

GROWMARK, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2011 AND 2010

with

REPORT OF INDEPENDENT AUDITORS

## Report of Independent Auditors

The Board of Directors of GROWMARK, Inc.

We have audited the accompanying consolidated statements of financial position of GROWMARK, Inc. as of August 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. 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 did not audit the financial statements of Northern Grain Marketing, LLC, Total Grain Marketing, LLC, and Western Grain Marketing, LLC, subsidiaries of the Company, whose statements reflect total assets of \$359 million and \$193 million as of August 31, 2011 and 2010, respectively, and net sales of \$1,011 million and \$570 million, respectively, for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GROWMARK, Inc. at August 31, 2011 and 2010, and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

October 7, 2011

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2011 and 2010

(\$ In Thousands)

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 7,218	7,768
Segregated funds	75,761	55,135
Receivables - net	734,809	524,132
Inventories	714,575	432,377
Prepaid expenses and other assets	155,961	67,205
Deferred income taxes	11,110	8,663
Total current assets	1,699,434	1,095,280
Other assets	55,816	44,634
Ownership in cooperatives and others	559,246	509,929
Property, plant and equipment:		
Land and improvements	52,897	22,766
Buildings	98,045	74,559
Machinery and equipment	236,559	171,276
Transportation equipment	73,616	56,953
Leasehold improvements	10,107	8,332
Construction in progress	19,701	18,997
	490,925	352,883
Less accumulated depreciation	174,618	126,573
Net property, plant and equipment	316,307	226,310
Total assets	\$ 2,630,803	1,876,153
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Notes payable	\$ 173,814	67,082
Accounts payable	380,673	261,732
Patronage refunds payable in cash	35,458	33,499
Long-term debt due within one year	2,663	2,010
Customer prepayments	335,445	160,985
Other current liabilities	222,680	196,737
Total current liabilities	1,150,733	722,045
Long-term debt	328,453	177,556
Other long-term liabilities	158,881	157,690
GROWMARK Shareholders' equity:		
Capital stock	333,610	299,474
Retained earnings	556,401	445,352
Accumulated other comprehensive income	31,602	14,003
Total GROWMARK shareholders' equity	921,613	758,829
Non-GROWMARK ownership in subsidiaries	71,123	60,033
Total equity	992,736	818,862
Total liabilities and equity	\$ 2,630,803	1,876,153

See accompanying notes.

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended August 31, 2011 and 2010

(\$ In Thousands)

	<u>2011</u>	<u>2010</u>
Net sales	\$ 8,597,241	6,132,005
Cost of sales	8,308,583	5,901,614
Gross margin	288,658	230,391
General, administrative and selling expense	(145,115)	(120,155)
Other income - net	35,000	14,081
Total operating income	178,543	124,317
Net gain from securities activity	109,452	8,195
Interest expense	(27,038)	(13,418)
Pretax income	260,957	119,094
Income tax expense	(53,682)	(10,571)
Consolidated net income	207,275	108,523
Less: Net income attributable to non-GROWMARK ownership in subsidiaries	(11,246)	(9,759)
Net income attributable to GROWMARK	\$ 196,029	98,764
Distribution of net income attributable to GROWMARK:		
Patronage - cash	\$ 35,452	33,499
- preferred stock	48,099	35,432
- non-qualified preferred stock	1,021	1,040
Dividends	408	165
Increase in retained earnings	111,049	28,628
	\$ 196,029	98,764

See accompanying notes.

GROWMARK, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)  
Years Ended August 31, 2011 and 2010  
(\$ In Thousands)

