

Building Momentum

LAND O'LAKES, INC.
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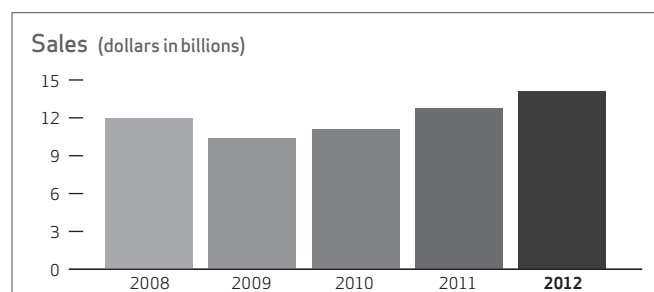
FINANCIAL OVERVIEW

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, puddings, yoghurt 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

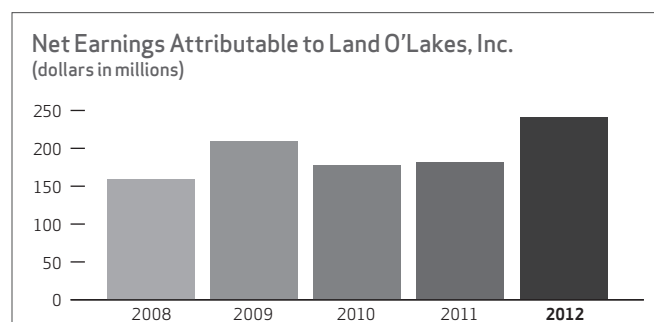
Net Sales for Land O'Lakes in 2012 were \$14.1 billion, compared with \$12.8 billion in 2011, an increase of \$1.3 billion or 10 percent ahead of last year. Sales increased in Crop Inputs, Feed and Layers.

Driven by strong corn and soybean prices, Crop Inputs sales increased with higher volumes and improved product mix in crop protection and seed. Feed sales rose primarily due to the effect of higher ingredient prices in the livestock, lifestyle and milk replacer businesses. Sales in Layers increased due the effect of acquisitions and volume growth in specialty eggs. Dairy Foods sales were lower primarily due to lower cheese, milk and milk powder market prices.



Net Earnings attributable to Land O'Lakes, Inc. increased to \$240.4 million, compared with \$182.2 million in 2011. The earnings growth was led by the Crop Inputs segment.

These results include the impact of the year-to-year change in unrealized hedging gains and losses on derivative contracts. In 2012, unrealized hedging losses decreased net earnings by \$0.5 million, net of income taxes, compared to 2011 where unrealized hedging losses decreased net earnings by \$9.1 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.

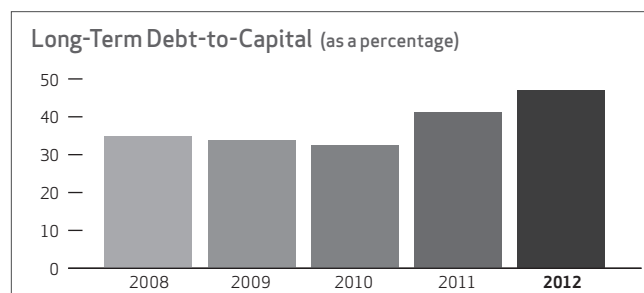


Crop Inputs earnings were higher than a year ago as improved product mix in seed and crop protection products increased margins. Feed earnings increased primarily due to margin expansion throughout its product portfolio and improved product mix. Earnings in Dairy Foods increased due to higher margins on branded butter and cheese. Layers earnings declined compared to the prior year, due to the impact of excess production of lower-valued small and medium-sized eggs and unfavorable brown egg pricing. Higher feed costs also contributed to declines in 2012 Layers margins.

Earnings from equity in affiliated companies were higher than a year ago primarily due to increases in Dairy Foods and Crop Inputs, partially offset by declines in Feed and Layers.

FINANCIAL CONDITION

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, 2012 were \$160.7 million, compared with \$114.9 million at December 31, 2011. Long-term debt, including current portion, was \$1,081.2 million at December 31, 2012, compared with \$800.2 million at December 31, 2011.



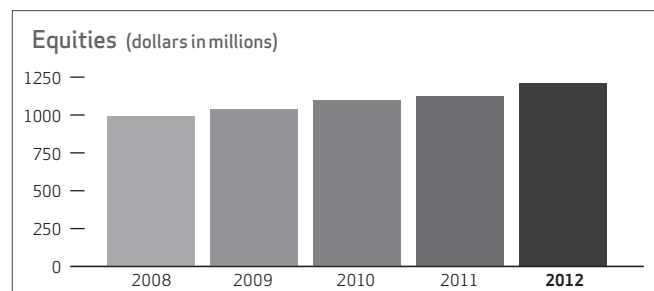
To fund growth-related initiatives, Land O'Lakes issued \$300.0 million of 6% unsecured senior notes in 2012 that mature in 2022. The Company also amended its existing receivables securitization facility to increase the borrowing capacity from \$400.0 million to \$500.0 million.

The Company's primary sources of debt and liquidity at December 31, 2012 included a \$500 million receivables securitization facility of which \$20.0 million was outstanding, an undrawn \$475 million revolving credit facility, \$325 million in 6.24%-6.77% private placement notes, \$300 million in 6% senior notes, a \$150 million term loan and \$190.7 million of 7.45% capital securities.

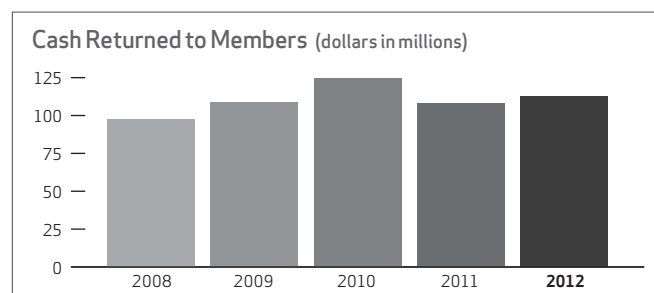
Liquidity, which includes cash and availability under credit facilities, was \$997.4 million at December 31, 2012, compared with \$909.4 million at December 31, 2011.

Land O'Lakes long-term debt-to-capital ratio was 47.0 percent at December 31, 2012, compared with 41.3 percent a year ago.

Equities at December 31, 2012 were \$1,210.4 million, compared with \$1,121.6 million at December 31, 2011. The increase was primarily the result of \$240.4 million in net earnings less current period cash to members of \$112.5 million.



Cash returned to members in 2012 was \$112.5 million, compared with \$107.7 million in 2011. Members received \$65.9 million of equity revolvment, \$41.2 million of cash patronage related to the prior year earnings and \$5.4 million of age retirement, estate and other payments during the year.

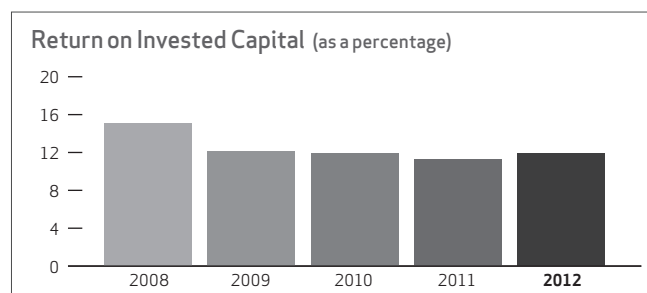


PERFORMANCE MEASURES

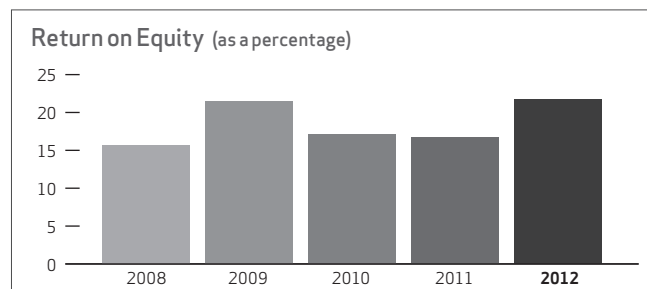
Land O'Lakes is committed to increasing returns to members and enhancing ownership value by improving profitability in each core business through the effective use of invested capital and equity.

