

ANDERSONS INC
Form 10-Q
May 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-20557

THE ANDERSONS, INC.

(Exact name of the registrant as specified in its charter)

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OHIO
(State of incorporation
or organization)

34-1562374
(I.R.S. Employer
Identification No.)

480 W. Dussel Drive, Maumee, Ohio
(Address of principal executive offices)

(419) 893-5050

(Telephone Number)

43537
(Zip Code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had approximately 18.6 million common shares outstanding, no par value, at April 30, 2011.

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THE ANDERSONS, INC.

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****The Andersons, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)(In thousands)**

	March 31, 2012	December 31, 2011	March 31, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 31,874	\$ 20,390	\$ 22,320
Restricted cash	18,785	18,651	12,353
Accounts receivable, net	204,400	167,640	220,665
Inventories	787,646	760,459	775,017
Commodity derivative assets current	33,845	83,950	178,767
Deferred income taxes	23,062	21,483	18,578
Other current assets	62,577	34,649	46,721
Total current assets	1,162,189	1,107,222	1,274,421
Other assets:			
Commodity derivative assets noncurrent	1,189	2,289	12,996
Other assets, net	68,311	53,327	47,819
Equity method investments	190,460	199,061	173,977
	259,960	254,677	234,792
Railcar assets leased to others, net	215,023	197,137	169,189
Property, plant and equipment, net	187,584	175,087	150,262
Total assets	\$ 1,824,756	\$ 1,734,123	\$ 1,828,664

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Condensed Consolidated Balance Sheets (continued)****(Unaudited)(In thousands)**

	March 31, 2012	December 31, 2011	March 31, 2011
Liabilities and equity			
Current liabilities:			
Borrowings under short-term line of credit	\$ 365,000	\$ 71,500	\$ 460,000
Accounts payable for grain	115,236	391,905	90,442
Other accounts payable	173,254	142,762	145,685
Customer prepayments and deferred revenue	115,109	79,557	115,908
Commodity derivative liabilities current	34,113	15,874	67,869
Accrued expenses and other current liabilities	45,994	60,445	42,119
Current maturities of long-term debt	30,342	32,208	42,783
Total current liabilities	879,048	794,251	964,806
Other long-term liabilities	44,950	43,014	25,759
Commodity derivative liabilities noncurrent	2,352	1,519	110
Employee benefit plan obligations	53,080	52,972	29,946
Long-term debt, less current maturities	220,417	238,885	263,218
Deferred income taxes	68,051	64,640	63,727
Total liabilities	1,267,898	1,195,281	1,347,566
Commitments and contingencies (Note 11)			
Shareholders' equity:			
Common shares, without par value (42,000 shares authorized at 3/31/12, 12/31/11 and 3/31/11; 19,198 shares issued)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)			
Additional paid-in-capital	179,783	179,463	176,848
Treasury shares (570, 697 and 629 shares at 3/31/12, 12/31/11 and 3/31/11, respectively; at cost)	(12,700)	(14,997)	(12,118)
Accumulated other comprehensive loss	(42,625)	(43,090)	(28,518)
Retained earnings	418,136	402,523	331,540
Total shareholders' equity of The Andersons, Inc.	542,690	523,995	467,848
Noncontrolling interest	14,168	14,847	13,250
Total equity	556,858	538,842	481,098
Total liabilities and equity	\$ 1,824,756	\$ 1,734,123	\$ 1,828,664

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Condensed Consolidated Statements of Income****(Unaudited)(In thousands, except per share data)**

	Three months ended	
	March 31,	
	2012	2011
Sales and merchandising revenues	\$ 1,137,133	\$ 1,001,674
Cost of sales and merchandising revenues	1,051,263	922,989
Gross profit	85,870	78,685
Operating, administrative and general expenses	60,100	53,707
Interest expense	5,330	7,336
Other income:		
Equity in earnings of affiliates	4,283	7,246
Other income, net	3,246	2,306
Income before income taxes	27,969	27,194
Income tax provision	10,241	9,806
Net income	17,728	17,388
Net income (loss) attributable to the noncontrolling interest	(679)	122
Net income attributable to The Andersons, Inc.	\$ 18,407	\$ 17,266
Per common share:		
Basic earnings attributable to The Andersons, Inc. common shareholders	\$ 0.99	\$ 0.93
Diluted earnings attributable to The Andersons, Inc. common shareholders	\$ 0.98	\$ 0.93
Dividends paid	\$ 0.1500	\$ 0.1100

