Resource Capital Corp.
Form S-3
May 26, 2011
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As filed with the Securities and Exchange Commission on May 26, 2011

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

RESOURCE CAPITAL CORP.

(Exact name of registrant as specified in its charter)

Maryland	**20-2287134**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
712 Fifth Avenue **12th Floor** **New York, NY 10019** **(212) 974-1708**	**Jonathan Z. Cohen** **Chief Executive Officer** **712 Fifth Avenue** **12th Floor** **New York, New York 10019** **(212) 974-1708**

(212) 245-6372 (Facsimile)

(Address, including zip code, and telephone number,

including area code, of registrant s principal executive offices)

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

Copy to:

J. Baur Whittlesey, Esq.

Mark E. Rosenstein, Esq.

Ledgewood

1900 Market Street, Suite 750

Philadelphia, PA 19103

(215) 731-9450

(215) 735-2513 (Facsimile)

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

¨ Large accelerated filer	x Accelerated filer
¨ Non-accelerated filer	¨ Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.001 per share(2)	10,000,000	$6.43	$64,300,000	$7,466

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c), the offering price is computed on the basis of the average high and low prices of the common stock, as reported by the New York Stock Exchange on May 25, 2011.

(2) Plus such additional shares as may be issued by reason of stock splits, stock dividends or similar transactions.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED May 26, 2011

The Information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

10,000,000 Shares

Common Stock

We are pleased to offer you the opportunity to participate in the Resource Capital Corp. Dividend Reinvestment and Stock Purchase Plan, which we refer to as the plan. The plan is designed for long-term investors who wish to invest and build their stock ownership over time. The plan provides you with the opportunity to reinvest all or a portion of the cash dividends paid on shares of Resource Capital Corp. common stock in additional shares of common stock. The plan also includes a direct stock purchase component, which permits current stockholders and new investors to make cash purchases of shares of our common stock in an economical and convenient manner.

This prospectus relates to 10,000,000 shares of our common stock, par value $.001 per share, to be offered for purchase under the plan. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol RSO. On May 25, 2011, the closing price of our common stock was $6.50 per share.

Key features of the plan:

- Anyone can enroll in the plan, whether they are a current Resource Capital Corp. stockholder or not;
- Participants and new investors can purchase shares through the plan without a personal broker and, in many cases, without paying a commission;
- Participants can automatically reinvest all or any portion of their cash dividends in additional shares of our common stock;
- Participants can purchase additional shares of our common stock at any time through optional cash investments of as little as $100 per month or as much as $5,000 per month at a discount from the market price that may range from 0% to 5% at our sole discretion;
- Participants can make optional cash investments in excess of $5,000 per month at a discount from the market price that may range from 0% to 5% at our sole discretion;

- Use of automatic monthly investments in shares of our common stock from a checking or savings account;
- Participants can easily transfer their shares; and
- Participants and new investors own and transfer shares without holding or delivering physical certificates.

To ensure that we continue to qualify as a real estate investment trust, or REIT, for federal income tax purposes, no stockholder may own more than 9.8% (in value or number, whichever is more restrictive) of the outstanding shares of our common stock, unless our Board of Directors waives this limitation. See the discussion in Question 9 of the section Information About the Plan for more information.

Please read this prospectus carefully and keep it and any future investment statements for your reference. If you have any questions about the plan, please call the plan administrator, American Stock Transfer & Trust Company, or AST, toll free at (877) 739-9997, 24 hours a day, seven days a week. Customer service representatives are available Monday through Thursday, between the hours of 8:00 A.M. and 7:00 P.M. Eastern time, and Friday, between the hours of 8:00 A.M. and 5:00 P.M. Eastern time.

Investing in our common stock involves risks. You should carefully consider the risks discussed in this prospectus and in our filings with the Securities and Exchange Commission before enrolling in the plan and investing in our common stock.

Neither the Securities and Exchange Commission nor any state 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 , 2011

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ABOUT THIS PROSPECTUS

Please read this prospectus carefully. If you own shares now, or if you decide to buy shares in the future, then please keep this prospectus with your permanent investment records, since it contains important information about the plan.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. This prospectus may only be used where it is legal to sell these securities. You should not assume that the information contained in this prospectus is accurate as of any date later than the date hereof or such other dates as are stated herein or as of the respective dates of any documents or other information incorporated herein by reference.

As used in this prospectus, unless the context suggests otherwise, the terms we, us and our refer to Resource Capital Corp. and its subsidiaries, Manager refers to Resource Capital Manager, Inc., our external manager, and Resource America refers to Resource America, Inc. and its affiliated companies, including the Manager.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this prospectus or which may be contained or incorporated by reference in a prospectus supplement constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, could, estimate, expects, intend, may, plan, potential, will and would or the negative of these terms or other comparable terminology.

Forward-looking statements contained or incorporated by reference in this prospectus or which may be contained or incorporated by reference in a prospectus supplement are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make or which are incorporated by reference in this prospectus or which may be contained or incorporated by reference in a prospectus supplement are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

- the risk factors described or incorporated by reference in this prospectus;
- changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in governmental regulations, tax rates and similar matters;
- changes in our business strategy;
- availability of investment opportunities in commercial real estate-related and commercial finance assets;
- the degree and nature of our competition;
- the adequacy of our cash reserves and working capital; and
- the timing of cash flows, if any, from our investments.

We caution you not to place undue reliance on these forward-looking statements which speak only as of the date of this prospectus or the date of any document incorporated by reference in this prospectus. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 with the SEC with respect to this offering. This prospectus constitutes only part of the registration statement and does not contain all of the information set forth in the registration statement, its exhibits and its schedules. For further information with respect to us and our securities, we refer you to the registration statement and to the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document to which we make reference are not necessarily complete and, in each instance, we refer you to the copy of the contract, agreement or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. We also make available free of charge through our website at www.resourcecapitalcorp.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. You may read and copy any reports, statements or other information that we have filed with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may request copies of these documents, upon payment of a copying fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for information on the operation of the Public Reference Room. Our SEC filings are also available to the public on the SEC internet site at www.sec.gov.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to documents we have filed with the SEC but that we do not include in this prospectus. Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. We incorporate by reference the documents listed below that we have filed with the SEC:

Our Annual Report on Form 10-K for the year ended December 31, 2010.

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

Our Current Reports on Form 8-K filed on January 6, 2011, February 7, 2011, February 15, 2011, March 2, 2011, March 24, 2011 and March 30, 2011.

The description of our common stock contained in our Registration Statement on Form 8-A dated January 25, 2006.

All documents that we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial registration statement and prior to the effectiveness of the registration statement, on or after the date of this prospectus and prior to the termination of the offering made pursuant to this prospectus also will be deemed to be incorporated herein by reference and will automatically update and supersede information in this prospectus. Nothing in this prospectus shall be deemed to incorporate information furnished to but not filed with the SEC pursuant to Item 2.02 or Item 7.01 of Form 8-K (or corresponding information furnished under Item 9.01 or included as an exhibit).

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You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Resource Capital Corp.

Attention: Purvi Kamdar

712 Fifth Avenue

12th Floor

New York, New York 10019

(212) 506-3893

You should rely only on the information incorporated by reference or provided in this prospectus, any supplement to this prospectus or any other offering materials we may use. We have not authorized any person to provide information other than that provided in this prospectus, any supplement to this prospectus or any other offering materials we may use. You should assume that the information in this prospectus, any prospectus supplement and any other offering materials we may use is accurate only as of the date on their respective cover pages and that any information in a document we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

The statements that we make in this prospectus or in any document incorporated by reference in this prospectus about the contents of any other documents are not necessarily complete, and are qualified in their entirety by referring you to copies of those documents that are filed as exhibits to the registration statement, of which this prospectus forms a part, or as an exhibit to the documents incorporated by reference. You can obtain copies of these documents from the SEC or from us, as described above.

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THE COMPANY

We are a specialty finance company that focuses primarily on commercial real estate and commercial finance. We are organized and conduct our operations to qualify as a REIT under Subchapter M of the Internal Revenue Code of 1986, as amended. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategy. We invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., which we refer to as the Manager, a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ: REXI), a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through our commercial real estate, commercial finance and financial fund management operating segments. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets and hedge interest rate risks. We generate revenues from the interest and fees we earn on our whole loans, A notes, B notes, mezzanine debt, commercial mortgage-backed securities, or CMBS, bank loans, payments on lease receivables and other asset-backed securities, or ABS. Historically, we have used a substantial amount of leverage to enhance our returns and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments comprises a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. In our bank loans, CMBS, lease receivables and other ABS, we historically have used warehouse facilities as a short-term financing source and collateralized debt obligations, or CDOs, and, to a lesser extent, other term financing as a long-term financing source. In our commercial real estate loan portfolio, we historically have used repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as a long-term financing source. Our other term financing has consisted of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs, depending upon market conditions and credit availability.

Our principal office is located at 712 Fifth Avenue, 12th Floor, New York, New York 10019 and our telephone number is (212) 506-3870. Our website is located at www.resourcecapitalcorp.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

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INFORMATION ABOUT THE PLAN

1. What is the purpose of the plan?

The plan is a convenient and economical stock purchase program available for existing investors to increase their holdings and for new investors to make an initial investment in our common stock. Participants in the plan may have all or any portion of their cash dividends automatically reinvested in shares of our common stock. Participants may also elect to make optional cash investments through the plan administrator. The primary purpose of the plan is to benefit long-term investors who want to increase their investment in our common stock. We may also use the plan to raise additional capital through the direct sale of shares of our common stock to stockholders or new investors, who, in connection with any resales of such shares, may be deemed to be underwriters. Our ability to waive limitations applicable to the amounts that participants may invest pursuant to the cash purchase feature of the plan will allow for these sales to raise additional capital.

Participation in the plan is voluntary, and we give no advice regarding your decision to join the plan. However, if you decide to participate, enrollment forms are available, and may be completed, online. You can access these services through the plan administrator s website, www.amstock.com.

2. What investment options are available under the plan?

Once enrolled in the plan, you may purchase our common stock through the following investment options:

Dividend Reinvestment Program. Current stockholders and interested new investors who are not stockholders and who agree to make an initial investment in our common stock may elect to have all, a portion or none of their cash dividends paid on their common stock automatically reinvested in shares of our common stock through the dividend reinvestment program. Cash dividends are paid on common stock when and as declared by our Board of Directors, generally on a quarterly basis. Subject to (i) ownership limitations on shares of our common stock and (ii) the availability of shares of our common stock registered for issuance under the plan, there is no limitation on the amount of dividends you may reinvest under the dividend reinvestment program.

Stock Purchase Program. Each month, current stockholders, and interested new investors that are not currently shareholders and who agree to make an initial investment in common shares, may elect to invest optional cash payments in common shares, subject to a minimum monthly purchase limit of $100 and a maximum monthly purchase limit of $5,000. You may elect to make optional cash payments through automatic deductions from your banking or checking accounts. We may, at our discretion, waive the maximum limit upon your written request. See Question 20 to learn how to request a waiver. You may make optional cash purchases each month even if dividends on your shares are not being reinvested and even if a dividend has not been declared. You may, but are not required to, enroll any common shares purchased through the plan into the dividend reinvestment program. (To designate these shares for participation in the dividend reinvestment program, make the appropriate election on the authorization form described in Question 12).

3. How can I change my investment options?

You may change your investment options at any time by requesting a new authorization form and returning it to the plan administrator at the address set forth in Question 7.

4. What are the advantages and disadvantages of the plan?

The primary advantages of participating in the plan are as follows:

- You may automatically reinvest cash dividends on all, a portion or none of your holdings of common stock in additional shares of common stock.

You may also invest in shares of common stock by making cash purchases, subject to a minimum and maximum amount. You may make cash purchases of up to a maximum amount of $5,000 (unless this

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maximum is waived by us) via the internet, from a pre-designated bank account, cash or money order. You may make cash purchases occasionally or at regular intervals. You may make cash purchases even if you do not elect to participate in the plan s dividend reinvestment option. You may make cash purchases whether you currently own our common stock or are a new investor.

We may offer you the opportunity to acquire shares of our common stock through optional cash purchases at a discount of up to 5% from the market price of the common shares.

Shares of common stock purchased directly from us under the plan will be issued without a sales commission.

Your funds are subject to full investment under the plan because your account will be credited with the purchase of whole shares, as well as fractional shares computed to three decimal places. Dividends will be paid not only on whole shares but also proportionately on fractional shares held in your account. Dividends paid on all shares purchased through the plan, including fractional shares, will be used to purchase additional shares of common stock, unless you specify otherwise.

You may direct the plan administrator to transfer, at any time and at no cost to you, all or a portion of your shares in the plan to a plan account for another person as long as you meet all of the transfer requirements.

The plan offers a safekeeping service that allows you to deposit your company stock certificates with the plan administrator at no cost and to have your ownership of common stock purchased under the plan maintained on the plan administrator s records in uncertificated form as part of your plan account, if you so desire.

You will receive statements containing year-to-date information on all plan transactions in your account within a reasonable time after a transaction occurs, as well as on a quarterly basis, that are designed to simplify your recordkeeping.

The primary disadvantages of participating in the plan are as follows:

Your investment in shares of common stock purchased under the plan is not different from any investment in shares that you purchase directly. We cannot assure you of a profit or protect against a loss on shares purchased. You bear the risk of loss and enjoy the benefits of any gain from market price changes with respect to shares purchased under the plan.

Your participation in the dividend reinvestment program will result in you being treated, for federal income tax purposes, as having received a distribution equal to the fair market value (and not the market price) of the common shares on the date actually acquired from us. In addition, you will be treated as having received a distribution equal to your pro rata share of any brokerage commissions paid by us in connection with the purchase of common shares by the plan administrator from parties other than us. These distributions will be taxable as dividends to the extent of our earnings and profits, and may give rise to a liability for the payment of income tax without providing you with the immediate cash to pay the tax when it becomes due.

If you elect to make optional cash purchases, you will be treated, for federal income tax purposes, as having received a distribution equal to the excess, if any, of the fair market value of the common shares on the purchase date over the amount of your optional cash payment. In addition, you will be treated as having received a distribution equal to your pro rata share of any brokerage commissions paid by us in connection with the purchase of common shares by the plan administrator from parties other than us. These distributions will be taxable as dividends to the extent of our earnings and profits, and may give rise to a liability for the payment of income tax without providing you with the immediate cash to pay the tax when it becomes due.

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You will have limited control over the specific timing of purchases and sales of common stock under the plan. Because the plan administrator must receive funds for a cash purchase prior to the actual purchase date of the common stock, your investments may be exposed to changes in market conditions.

We may, in our sole discretion, without prior notice, change our determination as to whether shares of common stock will be purchased by the plan administrator directly from us or through open market or privately negotiated purchases. You will pay your *pro rata* share of all brokerage commissions in connection with any reinvestment of dividends or optional cash investment in which the plan administrator purchases shares of our common stock on the open market, in which case, you will also pay a minimal transaction fee.

No interest will be paid on funds that the plan administrator holds pending investment or that may ultimately be returned to you.

The purchase price for shares of common stock purchased under the plan may exceed the price of acquiring shares of common stock on the open market at any given time on the actual purchase date.

Sales of common shares credited to your plan account will involve a nominal fee per transaction to be deducted from the proceeds of the sale by the plan administrator (if you request the plan administrator to make such sale), plus any brokerage commission and any applicable stock transfer taxes on the sales.

Sales of common shares credited to your plan account may take up to 10 business days to process.

You cannot pledge common shares deposited in your plan account until the shares are withdrawn from the plan.

5. Who administers the plan?

We have appointed American Stock Transfer & Trust Company, our transfer agent, to be the plan administrator.

6. What are the responsibilities of the plan administrator?

The plan administrator s responsibilities include:

administration of the plan;

acting as your agent;

keeping records of all plan accounts;

sending statements of activity to each participant;

purchasing and selling, on your behalf, all common stock under the plan; and

the performance of other duties relating to the plan.

Holding Shares. If you purchase shares through optional cash payments and do not choose to have the dividends that are paid with respect to these shares reinvested, you must indicate that the dividends on those shares are not to be reinvested. The plan administrator will hold any shares you choose to enroll in the dividend reinvestment program and will register them in the plan administrator s name (or that of its nominee) as your agent.

Receipt of Dividends. As record holder for the plan shares, the plan administrator will credit the dividends accrued on your plan shares as of the dividend record date to your plan account on the basis of whole or fractional plan shares held in such account and will automatically reinvest such dividends in additional common stock unless you elect otherwise. Any remaining portion of cash dividends not designated for reinvestment will be sent to you.

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Other Responsibilities. The plan administrator also acts as dividend disbursing agent, transfer agent and registrar for our common stock. If the plan administrator resigns or otherwise ceases to act as plan administrator, we will appoint a new plan administrator to administer the plan.