	GROWMARK			Non-GROWMARK Ownership in Subsidiaries	Total Comprehensive Income (Loss)
	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income		
Balance at August 31, 2009	\$ 265,920	415,395	30,225	50,429	
Cumulative effect of changes in accounting for uncertain tax positions		1,333			
Net earnings before patronage refunds		98,764		98,764	108,523
Cash dividends on preferred stock		(165)			
Preferred stock redemption	(2,918)				
Patronage dividends to be distributed in cash		(33,499)			
Patronage dividends to be distributed in capital stock	35,432	(35,432)			
Patronage dividends to be distributed in non-qualified capital stock	1,040	(1,040)			
Contributions by owners				3,130	
Distributions to owners				(3,329)	
Unrealized net holding gain on available-for-sale securities \$16,182, net of tax \$6,230			9,952	9,952	10,589
Foreign currency translation adjustments \$1,758, net of tax \$717			1,041	1,041	1,041
Unrealized loss on derivative financial instruments \$(6,401), net of tax \$(2,263)			(4,138)	(4,138)	(4,138)
Defined benefit and other postretirement plan adjustments \$(37,098), net of tax \$(14,021)		(4)	(23,077)	(23,077)	(23,670)
Balance at August 31, 2010	299,474	445,352	14,003	60,033	
Comprehensive income (loss)				<u>\$ 82,542</u>	<u>92,345</u>
Net earnings before patronage refunds		196,029		196,029	207,275
Cash dividends on preferred stock		(408)			
Preferred stock redemption	(14,984)				
Patronage dividends to be distributed in cash		(35,452)			
Patronage dividends to be distributed in capital stock	48,099	(48,099)			
Patronage dividends to be distributed in non-qualified capital stock	1,021	(1,021)			
Contributions by owners				600	
Distributions to owners				(1,107)	
Unrealized net holding loss on available-for-sale securities \$(1,840), net of tax \$(708)			(1,132)	(1,132)	(1,172)
Foreign currency translation adjustments \$7,797, net of tax \$3,041			4,756	4,756	4,902
Unrealized gain on derivative financial instruments \$1,770, net of tax \$493			1,277	1,277	1,277
Defined benefit and other postretirement plan adjustments \$20,618, net of tax \$7,920			12,698	12,698	12,943
Balance at August 31, 2011	<u>\$ 333,610</u>	<u>556,401</u>	<u>31,602</u>	<u>71,123</u>	
Comprehensive income (loss)				<u>\$ 213,628</u>	<u>225,225</u>
		<u>2010</u>	<u>2011</u>		
Cumulative unrealized holding gains on available-for-sale securities, net of tax \$48,495 in 2011, \$49,203 in 2010	\$	78,597	\$ 77,465		
Cumulative foreign currency translation adjustments, net of tax \$6,623 in 2011, \$3,582 in 2010		5,449	10,205		
Cumulative unrealized gains (losses) on derivative financial instruments, net of tax \$(4,181) in 2011, \$(4,674) in 2010		(8,024)	(6,747)		
Cumulative defined benefit/ postretirement accounting, net of tax \$(30,436) in 2011, \$(38,356) in 2010		(62,019)	(49,321)		
		<u>\$ 14,003</u>	<u>\$ 31,602</u>		

See accompanying notes.

GROWMARK, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended August 31, 2011 and 2010  
(\$ In Thousands)

	<u>2011</u>	<u>2010</u>
<u>Operating Activity</u>		
Consolidated net income	\$ 207,275	108,523
Less: Net income attributable to non-GROWMARK ownership in subsidiaries	(11,246)	(9,759)
Net income attributable to GROWMARK	196,029	98,764
Patronage	84,572	69,971
Net income attributable to GROWMARK and after patronage	\$ 111,457	28,793
Depreciation/Amortization	51,074	31,322
Patronage received in stock	(45,434)	(15,818)
Patronage refund declared in stock	49,120	36,472
Other non-cash items	5,819	18,612
Net gain on available-for-sale securities	(109,452)	(8,195)
Segregated funds	(20,626)	(6,283)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts and notes receivable	(189,627)	(2,407)
Inventories	(245,549)	(6,883)
Accounts payable	61,357	(4,769)
Patronage refunds payable	1,959	(7,162)
Other long-term liabilities	7,482	(8,417)
Vendor prepayments	(83,534)	1,074
Customer prepayments	174,460	54,356
Other assets/liabilities	(6,694)	40,073
Net cash (used) provided by operating activities	(238,188)	150,768
<u>Ownership Activity</u>		
Proceeds from sale of available-for-sale securities	126,340	36,725
Purchases of available-for-sale securities	(4,741)	(24,481)
Purchases of ownership in cooperatives and others	(17,691)	(2,788)
Purchases of property, plant and equipment	(59,128)	(45,372)
Proceeds from sale of property, plant and equipment	2,084	2,930
Acquisition of businesses, net of cash acquired	(35,164)	(4,039)
Net cash provided (used) by ownership activities	11,700	(37,025)
<u>Financing Activity</u>		
Term debt additions	214,952	14,683
Term debt payments	(80,597)	(3,007)
Increase (decrease) in short-term borrowings	106,732	(153,029)
Redemption of preferred stock	(14,984)	(2,918)
Dividends on preferred stock	(165)	(5)
Net cash provided (used) by financing activities	225,938	(144,276)
Net decrease in cash and equivalents	(550)	(30,533)
Cash and equivalents at beginning of year	7,768	38,301
Cash and equivalents at end of year	\$ 7,218	7,768
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 24,754	12,856
Income Taxes	35,338	2,916

