HUBBELL PHILIP H
Form 4
January 04, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
HUBBELL PHILIP H
(Last) (First) (Middle)
380 LE BRUN ROAD
(Street)
BUFFALO, NY 14226
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MOOG INC [MOGA?MOGB]

3. Date of Earliest Transaction (Month/Day/Year)
01/03/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP Contracts & Govt Acctg

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Option to Buy (1)	$ 43.34	01/03/2005		A		13,500		01/03/2006	01/03/2015	Class A Common	13,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HUBBELL PHILIP H 380 LE BRUN ROAD BUFFALO, NY 14226			VP Contracts & Govt Acctg	

Signatures

Timothy P. Balkin	01/04/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Option to buy granted under 2003 Incentive Stock Option Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. g the three months ended November 30, 2007 for that equity investment. Our wheat exporting investment in United Harvest contributed improved earnings of $3.9 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also reflected $5.8 million of improved earnings. Our country operations business reported an aggregate increase in equity investment earnings of $1.5 million from several small equity investments.

Our Processing segment generated improved earnings of $8.3 million from equity investments. During fiscal years 2006, 2007 and through November 30, 2007, we invested $121.9 million in US BioEnergy, an ethanol manufacturing company, and recorded improved equity investment earnings of $1.7 million during the three months ended November 30, 2007 compared to the same period in the previous year, primarily from operating margins as US BioEnergy had additional plants put into production. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded slightly reduced earnings of $0.2 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, both recorded improved earnings of $6.9 million, net compared to the same three-month period in fiscal 2007. Ventura Foods decrease in earnings were primarily due to higher selling, general and administrative expenses. A shifting demand balance for soybeans for both food and renewable fuels meant addressing supply and price challenges for both CHS and our Ventura Foods joint venture. Horizon Milling s results are primarily affected by U.S. dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling

24

Table of Contents

capacity, which had been idled over the past few years because of lack of demand for flour products, can easily be put back into production as consumption of flour products increases, which may depress gross margins in the milling industry.

Our Energy segment generated increased equity investment earnings of $0.1 million related to improved margins in an equity investment held by NCRA, and Corporate and Other generated improved earnings of $0.5 million from equity investment earnings, primarily from Cofina Financial, our financial services equity investment, as compared to the three months ended November 30, 2006.

Minority Interests. Minority interests of $23.0 million for the three months ended November 30, 2007 increased by $4.1 million (22%) compared to the three months ended November 30, 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to the same three-month period in the prior year. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense of $36.9 million for the three months ended November 30, 2007 compares with $17.2 million for the three months ended November 30, 2006, resulting in effective tax rates of 10.9% and 11.2%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the three-month periods ended November 30, 2007 and 2006. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Liquidity and Capital Resources

On November 30, 2007, we had working capital, defined as current assets less current liabilities, of $1,265.4 million and a current ratio, defined as current assets divided by current liabilities, of 1.3 to 1.0, compared to working capital of $816.0 million and a current ratio of 1.3 to 1.0 on August 31, 2007. On November 30, 2006, we had working capital of $843.2 million and a current ratio of 1.4 to 1.0 compared to working capital of $842.5 million and a current ratio of 1.5 to 1.0 on August 31, 2006. During the three months ended November 30, 2007, increases in working capital included the impact of the cash received from additional long-term borrowings of $400.0 million and a distribution of crop nutrients net assets received from Agriliance, our agronomy joint venture, as previously discussed.

On November 30, 2007 our committed line of credit consisted of a five-year revolving facility in the amount of $1.3 billion. This credit facility was established with a syndicate of domestic and international banks, and our inventories and receivables financed with it are highly liquid. On November 30, 2007, we had $425.0 million outstanding on this line of credit compared with $280.0 million outstanding on November 30, 2006. In addition, we have two commercial paper programs totaling $125.0 million with banks participating in our five-year revolver. On November 30, 2007, we had $10.9 million of commercial paper outstanding compared with no amount outstanding on November 30, 2006. Due to recent appreciation in commodity prices, as further discussed in Cash Flows from Operations , our average borrowings have been much higher in comparison to prior years. In addition to the $400.0 million of long-term borrowing during the three months ended November 30, 2007, we borrowed another $150.0 million of long-term debt in December 2007. With this recent additional borrowing capacity, we believe that we have adequate liquidity to cover any increase in net operating assets and liabilities in the foreseeable future.