7. How do I contact the plan administrator?
You should send all correspondence with the administrator to:

American Stock Transfer & Trust Company

59 Maiden Lane

New York, NY 10038

All transaction processing should be directed to:

American Stock Transfer & Trust Company

P.O. Box 922

Wall Street Station

New York, NY 10269-0560

Please mention Resource Capital Corp. (NYSE symbol RSO) and this plan in all correspondence. In addition, you may call the plan administrator at (877) 739-9997 or contact the plan administrator via the internet at www.amstock.com.

8. Who is eligible to participate in the plan?
The following persons are eligible to participate in the plan:

Record Owners. All record owners (stockholders whose shares are held in their name on the records kept by our transfer agent) of shares of our common stock are eligible to participate directly in the plan.

Beneficial Owners. Beneficial owners (stockholders whose shares are held in the name of a broker, bank or other nominee on the records kept by our transfer agent) of shares of our common stock may participate in two ways. A beneficial owner may participate directly by becoming a record owner by having one or more shares transferred into his or her name from that of the applicable broker, bank or other nominee. Alternatively, a beneficial owner may seek to arrange with the broker, bank or other nominee that is the record owner of his or her shares to participate on the beneficial owner s behalf.

Non-Stockholders. Individuals who do not presently own any shares of our common stock (as either a record owner or beneficial owner) may participate in the plan by making an initial cash purchase of shares of our common stock through the plan s stock purchase program.

9. Are there limitations on participation in the plan other than those described above?
Foreign Law Restrictions. You may not participate in the plan if it would be unlawful for you to do so in the jurisdiction where you are a citizen or reside. If you are a citizen or resident of a country other than the United States, you should confirm that by participating in the plan you will not violate local laws governing, among other things, taxes, currency and exchange controls, stock registration and foreign investments.

REIT Qualification Restrictions. In order for us to maintain our qualification as a REIT, not more than 50% in value of any class or series of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities). We may terminate, by written notice at any time, any participant s individual participation in the plan if such participation would be in violation of the restrictions contained in our Charter or Bylaws, as amended from time to time, that are designed

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to maintain our compliance with the foregoing ownership limitation. These restrictions prohibit any stockholder, directly or indirectly, from beneficially owning more than 9.8% in value or in number, whichever is more restrictive, of our outstanding capital stock. Any attempted transfer or acquisition of capital stock that would create a direct or indirect ownership of capital stock in excess of this limit or otherwise result in our disqualification as a REIT will be null and void. Our Charter provides that capital stock subject to this limitation is subject to various rights that we have to enforce this limitation, including transfer of the shares to a trust. This summary of the ownership limitation is qualified in its entirety by reference to our Charter. We reserve the right to invalidate any purchases made under the plan that we determine, in our sole discretion, may violate the 9.8% ownership limit. Any grant of a request for waiver of the maximum monthly optional cash purchase will not be deemed to be a waiver of such ownership limits.

Exclusion from Plan for Short-Term Trading or Other Practices. You should not use the plan to engage in short-term trading activities that could change the normal trading volume of our common stock. If you do engage in short-term trading activities, we may prevent you from participating in the plan. We reserve the right to modify, suspend or terminate participation in the plan by otherwise eligible holders of shares of our common stock in order to eliminate practices which we determine, in our sole discretion, are not consistent with the purposes or operation of the plan or which may adversely affect the price of our common stock.

Restrictions at Our Discretion. In addition to the restrictions described above, we reserve the right to prevent you from participating in the plan for any other reason. We have the sole discretion to exclude you from or terminate your participation in the plan.

10. How do I enroll in the plan?

Record Owners. Record owners may join the plan by completing and signing an authorization form and returning it to the plan administrator, or by following the enrollment procedures specified on the plan administrator s website at www.amstock.com. Authorization forms may be obtained at any time by written request, by contacting the plan administrator at the address and telephone number provided in Question 7, or via the Internet at the plan administrator s website at www.amstock.com.

Beneficial Owners. A beneficial owner may request that the number of shares the beneficial owner wishes to be enrolled in the plan be registered by the broker, bank or other nominee in the beneficial owner s own name as record owner in order to participate directly in the plan. Alternatively, beneficial owners who wish to join the plan may instruct their broker, bank or other nominee to arrange participation in the plan on the beneficial owner s behalf. The broker, bank or other nominee should then make arrangements with its securities depository, and the securities depository will provide the plan administrator with the information necessary to allow the beneficial owner to participate in the plan.

To facilitate participation by beneficial owners, we have made arrangements with the plan administrator to reinvest dividends and accept optional cash payments under the stock purchase program by record holders such as brokers, banks and other nominees, on behalf of beneficial owners. If you are an interested beneficial owner, be sure that your broker, bank or other nominee passes along the proceeds of any applicable discount to your account.

Alternatively, a beneficial owner may simply request that the number of shares the beneficial owner wishes to be enrolled in the plan be reregistered by the broker, bank or other nominee in the beneficial owner s own name as record owner in order to participate directly in the plan.

Non-Stockholders. A non-stockholder may join the plan as a record owner by making an initial investment in an amount of at least $100 and up to a maximum of $5,000 (unless we specifically waive the maximum limit). The non-stockholder should complete the portions of the authorization form for a non-stockholder wishing to become a participant and should designate the amount of the initial purchase of common stock. At the same time,

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the new participant may designate all or none of the purchased shares to be enrolled in the dividend reinvestment program. The non-stockholder may also follow the enrollment procedures specified on the plan administrator s website at www.amstock.com to join the plan.

Optional Cash Payments through Automatic Deductions**.** You may elect to have optional cash payments made through electronic fund transfers by completing an automatic cash investment application, which is available from the plan administrator at the address and telephone number provided in Question 7, or by logging on to www.amstock.com, and providing both your bank account number and your bank s routing number. The automatic cash investment application must be accompanied by a voided bank check or deposit slip for the account from which you authorize the plan administrator to draw the funds. Once the application is received and processed (which normally takes approximately two (2) business days), funds will automatically be deducted from the designated account on the tenth (10^{th}) business day prior to each investment date and will be invested on such investment date. In addition, you can also choose to invest monthly through automatic deductions. Automatic deductions are subject to the same monthly dollar maximum and minimum as other optional cash payments.

11. When will my participation in the plan begin?

If you are a current stockholder and your authorization form is received by the plan administrator by the record date established for a particular dividend, reinvestment will commence with that dividend. If your authorization form is received after the record date established for a particular dividend, reinvestment will begin on the dividend payment date following the next record date if you are, or your broker, bank or other nominee is, still a record owner. Additionally, if you have submitted your authorization form and thus are enrolled in the plan and you wish to make optional cash payments to purchase shares under the stock purchase program, the plan administrator must receive full payment by two (2) business days before the relevant investment date.

In the case of current non-stockholders making an initial investment, both the authorization form and full payment of their designated initial investment must be received by three (3) business days before the relevant investment date.

Once you enroll in the plan, you will remain enrolled in the plan until you withdraw from the plan, we terminate your participation in the plan or we terminate the plan.

12. What does the authorization form provide?

The authorization form appoints the plan administrator as your agent and directs us to pay to the plan administrator, on the applicable record date, the cash dividends on your common stock that are enrolled in the dividend reinvestment program, including all whole and fractional shares of common stock that are subsequently credited to your plan account, as they are added with each reinvestment or optional cash purchase designated for reinvestment. These cash dividends with respect to shares enrolled in the dividend reinvestment program will be automatically reinvested by the plan administrator in common stock. Any remaining cash dividends with respect to shares not enrolled in the dividend reinvestment program will be paid directly to you.

Additionally, the authorization form directs the plan administrator to purchase common stock with your optional cash payments, if any, and whether to enroll all or none of such purchased shares in the dividend reinvestment program.

The authorization form provides for the purchase of initial or additional common stock through the following investment options:

Full Dividend Reinvestment If this option is elected, the plan administrator will apply all cash dividends on all common shares then or subsequently registered in your name, and all cash dividends

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on all plan shares (except as otherwise directed under Optional Cash Payments below), together with any optional cash payments, toward the purchase of additional plan shares.

Partial Dividend Reinvestment If this option is elected, the plan administrator will apply all cash dividends on only the number of common shares then or subsequently registered in your name and specified on the authorization form and all cash dividends on all plan shares (except as otherwise directed under Optional Cash Payments below), together with any optional cash payments, toward the purchase of additional plan shares.

Optional Cash Payments Only If this option is elected, the plan administrator will apply any optional cash payments made by you to the purchase of additional common shares in accordance with the plan and will apply dividends on such additional plan shares as directed by you.

Unless you designate otherwise, you will be enrolled as having selected the full dividend reinvestment option for your plan shares. In addition, if you return a properly executed authorization form to the plan administrator without electing an investment option, you will be enrolled as having selected the full dividend reinvestment option.

You may select any one of the options desired, and the designated options will remain in effect until you specify otherwise by indicating a different option on a new authorization form, by withdrawing some or all shares from the plan in favor of receiving cash dividends or in order to sell your common stock, or until the plan is terminated.

13. What does the plan administrator s website provide?

Instead of submitting an authorization form, you can participate in the plan by accessing the plan administrator s website at www.amstock.com. You may do the following online:

- enroll or terminate your participation in the plan;
- make initial and additional purchases of common stock;
- sell shares of common stock;
- request a stock certificate for non-fractional shares of common stock held in your plan account; and
- view your account history and balances.

14. How does the optional stock purchase program work?

All current record owners and non-stockholders who have timely submitted signed authorization forms or online requests via www.amstock.com indicating their intention to participate in this program of the plan, and beneficial owners whose brokers, banks or other nominees have timely submitted authorization forms or online requests via www.amstock.com indicating their intention to participate in this program, are eligible to make optional cash payments during any month, whether or not a dividend is declared. Each month the plan administrator will apply any optional cash payment received from a participant by the deadline described below to the purchase of additional common stock for the account of the participant on the following investment date and will enroll all such shares in the dividend reinvestment program unless the participant requests that such shares not be subject to the dividend reinvestment program.

Deadline for Submitting Optional Cash Payments. Optional cash payments will be invested every month on the related investment date, which will generally be the 15th of each month or, if such date is not a business day, the first business day thereafter. The deadline for submitting optional cash payments is two (2) business days prior to the relevant investment date.

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Each month the plan administrator will apply an optional cash payment for which funds are timely received to the purchase of common stock for your account on the next investment date. In order for funds to be invested on the next investment date, the plan administrator must have received a check, money order or wire transfer by the deadline for submitting optional cash payments. Checks and money orders are accepted subject to timely collection of funds and verification of compliance with the terms of the plan. Checks or money orders should be made payable to American Stock Transfer & Trust Company Resource Capital Corp. DRSPP. Checks returned for any reason will not be resubmitted for collection. The administrator reserves the right to sell any shares that have been purchased for your account to recover the amount of a returned check. In addition, the administrator may have to sell additional shares from your account if the sale of the shares purchased in your account is not sufficient to cover the returned check. Additionally, shares will be sold from a participant s account to offset a $25 returned check fee.

No Interest on Optional Cash Payments. No interest will be paid by us or the plan administrator on optional cash payments pending investment. Since no interest is paid on cash held by the plan administrator, it normally will be in your best interest to defer optional cash payments until shortly before the deadline described above. Generally, optional cash payments received after the deadline will be held by the plan administrator and invested on the next investment date.

Refunds of Uninvested Optional Cash Payments. With respect to optional cash payments that have been delivered by you to the plan administrator, upon written request to the plan administrator received at least five (5) business days prior to the deadline for submitting optional cash payments for a particular investment date, your optional cash payments will be returned to you as soon as practicable. Requests received less than five (5) business days prior to such date will not be returned but instead will be held by the plan administrator and invested on the next investment date.

If the threshold price (as determined below), if any, applicable to optional cash payments made pursuant to requests for waiver of the maximum limit on optional cash payments shall not have been met, optional cash payments will be returned by check, without interest, as soon as practicable after the applicable period in which the price of the common stock is determined. Notwithstanding the foregoing, as an alternative to returning any optional cash payment, at your request we may permit you to make such optional cash payment at or above the threshold price, even if such threshold price has not been met. It will be in our sole discretion whether to permit such purchases.

15. What will be the price of shares purchased under the plan?

The price of shares for dividend reinvestment and optional cash purchases of $5,000 or less will be determined as follows:

> If the shares are purchased from us, the purchase price will be equal to 100% of the unsolicited volume weighted average price, rounded to four decimal places, of our common shares as reported by the NYSE only, obtained from Bloomberg, LP on the NYSE during trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (through and including the NYSE closing print) for the relevant purchase date. We may elect to offer a discount with respect to optional cash purchases ranging from 0% to 5% from such purchase price, which discount may vary each month. This discount may, but need not, be the same as the discount we offer for optional cash investments in excess of $5,000 pursuant to requests for waiver. We may offer a discount on either, both or neither of optional purchases of $5,000 or less and optional purchases in excess of $5,000 pursuant to requests for waiver, in our sole discretion. Any discount will be established at our sole discretion after a review of current market conditions, the level of participation in the plan, the attractiveness of obtaining funds through the sale of common shares as opposed to other sources of funds and current and projected capital needs. Our decision to set a discount in a particular month shall not affect the setting of a discount for any subsequent month. No discount to the purchase price is available under the plan with respect to dividend reinvestments.

> In order to maintain our qualification as a real estate investment trust, we will not sell our shares through dividend reinvestment or optional cash purchases at a price that is less than 95% of the fair

market value of a common share on the applicable purchase date. As a result, for each month in which shares are purchased from us, we will compare the purchase price calculated as described in the preceding bullet, net of any applicable discount, to a price equal to 95% of the average of the daily high and low sales prices of our shares, as traded only on the NYSE during regular NYSE trading hours, on the applicable purchase date. If the purchase price calculated as described in the preceding bullet, net of any discount, is less than the price calculated under this 95% test, we will use the price calculated under this 95% test as the purchase price for such dividend reinvestments or optional cash investments.

If the shares are purchased in the open market or privately negotiated transactions, the purchase price will be the average price per share of shares purchased. You will be subject to minimal investment fees in connection with open market purchases.

The purchase price for shares purchased pursuant to a request for waiver is discussed in response to Question 20.

16. How will the number of shares purchased for my account be determined?

Your account will be credited with the number of shares, including fractions computed to three decimal places, equal to the total amount to be invested on your behalf, divided by the applicable price per share, calculated pursuant to the methods described above, as applicable.

The total amount to be invested will depend on the amount of any dividends paid on the number of shares you own and have designated for reinvestment, and the amount of any optional cash payments you have made and available for investment on the related investment date. Subject to the availability of common stock registered for issuance under the plan and our 9.8% ownership limitation, there is no total maximum number of shares available for issuance pursuant to the reinvestment of dividends.

The amount of reinvested dividends to be invested will be reduced by any amount we are required to deduct for federal tax withholding purposes.

17. What is the source of common stock purchased under the plan?

The plan administrator will purchase common stock either directly from us or from parties other than us, either on the open market or through privately negotiated transactions, or by a combination of the foregoing. We will determine the source of the common stock to be purchased under the plan after a review of current market conditions and our current and projected capital needs. We and the plan administrator are not required to provide any written notice to you as to the source of the common stock to be purchased under the plan.

18. What are investment dates and when will dividends or other money be invested?

Shares purchased under the plan will be purchased on the investment date in each month. The investment date with respect to the common stock acquired pursuant to dividend reinvestments will be (i) if acquired directly from us, the quarterly dividend payment date declared by our Board of Directors or (ii) in the case of open market purchases, as soon as practicable following the date or dates of actual investment. The investment date for shares acquired pursuant to optional cash payments will be (i) if acquired directly from us, generally the fifteenth (15^{th}) of each month or, if such date is not a business day, the first business day thereafter or (ii) in the case of open market purchases, as soon as practicable following the date or dates of actual investment.

For the reinvestment of dividends, the record date is the record date declared by our Board of Directors for that dividend. Likewise, the dividend payment date declared by the Board of Directors constitutes the investment date. In the past, record dates for dividends generally have preceded the dividend payment dates by approximately 15-30 days. We historically have paid dividends on or about the fifteenth (15^{th}) day of each January, April, July and October. We cannot assure you that we will pay dividends according to this schedule in

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the future, and nothing contained in the plan obligates us to do so. Neither we nor the plan administrator will be liable when conditions, including compliance with the rules and regulations of the Securities and Exchange Commission, prevent the plan administrator from buying common stock or interfere with the timing of purchases. We pay dividends as and when declared by our Board of Directors. We cannot assure you that we will declare or pay a dividend in the future, and nothing contained in the plan obligates us to do so. The plan does not represent a guarantee of future dividends.

Shares will be allocated and credited to your plan accounts on the appropriate investment date.

No interest will be paid on cash dividends pending investment or reinvestment under the terms of the plan.