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 2012 was 11.9 percent, compared with 11.3 percent in the prior year. This increase was the result of a greater increase in earnings year over year compared to the increase in average invested capital for the same period. Land O'Lakes average ROIC for the five-year period ended in 2012 was 12.5 percent.



Return on equity in 2012 was 21.7 percent, compared with 16.7 percent in 2011. This increase was driven by higher net earnings in 2012. Average ROE for the five-year period ended in 2012 was 18.6 percent.



FIVE YEARS IN REVIEW

(\$ in millions)	2012	2011	2010	2009	2008
Operations:					
Net sales	\$14,116	\$12,849	\$11,146	\$10,409	\$12,039
Earnings before income taxes	258	181	189	232	190
Net earnings attributable to Land O'Lakes, Inc.	240	182	178	209	160
Allocated patronage equities	180	124	138	152	114
Cash returned to members	113	108	125	108	98
Financial Position:					
Working capital	\$ 756	\$ 818	\$ 585	\$ 528	\$ 348
Investments	338	171	169	197	314
Property, plant and equipment	965	846	745	704	658
Total assets	6,357	5,438	4,885	4,924	4,981
Long-term debt	1,072	790	529	530	532
Equities	1,210	1,122	1,098	1,042	996
Financial Measures:					
Return on equity	22%	17%	17%	21%	16%
Return on invested capital	12%	11%	12%	12%	15%
Long-term debt-to-capital	47.0%	41.3%	32.5%	33.7%	34.8%
Current ratio	1.21	1.27	1.20	1.18	1.11

CONSOLIDATED BALANCE SHEETS

As of December 31 (\$ in thousands)	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	\$ 66,289	\$ 59,940
Restricted cash	—	25,000
Receivables, net	1,303,398	1,171,661
Inventories	1,508,318	1,403,825
Prepaid assets	1,341,695	1,100,972
Other current assets	86,308	80,693
Total current assets	4,306,008	3,842,091
Investments	337,884	171,348
Property, plant and equipment, net	964,815	846,256
Goodwill, net	397,277	293,724
Other intangibles, net	178,869	124,044
Other assets	171,891	160,114
Total assets	\$ 6,356,744	\$ 5,437,577
Liabilities and Equities:		
Current liabilities:		
Notes and short-term obligations	\$ 160,650	\$ 114,920
Current portion of long-term debt	9,460	10,169
Accounts payable	1,268,042	1,255,780
Customer advances	1,570,530	1,201,338
Accrued liabilities	480,297	400,247
Patronage refunds and other member equities payable	61,189	41,245
Total current liabilities	3,550,168	3,023,699
Long-term debt	1,071,744	790,058
Employee benefits and other liabilities	524,405	502,186
Commitments and contingencies (Note 22)	—	—
Equities:		
Capital stock	891	925
Member equities	1,080,669	1,029,770
Accumulated other comprehensive loss	(264,497)	(245,895)
Retained earnings	377,071	320,334
Total Land O'Lakes, Inc. equities	1,194,134	1,105,134
Noncontrolling interest	16,293	16,500
Total equities	1,210,427	1,121,634
Total liabilities and equities	\$ 6,356,744	\$ 5,437,577

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (\$ in thousands)	2012	2011	2010
Net sales	\$ 14,116,213	\$ 12,849,321	\$ 11,146,375
Cost of sales	12,894,070	11,845,700	10,218,284
Gross profit	1,222,143	1,003,621	928,091
Selling, general and administrative	932,508	793,114	729,892
Restructuring and impairment	415	1,176	2,634
Earnings from operations	289,220	209,331	195,565
Interest expense, net	53,989	41,925	41,929
Other (income) expense, net	(506)	214	(14,286)
Equity in earnings of affiliated companies	(21,938)	(13,964)	(20,944)
Earnings before income taxes	257,675	181,156	188,866
Income tax expense (benefit)	16,814	(2,452)	9,999
Net earnings	\$ 240,861	\$ 183,608	\$ 178,867
Less: net earnings attributable to noncontrolling interests	496	1,452	728
Net earnings attributable to Land O'Lakes, Inc.	\$ 240,365	\$ 182,156	\$ 178,139
Applied to:			
Member equities			
Allocated patronage	\$ 179,605	\$ 123,597	\$ 137,798
Deferred equities	1,721	2,654	3,646
	181,326	126,251	141,444
Retained earnings	59,039	55,905	36,695
Net earnings attributable to Land O'Lakes, Inc.	\$ 240,365	\$ 182,156	\$ 178,139

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

Years Ended December 31 (\$ in thousands)	2012	2011	2010
Net earnings	\$240,861	\$ 183,608	\$178,867
Other comprehensive loss, net of tax:			
Pension and other postretirement adjustments, net of income taxes	(17,837)	(52,550)	(2,326)
Cash flow hedge adjustments, net of income taxes	(1,919)	(8,848)	—
Foreign currency translation adjustments, net of income taxes	673	(1,256)	(5)
Other, net of income taxes	—	—	(13)
Total other comprehensive loss	(19,083)	(62,654)	(2,344)
Comprehensive earnings	221,778	120,954	176,523
Less: comprehensive earnings attributable to noncontrolling interests	15	1,452	723
Comprehensive earnings attributable to Land O'Lakes, Inc.	\$221,763	\$ 119,502	\$175,800

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (\$ in thousands)	2012	2011	2010
Cash flows from operating activities:			
Net earnings	\$ 240,861	\$ 183,608	\$ 178,867
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	122,608	109,294	102,168
Amortization of deferred financing costs	2,330	2,948	3,456
Bad debt expense	5,792	8,441	9,167
Proceeds from patronage revolvment received	7,626	2,691	2,419
Non-cash patronage income	(4,892)	(3,852)	(2,539)
Deferred income tax expense	13,062	9,261	12,305
Restructuring and impairment	415	1,176	2,634
Loss on legal reserve	—	—	27,000
(Gain) loss from divestiture of businesses	(352)	214	(1,542)
Gain on sale of investments	—	—	(12,744)
Equity in earnings of affiliated companies	(21,938)	(13,964)	(20,944)
Dividends from investments in affiliated companies	10,087	10,141	18,292
Other	(469)	(2,217)	(4,287)
Changes in assets and liabilities, net of acquisitions and divestitures:			
Restricted cash for legal reserve	25,000	—	(25,000)
Receivables	(131,151)	(102,675)	43,545
Inventories	(121,283)	(170,042)	(47,547)
Prepaid and other current assets	(292,383)	(204,135)	248,882
Accounts payable	7,421	166,645	4,773
Customer advances	368,584	(66,232)	(61,444)
Accrued liabilities	75,406	12,932	(15,008)
Other assets	5,676	42	(7,035)
Other liabilities	(28,735)	12,059	9,416
Net cash provided (used) by operating activities	283,665	(43,665)	464,834
Cash flows from investing activities:			
Additions to property, plant and equipment	(233,425)	(177,201)	(139,242)
Purchase of intangible assets	(8,858)	—	—
Acquisitions, net of cash acquired	(195,408)	(11,865)	(54,023)
Investments in affiliates	(159,716)	(750)	(6,718)
Distributions from investments in affiliated companies	—	8,101	55,000
Net proceeds from divestiture of businesses	92,104	2,079	5,653
Net proceeds from sale of investments	—	—	12,087
Proceeds from sale of property, plant and equipment	7,407	4,781	2,858
Insurance proceeds for replacement assets	—	1,268	7,617
Change in notes receivable	7,814	4,711	(26,885)
Net cash used by investing activities	(490,082)	(168,876)	(143,653)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	45,730	29,340	(76,289)
Proceeds from issuance of long-term debt	296,490	210,000	873
Principal payments on long-term debt and capital lease obligations	(15,874)	(5,050)	(2,409)
Payments for debt issuance costs	(527)	(4,326)	—
Payments for redemption of member equities	(112,539)	(107,742)	(124,620)
Other	(514)	2,988	(253)
Net cash provided (used) by financing activities	212,766	125,210	(202,698)
Net increase (decrease) in cash and cash equivalents	6,349	(87,331)	118,483
Cash and cash equivalents at beginning of year	59,940	147,271	28,788
Cash and cash equivalents at end of year	\$ 66,289	\$ 59,940	\$ 147,271

