492,000
GROSS PROFIT	183,723,000	174,460,000	37,666,000
OPERATING EXPENSES:			
Selling, general and administrative (Notes 2 and 5)	105,424,000	91,827,000	20,092,000
Amortization of intangibles (Notes 2 and 8)	223,000	6,227,000	1,581,000
Total operating expenses	105,647,000	98,054,000	21,673,000
OPERATING INCOME	78,076,000	76,406,000	15,993,000
INTEREST EXPENSE--Net (Note 4)	6,785,000	7,474,000	2,071,000
OTHER EXPENSE (INCOME) (Note 7)	733,000	(1,554,000)	(446,000)
NET INCOME	$ 70,558,000	$ 70,486,000	$ 14,368,000

See notes to consolidated financial statements.

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' CAPITAL
YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001
AND THE YEAR ENDED DECEMBER 31, 2000

	WILSEY FOODS, INC.	CENEX HARVEST STATES COOPERATIVES	TOTAL
BALANCE, JANUARY 1, 2000	$ 67,315,000	$ 44,877,000	$ 112,192,000
Net income	30,593,000	26,913,000	57,506,000
Transfer of interest (Note 1) .	(11,775,000)	11,775,000	
Dividends	(23,288,000)	(20,720,000)	(44,008,000)
BALANCE, DECEMBER 31, 2000	62,845,000	62,845,000	125,690,000

Net income	7,184,000	7,184,000	14,368,000
Dividends	(4,157,000)	(4,157,000)	(8,314,000)
BALANCE, MARCH 31, 2001	65,872,000	65,872,000	131,744,000
Net income	35,243,000	35,243,000	70,486,000
Dividends	(25,757,000)	(25,757,000)	(51,514,000)
BALANCE, MARCH 31, 2002	75,358,000	75,358,000	150,716,000
Net income	35,279,000	35,279,000	70,558,000
Dividends	(27,391,000)	(27,391,000)	(54,782,000)
BALANCE, MARCH 31, 2003	$ 83,246,000	$ 83,246,000	$ 166,492,000

See notes to consolidated financial statements.

VENTURA FOODS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED MARCH 31, 2001
AND THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED MARCH 31, 2003	YEAR ENDED MARCH 31, 2002	THREE MONT ENDED MARCH 3 2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 70,558,000	$ 70,486,000	$ 14,368,
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,416,000	12,186,000	2,833,
Amortization of intangibles	223,000	6,227,000	1,581,
Deferred rent	515,000		
Loss (gain) on disposal of assets	872,000	324,000	128,
Derivative contract asset	2,637,000	(1,803,000)	(7,375,
Changes in operating assets and liabilities:			
Trade receivables	(7,174,000)	(771,000)	980,
Inventories	(29,567,000)	3,881,000	5,089,
Prepaid expenses and other current assets	(3,639,000)	(793,000)	330,
Accounts payable	6,350,000	(4,491,000)	(2,943,
Accrued liabilities	10,685,000	2,893,000	(2,540,
Deferred compensation obligations	4,815,000	4,866,000	(1,767,
Due from/to affiliates	(309,000)	47,000	1,
Net cash provided by operating activities	68,382,000	93,052,000	10,685,
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property	(16,062,000)	(13,268,000)	(4,869,
Proceeds from sale of assets	1,845,000	69,000	23,
Acquisitions--net of cash acquired (Note 3)			

Acquisition of trademarks			
Investment in rabbi trust		(13,976,000)	
Other assets	(1,332,000)	(48,000)	67,
Net cash used in investing activities	(15,549,000)	(27,223,000)	(4,779,
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt	(12,758,000)	(12,603,000)	(554,
Net borrowings from (payments on) line of credit .	12,500,000	3,000,000	5,000,
Payment to Wilsey Foods, Inc. (Note 1)	(491,000)	(487,000)	(487,
Dividends paid	(58,584,000)	(60,589,000)	
Net cash (used in) provided by financing activities	(59,333,000)	(70,679,000)	3,959,
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,500,000)	(4,850,000)	9,865,
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,300,000	14,150,000	4,285,
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,800,000	$ 9,300,000	$ 14,150,
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION--Cash paid during the period for interest	$ 7,183,000	$ 8,129,000	$ 653,

See notes to consolidated financial statements

VENTURA FOODS, LLC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2003 AND 2002, THE THREE MONTHS ENDED
MARCH 31, 2001 AND THE YEAR ENDED DECEMBER 31, 2000

1. GENERAL MATTERS

Ventura Foods, LLC and its subsidiary (the "Company") is a processor and distributor of edible oils used in food preparation and a packager of food products. The Company sells its products to national and regional restaurant chains, food wholesalers and retail chains.

