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# DFA Reports 2012 Financial Results

March 20, 2013

KANSAS CITY, Mo. (March 20, 2013) – Dairy Farmers of America ended the year with strong operating results from its wholly owned commercial investments and increased earnings from affiliates.

The Cooperative's net income increased more than 100 percent in 2012 — $83 million for 2012, compared to $40 million for 2011 — but after non-recurring items, DFA reported a net loss of $133 million for the year. Non-recurring items include a $216 million, net of tax, litigation charge in 2012 and a $77 million, net of tax, impairment/loss on exchange of affiliate interest in 2011.

"We have worked for a number of years to improve DFA's financial strength," said Rick Smith, president and chief executive officer. "In 2012, we had a profitable year. This, combined with the support of the financial community, means we are in a position to manage the short-term impact of these non-recurring items on our overall balance sheet."

Reflecting a lower U.S. average all milk price, net sales totaled $12.1 billion in 2012.

In 2012, DFA directed the marketing of 61.4 billion pounds of milk for both members and others through its consolidated businesses and related affiliates. This represents nearly 30 percent of the total milk production in the United States. Payments to members for milk marketed were $7.3 billion in 2012, which equated to an average of $18.49 per hundredweight. Cash returned to members in 2012 through DFA's various equity retirement programs was $32 million.

DFA continued to grow its commercial investments in 2012. The Cooperative's Fluid Milk and Ice Cream Division acquired Guida's Dairy®, based in New Britain, Conn., and Cass-Clay® Creamery in Fargo, N.D. In addition, more than 20 new products were launched in the Consumer Brands division under the Borden®, Cache Valley®, Plugrá® and La Vaquita® brands.

The Ingredients Division also continued to expand, with a focus on export opportunities with global customers in strategic markets. DFA exported 203 million pounds of product in 2012, for a third consecutive year of record export sales. In 2012, DFA also broke ground on a state-of-the-art dairy ingredients facility in Fallon, Nev., which will serve as a consistent supplier of quality dried dairy ingredients for export to customers around the world.

Earnings of affiliates were $58 million in 2012, and cash distributions from DFA affiliates totaled $36 million. Two affiliates, Stremicks Heritage Foods® and Southwest Cheese, commenced or completed major capital projects in 2012 to increase production capacity and improve operational efficiencies. These investments will increase markets for our members' milk and enhance returns in future years.

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# DFA Reports 2013 Financial Results

March 19, 2014

Dairy Farmers of America ended the year with strong operating results from its wholly owned commercial investments and increased earnings from affiliates.

The Cooperative's adjusted net income was $61.3 million for 2013. DFA's net sales totaled $12.8 billion for 2013, a six percent increase compared to $12.1 billion in 2012.

"At DFA, we're about making sure our members can farm successfully and profitably," said Rick Smith, president and chief executive officer. "In 2013, we had a successful year. Through strong operational performance and joint venture returns, we were able to execute on our strategic plan. We are also pleased with the improved margins for members."

In 2013, DFA directed the marketing of 60.6 billion pounds of milk for both members and others through its consolidated businesses and related affiliates. This represents approximately 30 percent of the total milk production in the United States. Payments to members for milk marketed were $7.9 billion in 2013, compared to $7.3 billion in 2012. This increase is primarily a result of the higher U.S. annual average all milk price, which averaged $20.01 per hundredweight. Returns to members in 2013 totaled $41.9 million, with $23.3 million distributed from the cooperative's allocated patronage and $18.6 million through DFA's various capital retirement programs.

DFA continued to grow its commercial investments in 2013. The Cooperative's Fluid Milk and Ice Cream Division acquired Dairy Maid Dairy, a processor of milk, juice and fruit drinks located in Frederick, Md. Dairy Maid's customers include major grocery chains, schools and governmental entities, such as military installations.

The Ingredients Division also continued to expand, with a focus on export opportunities with global customers in strategic markets. DFA exported 222 million pounds of product in 2013, for a fourth consecutive year of record export sales.

In 2013, DFA broke ground on two new plants. On September 20, a ceremonial ground breaking was conducted in Linwood, N.Y., for a new cold process milk separation plant. The plant, which is scheduled to be completed later in 2014, will produce cream and skim milk for a range of regional customers. A second dairy ingredient plant is currently under construction in Cass City, Mich., which will produce high-quality condensed whole and skim milk and cream.

Earnings of affiliates were $72.8 million in 2013 compared to $57.6 million in 2012. Cash distributions from DFA affiliates totaled $38 million in 2013 compared to $36.4 million in 2012.

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# Building Momentum

## TABLE OF CONTENTS

LETTER TO STAKEHOLDERS . . . . . . . . . . . . . . . . . 1
OUR MEMBERS . . . . . . . . . . . . . . . . . . . . . . . . . 4
OUR CUSTOMERS . . . . . . . . . . . . . . . . . . . . . . . 6
CORPORATE SOCIAL RESPONSIBILITY . . . . . . . . . 8
OUR EMPLOYEES . . . . . . . . . . . . . . . . . . . . . . . 10
BOARD OF DIRECTORS . . . . . . . . . . . . . . . . . . . . 11
SENIOR STRATEGY TEAM . . . . . . . . . . . . . . . . . 12

## HIGHLIGHTS OF 2012

| | 2012 | 2011 |
|---|---|---|
| **For the Year** ($ in thousands): | | |
| Net sales | $14,116,213 | $12,849,321 |
| Net earnings | 240,861 | 183,608 |
| Allocated patronage equities | 179,605 | 123,597 |
| Cash returned to members | 112,539 | 107,742 |
| **At Year End** ($ in thousands): | | |
| Total assets | $ 6,356,744 | $ 5,437,577 |
| Working capital | 755,840 | 818,392 |
| Long-term debt | 1,071,744 | 790,058 |
| Equities | 1,210,427 | 1,121,634 |
| **Financial Measures:** | | |
| Return on equity | 21.7% | 16.7% |
| Return on invested capital | 11.9% | 11.3% |
| Long-term debt-to-capital | 47.0% | 41.3% |
| Current ratio | 1.21 | 1.27 |
| **Membership:** | | |
| Member associations | 887 | 921 |
| Individual members | 3,991 | 4,142 |

## WHO WE ARE

Land O'Lakes, Inc. is a growing, farmer-owned food and agriculture cooperative that does business in all 50 states and in more than 60 countries. Today, Land O'Lakes is the second largest U.S. cooperative with approximately 9,600 employees, nearly 4,000 direct producer-members and 900 member-cooperatives serving more than 300,000 agricultural producers. Land O'Lakes, Inc. has annual sales of over $14 billion and is No. 210 on the Fortune 500.

Land O'Lakes is a well-known leader in its businesses, markets and in the community. The cooperative holds leading positions in the U.S. under the LAND O LAKES brand in butter, deli cheese, branded dairy-based food service products, chilled dairy desserts under the Kozy Shack brand, lifestyle and livestock feed by Purina Animal Nutrition, wholesale distribution of seed and crop production products under the WinField brand, and LAND O LAKES branded/specialty eggs.

In 2012, Land O'Lakes delivered strong results and made great strides on its aggressive growth journey by focusing on:

- Maintaining strong relationships with the cooperative's member-owners;
- Exceeding customer expectations as a valued, total solutions partner;
- Upholding a commitment to corporate citizenship in communities around the world; and
- Building and retaining a diverse pool of talented employees.

The following is a collection of stories that illustrate how Land O'Lakes is *Building Momentum* in each of these areas.

# Dear Stakeholders:

The theme of the 2012 Annual Report—Building Momentum—reflects the accelerating financial performance and strategic growth that is moving Land O'Lakes to new levels as a leader in agribusiness and food production.

The year 2012 was highlighted by several records for Land O'Lakes including overall corporate sales and earnings plus record performance by several of our business units. In addition, we returned $113 million back to members, the fourth consecutive year in which member returns exceeded $100 million.

The strong results in 2012 continue a trend of exceptional performance. The past six years (2007-2012) represent the top six years for net sales and earnings in company history. During this same time, we have returned over half a billion dollars to members.

**Pete Kappelman**
Chairman of the Board

**Christopher J. Policinski**
President and Chief Executive Officer

This consistent, positive performance is a direct result of the continuing implementation of strategies designed to build our value-added, branded businesses in Dairy Foods, Feed and Crop Inputs. These are strong, growing segments of agribusiness. Intensifying Land O'Lakes' growth in these segments is our current focus.

Our ambitious growth strategy is fueled by increasing investments in several key areas: acquisitions that leverage our existing infrastructure and expertise; product innovations; and building our industry-leading brands. This requires a financial strategy that balances short-term earnings and returns with long-term investment to achieve even greater future rewards. In 2012, our capital investments totaled $597 million.

## FINANCIAL REVIEW

Land O'Lakes achieved record sales of $14.1 billion in 2012 plus record net earnings of $241 million. In addition, three of our business segments—Crop Inputs, Feed and Layers—achieved record sales while Crop Inputs also had record earnings.

A variety of factors influenced our performance in 2012 including warmer than normal weather, volatile markets and fluctuations in commodity pricing. Overall, Land O'Lakes' results were positively impacted by the continuing implementation of strategies focused on consolidating and strengthening our business platform, reducing costs and driving growth.

## BUSINESS REVIEW

The following summary provides financial results in two formats:

» With unrealized hedging gains and losses that is consistent with accounting conventions

» Without the unrealized hedging gains and losses, which is a more performance-based indicator that is also used to determine payments back to cooperative members in the form of patronage

### DAIRY FOODS

Dairy Foods achieved strong results in 2012 despite significant challenges in the first half of the year caused by unexpected and exceptional growth in milk supplies and volatile markets. Pretax earnings for the year totaled $38 million, a 34 percent increase from 2011, while net sales were $4.2 billion, 4 percent less than the previous year. Pretax earnings without unrealized hedging were $39 million.

Within the Dairy Foods portfolio, Retail Foods recorded exceptional performance including a number of new records. Record volumes were achieved by Superspreads, which include the LAND O LAKES® tub butter products. Continuing innovation added to product offerings including Butter With Olive Oil and Sea Salt and Unsalted Butter in half-sticks, a Land O'Lakes

**$113 million** returned to members in 2012

**$551 million** returned in past five years

exclusive. Retail Cheese also had a strong year where LAND O LAKES® Deli Cheese products were expanded into several of the nation's largest retail chains and innovation continued with the launch of a new 4 Cheese Italian Blend.

The Land O'Lakes strategy of growth also reshaped the portfolio mix of Dairy Foods in 2012. New growth initiatives included the launch of Sauté Express™ Sauté Starter, an on-trend, highly convenient product that extends the relevance of the LAND O LAKES brand to a new generation of users. Another significant growth development was the launch of Koru™ Creamery Style Yoghurt, a new premium craft yoghurt that is targeted at the highly valued younger consumer.

Dairy Foods also grew through significant new acquisitions in 2012. This included the acquisition of Kozy Shack Enterprises, Inc., adding this leading brand of refrigerated desserts to its product offerings. Dairy Foods also benefited from its 50 percent ownership in Eggland's Best, LLC, a newly formed joint venture with Eggland's Best, Inc. Eggland's Best, LLC provides new outlets for the LAND O LAKES brand in the high growth category of specialty eggs.

Strong results were also achieved in the Business-to-Business segment of Dairy Foods, specifically Foodservice, which provides products to schools, government organizations and other commercial food operations. Results for Industrial Foods were negatively impacted by the Global Dairy Ingredients division, which incurred losses caused by growth of milk supplies in the first half of the year plus commodity market and product mix impacts on the cheese and whey business. Despite these adverse market conditions, the Global Dairy Ingredients division continued to expand its relationships with large, global customers.

### CROP INPUTS

Crop Inputs, which we operate through our wholly owned Winfield Solutions subsidiary, delivered record results in 2012 bolstered by a powerful new branding strategy, continuing innovation and warmer than normal weather conditions that drove demand for our industry-leading products and services to new highs. Pretax earnings for the year were $228 million, 62 percent more than 2011. Net sales for 2012 totaled $4.7 billion, 18 percent higher than last year. Pretax earnings without unrealized hedging were $223 million.

Each of the major businesses within Crop Inputs delivered strong results, with Crop Protection Products volumes leading the way with a 22 percent increase from last year. Seed sales were up 19 percent. Major factors driving this performance included the exceptionally warm spring season that enabled early planting and more chemical applications plus an overall increase in planted acres.

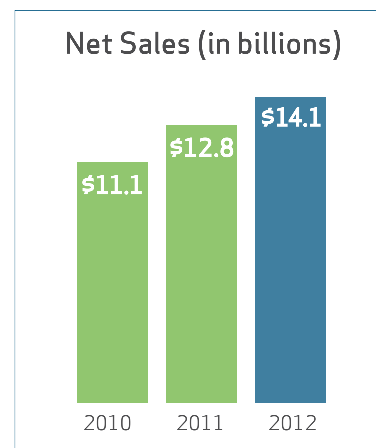
Major brand building advances in 2012 included uniting the company's extensive lineup of products and services under the WinField brand, providing an integrated, customer-facing brand platform. This initiative was launched with a national media campaign including television and print advertising, public relations and online brand awareness strategies.

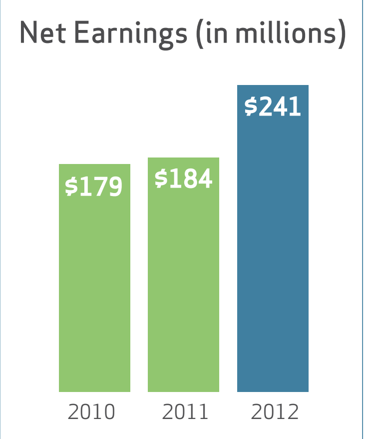
WinField also continued to build its leadership position in technology and innovation. The acclaimed R7® Tool continued to expand with over 300 accounts enrolled and 2,500 sellers trained to leverage Answer Plot® data in a Global Information System framework. In recognition of its achievements, WinField earned the 2012 Agriculture Technologies Award from the Agricultural Retailers Association.

WinField also grew through acquisitions. This included the acquisition of Precision Turf & Chemical, Inc., the latest expansion of the company's Professional Products Group, which is rapidly growing by marketing WinField products and services to such specialty customers as golf courses, recreational facilities and sports venues.

### FEED

Our Feed segment is operated through our wholly owned subsidiary, Purina Animal Nutrition, which delivered exceptional performance in 2012. Results were driven by strong margins throughout its portfolio plus the launch of a major new branding platform, new product lines and a key acquisition. Pretax earnings for the year totaled $31 million, 63 percent favorable to 2011 while net sales were $4.6 billion, 15 percent more than last year. Pretax earnings without unrealized hedging were $26 million.




## INNOVATION & GROWTH INITIATIVES

Kozy Shack Refrigerated Desserts

Purina® Hydration Hay™ Block

Interlock®

Eggland's Best JV

Purina achieved significant margin improvement gains in the Lifestyle and Livestock businesses through improved product mix, focused pricing actions and successful risk management. The 2012 results were also favorably influenced by strong protein margins in the ingredients business and by the successful acquisition of Old Mill Troy in the premix business.

A major brand building initiative in 2012 moved toward unifying our feed products under the Purina name. This strategy was designed to foster growth by leveraging the power of the iconic Purina brand, focusing product identity and maximizing brand marketing power to drive sales.

Where simple goodness begins.®

This brand strategy came to life with the launch of a new Purina® small animal product line, expanding the power of the Purina brand into the $500 million small pet market. Additional product innovations included the introduction of several new horse products including high-margin supplements and Hydration Hay™ Block. Livestock and cattle innovations included HeiferSmart® and STORM® Cattle Mineral, an industry-leading weatherized cattle mineral product.

### LAYERS

The Layers segment, conducted through Moark, LLC, experienced a challenging year with unfavorable results driven primarily by high feed costs and lower commodity and brown egg pricing. Losses for the Layers segment totaled $34 million in 2012 compared with a loss of $3 million in 2011. Net sales achieved a new record of $735 million, 23 percent more than 2011. Losses without unrealized hedging were $32 million.

A confluence of significant industry-wide challenges combined to produce the losses in Layers in 2012. These included lower than average commodity pricing, lower brown egg pricing due to excess supply in the market, and excess production of small and medium eggs as a result of younger flocks and hot weather during the summer. The traditionally strong Easter season also experienced poor demand for eggs in 2012. The earnings challenges in Layers were addressed through a sharpened focus on lowering production and processing costs through implementation of cost savings and margin enhancement initiatives. Despite the industry-wide headwinds, Moark continued to pursue sales growth and achieved significant success with product introduction into one of the nation's largest retailers.

WinField™

## INVESTING TO SUPPORT OUR MEMBERS

With record sales and earnings in 2012, Land O'Lakes is continuing to deliver increasingly strong results for the benefit of our members. These benefits include current returns in the form of patronage plus investments to accelerate our future growth.

We are also investing in our members' success by providing a variety of additional services. These include our Business Development Services division, which provides consulting, human resource support, and learning and development to foster the growth of member cooperatives and improve their bottom line. Our public affairs and government relations initiatives provide members with a collective, powerful voice with lawmakers and policymakers on key industry issues. Last year, Land O'Lakes organized Congressional visits and advocacy meetings in Washington, D.C. for over 200 members and leaders of our organization. Active engagement with industry groups, such as the National Milk Producers Federation and National Council of Farmer Cooperatives, also amplify the Land O'Lakes voice on vital member issues.

## "BUILDING MOMENTUM" FOR FUTURE GROWTH

Powered by strong performance in 2012, Land O'Lakes is well positioned for future growth. The global opportunities of agribusiness are unprecedented, with the demand for food expected to grow by 70 percent as the world population grows to 9 billion by 2050. As Land O'Lakes continues "Building Momentum," we intend to fully capture this opportunity.

Sincerely,

**Pete Kappelman**
Chairman of the Board

**Christopher J. Policinski**
President and Chief Executive Officer

# OUR MEMBERS

In a year of strong growth, Land O'Lakes has maintained an ongoing commitment to its member-owners in order to help drive their individual success. Whether providing value-added products, access to markets, agricultural expertise and insights, legislative advocacy or philanthropic outreach, Land O'Lakes members continued to benefit from collaborative partnerships with their cooperative.

## AG

North Central Farmer's Elevator (NCFE) is a full-service cooperative headquartered in Ipswich, S.D., with 2,500 members serving north central South Dakota and south central North Dakota. The co-op has a relationship with Land O'Lakes that goes back more than 40 years.

One example of this successful partnership is the co-op's collaboration with Land O'Lakes Business Development Services on an Expert Selling Solutions program for the co-op's agronomy, petroleum and feed sales teams. This program was designed to help teams enhance their selling skills to fuel growth. "Training is critical, and we want to provide employees with the tools and resources they need to do their best in selling products to our customers," said Mike Nickolas, NCFE general manager. "We want to be respected in the country and be that leader, doing the best we can for our producer-owners."

According to Nickolas, Land O'Lakes is proactive with the NCFE team. "Whether working on an acquisition, strategic planning or employee development programs, they've helped us grow our business, and we feel very good about that because if they want us to grow, that means they are growing as well."

NCFE's relationship with Land O'Lakes has helped fuel business growth for the co-op. Over the past 20 years, NCFE has grown from a $70 million company to a $700 million company. "This team has seen tremendous change, been able to keep up with it and has been very proactive at developing their employees," said Larry Holst, director of the Land O'Lakes Ag Customer team.

"Our partnership benefits both NCFE and Land O'Lakes," added Holst. "We are helping NCFE become a better place for their customers to come to for advice that can help them become more profitable, which in turn can help NCFE and Land O'Lakes become more profitable."

This year, the Land O'Lakes team also worked with NCFE to set up a disciplined approach to measuring their risk exposure. "It's not so much hedging the grain or energy, but looking at the actual full-dollar value of the commodities and determining the risk we're willing to take," said Nickolas. "It's an interesting concept that helps us better achieve our goal of limiting our risk in order to protect the cooperative. Land O'Lakes uses these tools themselves and brought the program to us."

NCFE purchases feed through Dakotaland Feeds, LLC, in which NCFE has ownership along with Land O'Lakes, and buys seed and crop protection products from Land O'Lakes' Winfield Solutions business to provide to their customers. "We're satisfied with the quality of products we get from Land O'Lakes, and I think the technology, seed and crop protection advances are going to continue to expand and grow. With the help of Land O'Lakes and their brands, it's a very exciting time for both NCFE and our Land O'Lakes partnership."

## DAIRY

Located in Bradford County in northern Pennsylvania, the Kline family includes three generations of dairy farmers who are in the business of producing quality milk—with an eye on a successful and sustainable future.

Over the last 15 years, part-owner Ron Kline and his sons Gary and Glen, who are also part-owners, have grown their operation—Y-Run Farms—to housing 500 cows with 15 local employees.

"We're probably one of the larger herds in the area, and we were one of the first to expand to this size, nearly tripling our herd," said Ron. There were initial growing pains with the relatively quick expansion, but Ron said change was a necessity for the Kline family.

The expansion helped keep the farm business appealing for the family's third generation, currently represented by Glenn's eldest son, Chad. "I wanted to come back to the farm because there was a future here, especially with the population growing," said Chad. "As fast as it's growing, we need to be more productive with the cows, more efficient, and be as sustainable as we can with the land."

