

GROWMARK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

1. Principal accounting policies

a. Organization

GROWMARK, Inc. (the Company) is an agricultural cooperative corporation operating for the benefit of its common shareholders/patrons. The Company is primarily a wholesale supplier of agricultural products operating principally in the Midwestern United States and the Province of Ontario, Canada. Through certain divisions/subsidiaries, the Company is a retail supplier in the Northeastern and Midwestern United States, and Ontario Canada. Pursuant to its Certificate of Incorporation and Bylaws, Common Stock shall be issued only to agricultural producers or to associations of agricultural producers meeting the requirements of and operating in accordance with the provisions of an Act of Congress entitled the "Agricultural Marketing Act," approved June 15, 1929, or an Act of Congress entitled "An act to authorize associations of producers of agricultural products" approved February 18, 1922; or to cooperatives which serve agricultural producers, and which are incorporated under and governed by the Co-operative Corporations Act of Ontario, Canada (R.S.O. 1990 c. C.35).

Further, no dividends shall be paid on the common stock. Whenever full dividends upon all Class B Preferred Stock at the rate specified shall have been paid or declared, all remaining earnings for the year, after providing for such reasonable reserves and additions to retained earnings as may be determined by the Board of Directors, shall be distributed and paid in cash, evidence of indebtedness, property, nonqualified notices of allocation or shares of stock of any class to the common shareholders and, at the discretion of the Board of Directors, to nonmember patrons upon the

basis of patronage. In the event of distribution of retained earnings, such distribution shall be made to the common shareholders.

b. Consolidation policies

The consolidated financial statements of GROWMARK, Inc. include the accounts of the parent company and its wholly-owned and majority-owned subsidiaries.

c. Cash and equivalents

Cash and equivalents includes all short-term highly-liquid negotiable instruments with original maturities of three months or less. Certain retail grain subsidiaries held cash and equivalents of \$0.1 million at August 31, 2010 (\$29.0 million at August 31, 2009).

d. Financial instruments

The Company believes that the carrying value of its financial instruments, which include cash and equivalents, segregated funds, accounts receivable, notes receivable, accounts payable and debt, approximates their fair value based on market rates currently available for financial instruments with similar terms and remaining maturities (note 10).

e. Receivables

Receivables are stated net of an allowance for doubtful accounts of \$13.8 million at August 31, 2010 and \$13.5 million in 2009. The Company estimates the allowance based on an aging of the receivables and an evaluation of the likelihood of success in collecting the receivables. Aging for delinquency purposes is based on the due dates and terms of the receivables.

f. Ownership in nonsubsidiary cooperatives

Securities of nonsubsidiary cooperatives which have been purchased are carried generally at cost, and securities received as patronage refunds are carried generally at par value, less provisions for permanent impairment. The Company believes it is not practicable to estimate the fair value of the securities without incurring excessive costs because there is no established market for these securities and it is highly subjective to estimate future cash flows which are largely dependent on future patronage earnings of the nonsubsidiary cooperatives.

The Company does not reflect its potential equity in the undistributed earnings of nonsubsidiary cooperatives. The Company believes that it would be entitled to receive portions of the undistributed earnings of certain nonsubsidiary cooperatives in the event of liquidation of these cooperatives. However, the amounts which would be received are subject to various uncertainties and unpredictable future events, including changes in the share of the business of these nonsubsidiary cooperatives done with the Company in future years, the form of any distributions and the taxability thereof, and legal interpretations as to the methods of computation of the Company's share of any such future distributions. Such uncertainties preclude reasonable determination of such amounts prior to actual liquidation of the nonsubsidiary cooperatives and resolution of the uncertainties.

g. Accounting for taxes

The Company follows a policy of accounting for taxes on a net basis when the tax is assessed by a governmental authority and is both imposed on and concurrent with revenue-producing transactions.

h. Inventories and cost of sales

Inventories are valued at the lower of cost or market, except for grain which is valued at mark-to-market. Cost is determined on the first-in, first-out or average cost methods.