GROWMARK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2011 and 2010

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.

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 and accounts payable, approximates their fair value based on market rates currently available for financial instruments with similar terms and remaining maturities (note 10). The Company has determined it is not practical to calculate the fair value of debt without incurring excessive cost to do so. See notes 5 and 6 for disclosure about fair values of investments and derivatives, respectively.

e. Receivables

Receivables are stated net of an allowance for doubtful accounts of \$13.7 million at August 31, 2011 and \$13.8 million in 2010. 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 impairment deemed other than temporary. 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 market. Cost is determined on the first-in, first-out or average cost methods.

In the prior year, certain grain inventories of a subsidiary of \$4.1 million purchased from qualified customers were valued at identified cost and were hedged by concurrently executed contracts with customers to buy back the grain at the same price plus interest within 90 days. The subsidiary held no grain inventories under this program at August 31, 2011.

Patronage refunds are recorded when received and are included in the Consolidated Statements 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). In accordance with Accounting Standards Codification (ASC) 350 - Intangibles - Goodwill and Other, 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, 2011 and 2010 are the total assets of its Ontario, Canada operations which total approximately \$197 million (\$148 million in 2010.)

l. 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. Accounting pronouncements

In May 2011, Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective for fiscal years beginning after December 15, 2011. For U.S. GAAP, ASU 2011-04 is intended to clarify existing guidance or change words to align the guidance with IFRS. The Company is currently evaluating the impact of this standard.

In June 2011, Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, was issued and is effective for fiscal years ending after December 15, 2012. ASU 2011-05 is intended to increase the prominence of comprehensive income in the financial statements by eliminating the option to report other comprehensive income and its components in the statement of changes in stockholder's equity. The new standard requires comprehensive income to be reported in either a single statement that presents the components of net income, the components of comprehensive income, and total comprehensive income, or in two consecutive statements. Adoption of the standard will not have an impact on key metrics for the Company.

In September 2011, Accounting Standards Update (ASU) 2011-32, Optional Screen for Goodwill Impairment, was issued and is effective for fiscal years beginning after December 15, 2011. ASU 2011-32 gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step impairment test and reduce costs. The ASU may change how a company tests for goodwill impairment but should not change the timing or measurement of goodwill impairments.

n. Subsequent events

Subsequent events have been evaluated through October 7, 2011 which is the date that the financial statements were available to be issued.

o. Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

2. Acquisitions (\$ in Thousands)

During 2011, the Company and its subsidiaries acquired various wholesale and retail businesses in the energy and agronomy sectors of the agricultural industry. As a result of these acquisitions, the Company expects to realize revenue growth and increased earnings. The aggregate purchase price was \$60.2 million. The results of these operations have been included in the consolidated financial statements since the dates of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

Receivables, inventory, and other current assets	\$ 79,178
Property, plant and equipment and other long-term assets	84,245
Total identifiable assets acquired	163,423
Notes, accounts payable, and other current liabilities	63,192
Long-term debt and other long-term liabilities assumed	19,106
Total liabilities assumed	82,298
Net identifiable assets acquired	81,125
Goodwill	2,292
Net assets acquired	\$ 83,417

Goodwill in the amount of \$2.3 million was recognized as a result of the acquisitions and is expected to be deductible for tax purposes. The goodwill arising from the acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Company and those of the acquirees.