The Company was formed pursuant to a Joint Venture Agreement (the "Agreement") dated August 30, 1996 between Wilsey Foods, Inc. ("Wilsey") and Cenex Harvest States Cooperatives ("CHS") whereby substantially all the assets and liabilities of Wilsey and Holsum Foods (a division of CHS) were transferred and assigned, with certain exclusions, to the Company. Wilsey is a majority-owned subsidiary of Mitsui & Co., Ltd. From the period of inception through March 31, 2000, Wilsey and CHS owned 60% and 40%, respectively, of the Company. On March 31, 2000, Wilsey sold a 10% interest in the Company to CHS. Accordingly, Wilsey and CHS each own 50% of the Company.

At the formation date, a liability equal to the net deferred income tax liability of Wilsey at August 30, 1996 was assumed by the Company and was included in long-term liability--Wilsey Foods, Inc. The amount was payable in five equal annual installments of $487,000 plus a final installment of $491,000.

The final installment of $491,000 was paid during fiscal 2003.

2. ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION--The consolidated financial statements include the accounts of Ventura Foods, LLC and its 100%-owned subsidiary, Ventura Jets, Inc. All material intercompany transactions have been eliminated.

FISCAL YEAR END--During 2001, the Company changed its fiscal year end to March 31. Prior to such change, the Company's fiscal year end had been December 31.

CASH AND CASH EQUIVALENTS--The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

INVENTORIES--Inventories consist of the following at March 31:

	2003	2002
Bulk oil	$38,751,000	$17,654,000
Finished goods	34,119,000	27,696,000
Ingredients and supplies	19,496,000	17,449,000
Total	$92,366,000	$62,799,000

Inventories are accounted for at the lower of cost or market, using the first-in, first-out method. Cost for inventories produced or modified by the Company through a manufacturing process includes fixed and variable production costs and raw materials costs, and in-bound freight costs. Cost for inventories purchased for resale includes the cost of the product and freight and handling costs incurred to place the product at the Company's point of sale.

DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is limited to forwards, futures and certain other delivery contracts as discussed below. The Company enters into these contracts to limit its exposure to price volatility of various food oils that are critical to its processing and distribution activities. It is the Company's policy to remain substantially hedged with respect to edible oil product price risk; derivative contracts are used to maintain this hedged position. Forward purchase and sales contracts with established market participants as well as exchange traded futures contracts are entered into in amounts necessary to protect against price changes on raw materials needed for the Company's food oil processing and distribution activities. The Company also enters into purchase and sales commitments with major suppliers and customers at a specified premium or discount

from a future market price ("Basis Contracts"). Additionally, the Company's policies do not permit speculative trading of such contracts. All of these qualify as derivatives under Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, and are stated at market value. Changes in market value are recognized in the consolidated statements of income, through cost of sales, in the periods such changes occur. The adoption of SFAS No. 133 on January 1, 2001 did not have a significant impact on the Company's results of operations, as the Company historically recorded its financial instruments at market value. Prior to the adoption of SFAS No. 133, the market value of futures contracts, Basis Contracts, and forward purchase and sales contracts were recorded as a component of inventory. Beginning with the adoption of SFAS No. 133, the market value of these contracts is now recorded separately on the consolidated balance sheets as derivative contract assets or liabilities. These contracts have maturities of less than one year.

The following summarizes the Company's various derivative contracts outstanding at March 31, 2003 and 2002 (pounds and dollars in thousands)

FORWARD CONTRACTS AND COMMITMENTS	POUNDS	NET UNREALIZED GAIN (LOSS)
MARCH 31, 2003		
Forward purchases	334,100	$ 11,060
Forward sales	433,300	(6,208)
Basis purchase	259,800	857
Basis sales	17,500	(126)
Futures contracts	146,000	958
	1,190,700	$ 6,541
MARCH 31, 2002		
Forward purchases	490,500	$ 7,873
Forward sales	454,100	(1,117)
Basis purchase	390,300	2,304
Basis sales	62,600	(303)
Futures contracts	96,100	421
	1,493,600	$ 9,178

The fair value of futures contracts is determined from quotes listed on the Chicago Board of Trade or other market makers. Forward 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.