Certain grain inventories of a subsidiary of \$4.1 million (\$3.2 million in 2009) purchased from qualified customers are valued at identified cost, and are hedged by a concurrently executed contract with the customer to buy back the grain at the same price plus interest within 90 days.

Patronage refunds are recorded when received and are included in the consolidated statement of operations primarily as reductions of cost of sales.

i. Intangibles

The Company and its subsidiaries have goodwill and other intangible assets primarily including trademarks, customer lists, and covenants not to compete (see Note 4).

GROWMARK is a mutual enterprise as defined by the Financial Accounting Standards Board and is therefore subject to Accounting Standards Codification (ASC) 350 - Intangibles - Goodwill and Other (formerly SFAS 142) as of September 1, 2009. Under this standard, goodwill and intangible assets deemed to have indefinite useful lives are not amortized but are subject to annual impairment tests.

j. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is determined on the straight-line method for all assets except transportation equipment which is depreciated on an accelerated method.

k. Foreign operations

Included in the Company's consolidated statements of financial position at August 31, 2010 and 2009 are the total assets of its Ontario, Canada operations which total approximately \$148 million (\$129 million in 2009.)

1. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

m. Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation, including presentation of non-GROWMARK ownership in subsidiaries as a result of adopting Accounting Standards Codification 810 (formerly SFAS 160).

n. Subsequent events

Subsequent events have been evaluated through October 18, 2010 which is the date that the financial statements were available to be issued.

2. Acquisitions

During 2010, the Company and its subsidiaries acquired various retail energy and retail grain operations in the Midwest. The results of these operations have been included in the consolidated financial statements since the dates of acquisition. The aggregate purchase price was \$6.7 million.

In January 2009, a newly formed subsidiary of the Company acquired a retail grain operation in Illinois. The results of these operations have been included in the consolidated financial statements since the date of the acquisition. The aggregate purchase price was \$18.9 million.

3. Segregated funds

A significant portion of the segregated funds of a subsidiary of the Company is held in interest-bearing accounts by ADM Investor Services, Inc., the subsidiary's principal clearing broker.

4. Other assets (\$ in Thousands)

	<u>August 31,</u>	
	<u>2010</u>	<u>2009</u>
Assets held in trust by captive insurance subsidiary	\$ 22,125	19,561
Intangible assets	8,954	7,352
Other	13,555	11,138
	<hr/>	<hr/>
Total other assets	<u>\$ 44,634</u>	<u>38,051</u>

5. Ownership in cooperatives and others (\$ in Thousands)

	<u>August 31,</u>	
	<u>2010</u>	<u>2009</u>
Nonsubsidiary cooperatives:		
National Cooperative Refinery Association (NCRA)	\$ 188,735	175,093
CoBank, ACB	8,480	9,356
Universal Cooperatives, Inc.	4,060	4,060
Member Cooperatives of GROWMARK, Inc.	3,684	3,749
	<hr/>	<hr/>
	204,959	192,258
Available-for-sale securities (\$130,880 cost at August 31, 2010, \$134,930 at August 31, 2009)	258,680	246,547
Others:		
UPI, Inc.	15,928	15,512
Malta Industries LLC	3,308	7,691
TruServ Canada, Inc.	2,699	2,628
Other	24,355	13,436
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	<u>\$ 509,929</u>	<u>478,072</u>

At August 31, 2010, the gross pre-tax unrealized gains on long-term available-for-sale securities were \$141.1 million. The gross pre-tax unrealized losses on long-term available-for-sale securities were \$13.3 million, resulting in a net unrealized gain of \$127.8 million (or \$78.6 million, net of \$49.2 million of deferred income taxes). At August 31, 2009, the gross pre-tax unrealized gains on long-term available-for-sale securities were \$122.7 million. The gross pre-tax unrealized losses on long-term available-for-sale securities were \$11.1 million, resulting in a net unrealized gain of \$111.6 million (or \$68.6 million, net of \$43.0 million of deferred income taxes).