Cash Flows from Operations

Cash flows from operations are generally affected by commodity prices and the seasonality of our businesses. These commodity prices are affected by a wide range of factors beyond our control, including weather, crop conditions, drought, the availability and the adequacy of supply and transportation, government regulations and policies, world events, and general political and economic conditions. These factors are described in the preceding cautionary statements and may affect net operating assets and liabilities, and liquidity.

Table of Contents

Our cash flows provided by operating activities were $14.5 million for the three months ended November 30, 2007, compared to cash flows used in operating activities of $33.3 million for the three months ended November 30, 2006. Although cash flows provided by and used in operating activities were generally comparable in total for the two three-month periods, there was volatility in the components of the cash flows, which primarily included greater net income and non-cash gains on investments, and a larger net increase in operating assets and liabilities during the three months ended November 30, 2007 compared to the same period in the prior year. Grain prices have been quite volatile, and because we hedge most of our grain positions with futures contracts on regulated exchanges, volatile prices create margin calls which are reflected in other current assets and are a use of cash. In addition, higher commodity prices affect inventory and receivable balances which consume cash until inventories are sold and receivables are collected.

Our operating activities provided net cash of $14.5 million during the three months ended November 30, 2007. Net income of $300.9 million was partially offset by net non-cash gains and cash distributions from equity investments of $8.3 million and an increase in net operating assets and liabilities of $278.1 million. The primary components of net non-cash gains and cash distributions from equity investments included gains on investments of $94.9 million and income from equity investments, net of redemptions from those investments, of $18.9 million, partially offset by depreciation and amortization, including major repair costs, of $47.2 million, deferred tax expense of $36.9 million and minority interests of $23.0 million. Gains on investments were previously discussed in Results of Operations , and primarily includes the gain on the sale of all of our shares of CF common stock. The increase in net operating assets and liabilities was caused primarily by increased commodity prices reflected in increased receivables, inventories and derivative assets and hedging deposits, both included in other current assets, partially offset by an increase in accounts payable and accrued expenses, and customer advance payments on November 30, 2007, when compared to August 31, 2007. On November 30, 2007, the market prices of our three primary grain commodities, spring wheat, soybeans and corn, increased by $2.58 (37%) per bushel, $2.12 (24%) per bushel and $0.61 (19%) per bushel, respectively, when compared to the prices on August 31, 2007. In addition, grain inventories in our Ag Business segment increased by 23.0 million bushels (15%) when comparing inventories at November 30, 2007 and August 31, 2007, as the fall 2007 harvest took place. In general, crude oil prices increased $14.67 (20%) per barrel on November 30, 2007 when compared to August 31, 2007.

Our operating activities used net cash of $33.3 million during the three months ended November 30, 2006. Net income of $136.4 million and net non-cash expenses and cash distributions from equity investments of $81.7 million were exceeded by an increase in net operating assets and liabilities of $251.4 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including major repair costs, of $40.4 million, redemptions from equity investments net of income from those investments of $10.7 million, minority interests of $18.9 million and deferred tax expense of $17.2 million, which were partially offset by a pretax gain of $5.3 million from the sale of 540,000 shares of our CF stock, included in our Ag Business segment. The increase in net operating assets and liabilities was caused primarily by an increase of $210.5 million in derivative assets and hedging deposits (included in other current assets) due to increases in grain prices on November 30, 2006 when compared to August 31, 2006. On November 30, 2006, the market prices of our three primary grain commodities (corn, soybeans and spring wheat) had increased by $1.45 (63%) per bushel, $1.43 (26%) per bushel and $0.54 (12%) per bushel, respectively, when compared to August 31, 2006. Grain inventory quantities also increased in our Ag Business segment by 18.4 million bushels (17%) when comparing inventories on November 30, 2006 to August 31, 2006, due to the fall 2006 harvest. In addition, another cause for the increase in net operating assets and liabilities was that our country operations locations had prepayments of product inventory to suppliers in anticipation of the spring planting season, primarily to secure product pricing discounts. Product prepayments increased $81.8 million on November 30, 2006 when compared to August 31, 2006.

