

GROWMARK, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2009 AND 2008

with

REPORT OF INDEPENDENT AUDITORS

Report of Independent Auditors

The Board of Directors
GROWMARK, Inc.

We have audited the accompanying consolidated statements of financial position of GROWMARK, Inc. as of August 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income, 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 \$139 million as of August 31, 2009 and net sales of \$611 million for the year then ended. We did not audit the financial statements of AgVantage FS, Inc., AgView Grain, LLC, Total Grain Marketing, LLC, and Western Grain Marketing, LLC, subsidiaries of the Company., whose statements reflect total assets of \$329 million as of August 31, 2008 and net sales of \$921 million for the year 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, 2009 and 2008, 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.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2008 consolidated financial statements.



October 1, 2009

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2009 and 2008

(\$ In Thousands)

<u>ASSETS</u>	<u>2009</u>	Restated <u>2008</u>
Current assets:		
Cash and equivalents	\$ 38,301	15,467
Segregated funds	48,852	79,951
Receivables - net	495,794	581,908
Inventories	412,255	718,361
Prepaid expenses and other assets	68,011	201,383
Deferred income taxes	9,526	10,828
Total current assets	1,072,739	1,607,898
Other assets	38,051	37,507
Ownership in cooperatives and others	478,072	590,874
Property, plant and equipment:		
Land and improvements	19,325	15,615
Buildings	67,355	44,587
Machinery and equipment	156,181	107,547
Transportation equipment	45,964	40,802
Leasehold improvements	7,988	6,711
Construction in progress	12,930	14,305
	309,743	229,567
Less accumulated depreciation	100,637	81,954
Net property, plant and equipment	209,106	147,613
Total assets	\$ 1,797,968	2,383,892
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Notes payable	\$ 220,111	351,383
Accounts payable	266,502	335,475
Patronage refunds payable in cash	40,661	54,827
Long-term debt due within one year	1,980	1,952
Customer prepayments	106,628	245,393
Other current liabilities	105,999	206,895
Total current liabilities	741,881	1,195,925
Long-term debt	165,910	174,788
Other long-term liabilities	128,208	148,925
Non-GROWMARK ownership in subsidiaries	50,429	42,304
Shareholders' equity:		
Capital stock	265,920	254,465
Retained earnings	415,395	401,824
Accumulated other comprehensive income	30,225	165,661
Total shareholders' equity	711,540	821,950
Total liabilities and equity	\$ 1,797,968	2,383,892

See accompanying notes.

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended August 31, 2009 and 2008

(\$ In Thousands)

	<u>2009</u>	<u>Restated 2008</u>
Net sales	\$ 6,091,674	6,733,513
Cost of sales	5,882,263	6,407,980
Gross margin	209,411	325,533
Operating income (expenses):		
General, administrative and selling expense	(109,388)	(104,037)
Other income - net	11,834	13,441
Total operating income	111,857	234,937
Gain from sale of securities	7,723	233,150
Interest expense	(17,915)	(26,388)
Pretax income	101,665	441,699
Income tax expense	(4,760)	(114,664)
Net income before patronage and dividends	\$ 96,905	327,035
Distribution of net income before patronage and dividends:		
Patronage - cash	\$ 40,661	54,827
- preferred stock	42,096	74,816
Dividends	325	165
Increase in retained earnings	13,823	197,227
	\$ 96,905	327,035

See accompanying notes.

GROWMARK, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
Years Ended August 31, 2009 and 2008
(\$ In Thousands)