19. What limitations apply to optional cash payments?

For any investment date that you choose to make an optional cash payment, you must invest at least $100 but not more than $5,000. For purposes of these limitations, all plan accounts under common control, management or representation by a broker, bank or other nominee will be aggregated. Optional cash payments of less than $100 and that portion of any optional cash payment which exceeds the maximum monthly purchase limit of $5,000, unless we have waived such maximum limit, will be returned to you without interest after the applicable period in which the price of the common stock is determined.

20. How do I make optional cash payments over the $5,000 maximum monthly amount?

Investments in excess of $5,000 per month may be made only pursuant to our acceptance of a request to make an optional cash investment in excess of $5,000, which shall be made on a request for waiver form. We expect to approve requests from financial intermediaries, including brokers and dealers, and other participants from time to time.

Participants may ascertain whether we are accepting requests to make an optional cash investment in excess of $5,000 in any given month, and certain other important information, by visiting our website at www.resourcecapitalcorp.com on the first business day of each month or such other method as we may establish from time to time. In addition, participants may ascertain whether we are accepting requests in the first month that the plan is activated by visiting our website on or about the date of this prospectus. Our website will provide one of the three following pieces of information:

- that we will not be accepting requests to make an optional cash investment in excess of $5,000 that month;

- that we will be accepting requests that month. If this is the case, we will provide relevant information such as the date on which a pricing period (as defined below) will begin; the number of days in the pricing period; the waiver discount, if any; the threshold price, if any; and whether or not the pricing period extension or continuous settlement features (as defined below) will be activated; or

- that we have not yet determined whether we will be accepting requests to make an optional cash investment in excess of $5,000. If this is the case, we will inform participants of a date later in the month when they can go to our website to ascertain whether we will be accepting requests for waivers.

We have the sole discretion to approve or reject any request to make an optional cash investment in excess of the $5,000 maximum allowable amount during any month. We may grant such requests by any method that we determine to be appropriate. We also may adjust the amount that you may invest. In deciding whether to approve your request, we may consider, among other things, the following factors:

- our need for additional funds;

our desire to obtain such additional funds through the sale of our common shares as compared to other sources of funds;

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- the purchase price likely to apply to any sale of our common shares;
- the extent and nature of your prior participation in the plan;
- the number of common shares you hold of record;
- the total amount of optional cash investments in excess of $5,000 for which requests have been submitted;
- the order of our receipt of each request; and
- whether, at the time of such request, the plan administrator is acquiring our common shares for the plan directly from us or through open market transactions.

We will decide whether to approve a submitted request at least two business days prior to the commencement of the applicable pricing period. If you do not receive a response from us in connection with your request, you should assume that we have denied your request.

We must receive a request form no later than 5:00 P.M., Eastern time, on the day we establish the terms, which is the third business day before the first day of the relevant pricing period. Participants who wish to make an investment in excess of $5,000 in any given month, must obtain our prior written approval, which will be given or rejected on or before 5:00 P.M., Eastern time, the second business day prior to the first day of the pricing period, and a copy of such written approval must accompany any such investment. Available funds for such investments exceeding $5,000 per month must be received by the plan administrator by wire transfer no later than 3:00 P.M., Eastern time, one business day prior to the first day of the relevant pricing period. To obtain a request form or additional information, a participant visit the plan administrator s website, at www.amstock.com or visit our website at www.resourcecapitalcorp.com. Completed request forms should be emailed directly to us at *waiver@resourcecapitalcorp.com* or delivered by such other method as we may establish from time to time.

Purchase Price of Shares for Optional Cash Purchases in Excess of $5,000. Shares purchased pursuant to an approved request for waiver will be purchased directly from us as described herein, including the establishment of a threshold price as more fully described below. The purchase price may be reduced by the waiver discount that we have provided for optional cash purchases in excess of $5,000 on each purchase date. If we grant your request to purchase shares pursuant to a request for waiver, there will be a pricing period, which will generally consist of one to 12 separate days during which trading of our common stock is reported on the NYSE during the applicable pricing period. Each of these separate days will be a purchase date, and an equal proportion of your optional cash purchase will be invested on each trading day during such pricing period, subject to the qualifications listed below. The purchase price for shares acquired on a particular purchase date will be equal to 100% (subject to change as provided below) of the unsolicited volume weighted average price, rounded to four decimal places, of our common stock reported by the NYSE only, obtained from Bloomberg, LP on the NYSE during trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (through and including the NYSE closing print), for that purchase date. Plan shares will not be available to plan participants until the conclusion of each month s pricing period or investment, unless we activate the continuous settlement feature (see below).

The plan administrator will apply all optional cash purchases made pursuant to a request for waiver for which good funds are received on or before the first business day before the pricing period to the purchase of shares of our common stock on each purchase date of the applicable pricing period.

Waiver Discount. Each month, at least three business days prior to the first day of the applicable pricing period, we may establish a discount from the market price applicable to optional cash purchases made pursuant to a request for waiver. This discount, which we refer to as the waiver discount, may be between 0% and 5% of the purchase price and may vary each month.

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The waiver discount will be established at our sole discretion after a review of current market conditions, the level of participation in the plan, the attractiveness of obtaining such additional funds through the sale of common shares as compared to other sources of funds and current and projected capital needs. Setting a waiver discount for a particular month will not affect the setting of a waiver discount for any subsequent month. The waiver discount will apply only to optional cash purchases of more than $5,000. The waiver discount will apply to the entire optional cash purchase and not just the portion of the optional cash purchase that exceeds $5,000.

Threshold Price. We may establish for a pricing period a minimum price, or threshold price, applicable to optional cash purchases made pursuant to a request for waiver. At least three business days prior to the first day of the applicable pricing period, we will determine whether to establish a threshold price, and if the threshold price is established, its amount. This determination will be made by us in our discretion after a review of current market conditions, the level of participation in the plan, and current and projected capital needs.

If established for any pricing period, the threshold price will be stated as a dollar amount that the unsolicited volume weighted average price, rounded to four decimal places, of our common shares as reported on the New York Stock Exchange, obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (through and including the closing print), for each trading day of such pricing period (not adjusted for discounts, if any) must equal or exceed. Except as provided below, we will exclude from the pricing period any trading day that the unsolicited volume weighted average price is less than the threshold price. We also will exclude from the pricing period and from the determination of the purchase price any day in which no trades of common shares are made on the New York Stock Exchange. For example, and except as set forth below, if we set a 10 day pricing period, and the threshold price is not met for two of the trading days in that 10 day pricing period, then we will return 2/10 (20%) of the funds you submitted in connection with your request for waiver, unless we have activated the pricing period extension feature for the pricing period which is described below.

Notwithstanding the foregoing, as an alternative to returning any optional cash payment, at your request, we may permit you to make such optional cash payment at or above the threshold price, even if such threshold price has not been met. It will be in our sole discretion whether to permit such purchases.

REIT Compliance Minimum Price. In order to maintain our qualification as a real estate investment trust, we will not sell our shares through optional cash purchases made pursuant to a request for waiver at a price that is less than 95% of the fair market value of a common share on the applicable purchase date. As a result, we will compare the purchase price calculated as described above, net of any applicable discount and subject to any threshold price, to a price equal to 95% of the average of the daily high and low sales prices of our shares, as traded only on the NYSE during regular NYSE trading hours, on the applicable purchase date. If the purchase price calculated as described above, net of any discount and subject to any threshold price, is less than the price calculated under this 95% test, we will use the price calculated under this 95% test as the purchase price for such optional cash investments.

Pricing Period Extension Feature. We may elect to activate for any particular pricing period the pricing period extension feature which will provide that the initial pricing period will be extended by the number of days that the threshold price is not satisfied, or on which there are no trades of our common shares reported by the NYSE, subject to a maximum of five trading days. If we elect to activate the pricing period extension feature and the threshold price is satisfied for any additional day that has been added to the initial pricing period, that day will be included as one of the trading days for the pricing period in lieu of the day on which the threshold price was not met or trades of our common shares were not reported. For example, if the determined pricing period is 10 days, and the threshold price is not satisfied for two out of those 10 days in the initial pricing period, and we had previously announced at the time of the request for waiver acceptance that the pricing period extension feature was activated, then the pricing period will automatically be extended, and if the threshold price is satisfied on the next two trading days (or a subset thereof), then those two days (or a subset thereof) will become purchase dates in lieu of the two days on which the threshold price was not met. As a result, because there were 10 trading days during the initial and extended pricing period on which the threshold price was satisfied, all of the optional cash purchase funds will be invested.

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Continuous Settlement Feature. If we elect to activate the continuous settlement feature, shares will be available to plan participants within three business days of each purchase date beginning on the first trading day in the relevant pricing period and ending on the final trading day in the relevant pricing period, with an equal amount being invested on each such day, subject to the qualifications set forth above. We may elect to activate the continuous settlement feature for such investments by announcing that we will be doing so, at the time of the request form acceptance during any month when we grant requests for authorization.

Return of Unsubscribed Funds. Except as set forth below, we will return a portion of the funds for each optional cash purchase request in excess of $5,000 for each trading day of a pricing period or extended pricing period, if applicable, for which the threshold price is not met or for each day in which no trades of common stock are reported on the NYSE, which we refer to as unsubscribed funds. Any unsubscribed funds will be returned within five business days after the last day of the pricing period, or if applicable, the extended pricing period, without interest. The amount returned will be based on the number of days during which the threshold price was not met compared to the number of days in the pricing period or extended pricing period. For example, the returned amount in a 10 day pricing period will equal 10% of the total amount of such optional cash purchase (not just the amount exceeding $5,000) for each trading day that the threshold price is not met or for each trading day in which sales are not reported.

Notwithstanding the foregoing, as an alternative to returning any optional cash payment, at your request, we may permit you to make such optional cash payment at or above the threshold price, even if such threshold price has not been met. It will be in our sole discretion whether to permit such purchases.

The establishment of the threshold price and the possible return of a portion of the investment applies only to optional cash purchases in excess of $5,000. Setting a threshold price for a pricing period will not affect the setting of a threshold price for any other pricing period. We may waive our right to set a threshold price for any particular pricing period. Neither we nor the plan administrator is required to give you notice of the threshold price for any pricing period.

21. Will I incur expenses in connection with my participation under the plan?

You will not pay brokerage commissions or service fees to purchase common shares through the plan, except for returned check fees discussed in Question 14 above. We will pay all other costs of administration of the plan. If you elect to send certificates for any other of our common shares that you own to the plan administrator for safekeeping, you will incur a fee of $7.50 for this service payable each time you send certificates to the plan administrator. However, if you request that the plan administrator sell all or any portion of your shares, you will incur fees as described under Question 26 below.

22. How will I keep track of my investments?

You will receive a statement of your account following each purchase of additional shares, whether by reinvestment of dividends or by optional cash payments. This detailed statement will provide you with the following information with respect to your plan account:

- total number of shares of common stock purchased, including fractional shares;
- price paid per share of common stock;
- date of stock purchases; and
- total number of shares of common stock in your plan account.

You should retain these statements to determine the tax cost basis of the shares purchased for your account under the plan. In addition, you will receive copies of other communications sent to our stockholders, including our annual report to stockholders, the notice of annual meeting and proxy statement in connection with our annual meeting of stockholders and Internal Revenue Service information for reporting dividends paid.

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You can also view your account history and balance online by accessing the plan administrator s website at www.amstock.com.

23. Will I be credited with dividends on fractions of shares?
Yes. Any fractional share held in your plan account that has been designated for participation in the dividend reinvestment program of the plan will receive a proportionate amount of any dividend declared on our common stock.

24. Will I receive certificates for shares purchased?
Safekeeping of Certificates. Normally, common stock purchased for you under the plan will be held in the name of the plan administrator or its nominee. The plan administrator will credit the shares to your plan account in book-entry form. This service protects against loss, theft or destruction of certificates evidencing common stock.

You may also elect to deposit with the plan administrator certificates for other shares of common stock that you own and that are registered in your name for safekeeping under the plan for a one-time fee of $7.50 payable each time you send certificates for safekeeping. The plan administrator will credit the common stock represented by the certificates to your account in book-entry form and will combine the shares with any whole and fractional shares then held in your plan account. In addition to protecting against the loss, theft or destruction of your certificates, this service is convenient if and when you sell common stock through the plan. Because you bear the risk of loss in sending certificates to the plan administrator, you should send certificates by registered mail, return receipt requested, and properly insured to the address specified in Question 7 above.

Issuance of Certificates. No certificates will be issued to you for shares in the plan unless you submit a written request to the plan administrator or until your participation in the plan is terminated. At any time, you may request the plan administrator to send a certificate for some or all of the whole shares credited to your account. This request should be mailed to the plan administrator at the address set forth in the answer to Question 7 or made via the Internet at www.amstock.com. There is no fee for this service. Any remaining whole shares and any fraction of a share will remain credited to your plan account. Certificates for fractional shares will not be issued under any circumstances.

25. In whose name will certificates be registered when issued?
Your plan account will be maintained in the name in which your certificates were registered at the time of your enrollment in the plan. Stock certificates for those shares purchased under the plan will be similarly registered when issued upon your request. If your shares are held through a broker, bank or other nominee, such request must be placed through your broker, bank or other nominee.

26. How do I sell shares held in my plan account?
You may contact the plan administrator to sell all or any part of the shares held in your plan account. After receipt of your request, the plan administrator will sell the shares through a designated broker or dealer. The plan administrator will mail to you a check for the proceeds of the sale, less applicable brokerage commissions, service charges and any taxes. The plan administrator will sell shares as often as daily but at least within five (5) business days of receipt of the sale request, at then current market prices through one or more brokerage firms. If you sell or transfer only a portion of the shares in your plan account, you will remain a participant in the plan and may continue to make optional cash investments and reinvest dividends. If you have elected to have your dividends reinvested, the plan administrator will continue to reinvest the dividends on the shares credited to your account unless you notify the plan administrator that you wish to withdraw from the plan.

The plan requires you to pay all costs associated with the sale of your shares under the plan. You will receive the proceeds of the sale, less a $15 service fee per transaction and a $0.10 per share brokerage commission paid to the plan administrator and any other applicable fees.

If the plan administrator sells all shares held in your plan account, the plan administrator will automatically terminate your account. In this case, you will have to complete and file a new authorization form to rejoin the plan.

27. When may I withdraw from the plan?

You may withdraw from the plan with respect to all or a portion of the shares held in your plan account at any time. If the request to withdraw is received prior to a dividend record date set by our Board of Directors for determining stockholders of record entitled to receive a dividend, the request will be processed on the first business day following receipt of the request by the plan administrator.

If the request to withdraw from the plan is received by the plan administrator at least three (3) business days prior to the dividend payable date, then that dividend will be paid out in cash to the participant. However, if the request to withdraw from the plan is received less than three (3) business days prior to the dividend payable date, then that dividend will be reinvested. However, all subsequent dividends will be paid out in cash on all balances.

Any optional cash payments which have been sent to the plan administrator prior to a request for withdrawal will also be invested on the next investment date unless you expressly request return of that payment in the request for withdrawal, and the request for withdrawal is received by the plan administrator at least five (5) business days prior to the deadline for submitting such optional cash payments.

28. How do I withdraw from the plan?

If you wish to withdraw from the plan with respect to all or a portion of the shares in your plan account, you must notify the plan administrator in writing at its mailing address or via its Internet address specified in the answer to Question 7. Upon your withdrawal from the plan or our termination of the plan, certificates for the appropriate number of whole shares credited to your account under the plan will be issued free of charge. A cash payment will be made for any fraction of a share.

Upon withdrawal from the plan, you may also request in writing that the plan administrator sell all or part of the shares credited to your plan account.

29. What are some of the tax consequences of my participation in the plan?

You are encouraged to consult your personal tax advisor with specific reference to your own tax situation and potential changes in the applicable law as to all federal, state, local, foreign and other tax matters in connection with the reinvestment of dividends and purchase of shares under the plan, your tax basis and holding period for shares acquired under the plan and the character, amount and tax treatment of any gain or loss realized on the disposition of shares. The following is a brief summary of the material federal income tax considerations applicable to the plan, is for general information only, and does not constitute tax advice.

If you participate in the dividend reinvestment program under the plan and your dividends are reinvested in our common stock purchased directly from us, you will be treated for federal income tax purposes as having received, on the purchase date, a distribution in an amount equal to the fair market value of the shares on the date the shares were acquired with reinvested dividends. The amount of distribution deemed received (and that will be reported on the Form 1099-DIV that you receive) may exceed the amount of the cash dividend that was reinvested as a result of your receipt of a discount under the plan. For federal income tax purposes, the fair market value of shares acquired under the plan will likely be treated as equal to the average of the high and low sale prices of shares on the related purchase date. The trading value on that specific date may vary from the market price determined under the plan for such shares.

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If you participate in the dividend reinvestment program under the plan and your dividends are reinvested in our common stock purchased from parties other than us, either in the open market or in privately negotiated transactions, you will be treated for federal income tax purposes as having received (and will receive a Form 1099-DIV reporting) a distribution in an amount equal to the fair market value of the shares on the date the shares were acquired with reinvested dividends (plus expenses, if any, deducted from the amount of the distribution reinvested). If in the future we offer a discount on common shares purchased from parties other than us, the amount of the distribution you will be treated as having received may exceed the cash distribution reinvested as a result of any such discount.