Crude oil prices are expected to be volatile in the foreseeable future, but related inventories and receivables are turned in a relatively short period, thus somewhat mitigating the effects on operating assets and liabilities. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest. Demand for corn by the ethanol industry created an incentive to divert acres from soybeans and wheat to corn this past planting year. The affect has been to stabilize corn prices at a relatively high level, with soybeans and wheat also showing price appreciation. Grain prices were volatile during fiscal 2007 and have continued to be volatile during the first quarter and into the beginning of the second quarter of fiscal 2008. We anticipate that high demand for all grains and oilseeds will likely continue to create high prices and price volatility for those commodities.

We expect our net operating assets and liabilities to increase through our second quarter of fiscal 2008 when compared to the levels on November 30, 2007. We expect to increase crop nutrient and crop protection product inventories and prepayments to suppliers of these products in our crop nutrients and country operations businesses during our second quarter of fiscal 2008. At the same time, we expect this increase in net operating assets and liabilities to be partially offset by the collection of prepayments from our own customers for these products. Prepayments are frequently used for agronomy products to assure supply and at times to guarantee prices. In addition, during our second fiscal quarter of 2008 we will make payments on deferred payment contracts for those producers that sold grain to us during prior quarters and requested payment after the end of the calendar year. We believe that we have adequate capacity through our committed credit facilities to meet any likely increase in net operating assets and liabilities.

Cash Flows from Investing Activities

For the three months ended November 30, 2007 and 2006, the net cash flows used in our investing activities totaled $317.0 million and $180.8 million, respectively.

Excluding investments in Agriliance, further discussed below, the acquisition of property, plant and equipment comprised the primary use of cash totaling $108.7 million and $80.2 million for the three months ended November 30, 2007 and 2006, respectively. For the year ending August 31, 2008, we expect to spend approximately $355.0 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal 2008 is completion of the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively lower value asphalt, that is expected to increase yields by about 14 percent. The total cost for this project is expected to be approximately $380.0 million, with completion planned for February 2008. Total expenditures for this project as of November 30, 2007, were $346.3 million, of which $62.0 million and $47.1 million were incurred during the three months ended November 30, 2007 and 2006, respectively.

During the first fiscal quarter of 2008, we retrospectively changed our accounting method for the costs of turnarounds from the accrual method to the deferral method, as previously discussed. Turnarounds are the scheduled and required shutdowns of refinery processing units for significant overhaul and refurbishment. Expenditures for these major repairs during the three months ended November 30, 2007 and 2006 were $21.7 million and $1.3 million, respectively.

In October 2003, we and NCRA reached agreements with the EPA and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. District Court for the District of Kansas. Each consent decree details potential capital improvements, supplemental environmental projects and operational changes that we and NCRA have agreed to implement at the relevant refinery over several years. The consent decrees also required us and NCRA to pay approximately $0.5 million in aggregate civil cash penalties. As of November 30, 2007, the aggregate capital expenditures for us and NCRA related to these settlements was approximately $22 million, and we anticipate spending an additional $9 million over the next four years. We do not believe that the settlements will have a material adverse effect on us or NCRA.

Investments made during the three months ended November 30, 2007 and 2006, totaled $267.3 million and $77.4 million, respectively. As previously discussed, in September 2007, Agriliance distributed primarily