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Condensed Consolidated Statements of Comprehensive Income****(Unaudited)(In thousands)**

	Three months ended	
	March 31,	
	2012	2011
Net income	\$ 17,728	\$ 17,388
Other comprehensive income, net of tax:		
Unrecognized actuarial loss and prior service cost (net of income tax of \$240 and \$111)	401	186
Cash flow hedge activity (net of income tax of \$38 and \$57)	64	95
Other comprehensive income	465	281
Comprehensive income	18,193	17,669
Comprehensive income (loss) attributable to the noncontrolling interest	(679)	122
Comprehensive income attributable to The Andersons, Inc.	\$ 18,872	\$ 17,547

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)(In thousands)**

	Three months ended	
	March 31,	
	2012	2011
Operating Activities		
Net income	\$ 17,728	\$ 17,388
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	10,495	9,884
Bad debt expense	634	2,437
Cash distributions in excess of income of unconsolidated affiliates	8,602	1,372
Gains on sales of railcars and related leases	(6,294)	(4,766)
Deferred income taxes	(2,857)	(854)
Stock based compensation expense	1,791	791
Other	150	(21)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(35,215)	(70,469)
Inventories	(25,093)	(127,828)
Commodity derivatives	70,277	79,903
Other assets	141	(11,109)
Accounts payable for grain	(276,669)	(184,154)
Other accounts payable and accrued expenses	49,303	65,672
Net cash used in operating activities	(187,007)	(221,754)
Investing Activities		
Purchase of treasury bills	(19,996)	
Acquisition of business, net of cash acquired	(15,286)	
Purchases of railcars	(33,414)	(10,814)
Proceeds from sale of railcars	10,206	9,159
Purchases of property, plant and equipment	(15,014)	(4,162)
Proceeds from sale of property, plant and equipment	508	64
Change in restricted cash	(134)	(219)
Net cash used in investing activities	(73,130)	(5,972)
Financing Activities		
Net change in short-term borrowings	293,500	218,900
Proceeds from issuance of long-term debt	6,935	22,957
Payments of long-term debt	(27,269)	(18,305)
Proceeds from sale of treasury shares to employees and directors	1,244	123
Payments of debt issuance costs	(9)	(815)
Dividends paid	(2,780)	(2,033)
Net cash provided by financing activities	271,621	220,827
Increase (decrease) in cash and cash equivalents	11,484	(6,899)

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Cash and cash equivalents at beginning of period	20,390	29,219
Cash and cash equivalents at end of period	\$ 31,874	\$ 22,320

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Condensed Consolidated Statements of Equity****(Unaudited)(In thousands, except per share data)**

	The Andersons, Inc. Shareholders' Equity						
	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
Balance at December 31, 2010	\$ 96	\$ 177,875	\$ (14,058)	\$ (28,799)	\$ 316,317	\$ 13,128	\$ 464,559
Net income					17,266	122	17,388
Other comprehensive income				281			281
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$531 (133 shares)		(1,027)	1,940				913
Dividends declared (\$0.11 per common share)					(2,043)		(2,043)
Balance at March 31, 2011	\$ 96	\$ 176,848	\$ (12,118)	\$ (28,518)	\$ 331,540	\$ 13,250	\$ 481,098
Balance at December 31, 2011	\$ 96	\$ 179,463	\$ (14,997)	\$ (43,090)	\$ 402,523	\$ 14,847	\$ 538,842
Net income					18,407	(679)	17,728
Other comprehensive income				465			465
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$419 (127 shares)		320	2,297				2,617
Dividends declared (\$0.15 per common share)					(2,794)		(2,794)
Balance at March 31, 2012	\$ 96	\$ 179,783	\$ (12,700)	\$ (42,625)	\$ 418,136	\$ 14,168	\$ 556,858

See Notes to Condensed Consolidated Financial Statements

Table of Contents**The Andersons, Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited)****1. Basis of Presentation and Consolidation**

These Consolidated Financial Statements include the accounts of The Andersons, Inc. and its wholly owned and controlled subsidiaries (the Company). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in unconsolidated entities in which the Company has significant influence, but not control, are accounted for using the equity method of accounting.