Protecting the land is part of the Kline family's daily life. "Environmental stewardship is very important to us," Gary said. "We want to care for the land and ensure it's sustainable for generations to come."

Producing a quality product is also extremely important to the Kline family. "Milk quality doesn't just happen in the parlor," said Jacob Thompson, dairy management advisor for Land O'Lakes and part of the advisory team for Y-Run. "It's the environment for the cows, it's the people who are milking the cows, and it's the people who are handling and moving those animals on a daily basis. As a cooperative, we look at bringing all those people together to work as a team and deliver positive results."

According to Gary, being part of the Land O'Lakes system matters to the Kline family because Land O'Lakes is a quality company. "They are honest about their business; they are honest about their relationships and easy to work with," he added. "And best of all, they produce a product that we can be proud of."

Thompson pointed to these relationships as being a cornerstone of Land O'Lakes' success. "Building relationships with the dairy producers is extremely important for the long-term viability of our cooperative and our members," Thompson said.

# OUR CUSTOMERS

Land O'Lakes has always been committed to providing the highest quality, value-added products and services. By continuing to leverage its strong brands, industry-leading research and development capabilities and agronomic expertise, Land O'Lakes is well positioned to be a trusted, total solutions partner to its customers both internationally and domestically—partnerships that will help fuel Land O'Lakes' continued growth.

## WINFIELD

Every farmer has unique challenges, aspirations and approaches for their operation. The key to success is coming up with ways of making complex farming decisions simpler as a means of helping increase yields. In 2012, Winfield Solutions announced a new brand strategy that better linked its resources to create a powerful support system for today's farmers and empower retail partners to deliver more expertise to more fields.

Four generations operate Gordon Farms in west central Minnesota. Their strategy for success combines inventive solutions with data and recommendations from their trusted WinField master agronomy advisor and local cooperative, West-Con, to improve efficiency and their bottom line.

"When you work with partners like WinField and West-Con, you are able to make informed decisions rather than just hoping for the best, and that's a big difference," said Brian Gordon, co-owner of Gordon Farms.

With WinField, Gordon Farms has a partner that provides the integrated system of expertise, insights, products and programs to help every step of the way.

"My relationship with Gordon Farms is to keep bringing them the tools that help them remain on the cutting edge, help them utilize the tools we've already implemented and then make sure we can gather the data and use that to make decisions for the next year," said Tom Ryan, WinField master agronomy advisor.

By delivering sound advice and strong results, WinField has proven to be a valuable resource for growers.

"When Tom comes to our office, it's like meeting with another partner," said Gordon. "What Tom offers is a solution and the data to back it up, and we've developed a relationship we can trust."

## DAIRY

Land O'Lakes dairy members have always taken pride in producing the high-quality milk responsible for helping build the trusted LAND O LAKES brand and its family of products. That quality raw material has also enabled Land O'Lakes to form strategic partnerships with other major players in food production, including The Hershey Company.

Each year, Land O'Lakes ships nearly 500 million pounds of fluid milk and close to 50 million pounds of non-fat dry milk to Hershey's manufacturing facilities, providing key ingredients for the company's portfolio of iconic brands that include Reese's®, Kit Kat®, Heath®, Whoppers® and many others. "The partnership between Land O'Lakes and Hershey is a long-term, historical relationship that's built on trust and a close day-to-day relationship," said Frank Day, vice president of Global Commodities for The Hershey Company. "Land O'Lakes is a trusted business partner that provides operational excellence and the highest quality products."

The ongoing relationship has been overwhelmingly positive for both companies, as well as Land O'Lakes producer-members. "We all know fluid milk has a short shelf life, and The Hershey Company is dependent on having a high-quality and reliable supply," Day said. "And dairy farmers need to have a trusted partner to purchase their milk on a consistent basis, so it is a symbiotic relationship that benefits everyone involved."

Land O'Lakes supplies ingredients to all of Hershey's North American manufacturing facilities, as well as its facility in China

In recent years, the partnership has expanded with Land O'Lakes providing ingredients to not only all of Hershey's manufacturing facilities in North America, but also the company's facility in China. A development that, Day said, is attributable to Land O'Lakes' ability to consistently meet customer needs. "Land O'Lakes is on the forefront of providing industry-leading services, such as supplying Hershey's international needs and providing cutting-edge risk management solutions."

That ability to meet expectations was recognized in 2011 when Hershey presented Land O'Lakes with the Hershey Galaxy Award, which acknowledged Land O'Lakes' outstanding work in successfully shipping products to Hershey's in China.

## PURINA ANIMAL NUTRITION

The Farmers Elevator Cooperative has been in existence for almost 100 years, starting as a stock company in 1903 and reorganizing into a cooperative in 1921. Its four locations and various businesses have expanded and succeeded in areas like grain storage, fertilizer and livestock feed. Their longstanding partnership with Purina Animal Nutrition continues to help them move forward as a feed retailer and a cooperative.

"We're a long time Land O'Lakes account, and handling Purina® feed has been very good for us and our businesses," said Todd Rosvold. Rosvold is the cooperative's CEO/General Manager and has worked at the co-op's Rushford, Minn., location since February of 2012, but has been in the cooperative system for years. His experience with Purina Animal Nutrition has encompassed the entire cooperative business—not just the selling of the product.

"Purina provides great technical and sales support, all the way from our livestock production specialists to the people in the corporate offices who work with us," said Rosvold. "They know the feed business, and they know our customers."

Farmers Elevator Cooperative sells dairy, beef and hog feed, and takes pride in its customers' appreciation for the longstanding, well-respected Purina brand name.

"It's been key to growing our business," said Rosvold. "We have a good, vibrant feed business and we want to keep it that way. We think that with Purina, we'll continue on a nice track of growth."

# CORPORATE SOCIAL RESPONSIBILITY

Land O'Lakes believes that good corporate citizenship matters and puts that belief into practice by building meaningful, shared value in local and global communities in an ethical, responsible and sustainable manner. Land O'Lakes and its members practically apply sustainability principles to help feed a growing global population, while using fewer natural resources and creating less impact on the environment.

## INTERNATIONAL DEVELOPMENT

Land O'Lakes has continued to exemplify corporate social responsibility in developing nations through hands-on commitments, while simultaneously advancing agricultural development, food security and investment opportunities for the private sector. This year, the Land O'Lakes International Development division successfully completed two monumental programs: one in Sri Lanka, where 4,200 farmers increased their incomes by 75 percent, and another in Malawi, where poverty and hunger for 14,000 people were reduced.

In August, then-Secretary of State Hillary Rodham Clinton visited a Land O'Lakes-supported milk bulking group in Lumbadzi, Malawi, and announced the United States' plan to invest $46 million into Malawi's agricultural value chains.

"We're managing bigger projects, and we are more successful than ever," said Jon Halverson, vice president of Land O'Lakes International Development. "We're examining how to be a more innovative implementer, how to strengthen the ties to the company, and how to explore innovative investment in resource-poor settings."

In 2012, International Development won $57 million in new funding, breaking its previous record. To increase food security and nutrition in parts of Africa, International Development launched three programs funded by the U.S. Agency for International Development. In Kenya, Tanzania and other parts of Sub-Saharan Africa, the programs will promote agricultural innovations for addressing farmer-identified needs. With support from the U.S. Department of Agriculture, the division also started new initiatives to strengthen various value chains including beef, dairy and aquaculture in Mozambique, Bangladesh and Mongolia.

## COMMUNITY RELATIONS

Over the last few years, Land O'Lakes has taken a more strategic approach to its philanthropic initiatives, focusing the cooperative's efforts primarily around hunger alleviation and its Feeding Our Communities initiative.

As part of this initiative, the First Run program increases the amount of product donated to food banks throughout the country to help feed hungry families in areas where Land O'Lakes members and employees live and work. The products are made specifically for donation. In 2012, Land O'Lakes made 13 First Run product donations, which translated to about 600,000 pounds of product distributed to food banks in 13 cities nationwide.

Another way Land O'Lakes has increased donations to food banks is through an innovative project that combines agronomy education and community outreach. Through the Answer Plot® Community Gardens program, Future Farmers of America (FFA) students partnered with Answer Plot® professionals and member cooperatives to grow produce to donate to local food shelves. In its second year, the program expanded from six to 17 gardens, with students growing and harvesting 124,000 servings of fresh produce that were donated to area food shelves.

"Hunger continues to be a significant concern given the challenging economic climate," said Lydia Botham, executive director of the Land O'Lakes Foundation. "We are proud of our strategic partnerships with cooperatives and other companies and agencies around the country as we continue our fight against hunger."

## SUSTAINABILITY

Throughout the cooperative, Land O'Lakes and its members are utilizing a variety of technological advances and modern farming practices to maximize agricultural production as efficiently as possible. Continuing on this path is important because, as the world population increases to an estimated 9 billion by 2050, only 5 percent more arable land is expected to be brought into production and the United Nations estimates two-thirds of the global population will live in water-stressed countries. In order to feed the growing population, agricultural producers will be forced to increase productivity in a sustainable manner, using fewer natural resources.

One way Land O'Lakes is helping accomplish this is by investing in research and development and creating sophisticated technology, innovative products and modern on-farm practices. For example, when producers spray their fields with crop protection products, depending on the conditions, a good portion of the droplets may miss their target due to evaporation, drift or bouncing off. The Spray Analysis System at the Winfield Solutions Product Development Center allows WinField scientists to conduct research to develop new drift reduction and deposition products, optimizing spray efficiency and reducing drift potential. This technology enables WinField to develop products that allow growers to continue to effectively apply crop protection products, which maximizes yield potential and reduces waste.

On the dairy side, Land O'Lakes members are incorporating a variety of on-farm practices to improve their facility's overall efficiency. Among those improvements includes a Pennsylvania producer who installed a manure digester that transforms waste into energy. The digester converts methane from the waste of 220 dairy cattle, 2,000 hogs and 30,000 chickens and turns it into energy. The digester is expected to generate 1.4 million kilowatt hours per year, which is equivalent to supporting the typical electricity needs of 700 people. Other members have incorporated solar panels, more efficient lighting systems, a variety of water conservation methods and several other techniques to ensure they maintain a high level of production while minimizing their environmental impact.

# OUR EMPLOYEES

Dedication. Collaboration. Stewardship. Growth. These are pillars on which the Land O'Lakes community was built. From the farm to the corporate office, Land O'Lakes has created an environment filled with opportunity for employees who benefit from the company's size and market presence, as well as the rich heritage of progress and innovation.

## CORPORATE: KIM ANDERSON

For Consumer Test Kitchen Team Lead Kim Anderson, working for Land O'Lakes' Dairy Foods business gives her the unique ability to collaborate with cross functional teams that bring a wide variety of expertise to the table. After spending nearly three years with the company, she feels like she is part of a strong network working toward a common goal.

"The company identifies new platforms and products that we get to bring to life from scratch," said Anderson. "Working on our recent Sauté Express™ Sauté Starters launch was a great opportunity for us to create a meal-time solution that allows us to grow in new categories that are meaningful to consumers."

Anderson's primary role is supporting the Dairy Foods Retail business, working with Land O'Lakes' new product development and innovations area. Within the Test Kitchens, she supports marketing and research and development, delivering promotional, recipe and consumer usage ideas. She strives to better understand the need for a new innovation, performing ethnographic research and focus groups. Anderson also looks at global flavor profiles to understand the sensory elements that go into expanding into new markets.

## FIELD STAFF: BOB BECK

"I'm a teacher at heart. Anything I can do to help my team members learn their way to a solution puts a smile on my face." Meet Bob Beck, regional agronomist for Winfield Solutions and caretaker of nearly a dozen Answer Plot® locations across the state of Illinois. Beck's role is a complex one, but simply put, he helps producers get the most out of their fields.

"We have a pretty good idea of what our seeds can do, but my role is making sure they perform as we think they should and are achieving their maximum potential," said Beck.

Beck is able to confirm seed performance through the Answer Plot® program, which provides localized crop production insights. In addition, WinField's R7® Tool for crop production, which combines data from Answer Plot® sites, weather information and satellite imagery, helps his growers optimize productivity, profitability and sustainability.

In collaboration with the Land O'Lakes International Development division, Beck took his Answer Plot® insights to the Kenyan version of the program, known as Jibu Plots®. This program helps farmers see—through demonstrations in the field—how to operate their farms more effectively as businesses, while strengthening embedded agronomy services and private sector investment in developing countries.

## MANUFACTURING: SARAH JANZ

Land O'Lakes is dedicated to being a high-performing organization built through the development of a diverse and inclusive workforce, with individuals and teams working to blend a wide range of talents, experiences and perspectives in pursuit of shared goals. Employees like Sarah Janz are proof of this belief. Janz is area plant manager for Purina Animal Nutrition, overseeing Land O'Lakes' facilities in Inver Grove Heights, Minn., Detroit Lakes, Minn., and Spencer, Wis. Each year, Janz's plants are responsible for the production of more than 80,000 tons of lifestyle animal feed, with feeds designed for everything from horses and dairy cows to chinchillas and rabbits.

"For me, part of being successful in a manufacturing environment is having a continuous improvement outlook. Typically, things don't stay constant, so as our industry evolves we need to continue growing or risk falling behind," said Janz. "Part of the manufacturing role and being a manager is looking for those opportunities. The way we change and grow will make us more dynamic and energized about improving our processes because, like any organization, we want to be successful."

# BOARD OF DIRECTORS

Submitted: May 5, 2014

Herbein 000015

# SENIOR STRATEGY TEAM

Front row, left to right

1. **Barry Wolfish**
   Senior Vice President,
   Strategy and Chief
   Marketing Officer

2. **Karen Grabow**
   Senior Vice President,
   Business Development
   Services

3. **Chris Policinski**
   President and
   Chief Executive Officer

4. **Loren Heeringa**
   Senior Vice President, Chief
   Human Resources Officer

5. **Rod Schroeder**
   Executive Vice President,
   Chief Operating Officer
   Crop Protection Products

Back row, left to right

1. **Dan Knutson**
   Executive Vice President,
   Chief Financial Officer

2. **Jerry Kaminski**
   Executive Vice President,
   Group Executive
   Dairy Foods

3. **Carol Kitchen**
   Senior Vice President,
   General Manager
   Global Ingredients

4. **Peter Janzen**
   Senior Vice President,
   General Counsel and
   Chief Administrative Officer

5. **Beth Ford**
   Executive Vice President,
   Chief Supply Chain and
   Operations Officer

6. **Jim Fife**
   Executive Vice President,
   Group Executive
   Ag Businesses

7. **David Hoogmoed**
   Executive Vice President,
   Chief Operating Officer
   Feed

8. **Mike Vande Logt**
   Executive Vice President,
   Chief Operating Officer
   Seed

9. **Barry Libenson**
   Senior Vice President,
   Chief Information Officer

**Land O'Lakes, Inc.**
P.O. Box 64101 St. Paul, MN 55164

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**Submitted: May 5, 2014**

2013 Financial Results

Table of Contents

Financial Overview . . . . . . . . . . . . . . . . . . . . . . . 2
Consolidated Balance Sheets. . . . . . . . . . . . . . . . . . . 4
Consolidated Statements of Operations . . . . . . . . . . . 5
Consolidated Statements of Comprehensive Earnings . . . 5
Consolidated Statements of Cash Flows . . . . . . . . . . . 6
Consolidated Statements of Equities. . . . . . . . . . . . . 7
Notes to Consolidated Financial Statements . . . . . . . . 8
Independent Auditors' Report . . . . . . . . . . . . . . . . 24

# FINANCIAL OVERVIEW

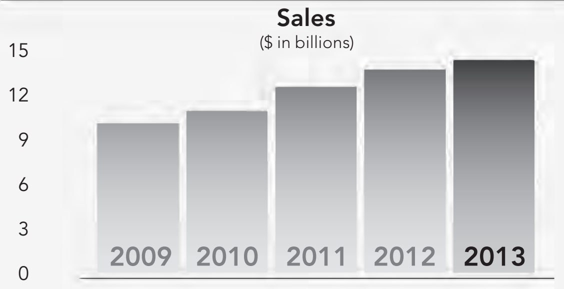
Land O'Lakes, Inc. ("Land O'Lakes" or the "Company") operates in four segments: Dairy Foods, Feed, Crop Inputs and Layers. Dairy Foods develops, produces, markets and sells a variety of premium butter, spreads, cheese, refrigerated desserts and other related dairy products. Feed, through Purina Animal Nutrition LLC, develops, produces, markets and distributes animal feed to both the lifestyle and livestock animal markets. Crop Inputs, which is primarily the operations of Winfield Solutions, LLC, develops, markets and sells seed for a variety of crops (including alfalfa, corn and soybeans) and distributes crop protection products (including herbicides, pesticides, fungicides and adjuvants). Layers, which operates through Moark, LLC, produces, markets and distributes shell eggs.

## SALES AND EARNINGS

**Net Sales** for Land O'Lakes in 2013 were $14.2 billion, compared with $13.6 billion in 2012, an increase of $0.6 billion or four percent ahead of last year. Sales primarily increased in Dairy Foods and Feed.

Dairy Foods sales increased with higher volumes in its retail business due to new product launches and rising markets in milk powders. Feed sales rose primarily due to the effect of higher volume in companion animal formula feed, as well as premix rates and volumes.

**Sales**
($ in billions)




**Net Earnings attributable to Land O'Lakes, Inc.** increased to $306.0 million, compared with $240.4 million in 2012. The earnings growth was driven by Dairy Foods and Layers.

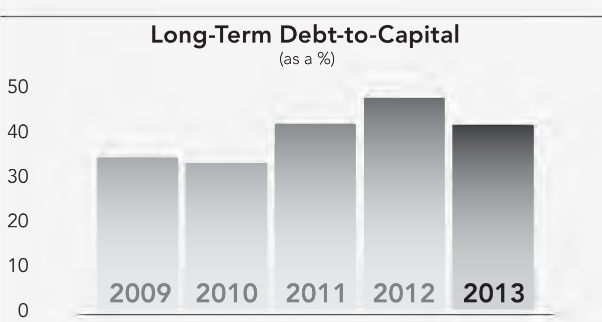
These results include the impact of the year-to-year change in unrealized hedging gains and losses on derivative contracts. In 2013, unrealized hedging gains increased net earnings by $7.1 million, net of income taxes, compared to 2012, where unrealized hedging losses decreased net earnings by $0.5 million, net of income taxes. Unrealized gains and losses in earnings represent the changes in value of futures contracts from one period to another. Based on the accounting rules, the offsetting gain or loss on the underlying commodity purchase or product sale being hedged is excluded from earnings until the transaction is completed.

**Net Earnings Attributable to Land O'Lakes, Inc.**
($ in millions)

Dairy Foods earnings were higher than a year ago, driven by favorable margins in milk powders and improved product mix. Layers earnings improved due to favorable pricing, which absorbed a volume decrease. Feed earnings declined compared to the prior year, due to the impact of lower commodity pricing, ingredient trading losses and hedging losses on corn, soybeans and soymeal. Crop Inputs earnings declined due to decreased volume in corn and soybeans, as well as hedging losses on soybeans compared to gains in the previous year. Earnings from equity in affiliated companies were higher than a year ago primarily due to increased earnings in the Eggland's Best, LLC joint venture.

## FINANCIAL CONDITION

**Long-Term Debt-to-Capital**
(as a %)



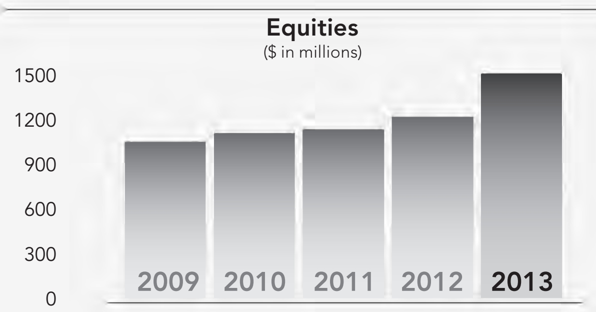

**Debt** includes notes and short-term obligations, the current portion of long-term debt and long-term debt. Notes and short-term obligations at December 31, 2013 were $95.4 million, compared with $160.7 million at December 31, 2012. Long-term debt, including current portion, was $1,104.5 million at December 31, 2013, compared with $1,081.2 million at December 31, 2012.

The Company's primary sources of debt and liquidity at December 31, 2013 included an undrawn $500.0 million receivables securitization facility, $449.0 million available on a $475.0 million revolving credit facility, $325.0 million in 6.24%-6.77% private placement notes, $300.0 million in 6% unsecured senior notes, a $150.0 million term loan and $200.0 million of 7.45% capital securities.

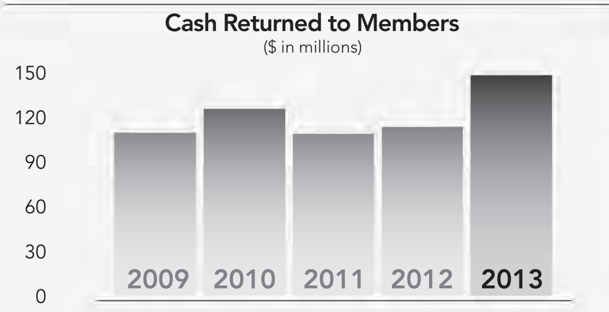
Liquidity, which includes cash and availability under credit facilities, was $1,079.5 million at December 31, 2013, compared with $997.4 million at December 31, 2012.