The Company is exposed to loss in the event of nonperformance by the other parties to the contracts. However, the Company does not anticipate nonperformance by counterparties.

PROPERTY AND DEPRECIATION--Property is stated at cost. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	40 years
Leasehold improvements	3-19 years
Machinery and equipment	10-25 years
Other property	3-20 years

FAIR VALUE OF FINANCIAL INSTRUMENTS--The Company estimates the fair value of financial instruments using the following methods and assumptions:

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE--The carrying amounts approximate fair value due to the short maturities of these instruments.

LINES OF CREDIT--The carrying amounts approximate fair value, as the interest rates are based upon variable reference rates.

LONG-TERM DEBT--The fair value of long-term fixed rate debt is estimated based upon prevailing market interest rates available to the Company. The Company estimates the fair value on the $25,573,000 6.55% fixed rate debt as of March 31, 2003 to be $27,804,000.

FUTURES CONTRACTS--The fair value of futures contracts (used for hedging purposes) is determined from quotes listed principally on the Chicago Board of Trade.

CONCENTRATION OF CREDIT RISK--During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, net sales to one customer were 23%, 22%, 22% and 21% of total net sales, respectively. This customer represents approximately 23% and 19% of trade receivables at March 31, 2003 and 2002, respectively. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential credit losses.

The Company maintains cash deposits with various financial institutions. The Company periodically evaluates the credit standing of these financial institutions and has not sustained any credit losses relating to such balances.

MARKETABLE SECURITIES--The Company's marketable securities comprise equity securities that have been classified as trading securities. The equity securities are carried at fair market value based upon quoted market prices. Unrealized gains and losses on equity securities are recognized in net income and totaled $666,000 and $(264,000) for the years ended March 31, 2003 and 2002, respectively (see Note 6).

GOODWILL AND TRADEMARKS--The Company adopted SFAS No. 142, GoODWILL AND OTHER INTANGIBLE ASSETS, effective April 1, 2002, the first day of its 2003 fiscal year. As a result, goodwill and indefinite life intangible assets ("trademarks") are no longer amortized, but reviewed for impairment annually, or more frequently if certain impairment indicators arise. See Note 8 for the effect of adopting SFAS No. 142.

Other identifiable intangible assets consist of patents, deferred financing costs and other assets, which are amortized using the straight-line method over 5 to 15 years.

IMPAIRMENT OF LONG-LIVED ASSETS--Long-lived assets, including identifiable intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recorded under the discounted future cash flow method.

ADVERTISING COSTS--The Company expenses advertising costs in the period incurred. For the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company incurred advertising expenses of approximately $9,039,000, $7,100,000, $1,300,000 and $6,100,000, respectively.

INCOME TAXES--The Company is a limited liability company and has no liability for federal and state income taxes. Income is taxed to the members based on their allocated share of taxable income or loss. However, certain states tax the income of limited liability companies. The Company's liability for such state income taxes is not significant.

REVENUE RECOGNITION--The Company is a processor and distributor of edible oils used in food preparation and a packager of food products. Revenue is recognized upon transfer of title to the customer, which occurs generally upon shipment. In certain instances, title is transferred upon receipt by the customer, at which time the Company records revenue. Amounts billed to the customer as part of a sales transaction related to shipping and handling are included in sales. Revenue is recorded net of discounts, rebates and certain sales incentives.

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.

RECLASSIFICATIONS--Certain reclassifications have been made to the prior periods' financial statements to conform to the 2003 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS--In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. As required, the Company will apply the provisions of SFAS No. 143 prospectively to retirements of tangible long-lived assets, if any, initiated for fiscal years beginning after June 15, 2002.