In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair presentation of the results of operations for the periods indicated, have been made. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

The year-end Condensed Consolidated Balance Sheet data at December 31, 2011 was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. A Condensed Consolidated Balance Sheet as of March 31, 2011 has been included as the Company operates in several seasonal industries.

The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K).

2. Inventories

Major classes of inventories are as follows:

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Grain	\$ 589,039	\$ 570,337	\$ 558,467
Ethanol and by-products	4,416	5,461	4,768
Agricultural fertilizer and supplies	129,186	118,716	153,559
Lawn and garden fertilizer and corncob products	30,017	37,001	27,396
Retail merchandise	31,681	25,612	27,800
Railcar repair parts	2,992	3,063	2,715
Other	315	269	312
	\$ 787,646	\$ 760,459	\$ 775,017

Table of Contents**3. Property, Plant and Equipment**

The components of property, plant and equipment are as follows:

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Land	\$ 17,171	\$ 17,655	\$ 15,424
Land improvements and leasehold improvements	48,587	47,958	45,359
Buildings and storage facilities	153,666	150,461	142,017
Machinery and equipment	196,434	191,833	183,568
Software	10,949	10,861	10,549
Construction in progress	20,888	13,006	2,734
	447,695	431,774	399,651
Less accumulated depreciation and amortization	260,111	256,687	249,389
	\$ 187,584	\$ 175,087	\$ 150,262

Depreciation expense on property, plant and equipment amounted to \$5.5 million, \$20.4 million and \$4.9 million for the periods ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

Railcars

The components of Railcar assets leased to others are as follows:

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Railcar assets leased to others	\$ 293,081	\$ 272,883	\$ 236,285
Less accumulated depreciation	78,058	75,746	67,096
	\$ 215,023	\$ 197,137	\$ 169,189

Depreciation expense on railcar assets leased to others amounted to \$3.9 million, \$13.8 million and \$3.3 million for the periods ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

4. Derivatives

The Company's operating results are affected by changes to commodity prices. The Grain and Ethanol businesses have established unhedged position limits (the amount of a commodity, either owned or contracted for, that does not have an offsetting derivative contract to lock in the price). To reduce the exposure to market price risk on commodities owned and forward grain and ethanol purchase and sale contracts, the Company enters into exchange traded commodity futures and options contracts and over the counter forward and option contracts with various counterparties. The exchange traded contracts are primarily via the regulated Chicago Mercantile Exchange. The Company's forward purchase and sales contracts are for physical delivery of the commodity in a future period. Contracts to purchase commodities from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of commodities to processors or other commercial consumers generally do not extend beyond one year.

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All of these contracts are considered derivatives. While the Company considers its commodity contracts to be effective economic hedges, the Company does not designate or account for its commodity contracts as hedges as defined under current accounting standards. The Company accounts for its commodity derivatives at estimated fair value, the same method it uses to value its grain inventory. The estimated fair value of the commodity derivative contracts that require the receipt or posting of cash collateral is recorded on a net basis (offset against cash collateral posted or received, also known as margin deposits) within commodity derivative assets or liabilities. Management determines fair value based on exchange-quoted prices and in the case of its forward purchase and sale contracts, estimated fair value is adjusted for differences in local markets and non-performance risk. For contracts for which physical delivery occurs, balance sheet classification is based on estimated delivery date. For futures, options and over-the-counter contracts in which physical delivery is not expected to occur but, rather, the contract is expected to be net settled, the Company classifies these contracts as current or noncurrent assets or liabilities, as appropriate, based on the Company's expectations as to when such contracts will be settled.

Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices, changes in performance or credit risk, or due to sale, maturity or extinguishment of the commodity contract) and grain inventories are included in sales and merchandising revenues.