If you participate in both the dividend reinvestment and the share purchase features of the plan and you purchase common shares through the share purchase plan, you will be treated for federal income tax purposes as having received a distribution from us with respect to the shares equal to the fair market value on the investment date of shares less the amount paid by you for such shares (plus any expenses paid by you).

Although the tax treatment with respect to a shareholder who participates only in the share purchase program and does not participate in the dividend reinvestment program is not entirely clear, we will report any discount you receive under the plan as a distribution to you on Form 1099-DIV. You are urged to consult with your tax advisor regarding the tax treatment to you of receiving a discount on cash investments in shares of our common shares through the plan.

The shares you receive under the dividend reinvestment plan will have a tax basis equal to the fair market value of the shares on the date the shares were acquired plus your pro rata share of any brokerage fees paid by us. Shares acquired through the share purchase program under the plan should have a tax basis equal to the amount of the payment plus the pro rata amount of any brokerage commissions paid by us that is includible in your taxable income and the excess, if any, of the fair market value of the shares purchased over the amount of the payment, but only to the extent such excess is treated as a taxable dividend.

The distributions you receive under the plan will be taxable as dividends to the extent of our current or accumulated earnings and profits. To the extent the distributions are in excess of our current or accumulated earnings and profits, the excess portion will be treated first as a tax-free return of capital, reducing the tax basis in your shares, and to the extent in excess of your tax basis will be taxable as gain realized from the sale of your shares. In addition, if we designate part or all of our distributions as capital gain dividends, those designated amounts will be treated by you as long-term capital gains.

Your holding period for shares acquired pursuant to either program under the plan will begin on the day following the purchase date. Dividends received by corporate shareholders will not be eligible for the dividends received deduction. You will not realize any taxable income upon receipt of certificates for whole shares credited to your account, either upon your request for certain of those shares or upon termination of participation in the plan.

You will realize gain or loss upon the sale or exchange of shares acquired under the plan. You will also realize gain or loss upon receipt, following termination of participation in the plan, of a cash payment for any fractional share equivalent credited to your account. The amount of any such gain or loss will be the difference between the amount that you received for the shares or fractional share equivalent and the tax basis thereof.

If you are a foreign shareholder whose dividends are subject to United States income tax withholding or a domestic shareholder whose dividends are subject to backup withholding taxes, the plan administrator will reinvest an amount equal to the dividend less the amount of any tax required to be withheld. Amounts withheld from dividends will be paid to the United States Treasury and the affected participants will be advised of the amount withheld. Foreign shareholders who elect to make optional cash payments only will continue to receive regular cash dividends on shares registered in their names in the same manner as if they were not participating in this plan. Funds for optional cash payments must be in United States dollars and will be invested in the same way as payments from other participants.

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Based on a series of recent private rulings issued by the IRS, we intend to take the position that administrative expenses of the plan paid by us are not considered to be distributions to participants for federal income tax purposes.

30. May shares in my account be pledged?
You may not pledge any of the common stock in your plan account. Any attempted pledge of these shares will be void. If you wish to pledge shares, you must first withdraw them from the plan.

31. If we issue rights to purchase securities to the holders of common stock, how will the rights on plan shares be handled?
In the event that we make available to the holders of our common stock rights to purchase additional shares of common stock or any other securities, the plan administrator will sell these rights (if the rights are saleable and detachable from the common stock) accruing to common stock held by the plan administrator for you and invest the proceeds in additional shares of common stock on the next dividend payment date for the common stock. In the event these rights are not saleable or detachable, the plan will hold the rights for your benefit. If you wish to receive directly any of these rights, you may do so by sending to the plan administrator, at least five (5) business days before the rights offering record date, a written request that certificates for shares in your account be sent to you.

Transaction processing may be curtailed or suspended until the completion of any stock dividend, stock split or similar corporate action.

32. What happens if we declare a dividend payable in shares or declare a share split?
Any dividend payable in shares and any additional shares distributed by us in connection with a share split in respect of shares credited to your plan account will be added to that account. Share dividends or split shares which are attributable to shares registered in your own name and not in your plan account will be mailed directly to you as in the case of stockholders not participating in the plan.

Transaction processing may be curtailed or suspended until the completion of any stock dividend, stock split or similar corporate action.

33. How will shares held by the plan administrator be voted at meetings of stockholders?
If you are a record owner, you will receive a proxy card covering both directly held shares and shares held in the plan. If you hold your shares through a broker, bank or other nominee, you should receive a proxy covering shares held in the plan from your broker, bank or other nominee.

If a proxy is returned properly signed and marked for voting, all of the shares covered by the proxy will be voted as marked. If a proxy is returned properly signed but no voting instructions are given, all of your shares will be voted in accordance with the recommendations of our Board of Directors, unless applicable laws require otherwise. If the proxy is not returned, or if it is returned unexecuted or improperly executed, shares registered in your name may be voted only by you and only in person.

34. What are our responsibilities and those of the plan administrator under the plan?
Neither we, any of our agents nor the plan administrator, will be liable in administering the plan for any act done in good faith or required by applicable law or for any good faith omission to act, including, without limitation, any claim of liability (i) arising out of failure to terminate your account upon your death or judgment of incompetence prior to the plan administrator s receipt of notice in writing of such death or judgment of

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incompetence, (ii) with respect to the price at which shares are purchased or sold and/or the times when such purchases or sales are made, or (iii) relating to any fluctuation in the market value of the common stock.

Neither we, any of our agents nor the plan administrator will have any duties, responsibilities or liabilities other than those expressly set forth in the plan or as imposed by applicable laws, including federal securities laws. Since the plan administrator has assumed all responsibility for administering the plan, we specifically disclaim any responsibility for any of the plan administrator s actions or inactions in connection with the administration of the plan. None of our directors, officers, employees or stockholders will have any personal liability under the plan.

We, any of our agents and the plan administrator will be entitled to rely on completed forms and the proof of due authority to participate in the plan, without further responsibility of investigation or inquiry.

35. What will be my responsibilities under the plan?
Your plan shares may revert to the state in which you live in the event that the shares are deemed, under your state s laws, to have been abandoned by you. For this reason, you should notify the plan administrator promptly in writing of any change of address. The plan administrator will address account statements and other communications to you at the last address of record you provide to the plan administrator.

You will have no right to draw checks or drafts against your plan account or to instruct the plan administrator with respect to any common stock or cash held by the plan administrator except as expressly provided herein.

36. May the plan be changed or discontinued?
Yes. We may suspend, terminate, or amend the plan at any time. Notice will be sent to you of any suspension or termination, or of any amendment that alters the plan terms and conditions, as soon as practicable after we take such an action. We may also substitute another agent in place of the current plan administrator at any time; you will be promptly informed of any such substitution. We will determine any questions of interpretation arising under the plan and any such determination will be final.

37. Are there any risks associated with the plan?
Your investment in shares held in your plan account is no different from your investment in shares held directly. Neither we nor the plan administrator can assure you a profit or protect you against a loss on the shares that you purchase. You bear the risk of any loss and enjoy the benefits of any gain from market price changes with respect to such shares. You should read carefully the risk factors described in our Securities and Exchange Commission filings before investing in our common stock.

38. How will you interpret and regulate the plan?
We will interpret, regulate and take any other action in connection with the plan that we deem reasonably necessary to carry out the plan. We may adopt rules and regulations to facilitate the administration of the plan. As a participant in the plan, you will be bound by any actions taken by us or the plan administrator.

39. What law governs the plan?
The terms and conditions of the plan and its operation will be governed by the laws of the Commonwealth of Pennsylvania.

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DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK

The following is a summary description of our capital stock. Copies of our charter and bylaws are available upon request. See Where You Can Find More Information.

General

Our charter provides that we may issue up to 500,000,000 shares of common stock and 100,000,000 shares of preferred stock, both having par value $0.001 per share. As of May 23, 2011, we had 72,506,723 shares of common stock outstanding and no shares of preferred stock outstanding. Under Maryland law, our stockholders are not personally liable for our debts and obligations solely as a result of their status as stockholders.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when issued and paid for, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, appraisal, preferential exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws, by contract or by the restrictions in our charter. In the event of our liquidation, dissolution or winding up, each share of our common stock will be entitled to share ratably in all of our assets that are legally available for distribution after payment of or adequate provision for all of our known debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Subject to our charter restrictions on the transfer and ownership of our stock and except as may be specified otherwise in the terms of any class or series of our common stock, each share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

The following description sets forth general terms and provisions of our authorized preferred stock. Any preferred stock issued under this prospectus will be issued as one or more new series of preferred stock, the rights, preferences, privileges and restrictions of which will be fixed by articles supplementary relating to each series. A prospectus supplement relating to each series will specify the terms of the preferred stock, including:

- the maximum number of shares in the series and the designation of the series;
- the terms on which dividends, if any, will be paid;
- the terms on which the shares may be redeemed, if at all;
- the liquidation preference, if any;
- the terms of any retirement or sinking fund for the purchase or redemption of the shares of the series;
- the terms and conditions, if any, on which the shares of the series will be convertible into, or exchangeable for, shares of any other class or classes of securities;

- the voting rights, if any, of the shares of the series; and
- any or all other preferences and relative, participating, operational or other special rights or qualifications, limitations or restrictions of the shares.

The description of preferred stock above is not complete. You should refer to the articles supplementary with respect to any series of preferred stock we may issue for complete information concerning the terms of that

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series. A copy of the articles supplementary for each new series of preferred stock will be filed with the SEC as an exhibit to the registration statement of which this prospectus is a part or as an exhibit to a filing incorporated by reference in that registration statement.

Our board of directors may authorize the issuance of series of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of common stockholders. The issuance of preferred stock could have the effect of delaying or preventing a change in control, and may cause the market price of our common stock to decline or impair the voting and other rights of the holders of our common stock.

Power to Reclassify Unissued Shares of Our Capital Stock

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Before issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set, subject to our charter restrictions on the transfer and ownership of our stock, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of common stock or preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interests.

Power to Issue Additional Shares of Common Stock and Preferred Stock

We believe that the power of our board of directors to amend the charter without stockholder approval to increase the total number of authorized shares of our stock or any class or series of our stock, to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as our common stock, will be available for issuance without further action by our stockholders, unless stockholder action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors has no intention at the present time of doing so, it could authorize us to issue a class or series that could, depending upon the terms of such class or series, delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock or otherwise be in their best interests.

Restrictions on Ownership and Transfer

In order to qualify as a REIT under the Internal Revenue Code, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the second half of any calendar year.

Our charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and may prohibit certain entities from owning our shares. Our charter provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of our capital stock. Our board may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. Our board has waived the ownership limit for Omega Advisors, in its capacity as the manager of funds and investment accounts, and

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Resource America. Our board has set Omega s and Resource America s ownership limit at 15% of our outstanding capital stock in the aggregate, provided that no one of Omega s funds or accounts can own more than 9.8% of our outstanding capital stock. Our board may reduce each of these ownership limits at its discretion; however, any such reduction will not be effective as to shares then owned by Omega s funds and accounts or by Resource America in excess of the reduced limit. Each such fund or account would be deemed to be a separate holder for Internal Revenue Code purposes.

Our charter also prohibits any person from:

- beneficially or constructively owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT, or

- transferring shares of our capital stock if such transfer would result in our capital stock being owned by fewer than 100 persons.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of shares of our stock which are transferred to the trust (as described below), will be required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Our board of directors, in its sole discretion, may exempt a person from the foregoing restrictions. The person seeking an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate in order to conclude that granting the exemption will not cause us to lose our qualification as a REIT. Our board of directors may also require a ruling from the Internal Revenue Service or an opinion of counsel in order to determine or ensure our qualification as a REIT.

Our charter provides that, until all classes of our equity securities are publicly-traded for purposes of resolutions issued by the U.S. Department of Labor regarding assets of benefit plans, which we refer to as the DOL Plan Asset Regulations, equity participation in any class of our capital stock by benefit plan investors is limited to less than 25% in the aggregate, disregarding for such purposes any stock held by persons or their affiliates who have discretionary authority or control over our assets or who provide investment advice for a fee with respect to our assets (such as the Manager and its affiliates), so that such participation in that class of our stock by benefit plan investors will not be deemed to be significant. Any attempted transfer of our stock which, if effective, would result in a violation of the foregoing restrictions will cause the number of shares causing the violation (rounded up to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our charter) before the date of the transfer.

If, for any reason, the transfer to the trust does not occur, our charter provides that the purported transfer in violation of the restrictions will be void *ab initio*. Shares of our stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of stock held in the trust and will have no rights to distributions and no rights to vote or other rights attributable to the shares of stock held in the trust. The trustee of the trust will have all voting rights and rights to distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary.

Any distribution paid before our discovery that shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any distribution authorized but unpaid will be paid when due to the trustee. Any distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to

Maryland law, the trustee will have the authority to rescind as void any vote cast by the proposed transferee before our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of:

- the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust, and

- the price received by the trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, before our discovery that shares of our stock have been transferred to the trust, the shares are sold by the proposed transferee, then the shares shall be deemed to have been sold on behalf of the trust and, to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess must be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

- the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift), and

- the market price on the date we, or our designee, accept the offer.

We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee. All certificates representing shares of our capital stock will bear a legend referring to the restrictions described above.

Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of all classes or series of our stock, including shares of common stock, in value or number, within 30 days after the end of each taxable year, will be required to give written notice to us stating the name and address of such owner, the number of shares of each class and series of shares of our stock which the owner beneficially owns and a description of the manner in which the shares are held. Each owner must provide us such additional information as we may request in order to determine the effect, if any, of such beneficial ownership on our qualification as a REIT and to ensure compliance with the ownership limitations. In addition, each such owner must, upon demand, provide to us such information as we may request, in good faith, in order to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or might otherwise be in the best interests of our stockholders.

Registration Rights

In connection with our March 2005 private offering, we granted the Manager both piggyback registration rights and the right to demand that we register shares of restricted stock and shares of common stock underlying

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the options issued to the Manager upon completion of the private offering and shares of common stock issued to the Manager as incentive compensation under our management agreement. As of the date of this prospectus, the Manager has not exercised its piggyback or demand registration rights.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company. We expect that American Stock Transfer & Trust Company will act as the transfer agent for any preferred stock or warrants we may offer pursuant to a supplement to this prospectus.

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CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS

The following summarizes material provisions of Maryland law and our charter and bylaws and is subject to, and qualified in its entirety by, reference to Maryland law and to our charter and bylaws.

The Maryland General Corporation Law, or MGCL, and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. We expect that these provisions may discourage certain coercive takeover practices and inadequate takeover bids and may encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than two nor more than 15. Our bylaws currently provide that any vacancy may be filled by a majority of the remaining directors, except a vacancy resulting from an increase in the number of directors must be filled by a majority of the entire board of directors. Any individual elected to fill such vacancy will serve until the next annual meeting of stockholders, and until a successor is duly elected and qualifies.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the MGCL, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for a lesser percentage, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only

- pursuant to our notice of the meeting,
- by the board of directors or
- by a stockholder who was a stockholder of record both at the time of giving of notice by such stockholder as provided for in our bylaws and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only

- pursuant to our notice of the meeting, by the board of directors or

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provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of giving of notice by such stockholder as provided for in our bylaws and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments (not including certain amendments relating to director removal, classification of preferred stock and transfer and ownership limitations, which still require the statutory two-thirds vote referred to above) and extraordinary transactions, which have been first declared advisable by our board of directors, by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter.

Our bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

No Appraisal Rights

As permitted by the MGCL, our charter provides that stockholders will not be entitled to exercise appraisal rights, unless the board of directors determines that such rights will apply.

Control Share Acquisitions

The Maryland Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter.

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Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, but does not include the acquisition of shares (i) under the laws of descent and distribution, (ii) under the satisfaction of a pledge or other security interest created in good faith and not for the purpose of circumventing this subtitle, or (iii) under a merger, consolidation, or share exchange effected under Subtitle 1 of the Control Share Acquisition Act if the corporation is a party to the merger, consolidation, or share exchange.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Control Share Acquisition Act does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests.

