

CHS INC  
Form 424B3  
August 26, 2014

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Filed pursuant to Rule 424(b)(3)  
Registration Statement No. 333-197333

PROSPECTUS

**6,752,188 Shares**

## **CHS Inc.**

### **Class B Cumulative Redeemable Preferred Stock, Series 1 (Liquidation Preference Equivalent to \$25.00 Per Share)**

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We are issuing 6,752,188 shares of our Class B Cumulative Redeemable Preferred Stock, Series 1 (the "Class B Series 1 Preferred Stock") to redeem approximately \$200,000,000 of our "patrons' equities." Seventy percent of the Class B Series 1 Preferred Stock being issued will be issued to non-individual patrons and thirty percent of the Class B Series 1 Preferred Stock being issued will be issued to individual patrons, in each case only to "active patrons" who hold qualified capital equity certificates in an amount equal to or greater than \$5,000. "Active patrons" are non-individual patrons who have done business with us in the past five fiscal years and individual patrons who have done at least \$20,000 of business with us in fiscal years 2012 and 2013 combined. The amount of patrons' equities that will be redeemed with each share of Class B Series 1 Preferred Stock issued will be \$29.62 which is the greater of \$25.31 (equal to the \$25.00 liquidation preference per share of Class B Series 1 Preferred Stock plus \$0.31 of accumulated dividends from and including July 1, 2014 to and including August 25, 2014) and the closing price for one share of the Class B Series 1 Preferred Stock on August 18, 2014. There will not be any cash proceeds from the issuance of the Class B Series 1 Preferred Stock. However, by issuing shares of Class B Series 1 Preferred Stock in redemption of patrons' equities we will make available for business purposes cash that otherwise may have been used to redeem those patrons' equities.

Holders of the Class B Series 1 Preferred Stock are entitled to receive cash dividends at the rate of \$1.96875 per share per year. The Class B Series 1 Preferred Stock is subject to redemption and has the preferences described in this prospectus. The Class B Series 1 Preferred Stock is not convertible into any of our other securities and is non-voting except in certain limited circumstances.

The Class B Series 1 Preferred Stock is traded on the NASDAQ Global Select Market under the trading symbol "CHSCO". On August 18, 2014, the closing price of the Class B Series 1 Preferred Stock was \$29.62 per share.

**Ownership of our Class B Series 1 Preferred Stock involves risks. See "Risk Factors" beginning on page 10.**

We expect to issue the Class B Series 1 Preferred Stock on or about August 25, 2014.

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**Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is August 25, 2014.

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**IMPORTANT INFORMATION ABOUT THIS PROSPECTUS**

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different or additional information. You must not rely upon any information not contained or incorporated by reference in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate on any date subsequent to the date set forth on the front cover or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus is delivered or securities sold on a later date.

References in this prospectus, and the documents incorporated by reference in this prospectus, to "CHS," the "Company," "we," "our" and "us" refer to CHS Inc., a Minnesota cooperative corporation, and its subsidiaries. We maintain a web site at <http://www.chsinc.com>. Information contained in our website does not constitute part of, and is not incorporated by reference into, this prospectus.

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**PROSPECTUS SUMMARY**

*The following summary highlights information we present in greater detail elsewhere in this prospectus and in the information incorporated by reference into this prospectus. This summary may not contain all of the information that is important to you and you should carefully consider all of the information contained or incorporated by reference in this prospectus. This prospectus contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. These factors include those listed under "Risk Factors" and elsewhere in this prospectus and the documents incorporated by reference into this prospectus.*