	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Comprehensive Income (Loss)
Balance at August 31, 2007	\$ 239,900	208,690	161,289	
Prior period adjustment (Note 2)		(4,093)		
Balance at August 31, 2007 (restated)		204,597		
Net earnings before patronage refunds		327,035		327,035
Cash dividends on preferred stock		(165)		
Preferred stock redemption	(60,251)			
Patronage dividends to be distributed in cash		(54,827)		
Patronage dividends to be distributed in capital stock	74,816	(74,816)		
Unrealized holding gain on available-for-sale securities \$11,448, net of tax \$4,373			7,075	7,075
Foreign currency translation adjustments \$(2,413), net of tax \$(863)			(1,550)	(1,550)
Unrealized loss on derivative financial instruments \$(1,966), net of tax \$(700)			(1,266)	(1,266)
Defined benefit and other postretirement plan adjustments \$184, net of tax \$71			113	113
Balance at August 31, 2008	254,465	401,824	165,661	
Comprehensive income			\$ 331,407	
Net earnings before patronage refunds		96,905		96,905
Cash dividends on preferred stock		(325)		
Preferred stock redemption	(30,641)			
Patronage dividends to be distributed in cash		(40,661)		
Patronage dividends to be distributed in capital stock	42,096	(42,096)		
Unrealized holding gain (loss) on available-for-sale securities \$(152,553), net of tax \$(58,733)			(93,820)	(93,820)
Foreign currency translation adjustments \$998, net of tax \$382			616	616
Unrealized loss on derivative financial instruments \$(4,248), net of tax \$(1,622)			(2,626)	(2,626)
Defined benefit and other postretirement plan adjustments \$(64,356), net of tax \$(24,750)		(252)	(39,606)	(39,606)
Balance at August 31, 2009	\$ 265,920	415,395	30,225	
Comprehensive income (loss)			\$ (38,531)	
		<u>2008</u>	<u>2009</u>	
Cumulative unrealized holding gains on available-for-sale securities, net of tax \$42,973 in 2009, \$101,705 in 2008	\$	162,465	\$ 68,645	
Cumulative foreign currency translation adjustments, net of tax \$2,865 in 2009 \$2,481 in 2008		3,792	4,408	
Cumulative unrealized gains (losses) on derivative financial instruments, net of tax \$(2,320) in 2009, \$(698) in 2008		(1,261)	(3,886)	
Cumulative defined benefit/ postretirement accounting, net of tax \$(24,335) in 2009, \$415 in 2008		665	(38,942)	
		\$ 165,661	\$ 30,225	

See accompanying notes.

GROWMARK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2009 and 2008
(\$ In Thousands)

	<u>2009</u>	<u>RESTATED</u> <u>2008</u>
<u>Operating Activity</u>		
Net income before patronage and dividends	\$ 96,905	327,035
Patronage	82,757	129,643
Net income after patronage	\$ 14,148	197,392
Depreciation/Amortization	24,593	20,565
Patronage received in stock	(42,557)	(60,045)
Patronage refund declared in stock	42,096	74,816
Other non-cash items	12,843	4,237
Gain on sale of available-for-sale securities	(7,723)	(227,910)
Segregated funds	31,099	(36,942)
Changes in operating assets and liabilities:		
Accounts and notes receivable	87,116	(176,359)
Inventories	306,106	(346,027)
Accounts payable	(68,974)	154,806
Patronage refunds payable	(14,167)	15,228
Increase in other long-term liabilities	15,801	10,495
Vendor prepayments	133,778	(142,298)
Customer prepayments	(138,765)	154,829
Other assets/liabilities	(127,981)	46,983
Net cash provided (used) by operating activities	267,413	(310,230)
<u>Ownership Activity</u>		
Proceeds from sale of available-for-sale securities	10,970	282,895
Purchase of available-for-sale securities	(7,782)	(89,310)
Redemption of ownership in cooperatives	4,776	44,700
Purchases of property, plant and equipment	(87,096)	(51,664)
Proceeds from sale of property, plant and equipment	5,801	6,322
Net cash provided (used) by ownership activities	(73,331)	192,943
<u>Financing Activity</u>		
Term debt additions	68,974	21,340
Term debt payments	(77,824)	(3,335)
(Decrease) increase in short-term borrowings	(131,272)	163,939
Redemption of preferred stock	(30,641)	(60,251)
Dividends on preferred stock	(485)	(11)
Net cash provided (used) by financing activities	(171,248)	121,682
Net increase in cash and equivalents	22,834	4,395
Cash and equivalents at beginning of year	15,467	11,072
Cash and equivalents at end of year	\$ 38,301	15,467
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 19,011	26,564
Income Taxes	18,036	115,218

GROWMARK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2009 and 2008

1. Principal accounting policies

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 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.

Consolidation policies

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

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 \$29.0 million.

Financial instruments

The Company believes that the carrying value of its financial instruments, which include cash and equivalents, segregated funds, accounts receivable, notes receivable, derivatives (note 1 derivative instruments), 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).