Business Combinations

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period before the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

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A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

a classified board;

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Marketing, general and administrative	23,938	27,381	5,928	7,624		64,871
Operating earnings (losses)	233,372	30,292	123	(733)		263,054
Loss on investments			251			251
Interest, net	(1,925)	8,956	4,151	(1,910)		9,272
Equity income from investments	(952)	(55,826)	(9,431)	(1,281)		(67,490)
Minority interests	61,268	19				61,287
Income from continuing operations before income taxes	$ 174,981	$ 77,143	$ 5,152	$ 2,458	$	$ 259,734
Intersegment revenues	$ (54,936)	$ (10,677)	$ (109)		$ 65,722	$

For the Three Months Ended May 31, 2006						
Revenues	$ 1,845,248	$ 1,795,383	$ 156,976	$ 10,183	$ (65,308)	$ 3,742,482
Cost of goods sold	1,694,937	1,742,549	153,701	(1,386)	(65,308)	3,524,493
Gross profit	150,311	52,834	3,275	11,569		217,989
Marketing, general and administrative	21,111	27,685	5,553	8,310		62,659
Operating earnings (losses)	129,200	25,149	(2,278)	3,259		155,330
Interest, net	2,190	7,314	2,916	(880)		11,540
Equity income from investments	(1,010)	(31,898)	(9,738)	(1,284)		(43,930)
Minority interests	28,691	26				28,717
Income from continuing operations before income taxes	$ 99,329	$ 49,707	$ 4,544	$ 5,423	$	$ 159,003
Intersegment revenues	$ (63,581)	$ (1,650)	$ (77)		$ 65,308	$

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Energy	Ag Business	Processing	Corporate and Other	Reconciling Amounts	Total
For the Nine Months Ended May 31, 2007						
Revenues	$ 5,753,660	$ 6,100,397	$ 526,513	$ 21,869	$ (184,324)	$ 12,218,115
Cost of goods sold	5,263,754	5,942,916	501,541	(1,681)	(184,324)	11,522,206
Gross profit	489,906	157,481	24,972	23,550		695,909
Marketing, general and administrative	67,149	70,369	17,928	20,118		175,564
Operating earnings	422,757	87,112	7,044	3,432		520,345
Gain on investments		(5,348)	(11,149)			(16,497)
Interest, net	(2,164)	21,538	10,917	(4,328)		25,963
Equity income from investments	(3,089)	(37,027)	(40,626)	(3,594)		(84,336)
Minority interests	94,677	(8)				94,669
Income from continuing operations before income taxes	$ 333,333	$ 107,957	$ 47,902	$ 11,354	$	$ 500,546
Intersegment revenues	$ (171,188)	$ (12,853)	$ (283)	$	$ 184,324	$
Goodwill	$ 3,654	$ 150				$ 3,804
Capital expenditures	$ 212,450	$ 24,754	$ 10,657	$ 1,787		$ 249,648
Depreciation and amortization	$ 63,719	$ 24,847	$ 10,862	$ 3,946		$ 103,374
Total identifiable assets at May 31, 2007	$ 2,627,453	$ 2,320,757	$ 634,745	$ 542,560		$ 6,125,515
For the Nine Months Ended May 31, 2006						
Revenues	$ 5,305,640	$ 4,736,615	$ 458,946	$ 25,283	$ (173,872)	$ 10,352,612
Cost of goods sold	4,895,142	4,606,393	440,488	(2,424)	(173,872)	9,765,727
Gross profit	410,498	130,222	18,458	27,707		586,885
Marketing, general and administrative	58,008	73,050	16,199	21,558		168,815

Operating earnings	352,490	57,172	2,259	6,149		418,070
Interest, net	5,358	14,545	8,028	355		28,286
Equity income from investments	(2,946)	(24,648)	(27,558)	(3,140)		(58,292)
Minority interests	69,976	108				70,084
Income from continuing operations before income taxes	$ 280,102	$ 67,167	$ 21,789	$ 8,934	$	$ 377,992
Intersegment revenues	$ (167,238)	$ (6,383)	$ (251)		$ 173,872	$
Goodwill	$ 3,654	$ 250				$ 3,904
Capital expenditures	$ 123,447	$ 30,140	$ 5,853	$ 1,587		$ 161,027
Depreciation and amortization	$ 54,223	$ 23,233	$ 10,496	$ 4,319		$ 92,271
Total identifiable assets at May 31, 2006	$ 2,136,804	$ 1,819,540	$ 503,551	$ 461,099		$ 4,920,994

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 13. Commitments and Contingencies

Environmental

We have incurred capital expenditures related to actions taken to comply with the Environmental Protection Agency low sulfur fuel regulations which were complete in fiscal year 2006. We incurred capital expenditures from fiscal year 2003 through 2006 for these projects totaling $88.1 million at our Laurel, Montana refinery and $328.7 million at NCRA s McPherson, Kansas refinery.

Guarantees

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $150.0 million, of which $37.1 million was outstanding on May 31, 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.

In the past, we made seasonal and term loans to member cooperatives, and our wholly-owned subsidiary, Fin-Ag, Inc., made loans for agricultural purposes to individual producers. Some of these loans were sold to CoBank, ACB (Cobank), and we guaranteed a portion of the loans sold, some of which are still outstanding. Currently these loans are made by Cofina, in which we have a 49% ownership interest. We may, at our own discretion, choose to guarantee certain loans made by Cofina. In addition, we also guarantee certain debt and obligations under contracts for our subsidiaries and members.

Our obligations pursuant to our guarantees as of May 31, 2007 are as follows:

Entities	Guarantee / Maximum Exposure	Exposure on May 31, 2007	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
The Company s financial services cooperative loans sold to CoBank	*	$ 87	10% of the obligations of borrowers (agri-cultural cooperatives) under credit agreements for loans sold	None stated, but may be terminated by either party upon 60 days prior notice in regard to future obligations	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Provista Renewable Fuels Marketing,	$ 20,000	8,000	Obligations by Provista under credit agreement	None stated	Credit agreement default	Subrogation against Provista	None

LLC								
Horizon Milling, LLC	$	5,000		Indemnification and reimbursement of 24% of damages related to Horizon Milling, LLC s performance under a flour sales agreement	None stated, but may be terminated by any party upon 90 days prior notice in regard to future obligations	Nonperformance under flour sale agreement	Subrogation against Horizon Milling, LLC	None
TEMCO, LLC	$	25,000	4,700	Obligations by TEMCO, LLC under credit agreement	None stated	Credit agreement default	Subrogation against TEMCO, LLC	None
TEMCO, LLC	$	1,000	1,000	Obligations by TEMCO, LLC under counterparty agreement	None stated, but may be terminated upon 5 days prior notice in regard to future obligations	Nonpayment	Subrogation against TEMCO, LLC	None

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Entities	Guarantee / Maximum Exposure	Exposure on May 31, 2007	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
Third parties	*	1,000	Surety for, or indemnificaton of surety for sales contracts between affiliates and sellers of grain under deferred payment contracts	Annual renewal on December 1 in regard to surety for one third party, otherwise none stated and may be terminated by the Company at any time in regard to future obligations	Nonpayment	Subrogation against affiliates	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure
Cofina Financial, LLC	$ 24,881	14,374	Loans to our customers that are originated by Cofina and then sold to ProPartners, which is an affiliate of CoBank	None stated	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure
Cofina Financial, LLC	$ 12,100	7,914	Loans made by Cofina to our customers	None stated	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure
		$ 37,075					

* The maximum exposure on any given date is equal to the actual guarantees extended as of that date.

Note 14. Restatement

We previously restated our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006, in our Annual Report on Form 10-K for the year ended August 31, 2006, to correct an error in the classification of our cash flows received from our interest in joint ventures. We determined that a portion of the cash flows from our joint ventures should have been considered a return on our investment and classified as an operating activity as distributions from equity investments, instead of as an investing activity.

The restatement did not have an impact on our Consolidated Statement of Operations, Consolidated Statement of Shareholders Equities and Comprehensive Income, or total change in cash and cash equivalents on our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006. In addition, it did not have any impact on our Consolidated Balance Sheet as of May 31, 2006.

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Summarized results of the previously reported and restated Consolidated Statement of Cash Flows for the nine months ended May 31, 2006 are as follows:

	For the Nine Months Ended May 31,	
	as reported	as restated
Cash flows from operating activities:		
Distributions from equity investments		$ 51,167
Net cash provided by operating activities	$ 227,026	278,193
Cash flows from investing activities:		
Equity investments redeemed	53,340	
Investments redeemed	4,155	6,328
Net cash used in investing activities	(174,995)	(226,162)
Net cash used in financing activities	(156,122)	(156,122)
Net decrease in cash and cash equivalents	(104,091)	(104,091)
Cash and cash equivalents at beginning of period	241,018	241,018
Cash and cash equivalents at end of period	136,927	136,927

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Cautionary Statement Regarding Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q for the quarter ended May 31, 2007, includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to CHS. In addition, CHS and its representatives and agents may from time to time make other written or oral forward-looking statements, including statements contained in its filings with the Securities and Exchange Commission and its reports to its members and securityholders. Words and phrases such as will likely result, are expected to, is anticipated, estimate, project and similar expressions identify forward-looking statements. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Our forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements. This Cautionary Statement is for the purpose of qualifying for the safe harbor provisions of the Act and is intended to be a readily available written document that contains factors which could cause results to differ materially from those projected in the forward-looking statements. The following matters, among others, may have a material adverse effect on our business, financial condition, liquidity, results of operations or prospects, financial or otherwise. Reference to this Cautionary Statement in the context of a forward-looking statement shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those which might be projected, forecasted, estimated or budgeted by us in the forward-looking statement or statements.

The following factors are in addition to any other cautionary statements, written or oral, which may be made or referred to in connection with any particular forward-looking statement. The following review should not be construed as exhaustive.

We undertake no obligation to revise any forward-looking statements to reflect future events or circumstances.

Our revenues and operating results could be adversely affected by changes in commodity prices. Our revenues and earnings are affected by market prices for commodities such as crude oil, natural gas, grain, oilseeds, flour, and crude and refined vegetable oil. Commodity prices generally are affected by a wide range of factors beyond our control, including weather, disease, insect damage, drought, the availability and adequacy of supply, government regulation and policies, and general political and economic conditions. We are also exposed to fluctuating commodity prices as the result of our inventories of commodities, typically grain and petroleum products, and purchase and sale contracts at fixed or partially fixed prices. At any time, our inventory levels and unfulfilled fixed or partially fixed price contract obligations may be substantial. Increases in market prices for commodities that we purchase without a corresponding increase in the prices of our products or our sales volume or a decrease in our other operating expenses could reduce our revenues and net income.

In our energy operations, profitability depends largely on the margin between the cost of crude oil that we refine and the selling prices that we obtain for our refined products. Although the prices for crude oil reached historical highs during 2006 and again in 2007, the prices for both crude oil and for gasoline, diesel fuel and other refined petroleum products fluctuate widely. Factors influencing these prices, many of which are beyond our control, include:

- levels of worldwide and domestic supplies;

capacities of domestic and foreign refineries;

the ability of the members of OPEC to agree to and maintain oil price and production controls, and the price and level of foreign imports;

disruption in supply;

political instability or armed conflict in oil-producing regions;

the level of consumer demand;

the price and availability of alternative fuels;

the availability of pipeline capacity; and

domestic and foreign governmental regulations and taxes.

The long-term effects of these and other conditions on the prices of crude oil and refined petroleum products are uncertain and ever-changing. Increases in crude oil prices without a corresponding increase in the prices of our refined petroleum products could reduce our net income. Accordingly, we expect our margins on and the profitability of our energy business to fluctuate, possibly significantly, over time.

Our operating results could be adversely affected if our members were to do business with others rather than with us. We do not have an exclusive relationship with our members and our members are not obligated to supply us with their products or purchase products from us. Our members often have a variety of distribution outlets and product sources available to them. If our members were to sell their products to other purchasers or purchase products from other sellers, our revenues would decline and our results of operations could be adversely affected.

We participate in highly competitive business markets in which we may not be able to continue to compete successfully. We operate in several highly competitive business segments and our competitors may succeed in developing new or enhanced products that are better than ours, and may be more successful in marketing and selling their products than we are with ours. Competitive factors include price, service level, proximity to markets, product quality and marketing. In some of our business segments, such as Energy, we compete with companies that are larger, better known and have greater marketing, financial, personnel and other resources. As a result, we may not be able to continue to compete successfully with our competitors.

Changes in federal income tax laws or in our tax status could increase our tax liability and reduce our net income. Current federal income tax laws, regulations and interpretations regarding the taxation of cooperatives, which allow us to exclude income generated through business with or for a member (patronage income) from our taxable income, could be changed. If this occurred, or if in the future we were not eligible to be taxed as a cooperative, our tax liability would significantly increase and our net income significantly decrease.

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. We are subject to numerous federal, state and local provisions regulating our business and operations and we incur and expect to incur significant capital and operating expenses to comply with these laws and regulations. We may be unable to pass on those expenses to customers without experiencing volume and margin losses. For example, capital expenditures for upgrading our refineries, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products, were completed in fiscal year 2006. We incurred capital expenditures from fiscal year 2003 through 2006 related to these upgrades of $88.1 million for our Laurel, Montana refinery and $328.7 million for the National Cooperative Refinery Association s (NCRA) McPherson, Kansas refinery.

We establish reserves for the future cost of meeting known compliance obligations, such as remediation of identified environmental issues. However, these reserves may prove inadequate to meet our actual liability. Moreover, amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of currently unknown compliance issues may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Furthermore, our failure to comply with applicable laws and regulations could subject us to administrative penalties and injunctive relief, civil remedies including fines and injunctions, and recalls of our products.

Environmental liabilities could adversely affect our results and financial condition. Many of our current and former facilities have been in operation for many years and, over that time, we and other operators of those facilities have generated, used, stored and disposed of substances or wastes that are or might be considered hazardous under applicable environmental laws, including chemicals and fuels stored in underground and above-ground tanks. Any past or future actions in violation of applicable environmental laws could subject us to administrative penalties, fines and injunctions. Moreover, future or unknown past releases of hazardous substances could subject us to private lawsuits claiming damages and to adverse publicity. Liabilities, including legal costs, related to remediation of contaminated properties are not recognized until the related costs are considered probable and can be reasonably estimated.

Actual or perceived quality, safety or health risks associated with our products could subject us to liability and damage our business and reputation. If any of our food or feed products became adulterated or misbranded, we would need to recall those items and could experience product liability claims if consumers were injured as a result. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time or a loss of consumer confidence in our products. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. In addition, general public perceptions regarding the quality, safety or health risks associated with particular food or feed products, such as concerns regarding genetically modified crops, could reduce demand and prices for some of the products associated with our businesses. To the extent that consumer preferences evolve away from products that our members or we produce for health or other reasons, such as the growing demand for organic food products, and we are unable to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

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 operations are subject to business interruptions due to unanticipated events such as explosions, fires, pipeline interruptions, transportation delays, equipment failures, crude oil or refined product spills, inclement weather and labor disputes. For example:

- our oil refineries and other facilities are potential targets for terrorist attacks that could halt or discontinue production;
- our inability to negotiate acceptable contracts with unionized workers in our operations could result in strikes or work stoppages;
- the significant inventories that we carry or the facilities we own could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination; and
- an occurrence of a pandemic flu or other disease affecting a substantial part of our workforce or our customers could cause an interruption in our business operations, the affects of which could be significant.

We maintain insurance against many, but not all potential losses or liabilities arising from these operating hazards, but uninsured losses or losses above our coverage limits are possible. Uninsured losses and liabilities arising from operating hazards could have a material adverse effect on our financial position or results of operations.

Our cooperative structure limits our ability to access equity capital. As a cooperative, we may not sell common equity in our company. In addition, existing laws and our articles of incorporation and bylaws contain limitations on dividends of 8% of any preferred stock that we may issue. These limitations restrict our ability to raise equity capital and may adversely affect our ability to compete with enterprises that do not face similar restrictions.

Consolidation among the producers of products we purchase and customers for products we sell could adversely affect our revenues and operating results. Consolidation has occurred among the producers of products we purchase, including crude oil and grain, and it is likely to continue in the future. Consolidation could increase the price of these products and allow suppliers to negotiate pricing and other contract terms that are less favorable to us. Consolidation also may increase the competition among consumers of these products to enter into supply relationships with a smaller number of producers resulting in potentially higher prices for the products we purchase.

Consolidation among purchasers of our products and in wholesale and retail distribution channels has resulted in a smaller customer base for our products and intensified the competition for these customers. For example, ongoing consolidation among distributors and brokers of food products and food retailers has altered the buying patterns of these businesses, as they have increasingly elected to work with product suppliers who can meet their needs nationwide rather than just regionally or locally. If these distributors, brokers and retailers elect not to purchase our products, our sales volumes, revenues and profitability could be significantly reduced.

If our customers chose alternatives to our refined petroleum products our revenues and profits may decline. Numerous alternative energy sources currently under development could serve as alternatives to our gasoline, diesel fuel and other refined petroleum products. If any of these alternative products become more economically viable or preferable to our products for environmental or other reasons, demand for our energy products would decline. Demand for our gasoline, diesel fuel and other refined petroleum products also could be adversely affected by increased fuel efficiencies.

Operating results from our agronomy business could be volatile and are dependent upon certain factors outside of our control. Planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Weather conditions during the spring planting season and early summer spraying season also affect agronomy product volumes and profitability.