Generally accepted accounting principles permit a party to a master netting arrangement to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or obligation to return cash collateral under the same master netting arrangement. The Company has master netting arrangements for its exchange traded futures and options contracts and certain over-the-counter contracts. When the Company enters into a futures, options or an over-the-counter contract, an initial margin deposit may be required by the counterparty. The amount of the margin deposit varies by commodity. If the market price of a future, option or an over-the-counter contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required. The Company nets, by counterparty, its futures and over-the-counter positions against the cash collateral provided or received. The margin deposit assets and liabilities are included in short-term commodity derivative assets or liabilities, as appropriate, in the Consolidated Balance Sheets.

The following table presents at March 31, 2012, December 31, 2011 and March 31, 2011, a summary of the estimated fair value of the Company's commodity derivative instruments that require cash collateral and the associated cash posted/received as collateral. The net asset or liability positions of these derivatives (net of their cash collateral) are determined on a counterparty-by-counterparty basis and are included within short-term commodity derivative assets (or liabilities) on the Consolidated Balance Sheets:

	March 31, 2012		December 31, 2011		March 31, 2011	
	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
(in thousands)						
Collateral paid	\$	\$ 7,289	\$ 66,870	\$	\$	\$ 46,305
Fair value of derivatives		(19,578)	(20,480)			(87,125)
Balance at end of period	\$	\$ (12,289)	\$ 46,390	\$	\$	\$ (40,820)

Certain of our contracts allow the Company to post items other than cash as collateral. Grain inventory posted as collateral on our derivative contracts are recorded in Inventories on the Condensed Consolidated Balance Sheets and the fair value of such inventory was \$0.2 million, \$1.0 million, and \$91.7 million as of March 31, 2012, December 31, 2011, and March 31, 2011, respectively. In addition, there were \$20.0 million in treasury bills posted as collateral on our derivative contracts as of March 31, 2012. The treasury bills have maturities greater than 90 days and are classified in Other current assets on the Condensed Consolidated Balance Sheets.

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The gains included in the Company's Condensed Consolidated Statements of Income and the line items in which they are located for the three months ended March 31, 2012 and 2011 are as follows:

(in thousands)	Three months ended March 31,	
	2012	2011
Gains (losses) on commodity derivatives included in sales and merchandising revenues	\$ (3,657)	\$ 1,278

At March 31, 2012, the Company had the following volume of commodity derivative contracts outstanding (on a gross basis):

Commodity	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	249,893			
Soybeans	23,214			
Wheat	16,179			
Oats	10,971			
Ethanol		176,818		
Corn oil			66,684	
Other				62
Subtotal	300,257	176,818	66,684	62
Exchange traded:				
Corn	110,250			
Soybeans	33,410			
Wheat	46,855			
Oats	3,035			
Bean oil			18,000	
Ethanol		840		
Other		10		
Subtotal	193,550	850	18,000	
Total	493,807	177,668	84,684	62

5. Earnings Per Share

Unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. The Company's nonvested restricted stock is considered a participating security since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest.

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	Three months ended	
	March 31,	
(in thousands except per common share data)	2012	2011
Net income attributable to The Andersons, Inc.	\$ 18,407	\$ 17,266
Less: Distributed and undistributed earnings allocated to nonvested restricted stock	46	51
Earnings available to common shareholders	\$ 18,361	\$ 17,215
Earnings per share basic:		
Weighted average shares outstanding basic	18,502	18,454
Earnings per common share basic	\$ 0.99	\$ 0.93
Earnings per share diluted:		
Weighted average shares outstanding basic	18,502	18,454
Effect of dilutive awards	151	142
Weighted average shares outstanding diluted	18,653	18,596
Earnings per common share diluted	\$ 0.98	\$ 0.93

There were no antidilutive stock-based awards outstanding at March 31, 2012 or 2011.