27

Table of Contents

its wholesale crop nutrients and crop protection assets to us and Land O Lakes, respectively, and continues to operate primarily its retail distribution business until further repositioning of that business occurs. During the three months ended November 30, 2007, we made a $13.0 million net cash payment to Land O Lakes in order to maintain equal capital accounts in Agriliance, as previously discussed. During the same period, we contributed $230.0 million to Agriliance to support their working capital requirements, with Land O Lakes making equal contributions to Agriliance, primarily for crop nutrient and crop protection product trade payables that were not assumed by us or Land O Lakes upon the distribution of the crop nutrients and crop protection assets. Also during the three months ended November 30, 2007, we invested $30.3 million in a joint venture (37.5% ownership) included in our Ag Business segment, that acquired production farmland and related operations in Brazil, intended to strengthen our ability to serve customers around the world. These operations include production of soybeans, corn, cotton and sugarcane, as well as cotton processing at four locations. Another investment was the purchase of $6.5 million of additional shares of common stock in US BioEnergy, included in our Processing segment, during the three months ended November 30, 2007, compared to $35.0 million during the three months ended November 30, 2006. As of November 30, 2007, our ownership in US BioEnergy was approximately 20%, and based upon the market value of $9.07 per share on that date, our investment had a market value of approximately $144.5 million. On November 29, 2007, US BioEnergy and VeraSun Corporation announced that they entered into a definitive merger agreement subject to shareholder and regulatory approval. If the merger is consummated, we would own approximately eight percent of the combined entity. An additional investment during the three months ended November 30, 2006, included $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil, in which we have a current ownership interest of 37.5% and is included in our Ag Business segment. This venture, which includes grain storage and export facilities, builds on our South American soybean origination, and helps meet customer needs year-round. We also invested $15.6 million in Horizon Milling G.P. (24% CHS ownership) during the three months ended November 30, 2006, a joint venture included in our Processing segment, that acquired the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, which includes three flour milling operations and two dry baking mixing facilities in Canada.

During the three months ended November 30, 2007 and 2006, changes in notes receivable resulted in a decrease in cash flows of $18.9 million and $32.5 million, respectively. The notes were primarily from related party notes receivable at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the three months ended November 30, 2006, $8.0 million of the decrease in cash flows resulted from a note receivable related to our investment in Multigrain S.A.

Acquisitions of intangibles were $4.7 million and $0.5 million for the three months ended November 30, 2007 and 2006, respectively.

Partially offsetting our cash outlays for investing activities for the three months ended November 30, 2007 and 2006, were proceeds from the sale of investments of $114.2 million and $10.9 million, respectively, which were previously discussed in Results of Operations , and primarily include proceeds from the sale of all of our shares of CF common stock. Also partially offsetting cash usages for the three months ended November 30, 2007 and 2006, were proceeds from the disposition of property, plant and equipment of $2.7 million and $1.4 million, respectively, and investments redeemed totaling $0.1 million and $1.4 million, respectively.

Cash Flows from Financing Activities

We finance our working capital needs through short-term lines of credit with a syndication of domestic and international banks. In May 2006, we renewed and expanded our committed lines of revolving credit to include a five-year revolver in the amount of $1.1 billion, with the ability to expand the facility an additional $200.0 million. In October 2007, we exercised our ability to expand the facility and obtained additional commitments in the amount of

$200.0 million from certain lenders under the agreement. The additional commitments increased the total borrowing capacity to $1.3 billion on the facility. On November 30, 2007, interest rates for amounts outstanding on this credit facility ranged from 4.90% to 5.24%. In addition to this line of credit, we have a revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million committed. In November 2007, the line of credit dedicated to NCRA was renewed for an additional year. We also have a committed revolving line of credit dedicated to Provista Renewable Fuels Marketing, LLC (Provista), which expires in November 2009, in the amount of $25.0 million. On November 30, 2007 and 2006, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $443.4 million and $291.4 million, respectively.

During the three months ended November 30, 2006, we instituted two commercial paper programs, totaling up to $125.0 million, with two banks participating in our five-year revolving credit facility. Terms of our five-year revolving credit facility allow a maximum usage of commercial paper of $100.0 million at any point in time. The commercial paper programs do not increase our committed borrowing capacity in that we are required to have at least an equal amount of undrawn capacity available on our five-year revolving facility as to the amount of commercial paper issued. We had no commercial paper outstanding on November 30, 2006. On November 30, 2007, we had $10.9 million of commercial paper outstanding, all with maturities of three months or less from their date of issuance with interest rates ranging from 5.00% to 6.60%.