Technological improvements in agriculture could decrease the demand for our agronomy and energy products. Technological advances in agriculture could decrease the demand for crop nutrients, energy and other crop input products and services that we provide. Genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could affect the demand for our crop nutrients and crop protection products. Demand for fuel that we sell could decline as technology allows for more efficient usage of equipment.

We operate some of our business through joint ventures in which our rights to control business decisions are limited. Several parts of our business, including in particular, our agronomy operations and portions of our grain marketing, wheat milling, foods and renewable fuels operations, are operated through joint ventures with third parties. By operating a business through a joint venture, we have less control over business decisions than we have in our wholly-owned or majority-owned businesses. In particular, we generally cannot act on major business initiatives in our joint ventures without the consent of the other party or parties in those ventures.

General

The following discussions of financial condition and results of operations should be read in conjunction with the unaudited interim financial statements and notes to such statements and the cautionary statement regarding forward-looking statements found at the beginning of Part I, Item 1, of this Form 10-Q, as well as our consolidated financial statements and notes thereto for the year ended August 31, 2006, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission. This discussion contains forward-looking statements based on current expectations, assumptions, estimates and projections of management. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described in the cautionary statement and elsewhere in this Form 10-Q.

CHS Inc. (CHS, we or us) is a diversified company, which provides grain, foods and energy resources to businesses and consumers on a global basis. As a cooperative, we are owned by farmers, ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock.

We provide a full range of production agricultural inputs such as refined fuels, propane, farm supplies, animal nutrition and agronomy products, as well as services, which include hedging, financing and insurance services. We own and operate petroleum refineries and pipelines and market and distribute refined fuels and other energy products under the Cenex® brand through a network of member cooperatives and independents. We purchase grains and oilseeds directly and indirectly from agricultural producers primarily in the Midwestern and Western United States. These grains and oilseeds are either sold to domestic and international customers, or further processed into a variety of grain-based food products.

The consolidated financial statements include the accounts of CHS and all of our wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative Refinery Association (NCRA), included in our Energy segment. During 2006, our Energy segment investment in Provista Renewable Fuels Marketing, LLC (Provista) resulted in financial statement consolidation. The effects of all significant intercompany transactions have been eliminated.

We operate three business segments: Energy, Ag Business and Processing. Together, our three business segments create vertical integration to link producers with consumers. Corporate and Other primarily represents our business solutions operations, which consists of commodities hedging, insurance and financial services related to crop production. Our Energy segment produces and provides for the wholesale distribution of petroleum products and transports those products. Our Ag Business segment purchases and resells grains and oilseeds originated by our country operations business, by our member cooperatives and by third parties, and also serves as wholesaler and retailer of crop inputs. Our Processing segment converts grains and oilseeds into value-added products.

Corporate administrative expenses are allocated to all three business segments, and Corporate and Other, based on either direct usage for services that can be tracked, such as information technology and legal, and other factors or considerations relevant to the costs incurred.

Many of our business activities are highly seasonal and operating results will vary throughout the year. Overall, our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. Our business segments are subject to varying seasonal fluctuations. For example, in our Ag Business segment, our agronomy and country operations businesses generally experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Also in our Ag Business segment, our grain marketing operations are subject to fluctuations in volume and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

Our revenue can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can affect revenues and operating earnings. Commodity prices are affected by a wide range of factors beyond our control, including the weather, crop damage due to disease or insects, drought, the availability and adequacy of supply, government regulations and policies, world events, and general political and economic conditions.

While our revenues and operating results are derived from businesses and operations which are wholly-owned and majority-owned, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. These investments principally include our 50% ownership in each of the following companies: Agriliance LLC (Agriliance), TEMCO, LLC (TEMCO) and United Harvest, LLC (United Harvest) included in our Ag Business segment; Ventura Foods, LLC (Ventura Foods), our 24% ownership in Horizon Milling, LLC (Horizon Milling), and an approximate 21% ownership in US BioEnergy Corporation (US BioEnergy) included in our Processing segment; and our 49% ownership in Cofina Financial, LLC (Cofina) included in Corporate and Other.

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Certain reclassifications have been made to prior period s amounts to conform to current period classifications. These reclassifications had no effect on previously reported net income, equities or total cash flows.

We previously restated our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006, in our Annual Report on Form 10-K for the year ended August 31, 2006, to correct an error in the classification of our cash flows received from our interest in joint ventures. We determined that a portion of the cash flows from our joint ventures should have been considered a return on our investment and classified as an operating activity as distributions from equity investments, instead of as an investing activity. The restatement did not have an impact on our Consolidated Statement of Operations, Consolidated Statement of Shareholders Equities and Comprehensive Income, or total change in cash and cash equivalents on our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006. In addition, it did not have any impact on our Consolidated Balance Sheet as of May 31, 2006.

Recent Events

In June 2007, we announced that two business segments of Agriliance are being repositioned. We expect to acquire the wholesale crop nutrients business of Agriliance, and Land O Lakes, Inc. expects to acquire the wholesale crop protection business. Terms of the transaction, expected to be completed in September 2007, will not be disclosed until details are finalized. We and Land O Lakes, Inc. have also retained an investment banking firm to assist us in repositioning the Agriliance retail assets. We are currently in exclusive negotiations with a group which includes Agriliance management team members and financial backers for the sale of the majority of their retail assets.

Results of Operations

<u>Comparison of the three months ended May 31, 2007 and 2006</u>

General. We recorded income from continuing operations before income taxes of $259.7 million during the three months ended May 31, 2007 compared to $159.0 million during the three months ended May 31, 2006, an increase of $100.7 million (63%). These results reflected increased pretax earnings in each of our three business segments, partially offset by a decrease in Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $175.0 million for the three months ended May 31, 2007 compared to $99.3 million in the three months ended May 31, 2006. This increase in earnings of $75.7 million (76%) is primarily from improved margins on refined fuels, which resulted mainly from stronger global demand and tight supply in our trade area due to planned major maintenance and a fire at a refinery operated by competitors. Earnings in our lubricants, propane, renewable fuels marketing and transportation businesses also improved during the three months ended May 31, 2007 when compared to the same three-month period of the previous year. Energy segment earnings for the fourth quarter of our current fiscal year and the first quarter of our fiscal 2008, are expected to be impacted by planned major maintenance turnarounds at our Laurel, Montana refinery, during which time production at the refinery is completely shut down. A turnaround started in mid-May of our third fiscal quarter was completed in June 2007, but due to a shortage of labor during the process an additional turnaround will be needed. It is expected that the second turnaround will start sometime in August 2007, and will take approximately four to five weeks to complete.

Our Ag Business segment generated income from continuing operations before income taxes of $77.1 million for the three months ended May 31, 2007 compared to $49.7 million in the three months ended May 31, 2006, an increase in earnings of $27.4 million (55%). Increased margins for crop inputs sold during the spring planting season resulted in improved performances by Agriliance, our agronomy joint venture, and our country operations businesses. Our 50% share of the Agriliance joint venture earnings, net of allocated internal expenses, increased by $23.9 million, primarily because of improved crop nutrients margins and an 11% net increase in crop nutrient volumes for the three months ended May 31, 2007 compared to the three months ended May 31, 2006. Our country operations earnings increased $9.2 million, primarily as a result of improved agronomy product margins and increased volumes compared to the three-month period in the prior year. The improved income from our agronomy and country operations businesses was partially offset by decreased income from our grain marketing operations of $5.6 million during the three months ended May 31, 2007 compared with the same period in 2006. This decrease is primarily due to decreased margins from corn, durum and soybeans.

Our Processing segment generated income from continuing operations before income taxes of $5.2 million for the three months ended May 31, 2007 compared to $4.5 million in the three months ended May 31, 2006, an increase in earnings of $0.7 million (13%). Oilseed processing earnings of $1.2 million, increased $2.6 million during the three months ended May 31, 2007 compared to the same period in the prior year, primarily due to improved margins in our crushing operations, partially offset by decreased margins in our refining operations. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, reported improved net earnings of $0.7 million for the three months ended May 31, 2007 compared to the same period in the prior year. Our share of pretax losses, net of allocated internal expenses, related to US BioEnergy, an ethanol manufacturing company in which we hold a minority ownership interest, increased $0.8 million for the three months ended May 31, 2007 compared to the same period in the prior year. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The impact of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, decreased $1.6 million during the three months ended May 31, 2007, compared to the same period in the prior year, primarily from increased general and administrative expenses partially offset by improved product margins.

Corporate and Other generated income from continuing operations before income taxes of $2.5 million for the three months ended May 31, 2007 compared to $5.4 million in the three months ended May 31, 2006, a decrease in earnings of $2.9 million. This decrease is primarily attributable to our business solutions operations where we are experiencing a soft market in our insurance agency business compared to the same period of a year ago.

Net Income. Consolidated net income for the three months ended May 31, 2007 was $237.8 million compared to $136.6 million for the three months ended May 31, 2006, which represents a $101.2 million (74%) increase.

Revenues. Consolidated revenues were $4.7 billion for the three months ended May 31, 2007 compared to $3.7 billion for the three months ended May 31, 2006, which represents a $1.0 billion (27%) increase.

Total revenues include other revenues generated primarily within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevators and agri-service centers derive other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels. Corporate and Other derives revenues primarily from our hedging and insurance operations.

Our Energy segment revenues, after elimination of intersegment revenues, of $2.1 billion increased by $350.0 million (20%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006. During the three months ended May 31, 2007 and 2006, our Energy segment recorded revenues from our Ag Business segment of $54.9 million and $63.6 million, respectively. The net increase in revenues of $350.0 million is comprised of a $231.7 million net increase in sales volume and a net increase of $118.3 million related to price appreciation on refined fuels and propane products. The net change in revenues includes $208.4 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. Refined fuels revenues increased $106.2 million (8%), of which $80.8 million was related to a net average selling price increase and $25.4 million was attributable to increased volumes, compared to the same period in the previous year. The sales price of refined fuels increased $0.12 per gallon (6%) and volumes increased 2% when comparing the three months ended May 31, 2007 with the same period a year ago. Decreases in crude oil prices during the third quarter of this fiscal year compared to the same three-month period last fiscal year were primarily attributable to the effects of the hurricanes in the United States during the fall of 2005 and anticipated major maintenance on domestic refineries. In the fall of 2005, hurricanes at the gulf coast of the US disrupted refining capacity which, along with strong demand, contributed to the increases in refined fuels selling prices during fiscal 2006. Propane revenues decreased by $13.3 million (13%), of which $26.9 million was related to a decrease in volumes, partially offset by $13.6 million related to an increase in the net average selling price when compared to the same period in the previous year. Propane sales volume decreased 23% in comparison to the same period of the prior year, while the average selling price increased $0.13 per gallon (13%). Propane prices tend to follow the prices of crude oil and natural gas, and although crude oil prices decreased during the three months ended May 31, 2007 compared to the same period in 2006, natural gas prices increased when comparing the same periods. Propane prices are also affected by changes in propane demand and domestic inventory levels. The decrease in propane volumes primarily reflects a loss of exclusive propane marketing rights at our former supplier s proprietary terminals.

Our Ag Business segment revenues, after elimination of intersegment revenues, of $2.4 billion, increased $607.5 million (34%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006. Grain revenues in our Ag Business segment totaled $1,863.9 million and $1,330.5 million during the three months ended May 31, 2007 and 2006, respectively. Of the grain revenues increase of $533.4 million (40%), $445.2 million is due to increased average grain selling prices and $88.2 million is attributable to increased volumes during the three months ended May 31, 2007 compared to the same period last fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of $1.42 per bushel (33%). The 2006 fall harvest produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. Despite the good harvest, prices for nearly all grain commodity prices increased because of strong demand, particularly for corn which is used as the feedstock for most ethanol plants as well as for livestock feed. The average month-end market price per bushel of soybeans, corn and spring wheat increased approximately $1.86, $1.32 and $0.94, respectively, when compared to the prices of those same grains for the three months ended May 31, 2006. Volumes increased 5% during the three months ended May 31, 2007 compared with the same period of a year ago. Wheat, corn and soybeans reflected the largest volume increases compared to the three months ended May 31, 2006. Our Ag Business segment non-grain product revenues of $503.7 million increased by $76.3 million (18%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, primarily the result of increased revenues of crop nutrient, seed, crop protection, feed and energy products. Other revenues within our Ag Business segment of $33.7 million during the three months ended May 31, 2007 decreased $2.1 million (6%) compared to the three months ended May 31, 2006.

Our Processing segment revenues, after elimination of intersegment revenues, of $193.4 million increased $36.5 million (23%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006. Because our wheat milling, renewable fuels and packaged foods operations are operated through non-consolidated joint ventures, revenues reported in our Processing segment are entirely from our oilseed processing operations. Oilseed refining revenues increased $22.1 million (31%), of which $15.8 million was due to higher average sales price and $6.3 million was due to a net increase in sales volume. A higher average sales price of processed oilseed and other revenues increased total processed revenues for this segment by $13.4 million, while volumes of processed oilseed remained essentially unchanged when comparing the three-month periods. The average selling price of refined oilseed products increased $0.06 per pound (22%), and the average selling price of processed oilseed increased $26 per ton (17%) compared to the same period of the previous year. These changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Cost of goods sold of $4.4 billion increased $880.0 million (25%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $1.9 billion increased by $243.0 million (15%) during the three months ended May 31, 2007 compared to the same period of the prior year. The net increase in cost includes $206.1 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. The remaining increase in cost of goods sold is primarily due to increased per unit costs for refined fuels and propane products. On a more product-specific basis, the average cost of refined fuels increased $0.09 (5%) per gallon and volumes increased 2% compared to the three months ended May 31, 2006. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost increase is primarily related to higher average prices on the refined products that we purchased for resale partially offset by lower input costs at our two crude oil refineries compared to the three months ended May 31, 2006. The average per unit cost of crude oil purchased for the two refineries decreased 5% compared to the three months ended May 31, 2006. The average cost of propane increased $0.13 (13%) per gallon and volumes decreased 23% compared to the three months ended May 31, 2006.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $2.3 billion increased $602.7 million (35%) during the three months ended May 31, 2007 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $1,846.4 million and $1,308.8 million during the three months ended May 31, 2007 and 2006, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $537.6 million (41%) compared to the three months ended May 31, 2006. This is the result of an increase of $1.44 (34%) average cost per bushel along with a 5% net increase in bushels sold as compared to the prior year. Wheat, corn and soybeans reflected the largest volume increases compared to the three months ended May 31, 2006. Commodity prices on soybeans, corn and spring wheat have increased compared to the prices that were prevalent during the same three-month period in 2006. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, primarily due to higher volumes and price per unit costs for crop nutrient, seed, crop protection, feed and energy products. The volume increases resulted primarily from acquisitions made during fiscal years 2006 and 2007.

Our Processing segment cost of goods sold, after elimination of intersegment costs of $187.4 million, increased $33.8 million (22%) compared to the three months ended May 31, 2006, which was primarily due to increased costs of soybeans in addition to volume increases in refining.

Marketing, General and Administrative. Marketing, general and administrative expenses of $64.9 million for the three months ended May 31, 2007 increased by $2.2 million (4%) compared to the three months ended May 31, 2006. The net increase of $2.2 million is primarily due to an increase of $0.8 million for educational funding and increased performance-based incentive plan expense, in addition to other employee benefits and general inflation, as well as a $1.0 million net decrease in gains on disposal of fixed assets.

Gain on Investments. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The affect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This net gain is reflected in our Processing segment.

Interest, net. Net interest of $9.3 million for the three months ended May 31, 2007 decreased $2.3 million (20%) compared to the three months ended May 31, 2006. Interest expense for the three months ended May 31, 2007 and 2006 was $13.6 million and $12.4 million, respectively. Interest income, generated primarily from marketable securities, was $4.3 million and $0.9 million for the three months ended May 31, 2007 and 2006, respectively. The interest expense increase of $1.2 million (9%) was due to an increase in short-term borrowings, primarily created by higher working capital needs, and an increase in the average short-term interest rate, partially offset by an increase in capitalized interest of $2.5 million. For the three months ended May 31, 2007 and 2006, we capitalized interest of $3.4 million and $0.9 million, respectively, related to capitalized construction projects. The increase in capitalized interest primarily relates to financing interest on our coker project, partially offset by the final stages of the ultra-low sulfur upgrades at our energy refineries during fiscal 2006. The average level of short-term borrowings increased $290.8 million during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, and the average short-term interest rate increased 0.49%. The interest income increase of $3.4 million was related to an increase in interest income from short term investments.

Equity Income from Investments. Equity income from investments of $67.5 million for the three months ended May 31, 2007 increased $23.5 million (54%) compared to the three months ended May 31, 2006. We record equity income or loss primarily from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments within our Ag Business segment of $23.9 million, partially offset by reduced earnings from investments within our Processing and Energy segments and Corporate and Other in the amounts of $0.3 million, $0.1 million and $3 thousand, respectively.