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITIES

(\$ in thousands)	Capital Stock	Member Equities			Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total Equities
		Allocated	Deferred	Net				
Balance, December 31, 2009	\$ 985	\$ 994,372	\$ (8,033)	\$ 986,339	\$ (180,902)	\$228,326	\$ 7,179	\$1,041,927
Capital stock issued	4	—	—	—	—	—	—	4
Capital stock redeemed	(40)	—	—	—	—	—	—	(40)
Cash patronage and redemption of member equities	—	(124,620)	—	(124,620)	—	—	—	(124,620)
Redemption included in prior year's liabilities	—	49,298	—	49,298	—	—	—	49,298
Other, net	—	(1,243)	12	(1,231)	—	661	(217)	(787)
2010 earnings, as applied	—	137,798	3,646	141,444	—	36,695	728	178,867
Other comprehensive loss, net of income taxes	—	—	—	—	(2,339)	—	(9)	(2,348)
Patronage refunds payable	—	(44,621)	—	(44,621)	—	—	—	(44,621)
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

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. Through its four segments of Dairy Foods, Feed, Crop Inputs and Layers, Land O'Lakes procures approximately 12.9 billion pounds of member milk annually, markets premium butter, spreads, cheese, puddings, yoghurt and other dairy products, provides member cooperatives, farmers and ranchers with an extensive line of agricultural supplies (including feed, seed and crop protection products) and, through its 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.

Fiscal Year The Company's fiscal year ends on December 31 each year. However, the Company's Moark subsidiary is a wholly owned, consolidated subsidiary with a 52- to 53-week reporting period ending in December. The 2012 Moark fiscal year consisted of a 53-week period and the 2011 and 2010 Moark fiscal years each consisted of 52-week periods.

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 \$94.6 million, \$74.2 million and \$62.6 million in 2012, 2011 and 2010, respectively.

Research and Development Expenditures for research and development are charged to administrative expense in the year incurred. Total research and development expenses were \$65.7 million, \$57.3 million and \$47.2 million in 2012, 2011 and 2010, 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.

The Company records taxes collected from customers and remitted to governmental authorities on a net basis within the consolidated financial statements.

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. Cost is determined on an average cost or 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, 2012 and 2011, vendor prepayments for seed and crop protection products, which are presented as prepaid assets in the consolidated balance sheets, were \$1,288.6 million and \$1,062.2 million, respectively, most of which was concentrated with Monsanto Company, Syngenta 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 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 Seed and Agronomy reporting units within the Crop Inputs reporting segment and performed the two-step quantitative process for its other segments. 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

During 2011, the FASB issued several Accounting Standards Updates ("ASU"): ASU No. 2011-1 through ASU No. 2011-12. In 2012, the FASB issued ASU No. 2012-1 through ASU No. 2012-7. Except for the ASUs discussed below, the ASUs entail technical corrections to existing guidance or affect guidance related to specialized industries or topics and therefore have minimal, if any, impact on the Company.

In May 2011, the FASB issued ASU No. 2011-4, which amends Fair Value Measurements and Disclosures – Overall (ASC 820-10). This guidance revises common fair value measurement and disclosure requirements. For nonpublic entities, the guidance is effective for annual periods beginning after December 15, 2011, with earlier application permitted for interim periods beginning after December 15, 2011. Accordingly, the Company adopted this standard in 2012. The adoption of this standard did not have a material impact on our results of operations or financial position.

In June 2011, the FASB issued ASU No. 2011-5, which amends Comprehensive Income (ASC 220-10). This guidance requires entities to present net income and other comprehensive income ("OCI") in either a single continuous statement or in separate consecutive statements. The guidance does not change the components of net income or OCI. In December 2011, the FASB issued ASU No. 2011-12, which deferred the requirement in ASU No. 2011-5 to disclose reclassifications adjustments out of accumulated other comprehensive income by component in both the statement in which net earnings is presented and the statement in which OCI is presented. This deferral does not affect the effective date of the other provisions in ASU No. 2011-5. The guidance is effective for fiscal years beginning after December 15, 2011 and the Company adopted this standard in 2012. The adoption of this standard did not have a material impact on the results of operations or financial position, other than the addition of the consolidated statements of comprehensive earnings.

In September 2011 and July 2012, the FASB issued ASU No. 2011-8 and No. 2012-2, which amends Intangibles – Goodwill and Other (ASC 350) to give entities testing goodwill and indefinite-lived intangible assets for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The guidance in ASU No. 2011-8 is effective for annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted and guidance in ASU No. 2012-2 is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this standard did not have an impact on the results of operations or financial position.

In September 2011, the FASB issued ASU No. 2011-9, which amends Compensation – Retirement Benefits – Multiemployer Plans (ASC 715-80) by increasing the qualitative and quantitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. The ASU is effective for nonpublic entities for fiscal years ending after December 15, 2012, with early adoption permitted. As ASU No. 2011-9 is only disclosure related, it did not have an impact on the Company's financial position, results of operations or cash flow. This disclosure is included in Note 16.

In December 2011, the FASB issued ASU No. 2011-11, which amends Balance Sheet (ASC 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 are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods therein, with retrospective application required. As this guidance is only disclosure related, it will not have an impact on the Company's financial position, results of operations or cash flow.

4. BUSINESS COMBINATIONS

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 \$174.9 million. Kozy Shack is a market leader in refrigerated dairy desserts, a new product category for the Dairy Foods segment.

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	174,869
Goodwill	\$ 103,054

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 amount of goodwill expected to be deductible for tax purposes is \$102.8 million. 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.

On January 20, 2012, Nutra-Blend, LLC, a wholly owned subsidiary, entered into an asset purchase agreement to acquire substantially all of the assets of The Old Mill-Troy, Inc. ("OMT") for \$17.6 million. OMT is a feed premix business in the Northeast United States and the acquisition represents a geographic expansion of Nutra-Blend, LLC's business.

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

Current assets	\$ 11,185
Property, plant and equipment	1,500
Other intangibles	4,608
Current liabilities	(4,830)
Total fair value of identifiable assets and liabilities	12,463
Purchase price, net of cash assumed	17,570
Goodwill	\$ 5,107

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 Feed segment. The amount of goodwill expected to be deductible for tax purposes is \$5.1 million. Acquired intangible assets consist of customer relationships, which are being amortized over their estimated useful life of 13 years, trademarks, which are being amortized over their estimated useful life of five years and non-competition agreements, which are being amortized of their estimated useful life of five years.

2011 Acquisitions

On August 26, 2011, Winfield Solutions, LLC ("Winfield"), a Land O'Lakes wholly owned subsidiary, entered into a stock purchase agreement to acquire 60% of the outstanding stock of Global Seed Genetics, S.A. de C.V. ("GSG"), a Mexican corporation, for \$10.0 million in cash. GSG specializes in the development of proprietary conventional tropical corn seeds.

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

Current assets	\$ 571
Property, plant and equipment	6
Other intangibles	10,024
Current liabilities	(96)
Noncontrolling interests	(5,966)
Total fair value of identifiable assets, liabilities and noncontrolling interest	4,539
Purchase price, net of cash assumed	10,000
Goodwill	\$ 5,461

Goodwill was calculated as the excess of the purchase price over the fair value of identifiable assets, liabilities and noncontrolling interests acquired. The primary items that generated goodwill were the premiums paid for the right to control the business acquired and gain entry to the Mexican market. The goodwill has been assigned to our Crop Inputs segment. The amount of goodwill expected to be deductible for tax purposes is \$5.5 million. Acquired intangible assets consist of intellectual property, which is being amortized over its estimated useful life of 15 years. The Company determined the fair value of the noncontrolling interest based on the total enterprise value less discounts for lack of control and marketability.