**CHS Inc.**

CHS Inc. is one of the nation's leading integrated agricultural companies, providing grain, foods and energy resources to businesses and consumers on a global basis. As a cooperative, we are owned by farmers and ranchers and member cooperatives (referred to herein as "members") across the United States. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock, which is listed on the NASDAQ Global Select Market under the symbol "CHSCP", shares of our Class B Series 1 Preferred Stock, which is listed on the NASDAQ Global Select Market under the symbol "CHSCO", and shares of our Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 2 (the "Class B Series 2 Preferred Stock"), which is listed on the NASDAQ Global Select Market under the symbol "CHSCN". On August 24, 2014, we had 12,272,003 shares of 8% Cumulative Redeemable Preferred Stock outstanding, 11,319,175 shares of Class B Series 1 Preferred Stock outstanding and 16,800,000 shares of Class B Series 2 Preferred Stock outstanding. We buy commodities from and provide products and services to patrons (including our members and other non-member customers), both domestic and international. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2013, our total revenues were \$44.5 billion and net income attributable to CHS Inc. was \$992.4 million. For the nine months ended May 31, 2014, our total revenues were \$32.7 billion and net income attributable to CHS Inc. was \$881.7 million.

We have aligned our segments based on an assessment of how our businesses operate and the products and services they sell.

Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag segment derives its revenues through the origination and marketing of grain, including service activities conducted at export terminals, through the wholesale sales of crop nutrients, from the sales of soybean meal and soybean refined oil and through the retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies, and records equity income from investments in our grain export joint venture and other investments. We include other business operations in Corporate and Other because of the nature of their products and services, as well as the relative revenues of those businesses. These businesses primarily include our financing, insurance, hedging and other service activities related to crop production. In addition, our wheat milling and packaged food operations are included in Corporate and Other, as those businesses are conducted through non-consolidated joint ventures.

Membership in CHS is restricted to certain producers of agricultural products and to associations of producers of agricultural products that are organized and operating so as to adhere to the provisions of the Agricultural Marketing Act and the Capper-Volstead Act, as amended. Our Board of Directors may establish other qualifications for membership from time to time as it may deem advisable.

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Our earnings from cooperative business are allocated to members (and to a limited extent, to non-members with which we have agreed to do business on a patronage basis) based on the volume of business they do with us. We allocate all of these earnings to our patrons in the form of patronage refunds (which are also called patronage dividends) in cash and patrons' equities (capital equity certificates), except that up to 10% of these earnings may at the option of our Board of Directors be allocated to a capital reserve. Patrons' equities may be redeemed over time solely at the discretion of our Board of Directors. Earnings derived from non-members, which are not allocated patronage, are taxed at federal and state statutory corporate rates and are retained by us as unallocated capital reserve. We also receive patronage refunds from the cooperatives in which we are a member, if those cooperatives have earnings to distribute and if we qualify for patronage refunds from them.

Our origins date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. CHS Inc. emerged as the result of the merger of those two entities in 1998, and is headquartered in Inver Grove Heights, Minnesota.

***Energy***

We are the nation's largest cooperative energy company based on revenues and identifiable assets, with operations that include petroleum refining and pipelines; the supply, marketing (including ethanol and biodiesel) and distribution of refined fuels (gasoline, diesel fuel and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane. Our Energy segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (an entity in which we have an approximate 84.0% ownership interest as of May 31, 2014) and sells those products under the Cenex® brand to member cooperatives and others through a network of approximately 1,350 independent retail sites, of which 75% are convenience stores marketing Cenex® branded fuels. For fiscal 2013, our Energy revenues, after elimination of inter-segment revenues, were \$12.5 billion and were primarily from gasoline and diesel fuel.

In fiscal 2012, we began a project to replace a coker at one of our refineries with an expected total cost of \$555.0 million and expected completion in fiscal 2015. We incurred \$124.0 million and \$60.4 million of costs related to the coker project during fiscal 2013 and 2012, respectively, and \$131.2 million during the nine months ended May 31, 2014. In fiscal 2013, we began a \$327.0 million expansion at National Cooperative Refinery Association's (NCRA) McPherson, Kansas refinery which is anticipated to be completed in fiscal 2016. We incurred \$25.0 million of costs related to the NCRA expansion during the year ended August 31, 2013, and \$76.3 million during the nine months ended May 31, 2014.