We typically finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks. In June 1998, we established a long-term credit agreement through the cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal 2009. The amount outstanding on this credit facility was $68.9 million, $75.4 and $92.7 million on November 30, 2007, August 31, 2007 and November 30, 2006, respectively. Interest rates on November 30, 2007 ranged from 6.47% to 7.13%. Repayments of $6.6 million and $5.7 million were made on this facility during the three months ended November 30, 2007 and 2006, respectively.

Also in June 1998, we completed a private placement offering with several insurance companies for long-term debt in the amount of $225.0 million with an interest rate of 6.81%. Repayments are due in equal annual installments of $37.5 million each in the years 2008 through 2013.

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of $25.0 million has an interest rate of 7.9% and is due in equal annual installments of approximately $3.6 million, in the years 2005 through 2011. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility. The $55.0 million note has an interest rate 7.43% and is due in equal annual installments of approximately $7.9 million, in the years 2005 through 2011. During the three months ended November 30, 2007 and 2006, no repayments were due on these notes.

In October 2002, we completed a private placement with several insurance companies for long-term debt in the amount of $175.0 million, which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and is due in equal semi-annual installments of approximately $8.8 million during the years 2007 through 2013. The second series of $60.0 million has an interest rate of 5.60% and is due in equal semi-annual installments of approximately $4.6 million during years 2012 through 2018. Repayments of $8.8 million were made on the first series notes during each of the three months ended November 30, 2007 and 2006.

In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group, and in April 2004, we borrowed $30.0 million under this arrangement. One long-term note in the amount of $15.0 million has an interest rate of 4.08% and is due in full at the end of the six-year term in 2010. Another long-term note in the amount of $15.0 million has an interest rate of 4.39% and is due in full at the end of the seven-year term in 2011. In April 2007, we amended our Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million.

In September 2004, we entered into a private placement with several insurance companies for long-term debt in the amount of $125.0 million with an interest rate of 5.25%. The debt is due in equal annual installments of $25.0 million during years 2011 through 2015.

Table of Contents

In October 2007, we entered into a private placement with several insurance companies and banks for long-term debt in the amount of $400.0 million with an interest rate of 6.18%. The debt is due in equal annual installments of $80.0 million during years 2013 through 2017.

Through NCRA, we had revolving term loans outstanding of $2.3 million and $5.3 million for the three months ended November 30, 2007 and 2006, respectively. Interest rates on November 30, 2007 ranged from 6.48% to 6.99%. Repayments of $0.8 million were made during each of the three months ended November 30, 2007 and 2006.

On November 30, 2007, we had total long-term debt outstanding of $1,071.5 million, of which $71.1 million was bank financing, $974.2 million was private placement debt and $26.2 million was industrial development revenue bonds and other notes and contracts payable. The aggregate amount of long-term debt payable presented in the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007 has not changed materially during the three months ended November 30, 2007, other than for the $400.0 million of private placement debt discussed previously, of which repayments will start in 2013. On November 30, 2006, we had long-term debt outstanding of $727.2 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $8.1 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. In addition, NCRA term loans of $2.3 million are collateralized by NCRA s investment in CoBank, ACB. We were in compliance with all debt covenants and restrictions as of November 30, 2007.

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets, with a cost of approximately $325.0 million. The City of McPherson issued $325.0 million of Industrial Revenue Bonds (IRBs) which were transferred to NCRA as consideration in a financing agreement between the City of McPherson and NCRA related to the ultra-low sulfur fuel assets. The term of the financing obligation is ten years, at which time NCRA has the option of extending the financing obligation or purchasing the assets for a nominal amount. NCRA has the right at anytime to offset the financing obligation to the City of McPherson against the IRBs. No cash was exchanged in the transaction and none is anticipated to be exchanged in the future. Due to the structure of the agreement, the financing obligation and the IRBs are shown net in our consolidated financial statements. In March 2007, notification was sent to the bond trustees to pay the IRBs down by $324.0 million, at which time the financing obligation to the City of McPherson was offset against the IRBs. The balance of $1.0 million will remain outstanding until final maturity in ten years.