The gross realized loss on sales of long-term available-for-sale securities was \$1.3 million (\$0 in 2009). The gross realized gain on sales of long-term available-for-sale securities was \$13.7 million, resulting in a net realized gain of \$12.4 million, as reported in the Statement of Operations for the year ended August 31, 2010 (\$7.7 million in 2009). The cost basis used to compute the net realized gain on sales was specific identification for all available-for-sale securities.

A \$4.2 million loss on available-for-sale securities was recognized in the Statement of Operations due to other-than-temporary impairment assessments (\$0 in 2009).

6. Derivative Instruments (\$ and Quantities in Thousands)

The Company manages interest rate risk with derivatives designated in a hedging relationship as cash flow hedges having a maximum term of 60 months at August 31, 2010. The objective is to minimize the risk and volatility of interest expense by fixing the interest rate on a portion of actual or forecasted borrowings. These derivative instruments may include over-the-counter (OTC) swap and option contracts. The changes in the market value of such contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in expected cash flows on the underlying floating rate debt and is a component of other comprehensive income.

Interest rate swaps outstanding at August 31, 2010 hedge \$122 million of variable rate borrowings (\$96.5 million in 2009). Unrealized gains and losses on interest rate swaps currently recorded in accumulated other comprehensive income will be reclassified as a component of interest expense as the derivatives approach maturity in the same period or periods during which the hedged transaction affects earnings. The Company anticipates that approximately \$8.6 million will be reclassified to interest expense within the next twelve months.

The Company also manages some of its overall commodity price risk with derivatives designated in a hedging relationship as cash flow hedges having a maximum term of 3 months at August 31, 2010. The objective is to reduce the variability of cash flows associated with the Company's forecasted purchases and sales of soybeans. These derivative instruments may include exchange-traded futures and options contracts. The changes in the market value of such contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in the expected cash flows associated with purchasing and selling the underlying commodity and is a component of other comprehensive income.

The contract quantity of soybean futures and options at August 31, 2010 is 0.5 million bushels. Unrealized gains and losses on futures and options contracts currently recorded in accumulated other comprehensive income will be reclassified as a component of cost of sales as the derivatives approach maturity in the same period or periods during which the hedged transaction affects earnings. The Company anticipates that approximately \$0.5 million will be reclassified to cost of sales within the next twelve months.

Certain operations and subsidiaries of the Company hold derivative instruments that have not been designated as a hedge, such as futures, options, forward contracts, and over-the-counter (OTC) swaps that it believes provide an economic hedge of overall price risk of grain, fuel, and fertilizer commodities. The purpose in holding these derivatives is to reduce the variability of cash flows associated with forecasted purchases and sales of the underlying commodities.

As of August 31, 2010 the Company and its subsidiaries had the following quantities outstanding (on a net basis) on derivative contracts that were entered into as non-designated economic hedges of overall price risk:

<u>Underlying</u>	<u>Long (Short)</u> <u>Quantity</u>
Corn	(14,951) bushels
Soybeans	(2,354) bushels
Wheat/Other grain	(6,089) bushels
Liquid fuels	12,364 gallons
Fertilizer	35 tons

The fair value of derivative instruments reported in the Statement of Financial Position are shown below, segregated by derivatives designated as hedging instruments under ASC 815 and derivatives not designated as hedging instruments under ASC 815 as of August 31, 2010.