Our Ag Business segment generated improved earnings of $23.9 million from equity investments for the three months ended May 31, 2007 compared to the same three-month period in 2006. Our share of equity investment earnings or losses in Agriliance increased earnings by $24.2 million and primarily relates to increased margins for products sold during the spring planting season, primarily because of improved crop nutrients margins for the three months ended May 31, 2007 compared to the three months ended May 31, 2006. The Agriliance crop nutrients volumes were up 11% over the same three-month period last year. Our investment in a Canadian agronomy joint venture contributed reduced earnings of $0.4 million. During our first fiscal quarter of 2007, we invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which is owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $1.3 million during the three months ended May 31, 2007 for this equity investment. Our wheat exporting investment in United Harvest contributed reduced earnings of $0.2 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also recorded reduced earnings of $0.7 million. Our country operations reported an aggregate decrease in equity investment earnings of $0.3 million for several small equity investments.

Our Processing segment generated reduced earnings of $0.3 million from equity investments for the three months ended May 31, 2007 compared to the same three-month period in 2006. Our investment in Ventura Foods, our vegetable oil-based products and packaged foods joint venture, contributed reduced earnings of $1.8 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, contributed improved earnings of $0.7 million compared to the same period in the previous year. Ventura Foods experienced increased expenses compared to the three months ended May 31, 2006, primarily from increased general and administrative expenses, partially offset by improved product margins. Horizon Milling s results are primarily affected by US dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling 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 will continue to depress gross margins in the milling industry. We recorded improved earnings of $0.7 from US BioEnergy, an ethanol manufacturing company, for our three months ended May 31, 2007 as compared to the same period in 2006, primarily from operating margins as US BioEnergy had additional plants put into production.

Our Energy segment generated decreased equity investment earnings of $57 thousand related to slightly lower margins in an equity investment held by NCRA, and Corporate and Other generated decreased equity investment earnings of $3 thousand, with decreased equity investment income from an insurance agency of $66 thousand, almost entirely offset by equity income from a financing and other investments as compared to the three months ended

May 31, 2006.

Minority Interests. Minority interests of $61.3 million for the three months ended May 31, 2007 increased by $32.6 million (113%) compared to the three months ended May 31, 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, excluding discontinued operations, of $22.0 million for the three months ended May 31, 2007 compares with $22.4 million for the three months ended May 31, 2006, resulting in effective tax rates of 8.5% and 14.1%, respectively. During the three months ended May 31, 2007, we recognized additional tax benefits of $9.6 million upon the receipt of a tax refund from the Internal Revenue Service related to export incentive credits. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the three-month periods ended May 31, 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.

Discontinued Operations. During fiscal 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. We recorded a slight gain for the three months ended May 31, 2006 of $50 thousand ($30 thousand, net of taxes).

Comparison of the nine months ended May 31, 2007 and 2006

General. We recorded income from continuing operations before income taxes of $500.5 million during the nine months ended May 31, 2007 compared to $378.0 million during the nine months ended May 31, 2006, an increase of $122.5 million (32%). These results reflected increased pretax earnings in all of our business segments and Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $333.3 million for the nine months ended May 31, 2007 compared to $280.1 million for the nine months ended May 31, 2006. This increase in earnings of $53.2 million (19%) is primarily attributable to higher margins on refined fuels, which resulted mainly from changes in the refining capacity and global demand. Earnings in our propane business increased significantly, from a $1.2 million loss in the prior nine-month period to income of $8.8 million during the current nine-month period. Earnings in our transportation, renewable fuels marketing and lubricants businesses also improved during the nine months ended May 31, 2007 when compared to the same nine-month period of the previous year. Earnings in our petroleum equipment operations were down when comparing the two nine-month periods.

Our Ag Business segment generated income from continuing operations before income taxes of $108.0 million for the nine months ended May 31, 2007 compared to $67.2 million in the nine months ended May 31, 2006, an increase in earnings of $40.8 million (61%). Strong domestic grain movement, much of it driven by increased US ethanol production, contributed to improved performances by both grain marketing and country operations businesses. Our country operations earnings increased $20.3 million, primarily as a result of overall improved product margins, including historically high margins on agronomy, energy, processed sunflower and grain transactions. Market expansion into Oklahoma and Kansas also increased country operations volumes. Our grain marketing operations improved earnings by $4.0 million during the nine months ended May 31, 2007 compared with the same period in 2006, primarily from increased grain volumes. Volatility in the grain markets creates opportunities for increased grain margins, and additionally during the current year, increased interest in renewable fuels, and changes in transportation costs shifted marketing patterns and dynamics for our grain marketing business. Improved earnings generated by Agriliance, an agronomy joint venture in which we hold a 50% interest, resulted in an $11.2 million increase in our share of the joint venture earnings, net of allocated internal expenses. These improved earnings were attributable to improved margins for wholesale and retail crop nutrients products sold during the spring planting season. These improved earnings during the spring exceeded losses that were incurred earlier in fiscal 2007, which were primarily caused by declines in the realizable value of inventories due to large inventory quantities. The large inventories resulted from crop producers electing to scale back nutrient applications for the 2006 growing year because of high energy costs and lower grain prices at that time. Additionally, in our first fiscal quarter of 2007, we sold approximately 25% of our investment in CF Industries Holdings, Inc. (CF), a domestic fertilizer manufacturer in which we hold a minority interest, and we received cash of $10.9 million and recorded a gain of $5.3 million.

Our Processing segment generated income from continuing operations before income taxes of $47.9 million for the nine months ended May 31, 2007 compared to $21.8 million for the nine months ended May 31, 2006, an increase in earnings of $26.1 million (120%). Oilseed processing earnings increased $5.9 million during the nine months ended May 31, 2007 as compared to the same period in the prior year. This was primarily the result of improved crushing margins, partially offset by reduced oilseed refining margins. While volumes stayed fairly consistent at our two crushing facilities, oilseed crushing margins showed significant improvement when comparing the nine months ended May 31, 2007 with the same nine-month period in the prior year. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, increased by $4.7 million during the nine months ended May 31, 2007, compared to the same period in the prior year, primarily from improved product margins. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, reported improved earnings of $2.3 million for the nine months ended May 31, 2007, compared to the same period in the prior year. Our share of earnings from US BioEnergy, an ethanol manufacturing company in which we hold a minority ownership interest, net of allocated internal expenses, increased by $2.1 million during the nine months ended May 31, 2007, compared to the same period in the prior year. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The affect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. Subsequent to the IPO, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million.

Corporate and Other generated income from continuing operations before income taxes of $11.4 million for the nine months ended May 31, 2007 compared to $8.9 million in the nine months ended May 31, 2006, an increase in earnings of $2.5 million (28%). This improvement is primarily attributable to our business solutions hedging services.

Net Income. Consolidated net income for the nine months ended May 31, 2007 was $456.4 million compared to $331.0 million for the nine months ended May 31, 2006, which represents a $125.4 million (38%) increase.

Revenues. Consolidated revenues were $12.2 billion for the nine months ended May 31, 2007 compared to $10.4 billion for the nine months ended May 31, 2006, which represents a $1.8 billion (18%) increase.

Total revenues include other revenues generated primarily within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevators and agri-service centers derive other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels. Corporate and Other derives revenues primarily from our hedging and insurance operations.

Our Energy segment revenues, after elimination of intersegment revenues, of $5.6 billion increased by $444.1 million (9%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006. During the nine months ended May 31, 2007 and 2006, our Energy segment recorded revenues from our Ag Business segment of $171.2 million and $167.2 million, respectively. The revenues net increase of $444.1 million is comprised of a net increase of $415.9 million in sales volume and a $28.2 million increase related to price appreciation on refined fuels and propane products. The net change in revenues includes $548.3 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. Refined fuels revenues decreased $3.7 million (less than 1%), of which $6.4 million was related to a net average selling price decrease, partially offset by a $2.7 million increase related to volumes, compared to the same period in the previous year. The sales price of refined fuels decreased only slightly, while volumes increased less than 1% when comparing the nine months ended May 31, 2007 with the same period a year ago. Lower crude oil prices during the first nine months of this fiscal year compared to the same nine-month period last fiscal year were primarily attributable to the effects of the hurricanes in the United States during the fall of 2005. Production disruptions due to hurricanes during the fall of 2005 along with strong demand contributed to the increases in refined fuels selling prices during fiscal 2006. Propane revenues decreased by $126.9 million (20%), of which $162.6 million was related to decreased volumes, partially offset by $35.7 million which was related to a net average selling price increase when compared to the same period in the previous year. Propane sales volume decreased 24% in comparison to the same period of the prior year, while the average selling price of propane increased $0.06 per gallon (6%). Propane prices tend to follow the prices of crude oil and natural gas, both of which decreased during the nine months ended May 31, 2007 compared to the same period in 2006 and are also affected by changes in propane demand and domestic inventory levels. The decrease in propane volumes reflects a loss of exclusive propane marketing rights at our former supplier s proprietary terminals.

Our Ag Business segment revenues, after elimination of intersegment revenues, of $6.1 billion increased $1.4 billion (29%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006. Grain revenues in our Ag Business segment totaled $5,031.5 million and $3,824.4 million during the nine months ended May 31, 2007 and 2006, respectively. Of the grain revenues increase of $1,207.1 million (32%), $779.6 million is due to increased average grain selling prices and $427.5 million is attributable to increased volumes during the nine months ended May 31, 2007 compared to the same period last fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of $0.87 per bushel (20%). The 2006 fall harvest produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. Despite the good harvest, prices for nearly all grain commodity prices increased because of strong demand, particularly for corn which is used as the feedstock for most ethanol plants as well as for livestock feed. The average month-end market price per bushel of corn, soybeans and spring wheat increased approximately $1.47, $1.25 and $1.04, respectively, when compared to the prices of those same grains for the nine months ended May 31, 2006. Volumes increased 9% during the nine months ended May 31, 2007 compared with the same period of a year ago. Corn had the largest volume increase compared to the nine months ended May 31, 2006. Our Ag Business segment non-grain product revenues of $965.6 million increased by $151.3 million (19%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, primarily the result of increased revenues of crop nutrients, energy, seed, feed, processed sunflower and crop protection products. Other revenues within our Ag Business segment of $90.4 million during the nine months ended May 31, 2007 decreased $1.1 million (1%) compared to the nine months ended May 31, 2006.

Our Processing segment revenues, after elimination of intersegment revenues, of $526.2 million increased $67.5 million (15%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006. Because our wheat milling, renewable fuels and packaged foods operations are operated through non-consolidated joint ventures, revenues reported in our Processing segment are entirely from our oilseed processing operations. Processed soybean volumes increased 4%, accounting for an increase in revenues of $9.5 million, and a higher average sales price of processed oilseed and other revenues increased total revenues for this segment by $19.8 million. Oilseed refining revenues increased $35.7 million (17%), of which $25.6 million was due to a higher average sales price and $10.1 million was due to a net increase in sales volume. The average selling price of processed oilseed increased $14 per ton and the average selling price of refined oilseed products increased $0.03 per pound compared to the same period of the previous year. These changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Cost of goods sold of $11.5 billion increased $1.8 billion (18%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $5.1 billion increased by $364.7 million (8%) during the nine months ended May 31, 2007 compared to the same period of the prior year. The net change in cost includes $542.1 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. The remaining change in cost of goods sold is primarily due to decreased average per gallon costs of refined fuels. On a more product-specific basis, the average cost of refined fuels decreased by $0.01 (1%) per gallon, while volumes increased slightly (less than 1%) compared to the nine months ended May 31, 2006. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost decrease on refined fuels is reflective of lower input costs at our two crude oil refineries compared to the nine months ended May 31, 2006. The average per unit cost of crude oil purchased for the two refineries decreased 5% compared to the nine months ended May 31, 2006. The propane volumes decreased 24%, while the average cost of propane increased $0.04 (4%) compared to the nine months ended May 31, 2006.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $5.9 billion increased $1.3 billion (29%) during the nine months ended May 31, 2007 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $4,954.6 million and $3,758.4 million during the nine months ended May 31, 2007 and 2006, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $1,196.2 million (32%) compared to the nine months ended May 31, 2006. This is the result of a 9% increase in bushels sold along with an increase of $0.87 (21%) average cost per bushel as compared to the prior year. Corn had the largest volume increase compared to the nine months ended May 31, 2006. Commodity prices on corn, spring wheat and soybeans have increased compared to the prices that were prevalent during the same nine-month period in 2006. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, primarily due to higher volumes and price per unit costs of crop nutrient, energy, seed, feed, crop protection and processed sunflower products. The higher volumes are primarily related to acquisitions.

Our Processing segment cost of goods sold, after elimination of intersegment costs of $501.3 million, increased $61.0 million (14%) compared to the nine months ended May 31, 2006, which was primarily due to increased costs of soybeans in addition to increased volumes.

Marketing, General and Administrative. Marketing, general and administrative expenses of $175.6 million for the nine months ended May 31, 2007 increased by $6.7 million (4%) compared to the nine months ended May 31, 2006. The net increase of $6.7 million is primarily due to an increase of $0.8 million for educational funding and increased performance-based incentive plan expense, in addition to other employee benefits and general inflation, partially offset by a $2.4 million net increase in gains on disposals of fixed assets.

Gain on Investments. During our first fiscal quarter in 2007, we sold approximately 25% of our investment in CF. We received cash proceeds of $10.9 million and recorded a gain of $5.3 million, which is reflected within the results reported for our Ag Business segment. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The affect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. Subsequent to the IPO, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This net gain is reflected in our Processing segment.

Interest, net. Net interest of $26.0 million for the nine months ended May 31, 2007 decreased $2.3 million (8%) compared to the nine months ended May 31, 2006. Interest expense for the nine months ended May 31, 2007 and 2006 was $37.7 million and $37.6 million, respectively. Interest income, generated primarily from marketable securities, was $11.7 million and $9.3 million, for the nine months ended May 31, 2007 and 2006, respectively. The interest expense increase of $0.1 million (less than 1%) includes an increase in short-term borrowings, primarily created by higher working capital needs, and an increase in the average short-term interest rate, partially offset by an increase in capitalized interest of $4.3 million. For the nine months ended May 31, 2007 and 2006, we capitalized interest of $7.8 million and $3.5 million, respectively, related to capitalized construction projects. The increase in capitalized interest primarily relates to financing interest on our coker project, partially offset by the final stages of the ultra-low sulfur upgrades at our energy refineries during fiscal 2006. The average level of short-term borrowings increased $211.0 million during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, and the average short-term interest rate increased 0.77%. The interest income increase of $2.4 million (26%) was primarily in Corporate and Other, and relates to an increase in interest income in our hedging services.

Equity Income from Investments. Equity income from investments of $84.3 million for the nine months ended May 31, 2007 increased $26.0 million (45%) compared to the nine months ended May 31, 2006. We record equity income or loss primarily from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments in all of our business segments and Corporate and Other. These improvements included $0.1 million for Energy, $12.4 million for Ag Business, $13.1 million for Processing and $0.4 million for Corporate and Other.

Our Ag Business segment generated improved earnings of $12.4 million from equity investments. Our share of equity investment earnings or losses in Agriliance increased earnings by $11.1 million and is primarily attributable to improved margins for wholesale and retail crop nutrients products sold during the spring planting season. These improved earnings during the spring exceeded losses that were incurred earlier in fiscal 2007, which were primarily caused by declines in the realizable value of inventories due to large inventory quantities. The large inventories resulted from crop producers electing to scale back nutrient applications for the 2006 growing year because of high energy costs and lower grain prices at that time. The Agriliance crop nutrients volumes were up 5% over last year. Our investment in a Canadian agronomy joint venture contributed a decrease in earnings of $0.3 million. During the first fiscal quarter of 2007, we invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which is owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $0.7 million during the nine months ended May 31, 2007 for that equity investment. Our wheat exporting investment in United Harvest contributed improved earnings of $0.3 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also recorded improved earnings of $1.3 million. Our country operations reported an aggregate decrease in equity investment earnings of $0.7 million for several small equity investments.

Our Processing segment generated improved earnings of $13.1 million from equity investments. During fiscal years 2006 and 2007, we invested $105.3 million in US BioEnergy, an ethanol manufacturing company, and recorded improved earnings of $6.7 million during the nine months ended May 31, 2007 compared to the same period in 2006, primarily from operating margins as US BioEnergy added additional plants into production compared to the prior period. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded improved earnings of $4.2 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, recorded improved earnings of $2.1 million compared to the same period in the previous year. Ventura Foods improved results were primarily due to improved product margins. 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 US dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling 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 will continue to 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 $0.4 million from equity investment earnings, primarily from Cofina, our financial services equity investment, partially offset by slightly reduced earnings from an insurance equity investment as compared to the nine months ended May 31, 2006.