Land O'Lakes long-term debt-to-capital ratio was 41.0 percent at December 31, 2013, compared with 47.0 percent a year ago.

**Equities** at December 31, 2013 were $1,498.6 million, compared with $1,210.4 million at December 31, 2012. The increase was primarily the result of $306.0 million in net earnings and a $135.4 million reduction in accumulated other comprehensive loss less current period cash to members of $146.9 million.




**Cash returned to members** in 2013 was $146.9 million, compared with $112.5 million in 2012. Members received $79.6 million of equity revolvement, $60.6 million of cash patronage related to the prior year earnings and $6.7 million of age retirement, estate and other payments during the year.

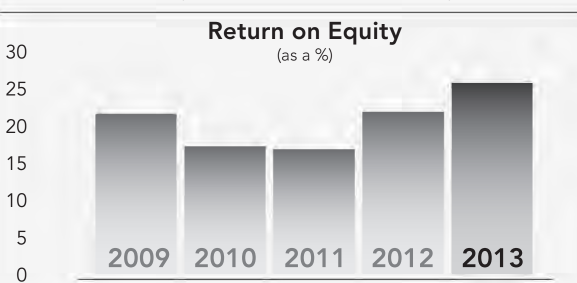



## PERFORMANCE MEASURES

Land O'Lakes is committed to increasing returns to members and enhancing ownership value by improving profitability in each core business through the effective use of invested capital and equity. The Company uses two primary performance measures: return on invested capital ("ROIC") and return on equity ("ROE"). ROIC indicates the operating return on invested capital before considering the costs of financing and income taxes. ROE combines the results of operating performance with the effects of financial leverage and income taxes to measure the return on members' equity in Land O'Lakes.

**Return on invested capital** in 2013 was 12.3 percent, compared with 11.9 percent in the prior year due to higher earnings growth. Land O'Lakes average ROIC for the five-year period ended in 2013 was 11.9 percent.

**Return on equity** in 2013 was 25.6 percent, compared with 21.7 percent in 2012. This increase was driven by higher net earnings in 2013. Average ROE for the five-year period ended in 2012 was 20.5 percent.




## FIVE YEARS IN REVIEW

| ($ in millions) | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Operations:** | | | | | |
| Net Sales | $14,236 | $ 13,642 | $12,426 | $10,780 | $10,033 |
| Earnings before income taxes and discontinued operations | 288 | 252 | 168 | 200 | 236 |
| Net earnings attributable to Land O'Lakes, Inc. | 306 | 240 | 182 | 178 | 209 |
| Allocated patronage equities | 185 | 180 | 124 | 138 | 152 |
| Cash returned to members | 147 | 113 | 108 | 125 | 108 |
| **Financial Position:** | | | | | |
| Working Capital | $ 872 | $ 756 | $ 818 | $ 585 | $ 528 |
| Investments | 335 | 338 | 171 | 169 | 197 |
| Property, plant and equipment | 939 | 965 | 846 | 745 | 704 |
| Total assets | 6,758 | 6,357 | 5,438 | 4,885 | 4,924 |
| Long-term debt | 1,041 | 1,072 | 790 | 529 | 530 |
| Equities | 1,499 | 1,210 | 1,122 | 1,098 | 1,042 |
| **Financial Measures:** | | | | | |
| Return on equity | 25.6% | 21.7% | 16.7% | 17.2% | 21.4% |
| Return on invested capital | 12.3% | 11.9% | 11.3% | 11.9% | 12.1% |
| Long-term debt-to-capital | 41.0% | 47.0% | 41.3% | 32.5% | 33.7% |
| Current Ratio | 1.22 | 1.21 | 1.27 | 1.20 | 1.18 |

# CONSOLIDATED BALANCE SHEETS

| As of December 31 ($ in thousands) | 2013 | 2012 |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 62,843 | $ 66,289 |
| Receivables, net | 1,333,113 | 1,303,398 |
| Inventories | 1,577,475 | 1,508,318 |
| Prepaid assets | 1,555,223 | 1,341,695 |
| Other current assets | 237,122 | 86,308 |
| Total current assets | 4,765,776 | 4,306,008 |
| Investments | 335,456 | 337,884 |
| Property, plant and equipment, net | 939,154 | 964,815 |
| Goodwill, net | 394,067 | 397,277 |
| Other intangibles, net | 196,029 | 178,869 |
| Other assets | 127,728 | 171,891 |
| Total assets | $6,758,210 | $ 6,356,744 |
| **Liabilities and Equities:** | | |
| Current liabilities: | | |
| Notes and short-term obligations | $ 95,406 | $ 160,650 |
| Current portion of long-term debt | 63,411 | 9,460 |
| Accounts payable | 1,353,304 | 1,268,042 |
| Customer advances | 1,836,643 | 1,570,530 |
| Accrued liabilities | 476,552 | 480,297 |
| Patronage refunds and other member equities payable | 68,715 | 61,189 |
| Total current liabilities | 3,894,031 | 3,550,168 |
| Long-term debt | 1,041,088 | 1,071,744 |
| Employee benefits and other liabilities | 324,539 | 524,405 |
| Commitments and contingencies (Note 21) | — | — |
| Equities: | | |
| Capital stock | 860 | 891 |
| Member equities | 1,108,282 | 1,080,669 |
| Accumulated other comprehensive loss | (129,146) | (264,497) |
| Retained earnings | 500,721 | 377,071 |
| Total Land O'Lakes, Inc. equities | 1,480,717 | 1,194,134 |
| Noncontrolling interest | 17,835 | 16,293 |
| Total equities | 1,498,552 | 1,210,427 |
| Total liabilities and equities | $6,758,210 | $ 6,356,744 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Years Ended December 31 ($ in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Net sales** | $ 14,236,449 | $ 13,642,019 | $ 12,426,283 |
| **Cost of sales** | 12,985,993 | 12,439,953 | 11,446,202 |
| Gross profit | 1,250,456 | 1,202,066 | 980,081 |
| Selling, general and administrative | 936,700 | 920,840 | 784,962 |
| Earnings from operations | 313,756 | 281,226 | 195,119 |
| Interest expense, net | 68,180 | 51,912 | 40,710 |
| Other expense (income), net | 1,393 | (506) | 214 |
| Equity in earnings of affiliated companies | (44,247) | (21,938) | (13,964) |
| Earnings before income taxes and discontinued operations | 288,430 | 251,758 | 168,159 |
| Income tax (benefit) expense | (9,581) | 14,551 | (7,423) |
| Net earnings from continuing operations | 298,011 | 237,207 | 175,582 |
| Net earnings from discontinued operations | 7,611 | 3,654 | 8,026 |
| Net earnings | $ 305,622 | $ 240,861 | $ 183,608 |
| Less: net (losses) earnings attributable to noncontrolling interests | (331) | 496 | 1,452 |
| **Net earnings attributable to Land O'Lakes, Inc.** | $ 305,953 | $ 240,365 | $ 182,156 |
| Applied to: | | | |
| Member equities | | | |
| Allocated patronage | $ 184,621 | $ 179,605 | $ 123,597 |
| Deferred equities | — | 1,721 | 2,654 |
| | 184,621 | 181,326 | 126,251 |
| Retained earnings | 121,332 | 59,039 | 55,905 |
| **Net earnings attributable to Land O'Lakes, Inc.** | $ 305,953 | $ 240,365 | $ 182,156 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

| Years Ended December 31 ($ in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net earnings | $ 305,622 | $ 240,861 | $ 183,608 |
| Other comprehensive loss, net of tax: | | | |
| Pension and other postretirement adjustments, net of income taxes | 127,127 | (17,837) | (52,550) |
| Cash flow hedge adjustments, net of income taxes | 7,984 | (1,919) | (8,848) |
| Foreign currency translation adjustments, net of income taxes | 586 | 673 | (1,256) |
| Total other comprehensive earnings (loss) | 135,697 | (19,083) | (62,654) |
| Comprehensive earnings | 441,319 | 221,778 | 120,954 |
| Less: comprehensive earnings attributable to noncontrolling interests | 15 | 15 | 1,452 |
| **Comprehensive earnings attributable to Land O'Lakes, Inc.** | $ 441,304 | $ 221,763 | $ 119,502 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31 ($ in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net earnings | $ 305,622 | $ 240,861 | $ 183,608 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 132,248 | 122,608 | 109,294 |
| Amortization of deferred financing costs | 2,690 | 2,330 | 2,948 |
| Bad debt expense | 3,132 | 5,792 | 8,441 |
| Proceeds from patronage revolvement received | 7,216 | 7,626 | 2,691 |
| Non-cash patronage income | (7,412) | (4,892) | (3,852) |
| Deferred income tax expense | (10,589) | 13,062 | 9,261 |
| Restructuring and impairment | 5,258 | 415 | 1,176 |
| (Gain) loss from divestiture of businesses | (4,480) | (352) | 214 |
| Gain on sale of investments | (2,086) | — | — |
| Equity in earnings of affiliated companies | (44,247) | (21,938) | (13,964) |
| Dividends from investments in affiliated companies | 37,340 | 10,087 | 10,141 |
| Other | (2,190) | (469) | (2,217) |
| Changes in assets and liabilities, net of acquisitions and divestitures: | | | |
| Restricted cash for legal reserve | — | 25,000 | — |
| Receivables | (53,354) | (131,151) | (102,675) |
| Inventories | (90,203) | (121,283) | (170,042) |
| Prepaid and other current assets | (220,743) | (292,383) | (204,135) |
| Accounts payable | 79,268 | 7,421 | 166,645 |
| Customer advances | 266,113 | 368,584 | (66,232) |
| Accrued liabilities | 1,830 | 75,406 | 12,932 |
| Other assets | (380) | 5,676 | 42 |
| Other liabilities | 1,918 | (28,735) | 12,059 |
| Net cash provided (used) by operating activities | 406,951 | 283,665 | (43,665) |
| **Cash flows from investing activities:** | | | |
| Additions to property, plant and equipment | (201,550) | (233,425) | (177,201) |
| Purchase of intangible assets | (400) | (8,858) | — |
| Acquisitions, net of cash acquired | (24,179) | (195,408) | (11,865) |
| Investments in affiliates | (8,465) | (159,716) | (750) |
| Distributions from investments in affiliated companies | — | — | 8,101 |
| Net proceeds from divestiture of businesses | 9,424 | 92,104 | 2,079 |
| Net proceeds from sale of investments | 19,263 | — | — |
| Proceeds from sale of property, plant and equipment | 2,859 | 7,407 | 4,781 |
| Insurance proceeds for replacement assets | 3,602 | — | 1,268 |
| Change in notes receivable | 3,582 | 7,814 | 4,711 |
| Other | (1,975) | — | — |
| Net cash used by investing activities | (197,839) | (490,082) | (168,876) |
| **Cash flows from financing activities:** | | | |
| (Decrease) increase in short-term debt | (64,942) | 45,730 | 29,340 |
| Proceeds from issuance of long-term debt | 9,470 | 296,490 | 210,000 |
| Principal payments on long-term debt and capital lease obligations | (11,473) | (15,874) | (5,050) |
| Payments for debt issuance costs | — | (527) | (4,326) |
| Payments for redemption of member equities | (146,881) | (112,539) | (107,742) |
| Other | 1,268 | (514) | 2,988 |
| Net cash (used) provided by financing activities | (212,558) | 212,766 | 125,210 |
| Net (decrease) increase in cash and cash equivalents | (3,446) | 6,349 | (87,331) |
| Cash and cash equivalents at beginning of year | 66,289 | 59,940 | 147,271 |
| Cash and cash equivalents at end of year | $ 62,843 | $ 66,289 | $ 59,940 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF EQUITIES

| ($ in thousands) | Capital Stock | Member Equities Allocated | Member Equities Deferred | Member Equities Net | Accumulated Other Comprehensive Loss | Retained Earnings | Noncontrolling Interests | Total Equities |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2010** | **$949** | **$1,010,984** | **$(4,375)** | **$1,006,609** | **$ (183,241)** | **$265,682** | **$ 7,681** | **$1,097,680** |
| Capital stock issued | 5 | — | — | — | — | — | — | 5 |
| Capital stock redeemed | (29) | — | — | — | — | — | — | (29) |
| Cash patronage and redemption of member equities | — | (107,742) | — | (107,742) | — | — | — | (107,742) |
| Redemption included in prior year's liabilities | — | 44,621 | — | 44,621 | — | — | — | 44,621 |
| Other, net | — | 1,276 | — | 1,276 | — | (1,253) | 7,367 | 7,390 |
| 2011 earnings, as applied | — | 123,597 | 2,654 | 126,251 | — | 55,905 | 1,452 | 183,608 |
| Other comprehensive loss, net of income taxes | — | — | — | — | (62,654) | — | — | (62,654) |
| Patronage refunds payable | — | (41,245) | — | (41,245) | — | — | — | (41,245) |
| **Balance, December 31, 2011** | **925** | **1,031,491** | **(1,721)** | **1,029,770** | **(245,895)** | **320,334** | **16,500** | **1,121,634** |
| Capital stock issued | 9 | — | — | — | — | — | — | 9 |
| Capital stock redeemed | (43) | — | — | — | — | — | — | (43) |
| Cash patronage and redemption of member equities | — | (112,539) | — | (112,539) | — | — | — | (112,539) |
| Redemption included in prior year's liabilities | — | 41,245 | — | 41,245 | — | — | — | 41,245 |
| Other, net | — | 2,056 | — | 2,056 | — | (2,302) | (222) | (468) |
| 2012 earnings, as applied | — | 179,605 | 1,721 | 181,326 | — | 59,039 | 496 | 240,861 |
| Other comprehensive loss, net of income taxes | — | — | — | — | (18,602) | — | (481) | (19,083) |
| Patronage refunds payable | — | (61,189) | — | (61,189) | — | — | — | (61,189) |
| **Balance, December 31, 2012** | **891** | **1,080,669** | — | **1,080,669** | **(264,497)** | **377,071** | **16,293** | **1,210,427** |
| Capital stock issued | 3 | — | — | — | — | — | — | 3 |
| Capital stock redeemed | (34) | — | — | — | — | — | — | (34) |
| Cash patronage and redemption of member equities | — | (146,881) | — | (146,881) | — | — | — | (146,881) |
| Redemption included in prior year's liabilities | — | 61,189 | — | 61,189 | — | — | — | 61,189 |
| Other, net | — | (2,601) | — | (2,601) | — | 2,318 | 1,527 | 1,244 |
| 2013 earnings, as applied | — | 184,621 | — | 184,621 | — | 121,332 | (331) | 305,622 |
| Other comprehensive earnings, net of income taxes | — | — | — | — | 135,351 | — | 346 | 135,697 |
| Patronage refunds payable | — | (68,715) | — | (68,715) | — | — | — | (68,715) |
| **Balance, December 31, 2013** | **$860** | **$1,108,282** | **$ —** | **$1,108,282** | **$ (129,146)** | **$500,721** | **$17,835** | **$1,498,552** |

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ IN THOUSANDS IN TABLES)

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

**Nature of Operations** Land O'Lakes, Inc. ("Land O'Lakes" or the "Company") is a diversified member-owned food and agricultural cooperative serving agricultural producers throughout the United States. Land O'Lakes manages its business through its four segments: Dairy Foods, Feed, Crop Inputs and Layers. Through the Dairy Foods segment, Land O'Lakes procures approximately 12.9 billion pounds of member milk annually and markets premium butter, spreads, cheese, refrigerated desserts and other dairy products. Feed, through Purina Animal Nutrition LLC ("Purina"), develops, produces, markets and distributes animal feed to both the lifestyle and livestock animal markets. Crop Inputs, which is primarily the operations of Winfield Solutions, LLC ("WinField"), provides member cooperatives, farmers and ranchers with seed for a variety of crops (including corn, soybeans and alfalfa) and distributes crop protection products (including herbicides, pesticides, fungicides and adjuvants). The Layers segment, through the Moark, LLC ("Moark") subsidiary, produces, markets and distributes shell eggs.

**Basis of Presentation**

*Basis of Consolidation* The consolidated financial statements include the accounts of Land O'Lakes and its wholly owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated.

The operations of Moark's West and Midwest regions are presented as discontinued operations in the consolidated statement of operations for all periods presented. The assets comprising the disposal groups meet the criteria to be classified as held-for-sale and have been aggregated and presented in the other current assets line items in the consolidated balance sheets for the current period. Unless otherwise stated, any reference to the consolidated statement of operations items in the notes to the consolidated financial statements refers to results from continuing operations. See Note 20 for further information.

*Fiscal Year* The Company's fiscal year ends on December 31 each year. However, Moark is a wholly owned, consolidated subsidiary with a 52- or 53-week reporting period ending in December. The 2013 and 2011 Moark fiscal years each consisted of 52-week periods and the 2012 Moark fiscal year consisted of a 53-week period.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, allowance for doubtful accounts, sales returns and allowances, vendor rebates receivable, asset impairments, valuation of goodwill and unamortized other intangible assets, tax contingency reserves, deferred tax valuation allowances, trade promotion and consumer incentives and assumptions related to pension and other postretirement plans.

**Revenue Recognition** The Company's revenues are derived from a wide range of products sold to a diversified base of customers. Revenue is recognized when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivables is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Sales include shipping and handling charges billed to customers and are reduced by customer incentives and trade promotion activities, which are estimated based on redemption rates, customer participation and performance levels and historical experience. Estimated product returns in the Company's Crop Inputs segment are deducted from sales at the time of shipment based on various factors, including historical returns and market trends and conditions. For certain crop protection product sales within Crop Inputs, customers receive a one-time, non-repeatable extension of credit for unused purchased product for a defined additional period. For these sales arrangements, revenue related to the unused purchased product is recognized upon collection of the amount re-billed.

The Company periodically enters into prepayment contracts with customers in the Crop Inputs and Feed segments and receives advance payments for product to be delivered in future periods. These payments are recorded as customer advances in the consolidated balance sheet. Revenue associated with customer advances is deferred and recognized as shipments are made and title, ownership and risk of loss pass to the customer.

**Advertising and Promotion Costs** Advertising and promotion costs are expensed as incurred and included in selling, general and administrative expense in the consolidated statements of operations. Advertising and promotion costs were $129.6 million, $93.0 million and $71.7 million in 2013, 2012 and 2011, respectively.

**Research and Development** Expenditures for research and development are charged to selling, general and administrative expense in the year incurred. Total research and development expenses were $72.4 million, $65.7 million and $57.3 million in 2013, 2012 and 2011, respectively.

**Share-based Compensation** The Company offers a Value Appreciation Right ("VAR") Awards plan to certain eligible employees. Participants are granted an annual award of VAR Units, which are not traditional stock. The Company measures its liability for this plan at intrinsic value.

**Environmental Expenditures** Liabilities related to remediation of contaminated properties are recognized when the related remediation costs are considered probable and can be reasonably estimated. Estimates of environmental costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is received. Liabilities are monitored and adjusted as new facts or changes in law or technology occur.

**Income Taxes** Land O'Lakes is a nonexempt agricultural cooperative and is taxed on all nonmember earnings and any member earnings not paid or allocated to members by qualified written notices of allocation as that term is used in section 1388(c) of the Internal Revenue Code. The Company files a consolidated tax return with its fully taxable subsidiaries.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense, when applicable. Deferred income tax assets and liabilities are established based on the difference between the financial statements and income tax carrying values of assets and liabilities using enacted tax rates.

**Cash and Cash Equivalents** Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

**Vendor Rebates Receivable** The Company receives vendor rebates primarily from seed and chemical suppliers. These rebates are usually covered by binding arrangements, which are signed agreements between the vendor and the Company or published vendor rebate programs, but they can also be open-ended, subject to future definition or revisions. Rebates are recorded as earned when probable and reasonably estimable based on terms defined in binding arrangements, or, in the absence of such arrangements, when cash is received. Rebates covered by binding arrangements that are not probable and reasonably estimable are accrued when certain milestones are achieved. Because of the timing of vendor crop year programs relative to the Company's fiscal year end, a significant portion of rebates has been collected prior to the end of the Company's year-end for the prior crop year. The actual amount of rebates recognized, however, can vary year over year, largely due to the timing of when binding arrangements are finalized.

**Inventories** Inventories are valued at the lower of cost or market. Dairy Foods, Feed and Crop Inputs determine cost on an average cost basis. In Layers, flock inventories are valued at amortized cost and the cost of all other inventories is determined on a first-in, first-out basis.

**Vendor Prepayments** The Company prepays a substantial amount for seed and crop protection products, which it will procure and sell at a later date. The Company also accepts prepayments from its customers, which generally exceed the amount it sends to its suppliers. In the event that one of the suppliers to whom a prepayment is made is unable to continue as a going concern or is otherwise unable to fulfill its contractual obligations, the Company may not be able to take delivery of all of the product for which it has made a prepayment and, as a trade creditor, may not be able to reclaim the remaining amounts of cash held by such supplier in its prepaid account.

As of December 31, 2013 and 2012, vendor prepayments for seed and crop protection products, which are presented as prepaid assets in the consolidated balance sheets, were $1,477.6 million and $1,288.6 million, respectively, most of which were concentrated with Monsanto Company and Bayer AG.