During the three months ended November 30, 2007 we borrowed on a long-term basis, $400.0 million, and did not have any new borrowings during the three months ended November 30, 2006. During the three months ended November 30, 2007 and 2006, we repaid long-term debt of $18.7 million and $17.6 million, respectively.

Subsequent to our fiscal quarter ended November 30, 2007, we established a ten-year long-term credit agreement through a syndication of cooperative banks in the amount of $150.0 million, with an interest rate of 5.59%. Repayments are due in equal semi-annual installments of $15.0 million each starting in June 2013 through December 2018.

Distributions to minority owners for the three months ended November 30, 2007 and 2006, were $38.4 million and $8.3 million, respectively, and were primarily related to NCRA.

During the three months ended November 30, 2007 and 2006, changes in checks and drafts outstanding resulted in an increase in cash flows of $26.9 million $20.5 million, respectively.

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Patronage refunds are calculated based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates. The patronage earnings from the fiscal year ended August 31, 2007, are expected to be distributed primarily during the second fiscal quarter of the year ended August 31, 2008. The cash portion of

30

Table of Contents

this distribution deemed by the Board of Directors to be 35% is expected to be approximately $192.5 million, and is classified as a current liability on the November 30, 2007 and August 31, 2007 Consolidated Balance Sheets in dividends and equities payable.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them, and another for individuals who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual receives under the pro-rata program in any year is determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions targeting older capital equity certificates which were paid in fiscal 2007 and that are authorized to be paid in fiscal 2008. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2007, that will be distributed in fiscal 2008, to be approximately $179.4 million, of which $3.8 million was redeemed in cash during the three months ended November 30, 2007 compared to $47.1 million during the three months ended November 30, 2006. Included in our redemptions during the second quarter of fiscal 2008, we intend to redeem approximately $45.6 million by issuing shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock) pursuant to a registration statement filed with the Securities and Exchange Commission on December 14, 2007.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On November 30, 2007, we had 7,240,221 shares of Preferred Stock outstanding with a total redemption value of approximately $181.0 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at our option after February 1, 2008. At this time, we have no current plan or intention to redeem any Preferred Stock. Dividends paid on our preferred stock during the three months ended November 30, 2007 and 2006 were $3.6 million and $2.9 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments:

Our lease commitments presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007 have not materially changed during the three months ended November 30, 2007.

Guarantees:

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $150.0 million, of which $54.5 million was outstanding on November 30, 2007. In addition, our bank covenants allow for guarantees dedicated solely for NCRA in the amount of $125.0 million, for which there are no outstanding guarantees. All outstanding loans with respective creditors are current as of November 30, 2007.

Debt:

There is no material off balance sheet debt.

Contractual Obligations

Our contractual obligations are presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007. The total obligations have not materially changed during the three months ended November 30, 2007, except for the balance sheet changes in payables and long-term debt and a 73% increase in grain purchase contracts related to recent appreciation in grain prices.

31

Table of Contents

On September 1, 2007, Agriliance distributed the net assets of their crop nutrients business to us, as previously discussed. We now have additional purchase obligations as of that date related to the crop nutrients business that were previously obligations of Agriliance. On November 30, 2007, we had obligations to purchase approximately 4.7 million tons of fertilizer through 2010. The average price per ton estimated for these purchase obligations was approximately $385.

Critical Accounting Policies

Our Critical Accounting Policies are presented in our Annual Report on Form 10-K for the year ended August 31, 2007. There have been no changes to these policies during the three months ended November 30, 2007.