	Assets Located in Receivables- Net	Liabilities Located in Accounts Payable	Liabilities Located in Other Current Liabilities	Liabilities Located in Other Long-term Liabilities
Designated derivative instruments:				
Interest rate contracts	\$ ---	\$ ---	\$ 8,614	\$ 3,622
Commodity contracts	<u> (168)</u>	<u> ---</u>	<u> ---</u>	<u> ---</u>
Total Designated	<u> (168)</u>	<u> ---</u>	<u> 8,614</u>	<u> 3,622</u>
Derivatives not designated:				
Commodity contracts	<u> 27,424</u>	<u> (35)</u>	<u> 31,815</u>	<u> ---</u>
Total derivatives	<u>\$ 27,256</u>	<u>\$ (35)</u>	<u>\$ 40,429</u>	<u>\$ 3,622</u>

See footnote 10 categorization of derivative instruments measured using the fair value hierarchy.

The effect of derivatives designated in hedges under ASC 815 is shown below, as reported in the Statement of Operations and the Statement of Shareholders' Equity for the year ended August 31, 2010:

	<u>Designated Derivatives Gain (Loss)</u>		
	<u>Interest</u>	<u>Commodity</u>	<u>Total</u>
	<u>Rate Swaps</u>	<u>Contracts</u>	
Effective Portion:			
Recognized in OCI	\$(10,680)	\$ (168)	\$ (10,848)
Location when reclassified from AOCI into income	Interest income/ (expense)	Cost of sales	
Amount reclassified from AOCI into expense	\$ 4,767	\$ ---	\$ 4,767

During 2010, immaterial levels of ineffectiveness were recognized in interest expense.

The effect of derivatives held as economic hedges but not designated under ASC 815 is shown below, as reported in the Statement of Operations for the year ended August 31, 2010:

	<u>Non-Designated</u>
	<u>Derivatives</u>
	<u>Gain (Loss)</u>
	<u>Commodity</u>
	<u>Contracts</u>
Location when recognized in income	Cost of sales
Recognized in income	\$ (5,456)

Certain subsidiaries and divisions of the Company utilize exchange-traded futures and options as well as over-the-counter (OTC) cash forward purchase and sales contracts to manage commodity price risk associated with marketing grain. Substantially all of the grain sales of these subsidiaries/divisions are the result of physical delivery of commodities against cash forward contracts, and substantially all of the grain cost of sales are the result of purchases of commodities on forward cash contracts, gains and losses from all other commodity derivatives along with the change in value of grain inventories (non-derivatives) which are recorded at market price. These derivatives meet the definition of trading activities and may be presented using an alternative disclosure format, which includes disclosing the realized and unrealized gains and losses on both derivative instruments and non-derivative instruments.

The following table includes the alternative disclosures about the effect of trading activities on the Statement of Operations for the year ended August 31, 2010:

<u>Commodity Contracts</u>	
Sales	\$851,268
Cost of sales	808,731

7. Debt (\$ in Thousands)

	<u>August 31,</u>	
	<u>2010</u>	<u>2009</u>
Long-term notes payable to financial institutions:		
5.74% to 6.80% secured notes due in monthly installments from 2011 through 2018 (5.74% to 6.80% in 2009)	\$ 11,308	11,788
1.511% to 7.88% secured notes due in 2013 (1.538% to 7.982% in 2009)	50,000	50,000
1.538% to 5.83% secured notes due in annual installments from 2011 through 2021 (1.605% to 5.83% in 2009)	94,000	95,500
3.11% secured notes due in 2021	8,000	---
3.11% secured notes due in 2015 (3.26% in 2009)	9,575	10,602
2.45% secured notes due in 2013	6,683	---
Total debt	179,566	167,890
Amounts due within one year	2,010	1,980
Net long-term debt	<u>\$ 177,556</u>	<u>165,910</u>

Long-term debt maturities for the four years succeeding August 31, 2011 are \$2.9 million in 2012, \$52.9 million in 2013, \$8.1 million in 2014, and \$12.7 million in 2015.

Long-Term Notes Payable of the Company

Long-term notes payable of \$11.3 million (\$11.8 million at August 31, 2009) are secured by a mortgage or a security agreement of approximately equal value on certain real property and equipment of the Company.