**Derivative Commodity Instruments** In the normal course of operations, the Company purchases commodities such as: milk, butter and soybean oil in Dairy Foods; soybean meal and corn in Feed; soybeans, corn and wheat in Crop Inputs; and corn and soybean meal in Layers. Derivative commodity instruments, consisting primarily of futures contracts offered through regulated commodity exchanges, are used to reduce exposure to changes in commodity prices. These contracts are not designated as hedges. The futures contracts are marked-to-market each month and gains and losses ("unrealized hedging gains and losses") are recognized in cost of sales. The Company has established formal limits to monitor its positions.

**Investments** Investments in other cooperatives are stated at cost plus unredeemed patronage refunds received, or estimated to be received, in the form of capital stock and other equities. Estimated patronage refunds are not recognized for tax purposes until notices of allocation are received. Investments in less than 20%-owned companies are generally stated at cost as the Company does not have the ability to exert significant influence. The equity method of accounting is used for investments in other companies, including joint ventures, in which the Company has significant influence, but not control, and voting interests of 20% to 50%. Investments with voting interests that exceed 50% are consolidated. Significant investments, whether accounted for under the cost or equity method, are reviewed regularly to evaluate if they have experienced an other than temporary decline in fair value.

**Property, Plant and Equipment** Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful life (10 to 30 years for land improvements and buildings and building equipment, three to 10 years for machinery and equipment, and three to seven years for software) of the respective assets in accordance with the straight-line method. Accelerated methods of depreciation are used for income tax purposes.

Costs associated with software developed for internal use are capitalized when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Capitalized costs include only external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project and interest costs incurred while developing internal-use software. The Company ceases capitalization of such costs no later than the point at which the project is substantially complete and ready for its intended use.

**Goodwill and Other Intangible Assets** Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets acquired and liabilities assumed.

Other intangible assets consist primarily of trademarks, patents, customer relationships and agreements not to compete. Certain trademarks are not amortized because they have indefinite lives. The remaining other intangible assets are amortized using the straight-line method over their estimated useful lives, ranging from three to 25 years.

**Recoverability of Goodwill and Other Long-lived Assets** The test for goodwill impairment is performed on at least an annual basis. The Company has the option to first perform a qualitative assessment before calculating the fair value of the reporting unit in the first step. If the Company determines, on the basis of qualitative factors, that the fair value of a reporting unit is not more likely than not less than the carrying amount, the two-step impairment test is unnecessary. Otherwise, further testing would be needed. The Company has elected to perform this qualitative assessment on its WinField reporting unit within the Crop Inputs reporting segment and performed the two-step quantitative process for its other reporting units. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step reflects impairment, then the loss would be measured in the second step as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of fair value of the reporting unit over the fair value of all identified assets and liabilities. The test for impairment of unamortized other intangible assets is performed on at least an annual basis. The Company deems unamortized other intangible assets to be impaired if the carrying amount of an asset exceeds its fair value. The fair value of the Company's unamortized trademarks and license agreements is determined using a discounted cash flow model with assumed royalty fees and sales projections. The Company tests the recoverability of all other long-lived assets whenever events or changes in circumstances indicate that expected future undiscounted cash flows might not be sufficient to support the carrying amount of an asset. The Company deems these other assets to be impaired if a forecast of undiscounted future operating cash flows is less than its carrying amount. If these other assets were determined to be impaired, the loss is measured as the amount by which the carrying value of the asset exceeds its fair value.

While the Company currently believes that goodwill and unamortized trademarks are not impaired, materially different assumptions regarding the future performance of its businesses could result in significant impairment losses. Specifically, within Feed and Layers, detrimental changes in the current business conditions could bring about significant differences between actual and projected financial results and cause the Company to incur an impairment loss related to its goodwill or unamortized trademarks.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-11, which amends Balance Sheet (ASC Topic 210) by creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosure requirements were effective for annual reporting periods beginning on or after January 1, 2013 and interim periods therein, with retrospective application required. The adoption of this standard did not have a material impact on the results of financial position, results of operations or cash flow, other than the changes to the disclosures in Note 13.

In February 2013, the FASB issued ASU 2013-02, which amended Comprehensive Income (ASC Subtopic 220-10). This guidance requires entities to disclose additional information about reclassification adjustments out of other comprehensive income, including both changes in accumulated other comprehensive income by component and significant items reclassified out of accumulated other comprehensive income. The guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2013. The Company elected to early adopt this standard in 2013. The adoption of this standard did not have a material impact on the results of operations or financial position, other than the changes to the disclosures in Note 12.

In January 2014, ASU No. 2014-02, which amended Accounting for Goodwill (ASC Topic 350), was issued by the FASB. This ASU provides private companies with an accounting alternative for the subsequent measurement of goodwill. If elected, an entity would amortize goodwill over a maximum of 10 years and test goodwill for impairment at either the entity or the reporting unit level, and the test for impairment would only take place if a triggering event is identified. The standard is effective for annual periods beginning after December 15, 2014, but early adoption is permitted. The Company is currently evaluating the effects of adopting this standard on the consolidated financial statements.

## 4. BUSINESS COMBINATIONS

### 2013 Acquisitions

On September 30, 2013, Winfield Solutions, LLC ("WinField"), a wholly owned subsidiary, acquired the assets of Matrix Turf Solutions, LLC ("Matrix"), a professional products sales organization with its primary focus on golf course turf and landscape maintenance. On December 2, 2013, the Company acquired Geosys SAS ("Geosys"), a French company that specializes in developing and providing decision support services for agriculture professionals through the use of geographic information systems and other forms of information technology. Prior to the acquisition, the Company held a previously recorded equity investment of 9.6%. The following table summarizes the recognized amounts of identifiable assets and liabilities acquired related to these acquisitions based on management estimates:

| | |
|---|---|
| Current assets | $ 7,787 |
| Property, plant and equipment | 1,218 |
| Other intangibles | 15,852 |
| Current liabilities | (9,791) |
| Other liabilities | (1,591) |
| Total fair value of identifiable assets and liabilities | 13,475 |
| Value of previously held equity interest in Geosys | 1,945 |
| Purchase price, net of cash assumed | 26,131 |
| Goodwill | $ 14,601 |

The goodwill related to the Matrix acquisition has been assigned to the Crop Inputs segment and goodwill resulting from the Geosys acquisition is included in the Other/Eliminations segment.

### 2012 Acquisitions

On July 31, 2012, the Company acquired the outstanding shares of Kozy Shack Enterprises, Inc. and its wholly owned subsidiaries (together, "Kozy Shack") for $172.9 million. Kozy Shack manufactures, markets and distributes refrigerated dairy desserts, a product category that the Dairy Foods segment did not participate in prior to the acquisition.

The following table summarizes the recognized amounts of identifiable assets and liabilities acquired related to the Kozy Shack acquisition based upon independent appraisals and management estimates:

| | |
|---|---|
| Current assets | $ 15,207 |
| Property, plant and equipment | 33,603 |
| Other intangibles | 37,500 |
| Current liabilities | (14,495) |
| Total fair value of identifiable assets and liabilities | 71,815 |
| Purchase price, net of cash assumed | 172,919 |
| Goodwill | $101,104 |

Goodwill was calculated as the excess of the purchase price over the fair value of identifiable assets and liabilities acquired. The primary items that generated goodwill were the premiums paid for expected synergies. The goodwill has been assigned to our Dairy Foods segment. The goodwill is expected to be fully deductible for tax purposes. Acquired intangible assets consist of customer relationships, which are being amortized over their estimated useful life of 10 years, and trade names, which have been categorized as indefinite-lived intangible assets.

### 2011 Acquisitions

On November 11, 2011, Moark entered into a lease agreement with DeCoster Enterprises, LLC, New England Agricultural Investment Fund, LLC, Turner Energy, LLC, Contract Farming of Maine, LLC and Maine Contract Farming, LLC (together, the "Sellers") to lease a shell egg production business in the state of Maine. This has been classified as a capital lease and acquisition of a business. The capital lease has a 10-year term with three one-year renewal periods and an option to purchase. Moark completed the transaction to, among other things, secure a supply of brown eggs for its expansion on the East Coast. Cash paid for the transaction was $1.9 million.

The following table summarizes the recognized amounts of identifiable assets and liabilities acquired based upon independent appraisals and management estimates:

| | |
|---|---|
| Inventories | $ 12,938 |
| Property, plant and equipment | 22,147 |
| Other intangibles | 18,000 |
| Accrued liabilities | (147) |
| Total fair value of identifiable assets and liabilities | 52,938 |
| Long-term debt issued as consideration | 61,691 |
| Purchase price, net of cash assumed | 1,865 |
| Goodwill | $ 10,618 |

Goodwill was calculated as the excess of the purchase price over the fair value of identifiable assets and liabilities acquired and has been assigned to our Layers segment. The amount of goodwill expected to be deductible for tax purposes is $10.6 million. The primary items that generated goodwill were the premiums paid for expected synergies. Acquired intangible assets consist of customer relationships, which are being amortized over their estimated useful lives of 15 years. The fair value of the customer relationships was determined using an income approach, whereby the asset's fair value is equal to the present value of the incremental after-tax cash flows attributable solely to the intangible asset over its remaining useful life. The fair value of the capital lease obligation was calculated using a present value calculation based on available information on prevailing market rates for similar securities.

## 5. RECEIVABLES

A summary of receivables at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Trade accounts | $1,085,823 | $1,017,261 |
| Notes and contracts | 109,071 | 132,330 |
| Vendor rebates | 76,330 | 83,633 |
| Other | 74,634 | 87,472 |
| | 1,345,858 | 1,320,696 |
| Less allowance for doubtful accounts | (12,745) | (17,298) |
| Total receivables, net | $ 1,333,113 | $1,303,398 |

A substantial portion of the Company's receivables are concentrated in agriculture as well as in the wholesale and retail food industries. Collection of receivables may be dependent upon economic returns in these industries. The Company's credit risks are continually reviewed, and management believes that adequate provisions have been made for doubtful accounts.

The Company operates a wholly owned subsidiary, LOL Finance Co., which provides operating loans and facility financing to farmers and livestock producers, which are collateralized by the real estate, equipment and livestock of their farming operations. These loans, which relate primarily to dairy, swine, cattle and other livestock production, are presented as notes and contracts for the current portion and as other assets for the noncurrent portion. Total notes and contracts were $179.1 million at December 31, 2013 and $165.8 million at December 31, 2012, of which $100.6 million and $109.9 million, respectively, were the current portions included in the table above. Commitments to extend credit totaled $51.5 million and $51.1 million at December 31, 2013 and 2012, respectively.

A loan is considered impaired, based on current information or events, if it is probable that LOL Finance Co. will be unable to collect all amounts due according to the contractual terms of the loan. Loans reviewed for impairment include loans that are past due, nonperforming or in bankruptcy and all troubled debt restructurings. As of December 31, 2013 and 2012, LOL Finance Co. had a recorded investment of $23.8 million and $25.0 million in impaired loans, respectively. The Company considers a loan past due if any portion of a contractual payment is due and unpaid for more than 60 days. For both impaired loans and loans past due, recognition of income is suspended and the loan is placed on nonaccrual status when management determines that collection of future principal and interest payments is not probable (generally after 120 days past due). Interest income on nonaccrual loans is recorded on a cash basis. Accrual is resumed when the loan becomes contractually current and/or collection doubts are removed.

An allowance for loan losses is maintained to provide for probable losses inherent in the loan portfolio, including the effects of impaired loans. LOL Finance Co. evaluates the collectability of loans on a specific identification basis, based on the amount and quality of the collateral obtained, and records specific loan loss reserves when appropriate. A general reserve is also maintained based on a periodic analysis of the loan portfolio and management considers general economic conditions, loan portfolio composition and historical loss experience. LOL Finance Co.'s total loan loss reserves were $1.3 million and $1.7 million at December 31, 2013 and 2012, respectively.

Vendor rebate receivables are primarily generated as a result of seed and chemical purchases. These receivables can vary significantly from period to period based on a number of factors, including, but not limited to, specific terms and conditions set forth in the underlying agreements, the timing of when such agreements become binding arrangements and the timing of cash receipts. The Company may, on occasion, enter into inventory purchase commitments with vendors in order to achieve an optimal rebate return.

Other receivables include margin receivables from commodity brokers on open derivative instruments, interest and expected insurance settlements.

## 6. INVENTORIES

A summary of inventories at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Raw materials | $ 253,564 | $ 245,059 |
| Work in process | 3,047 | 1,213 |
| Finished goods | 1,320,864 | 1,262,046 |
| Total inventories | $ 1,577,475 | $ 1,508,318 |

## 7. INVESTMENTS

A summary of investments at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Eggland's Best, LLC | $ 127,422 | $ 132,024 |
| AFP advanced food products, LLC | 41,955 | 38,734 |
| GreenPoint Ag, LLC | 38,556 | 33,676 |
| Ag Processing Inc | 26,948 | 27,604 |
| Agri-AFC, LLC | 16,179 | 13,131 |
| Delta Egg Farm, LLC | 11,684 | 13,097 |
| Other — principally cooperatives and joint ventures | 72,712 | 79,618 |
| Total investments | $ 335,456 | $ 337,884 |

As of December 31, 2013, the Company maintained a 50 percent voting interest in numerous joint ventures, including GreenPoint Ag, LLC and Agri-AFC, LLC in Crop Inputs, and Eggland's Best, LLC in Dairy Foods. Moark maintains a 50 percent voting interest in Delta Egg Farm, LLC. The Company also maintained a 35 percent voting interest in AFP advanced food products LLC in Dairy Foods at December 31, 2013. The Company's largest investments in other cooperatives as of December 31, 2013 were Ag Processing Inc and CoBank, ACB ("CoBank").

The Company reviews its investments for indicators of impairment on a periodic basis or if an event occurs or circumstances change to indicate the carrying amount may be other than temporarily impaired. When such indicators are present, the Company performs an in-depth review for impairment. If a decline in fair value below the carrying value is determined to be other than temporary, the carrying value is written down to fair value and the amount of the write-down is included in the consolidated statement of operations. In December 2013, based on the deterioration in the financial results of Universal Cooperatives, Inc. ("Universal"), the Company recorded a $4.6 million impairment of the investment, which was recorded in other income, net on the consolidated statements of operations.

On December 3, 2012, WinField and Tennessee Farmer's Cooperative ("TFC") each invested $35.0 million to create GreenPoint Ag, LLC ("GreenPoint Ag"). Each organization holds a 50 percent ownership interest in GreenPoint Ag. GreenPoint Ag used the contributed cash and the proceeds of bank financing to purchase the assets of Retail Agronomy Solutions, LLC ("RAS"), a wholly owned subsidiary of WinField, and the retail agronomy assets of TFC.

On April 30, 2012, the Company and Eggland's Best, Inc. ("EB") announced the creation of a new branded, specialty egg joint venture in which each organization holds a 50 percent ownership interest. The new joint venture, Eggland's Best, LLC, licenses both the Eggland's Best and the Land O'Lakes brands to EB's franchisees, including Moark, and is accounted for using the equity method of accounting. The Company contributed $121.8 million in exchange for its ownership interest in the joint venture.

The Company owns a 50% ownership interest in Agriliance, LLC ("Agriliance"). Agriliance has essentially ceased its business activities and primarily holds long-term liabilities. As of December 31, 2013, the Company's investment in Agriliance was a negative $4.0 million, which was recorded in employee benefits and other liabilities on the consolidated balance sheet. In 2012, the Company made $45.4 million of cash contributions to Agriliance, which were primarily used to fully fund the Agriliance Employee Retirement Plan ("Agriliance Plan"). In July 2012, the Agriliance Plan spun off half of its plan assets and liabilities to CHS Inc., and the Company adopted the Agriliance Plan, which had retained half of the plan assets and liabilities. Upon adoption, the Agriliance Plan had plan assets and accumulated benefit obligation of $99.7 million and $86.1 million, respectively. The Company recorded the net $13.6 million pension plan asset as a noncash dividend. Of the $45.4 million contributed to Agriliance in 2012, $44.8 million was used to fund the Agriliance Plan and is reflected in net cash provided by operating activities in the consolidated statements of cash flows.

## 8. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment, which includes assets under capital leases, at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Machinery and equipment | $ 971,878 | $ 949,681 |
| Buildings and building equipment | 585,008 | 591,340 |
| Land and land improvements | 95,192 | 99,287 |
| Software | 172,600 | 148,460 |
| Construction in progress | 94,879 | 112,937 |
| | 1,919,557 | 1,901,705 |
| Less accumulated depreciation | 980,403 | 936,890 |
| Total property, plant and equipment, net | $ 939,154 | $ 964,815 |

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

Change in the carrying amount of goodwill by segment for the years ended December 31, 2013 and 2012 are as follows:

| | Dairy Foods | Feed | Crop Inputs | Layers | Other | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2011** | **$ 68,525** | **$124,084** | **$ 66,178** | **$ 34,937** | **$ —** | **$293,724** |
| Acquisitions[a] | 103,054 | 5,107 | 1,700 | (6,023) | — | 103,838 |
| Foreign currency translation | — | — | 379 | — | — | 379 |
| Tax benefit on goodwill amortization[b] | — | — | — | (664) | — | (664) |
| **Balance, December 31, 2012** | **171,579** | **129,191** | **68,257** | **28,250** | **—** | **397,277** |
| Acquisitions[c] | (1,950) | — | 2,304 | — | 12,297 | 12,651 |
| Divestitures[d] | — | (1,695) | — | (497) | — | (2,192) |
| Foreign currency translation | — | — | (3) | — | (27) | (30) |
| Tax benefit on goodwill amortization[b] | — | — | — | (664) | — | (664) |
| Transfers to assets held for sale[e] | — | — | — | (12,975) | — | (12,975) |
| Balance, December 31, 2013 | $169,629 | $127,496 | $ 70,558 | $ 14,114 | $12,270 | $394,067 |

(a) The increase in Dairy Foods, Feed and Crop Inputs goodwill is the result of acquisitions as discussed in Note 4. The adjustment to Layers was for the finalization of purchase accounting entries related to the Maine acquisition.

(b) Within the Layers segment, tax deductible goodwill is in excess of its book goodwill. The tax benefits attributable to the excess tax goodwill are first used to reduce associated goodwill prior to recognizing any income tax benefit in the consolidated statements of operations.

(c) The adjustment to goodwill within Dairy Foods related to a working capital true-up on the 2012 acquisition of Kozy Shack. The increase in Crop Inputs goodwill is related to the acquisition of Matrix in September 2013 and the increase in Other/Eliminations is related to the acquisition of Geosys in December 2013.

(d) In 2013, the Company sold several businesses which were allocated a portion of goodwill.

(e) Transfers related to the classification of the Moark West and Midwest regions as held for sale, as further discussed in Note 20.

**Other Intangible Assets**

A summary of other intangible assets at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Amortized other intangible assets: | | |
| Dealer networks and customer relationships, less accumulated amortization of $18,834 and $13,652, respectively | $ 67,011 | $ 64,814 |
| Intellectual property, less accumulated amortization of $2,294 and $1,470, respectively | 14,874 | 15,698 |
| Patents, less accumulated amortization of $13,899 and $12,823, respectively | 2,812 | 3,888 |
| Trademarks, less accumulated amortization of $6,008 and $4,866, respectively | 1,463 | 2,306 |
| Other intangible assets, less accumulated amortization of $8,454 and $6,475, respectively | 23,344 | 5,638 |
| Total amortized other intangible assets | 109,504 | 92,344 |
| Total indefinite-lived trademarks | 86,525 | 86,525 |
| Total other intangible assets | $ 196,029 | $ 178,869 |

In January 2013, Moark purchased the rights to an existing Eggland's Best franchise covering certain geographies for a cash payment of $2.0 million at close and seven guaranteed minimum annual earn-out amounts of $1.8 million. The guaranteed minimum annual earn-out is subject to additional amounts payable as defined in the agreement. Upon close, Moark received an intangible asset in the amount of $12.8 million, representing the cash paid and discounted minimum annual payments. This intangible will be amortized over 40 years, the expected remaining useful life of the franchise agreement.

Amortization expense for the years ended December 31, 2013, 2012 and 2011 was $9.4 million, $9.2 million and $4.8 million, respectively. The estimated amortization expense related to other intangible assets subject to amortization for the next five years will approximate $8.7 million annually. The weighted-average life of the intangible assets subject to amortization is approximately 11 years and ranges from three years to 40 years. Non-amortizing other intangible assets relate to trademarks in Feed and Dairy Foods, and the majority of the amortizing other intangible assets relate to Feed, Crop Inputs and Layers.

## 10. ACCRUED LIABILITIES

A summary of accrued liabilities at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Employee compensation and benefits | $ 166,637 | $ 175,309 |
| Unrealized hedging losses and deferred option premiums received | 14,707 | 11,950 |
| Marketing programs and consumer incentives | 112,225 | 105,939 |
| Other | 182,983 | 187,099 |
| Total accrued liabilities | $ 476,552 | $ 480,297 |

Other accrued liabilities primarily include accrued taxes, interest, self-insurance reserves and environmental liabilities.

## 11. DEBT OBLIGATIONS

**Notes and Short-term Obligations**

The Company had notes and short-term obligations at December 31, 2013 and 2012 of $95.4 million and $160.7 million, respectively. The Company maintains credit facilities to finance its short-term borrowing needs, including a revolving credit facility and a receivables securitization facility.