Receivables

Receivables are stated net of an allowance for doubtful accounts of \$13.5 million at August 31, 2009 and \$11.6 million in 2008. 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.

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.

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.

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 \$3.2 million (\$32.8 million in 2008) 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.

Other grain inventories of \$22.1 million (\$133.2 million in 2008) are valued at market, adjusted for \$7.1 million of unrealized gains and \$12.9 million of unrealized losses on open forward and futures grain contracts.

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

Intangibles

The Company has goodwill and other intangible assets primarily including trademarks, customer lists, and covenants not to compete (see Note 5).

GROWMARK is a mutual enterprise as defined by the Financial Accounting Standards Board and is therefore not subject to Financial Accounting Standards 142 - Goodwill and Other Intangible Assets until its required adoption on September 1, 2009. Goodwill is amortized on the straight-line method over periods of no more than fifteen years.

Certain subsidiaries of GROWMARK are not mutual enterprises and are subject to Financial Accounting Standard 142 - Goodwill and Other Intangible Assets. The amounts of goodwill and intangibles for these companies are not a material amount.

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.

Foreign operations

Included in the Company's consolidated statements of financial position at August 31, 2009 and 2008 are the total assets of its Ontario, Canada operations which total approximately \$129 million (\$245 million in 2008.)

Derivative instruments

The Company uses derivative financial instruments to manage interest rate risk with a maximum term of 60 months at August 31, 2009. 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. During both periods, immaterial levels of expense due to ineffectiveness were recognized in interest expense.

The notional amount of interest rate swaps at August 31, 2009 is \$486.5 million and is an aggregate accumulation of future time periods and the mark-to-market adjustment is \$6.2 million. 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 \$4.2 million will be reclassified to interest expense within the next twelve months.

Certain operations of the Company hold derivative instruments, such as foreign currency forward contracts, grain and fuel futures, options and forward contracts, fertilizer forward contracts and swaps that the Company believes provide an economic hedge of future transactions, but have not been designated as a hedge. Instead,

gains or losses related to these derivative instruments are included in other income or cost of sales. Mark-to-market unrealized gains on these derivative instruments was \$7.8 million at August 31, 2009 (\$14.4 million unrealized loss at August 31, 2008).

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.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

Accounting pronouncements

In December 2007, Statement of Financial Accounting Standards No. 141(revised), Business Combinations (SFAS 141(revised)) was issued and is effective for fiscal years beginning after December 15, 2008. SFAS 141(revised) is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The Company is currently evaluating the impact of this standard.

In December 2007, Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (SFAS 160), was issued and is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 is intended to improve the reporting standards for the noncontrolling interest in a subsidiary and for deconsolidation of a subsidiary. The Company is currently evaluating the impact of this standard.

In March 2008, Statement of Financial Accounting Standards No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161) was issued and is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to enhance the current disclosure framework in SFAS 133, Accounting for Derivative Instruments and Hedging Activities. The Company is currently evaluating the impact of this standard.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, as an amendment to SFAS No. 132(R), to require additional disclosures about assets held in an employer's pension and other postretirement benefit plans. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company is evaluating the effects that FSP 132(R)-1 may have on its financial statements.

In June 2009, the FASB issued SFAS No. 168, The "FASB Accounting Standards Codification"TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the Codification when referring to GAAP in its 2010 financial statements. This will not have an impact on the financial position, results of operations or cash flows.

Subsequent events

These financial statements reflect the impact of recognized material subsequent events through October 1, 2009 which is the date that the financial statements were available to be issued.

2. Restatement

The 2008 consolidated financial statements have been restated to revise certain entries required to eliminate intercompany profits in ending inventory. These adjustments are non-cash in nature and had the following effects:

- As of August 31, 2008, receivables - net and prepaid expenses and other assets increased by \$.7 million and \$2.6 million, respectively. Inventories and retained earnings decreased by \$16.8 million and \$13.5 million, respectively.
- For the year ended August 31, 2008, cost of sales was increased by \$12.0 million, with corresponding decreases to gross margin, operating income and pretax income. In addition, income tax expense was reduced by \$2.6 million, resulting in a reduction to net income before patronage and dividends of \$9.4 million.
- Net income before patronage and changes in inventories and other assets/liabilities were decreased by \$9.4 million, \$16.8 million, and \$7.4 million, respectively on the consolidated statement of cash flows with no net change in cash used by operating activities for the year ended August 31, 2008.
- Retained earnings as of August 31, 2007 was reduced by \$4.1 million to reflect the impact of these adjustments in prior years.