In July 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS. This statement retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset, and establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In November 2001, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 01-09, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER OR RESELLER OF THE VENDOR'S PRODUCTS, which addresses the accounting for consideration given by a vendor or a reseller of the vendor's products. This new guidance requires companies to report certain consideration given by a vendor to a customer as a reduction in revenues rather than as marketing expense. This consensus was required to be adopted no later than the first quarter of 2002, and upon adoption, companies were required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement classification requirements of the consensus. The Company adopted the provisions of EITF Issue No. 01-09 during fiscal 2003. The effect of the adoption of EITF Issue No. 01-09 was a reduction in both revenues and selling, general and administrative expenses of $690,000, $207,000, $29,000 and $267,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

In June 2002, the FASB issued SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-03, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN RESTRUCTURING). This statement requires that the fair value of an initial liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when the entity commits to an exit plan, thereby eliminating the definition and requirements for recognition of exit costs. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. As required, the Company will apply the provisions of SFAS No. 146 prospectively to exit or disposal activities, if any, initiated after December 31, 2002.

In September 2002, the EITF issued EITF Issue No. 02-16, ACCOUNTING BY A CUSTOMER (INCLUDING A RESELLER) FOR CERTAIN CONSIDERATION RECEIVED FROM A VENDOR, which addresses the accounting for consideration received by the reseller of the vendor's products. This new guidance provides that the consideration represents a reimbursement of costs incurred by the customer to sell the vendor's products and is generally presumed to be a reduction of the cost of the vendor's products and, therefore, should be characterized as a reduction of cost of sales in the customers' income statement. The Company adopted EITF Issue No. 02-16 during fiscal 2003. The effect of the adoption of EITF Issue No. 02-16 was a reduction in cost of goods sold and other income of $2,987,000, $1,628,000, $256,000 and $991,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS.

FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 specifically identifies certain obligations that are excluded from the provisions related to recognizing a liability at inception; however, these guarantees are subject to the disclosure requirements of FIN 45. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

On April 30, 2003, the FASB issued SFAS No. 149, AMENDMENT OF STATEMENT

133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("DIG") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently assessing, but has not yet determined, the impact this statement will have on its consolidated financial statements.

3. ACQUISITIONS

During the year ended December 31, 2000, the Company acquired substantially all the assets and liabilities of Sona and Hollen for $5,740,000. Sona and Hollen was a portion packing company located in Los Alamitos, California. The acquisition has been accounted for as a purchase, and accordingly, the purchase price has been allocated based on the estimated fair values of the assets acquired. The excess of the purchase price over the fair value of the assets acquired, approximately $4,276,000, was recorded as goodwill. Prior to the adoption of SFAS No. 142 on April 1, 2002, goodwill had been amortized using a 15-year life (see Note 8).

The following is a summary of the assets acquired at estimated fair market value:

Inventories	$ 637,000
Prepaid expenses and other assets	208,000
Property and equipment	600,000
Trademark	19,000
Goodwill	4,276,000
Net assets of business acquired	$5,740,000

4. LINES OF CREDIT AND LONG-TERM DEBT

LINES OF CREDIT--At March 31, 2003, the Company had a revolving line-of-credit agreement with a banking group to provide for borrowings of up to an aggregate of $72,000,000. Outstanding borrowings at March 31, 2003 and 2002 were $20,500,000 and $8,000,000, respectively. The applicable interest rates are based, at the option of the Company, at a London Interbank Offered Rate ("LIBOR") or a term federal funds rate ("TFFR") option. The weighted-average interest rate at March 31, 2003 and 2002 was 1.72% and 2.24%, respectively. The lines of credit mature at varying dates between November 2003 and February 2004.

LONG-TERM DEBT--At March 31, 2003 and 2002, balances outstanding on term loans with a banking group were $71,605,000 and $81,905,000, respectively. The interest rate applicable to these term loans is based, at the option of the Company, at a TFFR-based, LIBOR-based or a fixed rate option. The weighted-average interest rate on such borrowings at March 31, 2003 and 2002 was 6.53% and 6.59%, respectively. The term loans with the banking group mature on December 23, 2003.

At March 31, 2003 and 2002, balances outstanding on a term loan with a bank were $25,573,000 and $28,031,000, respectively. The agreement requires quarterly principal and interest payments of $1,058,000. The interest rate on this term loan is fixed at 6.55%. The term loan with the bank matures in October 2011.

The term loans are collateralized by substantially all property, equipment and intellectual property rights, and the lines of credit are collateralized by substantially all trade receivables and inventories of the Company. The lines of credit and term loan agreements contain various covenants, including compliance with tangible net worth (as defined) and other financial ratios, restrictions on the payment of dividends, and restrictions on the incurrence of additional debt.