The Company's primary sources of debt and liquidity at December 31, 2013 included an undrawn $500.0 million receivables securitization facility, an undrawn $475.0 million revolving credit facility, $325.0 million in 6.24%-6.77% private placement notes, $300.0 million in 6.00% senior notes, a $150.0 million term loan with a variable rate based on LIBOR, swapped to a fixed rate of 4.44%, and $200.0 million of 7.45% capital debt securities.

The Company's $500.0 million receivables securitization facility arranged by CoBank matures in August 2016. The Company and certain wholly owned consolidated entities sell Dairy Foods, Feed, Crop Inputs and certain other receivables to LOL SPV, LLC, a wholly owned, consolidated special purpose entity (the "SPE"). The SPE enters into borrowings that are effectively secured solely by the SPE's receivables. The SPE has its own separate creditors that are entitled to be satisfied out of the assets of the SPE prior to any value becoming available to the Company. Borrowings under the receivables securitization facility bear interest at LIBOR plus 137.5 basis points. At December 31, 2013 and 2012, the SPE's receivables were $943.3 million and $823.8 million, respectively. At December 31, 2013 and 2012, outstanding balances under the facility, recorded as notes and short-term obligations, were $0 and $20.0 million, respectively, and availability was $500.0 million and $480.0 million, respectively.

The Company maintains a $475.0 million revolving credit facility (the "Revolving Credit Facility"). Under the terms of the Revolving Credit Facility, lenders have committed to make advances and issue letters of credit until August 2016 in an aggregate amount not to exceed $475.0 million. Borrowings bear interest at a variable rate (either LIBOR or an Alternative Base Rate) plus an applicable margin. The margin is dependent upon the Company's leverage ratio. Based on the leverage ratio at the end of December 2013, the LIBOR margin for the Revolving Credit Facility was 150.0 basis points. Spreads for the Alternative Base Rate are 100 basis points lower than the applicable LIBOR spreads. LIBOR may be set for one-, two-, three- or six-month periods at the Company's election. At December 31, 2013, there was $0 outstanding on the Revolving Credit Facility and $449.0 million was available after giving effect to $26.0 million of outstanding letters of credit, which reduced availability. At December 31, 2012, there was $0 outstanding on the Revolving Credit Facility and $451.1 million was available after giving effect to $23.9 million of outstanding letters of credit, which reduced availability.

The Company also had $95.4 million and $90.6 million as of December 31, 2013 and 2012, respectively, of notes and short-term obligations outstanding under a revolving line of credit and other borrowing arrangements for a wholly owned subsidiary that provides operating loans and facility financing to farmers and livestock producers. These outstanding notes and short-term obligations are collateralized by the wholly owned subsidiary's loans receivable from the farmers and livestock producers.

Moark also maintains a separate revolving credit facility. Availability under this revolving credit facility was increased to $75.0 million from $50.0 million in May 2013. As a result of the sale of certain assets in December 2013, further described in Note 20, availability decreased to $67.7 million. Borrowings bear interest at a variable rate (either LIBOR or an Alternative Base Rate) plus an applicable margin. At December 31, 2013 and 2012, the outstanding borrowings were $0 and $50.0 million, respectively, and availability was $67.7 million and $0, respectively. Moark's facility is not guaranteed by the Company nor is it secured by Company assets outside of Moark.

The weighted-average interest rate on short-term borrowings and notes outstanding at December 31, 2013 and 2012 was 1.19% and 2.60%, respectively.

**Long-term Debt**

A summary of long-term debt at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Private Placement Notes, due 2016–2021 (6.24%-6.77%) | $ 325,000 | $ 325,000 |
| Senior Notes, due 2022 (6.00%) | 300,000 | 300,000 |
| Capital Securities of Trust Subsidiary, due 2028 (7.45%) | 200,000 | 190,700 |
| Term Loan, due 2021 (variable rate based on LIBOR, swapped into a fixed rate of 4.44%) | 150,000 | 150,000 |
| Moark, LLC debt, due 2011 through 2019 (4.10% weighted average) | 63,276 | 57,925 |
| Moark, LLC capital lease obligations (5.88% weighted average) | 54,949 | 57,914 |
| Other debt, including discounts and fair value adjustments | 11,274 | (335) |
| Total debt | 1,104,499 | 1,081,204 |
| Less current portion | 63,411 | 9,460 |
| Total long-term debt | $1,041,088 | $ 1,071,744 |

The $150.0 million Term Loan (the "Term Loan") is secured on a pari passu basis with the Revolving Credit Facility and the Private Placement Notes by substantially all of the Company's assets and the assets and guarantees of certain of the Company's wholly owned domestic subsidiaries. The Term Loan bears interest at a variable rate based on LIBOR plus a margin of 150 basis points. As of December 31, 2013, the floating interest rate of the Term Loan was 1.69%. At its inception, the Term Loan was hedged via a floating-to-fixed interest rate swap which effectively converts the floating rate into a fixed rate of approximately 4.44%, as discussed in Note 13.

On November 7, 2012, the Company issued $300.0 million of 6.00% senior notes (the "Senior Notes") that mature on November 15, 2022.

In December 2009, the Company entered into a Note Purchase Agreement with certain institutional lenders that governs the issuance of $325.0 million of privately placed notes (the "Private Placement Notes"). The Private Placement Notes were issued and sold in three series, as follows: 1) $155.0 million aggregate principal amount of 6.24% notes, due December 2016, 2) $85.0 million aggregate principal amount of 6.67% notes, due December 2019 and 3) $85.0 million aggregate principal amount of 6.77% notes, due December 2021. The Private Placement Notes are secured on a pari passu basis with the debt issued under the Revolving Credit Facility (described above), by substantially all of the Company's assets and the assets and guarantees of certain of the Company's wholly owned domestic subsidiaries. The Note Purchase Agreement imposes certain restrictions on the Company and certain of its subsidiaries, including, but not limited to, the Company's ability to incur additional indebtedness, make payments to members, make investments, grant liens, sell assets and engage in certain other activities.

In March 1998, the Company issued $200.0 million of Capital Securities through a wholly owned trust subsidiary. The securities are subordinated to all other debt and bear interest at 7.45% maturing on March 15, 2028. In 2000, the Company repurchased certain of these securities and held them in treasury. These securities were sold in May 2013 and as of December 31, 2013 no securities were held in treasury. The outstanding balance of these Capital Securities as of December 31, 2013 and 2012 was $200.0 million and $190.7 million, respectively.

In October 2011, Moark entered into a $60.0 million five-year term loan priced at 3.82%. The funds were used to finance Moark's capital expenditures and for general corporate purposes. Moark's facility is not guaranteed by the Company nor is it secured by Company assets. At December 31, 2013 and 2012, the outstanding principal balance on Moark's term loan was $52.0 million and $56.0 million, respectively. Moark had other outstanding notes of $11.3 million and $1.9 million as of December 31, 2013 and 2012, respectively. With the expected sales of Moark's West and Midwest regions, as is further discussed in Note 20, the Company intends to use the proceeds to pay down debt. As a result, $49.4 million of debt with stated maturities beyond 2014 has been classified as current in the consolidated balance sheet.

At December 31, 2013 and 2012, Moark also had $54.9 million and $57.9 million, respectively, in obligations under capital lease, which represent the present value of the future minimum lease payments. Minimum commitments for Moark's obligations under capital leases at December 31, 2013 total $54.9 million, comprised of $3.3 million in 2014, $4.1 million in 2015, $4.4 million in 2016, $4.7 million in 2017, $5.3 million in 2018 and $33.1 million after 2018.

Substantially all of the Company's assets, excluding assets of Moark and its subsidiaries, have been pledged to its lenders under the terms of the Revolving Credit Facility, the Term Loan and the Private Placement Notes. As of December 31, 2013 and 2012, the Company's debt covenants were all satisfied.

The maturity of long-term debt, including capital leases, for the next five years and thereafter is summarized in the table below:

| Year | Amount |
|---|---|
| 2014 | $ 63,411 |
| 2015 | 14,193 |
| 2016 | 160,963 |
| 2017 | 6,310 |
| 2018 | 7,033 |
| 2019 and thereafter | 852,589 |

Interest paid on debt obligations was $80.1 million, $64.0 million and $54.6 million in 2013, 2012 and 2011, respectively.

## 12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss as of December 31 are as follows:

| | Pension and other postretirement adjustments[(a)] | Cash flow hedge adjustments[(b)] | Foreign currency translation adjustments | Other comprehensive loss attributable to noncontrolling interests | Accumulated other comprehensive loss |
|---|---|---|---|---|---|
| **Balance as of December 31, 2010** | **$(183,624)** | **$ —** | **$ 383** | **$ —** | **$(183,241)** |
| Other comprehensive loss | (106,405) | (14,329) | (2,034) | — | (122,768) |
| Income tax benefit | 40,700 | 5,481 | 778 | — | 46,959 |
| Other comprehensive (loss) earnings before reclassifications, net of tax | (65,705) | (8,848) | (1,256) | — | (75,809) |
| Amounts reclassified into earnings | 21,304 | — | — | — | 21,304 |
| Income tax expense on reclassified amounts | (8,149) | — | — | — | (8,149) |
| **Balance as of December 31, 2011** | **(236,174)** | **(8,848)** | **(873)** | **—** | **(245,895)** |
| Other comprehensive (loss) earnings | (58,971) | (4,494) | 1,090 | 780 | (61,595) |
| Income tax benefit (expense) | 22,557 | 1,719 | (417) | (299) | 23,560 |
| Other comprehensive (loss) earnings before reclassifications, net of tax | (36,414) | (2,775) | 673 | 481 | (38,035) |
| Amounts reclassified into earnings | 30,085 | 1,386 | — | — | 31,471 |
| Income tax expense on reclassified amounts | (11,508) | (530) | — | — | (12,038) |
| **Balance as of December 31, 2012** | **(254,011)** | **(10,767)** | **(200)** | **481** | **(264,497)** |
| Other comprehensive earnings (loss) | 170,735 | 11,704 | 949 | (711) | 182,677 |
| Income tax (expense) benefit | (65,306) | (4,477) | (363) | 272 | (69,874) |
| Other comprehensive earnings (loss) before reclassifications, net of tax | 105,429 | 7,227 | 586 | (439) | 112,803 |
| Amounts reclassified into earnings | 35,139 | 1,226 | — | 150 | 36,515 |
| Income tax expense on reclassified amounts | (13,441) | (469) | — | (57) | (13,967) |
| **Balance as of December 31, 2013** | **$(126,884)** | **$ (2,783)** | **$ 386** | **$ 135** | **$(129,146)** |

(a) The reclassifications out of other comprehensive loss represent the amortization of the actuarial losses, transition obligation and prior service costs, which are included in the computation of net periodic pension cost. See Note 16 for additional details

(b) Reclassifications out of other comprehensive loss for cash flow hedges are gains on the interest rate swap, which are recorded in interest expense, net on the consolidated statements of operations.

## 13. DERIVATIVE INSTRUMENTS

### Commodity Price and Foreign Currency Risk

The Company is exposed to the impact of price fluctuations in dairy and agriculture commodity inputs consumed in operations and the impact of fluctuations in the relative value of currencies. The Company periodically enters into derivative instruments in order to mitigate the effects of changing commodity prices and to mitigate its foreign currency risks.

In the normal course of operations, the Company purchases commodities such as: milk, butter, soybean oil and various energy needs ("energy") in Dairy Foods; soybean meal, corn and energy in Feed and Layers; and soybeans, corn and energy in Crop Inputs. The Company's commodity price risk management strategy is to use derivative instruments to reduce risk caused by volatility in commodity prices due to fluctuations in the market value of inventories and fixed or partially fixed purchase and sales contracts. The Company enters into futures, forward and options contract derivative instruments for periods consistent with the related underlying inventory and purchase and sales contracts. These contracts are not designated as hedges under ASC 815, "Derivatives and Hedging." The futures and option contracts are marked-to-market each month and unrealized hedging gains and losses are primarily recognized in cost of sales. The Company has established formal position limits to monitor its price risk management activities and executes derivative instruments only with respect to those commodities that the Company consumes or produces in its normal business operations.

The unrealized (gains) and losses on derivative instruments related to commodity contracts and foreign currency exchange contracts not designated as hedging instruments for the year ended December 31 are as follows:

| Derivative instrument | Location | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Commodity derivatives | Cost of sales | $(11,794) | $794 | $14,402 |
| Foreign currency exchange contracts | Cost of sales | 439 | (57) | 193 |

### Interest Rate Risk

The Company is also exposed to interest rate volatility with regard to its variable rate debt. To manage its interest rate exposures, the Company entered into a $150.0 million interest rate swap agreement in August 2011 to exchange the variable rate interest payment obligations related to the $150.0 million Term Loan for fixed rate interest payments. The Company has designated this interest rate swap as a cash flow hedging instrument. The effective date of the swap was August 12, 2011 and expires in August 2021. The swap agreement has an effective fixed interest rate of 4.44%. Effective gains and losses are deferred to accumulated other comprehensive income and reclassified into interest expense over the term of the underlying debt. Any ineffectiveness is recorded as interest expense, net. For the years ended December 31, 2013 and 2012, the Company recognized $0 of hedge ineffectiveness. The amount of the existing losses at December 31, 2013 that is expected to be reclassified into the consolidated statements of operations within the next 12 months is $0.5 million.

### Derivative Instruments Additional Information

The notional or contractual amount of derivative instruments provides an indication of the extent of the Company's involvement in such instruments at that time, but does not represent exposure to market risk or future cash requirements under certain of these instruments. The following is the total absolute notional or contractual amount associated with our outstanding derivative instruments:

| | December 31, | |
|---|---|---|
| Derivative instrument | 2013 | 2012 |
| Commodity derivatives | $372,945 | $ 317,712 |
| Foreign currency exchange contracts | 3,845 | 2,570 |
| Interest rate swap | 150,000 | 150,000 |

The gross fair market value of all derivative instruments and their location in the consolidated balance sheet are shown by those in an asset or liability position and are further categorized by commodity, interest rate and foreign currency derivatives. The asset or liability positions of commodity and foreign currency derivatives not designated as hedging instruments are as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Derivative instrument | Asset Derivatives | Liability Derivatives | Asset Derivatives | Liability Derivatives |
| Commodity derivatives[a] | $15,089 | $11,551 | $ 5,849 | $14,427 |
| Foreign currency exchange contracts[a] | — | 302 | 137 | — |
| Total | $15,089 | $11,853 | $ 5,986 | $14,427 |

(a) Asset derivative instruments are recorded in other current assets and liability derivative instruments are recorded in accrued liabilities in the consolidated balance sheets.

The asset or liability positions of interest rate and foreign currency derivatives designated as hedging instruments are as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Derivative instrument | Asset Derivatives | Liability Derivatives | Asset Derivatives | Liability Derivatives |
| Interest rate swap[a] | $ — | $ 4,507 | $ — | $ 17,453 |

(a) Asset derivative instruments are recorded in other assets and liability derivative instruments are recorded in employee benefits and other liabilities in the consolidated balance sheets.

The Company enters into derivative instruments with a variety of counterparties. These instruments are primarily purchased and sold through brokers and regulated commodity exchanges. By using derivative financial instruments to manage exposures to changes in commodity prices and exchange rates, the Company exposes itself to the risk that the counterparty might fail to perform its obligations under the terms of the derivative contracts. The Company mitigates this risk by entering into transactions with high-quality counterparties and does not anticipate any losses due to nonperformance. The Company manages its concentration of counterparty credit risk on derivative instruments prior to entering into derivative contracts by evaluating the counterparty's external credit rating, where available, as well as assessing other relevant information such as current financial statements, credit agency reports and/or credit references. As of December 31, 2013 and 2012, the maximum amount of loss that the Company would incur if the counterparties to derivative instruments fail to meet their obligations, not considering collateral received or netting arrangements, was $15.1 million and $6.0 million, respectively. The Company reviewed its counterparties and believes that a concentration of risk does not exist and that a failure of any or all counterparties would not have a material effect on the consolidated financial statements as of December 31, 2013.

The Company has master netting arrangements with brokers for its exchange-traded futures and options contracts. However, it does not elect to offset fair value amounts recognized for derivative instruments under such master netting arrangements with amounts recognized for margin balances due from or due to brokers. The gross derivative assets and liabilities presented on the Consolidated Balance Sheets and the amount eligible for offset under the master netting arrangements are presented in the following tables:

| | December 31, 2013 | | |
|---|---|---|---|
| | Gross Amounts Recognized on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | Net |
| Assets: | | | |
| Commodity derivatives | $15,089 | $ (8,264) | $6,825 |
| Total assets | $15,089 | $ (8,264) | $6,825 |
| Liabilities: | | | |
| Commodity derivatives | $11,551 | $ (8,264) | $3,287 |
| Foreign currency exchange contracts | 302 | — | 302 |
| Interest rate swap | 4,507 | — | 4,507 |
| Total liabilities | $16,360 | $ (8,264) | $8,096 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Gross Amounts Recognized on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | Net |
| Assets: | | | |
| Commodity derivatives | $ 5,849 | $ (4,642) | $ 1,207 |
| Foreign currency exchange contracts | 137 | — | 137 |
| Total assets | $ 5,986 | $ (4,642) | $ 1,344 |
| Liabilities: | | | |
| Commodity derivatives | $ 14,427 | $ (4,642) | $ 9,785 |
| Interest rate swap | 17,453 | — | 17,453 |
| Total liabilities | $ 31,880 | $ (4,642) | $ 27,238 |

## 14. FAIR VALUE MEASUREMENTS

The carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value on the consolidated balance sheets are as follows as of:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Loans receivable | $177,811 | $175,814 | $164,154 | $165,221 |
| Debt: | | | | |
| Private Placement Notes, due 2016–2021 | 325,000 | 369,173 | 325,000 | 381,136 |
| Senior Notes, due 2022 | 300,000 | 312,337 | 300,000 | 323,384 |
| Capital Securities of Trust Subsidiary, due 2028 | 200,000 | 195,848 | 190,700 | 194,751 |
| Term Loan, due 2021 | 150,000 | 150,000 | 150,000 | 150,000 |
| Moark fixed rate debt, including capital lease obligations | 118,225 | 121,544 | 115,839 | 119,833 |

Unrealized gains and losses on financial derivative instruments are recorded at fair value in the consolidated financial statements.

The fair value of derivative instruments is determined using quoted prices in active markets or is derived from prices in underlying futures markets. The fair value of the interest rate swap was determined based on models that consider various assumptions, including time value, yield curves and other relevant economic measures, which are inputs classified as Level 2 in the valuation hierarchy. The fair value of the cross currency swap was determined based on a model that considers the forward interest rate curve and time value, which are other observable inputs classified as Level 2 in the valuation hierarchy.

The fair value of loans receivable, which are loans made to farmers and livestock producers by the Company's financing subsidiary, was estimated using a present value calculation based on similar loans made or loans repriced to borrowers with similar credit risks. This methodology is used because no active market exists for these loans and the Company cannot determine whether the fair values presented would equal the value negotiated in an actual sale. Due to the estimated spread, the measurement uses significant other unobservable inputs (Level 3 in the fair value hierarchy). The Company manages its credit risk related to these loans by using established credit limits, conducting ongoing credit evaluation and account monitoring procedures, and securing collateral when deemed necessary. Negative economic factors that may impact farmers and livestock producers could increase the level of losses within this portfolio.

The fair value of fixed-rate long-term debt was estimated through a present value calculation based on available information on prevailing market interest rates for similar securities, which are other observable inputs classified as Level 2 in the valuation hierarchy.

The carrying value of financial instruments classified as current assets and current liabilities, such as cash and cash equivalents, trade receivables, accounts payable and notes and short-term obligations, approximate fair value due to the short-term maturity of the instruments. The Company invests its excess cash in deposits with major banks and limits the amounts invested in any single institution to reduce risk. The Company regularly evaluates its credit risk to the extent that financial instruments are concentrated in certain industries or with significant customers and vendors, including the collectability of receivables and prepaid deposits with vendors.

The fair value of certain current and noncurrent notes receivable with a financial statement carrying value of $7.4 million and $2.5 million as of December 31, 2013 and $24.4 million and $2.5 million as of December 31, 2012, respectively, was not estimated because it is not feasible to readily determine the fair value.

ASC 820, "Fair Value Measurements and Disclosures," establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

*Level 1*: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2*: Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

*Level 3*: Inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis:

| | | Fair Value Measurements at December 31, 2013 Using: | | |
|---|---|---|---|---|
| | Fair value[(a)] | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Commodity derivative assets | $15,089 | $11,975 | $ 3,114 | $ — |
| Commodity derivative liabilities | 11,551 | 11,005 | 546 | — |
| Interest rate swap liability | 4,507 | — | 4,507 | — |
| Foreign currency exchange contract assets | 302 | — | 302 | — |

| | | Fair Value Measurements at December 31, 2012 Using: | | |
|---|---|---|---|---|
| | Fair value[(a)] | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Commodity derivative assets | $ 5,849 | $ 4,583 | $ 1,266 | $ — |
| Commodity derivative liabilities | 14,427 | 13,689 | 738 | — |
| Interest rate swap liability | 17,453 | — | 17,453 | — |
| Foreign currency exchange contract assets | 137 | — | 137 | — |

(a) ASC 815-10 permits, but does not require, companies that enter into master netting arrangements to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or the obligation to return cash collateral. The Company has master netting arrangements with brokers for its exchange-traded futures and option contracts; however, it does not elect to offset fair value amounts recognized for derivative instruments under such master netting arrangements with amounts recognized for margin balances due from or due to brokers.