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 primarily to 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.

2010 Acquisitions

On September 1, 2010, as part of the ongoing restructuring of Agrilience, Winfield entered into an operating lease agreement with Agrilience. Winfield completed the transaction and closed on the property, plant and equipment in December 2010. Under the terms of the transaction documents, Winfield began operating six former Agrilience retail locations in Florida and purchased the working capital, primarily inventory, and fixed assets associated with such locations for \$27.3 million. The Company recorded a bargain purchase gain of \$0.3 million as a result of the fair value of the assets acquired exceeding the purchase price. An additional \$1.2 million of gain on the acquisition was deferred and was not recognized

in earnings until the properties were sold to GreenPoint Ag, LLC in 2012. The primary purpose of the transaction was to maintain certain retail distribution channels for the Company's crop protection and seed products.

On September 30, 2010, Winfield acquired the assets of Estes, Incorporated ("Estes"). Estes was primarily a wholesale distributor of agricultural, range and pasture, and specialty crop protection products through 17 leased locations in Texas, Oklahoma, Arkansas and Colorado. The total cash paid for this acquisition was \$21.1 million in cash, and it was primarily allocated to inventory, equipment and customer relationships.

For the acquisitions described above, the business operations of the acquired entities were included in the Crop Inputs segment upon acquisition. These acquisitions were accounted for as business combinations. Accordingly, the assets and liabilities of the acquired entities were recorded at their estimated fair values at the date of the acquisitions. The aggregate purchase price allocations are summarized in the following table:

Receivables, net	\$ 5,573
Inventories	42,917
Prepaid assets	55
Property, plant and equipment	5,154
Other intangibles, net	3,505
Current liabilities	(4,992)
Employee benefits and other liabilities	(268)
Total fair value of identifiable assets and liabilities	51,944
Cash paid for 2010 acquisitions, net of cash acquired	50,290
Bargain purchase gain	\$ 1,654

5. RECEIVABLES

A summary of receivables at December 31 is as follows:

	2012	2011
Trade accounts	\$ 1,017,261	\$ 894,584
Notes and contracts	132,330	140,989
Vendor rebates	83,633	78,918
Other	87,472	74,845
	1,320,696	1,189,336
Less allowance for doubtful accounts	(17,298)	(17,675)
Total receivables, net	\$1,303,398	\$ 1,171,661

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 \$165.8 million at December 31, 2012 and \$165.4 million at December 31, 2011, of which \$109.9 million and \$111.2 million, respectively, were the current portions included in the table above. Commitments to extend credit totaled \$51.1 million and \$31.2 million at December 31, 2012 and 2011, 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, 2012 and 2011, LOL Finance Co. had a recorded investment of \$25.0 million and \$10.4 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 \$1.7 million and \$3.2 million at December 31, 2012 and 2011, 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:

	2012	2011
Raw materials	\$ 245,059	\$ 244,026
Work in process	1,213	1,432
Finished goods	1,262,046	1,158,367
Total inventories	\$ 1,508,318	\$ 1,403,825

7. INVESTMENTS

A summary of investments at December 31 is as follows:

	2012	2011
Eggland's Best, LLC	\$ 132,024	\$ —
AFF advanced food products, LLC	38,734	36,266
GreenPoint Ag, LLC	33,676	—
Ag Processing Inc	27,604	29,192
Agri-AFC, LLC	13,131	11,381
Delta Egg Farm, LLC	13,097	11,308
Universal Cooperatives, Inc.	7,843	7,843
Golden State Feed & Grain LLC	7,528	7,750
CoBank, ACB	6,427	6,215
Melrose Dairy Proteins, LLC	4,888	10,516
Other — principally cooperatives and joint ventures	52,932	50,877
Total investments	\$ 337,884	\$ 171,348

As of December 31, 2012, the Company maintained a 50% voting interest in numerous joint ventures, including Agri-AFC, LLC and GreenPoint Ag, LLC in Crop Inputs, Melrose Dairy Proteins, LLC and Eggland's Best, LLC in Dairy Foods, and Golden State Feed & Grain LLC in Feed. Moark maintains a 50% voting interest in Delta Egg Farm, LLC. The Company also maintained a 35% voting interest in AFF advanced food products LLC in Dairy at December 31, 2012. The Company's largest investments in other cooperatives as of December 31, 2012 were Ag Processing Inc, Universal Cooperatives, 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.

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. See Note 21 for further discussion of the sale of RAS.

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 will hold a 50 percent ownership interest. The new joint venture, Eggland's Best, LLC, will license both the Eggland's Best and the Land O'Lakes brands to EB's franchisees, including Moark, and will be accounted for using the equity method of accounting. The Company contributed \$121.8 million in exchange for its ownership interest in the joint venture.

As of December 31, 2012, the Company's investment in Agrilience was negative \$7.7 million, which was recorded in employee benefits and other liabilities on the consolidated balance sheet. In 2012, the balance changed by \$17.9 million, increasing from a credit balance of \$25.6 million to a credit balance of \$7.7 million, primarily due to \$45.4 million of cash contributions, which were primarily used to fully fund the Agrilience Employee Retirement Plan ("Agrilience Plan"), \$0.9 million of equity income for the period and \$28.4 million of adjustments related to pension plan activity. In July 2012, the Agrilience Plan spun off half of its plan assets and liabilities to CHS Inc. and the Company adopted the Agrilience Plan, which had retained half of the plan assets and liabilities. Upon adoption, the Agrilience 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 Agrilience in 2012, \$44.8 million was used to fund the Agrilience Plan and is reflected in net cash provided by operating activities in the consolidated statements of cash flows. In 2011, the Company's investment in Agrilience decreased by \$5.4 million to a credit balance of \$25.6 million, primarily due to \$8.0 million of dividends received, \$0.1 million of equity income for the period and \$2.5 million of other comprehensive income for the period related to Agrilience's annual pension adjustments.

8. PROPERTY, PLANT AND EQUIPMENT

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

	2012	2011
Machinery and equipment	\$ 949,681	\$ 868,836
Buildings and building equipment	591,340	528,011
Land and land improvements	99,287	91,305
Software	148,460	135,062
Construction in progress	112,937	87,909
	1,901,705	1,711,123
Less accumulated depreciation	936,890	864,867
Total property, plant and equipment, net	\$ 964,815	\$ 846,256

9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill by segment at December 31 is as follows:

	2012	2011
Dairy Foods	\$ 171,579	\$ 68,525
Feed	129,191	124,084
Crop Inputs	68,257	66,178
Layers	28,250	34,937
Total goodwill	\$ 397,277	\$ 293,724

In 2012 and 2011, the effect of foreign currency translation adjustments on goodwill in the Crop Inputs segment was an increase (decrease) of \$0.4 million and \$(1.1) million, respectively.

Goodwill increased due to 2012 acquisitions by \$103.1 million in Dairy Foods, \$5.1 million in Feed and \$1.7 million in Crop Inputs. See Note 4 for further information on these acquisitions.

Other Intangible Assets

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

	2012	2011
Amortized other intangible assets:		
Dealer networks and customer relationships, less accumulated amortization of \$13,652 and \$9,537, respectively	\$ 64,814	\$ 52,985
Intellectual property, less accumulated amortization of \$1,470 and \$0, respectively	15,698	8,908
Patents, less accumulated amortization of \$12,823 and \$11,849, respectively	3,888	4,862
Trademarks, less accumulated amortization of \$4,866 and \$4,634, respectively	2,306	2,980
Other intangible assets, less accumulated amortization of \$6,475 and \$5,174, respectively	5,638	2,684
Total amortized other intangible assets	92,344	72,419
Total indefinite-lived trademarks	86,525	51,625
Total other intangible assets	\$ 178,869	\$ 124,044

On February 12, 2012, the Company acquired a formula for yoghurt sales in the United States and Canada from a New Zealand corporation for \$10.1 million. The amount allocated to the purchase of the formula, \$7.6 million, will be amortized over its estimated useful life of 10 years and is included in intellectual property. The amount allocated to the non-competition agreement, \$2.5 million, will be amortized over its estimated useful life of five years and included in other intangible assets.