Annual maturities of long-term debt at March 31, 2003 are as follows:

2004	$74,228,000
2005	2,799,000
2006	2,987,000
2007	3,187,000
2008	3,401,000
Thereafter	10,576,000
Total	97,178,000
Less current portion	74,228,000
Long-term debt	$22,950,000

5. TRANSACTIONS WITH AFFILIATES

At March 31, 2003, the Company had a receivable balance of $309,000 due from Wilsey for reimbursement of expenses paid by the Company on behalf of Wilsey.

Included in accounts payable at March 31, 2003 and 2002 were $8,035,000 and $5,976,000, respectively, payable to CHS for purchases of oil. Purchases from CHS for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 were $66,682,000, $47,745,000, $8,575,000 and $48,916,000, respectively. Sales to CHS for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 totaled $1,056,000, $883,000, $109,000 and $950,000, respectively.

Included in accounts payable at March 31, 2003 and 2002 were $790,000 and $817,000, respectively, payable to Mitsui USA for the Company's participation in Mitsui USA's insurance plans. During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recorded expenses of $9,402,000, $8,487,000, $1,380,000 and $5,049,000, respectively, in connection with its participation in such plans.

Included in trade receivables at March 31, 2003 and 2002 were $123,000 and $69,000, respectively, of receivables from Mitsui USA for product sales. Sales to Mitsui USA for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 totaled $1,423,000, $1,406,000, $341,000 and $1,569,000, respectively.

Forward purchase contracts as of March 31, 2003 included commitments for purchases of 86,964,000 pounds of oil from CHS. The Company recognized gains (losses) of $1,081,000, $934,000, $1,788,000 and $(363,000) on such related party commitments for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

6. EMPLOYEE BENEFIT PLANS

The Company has long-term incentive arrangements for certain key executives. Benefits under the initial plan were based on earnings over a three-to-five year period (as defined) from January 1, 1997 through December 31, 2001. An amount equal to the obligation incurred under the plan was contributed to a rabbi trust that would be available to general creditors in the event of bankruptcy. The trust holds investments primarily in marketable securities that are recorded at market value (classified as trading securities). The assets in the trust are to be distributed to the employees upon retirement. The liability

under the arrangements was $13,574,000 and $14,240,000 as of March 31, 2003 and 2002, respectively, and is included in deferred compensation obligation in the accompanying consolidated balance sheets.

On January 1, 2002, the Company established new long-term incentive arrangements with certain key executives. Under these arrangements, the amount of additional compensation is based on the attainment of cumulative income-based or equity-based targets over a two- to three-year period. At the end of the defined periods, amounts earned by individual executives will be contributed to a rabbi trust, unless representatives of Wilsey and CHS elect to pay such amounts directly to the respective key executives. At March 31, 2003 and 2002, a liability for the plan of $4,702,000 and $439,000, respectively, is classified as long-term deferred compensation obligation in the accompanying consolidated balance sheets.

For the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recognized compensation expense under the long-term incentive arrangements of $4,264,000, $5,658,000, $750,000 and $5,889,000, respectively.

The Company has a combined 401(k) and defined contribution profit-sharing plan (the "Plan") covering substantially all employees not covered by collective bargaining agreements. Under the Plan, employees can make annual voluntary contributions not to exceed the lesser of an amount equal to 15% of their compensation or limits established by the Internal Revenue Code. The Company is required, by the Plan, to make certain matching contributions of up to 4% of each participant's salary and may make discretionary profit-sharing contributions. The Company also established a 401(k) defined contribution plan covering employees under certain collective bargaining agreements. Under this plan, employees can make annual voluntary contributions of up to 15% of their compensation. Expense for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 was $6,484,000, $5,855,000, $1,343,000 and $5,139,000, respectively. Certain of the Company's union employees are participants in multi-employer plans. Payments to multi-employer pension plans are negotiated in various collective bargaining agreements and aggregated $2,367,000, $1,162,000, $416,000 and $1,641,000 for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, respectively. The actuarial present value of accumulated plan benefits and net assets available for benefits to union employees under these multi-employer pension plans is not available, as the Company does not administer these plans.