Since commodity derivative forward contracts and the foreign currency exchange forward contracts are not actively traded, they are priced at a fair value derived from an underlying futures market for the commodity or currency. Therefore, they have been categorized as Level 2. The puts, calls and commodity futures are measured at fair value based on quoted prices in active markets and as such are categorized as Level 1.

## 15. INCOME TAXES

The components of the income tax provision for the years ended December 31 are summarized as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current (benefit) expense: | | | |
| Federal | $ (1,058) | $ 417 | $(17,105) |
| State | 707 | 410 | 421 |
| Total current (benefit) expense | (351) | 827 | (16,684) |
| Deferred (benefit) expense: | | | |
| Federal | (10,568) | 11,662 | 8,608 |
| State | 1,338 | 2,062 | 653 |
| Total deferred (benefit) expense | (9,230) | 13,724 | 9,261 |
| Income tax (benefit) expense | $ (9,581) | $14,551 | $ (7,423) |

The effective tax rate differs from the statutory rate primarily as a result of the following:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Statutory rate | 35.0% | 35.0% | 35.0% |
| Patronage refunds | (22.6) | (25.0) | (25.7) |
| Section 199 manufacturing deduction | (6.5) | (4.9) | (5.1) |
| Change in valuation allowance | (5.8) | — | — |
| Outside basis difference on discontinued operations | (5.5) | — | — |
| Tax credits | (1.3) | — | (0.7) |
| State income taxes | 0.5 | 0.6 | 0.7 |
| Change in unrecognized tax benefit accrual | — | — | (9.6) |
| Other, net | 2.9 | 0.1 | 1.0 |
| Effective tax rate | (3.3)% | 5.8% | (4.4)% |

The significant components of the deferred tax assets and liabilities at December 31 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets related to: | | |
| Deferred patronage | $ 32,335 | $ 33,386 |
| Accrued liabilities | 149,130 | 228,824 |
| Allowance for doubtful accounts | 4,851 | 5,123 |
| Asset impairments | 3,977 | 3,977 |
| Joint ventures | 23,272 | 15,149 |
| Loss carryforwards | 2,432 | 1,293 |
| Deferred revenue | 4,014 | 4,792 |
| Deferred tax credits | 6,779 | 3,028 |
| Other | 1,462 | 5,824 |
| Gross deferred tax assets | 228,252 | 301,396 |
| Valuation allowance | — | (16,620) |
| Total deferred tax assets | 228,252 | 284,776 |
| Deferred tax liabilities related to: | | |
| Property, plant and equipment | 116,863 | 113,617 |
| Inventories | 9,578 | 6,841 |
| Intangibles | 54,746 | 42,216 |
| Other | 10,446 | 12,016 |
| Total deferred tax liabilities | 191,633 | 174,690 |
| Net deferred tax assets | $ 36,619 | $110,086 |

ASC 740 requires consideration of a valuation allowance if it is “more likely than not” that benefits of deferred tax assets will not be realized. In 2007, the Company established a valuation allowance of $16.6 million to reduce the Company’s deferred tax asset related to its investment in Agriliance. In 2013, the Company determined that it was more likely than not that the deferred tax asset related to the investment would be realized and, as a result, the valuation allowance was reversed. In making this determination, the Company analyzed, among other things, forecasts, timing and the nature of future earnings and deductions. This decrease is reflected in the income tax benefit for the year ended December 31, 2013.

The net deferred tax assets are classified in the consolidated balance sheets at December 31 as follows:

| | 2013 | 2012 |
|---|---|---|
| Other current assets | $ 67,376 | $ 70,911 |
| Other assets | — | 39,175 |
| Employee benefits and other liabilities | (30,757) | — |
| Total net deferred tax assets | $ 36,619 | $110,086 |

At December 31, 2013 and 2012, the Company had unrecognized tax benefits of approximately $1.5 million and $2.7 million, respectively, including $0 and $0.1 million, respectively, of interest expense. For the years ended December 31, 2013 and 2012, the effective tax rate was impacted by decreases to the reserve of $1.2 million and $0.9 million, respectively, which were recorded in income tax (benefit) expense due to changes in the reserve for unrecognized tax benefits resulting from tax positions taken. The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next 12 months.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years 2009 and prior.

In 2013, CF Industries Holdings, Inc. (“CF”) finalized a Closing Agreement with the Internal Revenue Service, whereby operating loss carryforwards from the 1999 through 2003 tax years could be utilized. As a partial owner of CF during that period, the Company and CF entered into an agreement to receive a portion of the tax savings from these operating loss carryforwards. The company expects to receive a total of $20.0 million in cash payments over the five years that CF is allowed to take the deduction. This income will be recognized over the five year period as CF notifies the Company of the amount that will be distributed. For the year ended December 31, 2013, the Company recognized $4.9 million as a reduction to selling, general and administrative expense.

As of December 31, 2013, the Company had loss and tax credit carryforwards of approximately $6.7 million for tax purposes available to offset future taxable income. If not used, these carryforwards will expire between years 2018 and 2033.

Income taxes paid/(recovered) in 2013, 2012 and 2011 were $4.6 million, $(1.0) million and $4.3 million, respectively. At December 31, 2013 and 2012, prepaid income taxes were $0.5 million and $2.3 million, respectively.

## 16. PENSION AND OTHER POSTRETIREMENT PLANS

The Company has a qualified, defined benefit pension plan, which generally covers all eligible employees hired before January 1, 2006 not participating in a labor-negotiated plan. Plan benefits are generally based on years of service and highest compensation during five consecutive years of employment. Annual payments to the pension trust fund are determined in compliance with the Employee Retirement Income Security Act (“ERISA”). In addition, the Company has a non-contributory, supplemental executive retirement plan and a discretionary capital accumulation plan, both of which are non-qualified, defined benefit pension plans and are unfunded.

The Company also sponsors plans that provide certain health care benefits for retired employees. Generally, employees hired by the Company prior to October 1, 2002 become eligible for these benefits upon meeting certain age and service requirements; employees hired by the Company after September 30, 2002 are eligible for access-only retirement health care benefits at their expense. The Company funds only the plans’ annual cash requirements. The Company changed the retirement medical plan for individuals over age 65 as of January 1, 2014. Instead of participating in the Company’s medical plan, each participant will receive funds based on their calculated benefit in a health reimbursement account to be used for eligible medical expenses. There was no change to retirees under 65 years old or to eligibility requirements.

In 2012, the Company adopted the Agriliance Employee Retirement Plan, a qualified defined benefit pension plan. Upon adoption, the Company recorded plan assets and accumulated benefit obligation of $99.7 million and $86.1 million, respectively, and recorded the net $13.6 million pension plan asset as a noncash dividend. The Company also recorded the other comprehensive loss of $45.6 million, representing half of the Agriliance Plan's other comprehensive loss as of the date of adoption.

**Pension Obligation and Funded Status at December 31**

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Qualified Plan | | Non-qualified Plans | |
| | 2013 | 2012 | 2013 | 2012 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $920,139 | $ 736,698 | $ 87,883 | $ 82,310 |
| Service cost | 16,658 | 15,629 | 2,384 | 1,992 |
| Interest cost | 37,906 | 37,586 | 3,580 | 3,998 |
| Plan amendments | — | — | 347 | — |
| Adoption of Agriliance Employee Retirement Plan | — | 86,072 | — | — |
| Actuarial (gain) loss | (87,616) | 73,661 | (10,310) | 4,764 |
| Benefits paid | (32,718) | (29,507) | (5,693) | (5,181) |
| Benefit obligation at end of year | $854,369 | $ 920,139 | $ 78,191 | $ 87,883 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | $696,505 | $ 542,276 | $ — | $ — |
| Actual return on plan assets | 102,301 | 84,037 | — | — |
| Adoption of Agriliance Employee Retirement Plan | — | 99,699 | — | — |
| Company contributions | 39,600 | — | 5,693 | 5,181 |
| Benefits paid | (32,718) | (29,507) | (5,693) | (5,181) |
| Fair value of plan assets at end of year | $805,688 | $ 696,505 | $ — | $ — |
| Funded status at end of measurement date | $ (48,681) | $ (223,634) | $ (78,191) | $ (87,883) |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| Other assets | $ 522 | $ 22,565 | $ — | $ — |
| Accrued liabilities | — | — | (5,700) | (5,153) |
| Employee benefits and other liabilities | (49,203) | (246,199) | (72,491) | (82,730) |
| Net amount recognized | $ (48,681) | $ (223,634) | $ (78,191) | $ (87,883) |
| Amounts recognized in accumulated other comprehensive loss (pretax) consist of: | | | | |
| Prior service cost | $ 58 | $ 110 | $ 343 | $ (56) |
| Net loss | 185,695 | 356,438 | 24,963 | 38,923 |
| Ending balance | $185,753 | $ 356,548 | $ 25,306 | $ 38,867 |

The accumulated benefit obligation for the Company's defined benefit pension plans was $814.7 million and $871.5 million at December 31, 2013 and 2012, respectively. The accumulated benefit obligation for the Company's non-qualified, defined benefit pension plans was $73.4 million and $79.7 million at December 31, 2013 and 2012, respectively.

The projected benefit obligation and fair value of plan assets for the Company's qualified defined benefit pension plans with benefit obligations in excess of plan assets were $852.3 million and $803.1 million, respectively, at December 31, 2013 and $833.8 million and $587.6 million, respectively, at December 31, 2012.

A financial asset's classification within the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following tables provide the plan's assets fair value measurement hierarchy:

| | | Fair Value Measurements at December 31, 2013 Using: | | |
|---|---|---|---|---|
| | Fair value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable Inputs (Level 3) |
| Cash and cash equivalents | $ 407 | $ 407 | $ — | $ — |
| Short–term investment fund | 22,187 | 22,187 | — | — |
| Common stocks | 33 | 33 | — | — |
| Common collective trusts | 748,187 | — | 748,187 | — |
| Real estate funds | 34,874 | — | — | 34,874 |
| Total plan assets | $805,688 | $ 22,627 | $748,187 | $34,874 |

| | | Fair Value Measurements at December 31, 2012 Using: | | |
|---|---|---|---|---|
| | Fair value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable Inputs (Level 3) |
| Cash and cash equivalents | $ 153 | $ 153 | $ — | $ — |
| Short–term investment fund | 3,094 | 3,094 | — | — |
| Mutual Funds — Bonds | 237,587 | 237,587 | — | — |
| Mutual Funds — Equities | 155,852 | 155,852 | — | — |
| Common stocks | 159,846 | 159,846 | — | — |
| Common collective trusts | 118,631 | — | 118,631 | — |
| Real estate funds | 21,342 | — | — | 21,342 |
| Total plan assets | $696,505 | $556,532 | $118,631 | $ 21,342 |

The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for the years ended December 31, 2013 and 2012:

| | Real Estate Funds |
|---|---|
| **Balance at December 31, 2011** | **$ —** |
| Adoption of Agriliance Employee Retirement Plan | 562 |
| Purchases, sales and settlements, net | 20,678 |
| Return on plan assets | 102 |
| **Balance at December 31, 2012** | **21,342** |
| Transfers in | 8,886 |
| Purchases, sales and settlements, net | 2,863 |
| Return on plan assets | 1,783 |
| **Balance at December 31, 2013** | **$34,874** |

The short-term investment fund is comprised of interest-bearing cash accounts and is typically the result of temporary timing differences between receipts from other investments and reinvestment of those funds or benefit payments to plan participants. Investments in common stocks consist of various publicly traded common stocks. These investments are valued at the closing price reported in the active market in which the individual securities are traded. The common collective trusts are valued at the net asset value ("NAV") as determined by the custodian of the fund. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, then divided by the number of units outstanding. Of the amounts reported at net asset value, all of those investments are redeemable with the fund at NAV under original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds, and consequently, the fair value of the funds. The real estate funds are valued quarterly at estimated fair value based on the underlying properties in which the real estate funds invest. The information is compiled, in addition to any other assets and liabilities (accrued expenses and unit-holder transactions), to determine the funds' unit value. The real estate funds are not traded on an active market and are classified within Level 3 of the fair value hierarchy.

**Postretirement Obligation and Funded Status at December 31**

| | Other Postretirement Benefits | |
|---|---|---|
| | 2013 | 2012 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 57,141 | $ 57,985 |
| Service cost | 748 | 726 |
| Interest cost | 1,925 | 2,801 |
| Plan participants' contributions | 2,515 | 2,412 |
| Medicare Part D reimbursements | 631 | 888 |
| Actuarial (gain) loss | (6,548) | 70 |
| Plan amendments | (14,259) | — |
| Benefits paid | (6,700) | (7,741) |
| Benefit obligation at end of year | $ 35,453 | $ 57,141 |
| Change in plan assets: | | |
| Company contributions | $ 3,554 | $ 4,441 |
| Plan participants' contributions | 2,515 | 2,412 |
| Medicare Part D reimbursements | 631 | 888 |
| Benefits paid | (6,700) | (7,741) |
| Fair value of plan assets at end of year | $ — | $ — |
| Funded status at end of measurement date | $(35,453) | $ (57,141) |
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Accrued liabilities | $ (2,806) | $ (4,288) |
| Employee benefits and other liabilities | (32,647) | (52,853) |
| Net amount recognized | $(35,453) | $ (57,141) |
| Amounts recognized in accumulated other comprehensive income (pretax) consist of: | | |
| Prior service credit | $(12,569) | $ — |
| Net actuarial loss | 6,159 | 13,585 |
| Ending balance | $ (6,410) | $ 13,585 |

Components of net periodic benefit cost are as follows:

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Service cost | $ 18,834 | $ 17,621 | $ 17,915 | $ 747 | $ 726 | $ 663 |
| Interest cost | 41,487 | 41,584 | 39,540 | 1,925 | 2,801 | 2,812 |
| Expected return on assets | (51,176) | (47,512) | (45,646) | — | — | — |
| Amortization of actuarial loss | 35,741 | 28,721 | 20,410 | 879 | 993 | 490 |
| Amortization of prior service cost (credit) | 1 | (21) | (24) | (1,689) | — | — |
| Amortization of transition obligation | 207 | — | — | — | 392 | 428 |
| Net periodic benefit cost | $ 45,094 | $ 40,393 | $ 32,195 | $ 1,862 | $4,912 | $ 4,393 |

The following table sets forth the plans' estimated amortization in fiscal 2014 from accumulated other comprehensive income into net periodic benefit costs:

| | Qualified Pension Plans | Non-qualified Pension Plans | Other Postretirement Benefits |
|---|---|---|---|
| Amortization of actuarial loss | $18,490 | $2,180 | $ 293 |
| Amortization of prior service cost (credit) | 52 | 11 | (2,253) |
| Net periodic benefit cost | $18,542 | $2,191 | $(1,960) |

**Additional Information**

Weighted-average assumptions used to determine benefit obligations at December 31:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 5.00% | 4.20% | 5.00% | 4.20% |
| Rate of compensation increase | 3.25% | 3.25% | N/A | N/A |

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Discount rate | 4.20% | 4.97% | 5.50% | 4.20% | 5.00% | 5.00% |
| Rate of long-term return on plan assets | 7.50% | 7.75% | 8.25% | N/A | N/A | N/A |
| Rate of compensation increase | 3.25% | 3.75% | 3.75% | N/A | N/A | N/A |

The Company employs a building-block approach in determining the long-term rate of return for the assets in the qualified, defined benefit pension plan. Historical markets are studied and long-term historical relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. Diversification and rebalancing of the plan assets are properly considered as part of establishing the long-term portfolio return. Peer data and historical returns are reviewed to assess for reasonableness.

The Company determined its discount rate assumption at year-end based on a hypothetical double A yield curve represented by a series of annualized individual discount rates from one-half to 30 years.

**Assumed health care cost trend rates at December 31:**

| | 2013 | 2012 |
|---|---|---|
| Health care cost trend rate assumed for next year | 7.50% | 8.00% |
| Rate to which the cost trend is assumed to decline (ultimate trend rate) | 5.00% | 5.00% |
| Year that rate reaches ultimate trend rate | 2022 | 2019 |

Assumed health care cost trend rates affect the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate at December 31, 2013 would have the following effects:

| | 1 percentage point increase | 1 percentage point decrease |
|---|---|---|
| Effect on total of service and interest cost | $ 2 | $ 2 |
| Effect on postretirement benefit obligation | 39 | 35 |

**Plan Assets**

The Company's qualified, defined benefit pension plan weighted-average asset allocations at December 31, 2013 and 2012, by asset category, are as follows:

| Asset category | 2013 | 2012 | Target |
|---|---|---|---|
| U.S. equity securities | 19% | 37% | 19% |
| International equity securities | 19% | 24% | 19% |
| Global equity securities | 12% | — | 12% |
| Fixed-income securities and bonds | 46% | 34% | 46% |
| Real estate and private equity | 4% | 5% | 4% |
| Total | 100% | 100% | 100% |

The Company has a Statement of Pension Investment Policies and Objectives (the "Statement") that guides the retirement plan committee in its mission to effectively monitor and supervise the pension plan assets. Two general investment goals are reflected in the Statement:

1) the investment program for the pension plan should provide returns that improve the funded status of the plan over time and reduce the Company's pension costs, and 2) the Company expects to receive above-average performance relative to applicable benchmarks for the actively managed portfolios and track the applicable benchmarks for the passive or index strategies. All portfolio strategies will be provided at competitive, institutional management fees. The total fund's annualized return before fees should exceed, by one percentage point, over a five-year horizon, the annualized total return of the following customized index: 1) 27% Russell 1000 Index, 2) 10% Russell 2000 Index, 3) 23% MSCI AC World ex-U.S., 4) 25% Barclays Capital Aggregate Index, 5) 10% Barclays Capital Long Term Gov't/Credit Bond Index and 6) 5% NCREIF ODCE Index, and the fund should rank in the top 50th percentile of the total pension fund universe.

Although not a guarantee of future results, the total plan assets' 20-year annualized return through December 31, 2013 after fees was 8.15%, which exceeded the customized index by 0.24 percentage points and ranked in the 50th percentile of the Hewitt Associates pension fund universe. The 2013 total plan assets' annualized return was 14.80%, which exceeded the customized index by 1.87 percentage points and ranked in the 34th percentile of the Hewitt Associates pension fund universe. The total plan assets' five-year annualized return was 13.76%, which exceeded the customized index by 1.20 percentage points and ranked in the 18th percentile of the Hewitt Associates pension fund universe.

### Cash Flow

The Company expects to contribute approximately $25.0 million to its defined benefit pension plans and $8.6 million to its other postretirement benefits plan in 2014.

The benefits anticipated to be paid from the benefit plans, which reflect expected future years of service, are as follows:

| | Qualified Pension Plans | Non-qualified Pension Plans | Other Postretirement Benefits |
|---|---|---|---|
| 2014 | $ 37,412 | $ 5,768 | $ 2,806 |
| 2015 | 39,761 | 6,335 | 2,910 |
| 2016 | 42,365 | 5,585 | 2,883 |
| 2017 | 45,398 | 5,841 | 2,850 |
| 2018 | 47,704 | 5,584 | 2,817 |
| 2019-2023 | 282,978 | 36,369 | 13,177 |

### Multiemployer Pension Plans

The Company contributes to multiemployer defined contribution pension benefit plans under the terms of collective-bargaining agreements that cover certain unionized employee groups in the United States. The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The Company's participation in multiemployer pension plans for the year ended December 31, 2013 is outlined in the table below. The "EIN/PN" column provides the Employee Identification Number ("EIN") and the three-digit plan number ("PN"). The most recent Pension Protection Act ("PPA") zone status available for 2013 and 2012 is for the plan year-ends as indicated below. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. In addition, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement(s) ("CBA") to which the plans are subject.

| | | PPA Zone Status | | FIP/RP Status Pending/ | Contributions by the Company | | | Surcharge | Expiration Date of |
|---|---|---|---|---|---|---|---|---|---|
| Pension Fund | EIN/PN | 2013 | 2012 | Implemented | 2013 | 2012 | 2011 | Imposed | CBA |
| Central States, Southeast and Southwest areas Pension Fund[(a)] | 36-6044243 / 001 | Red | Red | RP Implemented | $2,950 | $2,849 | $2,758 | No | 2/28/2014 to 10/1/2014 |
| Western Conference of Teamsters Pension Plan | 91-6145047 / 001 | Green | Green | N/A | 3,177 | 3,328 | 3,072 | No | 8/1/2015 |
| Other plans | | | | | 346 | 320 | 274 | | |
| Total Contributions | | | | | $6,473 | $6,497 | $6,104 | | |

(a) The Company is party to multiple CBAs requiring contributions to this fund, each with its own expiration date. Approximately 55 percent of the Company's participants in this fund are covered by a single CBA that expires on April 30, 2014.

Our contributions to these plans did not exceed 5% of total plan contributions for the plan years ended 2012 and 2011, the most recently available Forms 5500 for these plans.

### Other Benefit Plans

Certain eligible employees are covered by defined contribution plans. The expense for these plans was $34.3 million, $29.3 million and $27.3 million for 2013, 2012 and 2011, respectively.