The fair value of accounts receivables acquired was \$20.2 million. The Company expects \$0.6 million to be uncollectible.

In certain acquisitions, the fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of consideration transferred. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that they were all recognized and that the valuation procedures and resulting measures were appropriate. As a result, the Company recognized gains totaling \$23.2 million, which are included in the line item "Other income - net" in the Consolidated Statement of Operations for the year ended August 31, 2011.

During 2010, the Company and its subsidiaries acquired various retail energy and retail grain operations in the Midwest. The aggregate purchase price was \$6.7 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>2011</u>	<u>2010</u>
Assets held in trust by captive insurance subsidiary	\$ 23,568	22,125
Intangible assets	10,221	8,954
Other	22,027	13,555
Total other assets	<u>\$ 55,816</u>	<u>44,634</u>

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

	<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>
Nonsubsidiary cooperatives:		
National Cooperative Refinery Association (NCRA)	\$ 235,341	188,735
CoBank, ACB	8,433	8,480
Universal Cooperatives, Inc.	1,263	4,060
Member Cooperatives of GROWMARK, Inc.	3,535	3,684
	248,572	204,959
Available-for-sale securities (\$118,734 cost at August 31, 2011, \$130,880 at August 31, 2010)	244,151	258,680
Others	66,523	46,290
	<u>\$ 559,246</u>	<u>509,929</u>

At August 31, 2011, the gross pre-tax unrealized gains on long-term available-for-sale securities were \$130.2 million. The gross pre-tax unrealized losses on long-term available-for-sale securities were \$4.8 million, resulting in a net unrealized gain of \$125.4 million (or \$77.1 million, net of \$48.3 million of deferred income taxes). 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).

There was no gross realized loss on sales of long-term available-for-sale securities (\$1.3 million in 2010). The gross realized gain on sales of long-term available-for-sale securities was \$109.5 million, as reported in the Statement of Operations for the year ended August 31, 2011 (\$12.4 million in 2010). The cost basis used to compute the net realized gain on sales was specific identification for all available-for-sale securities.

During 2011, the Company recognized a loss on non-subsidiary cooperatives of \$2.8 million in "Other income - net" in the Consolidated Statements of Operations due to other than temporary impairment assessments (none in 2010). There was no loss recognized on available-for-sale securities due to other than temporary impairment assessments in 2011 (\$4.2 million in 2010).

## 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, 2011. 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, 2011 hedge \$106 million of variable rate borrowings (\$122 million in 2010). 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 \$8.0 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, 2011. 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, 2011 is 0.3 million bushels (0.5 million bushels in 2010). 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 \$0.3 million will be reclassified to cost of sales within the next twelve months.

The Company manages some of its foreign currency risk with derivatives designated in a hedging relationship as cash flow hedges having a maximum term of less than 1 month at August 31, 2011. The objective is to reduce the variability of cash flows associated with the Company's forecasted foreign currency transactions. These derivatives include foreign currency forward 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 selling the underlying currency and is a component of other comprehensive income.

Foreign currency forward contracts outstanding at August 31, 2011 hedge the equivalent of \$3.0 million of US currency. Unrealized gains and losses on foreign currency forward contracts currently recorded in accumulated other comprehensive income will be reclassified as a component of other income as the derivatives approach maturity in the same period during which the transaction affects earnings. The Company anticipates that approximately \$0.1 million will be reclassified to other income within the next twelve months.

Certain operations and subsidiaries of the Company hold derivative instruments that have not been designated as hedges, such as futures, options, forward contracts, and over-the-counter (OTC) swaps that are believed to 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, 2011 and 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)Quantity</u>	
	<u>2011</u>	<u>2010</u>
Corn	(11,710)	(14,951) bushels
Soybeans	(1,396)	(2,354) bushels
Wheat/Other grain	(4,947)	(6,089) bushels
Liquid fuels	(16,000)	12,364 gallons
Fertilizer	(24)	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, 2011 and August 31, 2010, respectively.