3. Acquisitions

During 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.

During 2008, a subsidiary of the Company formed a joint venture with several member cooperatives to create 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 for the Company's controlling interest was \$8.9 million.

4. 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.

5. Other assets (\$ in Thousands)

	<u>August 31,</u>	
	<u>2009</u>	<u>2008</u>
Cooperative notes receivable-net (primarily at variable interest rate, 8.25% at August 31, 2009, 4.15% at August 31, 2008)	\$ 1,196	2,187
Assets held in trust by captive insurance subsidiary	19,561	16,751
Intangible assets	7,352	8,726
Other	<u>9,942</u>	<u>9,843</u>
Total other assets	<u>\$ 38,051</u>	<u>37,507</u>

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

	<u>August 31,</u>	
	<u>2009</u>	<u>2008</u>
Nonsubsidiary cooperatives:		
National Cooperative Refinery Association (NCRA)	\$ 175,093	137,505
CoBank, ACB	9,356	8,682
Universal Cooperatives, Inc.	4,060	3,673
Member Cooperatives of GROWMARK, Inc.	3,749	4,049
Other	13,436	13,227
	<u>205,694</u>	<u>167,136</u>
Available-for-sale securities (\$134,930 cost at August 31, 2009, \$132,994 at August 31, 2008)	246,547	397,165
Others:		
UPI, Inc.	15,512	16,149
Malta Industries LLC	7,691	7,691
TruServ Canada, Inc.	2,628	2,733
	<u>\$ 478,072</u>	<u>590,874</u>

At August 31, 2009, the gross pre-tax unrealized gain on long-term available-for-sale securities was \$122.7 million. The gross pre-tax unrealized loss on long-term available-for-sale securities was \$11.1 million, resulting in a net unrealized gain of \$68.6 million (net of \$43.0 million of deferred income taxes.) At August 31, 2008, the net aggregate unrealized gain on long-term available-for-sale securities was \$162.5 million (net of \$101.7 million of deferred income taxes.)

The cost basis used to compute the realized gain was specific identification for all available-for-sale securities.

7. Debt (\$ in Thousands)

	<u>August 31,</u>	
	<u>2009</u>	<u>2008</u>
Long-term notes payable to financial institutions:		
5.74% to 6.80% secured notes due in monthly installments from 2010 through 2018 (5.42% to 7.95% in 2008)	\$ 11,788	12,240
1.538% to 7.982% secured notes due in 2013 (5.42% to 7.95% in 2008)	50,000	50,000
1.605% to 5.83% secured notes due in annual installments from 2010 through 2021 (4.99% to 5.83% in 2008)	95,500	97,000
3.26% secured notes due in 2014 (4.22% in 2008)	10,602	5,000
2.38% secured notes due in 2013 (4.41% in 2008)	---	12,500
Total debt	167,890	176,740
Amounts due within one year	1,980	1,952
Net long-term debt	\$ 165,910	174,788

Long-term notes payable of \$11.8 million (\$12.2 million at August 31, 2008) are secured by mortgages of approximately equal value on certain real property and equipment.

Under a syndication credit facility, long-term notes payable of \$50 million are secured by the Company's inventory and accounts receivable and certain ownership in other companies with a book value of \$941 million.

Other long-term notes payable of \$95.5 million at August 31, 2009 (\$97.0 million at August 31, 2008) are secured by stock of various other companies that are owned by the Company with a market value of \$178.1 million (\$285.2 million at August 31, 2008).

At August 31, 2009, a subsidiary of the Company had a term note payable with CoBank, with \$10.6 million outstanding at August 31, 2009 (\$5.0 million at August 31, 2008). The note is collateralized by a security agreement covering all assets of the subsidiary.

At August 31, 2009, a subsidiary of the Company had a term note payable with John Deere Credit, Inc. with no borrowings outstanding at August 31, 2009 (\$12.5 million at August 31, 2008).

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".

Long-term debt maturities for the four years succeeding August 31, 2010 are \$2.0 million in 2011, \$2.0 million in 2012, \$52.1 million in 2013, and \$12.7 million in 2014.