Amortization expense for the years ended December 31, 2012, 2011 and 2010 was \$9.2 million, \$4.8 million and \$5.0 million, respectively. The estimated amortization expense related to other intangible assets subject to amortization for the next five years will approximate \$7.6 million annually. The weighted-average life of the intangible assets subject to amortization is approximately 14 years and ranges from three years to 25 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:

	2012	2011
Employee compensation and benefits	\$ 175,309	\$ 129,291
Unrealized hedging losses and deferred option premiums received	11,950	16,753
Marketing programs and consumer incentives	105,939	81,472
Other	187,099	172,731
Total accrued liabilities	\$ 480,297	\$ 400,247

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, 2012 and 2011 of \$160.7 million and \$114.9 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, 2012 included a \$500 million receivables securitization facility of which \$20.0 million was outstanding, an undrawn \$475 million revolving credit facility, \$325 million in 6.24%-6.77% private placement notes, \$300 million in 6% senior notes, a \$150 million term loan with a variable rate based on LIBOR, swapped to a fixed rate of 4.44% and \$190.7 million of 7.45% capital debt securities.

On May 8, 2012, the Company exercised its option to increase the size of the five-year receivables securitization facility arranged by CoBank by \$100 million, from \$400 million to \$500 million. The receivables securitization facility 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, 2012 and 2011, the SPE's receivables were \$823.8 million and \$726.7 million, respectively. At December 31, 2012 and 2011, outstanding balances under the facility, recorded as notes and short-term obligations, were \$20.0 million and \$0, respectively, and availability was \$480.0 million and \$400.0 million, respectively.

The Company maintains a \$475 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 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 2012, 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, 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. At December 31, 2011, there was \$0 outstanding on the Revolving Credit Facility and \$426.5 million was available after giving effect to \$48.5 million of outstanding letters of credit, which reduced availability.

The Company also had \$90.6 million and \$87.9 million as of December 31, 2012 and 2011, 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.

The Company's Moark subsidiary maintains a \$50.0 million revolving credit facility, which is subject to a borrowing base limitation. The loan was priced on a leverage-based grid at LIBOR plus 150 to 350 basis points. Borrowings bear interest at a variable rate (either LIBOR or an Alternative Base Rate) plus an applicable margin. At December 31, 2012 and 2011, the outstanding borrowings were \$50.0 million and \$27.0 million, 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, 2012 and 2011 was 2.60% and 1.85%, respectively.

Long-term Debt

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

	2012	2011
Private Placement Notes, due 2016-2021 (6.24%-6.77%)	\$ 325,000	\$ 325,000
Senior Notes, due 2022 (6.00%)	300,000	—
Capital Securities of Trust Subsidiary, due 2028 (7.45%)	190,700	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 2012 through 2022 (3.91% weighted average)	57,925	69,001
Moark, LLC capital lease obligations (5.89% weighted average)	57,914	60,829
Other debt, including discounts and fair value adjustments	(335)	4,697
Total debt	1,081,204	800,227
Less current portion	9,460	10,169
Total long-term debt	\$ 1,071,744	\$ 790,058

The \$150 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, 2012, the floating interest rate of the Term Loan was 1.75%. 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% senior notes (the "Senior Notes") that mature on November 15, 2022. The net proceeds of the Senior Notes were \$296.3 million after deducting the issuance costs. The issuance costs of \$3.7 million are being amortized over the life of the Senior Notes.

In December 2009, the Company entered into a Note Purchase Agreement with certain institutional lenders that governs the issuance of \$325 million of privately placed notes (the "Private Placement Notes"). The Private Placement Notes were issued and sold in three series, as follows:

1) \$155 million aggregate principal amount of 6.24% notes, due December 2016, 2) \$85 million aggregate principal amount of 6.67% notes, due December 2019 and 3) \$85 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. The Company repurchased certain of these securities, which it holds in treasury. The outstanding balance of these Capital Securities as of December 31, 2012 and 2011 was \$190.7 million.

In October 2011, Moark entered into a \$60 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, 2012 and 2011, the outstanding principal balance on Moark's term loan was \$56.0 million and \$60.0 million, respectively. Moark had other outstanding notes of \$1.9 million and \$9.0 million as of December 31, 2012 and 2011, respectively. In 2012, Moark paid the remaining principle of one of its notes payable for \$5.7 million, resulting in a gain on extinguishment of debt of \$0.2 million, which is reflected in other (income) expense, net on the consolidated statements of operations.

At December 31, 2012 and 2011, Moark had \$57.9 million and \$60.8 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, 2012 total \$57.9 million, comprised of \$3.0 million in 2013, and \$3.2 million in 2014, \$4.0 million in 2015, \$4.4 million in 2016, \$4.6 million in 2017 and \$38.7 million after 2017.

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, 2012 and 2011, 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
2013	\$ 9,460
2014	8,911
2015	8,315
2016	48,702
2017	4,988
2018 and thereafter	1,000,828

Interest paid on debt obligations was \$64.0 million, \$54.6 million and \$50.3 million in 2012, 2011 and 2010, 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	Cash flow hedge adjustments	Foreign currency translation adjustments	Other	Other comprehensive loss attributable to noncontrolling interests	Accumulated other comprehensive loss
Balance as of December 31, 2009	\$ (181,298)	\$ —	\$ 388	\$ 13	\$ (5)	\$ (180,902)
Current period other comprehensive (loss) earnings	(3,767)	—	(9)	(22)	5	(3,793)
Income taxes	1,441	—	4	9	—	1,454
Balance as of December 31, 2010	\$ (183,624)	\$ —	\$ 383	\$ —	\$ —	\$ (183,241)
Current period other comprehensive loss	(85,101)	(14,329)	(2,034)	—	—	(101,464)
Income taxes	32,551	5,481	778	—	—	38,810
Balance as of December 31, 2011	\$ (236,174)	\$ (8,848)	\$ (873)	\$ —	\$ —	\$ (245,895)
Current period other comprehensive (loss) earnings	(28,886)	(3,108)	1,090	—	779	(30,125)
Income taxes	11,049	1,189	(417)	—	(298)	11,523
Balance as of December 31, 2012	\$ (254,011)	\$ (10,767)	\$ (200)	\$ —	\$ 481	\$ (264,497)

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:

Derivatives not designated as hedging instruments	Location	2012	2011	2010
Commodity derivatives	Cost of sales	\$ 794	\$ 14,402	\$ (6,312)
Foreign currency exchange contracts	Cost of sales	(57)	193	291

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 million interest rate swap agreement in August 2011 to exchange the variable rate interest payment obligations related to the \$150 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, 2012 and 2011, the Company recognized \$0 of hedge ineffectiveness. For the year ended December 31, 2012, the amount reclassified from other comprehensive loss to the consolidated statements of operations was \$0.9 million. The amount of the existing losses at December 31, 2012 that is expected to be reclassified into the consolidated statements of operations within the next 12 months is \$1.1 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 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:

	December 31, 2012			December 31, 2011		
Derivatives not designated as hedging instruments	Notional or Contractual Amount	Fair Value Asset Derivatives	Fair Value Liability Derivatives	Notional or Contractual Amount	Fair Value Asset Derivatives ^(a)	Fair Value Liability Derivatives ^(a)
Commodity derivatives ^(a)	\$317,712	\$5,849	\$14,427	\$344,448	\$8,290	\$15,739
Foreign currency exchange contracts ^(a)	2,570	137	—	2,950	80	—
Total		\$5,986	\$14,427		\$8,370	\$15,739
Derivatives designated as hedging instruments						
Interest rate swap ^(b)	\$150,000	—	\$17,453	\$150,000	—	\$14,411
Cross currency swap ^(b)	3,651	16	—	3,651	82	—
Total		\$6,002	\$31,880		\$8,452	\$30,150

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

^(b) 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, 2012 and 2011, 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 \$6.0 million and \$8.5 million, respectively. The Company reviewed its counterparties and believes that a concentration of risk is minimal and that a failure of any or all counterparties would not have a material effect on the consolidated financial statements as of December 31, 2012.