***Ag***

Our Ag segment includes crop nutrients, country operations, grain marketing and processing and food ingredients. Our revenues in our Ag segment primarily include grain sales, which were \$23.8 billion for fiscal 2013 after elimination of inter-segment revenues.

*Crop Nutrients.* We believe our North America wholesale crop nutrients business is one of the largest wholesale fertilizer businesses in the United States based on tons sold and accounts for approximately 11% of the U.S. market. Tons sold include sales to our country operations business which resells tons at retail to our direct individual members. There is significant seasonality in the sale of agronomy products and services, with peak activity coinciding with the planting seasons. There is also significant volatility in the prices for the crop nutrient products we purchase and sell.

We are currently taking steps toward potential construction of a more than \$2 billion nitrogen fertilizer manufacturing plant to be located in Spiritwood, North Dakota, which would provide the region's farmers with enhanced supplies of crop nutrients essential to raising corn and other crops. We

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spent approximately \$25 million on an engineering design study to determine the feasibility of the project. The study was completed in February 2014 and the project is still under evaluation.

*Country Operations.* Our country operations business purchases a variety of grains from our producer members and other third parties, and provides cooperative members and customers with access to a full range of products, programs and services for production agriculture. Country operations operates 442 locations through 73 business units, the majority of which have local producer boards dispersed throughout Colorado, Idaho, Illinois, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Michigan, Wisconsin, Washington and Canada. Most of these locations purchase grain from farmers and sell agronomy, energy, feed and seed products to those same producers and others, although not all locations provide every product and service.

*Grain Marketing.* We are the nation's largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales, handling over 2.1 billion bushels annually. During fiscal 2013, we purchased approximately 50% of our total grain volumes from individual and cooperative association members and our country operations business, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators awaiting delivery to domestic and foreign purchasers. We primarily conduct our grain marketing operations directly, but do conduct some of our business through TEMCO, LLC, a 50% joint venture with Cargill, Incorporated ("Cargill").

*Processing and Food Ingredients.* Our Processing and Food Ingredients business operates globally and converts soybeans into soybean meal, soyflour, crude soybean oil, refined soybean oil and associated by-products and converts corn into ethanol and associated by-products. We then further process soyflour for use in the food/snack industry.

***Corporate And Other***

Corporate and Other primarily represents the non-consolidated wheat milling and packaged food joint ventures, as well as our business solutions operations, which consist of commodities hedging, insurance and financial services related to crop production.

In our third quarter, we formed Ardent Mills LLC ("Ardent Mills"), a joint venture with Cargill and ConAgra Foods, Inc., which combines the North American flour milling operations of the three parent companies, including the Horizon Milling, LLC and Horizon Milling G.P. (collectively, "Horizon Milling") assets and CHS-owned mills, with CHS holding a 12% interest in Ardent Mills. Prior to closing, we contributed \$32.8 million to Horizon Milling to pay off existing debt as a pre-condition to close. Upon closing, Ardent Mills was financed with funds from third-party borrowings, which did not require credit support from the owners. We received \$123.5 million of cash proceeds distributed to us in proportion to our ownership interest, adjusted for deviations in specified working capital target amounts, and recognized a gain of \$108.8 million associated with this transaction. In connection with the closing, the parties also entered into various ancillary and non-compete agreements including, among other things, an agreement for us to supply Ardent Mills with certain wheat and durum products. As we hold one of the five board seats, we account for Ardent Mills as an equity method investment.