Under a syndication credit facility, long-term notes payable of \$50 million (\$50.0 million at August 31, 2009) with CoBank, ACB (CoBank) are secured by the Company's inventory and accounts receivable and certain ownership in other companies with a book value of \$980 million (\$941 million at August 31, 2009).

Other long-term notes payable with Metropolitan Life Insurance Company of \$94.0 million at August 31, 2010 (\$95.5 million at August 31, 2009) are secured by public stock of various other companies and mutual funds that are owned by the Company with a market value of \$183.6 million (\$178.1 million at August 31, 2009).

Certain covenants of these loans require the Company to maintain a minimum amount of net worth and working capital, and limit the amount of debt and direct or contingent obligations.

Short-Term Notes Payable of the Company

The Company has secured short-term lines of credit extending to December 2012 totaling \$375.0 million at August 31, 2010 (\$375.0 million at August 31, 2009). At August 31, 2010, \$31.1 million was outstanding at variable rates (\$76.9 million at August 31, 2009). Substantially all of the Company's and certain subsidiaries' current assets and certain ownership in other companies are security under a syndication credit facility agreement for this short-term line of credit.

The Company has a secured variable rate short-term note payable with a vendor, National Cooperative Refinery Association (NCRA), with \$5.2 million outstanding at August 31, 2010 (\$87.5 million at August 31, 2009). The note is secured by the Company's investment in NCRA.

A short-term note payable with Wells Fargo of \$9.5 million at August 31, 2010 under a \$50 million line of credit is secured by stock of various companies that are owned by the Company with a market value of \$75.0 million. A similar line of credit with Morgan Stanley had \$50 million outstanding at August 31, 2009.

A short-term note payable with Citibank, NA of \$20 million has not yet had any security pledged to the executed security agreement and had no outstanding balance as of August 31, 2010.

Consolidated Non-Recourse Long-Term Notes Payable

At August 31, 2010, a subsidiary (Total Grain Marketing, LLC, or TGM) of the Company had a term note payable with John Deere Credit, Inc. (non-recourse to the Company) with \$6.7 million outstanding at August 31, 2010 (no borrowings outstanding at August 31, 2009). The note is collateralized by a first mortgage on TGM's facilities and a second security position on its personal property and is not cross-collateralized with assets of the Company.

At August 31, 2010, a subsidiary (WESTERN GRAIN MARKETING, LLC, or WGM) of the Company had a long-term note payable with CoBank (non-recourse to the Company), with \$9.6 million outstanding at August 31, 2010 (\$10.6 million at August 31, 2009). The note is collateralized by a security agreement covering all assets of the subsidiary and is not cross-collateralized with assets of the Company.

At August 31, 2010, a subsidiary (NORTHERN GRAIN MARKETING, LLC, or NGM) of the Company had a term note payable with CoBank (non-recourse to the Company), with \$8.0 million outstanding at August 31, 2010 (no borrowings at August 31, 2009). The note is collateralized by a security agreement covering the property, plant and equipment of NGM and is not cross-collateralized with assets of the Company.

Consolidated Non-Recourse Short-Term Notes Payable

At August 31, 2010, a subsidiary (TGM) of the Company has a short-term line of credit of \$100.0 million (\$150.0 million at August 31, 2009) with CoBank that is collateralized by a security agreement covering personal property of TGM (not cross collateralized with assets of the Company) and is used to finance business operations with \$6.2 million outstanding at August 31, 2010 (no borrowings at August 31, 2009).

At August 31, 2010, a subsidiary (WGM) of the Company has a short-term line of credit of \$75.0 million (\$75.0 million at August 31, 2009) with CoBank that is collateralized by a security agreement covering all assets of WGM (not cross-collateralized with assets of the Company) and is used to finance business operations with \$7.8 million outstanding at August 31, 2010 (no borrowings at August 31, 2009).