14. FAIR VALUE MEASUREMENTS

The carrying amounts and estimated fair values of the Company's financial instruments are as follows as of:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Derivatives:				
Commodity derivative assets	\$ 5,849	\$ 5,849	\$ 8,290	\$ 8,290
Commodity derivative liabilities	14,427	14,427	15,739	15,739
Foreign currency exchange contract assets	137	137	80	80
Interest rate swap liability	17,453	17,453	14,411	14,411
Loans receivable	164,154	165,221	162,186	163,994
Debt:				
Private Placement Notes, due 2016-2021	325,000	381,136	325,000	377,780
Senior Notes, due 2022	300,000	323,384	—	—
Capital Securities of Trust Subsidiary, due 2028	190,700	194,751	190,700	195,168
Term Loan, due 2021	150,000	150,000	150,000	150,759
Moark, LLC fixed-rate debt, including capital lease obligations	115,839	119,833	129,830	132,666

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, as well as other relevant economic measures, which are inputs that are 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 \$24.4 million and \$2.5 million as of December 31, 2012 and \$29.2 million and \$5.4 million as of December 31, 2011, 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, 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	—

	Fair Value Measurements at December 31, 2011 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	\$ 8,290	\$ 8,166	\$ 124	\$ —
Commodity derivative liabilities	15,739	14,873	866	—
Interest rate swap liability	14,411	—	14,411	—
Foreign currency exchange contract assets	80	—	80	—

^(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:

	2012	2011	2010
Current expense (benefit):			
Federal	\$ 2,384	\$ (12,784)	\$ (2,377)
State	706	1,071	71
	3,090	(11,713)	(2,306)
Deferred expense:			
Federal	11,662	8,608	10,475
State	2,062	653	1,830
	13,724	9,261	12,305
Income tax expense (benefit)	\$16,814	\$ (2,452)	\$ 9,999

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

	2012	2011	2010
Statutory rate	35.0%	35.0%	35.0%
Patronage refunds	(24.5)	(23.9)	(25.5)
State income taxes, net of federal benefit	0.6	0.9	0.7
Amortization of goodwill	—	—	0.1
Effect of foreign operations	0.1	(0.2)	0.2
Change in unrecognized tax benefit accrual	(0.9)	(8.9)	(1.9)
Meals and entertainment	0.8	1.1	1.1
Tax credits	—	(0.7)	(0.7)
Section 199 manufacturing deduction	(4.8)	(4.7)	(4.5)
Noncontrolling interests in LLCs	0.1	(0.1)	—
Other, net	0.1	0.1	0.8
Effective tax rate	6.5%	(1.4)%	5.3%

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

	2012	2011
Deferred tax assets related to:		
Deferred patronage	\$ 33,386	\$ 33,743
Accrued liabilities	228,824	200,757
Allowance for doubtful accounts	5,123	7,384
Asset impairments	3,977	4,398
Joint ventures	15,149	35,133
Loss carryforwards	1,293	1,175
Deferred revenue	4,792	6,896
Deferred tax credits	3,028	357
Other	5,824	6,168
Gross deferred tax assets	301,396	296,011
Valuation allowance	(16,620)	(16,620)
Total deferred tax assets	284,776	279,391
Deferred tax liabilities related to:		
Property, plant and equipment	113,617	115,446
Inventories	6,841	5,373
Intangibles	42,216	35,691
Other	12,016	11,554
Total deferred tax liabilities	174,690	168,064
Net deferred tax assets	\$110,086	\$ 111,327

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. A valuation allowance of \$16.6 million was established to reduce the Company's deferred tax asset related to Agrilience to an amount that is more likely than not to be realized.

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

	2012	2011
Other current assets	\$ 70,911	\$ 68,000
Other assets	39,175	43,327
Total net deferred tax assets	\$110,086	\$ 111,327

At December 31, 2012 and 2011, the Company had unrecognized tax benefits of approximately \$2.7 million and \$3.2 million, respectively, including \$0.1 million and \$0.1 million, respectively, of interest. For the years ended December 31, 2012 and 2011, the effective tax rate was impacted by decreases of \$0.9 million and \$13.3 million, respectively, to income tax expense (benefit) 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 2008 and prior.

As of December 31, 2012, the Company had loss carryforwards of approximately \$3.6 million for tax purposes available to offset future taxable income. If not used, these carryforwards will expire between years 2016 and 2032.

Income taxes (recovered)/paid in 2012, 2011 and 2010 were \$(1.0) million, \$4.3 million and \$1.3 million, respectively. At December 31, 2012 and 2011, prepaid income taxes were \$2.3 million and \$6.6 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.

In 2012, the Company adopted the Agrilience 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 Agrilience 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		
	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 736,698	\$ 664,705	\$ 82,310	\$ 70,591
Service cost	15,629	16,311	1,992	1,604
Interest cost	37,586	35,791	3,998	3,749
Adoption of Agrilience Employee Retirement Plan	86,072	—	—	—
Actuarial loss	73,661	47,203	4,764	12,176
Benefits paid	(29,507)	(27,312)	(5,181)	(5,810)
Benefit obligation at end of year	\$ 920,139	\$ 736,698	\$ 87,883	\$ 82,310
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 542,276	\$ 542,517	\$ —	\$ —
Actual return on plan assets	84,037	2,071	—	—
Adoption of Agrilience Employee Retirement Plan	99,699	—	—	—
Company contributions	—	25,000	5,181	5,810
Benefits paid	(29,507)	(27,312)	(5,181)	(5,810)
Fair value of plan assets at end of year	\$ 696,505	\$ 542,276	\$ —	\$ —
Funded status at end of measurement date	\$ (223,634)	\$ (194,422)	\$ (87,883)	\$ (82,310)
Amounts recognized in the consolidated balance sheets consist of:				
Other assets	\$ 22,565	\$ —	\$ —	\$ —
Accrued liabilities	—	—	(5,153)	(4,758)
Employee benefits and other liabilities	(246,199)	(194,422)	(82,730)	(77,552)
Net amount recognized	\$ (223,634)	\$ (194,422)	\$ (87,883)	\$ (82,310)
Amounts recognized in accumulated other comprehensive income (pretax) consist of:				
Prior service cost	\$ 110	\$ 163	\$ (56)	\$ (130)
Net loss	356,438	299,113	38,923	37,569
Ending balance	\$ 356,548	\$ 299,276	\$ 38,867	\$ 37,439

The accumulated benefit obligation for the Company's defined benefit pension plans was \$871.5 million and \$693.1 million at December 31, 2012 and 2011, respectively. The accumulated benefit obligation for the Company's non-qualified, defined benefit pension plans was \$79.7 million and \$73.7 million at December 31, 2012 and 2011, 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 \$833.8 million and \$587.6 million, respectively, at December 31, 2012 and \$736.7 million and \$542.3 million, respectively, at December 31, 2011.