2011 Assets/Liabilities Location

	Receivables- Net	Accounts Payable	Other Current Liabilities	Other Long-term Liabilities
Designated contracts:				
Interest rate	\$ ---	\$ ---	\$ 8,047	\$ 2,676
Foreign currency	116	---	---	---
Commodity	---	---	336	---
Total Designated	116	---	8,383	2,676
Non-Designated contracts:				
Commodity	141,388	---	102,652	---
Total derivatives	\$141,504	\$ ---	\$111,035	\$ 2,676

2010 Assets/Liabilities Location

	Receivables- Net	Accounts Payable	Other Current Liabilities	Other Long-term Liabilities
Designated contracts:				
Interest rate	\$ ---	\$ ---	\$ 8,614	\$ 3,622
Commodity	(168)	---	---	---
Total Designated	(168)	---	8,614	3,622
Non-Designated contracts:				
Commodity	27,424	(35)	31,815	---
Total derivatives	\$ 27,256	\$ (35)	\$ 40,429	\$ 3,622

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

The pre-tax 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 years ended August 31, 2011 and August 31, 2010, respectively:

	<u>2011 Designated Derivatives Gain (Loss)</u>			
	<u>Interest</u>	<u>Foreign</u>	<u>Commodity</u>	<u>Total</u>
	<u>Rate</u>	<u>Currency</u>		
Effective				
Portion:				
Recognized in				
OCI	\$ (3,159)	\$ 116	\$ (336)	\$ (3,379)
Reclassified				
from AOCI to				
expense:				
Location	Interest	Other	Cost of	
	expense	income	sales	
Amount	\$ 4,661	\$ ---	\$ 488	\$ 5,149

	<u>2010 Designated Derivatives Gain (Loss)</u>		
	<u>Interest</u>	<u>Commodity</u>	<u>Total</u>
	<u>Rate</u>		
Effective Portion:			
Recognized in OCI	\$ (10,680)	\$ (168)	\$ (10,848)
Reclassified from AOCI			
to expense:			
Location	Interest	Cost of	
	expense	sales	
Amount	\$ 4,767	\$ ---	\$ 4,767

During 2011 and 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 years ended August 31, 2011 and August 31, 2010, respectively:

Non-Designated Derivatives	
Gain (Loss)	
<u>Commodity Contracts</u>	
2011	2010

Recognized in income:

Location	Cost of sales	Cost of sales
Amount	\$(38,386)	\$(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 years ended August 31, 2011 and August 31, 2010, respectively:

<u>Commodity Contracts</u>	<u>2011</u>	<u>2010</u>
Sales	\$1,450,095	\$851,268
Cost of sales	1,376,681	808,731

7. Debt (\$ in Thousands)

	<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>
Long-term notes payable:		
5.74% to 6.80% secured notes due in monthly installments from 2012 through 2018 (5.74% to 6.80% in 2010)	\$ 10,798	11,308
3.25% long term secured note due in annual installments from December 2011 to December 2020	6,696	---
2.19% unsecured note due in 2017	4,247	---
Secured notes due in 2014 (1.511% to 7.88% in 2010, paid in full and closed by Company, December 2010)	---	50,000
1.247% to 5.83% secured notes due in annual installments from 2012 through 2021 (1.538% to 5.83% in 2010)	92,500	94,000
3.08% secured notes due in 2021 (3.11% in 2010)	---	8,000
3.08% secured notes due through 2016 (3.11% in 2010)	16,875	9,575
2.29% secured notes due in 2014 (2.45% in 2010)	---	6,683
4.45% secured notes due in 2018	40,000	---
4.92% secured notes due in 2020	50,000	---
5.29% secured notes due in 2023	60,000	---
5.54% secured notes due in 2026	50,000	---
Total debt	331,116	179,566
Amounts due within one year	2,663	2,010
Net long-term debt	\$ 328,453	177,556

Long-term debt maturities for the four years succeeding August 31, 2012 are \$2.7 million in 2013, \$4.0 million in 2014, \$5.9 million in 2015, and \$15.4 million in 2016.