At August 31, 2010 a subsidiary (NGM) of the Company has a short-term line of credit of \$60.0 million (\$50.0 million at August 31, 2009). Substantially all of NGM's current assets are security and are not cross-collateralized with assets of the Company. This short-term line of credit exists under a syndication credit facility agreement led by Bank of America, N.A. and is used to finance business operations. At August 31, 2010 there was \$3.2 million outstanding (no borrowings at August 31, 2009).

At August 31, 2010, a subsidiary (MID-CO Commodities, Inc.) of the Company has two short-term lines of credit with CoBank (non-recourse to the Company) that are secured by MID-CO's investment in CoBank and personal property, consisting of a \$20.0 million line of credit (\$20.0 million at August 31, 2009) to finance margin deposits with no borrowings outstanding (none at August 31, 2009) and a \$25.0 million line of credit (\$50.0 million at August 31, 2009) to finance the purchase of grain inventory under MID-CO's inventory purchase program with \$4.1 million outstanding (\$3.2 million in 2009). These lines of credit are not cross-collateralized with assets of the Company.

8. Other long-term liabilities (\$ in Thousands)

		<u>August 31,</u>	
		<u>2010</u>	<u>2009</u>
Pensions/Postretirement benefits	\$	126,935	82,168
Deferred income taxes		1,465	19,128
Other liabilities		29,290	26,912
Total other long-term liabilities	\$	157,690	128,208

9. Capital stock (\$ in Thousands)

		<u>August 31,</u>	
		<u>2010</u>	<u>2009</u>
Class B Preferred, 3% cumulative, \$.15 par value, authorized 2,000,000 shares	\$	172	172
Class D Preferred, nondividend, \$100 par value, authorized 3,150,000 shares		260,079	221,746
Class F Preferred, nondividend, nonvoting, \$25 par value, authorized 300,000 shares		1,218	888
To be issued as patronage refunds in:			
Class D Preferred, or Class F Preferred		35,432	42,096
Non-qualified Class D Preferred stock, or stock credits		1,040	---
Paid-In Capital		1,533	1,018
Common, no par or stated value; 1,500 shares authorized, 224 shares outstanding, (226 shares in 2009)		---	---
	\$	299,474	265,920

10. Fair Value Measurements (\$ in Thousands)

The Company and its subsidiaries have adopted Accounting Standards Codification (ASC) 820 - Fair Value Measurements (formerly SFAS 157), which establishes a framework for measuring fair value, and which did not have an impact on the financial statements. Assets and liabilities recorded at fair value on the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following fair value hierarchy tables present information about assets and liabilities measured at fair value on a recurring basis as of August 31, 2010 and August 31, 2009.

	Assets/(Liabilities) at Fair Value as of August 31, 2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial securities	\$ 259,709	\$ 21,095	\$ ---	\$ 280,804
Interest rate derivatives	---	(12,236)	---	(12,236)
Commodity contracts	(15,996)	11,472	---	(4,524)
Grain inventory	88,480	---	---	88,480

	Assets/(Liabilities) at Fair Value as of August 31, 2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial securities	\$ 247,441	\$ 18,668	\$ ---	\$ 266,109
Interest rate derivatives	---	(6,311)	---	(6,311)
Commodity contracts	(2,494)	(8,616)	---	(11,110)
Grain inventory	38,532	---	---	38,532

For additional required disclosures regarding the Company's use of derivative instruments see footnote 6.

11. Income taxes (\$ in Thousands)

At August 31, 2010, the Company and its subsidiaries have a total net deferred tax asset of \$7.2 million (\$9.6 million net deferred tax liability at August 31, 2009) with deferred assets totaling \$95.7 million and deferred liabilities totaling \$88.5 million (\$73.9 million and \$83.5 million at August 31, 2009, respectively).

The deferred items include temporary differences related to accounting methods being used for financial accounting that differ from those used for tax accounting. The types of differences include items such as bad debt expense, depreciation of property, plant and equipment, pension cost, and postretirement health benefit cost. The deferred tax liability is primarily related to the unrealized gain on available-for-sale investments.