***Issuance***

We are issuing 6,752,188 shares of our Class B Series 1 Preferred Stock to redeem approximately \$200,000,000 of our "patrons' equities." Seventy percent of the Class B Series 1 Preferred Stock being issued will be issued to non-individual patrons and thirty percent of the Class B Series 1 Preferred Stock being issued will be issued to individual patrons, in each case only to "active patrons" who hold qualified capital equity certificates in an amount equal to or greater than \$5,000. "Active patrons" are

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non-individual patrons who have done business with us in the past five fiscal years and individual patrons who have done at least \$20,000 of business with us in fiscal years 2012 and 2013 combined. The amount of patrons' equities that will be redeemed with each share of Class B Series 1 Preferred Stock issued will be \$29.62 which is the greater of \$25.31 (equal to the \$25.00 liquidation preference per share of Class B Series 1 Preferred Stock plus \$0.31 of accumulated dividends from and including July 1, 2014 to and including August 25, 2014) and the closing price for one share of the Class B Series 1 Preferred Stock on August 18, 2014. There will not be any cash proceeds from the issuance of the Class B Series 1 Preferred Stock. However, by issuing shares of Class B Series 1 Preferred Stock in redemption of patrons' equities we will make available for business purposes cash that otherwise may have been used to redeem those patrons' equities.

***Principal Executive Offices***

Our principal executive offices are located at 5500 Cenex Drive, Inver Grove Heights, Minnesota 55077, and our telephone number at that address is (651) 355-6000.

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**Terms of the Class B Series 1 Preferred Stock**

**Dividends**

Dividends on the Class B Series 1 Preferred Stock are cumulative and, if, when and as declared by our Board of Directors, are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year at the rate of \$1.96875 per share per year. Dividends on the Class B Series 1 Preferred Stock accumulate whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared. See "Description of Class B Series 1 Preferred Stock Dividends."

**Liquidation Preference**

In the event of our liquidation, holders of shares of Class B Series 1 Preferred Stock are entitled to receive \$25.00 per share plus all dividends accumulated and unpaid on the shares to and including the date of liquidation, subject, however, to the rights of any of our debt and any capital stock or equity capital that rank senior to or on parity with the Class B Series 1 Preferred Stock.

**Rank**

With respect to the payment of dividends and amounts payable upon liquidation, the Class B Series 1 Preferred Stock ranks (i) senior to any patronage refund, patrons' equities, and any other class or series of our capital stock or equity capital designated by our Board of Directors as junior to the Class B Series 1 Preferred Stock, (ii) junior to all shares of capital stock or equity capital of CHS which, by their terms, rank (with the approval of the holders of a majority of the outstanding shares of all series of our Class B Cumulative Redeemable Preferred Stock (our "Class B Preferred Stock"), voting separately as a class) senior to the Class B Series 1 Preferred Stock and (iii) on a parity with the 8% Cumulative Redeemable Preferred Stock, the Class B Preferred Stock and all other shares of capital stock or equity capital of CHS other than shares of capital stock or equity capital of CHS which, by their terms, rank junior or (with the approval of the holders of a majority of the outstanding shares of all series of our Class B Preferred Stock, voting separately as a class) senior to the Class B Series 1 Preferred Stock. See "Description of Class B Series 1 Preferred Stock Rank."

**Redemption at Our Option**

The Class B Series 1 Preferred Stock is not redeemable prior to September 26, 2023. On and after September 26, 2023, the Class B Series 1 Preferred Stock is redeemable for cash at our option, in whole or in part, at a per share price equal to the per share liquidation preference of \$25.00 per share, plus all dividends accumulated and unpaid on that share to and including the date of redemption. Redemption of the Class B Series 1 Preferred Stock will be a taxable event for federal income tax purposes. See "Description of Class B Series 1 Preferred Stock Redemption Redemption At Our Option."

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**Redemption at the Holder's Option**

In the event a change in control (as defined herein) is approved by our Board of Directors, holders of the Class B Series 1 Preferred Stock will have the right, for a period of 90 days from the date of the change in control, to require us to redeem their shares of Class B Series 1 Preferred Stock, for cash, at a per share price equal to the per share liquidation preference of \$25.00 per share, plus all dividends accumulated and unpaid on that share to and including the date of redemption. "Change in control" is defined in "Description of Class B Series 1 Preferred Stock - Redemption At the Holder's Option."