6. Employee Benefit Plans

Included as charges against income for the three months ended March 31, 2012 and 2011 are the following amounts for pension and postretirement benefit plans maintained by the Company:

	Pension Benefits Three months ended	
	March 31,	
(in thousands)	2012	2011
Service cost	\$ 1,143	\$ 1,126
Interest cost	(1,539)	(1,560)
Expected return on plan assets	450	223
Recognized net actuarial loss	54	(211)
Benefit cost (income)	\$ 54	\$ (211)

	Postretirement Benefits Three months ended	
	March 31,	
(in thousands)	2012	2011
Service cost	\$ 192	\$ 141
Interest cost	333	318
Amortization of prior service cost	(136)	(136)
Recognized net actuarial loss	327	209

Benefit cost	\$ 716	\$ 532
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7. Segment Information

The Company's operations include six reportable business segments that are distinguished primarily on the basis of products and services offered. The Grain business includes grain merchandising, the operation of terminal grain elevator facilities and the investment in Lansing Trade Group, LLC (LTG). The Ethanol business purchases and sells ethanol and also manages the ethanol production facilities organized as limited

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liability companies (ethanol LLCs) in which the Company has investments and various service contracts for these investments. Rail operations include the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Plant Nutrient business manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers. Turf & Specialty operations include the production and distribution of turf care and corncob-based products. The Retail business operates large retail stores, a specialty food market, a distribution center and a lawn and garden equipment sales and service shop. Included in Other are the corporate level amounts not attributable to an operating segment.

(in thousands)	Three months ended March 31,	
	2012	2011
Revenues from external customers		
Grain	\$ 699,861	\$ 637,967
Ethanol	150,670	132,748
Plant Nutrient	175,360	123,649
Rail	35,859	28,910
Turf & Specialty	45,127	47,270
Retail	30,256	31,130
Other		
Total	\$ 1,137,133	\$ 1,001,674

(in thousands)	\$699,861 Three months ended March 31,	
	2012	2011
Inter-segment sales		
Grain	\$ 1	\$ 1
Ethanol		
Plant Nutrient	3,083	5,385
Rail	203	189
Turf & Specialty	976	705
Retail		
Other		
Total	\$ 4,263	\$ 6,280

(in thousands)	\$699,861 Three months ended March 31,	
	2012	2011
Interest expense (income)		
Grain	\$ 3,252	\$ 4,840
Ethanol	24	412
Plant Nutrient	710	843
Rail	1,178	1,447
Turf & Specialty	356	449
Retail	196	260
Other	(386)	(915)
Total	\$ 5,330	\$ 7,336

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	\$27,969 \$27,969 Three months ended	
	March 31,	
(in thousands)	2012	2011
Equity in earnings (loss) of affiliates		
Grain	\$ 5,952	\$ 6,230
Ethanol	(1,671)	1,014
Plant Nutrient	2	2
Rail		
Turf & Specialty		
Retail		
Other		
Total	\$ 4,283	\$ 7,246

	\$27,969 \$27,969 Three months ended	
	March 31,	
(in thousands)	2012	2011
Other income, net		
Grain	\$ 827	\$ 580
Ethanol	16	58
Plant Nutrient	118	125
Rail	776	753
Turf & Specialty	201	290
Retail	124	156
Other	1,184	344
Total	\$ 3,246	\$ 2,306

	Three months ended March 31,	
(in thousands)	2012	2011
Income (loss) before income taxes		
Grain	\$ 19,435	\$ 15,101
Ethanol	121	3,571
Plant Nutrient	5,828	5,114
Rail	8,018	3,546
Turf & Specialty	2,202	3,278
Retail	(2,749)	(2,664)
Other	(4,207)	(874)
Noncontrolling interest	(679)	122
Total	\$ 27,969	\$ 27,194

8. Related Party TransactionsEquity Method Investments

The Company, directly or indirectly, holds investments in companies that are accounted for under the equity method. The Company's equity in these entities is presented at cost plus its accumulated proportional share of income or loss, less any distributions it has received.

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The following table presents the Company's investment balance in each of its equity method investees by entity:

(in thousands)	Three months ended March 31, 2012	Year ended December 31, 2011	Three months ended March 31, 2011
The Andersons Albion Ethanol LLC	\$ 31,463	\$ 32,829	\$ 29,931
The Andersons Clymers Ethanol LLC			