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 plans' assets fair value measurement hierarchy:

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

Fair Value Measurements at December 31, 2011 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	\$ 200	\$ 200	\$ —	\$ —
Short-term investment fund	4,132	4,132	—	—
Mutual Funds – Bonds	183,719	183,719	—	—
Mutual Funds – Equities	151,103	151,103	—	—
Common stocks	163,536	163,536	—	—
Common collective trusts	39,586	—	39,586	—
Total plan assets	\$ 542,276	\$ 502,690	\$ 39,586	\$ —

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

	Real Estate Funds
Balance at beginning of period	\$ —
Adoption of Agrilience Employee Retirement Plan	562
Purchases, sales and settlements, net	20,678
Return on plan assets	102
Balance at end of year	\$ 21,342

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 registered investment companies and common stocks consist of various publicly traded money market funds, mutual funds and 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 and stable value funds 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	
	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 57,985	\$ 53,082
Service cost	726	663
Interest cost	2,801	2,812
Plan participants' contributions	2,412	2,336
Medicare Part D reimbursements	888	764
Actuarial loss	70	5,186
Benefits paid	(7,741)	(6,858)
Benefit obligation at end of year	\$ 57,141	\$ 57,985
Change in plan assets:		
Company contributions	\$ 4,441	\$ 3,758
Plan participants' contributions	2,412	2,336
Medicare Part D reimbursements	888	764
Benefits paid	(7,741)	(6,858)
Fair value of plan assets at end of year	\$ —	\$ —
Funded status at end of measurement date	\$ (57,141)	\$ (57,985)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued liabilities	\$ (4,288)	\$ (3,965)
Employee benefits and other liabilities	(52,853)	(54,020)
Net amount recognized	\$ (57,141)	\$ (57,985)
Amounts recognized in accumulated other comprehensive income (pretax) consists of:		
Net transition obligation	\$ —	\$ 392
Net actuarial loss	13,585	14,509
Ending balance	\$ 13,585	\$ 14,901

Components of net periodic benefit cost are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Service cost	\$ 17,621	\$ 17,915	\$ 15,572	\$ 726	\$ 663	\$ 557
Interest cost	41,584	39,540	38,511	2,801	2,812	2,944
Expected return on assets	(47,512)	(45,646)	(43,624)	—	—	—
Amortization of actuarial loss	28,721	20,410	16,140	993	490	415
Amortization of prior service cost	(21)	(24)	(9)	—	—	—
Amortization of transition obligation	—	—	—	392	428	428
Net periodic benefit cost	\$ 40,393	\$ 32,195	\$ 26,590	\$ 4,912	\$ 4,393	\$ 4,344

The following table sets forth the plans' estimated amortization in fiscal 2013 from accumulated other comprehensive income into net periodic benefit costs:

	Qualified Pension Plan	Non-qualified Pension Plans	Other Postretirement Benefits
Amortization of actuarial loss	\$ 32,001	\$ 3,739	\$ 692
Amortization of prior service cost	53	(51)	—
Net periodic benefit cost	\$ 32,054	\$ 3,688	\$ 692

Additional Information

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

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Discount rate	4.20%	5.00%	4.20%	5.00%
Rate of compensation increase	3.25%	3.75%	N/A	N/A

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

	Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Discount rate	4.97%	5.50%	5.90%	5.00%	5.00%	5.90%
Rate of long-term return on plan assets	7.75%	8.25%	8.25%	N/A	N/A	N/A
Rate of compensation increase	3.75%	3.75%	4.00%	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:

	2012	2011
Health care cost trend rate assumed for next year	8.00%	8.25%
Rate to which the cost trend is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that rate reaches ultimate trend rate	2019	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, 2012 would have the following effects:

	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost	\$ (168)	\$ (59)
Effect on postretirement benefit obligation	(915)	(246)

Plan Assets

The Company's qualified, defined benefit pension plan weighted-average asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

Asset category	2012	2011	Target
U.S. equity securities	37%	51%	37%
International equity securities	24%	15%	23%
Fixed-income securities and bonds	34%	34%	35%
Real estate and private equity	5%	—	5%
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, 2012 before fees was 8.80%, which exceeded the customized index by 0.92 percentage points and ranked in the 39th percentile of the Hewitt Associates pension fund universe. The 2012 total plan assets' annualized return was 15.39%, which exceeded the customized index by 1.89 percentage points and ranked in the 11th percentile of the Hewitt Associates pension fund universe. The total plan assets' five-year annualized return was 4.87%, which exceeded the customized index by 1.06 percentage points and ranked in the 16th percentile of the Hewitt Associates pension fund universe.

Cash Flow

The Company expects to contribute approximately \$40.0 million to its defined benefit pension plans and \$9.4 million to its other postretirement benefits plan in 2013.

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

	Qualified Pension Plan	Non-qualified Pension Plans	Other Postretirement Benefits	Health Care Subsidy Receipts
2013	\$ 35,600	\$ 5,200	\$ 5,100	\$ (800)
2014	37,900	5,500	5,400	(900)
2015	40,900	6,200	5,600	(1,000)
2016	43,500	5,600	5,900	(1,000)
2017	45,700	5,900	6,100	(1,100)
2018-2022	271,900	37,900	32,300	(6,500)

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, 2012 is outlined in the table below. The "EIN/PN" column provides the Employer Identification Number ("EIN") and the three-digit plan number ("PN"). The most recent Pension Protection Act ("PPA") zone status available for 2012 and 2011 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.

Pension Fund	EIN/PN	PPA Zone Status		FIP/RP Status Pending/Implemented	Contributions by the Company			Surcharge Imposed	Expiration Date of CBA
		2012	2011		2012	2011	2010		
Central States, Southeast and Southwest areas Pension Fund ^(a)	36-6044243 / 001	Red	Red	RP Implemented	\$2,849	\$2,758	\$2,595	No	2/28/2013 to 10/1/2014
Western Conference of Teamsters of Teamsters Pension Plan	91-6145047 / 001	Green	Green	N/A	3,328	3,072	3,521	No	8/1/2015
Other plans					320	274	259		
Total Contributions					\$6,497	\$6,104	\$6,375		

^(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.

Other Benefit Plans

Certain eligible employees are covered by defined contribution plans. The expense for these plans was \$33.6 million, \$31.7 million and \$29.1 million for 2012, 2011 and 2010, 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, 2012, 2011 and 2010, compensation expense for the share-based payment plan was \$2.2 million, \$5.6 million and \$6.4 million, respectively. Cash payments for Units settled for 2012, 2011 and 2010 were \$5.8 million, \$8.6 million and \$4.8 million, respectively. The actual income tax benefit realized from this plan was \$2.3 million, \$3.3 million and \$1.8 million, for 2012, 2011 and 2010, respectively.

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.

For 2010, the number of Units granted, canceled and settled in cash was 49,438, 6,438 and 54,875, respectively. The number of Units converted to interest-bearing deferred compensation was 44,125 with an intrinsic value of \$4.0 million. The number of Units vested during 2010 was 80,006 with an intrinsic value of \$4.2 million. The number of vested Units outstanding at December 31, 2010 was 427,631 with an intrinsic value of \$38.5 million. The number of non-vested Units at December 31, 2010 was 82,931, and the total remaining unrecognized compensation cost related to non-vested Units was \$0.9 million. As of December 31, 2010, 5,400 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, 2010, the weighted-average remaining service period for the non-vested Units was 2.1 years.

18. EQUITIES

The authorized capital stock at December 31, 2012 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 SHARES			
	Common			
	A	B	C	D
December 31, 2009	828	3,792	152	846
New members	3	166	1	104
Transfers between classes	—	(12)	—	12
Redemptions	(37)	(285)	(2)	(163)
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	291	5	92
Transfers between classes	1	(1)	(1)	1
Redemptions	(36)	(330)	(7)	(104)
December 31, 2012	744	3,187	143	804

Allocated patronage to members of \$179.6 million, \$123.6 million and \$137.8 million for the years ended December 31, 2012, 2011 and 2010, respectively, is based on earnings in specific patronage or product categories and in proportion to the business each member does within each category. For 2012, the Company issued \$179.6 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 \$59.0 million in 2012, \$55.9 million in 2011 and \$36.7 million in 2010 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. RESTRUCTURING AND IMPAIRMENT

	2012	2011	2010
Restructuring	\$ —	\$ 1,005	\$ 2,132
Impairment	415	171	502
Total restructuring and impairment	\$ 415	\$ 1,176	\$ 2,634

20. INSURANCE PROCEEDS AND GAINS ON INSURANCE SETTLEMENTS

In May 2012, the Company experienced a fire at a Layers facility located in Roggen, CO. Costs of repair or replacement of inventory, property, plant and equipment were covered under the terms of applicable insurance policies, subject to deductibles. In 2012, a partial settlement was reached for this claim for business interruption and capital asset replacement. As a result of the settlement, for the year ended December 31, 2012, the Company recorded a reduction of selling, general and administrative expense of \$1.8 million for capital asset replacement recoveries and \$0.7 million for business interruption recoveries. As of December 31, 2012, the settlement had not been paid and \$2.7 million was recorded in receivables, net on the consolidated balance sheets.