**No Exchange or Conversion Rights; No Sinking Fund**

Shares of the Class B Series 1 Preferred Stock are not exchangeable for or convertible into any other shares of our capital stock or any other securities or property. The Class B Series 1 Preferred Stock is not subject to the operation of any purchase, retirement or sinking fund.

**Voting Rights**

Holders of the Class B Series 1 Preferred Stock do not have voting rights, except as required by applicable law; provided, that the affirmative vote of a majority of the outstanding shares of Class B Preferred Stock, voting as a class, is required to approve (i) any amendment to our articles of incorporation or the resolutions establishing the terms of the Class B Preferred Stock if the amendment adversely affects the powers, rights or preferences of the holders of the Class B Preferred Stock; or (ii) the creation of any class or series of capital stock, equity capital or patrons' equities having rights senior to the Class B Preferred Stock as to the payment of dividends or distribution of assets upon our liquidation, dissolution or winding up.

**Trading**

The Class B Series 1 Preferred Stock is listed on the NASDAQ Global Select Market under the symbol "CHSCO".

**Comparison of Rights**

Holders of the Class B Series 1 Preferred Stock have different rights from those of holders of patrons' equities. See "Comparison of Rights of Holders of Patrons' Equities and Rights of Holders of Class B Series 1 Preferred Stock" below.

**Risk Factors**

Ownership of our Class B Series 1 Preferred Stock involves risks. See "Risk Factors" beginning on page 10 and in the documents we file with the Securities and Exchange Commission (the "SEC") that are incorporated herein by reference.

Table of Contents**Selected Consolidated Financial Data**

The selected financial information below has been derived from our consolidated financial statements for the periods indicated below. The selected consolidated financial information for the nine months ended and as of May 31, 2014 and 2013, and the years ended August 31, 2013, 2012 and 2011 and as of August 31, 2013 and 2012, should be read in conjunction with our consolidated financial statements and notes thereto included in our Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014, and our Annual Report on Form 10-K for the fiscal year ended August 31, 2013, respectively, as well as the related management's discussion and analysis thereof, incorporated by reference in this prospectus. The selected consolidated financial information for the years ended August 31, 2010 and 2009 and as of August 31, 2011, 2010 and 2009 should be read in conjunction with our audited consolidated financial statements and notes thereto, as well as the related management's discussion and analysis thereof, not included or incorporated by reference in this prospectus. The selected consolidated financial information for the nine months ended and as of May 31, 2014 and 2013 has been derived from our unaudited financial statements. In the opinion of our management, the interim financial data for the periods ended and as of May 31, 2014 and 2013 was prepared on the same basis as the annual historical financial data and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of this information. Results for the nine months ended May 31, 2014 are not necessarily indicative of the results that may be expected for the full fiscal year.

	Nine Months Ended May 31,		Years Ended August 31,				
	2014	2013	2013	2012	2011	2010	2009
(Dollars in thousands)							
<b>Income Statement Data:</b>							
Revenues	\$ 32,673,793	\$ 33,528,872	\$ 44,479,857	\$ 40,599,286	\$ 36,915,834	\$ 25,267,931	\$ 25,729,916
Cost of goods sold	31,324,819	32,055,796	42,706,205	38,588,143	35,512,988	24,397,410	24,849,901
Gross profit	1,348,974	1,473,076	1,773,652	2,011,143	1,402,846	870,521	880,015
Marketing, general and administrative	447,771	397,931	553,623	498,233	438,498	366,582	355,299
Operating earnings	901,203	1,075,145	1,220,029	1,512,910	964,348	503,939	524,716
(Gain) loss on investments	(111,401)	(199)	(182)	5,465	(126,729)	(29,433)	56,305
Interest, net	102,263	186,989	231,567	193,263	74,835	58,324	70,487
Equity (income) loss from investments	(89,249)	(72,406)	(97,350)	(102,389)	(131,414)	(108,787)	(105,754)
Income before income taxes	999,590	960,761	1,085,994	1,416,571	1,147,656	583,835	503,678
Income taxes	116,068	87,033	89,666	80,852	86,628	48,438	63,304
Net income	883,522	873,728	996,328	1,335,719	1,061,028	535,397	440,374
Net income attributable to noncontrolling interests	1,812	4,139	3,942	75,091	99,673	33,238	58,967
Net income attributable to CHS Inc.	\$ 881,710	\$ 869,589	\$ 992,386	\$ 1,260,628	\$ 961,355	\$ 502,159	\$ 381,407
<b>Balance Sheet Data (at end of period):</b>							
Working capital	\$ 3,500,985	\$ 2,959,840	\$ 3,125,407	\$ 2,848,462	\$ 2,776,492	\$ 1,603,994	\$ 1,626,352