## 17. SHARE-BASED COMPENSATION

Accounting for share-based payments requires the recognition of the intrinsic value of share-based compensation in net earnings. Share-based compensation consists solely of VAR Units granted to certain eligible employees under a Company-sponsored incentive plan (the "VAR plan"). The Units are not traditional stock and do not provide the recipient any voting rights in the Company nor any right to receive assets of the Company. A maximum of 200,000 Units may be granted annually to certain employees at a price based on a formula that includes earnings, debt levels and cash payments to members for the five-year period ending at the close of the preceding year. In 2011, the VAR plan was amended to increase the annual grant limit for 2011 only to 250,000 Units. Generally, Units fully vest four years from the grant date per the VAR plan. Vested Units are settled upon the earlier of a predetermined date chosen by the employee at the date of grant, retirement or termination. Participants can also elect to settle, per the VAR plan provisions, by converting fully vested Units to interest-bearing deferred compensation. The Company recognizes compensation expense for the estimated intrinsic value appreciation of Units over the vesting period using the graded vesting method. The Units are reflected as a liability in the consolidated balance sheets.

For the years ended December 31, 2013, 2012 and 2011, compensation expense for the share-based payment plan was $1.7 million, $2.2 million and $5.6 million, respectively. Cash payments for Units settled for 2013, 2012 and 2011 were $10.6 million, $5.8 million and $8.6 million, respectively. The actual income tax benefit realized from this plan was $4.0 million, $2.3 million and $3.3 million, for 2013, 2012 and 2011, respectively.

For 2013, the number of Units granted, canceled and settled in cash was 88,925, 10,388 and 126,856, respectively. The number of Units converted to interest-bearing deferred compensation was 9,700 with an intrinsic value of $0.8 million. The number of Units vested during 2013 was 107,675 with an intrinsic value of $1.2 million. The number of vested Units outstanding at December 31, 2013 was 381,577 with an intrinsic value of $19.4 million. The number of non-vested Units at December 31, 2013 was 175,100, and the total remaining unrecognized compensation cost related to non-vested Units was $0.5 million. As of December 31, 2013, 117,306 of the non-vested Units were held by participants who had reached the age and years of service required for early retirement eligibility. For any such participant, prior to the date that the non-vested Units will vest through the normal course, the non-vested Units will immediately vest upon the voluntary termination of the participant. As of December 31, 2013, the weighted-average remaining service period for the non-vested Units was 2.4 years.

For 2012, the number of Units granted, canceled and settled in cash was 71,100, 1,917 and 58,725, respectively. The number of Units converted to interest-bearing deferred compensation was 17,625 with an intrinsic value of $1.7 million. The number of Units vested during 2012 was 134,633 with an intrinsic value of $2.0 million. The number of vested Units outstanding at December 31, 2012 was 419,533 with an intrinsic value of $26.9 million. The number of non-vested Units at December 31, 2012 was 196,063, and the total remaining unrecognized compensation cost related to non-vested Units was $1.2 million. As of December 31, 2012, 20,350 of the non-vested Units were held by participants who had reached the age and years of service required for early retirement eligibility. For any such participant, prior to the date that the non-vested Units will vest through the normal course, the non-vested Units will immediately vest upon the voluntary termination of the participant. As of December 31, 2012, the weighted-average remaining service period for the non-vested Units was 2.2 years.

For 2011, the number of Units granted, canceled and settled in cash was 249,625, 12,956 and 95,172, respectively. The number of Units converted to interest-bearing deferred compensation was 29,297 with an intrinsic value of $2.1 million. The number of Units vested during 2011 was 63,294 with an intrinsic value of $2.8 million. The number of vested Units outstanding at December 31, 2011 was 364,126 with an intrinsic value of $33.3 million. The number of non-vested Units at December 31, 2011 was 258,600, and the total remaining unrecognized compensation cost related to non-vested Units was $2.3 million. As of December 31, 2011, 19,500 of the non-vested Units were held by participants who had reached the age and years of service required for early retirement eligibility. For any such participant, prior to the date that the non-vested Units will vest through the normal course, the non-vested Units will immediately vest upon the voluntary termination of the participant. As of December 31, 2011, the weighted-average remaining service period for the non-vested Units was 2.5 years.

## 18. EQUITIES

The authorized capital stock at December 31, 2013 consisted of 2,000 shares of Class A Common, $1,000 par value; 50,000 shares of Class B Common, $1 par value; 500 shares of non-voting Class C Common, $1,000 par value; and 10,000 shares of non-voting Class D Common, $1 par value.

The following table reflects the activity in membership shares during the three years ended December 31:

| | Number of Common Shares | | | |
|---|---|---|---|---|
| | A | B | C | D |
| **December 31, 2010** | **794** | **3,661** | **151** | **799** |
| New members | 2 | 133 | 3 | 61 |
| Transfers between classes | 1 | (115) | (1) | 115 |
| Redemptions | (22) | (352) | (7) | (160) |
| **December 31, 2011** | **775** | **3,327** | **146** | **815** |
| New members | 4 | 191 | 5 | 92 |
| Transfers between classes | 1 | (1) | (1) | 1 |
| Redemptions | (36) | (330) | (7) | (104) |
| **December 31, 2012** | **744** | **3,187** | **143** | **804** |
| New members | 1 | 130 | 2 | 76 |
| Transfers between classes | (1) | 14 | 1 | (14) |
| Redemptions | (31) | (430) | (3) | (88) |
| **December 31, 2013** | **713** | **2,901** | **143** | **778** |

Allocated patronage to members of $184.6 million, $179.6 million and $123.6 million for the years ended December 31, 2013, 2012 and 2011, respectively, is based on earnings in specific patronage or product categories and in proportion to the business each member does within each category. For 2013, the Company issued $184.6 million of qualified patronage and $0 of non-qualified patronage equities. Qualified patronage equities are tax deductible by the Company when qualified written notices of allocation are issued, and non-qualified patronage equities are tax deductible when redeemed with cash.

The allocation to retained earnings of $121.3 million in 2013, $59.0 million in 2012 and $55.9 million in 2011 represents earnings or losses generated by non-member businesses plus amounts under the retained earnings program as provided in the bylaws of the Company.

## 19. OTHER EXPENSE (INCOME), NET

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Impairment of investment | $ 4,570 | $ — | $ — |
| Gain on sale of investments, net | (2,086) | — | — |
| (Gain) loss on divestiture of businesses | (1,086) | (352) | 214 |
| Other | (5) | (154) | — |
| Total | $ 1,393 | $ (506) | $214 |

In 2013, the Company impaired its investment in Universal by $4.6 million. See Note 7 for further information. Also in 2013, Feed sold its ownership interest in various investments and a feed mill for gains of $2.1 million and $1.1 million, respectively.

## 20. DISCONTINUED OPERATIONS

During the fourth quarter of 2013, the Company adopted a plan to divest of substantially all of the assets and liabilities of the West and Midwest regions of Moark ("disposal groups"), which were historically reported in the Layers segment. The two regions will be sold in separate transactions that are expected to take place in 2014. In the West region, the Company expects to enter into a supply agreement with the buyer through the end of 2014, at which time the leases on the production facilities will expire. The assets of the disposal groups were recorded in the other current assets line items on the consolidated balance sheets as of December 31, 2013. The operations of the West and Midwest regions are reflected in discontinued operations on the consolidated statements of operations for all periods presented, including an allocation of Moark's interest expense.

In December 2013, Moark sold branded egg franchise rights and a feed mill in the West region for $6.3 million in cash, resulting in a gain of $2.9 million. The operations of these businesses and the gains from the sales are reflected in earnings from discontinued operations.

Results of discontinued operations for the years ended December 31 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | $444,069 | $474,195 | $ 423,038 |
| Earnings from discontinued operations before income taxes | 10,817 | 5,916 | 12,998 |
| Gain on sale | 2,871 | — | — |
| Income tax expense | (6,077) | (2,262) | (4,972) |
| Earnings from discontinued operations, net of income taxes | $ 7,611 | $ 3,654 | $ 8,026 |

The assets of the disposal groups were reflected in other current assets in the consolidated balance sheet as of December 31, 2013, and are comprised of the following:

| | 2013 |
|---|---|
| Inventories | $ 22,814 |
| Prepaid assets | 1,100 |
| Property, plant and equipment, net | 110,260 |
| Goodwill | 12,975 |
| Other intangibles, net | 2,274 |
| Other assets | 389 |
| Total assets held for sale of the West and Midwest | $149,812 |

As a result of these anticipated transactions and Moark's intent to use the proceeds to pay down its term loan, Moark's long-term debt is reflected as current in the consolidated balance sheet as of December 31, 2013.

## 21. COMMITMENTS AND CONTINGENCIES

The Company leases various equipment and real properties under long-term operating leases. Total rental expense was $101.6 million in 2013, $93.7 million in 2012 and $96.7 million in 2011. Most of the leases require payment of operating expenses applicable to the leased assets. Management expects that in the normal course of business most leases that expire will be renewed or replaced by other leases.

Minimum future lease commitments required under noncancelable operating leases at December 31, 2013 are as follows:

| Year | Amount |
|---|---|
| 2014 | $ 36,591 |
| 2015 | 34,426 |
| 2016 | 26,800 |
| 2017 | 16,495 |
| 2018 | 8,005 |
| Thereafter | 24,551 |
| Total minimum future lease payments | $146,868 |

The Company has noncancelable commitments to purchase raw materials in Dairy Foods, Feed and Crop Inputs. These purchase commitments are contracted on a short-term basis, typically one year or less, and totaled $3.0 billion at December 31, 2013. Of this amount, $2.7 billion relates to contracts with members to acquire raw milk. The Company has also contracted commitments to purchase weaner and feeder pigs, which are sold to producers or local cooperatives under long-term supply contracts. At December 31, 2013, future minimum payments under noncancelable purchase obligations are as follows:

| Year | Raw Materials Purchase Obligations | Swine Purchase Obligations | Other Contractual Obligations | Total Purchase Obligations |
|---|---|---|---|---|
| 2014 | $ 2,996,297 | $ 53,817 | $ 4,363 | $ 3,054,477 |
| 2015 | 24,065 | — | 3,188 | 27,253 |
| 2016 | 8,945 | — | 12 | 8,957 |
| Total | $3,029,307 | $53,817 | $7,563 | $3,090,687 |

The Company is currently and from time to time involved in litigation and environmental claims incidental to the conduct of business. The damages claimed in some of these cases are substantial.

In a letter dated January 18, 2001, the Company was identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party in connection with hazardous substances and wastes at the Hudson Refinery Superfund Site in Cushing, OK (the "Site"). The letter invited the Company to enter into negotiations with the EPA for the performance of a remedial investigation and feasibility study at the Site and also demanded that the Company reimburse the EPA approximately $8.9 million for removal costs already incurred at the Site. In March 2001, the Company responded to the EPA denying any responsibility with respect to the costs incurred for the remediation expenses incurred through that date. On February 25, 2008, the Company received a Special Notice Letter ("Letter") from the EPA inviting the Company to enter into negotiations with the EPA to perform selected remedial action for remaining contamination and to resolve the Company's potential liability for the Site. In the Letter, the EPA claimed that it has incurred approximately $21.0 million in response costs at the Site through October 31, 2007 and is seeking reimbursement of these costs. The EPA has also stated that the estimated cost of the selected remedial action for remaining contamination is $9.6 million. The Company maintains that the costs incurred by the EPA were the direct result of damage caused by owners subsequent to the Company, including negligent salvage activities and lack of maintenance. On January 6, 2009, the EPA issued a Unilateral Administrative Order ("UAO") directing the Company to perform remedial design and remedial action ("RD/RA") at the Site. The Company filed its Notice of Intent to Comply with the UAO on February 10, 2009. On April 20, 2009, the EPA issued its authorization to proceed with RD/RA activities. The Company substantially completed the remedial action at the Site on October 8, 2010, but final closeout remediation activities continued into 2013. In addition, the Company analyzed the amount and extent of its insurance coverage that may be available to further mitigate its ultimate exposure. At the present time, the Company's request for coverage has been denied. The Company initiated litigation against two carriers on February 18, 2009. In 2013, the Company entered into a settlement agreement with one of those carriers. In the years ended December 31, 2013, 2012 and 2011, the Company increased its environmental reserves related to this matter by $0.9 million, $0.9 million and $0.6 million, respectively, with the expense in selling, general and administrative expense. As of December 31, 2013 and 2012, $2.2 million and $2.4 million, respectively, remained in accrued liabilities in the Company's consolidated balance sheets.

On October 27, 2008, Moark and its wholly owned subsidiary, Norco Ranch, Inc. ("Norco"), received Civil Investigative Demands from the Office of the Attorney General of the State of Florida seeking documents and information relating to the production and sale of eggs and egg products. Moark and Norco are cooperating with the Office of the Attorney General of the State of Florida. We cannot predict what, if any, the impact of this inquiry and any results from such inquiry could have on the future financial position or results of operations of Moark, Norco or the Company.

Between September 2008 and January 2009, a total of 22 related class action lawsuits were filed against a number of producers of eggs and egg products in three different jurisdictions alleging violations of antitrust laws. Nine plaintiffs subsequently dismissed their complaints, but not their claims for damages as part of any certified class. Moark is named as a defendant in 12 of the cases. Norco Ranch, Inc. is named as a defendant in nine of the cases. The Company is named as a defendant in three cases. The cases were consolidated for pretrial proceedings in the District Court for the Eastern District of Pennsylvania (the "Court"), and two separate consolidated amended class action complaints were filed: one on behalf of those persons who purchased eggs or egg products directly from defendants, and the second on behalf of "indirect" purchasers (i.e., persons who purchased eggs, egg products, or products containing eggs from defendants' customers). The consolidated amended complaints allege concerted action by producers of shell eggs to restrict output and thereby increase the price of shell eggs and egg products. The Plaintiffs in these suits sought unspecified damages and injunctive relief on behalf of all purchasers of eggs and egg products, as well as attorneys' fees and costs. Moark, Norco and the Company deny the allegations set forth in the complaints.

During the first quarter of 2010, Moark and the Company reached an agreement in principle with the direct Plaintiffs. Pursuant to the terms of the settlement agreement, the Company deposited $25.0 million into an escrow account, which was released to the direct Plaintiffs after the court granted final approval of the settlement agreement, which it did on July 16, 2012.

Plaintiffs who did not wish to participate in the settlement agreement were required to opt out by mailing notice of the same, with a postmark on or before November 30, 2010. Eighteen groups of related entities (comprised of 150 individual entities) timely opted out of the settlement agreement, preserving their right to pursue direct actions against defendants. In 2012, Moark settled with five of the opt-out groups. As of December 31, 2013, one direct-action complaint remained filed against Moark, Norco and the Company. That case is currently proceeding in the District Court of Wyandotte County, KS, and a trial date has been set for 2014. The district court has allowed discovery to proceed on its own schedule independent of the Pennsylvania action.

The indirect purchaser class action plaintiffs have filed five amended consolidated complaints. Moark and Norco have answered all five versions. The indirect purchaser class action plaintiffs previously dismissed the Company from their suit. In addition, Moark and Norco joined other defendants in moving to partially dismiss the indirect purchasers' complaint on statute of limitations grounds, and that motion was granted on March 19, 2013.

Absent a full settlement with all Plaintiffs, the Company cannot predict what, if any, the impact of these lawsuits could have on the future financial position or results of operations of Moark, Norco or the Company. As of December 31, 2013 and 2012, the Company had reserved $0.9 million and $0.4 million, respectively, related to this matter.

Some of our businesses depend upon the protections of the Capper-Volstead Act, 7 U.S.C. § 291 ("Capper-Volstead"), which provides limited exemptions for certain cooperatives and other associations of agricultural producers from the application of antitrust laws. In reliance in part on these exemptions, we and several other dairy cooperatives participated in various dairy initiatives operated by the Cooperatives Working Together ("CWT") program, which is organized and administered by the National Milk Producers Federation. Also relying in part on these exemptions, several of the Company's direct and indirect wholly owned subsidiaries participated in various egg-related programs administered by United Egg Producers ("UEP") and United States Egg Marketers ("USEM").

The scope of the Capper-Volstead antitrust exemption has been challenged in various litigation proceedings in recent years. In September and October of 2011, several putative class action lawsuits were filed in the Northern District of California against us and several other dairy cooperatives participating in CWT. The plaintiffs seek to represent classes of indirect purchasers of milk and fresh dairy products and allege that CWT's dairy herd retirement program violates the antitrust and other laws of various states. In December 2012, a similar putative class action lawsuit was filed on behalf of purported direct purchasers of milk and fresh dairy products in the United States District Court for the Southern District of Illinois. That lawsuit alleges that the herd retirement program and other CWT initiatives violate federal antitrust law. As noted above, since the fall of 2008, numerous putative class action and direct action lawsuits have been filed in state and federal courts against us and several of our subsidiaries, as well as egg cooperatives and other producers of eggs and egg products. These lawsuits allege that the defendants violated state and federal antitrust laws by conspiring through UEP and USEM to limit the supply of eggs, thereby artificially increasing prices. The plaintiffs claim that a variety of practices were used in furtherance of the conspiracy, including an animal welfare program, egg exports and coordinated flock reductions. At this point we are not able to estimate possible losses. Although we believe we have meaningful defenses in all of these matters, including the aforementioned Capper-Volstead defense, we may incur judgments and be subject to injunctions or enter into settlements in these and similar matters, which could have a material adverse effect on us.

## 22. RELATED PARTY TRANSACTIONS

The Company has related party transactions, primarily with equity investees. The Company purchases products from and sells products to Melrose Dairy Proteins, LLC, a 50% voting interest joint venture with Dairy Farmers of America. The Company purchases aseptic products and sells dairy ingredients to AFP advanced food products, LLC, a 35% voting interest joint venture with a subsidiary of Bongrain, S.A. The Company also collects license fees from and Moark pays marketing service fees to Eggland's Best, LLC, a 50% voting interest joint venture. Additionally, the Company's Moark, Purina Animal Nutrition LLC ("Purina Animal Nutrition") and WinField subsidiaries purchase products from and sell products to other equity investees and related parties. The Company also has financing arrangements with Melrose Dairy Proteins, LLC, and Agriliance, LLC, 50% voting interest equity method investments.

Related party transactions and balances for the years ended December 31, 2013, 2012 and 2011, respectively, and as of December 31, 2013 and 2012, respectively, are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Sales | $744,473 | $578,262 | $519,022 |
| Purchases | 218,895 | 202,611 | 210,096 |
| Marketing service fees paid to related party | 25,817 | 18,843 | — |

| | 2013 | 2012 |
|---|---|---|
| Notes receivable | $ 9,227 | $ 24,604 |
| Accounts receivable | 57,117 | 36,953 |
| Accounts payable | 67,173 | 55,983 |

## 23. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through February 19, 2014, the date of issuing this report.

## 24. SEGMENT INFORMATION

The Company operates in four segments: Dairy Foods, Feed, Crop Inputs and Layers.

Dairy Foods produces, markets and sells products such as butter, spreads, cheese and other dairy-related products. Products are sold under well-recognized national brand names including *LAND O LAKES*, the *Indian Maiden* logo, *Kozy Shack* and *Alpine Lace*, as well as under regional brand names such as *New Yorker*.

Feed largely comprises the operations of Purina Animal Nutrition, the Company's wholly owned subsidiary. Purina Animal Nutrition develops, produces, markets and distributes animal feeds such as ingredient feed, formula feed, milk replacers, vitamins and additives.

Crop Inputs primarily consists of activities conducted by the Company's wholly owned subsidiary, WinField. WinField is a supplier and distributor of crop seed and crop protection products, primarily in the United States. WinField sells a variety of crop seed, primarily corn, soybeans and alfalfa. Crop protection products sold include herbicides, pesticides, fungicides and adjuvants.

Layers consists primarily of the operations of the Company's wholly owned Moark subsidiary. Moark produces, distributes and markets shell eggs that are sold to retail and wholesale customers for consumer and industrial use, primarily in the United States. The segment information presented includes only the continuing operations of Moark.

Other/Eliminated includes the Company's remaining operations and the elimination of intersegment transactions. Other operations consist principally of a captive insurance company, LOL Finance Co., Geosys and the SPE.

The Company's management uses earnings before income taxes to evaluate a segment's performance. The Company allocates corporate administrative expense, interest expense and centrally managed expenses, including insurance and employee benefits expense, to all of its business segments, both directly and indirectly. Corporate administrative functions that are able to determine actual services provided to each segment allocate expense on a direct basis. Interest expense is allocated based on invested capital usage. All other corporate administrative functions and centrally managed expenses are allocated indirectly based on a predetermined measure such as a percentage of total invested capital or head count.