21. OTHER (INCOME) EXPENSE, NET

	2012	2011	2010
Gain on sale of investments, net	\$ —	\$ —	\$ (12,744)
Gain on extinguishment of debt	(154)	—	—
(Gain) loss on divestiture of businesses	(352)	214	(1,542)
Total	\$ (506)	\$ 214	\$ (14,286)

On December 3, 2012, Winfield sold the fixed assets and inventory of RAS to GreenPoint Ag for \$92.1 million. As a result of the transaction, Winfield recognized a gain on the sale of this business of \$0.4 million. This transaction is discussed further in Note 7. Also in 2012, Moark paid the remaining principle of one of its notes payable resulting in a gain on extinguishment of debt of \$0.2 million.

In 2011, the Company divested three seed businesses in Crop Inputs for \$2.1 million in cash. The divestiture of these business resulted in a loss of \$0.2 million.

In 2010, the Company recognized a gain of \$12.7 million related to the sale of its investment in Pro-Pet, LLC. In exchange for its ownership interests in Pro-Pet, LLC, the Company received \$12.0 million of cash, 20% of the common shares in Pet Foods Holdings, Inc., and preferred shares in Pet Foods Holding, Inc. that have a par value of \$4.0 million. Also in 2010, the Company divested a Feed business in Maquoketa, IA, for \$5.7 million in cash, which resulted in a \$1.5 million gain.

22. COMMITMENTS AND CONTINGENCIES

The Company leases various equipment and real properties under long-term operating leases. Total rental expense was \$97.4 million in 2012, \$100.2 million in 2011 and \$66.8 million in 2010. 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, 2012 are as follows:

Year	Amount
2013	\$ 43,702
2014	33,513
2015	25,394
2016	19,246
2017	11,002
Thereafter	23,899
Total minimum future lease payments	\$156,756

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 of \$3.2 billion at December 31, 2012. 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, 2012, future minimum payments under noncancelable purchase obligations are as follows:

	Raw Materials Purchase Obligations	Swine Purchase Obligations	Other Contractual Obligations	Total Purchase Obligations
2013	\$ 3,048,247	\$ 38,145	\$ 3,921	\$ 3,090,313
2014	27,442	2,170	4,476	34,088
2015	9,816	—	4,931	14,747
2016	—	—	3,375	3,375
2017	—	—	3,875	3,875
Thereafter	—	—	9,250	9,250
Total	\$3,085,505	\$40,315	\$29,828	\$3,155,648

Moark has guaranteed 50% of the outstanding loan balance for a joint venture. The loan matures in 2018 and has a remaining principal balance totaling \$8.4 million as of December 31, 2012. These notes are fully secured by collateral of the equity investee and all covenants have been satisfied as of December 31, 2012.

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 are expected to continue into 2013. In addition, the Company is analyzing 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 the years ended December 31, 2012, 2011 and 2010, the Company increased its environmental reserves related to this matter by \$0.9 million, \$0.6 million and \$4.2 million, respectively, with the expense in selling, general and administrative expense. As of December 31, 2012, \$2.4 million 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 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, 2012, 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. As of December 31, 2012 and 2011, the Company had reserved \$0.4 million and \$27.0 million, respectively, related to this matter.

With regard to the remaining actions, discovery has been stayed pending final rulings on the various motions to dismiss. 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.

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.

23. 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, EPL Feeds, LLC and Agrilliance, LLC, 50% voting interest equity method investments.

Related party transactions and balances for the years ended December 31, 2012, 2011 and 2010, respectively, and as of December 31, 2012 and 2011, respectively, are as follows:

	2012	2011	2010
Sales	\$578,262	\$519,022	\$803,363
Purchases	202,611	210,096	180,910
Marketing service fees paid to related party	18,843	—	—
Services provided to related party	1,499	975	4,012
Operating lease payments received from related party	1,380	1,058	—

	2012	2011
Notes receivable	\$ 24,604	\$ 29,204
Accounts receivable	36,953	34,401
Accounts payable	55,983	22,942

24. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through February 20, 2013, the date of issuing this report.

25. 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, formerly Land O'Lakes Purina Feed, LLC, 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 includes 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.

Other/Eliminated includes the Company's remaining operations and the elimination of intersegment transactions. Other operations consist principally of a captive insurance company, finance company and special purpose entity.

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

(\$ in thousands)	Dairy Foods	Feed	Crop Inputs	Layers	Total Other/ Eliminated	Consolidated
For the year ended December 31, 2012:						
Net sales	\$ 4,156,449	\$ 4,552,081	\$ 4,733,915	\$ 735,310	\$ (61,542)	\$ 14,116,213
Cost of sales ⁽¹⁾	3,885,306	4,216,842	4,154,912	698,296	(61,286)	12,894,070
Selling, general and administrative	228,383	282,424	356,570	54,553	10,578	932,508
Restructuring and impairment	415	—	—	—	—	415
Interest expense (income), net	16,162	25,453	3,733	14,782	(6,141)	53,989
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	\$ (33,622)	\$ (4,693)	\$ 257,675

For the year ended December 31, 2011:

Net sales	\$ 4,344,419	\$ 3,947,532	\$ 4,016,901	\$ 598,739	\$ (58,270)	\$ 12,849,321
Cost of sales ⁽¹⁾	4,105,639	3,662,871	3,578,703	555,632	(57,145)	11,845,700
Selling, general and administrative	198,630	246,432	300,693	38,944	8,415	793,114
Restructuring and impairment	—	74	974	128	—	1,176
Interest expense (income), net	13,050	25,241	813	9,613	(6,792)	41,925
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	\$ (3,316)	\$ (2,748)	\$ 181,156

For the year ended December 31, 2010:

Net sales	\$ 3,708,280	\$ 3,309,749	\$ 3,667,311	\$ 509,926	\$ (48,891)	\$ 11,146,375
Cost of sales ⁽¹⁾	3,471,893	3,046,120	3,286,299	462,138	(48,166)	10,218,284
Selling, general and administrative	176,535	236,060	240,245	69,791	7,261	729,892
Restructuring and impairment	—	2,375	—	259	—	2,634
Interest expense (income), net	13,442	25,378	123	9,881	(6,895)	41,929
Other income, net	—	(14,286)	—	—	—	(14,286)
Equity in earnings of affiliated companies	(3,879)	(8,032)	(4,122)	(4,911)	—	(20,944)
Earnings (loss) before income taxes	\$ 50,289	\$ 22,134	\$ 144,766	\$ (27,232)	\$ (1,091)	\$ 188,866

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

2010:

Total assets	\$ 858,548	\$ 1,090,273	\$ 2,264,871	\$ 279,111	\$ 391,861	\$ 4,884,664
Intersegment sales	11,731	37,928	1,771	—	(51,430)	—
Depreciation and amortization	40,178	33,885	13,066	12,716	2,323	102,168
Investments in equity method affiliates	49,616	28,069	17,855	13,419	—	108,959
Capital expenditures	36,859	37,732	14,266	17,355	33,030	139,242

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

2012	\$ 1,338	\$ (3,101)	\$ 36	\$ 1,494	\$ 970	\$ 737
2011	6,480	7,213	605	(546)	843	14,595
2010	(4,170)	(2,569)	1,865	(187)	(960)	(6,021)

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, 2012 and 2011, 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, 2012, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with U.S. generally accepted accounting principles.



Minneapolis, Minnesota
February 20, 2013