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Net property, plant and equipment	3,670,245	3,044,582	3,171,404	2,786,324	2,420,214	2,253,071	2,099,325
Total assets	14,944,947	13,114,606	13,504,270	13,645,024	12,465,317	8,881,087	7,994,921
Long-term debt, including current maturities	1,467,372	1,484,057	1,607,032	1,440,353	1,501,997	986,241	1,071,953
Total equities	6,316,891	5,006,853	5,152,747	4,473,323	4,265,320	3,604,451	3,333,164
Ratio of earnings to fixed charges and preferred dividends(1)	10.0x		7.2x	9.6x	8.8x	5.5x	4.6x

(1)

For purposes of computing the ratio of earnings to fixed charges and preferred dividends, earnings consist of income from continuing operations before income taxes on consolidated operations, distributed income from equity investees, amortization of capitalized interest, investments redeemed and fixed charges less deductions for equity holdings, noncash patronage dividends received and capitalized interest. Fixed charges consist of interest expense, amortization of debt costs and one-third of rental expense, considered representative of that portion of rental expense estimated to be attributable to interest. Interest costs of \$56.3 million, \$149.1 million and \$113.2 million for the nine months ended May 31, 2014 and the years ended August 31, 2013 and 2012, respectively, associated with our commitment to purchase the NCRA noncontrolling interests, were excluded from interest expense for purposes of computing the ratio of earnings to fixed charges and preferred dividends.

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The summary selected financial information below has been derived from our two business segments, and Corporate and Other, for the nine months ended May 31, 2014 and 2013 and the years ended August 31, 2013, 2012 and 2011. The intercompany revenues between our Energy and Ag segments were \$419.4 million and \$352.6 million for the nine months en">

8,053,024

Common stock<sup>(1)</sup>

1,511,395

1,511,395

Stable value fund

\$  
1,598,801

1,598,801

Total

\$  
9,564,419

\$  
1,598,801

\$  
11,163,220

(1) Represents a party-in-interest to the Plan.

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2010				
Domestic stock funds	\$3,920,667			\$3,920,667
Balanced funds	40,667			40,667
International stock funds	1,491,222			1,491,222
Fixed income funds	2,274,799			2,274,799
Money market funds	26,676			26,676
Total mutual funds	7,754,031			7,754,031
Common stock <sup>(1)</sup>	2,332,466			2,332,466
Stable value fund		\$1,483,780		1,483,780
Total	\$10,086,497	\$1,483,780		\$11,570,277

(1) Represents a party-in-interest to the Plan.

For the years ended December 31, 2011, and 2010, there were no significant transfers in or out of Levels 1 and 2.

#### 4. FEDERAL INCOME TAX STATUS

The IRS has determined and informed the Company, by a letter dated October 8, 2010, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code ("IRC"). The Plan has been amended since the latest determination letter. However, the Plan Sponsor believes the Plan, as currently designed, is in compliance and is being operated within the applicable requirements of the IRC. The Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Plan management is required to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not to be sustained upon examination by the IRS. The tax positions taken by the Plan have been analyzed and, as of December 31, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability, asset, or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Sponsor believes it is no longer subject to income tax examinations for years prior to 2008.