The following table identifies key components of income tax expense:

	<u>Years Ended August 31,</u>	
	<u>2010</u>	<u>2009</u>
Current tax expense	\$ 15,171	(1,418)
Deferred tax expense	(4,600)	6,178
	<u>\$ 10,571</u>	<u>4,760</u>

The Company and its subsidiaries are subject to income tax filing requirements imposed by the federal, state, and provincial taxing authorities in the United States and Canada. Income tax returns filed, or to be filed, by the Company and its U.S. subsidiaries are subject to examination by the U.S. federal, state and local taxing authorities for tax years ending after August 31, 2005. The income tax returns filed, or to be filed, by the Company and its foreign subsidiaries are subject to examination by the Canadian and provincial taxing authorities for tax years ending after August 31, 2002.

The Company and its subsidiaries adopted the provisions of Accounting Standards Update (ASU) No. 2009-06 - Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities (formerly FIN 48), on September 1, 2009. As a result of the implementation of ASU No. 2009-06, the Company reduced its liability for uncertain tax positions by \$1.3 million with a corresponding increase to retained earnings.

The Company and its subsidiaries recognize interest and penalty expense, if any, related to unrecognized tax benefits in its provision for income taxes. During the year ended August 31, 2010, the Company and its subsidiaries did not recognize any interest or penalty expense related to unrecognized tax benefits in the

Consolidated Statements of Operations. The Company and its subsidiaries had approximately \$0.5 million recorded as a liability for interest expense related to unrecognized tax benefits in the Consolidated Statements of Financial Position.

The effective income tax rate for fiscal 2010 and 2009 is less than the statutory rate, primarily due to the issuance of patronage refunds.

12. Pensions and postretirement health benefits (\$ in Thousands)

The pension and health benefits measurements below are based on an August 31 valuation date.

U.S. defined benefit plans:

	Pension		Health Benefits	
	August 31,		August 31,	
	2010	2009	2010	2009
Total plan assets	\$ 209,734	200,340	---	---
Total projected benefit obligation	303,326	251,156	35,093	33,424
Funded status	\$ (93,592)	(50,816)	(35,093)	(33,424)
Accumulated benefit obligation	\$ 256,881	219,026	---	---

	Pension		Health Benefits	
	Years Ended August 31,		Years Ended August 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Service cost	\$ 7,748	6,055	332	322
Interest cost	14,072	13,333	1,828	1,797
Expected return on plan assets	(16,733)	(16,238)	---	---
Net amortization	4,540	(166)	(186)	(229)
Plan expenses	---	---	---	---
Benefit cost	\$ 9,627	2,984	1,975	1,890
Benefits paid	5,894	5,200	1,358	1,089
Premiums paid by company	---	---	1,358	1,089
Employer contribution	1,624	21,277	---	---

Amounts recognized in the statement of financial position consist of:

	Pension		Health Benefits	
	August 31,		August 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ ---	---	---	---
Noncurrent assets	---	---	---	---
Current liabilities	(240)	(165)	(1,510)	(1,525)
Noncurrent liabilities	\$ (93,352)	(50,268)	(33,583)	(31,900)

	Assumptions - Pension Benefit Cost		Assumptions - Health Benefit Cost	
	In Fiscal Year Ending		In Fiscal Year Ending	
	<u>08/31/2010</u>	<u>08/31/2009</u>	<u>08/31/2010</u>	<u>08/31/2009</u>
Discount rate	5.70%	6.80%	5.60%	6.95%
Long-term rate of return	8.5%	8.5%	---	---
Salary increase	4.5%-7.5%	4.5%-7.5%	---	---