Effective January 1, 1999, the Company established a Supplemental Executive Retirement Plan for certain of its employees. The projected benefit obligation as of March 31, 2003 and 2002 was $2,955,000 and $2,049,000, respectively. A liability of $2,220,000 and $1,668,000 as of March 31, 2003 and 2002, respectively, is included in long-term deferred compensation obligation in the accompanying consolidated balance sheets. The plan is unfunded. During the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000, the Company recorded an expense related to the plan of $552,000, $111,000, $420,000 and $379,000, respectively.

The assumptions used in the measurement of the Company's benefit obligation are as follows:

	MARCH 31			DECEMBER 31
	2003	2002	2001	2000
Discount rate	6.0%	7.0%	7.0%	7.0%
Rate of compensation increase	3.0%	3.0%	3.0%	3.0%

The Company accrues the actuarially determined amount necessary to fund the participants' benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

7. COMMITMENTS AND CONTINGENCIES

Future minimum annual payments under noncancelable operating leases with lease terms in excess of one year at March 31, 2003 are as follows:

2004	$ 7,263,000
2005	7,431,000
2006	5,792,000
2007	4,217,000
2008	3,659,000
Thereafter	16,217,000
Total	$ 44,579,000

Under the lease agreements, the Company is obligated to pay certain property taxes, insurance and maintenance costs. Certain leases contain renewal and purchase options. Rental expense for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000 under operating leases totaled $7,138,000, $5,671,000, $1,476,000 and $5,205,000, respectively.

During the year ended December 31, 2000, the Company received a payment of approximately $2,400,000 in connection with the settlement of a class action lawsuit. This amount has been recorded as a component of other income in the accompanying consolidated statement of income.

The Company is involved from time to time in routine legal matters incidental to its business. The Company believes that the resolution of such matters will not have a material adverse effect on the Company's business, financial condition or results of operations.

8. GOODWILL

In June 2001, the FASB issued SFAS No. 141, BUSINESS COMBINATIONS, and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These statements, among other things, eliminate the pooling-of-interests method of accounting for business combinations as of June 30, 2001, eliminate the amortization of goodwill and indefinite life intangible assets for all fiscal years beginning after December 15, 2001, and require that goodwill and indefinite life intangible assets be reviewed annually for impairment, or more frequently if impairment indicators arise. The Company adopted SFAS Nos. 141 and 142 with respect to new goodwill as of July 1, 2001 and adopted SFAS No. 142 with respect to existing goodwill and indefinite life intangible assets as of April 1, 2002, the first day of its 2003 fiscal year. The adoption of SFAS No. 141 did not impact the Company's financial condition or results of operations. Upon the adoption of SFAS No. 142, the Company ceased amortizing existing goodwill and trademarks.

The Company completed the transitional test of goodwill and trademarks during 2003. Based on the result of the test, the Company determined that there was no impairment of goodwill and trademarks as of April 1, 2002. Pursuant to SFAS No. 142, goodwill and trademarks will be tested for impairment at least annually and more frequently if an event occurs which indicates that goodwill or trademarks may be impaired. During 2003, the Company abandoned the use of certain trademarks with a net book value of $100,000.

A reconciliation of net income to the amount adjusted for the exclusion of goodwill and trademarks amortization follows for the years ended March 31, 2003 and 2002, the three months ended March 31, 2001 and the year ended December 31, 2000:

	MARCH 31			DECEMBER 31
	2003	2002	2001	2000
Reported net income	$70,558,000	$70,486,000	$14,368,000	$57,506,000
Add:				
Goodwill amortization ..	--	3,972,000	1,036,000	4,001,000
Trademark amortization .	--	1,853,000	421,000	1,684,000
Adjusted net income	$70,558,000	$76,311,000	$15,825,000	$63,191,000

Amortization expense for other intangible assets subject to amortization was $223,000, $402,000, $124,000 and $746,000 for the years ended March 31, 2003 and 2002, the three months ended March 31,

2001 and the year ended December 31, 2000, respectively. Estimated annual amortization for each of the years in the five-year period ending March 31, 2008 is $180,000.

9. QUARTERLY INFORMATION (UNAUDITED)

As discussed in Note 2, the Company changed its fiscal year end to March 31. Audited financial information for the three months ended March 31, 2001 has been included herein. For comparison purposes, selected unaudited financial information for the three months ended March 31, 2000 is as follows:

Sales	$211,815,000
Cost of goods sold	172,818,000
Net income	17,123,000
Total assets	362,382,000
Total liabilities	231,789,000
Members' capital	130,593,000