## 5. INVESTMENTS

The Plan's investments which exceeded 5% of net assets available for benefits as of December 31, 2011 and 2010, consisted of the following:

	2011	2010
PICO Holdings, Inc., common stock <sup>(1)</sup>	\$1,511,395	\$2,332,466
Common Collective Trusts — Stable Value Fund at contract value	\$1,556,482	\$1,454,215
Mutual funds:		
Royce Premier Fund	\$1,157,518	\$1,203,456
Columbia Intermediate Bond Z	\$1,414,524	\$1,261,393
Europacific Growth Fund	\$570,319	\$700,166
Growth Fund of America	\$666,999	\$611,164
Blackrock Equity Dividend	\$579,836	
Dreyfus Emerging Markets		\$671,822

(1) Represents a party-in-interest to the Plan

During the year ended December 31, 2011, the Plan's investments (including gains and losses on investments bought and sold as well as held during the year) depreciated as follows:

	2011	
Net depreciation in fair value of investments whose fair value was determined by quoted market price:		
Common stock	\$(796,714	)
Mutual funds	(393,365	)
Net depreciation in fair value of investments	\$(1,190,079	)

## 6. RELATED-PARTY TRANSACTIONS

Plan investments include common stock of PICO Holdings, Inc., who is also the Plan Sponsor. Mid Atlantic Trust Company is the Plan custodian and Columbus Retirement Administrators is the record-keeper. The Plan Sponsor pays administrative expenses of the Plan, which totaled approximately \$5,519 and \$3,325 in 2011 and 2010, respectively.

## 7. STABLE VALUE FUND

The stable value fund (the "Fund") is a collective investment trust under the trusteeship of Union Bond & Trust Company. The beneficial interest of each participant is represented by units. Units are issued and redeemed daily at the Fund's net asset value, based upon the closing value per unit of the Fund, which is determined daily following the close of regular trading on the New York Stock Exchange. The Fund's net asset value was \$23.12 and \$23.62 at December 31, 2011 and 2010, respectively. Distribution to the Fund's unit holders is declared daily from the net investment income and automatically reinvested in the Fund on a monthly basis, when paid.

It is the policy of the Fund to use its best efforts to maintain a stable net asset value, although there is no guarantee that the Fund will be able to maintain this value.

Participants ordinarily may direct the withdrawal or transfer of all or a portion of their investment at contract value. Contract value represents contributions made to the Fund, plus earnings, less participant withdrawals and administrative expenses. The Fund imposes certain restrictions on the Plan, and the Fund itself may be subject to circumstances that affect its ability to transact at contract value, as described in the following paragraphs. Plan management believes that the occurrence of events that would cause the Fund to transact at less than contract value is not probable.

**Redemption Restrictions of the Fund** -The Fund has redemption restrictions for participant-directed transfers to competing investment options, permitted participant withdrawals and transfers, and Plan Sponsor-directed withdrawals or liquidations.

Participant-directed transfers to competing investments must be held in a non-competing investment option for a minimum of 90 days before a transfer to a competing option may occur.

Permitted participant withdrawals and transfers are typically processed daily. However, the Fund trustee may, at its discretion in the best interest of the Fund, delay such withdrawals for no more than 30 days.

Plan Sponsor-directed withdrawals or liquidation require a 12 month advance written notice.

## 8. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

At December 31, 2011 and 2010, the Plan held 73,440 and 73,348 shares, respectively, of PICO Holdings, Inc. common stock, the Plan Sponsor, with a cost basis of \$1,473,242 and \$1,529,246, respectively. During the year ended December 31, 2011, the Plan recorded no dividend income from such shares.

## 9. PLAN TERMINATION

Although the Company has not expressed any intention to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event that the Plan is terminated, participants would become 100% vested in their accounts.