	Assumptions - Pension Benefit Obligations at		Assumptions - Health Benefit Obligations at	
	08/31/2010		08/31/2009	
	<u>08/31/2010</u>	<u>08/31/2009</u>	<u>08/31/2010</u>	<u>08/31/2009</u>
Discount rate	4.85%	5.70%	4.75%	5.60%
Salary increase	4.5%-7.5%	4.5%-7.5%	---	---

The investment policy for retirement plan assets is established by GROWMARK management with asset management being performed by a professional asset management firm. The plan's primary investment objective is to exceed, on a net-of-fee basis, the return of a policy portfolio composed of the following indices mixed according to the corresponding weights:

<u>Asset Class</u>	<u>Index</u>	<u>Weights</u>
U.S. Equities	Wilshire 5000 Index	45%
Non-U.S. Equities	MSCI All Country World Ex - U.S. Index	20%
Bonds	Lehman Brothers Aggregate Index	35%
Total		100%

The plan assets are invested according to the asset classes and weights shown in the above table with rebalancing of the major components performed on a semi-annual basis.

The plan's equity exposure will consist of investments in common stocks ranging from large - to small - capitalization as well as both U.S. and non-U.S. stocks. At least 30% but not more than 50% of each of the U.S. and non-U.S. equity components are to utilize passive management components. The plan's fixed income assets will be diversified among different segments of the bond market, as well as diversified by maturities and issuers.

The expected long term rate of return for plan assets has been derived based on historical averages of similarly diversified portfolios of high quality equities and fixed income securities.

The plan assets measured using fair value techniques on a recurring basis, have been categorized based upon a fair value hierarchy in accordance with ASC 820 (see Note 10) in the table below.

	<u>Assets at Fair Value as of August 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Cash				
Equivalents:	\$ 7,621	\$ ---	\$ ---	\$ 7,621
Equities:				
US Equities & Mutual				
	67,107	---	---	67,107
US Index Funds	24,647	---	---	24,647
Foreign Equities and				
Mutual Funds	24,678	---	---	24,678
Foreign Index Funds	19,650	---	---	19,650
Total Equities	136,082	---	---	136,082
Fixed Income:				
Money Market Funds	5,555	---	---	5,555
Government Bonds	---	26,197	---	26,197
Corporate Bonds	---	20,333	---	20,333
Mortgage-Backed				
Securities	---	13,946	---	13,946
Total Fixed Income	5,555	60,476	---	66,031
Total assets at				
fair value	<u>\$ 149,258</u>	<u>\$ 60,476</u>	<u>\$ ---</u>	<u>\$ 209,734</u>

14. Commitments and guarantees

At August 31, 2010, a subsidiary of the Company was contingently liable for up to \$25.0 million (\$25.0 million at August 31, 2009) of loans to patrons participating in the FS Agri-Finance program. Of the total loans outstanding of \$168.3 million (\$177.3 million at August 31, 2009), the subsidiary has recourse to GROWMARK, Inc. member cooperatives for \$111.0 million (\$115.5 million at August 31, 2009).

The maximum potential future payments for guarantees indicated above totals \$25 million (\$25 million at August 31, 2009). The estimated fair value of these guarantees at their origination dates were deemed to be an immaterial amount and therefore have not been accounted for as a liability on the Company's financial statements. The Company anticipates that in the event that any of these guarantees were activated there would be sufficient proceeds from liquidation of collateral to materially cover the maximum potential amount of future payments.

As part of the Company's overall risk management program the Company self-insures for certain risk exposure situations. As part of this program, a performance bond has been purchased from an insurance company and a letter of credit has been issued to an insurance company. As of August 31, 2010, the amount of the performance bond coverage was \$10.0 million and the amount of the letter of credit was \$2.0 million (\$10.0 million and \$1.5 million at August 31, 2009, respectively).

15. Other litigation and claims

The Company is involved as a defendant in various lawsuits, claims, and disputes which are in the normal course of business. The Company intends to vigorously defend itself against these actions and proceedings. The Company believes the resolution of any such matters will not have a material adverse impact on the consolidated financial position of the Company.