Long-Term Notes Payable of the Company

Long-term notes payable of \$10.8 million (\$11.3 million at August 31, 2010) are secured by a mortgage or a security agreement of approximately equal value on certain real property and equipment of the Company.

During 2011, the Company secured \$200 million of long term fixed rate debt through a private placement. Substantially all of the Company's and certain subsidiaries' current assets, as well as certain ownership in other companies are pledged as collateral. These notes expire between 2017 and 2025 and rank pari passu with the Company's syndicated short-term line of credit.

Long-term notes payable with Metropolitan Life Insurance Company of \$92.5 million at August 31, 2011 (\$94.0 million at August 31, 2010) are secured by public stock of various other companies and mutual funds that are owned by the Company with a market value of \$160.3 million (\$183.6 million at August 31, 2010).

The Company has a long-term note payable of \$6.7 million (\$0 at August 31, 2010) with Nationwide Exchange Services Corp., which is secured by a mortgage on certain real property.

The Company has an unsecured variable rate promissory note payable to Central States Enterprises, LLC of \$4.2 million at August 31, 2011 (\$0 at August 31, 2010).

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 2015 totaling \$600.0 million at August 31, 2011 (\$375.0 million at August 31, 2010). At August 31, 2011, \$9.2 million was outstanding at variable rates (\$31.1 million at August 31, 2010). 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. These lines of credit rank pari passu with the Company's long term fixed rate private placement debt.

The Company has a secured variable rate short-term note payable with a vendor, National Cooperative Refinery Association (NCRA), with \$57.7 million outstanding at August 31, 2011 (\$5.2 million at August 31, 2010). The note is secured by the Company's investment in NCRA.

A \$50 million short-term note payable with Wells Fargo had no borrowings outstanding at August 31, 2011 and is secured by stock of various companies that are owned by the Company with a market value of \$80.8 million (\$9.5 million at August 31, 2010).

A \$20 million short-term note payable with Citibank, NA had no borrowings outstanding at August 31, 2011 and is secured by stock of various companies that are owned by the Company with a market value of \$2.9 million (\$0 at August 31, 2010).

### Consolidated Non-Recourse Long-Term Notes Payable

At August 31, 2011, 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 no borrowings outstanding at August 31, 2011 (\$6.7 million at August 31, 2010). 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, 2011, 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 \$16.9 million outstanding at August 31, 2011 (\$9.6 million at August 31, 2010). 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, 2011, a subsidiary (NORTHERN GRAIN MARKETING, LLC, or NGM) of the Company had a term note payable with CoBank (non-recourse to the Company), with no borrowings outstanding at August 31, 2011 (\$8.0 million at August 31, 2010). The note is collateralized by a first mortgage on NGM's facilities as well as a financing statement on select personal property and is not cross-collateralized with assets of the Company.

#### Consolidated Non-Recourse Short-Term Notes Payable

At August 31, 2011, a subsidiary (TGM) of the Company has a short-term line of credit of \$150.0 million (\$100.0 million at August 31, 2010) 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 \$37.8 million outstanding at August 31, 2011 (\$6.2 million at August 31, 2010).

At August 31, 2011, a subsidiary (WGM) of the Company has a short-term line of credit of \$100.0 million (\$75.0 million at August 31, 2010) 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 \$30.8 million outstanding at August 31, 2011 (\$7.8 million at August 31, 2010).

At August 31, 2011 a subsidiary (NGM) of the Company has a short-term line of credit of \$130.0 million (\$60.0 million at August 31, 2010). 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, 2011 there was \$38.3 million outstanding (\$3.2 million at August 31, 2010).