SUPPLEMENTAL SCHEDULES

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## PICO HOLDINGS, INC. EMPLOYEES 401(k) RETIREMENT PLAN AND TRUST

Employer ID Number: 94-2723335

Plan Number: 004

## FORM 5500, SCHEDULE I, PART I — INVESTMENTS

AS OF DECEMBER 31, 2011

Description	Number of shares / units	Market Value	Percentage of Net Assets	
Invesco Energy Mutual Fund Class Institutional	6,254	\$242,145	2.2	%
T. Rowe Price Trust Company Health Sciences Fund	7,243	236,127	2.1	%
American Funds Balanced Mutual Fund Class R-6	3,920	71,375	0.6	%
Aston/Montag & Caldwell Growth Fund Class I	4,605	105,827	0.9	%
BlackRock Equity Dividend Fund Investor A Shares	31,947	579,836	5.2	%
Baron Growth Fund Retail Shares	4,229	215,700	1.9	%
Cohen & Steers Realty Shares	4,629	281,564	2.5	%
Columbia Intermediate Bond Fund Class Z	152,427	1,414,524	12.8	%
Fidelity Low Priced Stock Fund	2,440	87,168	0.8	%
American Funds EuroPacific Growth Fund Class R-6	16,235	570,319	5.1	%
Franklin Gold & Precious Metals Fund Class A	5,569	203,164	1.8	%
Columbia Emerging Markets Fund Class Z	24,547	216,748	1.9	%
American Funds Growth Fund of America; R-6	23,224	666,999	6.0	%
American Funds Intermediate Bond Fund of America Class R-6	11,079	151,005	1.4	%
Western Asset Money Market Fund Class A (Forfeiture account)	2,256	2,256	0.0	%
Oppenheimer Developing Markets Fund Class Y	6,876	199,184	1.8	%
Oppenheimer Commodity Strategy Total Return Fund Class Y	4,357	14,596	0.1	%
Wintergreen Advisers, LLC Wintergreen Fund Investor Class	6,505	91,658	0.8	%
Oakmark International Fund Class I	5,619	92,998	0.8	%
Royce Premier Fund Investment Class	62,501	1,157,518	10.5	%
T. Rowe Price Trust Company International Bond Fund	35,469	345,464	3.1	%
Templeton Frontier Markets Fund Class A	5,424	70,246	0.6	%
Templeton Global Bond Fund Class A	11,703	145,233	1.3	%
Vanguard Inflation-Protected Securities Fund Investor Shares	32,339	456,300	4.1	%
Vanguard Long Term US Treasury Fund Investor Shares	7,671	102,335	0.9	%
Vanguard 500 Index Fund Investor Class	2,869	332,266	3.0	%
Invesco STIT Liquid Assets Reserve	469	469	0.0	%
Common Collective Trust Funds				
Union Bond & Trust Company Stable Value Fund, at fair value	67,322	1,598,801	14.3	%
Employer securities				
* PICO Holdings, Inc. Common Stock	73,440	1,511,395	13.5	%
Total Investments		\$11,163,220		
* Represents a party-in-interest to the Plan.				

Cost information is not required for participant-directed investments and there fore, is not included.



PICO HOLDINGS, INC. EMPLOYEES 401(k) RETIREMENT PLAN AND TRUST

Employer ID Number: 94-2723335

Plan Number: 004

FORM 5500, SCHEDULE H, PART IV, QUESTION 4a — SCHEDULE OF  
DELINQUENT PARTICIPANT CONTRIBUTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Total That Constitute Nonexempt Prohibited Transactions	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	Total Fully Corrected under VFCP and PTE 2002-51
Participant Contributions Transferred Late to the Plan			\$916.67	

SIGNATURE

Pursuant to the requirements of the United States Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on their behalf by the undersigned hereunto duly authorized.

PICO HOLDINGS, INC. EMPLOYEES  
401(k) RETIREMENT PLAN AND TRUST

Date: June 28, 2012

By: /s/ John T. Perri  
John T. Perri  
Vice President and Chief Accounting Officer  
(Authorized Signatory)