Effect of Inflation and Foreign Currency Transactions

Inflation and foreign currency fluctuations have not had a significant effect on our operations. We have some grain marketing, wheat milling and energy operations that impact our exposure to foreign currency fluctuations, but to date, there have been no material effects.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 157 will have on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value, with changes in fair value reported in earnings, and requires additional disclosures related to an entity s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 159 will have on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. We are currently evaluating the impact SFAS No. 141R will have on our future business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in our Consolidated Balance Sheet. Income and comprehensive income attributed to the noncontrolling interest will be included in our Consolidated Statement of Operations and our Consolidated Statement of Equities and Comprehensive Income. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of this

32

Table of Contents

standard must be applied retrospectively upon adoption. We are in the process of evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial statements.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE SECURITIES LITIGATION REFORM ACT

Any statements contained in this report regarding the outlook for our businesses and their respective markets, such as projections of future performance, statements of our plans and objectives, forecasts of market trends and other matters, are forward-looking statements based on our assumptions and beliefs. Such statements may be identified by such words or phrases as will likely result, are expected to, will continue, outlook, will benefit, is anticipated, est project, management believes or similar expressions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those discussed in such statements and no assurance can be given that the results in any forward-looking statement will be achieved. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any obligation to subsequently revise any forward-looking statement to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

Certain factors could cause our future results to differ materially from those expressed or implied in any forward-looking statements contained in this report. These factors include the factors discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2007 under the caption Risk Factors, the factors discussed below and any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statements. Since it is not possible to foresee all such factors, these factors should not be considered as complete or exhaustive.

Our revenues and operating results could be adversely affected by changes in commodity prices.

Our operating results could be adversely affected if our members were to do business with others rather than with us.

We participate in highly competitive business markets in which we may not be able to continue to compete successfully.

Changes in federal income tax laws or in our tax status could increase our tax liability and reduce our net income.

We incur significant costs in complying with applicable laws and regulations. Any failure to make the capital investments necessary to comply with these laws and regulations could expose us to financial liability.

Environmental liabilities could adversely affect our results and financial condition.

Actual or perceived quality, safety or health risks associated with our products could subject us to liability and damage our business and reputation.

Our operations are subject to business interruptions and casualty losses; we do not insure against all potential losses and could be seriously harmed by unexpected liabilities.

Our cooperative structure limits our ability to access equity capital.

Consolidation among the producers of products we purchase and customers for products we sell could adversely affect our revenues and operating results.

If our customers choose alternatives to our refined petroleum products our revenues and profits may decline.

Operating results from our agronomy business could be volatile and are dependent upon certain factors outside of our control.

Table of Contents

Technological improvements in agriculture could decrease the demand for our agronomy and energy products.

We operate some of our business through joint ventures in which our rights to control business decisions are limited.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We did not experience any material changes in market risk exposures for the period ended November 30, 2007, that affect the quantitative and qualitative disclosures presented in our Annual Report on Form 10-K for the year ended August 31, 2007.

Item 4T. ***Controls and Procedures***

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of November 30, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of that date, our disclosure controls and procedures were effective.

During the first fiscal quarter ended November 30, 2007, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. ***Not applicable***

Item 1A. ***Risk Factors***

There were no material changes to our risk factors during the period covered by this report. See the discussion of risk factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

Item 2. ***Not applicable***

Item 3. ***Not applicable***

Item 4. ***Submission of Matters to a Vote of Security Holders***

We held our Annual Meeting November 29-30, 2007, and the following directors were re-elected to the Board of Directors for a three-year term on November 30, 2007: Michael Toelle, Dennis Carlson, Randy Knecht, Robert Bass, and Steve Riegel. The following directors terms of office continued after the meeting: Bruce Anderson, Donald Anthony, Curt Eischens, Steve Fritel, Robert Grabarski, Jerry Hasnedl, David Kayser, Jim Kile, Michael Mulcahey, Richard Owen, Dan Schurr and Duane Stenzel.

Item 5. ***Other Information***

On November 7, 2007, National Cooperative Refinery Association (NCRA), a subsidiary in which we have an approximate 74.5% ownership interest, renewed its existing committed line of revolving credit of $15 million for an additional year with a new maturity date of December 16, 2008.

Item 6. ***Exhibits***

Exhibit	Description
10.1	Fifth Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties. (Incorporated by reference to Exhibit 10.21C of our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007)
10.2	$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of December 12, 2007. (Incorporated by reference to Exhibit 10.37 of our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHS Inc.
(Registrant)

/s/ John Schmitz

John Schmitz
Executive Vice President and
Chief Financial Officer

January 11, 2008

36