At August 31, 2011, 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 \$25.0 million line of credit (\$20.0 million at August 31, 2010) to finance margin deposits with no borrowings outstanding (none at August 31, 2010) and a \$25.0 million line of credit (\$25.0 million at August 31, 2010) to finance the purchase of grain inventory under MID-CO's inventory purchase program with no borrowings outstanding (\$4.1 million in 2010). 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>2011</u>	<u>2010</u>
Pensions/Postretirement benefits	\$	106,910	126,935
Deferred income taxes		22,407	1,465
Other liabilities		29,564	29,290
Total other long-term liabilities	\$	158,881	157,690

9. Capital stock (\$ in Thousands)

	<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>
Class B Preferred, 3% cumulative, \$.15 par value, authorized 2,000,000 shares	\$ 249	172
Class D Preferred, nondividend, \$100 par value, authorized 3,150,000 shares	280,379	260,079
Class F Preferred, nondividend, nonvoting, \$25 par value, authorized 300,000 shares	1,437	1,218
Class D Non-qualified Preferred, nondividend, \$100 par value, authorized 711,900 shares	938	---
To be issued as patronage refunds in:		
Class D Preferred, or Class F Preferred	48,099	35,432
Non-qualified Class D Preferred stock, or stock credits	1,021	1,040
Paid-In Capital	1,487	1,533
Common, no par or stated value; 1,500 shares authorized, 217 shares outstanding, (224 shares in 2010)	---	---
	\$ 333,610	299,474

10. Fair Value Measurements (\$ in Thousands)

The Company and its subsidiaries have adopted Accounting Standards Codification (ASC) 820 - Fair Value Measurements, 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, 2011 and August 31, 2010.

	Assets/(Liabilities) at Fair Value as of August 31, 2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial securities	\$258,103	23,392	---	281,495
Interest rate derivatives	---	(10,723)	---	(10,723)
Foreign currency forward contract	116	---	---	116
Commodity contracts	(27,473)	65,873	---	38,400
Grain inventory	118,938	---	---	118,938

	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

The valuation of financial assets and liabilities classified in Level 2 is determined using a market approach based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for substantially the full term of the financial instrument. For additional required disclosures regarding the Company's use of derivative instruments see footnote 6.

11. Income taxes (\$ in Thousands)

At August 31, 2011, the Company and its subsidiaries have a total net deferred tax liability of \$11.3 million (\$7.2 million net deferred tax asset at August 31, 2010) with deferred assets totaling \$83.4 million and deferred liabilities totaling \$94.7 million (\$95.7 million and \$88.5 million at August 31, 2010, 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, postretirement health benefit cost, and the unrealized gain on available-for-sale securities.

The following table identifies key components of income tax expense:

	<u>Years Ended August 31,</u>	
	<u>2011</u>	<u>2010</u>
Current tax expense	\$ 56,818	15,171
Deferred tax expense	(3,136)	(4,600)
	<u>\$ 53,682</u>	<u>10,571</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, 2007. 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, 2003.

The Company and its subsidiaries recognize interest and penalty expense, if any, in its provision for income taxes. Interest expense related to unrecognized tax benefits in the Consolidated Statement of Operations is immaterial for the years ended August 31, 2011 and August 31, 2010. The Company and its subsidiaries do not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

The effective income tax rate for fiscal 2011 and 2010 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:

	<u>Pension</u>		<u>Health Benefits</u>	
	<u>August 31,</u>		<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total plan assets	\$266,489	209,734	---	---
Total projected benefit obligation	343,506	303,326	32,538	35,093
Funded status	<u>\$(77,017)</u>	<u>(93,592)</u>	<u>(32,538)</u>	<u>(35,093)</u>
Accumulated benefit obligation	\$292,448	256,881	---	---

  

	<u>Pension</u>		<u>Health Benefits</u>	
	<u>Years Ended August 31,</u>		<u>Years Ended August 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Service cost	\$ 10,687	7,748	272	332
Interest cost	15,629	14,072	1,588	1,828
Expected return on plan assets	(19,148)	(16,733)	---	---
Net amortization	7,189	4,540	(206)	(186)
Plan expenses	---	---	---	---
Benefit cost	\$ 14,357	9,627	1,654	1,975
Benefits paid	8,184	5,894	1,414	1,358
Premiums paid by company	---	---	1,414	1,358
Employer contribution	16,094	1,624	---	---