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Minority Interests. Minority interests of $94.7 million for the nine months ended May 31, 2007 increased by $24.6 million (35%) compared to the nine months ended May 31, 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to the same nine-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, excluding discontinued operations, of $44.2 million for the nine months ended May 31, 2007 compares with $47.2 million for the nine months ended May 31, 2006, resulting in effective tax rates of 8.8% and 12.5%, respectively. During the nine months ended May 31, 2007, we recognized additional tax benefits of $9.6 million upon the receipt of a tax refund from the Internal Revenue Service related to export incentive credits. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the nine-month periods ended May 31, 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.

Discontinued Operations. During our fiscal 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. The income recorded for the nine months ended May 31, 2006 was $0.2 million ($0.1 million, net of taxes), primarily the result of the sale of our remaining assets.

Liquidity and Capital Resources

On May 31, 2007, we had working capital, defined as current assets less current liabilities, of $917.5 million and a current ratio, defined as current assets divided by current liabilities, of 1.4 to 1.0, compared to working capital of $829.0 million and a current ratio of 1.5 to 1.0 on August 31, 2006. On May 31, 2006, we had working capital of $799.0 million and a current ratio of 1.4 to 1.0 compared to working capital of $758.7 million and a current ratio of 1.4 to 1.0 on August 31, 2005. We anticipate that working capital will be drawn down during the current fiscal year due to capital expenditures related to the coker unit project at our Laurel, Montana refinery, as described below in Cash Flows from Investing Activities . The capital expenditures related to this project are anticipated to be approximately $238.0 million during our current fiscal year.

Our current committed credit facility consists of a five-year revolver in the amount of $1.1 billion, with a potential addition for future expansion of up to $200 million. 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 May 31, 2007, we had $475.0 million outstanding on this line of credit compared with $121.8 million outstanding on the credit facility in place on May 31, 2006. In addition, we have two commercial paper programs totaling $125 million with banks participating in our five-year revolver. On May 31, 2007, we had $44.1 million of commercial paper outstanding. Our highest points of seasonal borrowings are typically from January through early summer. We believe that we have adequate liquidity to cover any increase in net operating assets and liabilities in the foreseeable future, including the working capital related to the potential acquisition of the wholesale crop nutrients business of Agriliance, as discussed in Recent Events .

Cash Flows from Operations

Our 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.

Our cash flows provided by operating activities were $262.6 million for the nine months ended May 31, 2007, compared to $278.2 million for the nine months ended May 31, 2006. Although cash flows provided by operating activities were comparable in total for the two nine-month periods, there was volatility in the components of the cash flows, which primarily include greater net income and a larger net increase in operating assets and liabilities during the nine months ended May 31, 2007 compared to the same period in the prior year. Grain prices during the current fiscal year have been quite volatile. Because we hedge most of our grain positions with futures contracts on regulated exchanges, volatile prices create margin calls (reflected in other current assets) which 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 $262.6 million during the nine months ended May 31, 2007. Net income of $456.4 million and net non-cash expenses and cash distributions from equity investments of $165.9 million were partially offset by an increase in net operating assets and liabilities of $359.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $103.4 million, minority interests of $94.7 million and deferred tax expense of $13.7 million, which were partially offset by income from equity investments net of redemptions from those investments of $24.2 million, a pretax gain of $5.3 million from the sale of 540,000 shares of our CF stock, included in our Ag Business segment, and an $11.2 million non-cash gain in our Processing segment from our ownership changes in US BioEnergy and their IPO transaction as previously discussed in Results of Operations . The increase in net operating assets and liabilities was caused primarily by an increase in trade receivables net of accounts payable of $212.7 million, in addition to an increase of $246.8 million in derivative assets and hedging deposits (included in other current assets), partially offset by an increase in derivative liabilities of $68.5 million, due to increases in grain prices on May 31, 2007 when compared to August 31, 2006. Increases in inventories also caused an increase in net operating assets and liabilities. On May 31, 2007, the market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by $1.58 per bushel (68%), $2.64 per bushel (49%) and $0.82 per bushel (18%), respectively, when compared to August 31, 2006. In addition to grain prices affecting grain inventories, our feed and farm supplies inventories in our Ag Business segment increased as well during the period (31%), primarily at our country operations retail locations mainly due to the spring planting season.

Our operating activities provided net cash of $278.2 million during the nine months ended May 31, 2006. Net income of $331.0 million and net non-cash expenses and cash distributions from equity investments of $196.9 million, were partially offset by an increase in net operating assets and liabilities of $249.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $92.3 million, minority interests of $70.1 million and deferred tax expense of $44.5 million, partially offset by income from equity investments net of redemptions from those investments of $7.1 million. The increase in net operating assets and liabilities was primarily due to an increase in inventories and a decrease in payables. The increase in inventories was due to an increase in grain and crude oil prices as well as an increase in feed and farm supplies inventories. On May 31, 2006, the market prices of two of our primary grain commodities, spring wheat and corn, increased by $1.10 per bushel (31%) and $0.50 per bushel (25%), respectively, and soybeans, another high volume commodity, saw only a slight decline in price of $0.07 per bushel (1%) when compared to August 31, 2005. In general, crude oil prices increased $2.35 per barrel (3%) on May 31, 2006 compared to August 31, 2005. Our feed and farm supplies inventories increased significantly as well during the period, primarily seed and crop protection inventories at our country operations retail locations due to the spring planting season. The decrease in accounts payable is primarily related to our Energy segment. NCRA had a decrease in payables on May 31, 2006, compared to August 31, 2005, mainly due to a decrease in crude oil purchased. The decrease in purchased crude oil was in anticipation of a planned major maintenance turnaround, during which time the refinery production would be shut down. The turnaround took place during the fourth quarter of fiscal 2006.

Crude oil prices are expected to be volatile in the foreseeable future, but cash from our related inventories and receivables are recovered in a relatively short period, thus somewhat mitigating the effect on our operating assets and liabilities. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest. We anticipate that demand for corn in ethanol production will continue to create relatively high prices and price volatility for that commodity in fiscal 2007. Due to the higher corn prices, additional acres have been planted to grow corn this year, with some of those acres displacing acres previously planted for soybeans and wheat. This shift will likely result in higher prices for these other commodities as supply is decreased.

Cash usage in our operating activities is usually lowest during our fourth fiscal quarter. Historically by this time we have sold a large portion of our seasonal agronomy related inventories in our Ag Business segment operations and continue to collect cash from the related receivables.

Cash Flows from Investing Activities

For the nine months ended May 31, 2007 and 2006, the net cash flows used in our investing activities totaled $373.7 million and $226.2 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $249.6 million and $161.0 million for the nine months ended May 31, 2007 and 2006, respectively. For the year ending August 31, 2007, we expect to spend approximately $391.0 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal year 2008 is 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 low value asphalt. The coker unit is anticipated to increase yields by approximately 14%. The total cost for this project was expected to be approximately $325.0 million, of which approximately $238.0 million was expected to be spent during fiscal 2007, with completion planned during fiscal 2008. With increasing costs for steel and concrete as well as labor costs related to labor shortages, the project will likely exceed the initial estimates. Although additional cost may be incurred, based on current market conditions, we anticipate that the initial economics of the project will still be met, and we will continue to fund the project with cash flows from operations. Total expenditures for this project as of May 31, 2007, were $214.6 million, of which $151.8 million were incurred during the nine months ended May 31, 2007, compared to expenditures of $28.5 million which were incurred during the nine months ended May 31, 2006. During the nine months ended May 31, 2006, capital expenditures for projects now complete that related to the U.S. Environmental Protection Agency (EPA) low sulfur fuel regulations at our Laurel, Montana refinery and NCRA s McPherson, Kansas refinery were $56.2 million.

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, which resulted from nearly three years of discussions, 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 the next several years. The consent decrees also require us and NCRA, to pay approximately $0.5 million in aggregate civil cash penalties. As of May 31, 2007, the aggregate capital expenditures for us and NCRA related to these settlements were approximately $21 million, and we anticipate spending an additional $9 million over the next five years. We do not believe that the settlements will have a material adverse effect on us or NCRA.

Investments made during the nine months ended May 31, 2007 and 2006, totaled $84.2 million and $73.0 million, respectively. We invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which is owned jointly (50/50) with Multigrain Comercio, an agricultural commodities business headquartered in Sao Paulo, Brazil, 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. Our grain marketing operations continue to explore other opportunities to establish a presence in other emerging grain origination and export markets. We have also invested $15.6 million in a new Horizon Milling venture (24% CHS ownership) during the nine months ended May 31, 2007, to acquire 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 nine months ended May 31, 2007, we made an additional investment of $35.3 million in US BioEnergy, bringing our total cash investments for common stock in the company to $105.3 million. Prior investments in US BioEnergy include $70.0 million of stock purchased during the nine months ended May 31, 2006. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The affect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This gain is reflected in our Processing segment. Based upon the market price of US BioEnergy s stock of $12.88 per share on May 31, 2007, our investment had a market value of approximately $185.5 million. We are recognizing earnings of US BioEnergy to the extent of our ownership interest using the equity method of accounting.

During the nine months ended May 31, 2007, changes in notes receivable resulted in a decrease in cash flows of $54.2 million, of which $8.0 million resulted from a note receivable related to our investment in Multigrain S.A., with the balance primarily from related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the nine months ended May 31, 2006, the changes in notes receivable resulted in a decrease in cash flows of $5.7 million, primarily from related party notes receivables at NCRA.

During the nine months ended May 31, 2007, acquisitions of intangible assets were $8.1 million and $2.9 million, respectively. The cash acquisitions during the nine months ended May 31, 2007, include $7.0 million related to our lubricants business in our Energy segment.

Partially offsetting our cash outlays for investing activities were proceeds from the disposition of property, plant and equipment of $9.3 million and $9.0 million for the nine months ended May 31, 2007 and 2006, respectively. Also partially offsetting cash usages were investments redeemed totaling $4.4 million and $6.3 million for the nine months ended May 31, 2007 and 2006, respectively. During the nine months ended May 31, 2007, we sold 540,000 shares of our CF stock, included in our Ag Business segment, for proceeds of $10.9 million, and recorded a pretax gain of $5.3 million, reducing our ownership interest in CF to approximately 2.9%.

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. The previously established credit lines consisted of a $700.0 million 364-day revolver and a $300.0 million five-year revolver. The current committed credit facility consists of a five-year revolver in the amount of $1.1 billion, with a potential addition for future expansion of up to $200 million. The other terms of the current credit facility are the same as the terms of the credit facilities it replaced in all material respects. On May 31, 2007, interest rates for amounts outstanding on this credit facility ranged from 5.54% to 8.25%. In addition to these lines 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 December 2006, the line of credit dedicated to NCRA was renewed for an additional year. We also have a revolving line of credit dedicated to Provista Renewable Fuels Marketing, LLC (Provista), through LaSalle Bank National Association which expires in November 2007, in the amount of $25.0 million committed. On May 31, 2007, August 31, 2006 and May 31, 2006, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $484.5 million, $22.0 million and $140.0 million, respectively.

During the nine months ended May 31, 2007, we instituted two commercial paper programs totaling up to $125 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 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. On May 31, 2007, we had $44.1 million of commercial paper outstanding, all with maturities of less than 60 days from their issuance with interest rates ranging from 5.57% to 5.65%.

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 year 2009. The amount outstanding on this credit facility was $81.2 million, $98.4 million and $102.5 million on May 31, 2007, August 31, 2006 and May 31, 2006, respectively. Interest rates on May 31, 2007 ranged from 6.02% to 7.13%. Repayments of $17.2 million and $12.3 million were made on this facility during the nine months ended May 31, 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 of 7.43% and is due in equal annual installments of approximately $7.9 million, in the years 2005 through 2011. Repayments of $11.4 million were made during each of the nine months ended May 31, 2007 and 2006.

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 fiscal years 2007 through 2013. Repayments of $17.7 million were made on the first series during the nine months ended May 31, 2007. 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 fiscal years 2012 through 2018.

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. The amendment expanded 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 the fiscal years 2011 through 2015.

Through NCRA, we had revolving term loans outstanding of $3.8 million, $6.0 million and $6.8 million on May 31, 2007, August 31, 2006 and May 31, 2006, respectively. Interest rates on May 31, 2007 ranged from 6.48% to 6.99%. Repayments of $2.3 million were made during each of the nine months ended May 31, 2007 and 2006.

On May 31, 2007, we had total long-term debt outstanding of $690.9 million, of which $87.1 million was bank financing, $583.0 million was private placement debt and $20.8 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, 2006 has not materially changed during the nine months ended May 31, 2007. On May 31, 2006, we had long-term debt outstanding of $743.8 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $8.4 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 $3.8 million are collateralized by NCRA s investment in CoBank. We were in compliance with all debt covenants and restrictions as of May 31, 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 (cost of approximately $325 million). The City of McPherson issued $325 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. On March 18, 2007, notification was sent to the bond trustees to pay the IRBs down by $324 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 nine months ended May 31, 2007 and 2006, we had no borrowings on a long-term basis, and during the same periods we repaid long-term debt of $54.2 million and $30.4 million, respectively.

Distributions to minority owners for the nine months ended May 31, 2007 and 2006 were $32.7 million and $51.6 million, respectively, and were related to NCRA. In June 2007, NCRA made additional distributions to its owners, of which $44.0 million was to minority owners.

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, 2006, were distributed during the nine months ended May 31, 2007. The cash portion of these distributions, deemed by the Board of Directors to be 35%, was $133.1 million. During the nine months ended May 31, 2006, we distributed cash patronage of $62.5 million.

Effective September 1, 2004, 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 older than 10 years held by them, and another for individuals who are eligible for equity redemptions at age 72 or upon death. Effective September 1, 2006, the 10-year aging factor on the retirement of equity on a pro-rata basis was eliminated for equity redemptions to be paid in fiscal year 2007. 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 an additional $50.0 million of redemptions to be paid in fiscal year 2007, targeting older capital equity certificates. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2006, that will be distributed in fiscal year 2007, to be approximately $112.4 million, of which $64.9 million was redeemed in cash during the nine months ended May 31, 2007, compared to $52.7 million during the nine months ended May 31, 2006. We also redeemed $35.9 million of capital equity certificates during the nine months ended May 31, 2007, by issuing shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock) pursuant to a registration statement filed with the Securities and Exchange Commission. During the nine months ended May 31, 2006, we redeemed $23.8 million of capital equity certificates by issuing shares of our Preferred Stock.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On May 31, 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 (dividends are payable quarterly), and is redeemable at our option after February 1, 2008. At this time, we have no present intention of redeeming any preferred stock. Dividends paid on our

Preferred stock during the nine months ended May 31, 2007 and 2006 were $9.5 million and $7.9 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, 2006 have not materially changed during the nine months ended May 31, 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 $37.1 million was outstanding on May 31, 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 May 31, 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, 2006. Other than the balance sheet changes in payables and long-term debt, increases in grain purchase contracts and additional commitments for costs related to the coker project at our Laurel refinery, the total obligations have not materially changed during the nine months ended May 31, 2007.

Critical Accounting Policies

Our Critical Accounting Policies are presented in our Annual Report on Form 10-K for the year ended August 31, 2006. There have been no changes to these policies during the nine months ended May 31, 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 June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits

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that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006.

Based on the funded status of our defined benefit pension and postretirement medical plans as of the most recent measurement dates, we would be required to increase our net liabilities for pension and postretirement medical benefits upon adoption of SFAS No. 158, which would result in a decrease to owners equity in our Consolidated Balance Sheet. The ultimate amounts recorded are highly dependent on a number of assumptions, including the discount rates in effect in 2007, the actual rate of return on pension assets for 2007 and the tax effects of the adjustment. Changes in these assumptions since our last measurement date could increase or decrease the expected impact of implementing SFAS No. 158 in our consolidated financial statements at August 31, 2007.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities , addressing the accounting for planned major maintenance activities which includes refinery turnarounds. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods but allows the alternative deferral method. This FSP shall be applied to the first fiscal year beginning after December 15, 2006 (our fiscal year 2008). We are currently using the accrue-in-advance method of accounting, and are in the process of assessing the impact this FSP will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements 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.

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

We did not experience any material changes in market risk exposures for the period ended May 31, 2007, that affect the quantitative and qualitative disclosures presented in our Annual Report on Form 10-K for the year ended August 31, 2006.

Item 4. *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 May 31, 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 third fiscal quarter ended May 31, 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.

PART II. OTHER INFORMATION

Item 1. ***Not applicable***

Item 1A. ***Not applicable***

Item 2. ***Not applicable***

Item 3. ***Not applicable***

Item 4. ***Not applicable***

Item 5. ***Not applicable***

Item 6. ***Exhibits***

Exhibit	Description
10.1	First Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties, dated May 8, 2007 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed May 11, 2007)
10.2	Tenth Amendment to Credit Agreement (Term Loan), dated May 8, 2007, by and among CHS Inc. and CoBank, ACB (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed May 11, 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

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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

July 12, 2007

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