Segment information for the years ended December 31, 2013, 2012 and 2011 is as follows:

# SEGMENT INFORMATION

| ($ in thousands) | Dairy Foods | Feed | Crop Inputs | Layers | Total Other/ Eliminated | Consolidated |
|---|---|---|---|---|---|---|
| **For the year ended December 31, 2013:** | | | | | | |
| Net sales | $ 4,497,992 | $ 4,772,438 | $ 4,761,676 | $ 258,787 | $ (54,444) | $ 14,236,449 |
| Cost of sales[1] | 4,158,552 | 4,448,805 | 4,200,769 | 234,612 | (56,745) | 12,985,993 |
| Selling, general and administrative | 253,196 | 285,022 | 352,604 | 40,469 | 5,409 | 936,700 |
| Interest expense (income), net | 30,730 | 26,431 | 2,563 | 14,414 | (5,958) | 68,180 |
| Other expense (income), net | 2 | (491) | 1,882 | — | — | 1,393 |
| Equity in (earnings) loss of affiliated companies | (19,768) | (4,938) | (13,821) | (5,602) | (118) | (44,247) |
| Earnings (loss) before income taxes | $ 75,280 | $ 17,609 | $ 217,679 | $ (25,106) | $ 2,968 | $ 288,430 |
| **For the year ended December 31, 2012:** | | | | | | |
| Net sales | $ 4,156,449 | $ 4,552,081 | $ 4,733,915 | $ 261,115 | $ (61,541) | $ 13,642,019 |
| Cost of sales[1] | 3,885,306 | 4,216,842 | 4,154,912 | 244,178 | (61,285) | 12,439,953 |
| Selling, general and administrative | 228,798 | 282,424 | 356,570 | 42,470 | 10,578 | 920,840 |
| Interest expense (income), net | 16,162 | 25,453 | 3,733 | 12,705 | (6,141) | 51,912 |
| Other income, net | — | — | (352) | (154) | — | (506) |
| Equity in earnings of affiliated companies | (11,329) | (3,259) | (8,805) | 1,455 | — | (21,938) |
| Earnings (loss) before income taxes | $ 37,512 | $ 30,621 | $ 227,857 | $ (39,539) | $ (4,693) | $ 251,758 |
| **For the year ended December 31, 2011:** | | | | | | |
| Net sales | $ 4,344,419 | $ 3,947,532 | $ 4,016,901 | $ 175,701 | $ (58,270) | $ 12,426,283 |
| Cost of sales[1] | 4,105,639 | 3,662,871 | 3,578,703 | 156,134 | (57,145) | 11,446,202 |
| Selling, general and administrative | 198,630 | 246,506 | 301,667 | 29,744 | 8,415 | 784,962 |
| Interest expense (income), net | 13,050 | 25,241 | 813 | 8,398 | (6,792) | 40,710 |
| Other expense, net | — | — | 214 | — | — | 214 |
| Equity in earnings of affiliated companies | (994) | (5,816) | (4,892) | (2,262) | — | (13,964) |
| Earnings (loss) before income taxes | $ 28,094 | $ 18,730 | $ 140,396 | $ (16,313) | $ (2,748) | $ 168,159 |
| **2013:** | | | | | | |
| Total assets | $1,408,845 | $ 1,274,726 | $3,278,505 | $430,406 | $ 365,728 | $6,758,210 |
| Intersegment sales | 13,388 | 45,874 | 3,247 | — | (62,509) | — |
| Depreciation and amortization | 44,558 | 42,972 | 22,431 | 17,866 | 4,421 | 132,248 |
| Investments in equity method affiliates | 172,559 | 20,127 | 67,900 | 14,578 | 5,119 | 280,283 |
| Capital expenditures | 54,720 | 72,208 | 16,901 | 32,318 | 25,403 | 201,550 |
| 2012: | | | | | | |
| Total assets | $ 1,326,380 | $ 1,275,886 | $ 2,958,659 | $ 423,940 | $ 371,879 | $ 6,356,744 |
| Intersegment sales | 12,567 | 51,159 | 4,385 | — | (68,111) | — |
| Depreciation and amortization | 43,214 | 39,169 | 21,071 | 16,080 | 3,074 | 122,608 |
| Investments in equity method affiliates | 176,574 | 30,403 | 58,870 | 13,097 | — | 278,944 |
| Capital expenditures | 50,396 | 62,646 | 28,470 | 51,055 | 40,858 | 233,425 |
| 2011: | | | | | | |
| Total assets | $ 966,763 | $ 1,198,304 | $ 2,535,619 | $ 422,965 | $ 313,926 | $ 5,437,577 |
| Intersegment sales | 13,076 | 45,896 | 2,103 | — | (61,075) | — |
| Depreciation and amortization | 41,122 | 35,840 | 17,710 | 12,522 | 2,100 | 109,294 |
| Investments in equity method affiliates | 47,801 | 28,870 | 21,070 | 12,431 | — | 110,172 |
| Capital expenditures | 38,580 | 39,846 | 36,913 | 40,527 | 21,335 | 177,201 |

(1) Cost of sales includes the year-to-year change in unrealized hedging losses (gains) of:

| | | | | | | |
|---|---|---|---|---|---|---|
| 2013 | $ (4,667) | $ (4,184) | $ (802) | $ 435 | $ (2,137) | $ (11,355) |
| 2012 | 1,338 | (3,101) | 36 | 1,494 | 970 | 737 |
| 2011 | 6,480 | 7,213 | 605 | (546) | 843 | 14,595 |

# INDEPENDENT AUDITORS' REPORT

**The Board of Directors**

**Land O'Lakes, Inc.:**

We have audited the accompanying consolidated financial statements of Land O'Lakes, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive earnings, cash flows, and equities for each of the years in the three-year period ended December 31, 2013, and the related notes to the consolidated financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

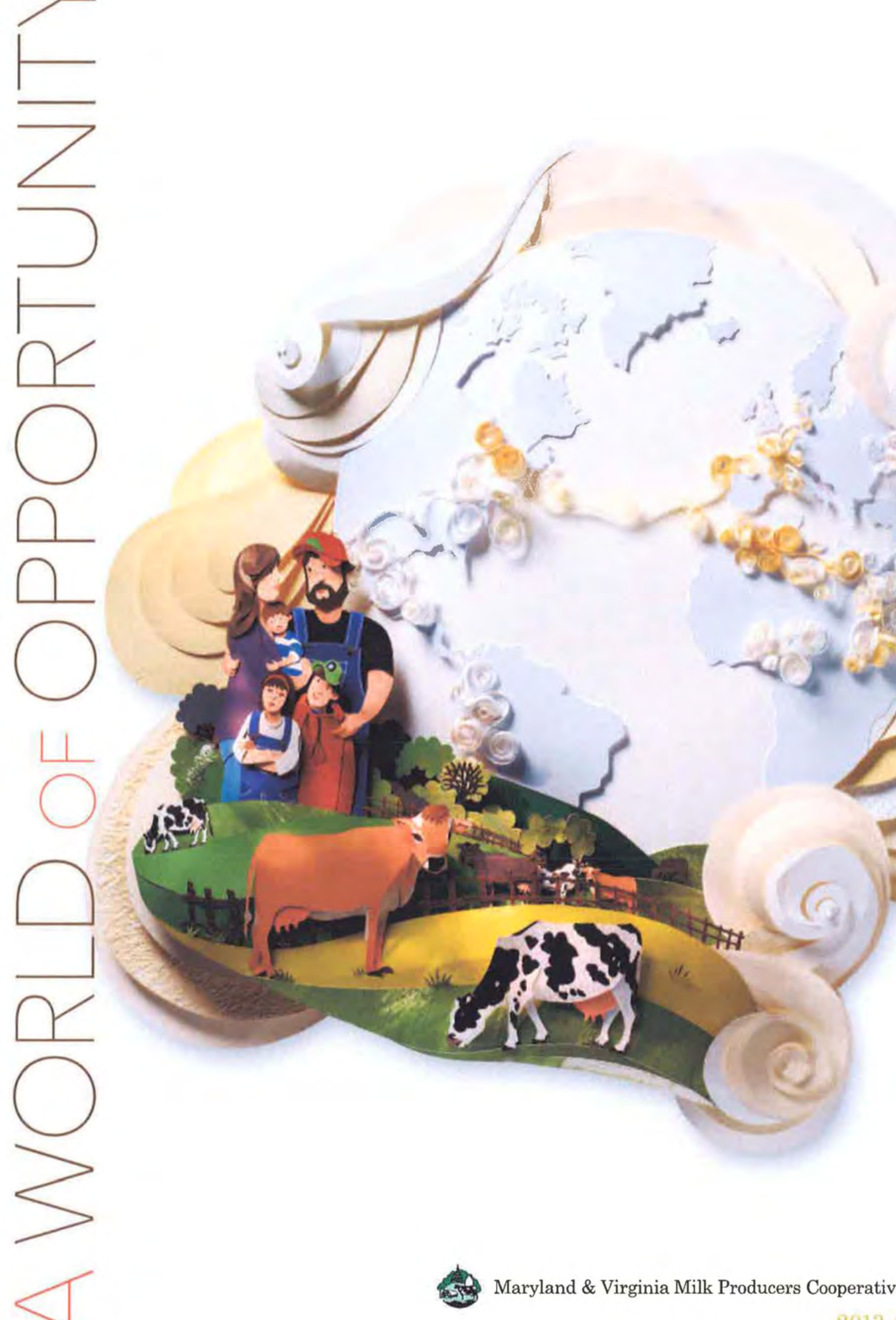
## OPINION

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Land O'Lakes, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013 in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota

February 19, 2014




Maryland & Virginia Milk Producers Cooperative Association, Inc.

2013 Annual Report

Submitted: May 5, 2014

'airy farmers enjoyed the second-best milk price ever, uring a year that brought a bountiful harvest and a radual decline in record feed costs.

Member Production Growth

*Pounds of milk produced*

| 2013 | 2012 |
|---|---|
| 3,176,018,223 | 3,094,384,302 |

ıe Class I Mover for the year averaged 8.84/cwt., just 29¢ behind the record set 2011. Those strong raw milk prices went wards offsetting record high feed costs.

Lingering feed quality issues from 2012 ıshed feed prices until they peaked in arch at $12.93/cwt. As the growing season ogressed and the signs of an ample har- st became clearer, feed prices relaxed and ' the end of the year had fallen more than ; to $9.58/cwt. in December.

As margins improved, a harsh and early ırt to winter in late 2013 combined with a ought in California squashed the hopes r a sizable increase in the U.S. milk supply. ır the year, U.S. milk production ended flat, ›sting a minimal gain of 0.7 percent for a tal of 201 billion pounds in 2013.

To the contrary, Maryland & Virginia perienced a strong and steady increase member milk production. The coopera-

That steady and consistent milk supply helped boost commercial inventories of cheese, butter and powder to record highs in the first half of the year. From late May to November, U.S. exporters, including Maryland & Virginia, capitalized on favor- able market conditions and dropped those stores of dairy ingredients by a third.

### Feeding the World

Cooperatives Working Together (CWT), the farmer-funded self-help program, had its biggest year for its Export Assistance Pro- gram. CWT assisted with American-type cheese export sales of 127 million pounds, and butter exports approaching 90 million pounds. That product went to 40 countries on six continents.

CWT-assisted cheese sales rose 4.4 percent from the previous year. But it was the CWT-assisted butter sales that showed

million pounds of butter and earning $2.2 million dollars in CWT export assistance dollars. One-fifth of the butter exported through CWT originated from Maryland & Virginia's Manufacturing Operations.

The cooperative's two manufacturing plants received ten percent more milk in 2013 than in 2012. That milk fueled production of a profitable product mix, allowing management to meet their committed sales of cream and condensed milk plus churn plenty of butter to meet the cooperative's export sales.

Fluid operations faced a more challeng- ing set of circumstances in 2013, but still managed to capitalize on a number of op- portunities. Nationally fluid sales fell 2.4 percent in 2013 and since 2007 have fallen 7.1 percent.

Maryland & Virginia's three fluid plants combatted the overall decline in fluid con- sumption by growing sales with existing

plants continued to drive out costs, streaı line routes, reduce miles driven and operε as efficiently as possible.

### Optimistic Outlook

Combined the cooperatives operations have had another strong year and will ge erate positive returns for the membershiբ Maryland & Virginia's management team sees continuing opportunities for the cooı erative and dairy industry in 2014.

Dairy farmers have plenty of incentiv to produce more milk in 2014. The Febru 2014 all-milk price of $24.70/cwt. is a reco high and more importantly so is revenue- over-feed-cost for the month at $15.03/cı Producers are making every effort to max mize output per cow.

Providing a harsh winter and continu drought concerns in the West don't damլ efforts, there is strong potential for more

HERBEIN REBUTTAL EXHIBIT D-5

Submitted: May 5, 2014

of its NFDM sales in 2013.

successful bids in 2013.

and the European U

very year approximately three billion pounds of milk
ɔws into the cooperative from the membership for mar-
ɘting. Maryland & Virginia's primary job is to market
ıat milk while ensuring maximum member returns.

hether that milk flows to our raw milk customers or through our own ıid and manufacturing operations, the goal is always the same: to entify the most profitable opportunity for every single drop of milk.

The year 2013 brought a world of opportunities to not just Maryland Virginia but the entire U.S. dairy community. After years of U.S. dairy ports gradually gaining global market share, 2013 solidified the U.S. ɔsition as a major world supplier of dairy ingredients.

That global growth would not have been possible without the efforts the U.S. Dairy Export Council and their nearly 20 years of work devel- ɔing worldwide demand for U.S. dairy products.

## Developing Export Opportunities

Peter Sheehan with ChangeLabs said, "change is slow until it's not," at the National Milk Producers Federation, the National Dairy Promotion and Research Board, and the United Dairy Industry Association joint annual meeting in November. His words could not more aptly describe the progression of U.S. dairy exports over the last two decades.

In 1995, Dairy Management, Inc. (DMI), which represents the dairy-producer funded checkoff, provided the start-up money that launched the U.S. Dairy Export Council (USDEC). USDEC develops relationships and connects U.S. dairy processors to potential international customers.

At the time, U.S. dairy exports represented just 3.7 percent of U.S. milk production on a total solids basis with imports tallying 2.7 percent. Gains in exports were slow to materialize, yet USDEC stayed focused on their goal to enhance global demand for U.S. dairy products. By their tenth year of operation, U.S. dairy exports had doubled to 8.3 percent of U.S. milk production.

In 2008, USDEC's diligence showed more progress and exports reached 11 percent of U.S. milk production. The economic crash of 2009 caused an unexpected dip in momentum and exports fell to 9.3 percent, but by 2010 exports had rebounded to 12.7 percent.

Today, almost twenty years after USDEC's creation, nearly one in six tanker loads of milk are exported in the form of dairy products; that equates to 15.5 percent of U.S. milk production. Imports represent just 3 percent. During USDEC's tenure, U.S. dairy exports have grown from 3.7 percent to 15.5 percent.

Aiding USDEC's efforts, the farmer-funded Cooperatives Working Together (CWT) program decided in 2010 to focus solely on building export markets. CWT's Export Assistance program assists CWT member cooperatives with exporting eligible dairy products and establishing overseas markets for their members' milk. The financial assistance that CWT provides – when conditions indicate it is justified – helps U.S. dairy products to compete in the world market.

As a member of USDEC and CWT, Maryland & Virginia has benefited from the global opportunities these two farmer-funded and driven organizations have created.

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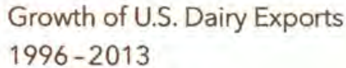
HERBEIN REBUTTAL EXHIBIT D-5

Submitted: May 5, 2014

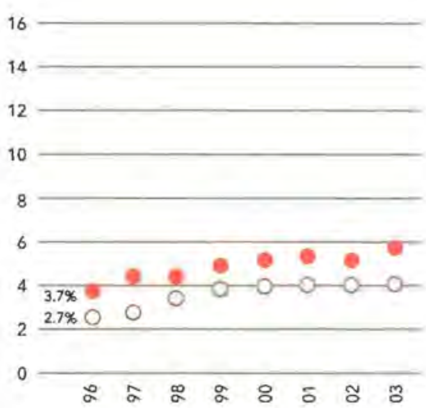
ig-term sales.



Growth of U.S. Dairy Exports 1996-2013

*Total milk solids, by % of U.S. production*

Courtesy U.S. Dairy Export Council

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Regardless of the end destination, Maryland & Virginia's member milk had, and continues to have, plenty of opportunities.

## Growing Production

Maryland & Virginia members ramped up their production efforts in 2013. The cooperative reached 3.176 billion pounds, the most it has marketed in 12 years. Management attributes that increase to more member farms and more milk per farm. Most of the cooperative's membership was insulated from much of the 2012 drought and was able to rebound as feed prices improved throughout the year.

One of the biggest changes in raw milk marketing for 2013 involved customer dynamics. A large national retailer changed its fluid milk relationship and the region saw a number of plant closures and a number of remaining plants increase their supply needs as a result of this change.

Maryland & Virginia's Milk Marketing team saw this consolidation process as an opportunity. They focused on gaining new sales and growing the co-op's Class I customer base. Their work yielded results and Maryland & Virginia will end 2013 with more fluid sales than they started with, and with commitments for additional Class I access in 2014.

Chief Operating Officer of Milk Marketing Mike John attributes this growth to the cooperative's responsiveness to customer needs and the quality milk the membership supplies.

change created three separate and independent marketing pools; an Appalachian Region, a Southern Region and a Western Region. This allows Maryland & Virginia to share marketings in the Appalachian and Southern Regions where the cooperative has sales, while the cooperatives with sales in the Western Region maintain their own pool.

Maryland & Virginia defined a new quality premium and penalty program for Orders 5, 6 and 7. They looked to the membership for guidance and established a Quality Task Force comprised of Leadership Council members from the region. Management held three meetings to gain insight and feedback. While the program will not be implemented until early 2014, a significant portion of the work took place in 2013.

## Raising the Bar

Maryland & Virginia has to continue to focus on milk quality and keep ratcheting up expectations for quality. It earns valuable premium dollars and gives the cooperative a better chance at retaining and gaining new sales. Plans are in place to update the Federal Order 1 quality program in early 2014 to keep the quality bar moving and to keep our customers pleased with our focus on milk quality.

Animal care is a hot topic among customers and consumers. Every year more undercover videos surface and attack production agriculture methods. This year saw a growing trend in national quick service chains taking slanted views on production agriculture and

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## Supplying tl

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milk sales.

HERBEIN REBUTTAL EXHIBIT D-5

## Building Volumes and Efficiencies

The Fluid Team focused on maintaining volumes at all three plants. They secured two co-packing relationships at Marva Maid Landover running Tampico® products and totes of whole milk for other processors. Marva Maid Newport News added Circle K® stores as a customer and there are plans to expand the number of stores they service in early 2014. Management is also happy to see existing customer sales grow among Walgreens, Starbucks™, Dairy Queen®, Cook-Out® and military commissaries to help the bottomline.

Maryland & Virginia acquired a Prairie Farms distribution branch located in Asheville, N.C. Maola had an existing small branch in the area, and for Prairie Farms the location was the furthest east of any of their holdings. Prairie Farms turned the area over to Maola in a win-win situation for both cooperatives.

Maola took over Prairie Farm's customers along with the branch which added additional volume for Maola. Customers commented on how seamless the transition went and how pleased they were with Maola's service and product quality.

In addition to volumes, management concentrated on operating efficiencies. The Fluid Operations Team reduced plant shrink and eliminated six delivery routes. Marva Maid Newport News had zero lost-time accidents and of Maola's 20 distribution centers 18 received Gold or Silver Safety Awards as defined by the N.C. Department of Labor.

## Focus on Quality

When selling fluid milk, product quality means a lot, something our members can appreciate. Maryland & Virginia's plants put a lot of effort into producing a quality gallon of fluid milk, preserving freshness the moment it arrives from the farm. In 2013 they continued to push the bar on freshness and both Marva Maid Newport News and Maola improved shelf-life, a major selling point for retailers and consumers.

Heightened consumer demand for increased food safety assurances puts more pressure on the food chain as a whole. Retailers and foodservice providers are asking suppliers to provide verifiable proof that robust food safety control systems have been effectively implemented. These systems must be properly validated and show evidence of continuous monitoring procedures. Maryland & Virginia's answer on the processing side is the Safe Quality Food (SQF) program.

All three plants achieved level three SQF status in 2013, which is the highest level possible. The SQF certification program is recognized by retailers and foodservice providers around the world who require a rigorous, credible food safety management system. More and more, customers require fluid processors to have this certification to do business.

## Marketing the Brand

With quality and safety assured, the Fluid Operations Team took the opportunity to market our brands and bring more visibility among athletes and students.

Both Marva Maid and Maola became involved with a number of running and cycling events. Marva Maid supplied chocolate milk to more than 25,000 race finishers at the 'Rock-N-Roll' marathons held in Washington, D.C. and Virginia Beach, Va. Maola, for the first time ever, was a major sponsor of the Charlotte Thunder Road marathon in November and refueled runners with chocolate milk at the finish festival. Maola also took part in the 2013 Bike MS Historic New Bern Ride, an event they've supported for the last two years.

Marva Maid and Maola partnered with the National Football League and the Fuel Up to Play 60 (FUTP 60) Program to build excitement about milk as a healthy beverage option in schools. Both brands unveiled a new school milk half-pint packing in the fall that features either the Carolina Panthers or the Washington Redskins logo with the FUTP 60 logo.

The addition of the NFL logos brings great momentum to our brands. School business has always been a big part of Maryland & Virginia's Fluid Operations. The cooperative serves 58 school districts in North Carolina and Virginia. In total the co-op expects to move 5.2 million gallons of milk through the 2013-2014 school year.

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Serving member-owners since 1920, Maryland & Virginia Milk Producers Cooperative Association Inc. is a milk marketing cooperative with more than 1,500 dairy farm families from Pennsylvania to Florida. Maryland & Virginia also owns and operates three fluid processing plants, two manufacturing plants and a farm supply warehouse. Our mission is to maximize returns to our members.