The Company also has unsecured and secured variable rate short-term notes payable with vendors with \$90.0 million outstanding at August 31, 2009 (\$83.8 million at August 31, 2008.) The outstanding unsecured segment totaled \$2.5 million at August 31, 2009 (\$28.1 million at August 31, 2008) and the outstanding secured segment totaled \$87.5 million at August 31, 2009 (\$55.7 million at August 31, 2008.)

Other short-term notes payable of \$50.0 million at August 31, 2009 (\$50.0 million at August 31, 2008) are secured by stock of various companies that are owned by the Company with a market value of \$68.4 million (\$93.9 million at August 31, 2008).

At August 31, 2009, a subsidiary of the Company has two short-term lines of credit with CoBank that are secured by inventory: a \$20.0 million line of credit (\$35.0 million at August 31, 2008) to finance margin deposits with no borrowings outstanding (none at August 31, 2008) and a \$50.0 million line of credit (\$90.0 million at August 31, 2008) to finance the purchase of grain inventory under the subsidiary's inventory purchase program with \$3.2 million outstanding (\$32.8 million in 2008).

At August 31, 2009, a subsidiary of the Company has a short-term line of credit of \$150.0 million (\$100.0 million at August 31, 2008) with CoBank that is collateralized by a security agreement covering inventory and personal property and is used to finance business operations with no borrowings outstanding at August 31, 2009 (\$45.6 million at August 31, 2008).

At August 31, 2009, a subsidiary of the Company has a short-term line of credit of \$75.0 million (\$75.0 million at August 31, 2008) with CoBank that is collateralized by a security agreement covering inventory and personal property and is used to finance business operations with no borrowings outstanding at August 31, 2009 (\$20.9 million at August 31, 2008).

The Company also has secured short-term lines of credit extending to December 2012 totaling \$375.0 million at August 31, 2009 (\$325.0 million at August 31, 2008). At August 31, 2009, \$76.9 million was outstanding at variable rates (\$118.4 million at August 31, 2008). The Company's inventory and accounts receivable and certain ownership in other companies are security under a syndication credit facility agreement for this short-term line of credit.

At August 31, 2009 a new subsidiary of the Company has a short-term line of credit of \$50.0 million with CoBank that is collateralized by a security agreement covering inventory and personal property and is used to finance business operations. There were no borrowings outstanding at August 31, 2009.

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

		<u>August 31,</u>	
		<u>2009</u>	<u>2008</u>
Pensions/Postretirement benefits	\$	82,168	36,914
Deferred income taxes		19,128	87,208
Other liabilities		26,912	24,803
Total other long-term liabilities	\$	128,208	148,925

9. Capital stock (\$ in Thousands)

		<u>August 31,</u>	
		<u>2009</u>	<u>2008</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		221,746	182,100
Class D Preferred, held by subsidiaries		---	(4,005)
Class F Preferred, nondividend, nonvoting, \$25 par value, authorized 300,000 shares		888	364
To be issued as patronage refunds in: Class D Preferred, or Class F Preferred		42,096	74,816
Paid-In Capital		1,018	1,018
Common, no par or stated value; 1,500 shares authorized, 226 shares outstanding, (239 shares in 2008)		---	---
	\$	265,920	254,465

10. Fair Value Measurements (\$ in Thousands)

Effective September 1, 2008, the Company has adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (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 SFAS 157 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 Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS 157.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of August 31, 2009.

	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)
	<u>\$ 247,441</u>	<u>\$ 12,357</u>	<u>\$</u>	<u>\$ 259,798</u>

11. Income taxes (\$ in Thousands)

At August 31, 2009, the Company has a total net deferred tax liability of \$9.6 million (\$76.4 million net deferred tax liability at August 31, 2008) with deferred assets totaling \$73.9 million and deferred liabilities totaling \$83.5 million (\$43.9 million and \$120.3 million at August 31, 2008, 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>2009</u>	<u>2008</u>
Current tax expense	\$ (1,418)	111,694
Deferred tax expense	6,178	5,608
	<u>\$ 4,760</u>	<u>117,302</u>

Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes will be effective for fiscal years beginning after December 15, 2008 with earlier adoption permitted as of the beginning of the fiscal year of an enterprise. The impact of this interpretation is currently being studied by the Company.