Amounts recognized in the Consolidated Statements of Financial Position consist of:

	<u>Pension</u>		<u>Health Benefits</u>	
	<u>August 31,</u>		<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ ---	---	---	---
Noncurrent assets	---	---	---	---
Current liabilities	(1,073)	(240)	(1,572)	(1,510)
Noncurrent liabilities	\$ (75,944)	(93,352)	(30,966)	(33,583)
	<u>Assumptions - Pension Benefit Cost In Fiscal Year Ending</u>		<u>Assumptions - Health Benefit Cost In Fiscal Year Ending</u>	
	<u>08/31/2011</u>	<u>08/31/2010</u>	<u>08/31/2011</u>	<u>08/31/2010</u>
Discount rate	4.85%	5.70%	4.75%	5.60%
Long-term rate of return	8.5%	8.5%	---	---
Salary increase	4.5%-7.5%	4.5%-7.5%	---	---
	<u>Assumptions - Pension Benefit Obligations at</u>		<u>Assumptions - Health Benefit Obligations at</u>	
	<u>08/31/2011</u>	<u>08/31/2010</u>	<u>08/31/2011</u>	<u>08/31/2010</u>
Discount rate	5.05%	4.85%	4.85%	4.75%
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 (see Note 10) in the table below.

	<u>Assets at Fair Value as of August 31, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Cash				
Equivalents:	\$ 5,856	\$ ---	\$ ---	\$ 5,856
Equities:				
US Equities & Mutual	74,512	---	---	74,512
Funds	44,753	---	---	44,753
US Index Funds				
Foreign Equities and				
Mutual Funds	33,340	---	---	33,340
Foreign Index Funds	21,139	---	---	21,139
Total Equities	173,744	---	---	173,744
Fixed Income:				
Money Market Funds	19,671	---	---	19,671
Government Bonds	---	32,750	---	32,750
Corporate Bonds	---	17,959	---	17,959
Mortgage-Backed				
Securities	---	16,509	---	16,509
Total Fixed Income	19,671	67,218	---	86,889
Total assets at				
fair value	<u>\$ 199,271</u>	<u>\$ 67,218</u>	<u>\$ ---</u>	<u>\$ 266,489</u>

	<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				
Funds	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>

Expected future benefit payments from the plans, which reflect expected future service, as appropriate, are as follows:

	<u>Pension Benefit</u>	<u>Post Retirement</u>
	<u>Payments</u>	<u>Other Than Pension</u>
		<u>Benefit Payments</u>
2012	\$ 9,172	1,610
2013	12,091	1,742
2014	13,641	1,844
2015	15,263	1,933
2016	16,822	2,017
Years 2017-2021	106,731	10,803

The assumed annual rates of increase in the per capita cost of covered medical benefits for retirees is 8% in 2011, trending down to 7.5% in 2012. It is assumed by 2017 that rates will have changed to 5%.

13. Rentals under operating leases (\$ In Thousands)

The following is a schedule of minimum future rentals on non-cancelable operating leases as of August 31, 2011:

Year ending August 31,	
2012	\$ 7,133
2013	5,982
2014	5,252
2015	4,296
2016	3,544
Later years	6,062
	<u>\$ 32,269</u>

Rent expense was \$8,083 in 2011 (\$7,681 in 2010).

14. Commitments and guarantees

At August 31, 2011, a subsidiary of the Company was contingently liable under a guarantee for up to \$25 million (\$25 million at August 31, 2010) of loans to patrons of GROWMARK, Inc. member cooperatives participating in the FS Agri-Finance program.

The estimated fair value of the guarantee at its origination date was deemed to be an immaterial amount and therefore has not been accounted for as a liability on the subsidiary's financial statements. The Company anticipates that in the event that this guarantee 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. As of August 31, 2011, the amount of the performance bond coverage was \$13.0 million (\$10.0 million at August 31, 2010). In the prior year, the Company had also issued a letter of credit to an insurance company in the amount of \$2.0 million.

#### 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.