The effective income tax rate for fiscal 2009 and 2008 is less than the statutory rate, primarily due to the impact of patronage refunds and pass-through tax credits of \$.8 million received from NCRA (\$3.2 million of deductions and \$5.1 million of credits received in 2008.)

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

The pension measurements below are based on a August 31 (June 30 in 2008) valuation date and the health benefits are based on an August 31 valuation date.

U.S. defined benefit plans:

	Pension		Health Benefits	
	August 31,		August 31,	
	2009	2008	2009	2008
Total plan assets at fair value	\$ 200,340	192,081	---	---
Total projected benefit obligation	251,156	201,916	33,424	26,552
Funded status	\$ (50,816)	(9,835)	(33,424)	(26,552)
Accumulated benefit obligation	\$ 219,026	167,737	---	---
	Pension		Health Benefits	
	Years Ended August 31,		Years Ended August 31,	
	2009	2008	2009	2008
Service cost	\$ 6,055	6,204	322	405
Interest cost	13,333	12,172	1,797	1,839
Expected return on plan assets	(16,238)	(15,597)	---	---
Net amortization	(166)	(174)	(229)	(230)
Plan expenses	---	---	---	---
Benefit cost	\$ 2,984	2,605	1,890	2,014
Benefits paid	5,200	5,014	1,089	1,280
Premiums paid by company	---	---	1,089	1,280
Employer contribution	21,277	11,644	---	---

Amounts recognized in the statement of financial position consist of:

	Pension		Health Benefits	
	August 31,		August 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ ---	109	---	---
Noncurrent assets	---	1,820	---	---
Current liabilities	(165)	---	(1,525)	(1,402)
Noncurrent liabilities	\$ (50,268)	(11,764)	(31,900)	(25,150)

	Assumptions - Pension Benefit Cost In Fiscal Year Ending		Assumptions - Health Benefit Cost In Fiscal Year Ending	
	<u>08/31/2009</u>	<u>08/31/2008</u>	<u>08/31/2009</u>	<u>08/31/2008</u>
	Discount rate	6.80%	6.00%	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	
	<u>08/31/2009</u>	<u>08/31/2008</u>	<u>08/31/2009</u>	<u>08/31/2008</u>
	Discount rate	5.70%	6.80%	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 investment strategy targets a diversified balance of financial securities including investment grade fixed income securities and high quality equities of primarily United States corporations. The target ratio of bonds

in the portfolio is 35% with rebalancing of the major components performed on an annual basis. The composition of investments of plan assets is as follows:

<u>Asset Category</u>	<u>Plan Assets</u>	
	<u>At August 31,</u>	
	<u>2009</u>	<u>2008</u>
Equities	65%	61%
Fixed income	35%	39%
Total	<u>100%</u>	<u>100%</u>

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.

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>
2010	\$ 7,478	1,524
2011	9,729	1,772
2012	11,183	1,934
2013	12,804	2,060
2014	14,109	2,164
Years 2015-2019	<u>87,959</u>	<u>11,917</u>
Total	<u>\$ 143,262</u>	<u>21,371</u>

The assumed annual rates of increase in the per capita cost of covered medical benefits for retirees is 9.0% in 2009 and 2010. It is assumed by 2012 that rates will have changed to 5.00%.

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, 2009:

Year ending August 31,	
2010	\$ 6,973
2011	5,924
2012	4,694
2013	4,041
2014	3,675
Later years	<u>10,710</u>
	<u>\$ 36,017</u>

Rent expense was \$6,877 (\$7,032 in 2008).

14. Commitments and guarantees

At August 31, 2009, a subsidiary of the Company was contingently liable for up to \$25.0 million of loans to patrons participating in the FS Agrifinance program. Of the total loans outstanding of \$177.3 million, the subsidiary has recourse to GROWMARK, Inc. member cooperatives for \$115.5 million. At August 31, 2009, the Company provided a lease guarantee for up to \$3.1 million as part of a reorganization of distribution for certain products with an investee corporation.

The maximum potential future payments for guarantees indicated above totals \$28.1 million. The estimated fair value of these guarantees at their origination dates were deemed to be an immaterial amount and therefore have not been accounted 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, 2009, the amount of the performance bond coverage was \$10.0 million and the amount of the letter of credit was \$1.5 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.