

ANDERSONS INC
Form 10-Q
May 07, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2010

**o 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)

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)

43537
(Zip Code)

(419) 893-5050
(Telephone Number)

(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 ☐
(Do not check if a smaller
reporting company)

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 18.4 million common shares outstanding, no par value, at April 30, 2010.

THE ANDERSONS, INC.
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The Andersons, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)(In thousands)

	March 31,	December	March 31,
	2010	31,	2009
		2009	2009
Current assets:			
Cash and cash equivalents	\$ 74,459	\$ 145,929	\$ 42,285
Restricted cash	3,336	3,123	7,342
Accounts and notes receivable, net	142,617	137,195	154,528
Margin deposits, net	32,255	27,012	11,883
Inventories:			
Grain	195,002	268,648	198,305
Agricultural fertilizer and supplies	122,951	80,194	117,164
Lawn and garden fertilizer and corn cob products	26,613	32,036	31,090
Retail merchandise	27,309	24,066	31,374
Other	3,018	2,901	3,373
	374,893	407,845	381,306
Commodity derivative assets current	25,942	24,255	58,804
Deferred income taxes	14,205	13,284	11,158
Prepaid expenses and other current assets	40,844	28,180	67,785
Total current assets	708,551	786,823	735,091
Other assets:			
Commodity derivative assets noncurrent	158	3,137	2,110
Other assets and notes receivable, net	25,826	25,629	11,869
Investments in and advances to affiliates	167,167	157,360	137,416
	193,151	186,126	151,395
Railcar assets leased to others, net	175,219	179,154	174,849
Property, plant and equipment:			
Land	15,191	15,191	14,524
Land improvements and leasehold improvements	42,781	42,495	39,223
Buildings and storage facilities	130,696	129,625	120,602
Machinery and equipment	164,600	162,810	154,826
Software	10,201	10,202	9,334
Construction in progress	3,432	2,624	3,234
	366,901	362,947	341,743
Less allowances for depreciation and amortization	(234,240)	(230,659)	(221,182)
	132,661	132,288	120,561

Total assets	\$ 1,209,582	\$ 1,284,391	\$ 1,181,896
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See notes to condensed consolidated financial statements

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The Andersons, Inc.
Condensed Consolidated Balance Sheets (continued)
(Unaudited)(In thousands)

	March 31, 2010	December 31, 2009	March 31, 2009
Current liabilities:			
Short-term borrowings	\$	\$	\$ 25,200
Accounts payable for grain	85,157	234,396	96,180
Other accounts payable	105,170	110,658	98,863
Customer prepayments and deferred revenue	86,128	56,698	66,982
Commodity derivative liabilities current	62,636	24,871	39,345
Accrued expenses and other current liabilities	37,625	41,563	41,183
Current maturities of long-term debt non-recourse	7,890	5,080	17,274
Current maturities of long-term debt	22,430	5,855	23,873
Total current liabilities	407,036	479,121	408,900
Deferred income and other long-term liabilities	15,650	16,051	13,934
Commodity derivative liabilities noncurrent	3,190	830	1,754
Employee benefit plan obligations	25,234	24,949	36,407
Long-term debt non-recourse, less current maturities	15,316	19,270	32,552
Long-term debt, less current maturities	272,535	288,756	284,827
Deferred income taxes	50,956	49,138	33,963
Total liabilities	789,917	878,115	812,337
Shareholders' equity:			
The Andersons, Inc. shareholders' equity:			
Common shares, without par value (25,000 shares authorized; 19,198 shares issued)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)			
Additional paid-in-capital	176,122	175,477	173,220
Treasury shares (771, 918 and 972 shares at 3/31/10, 12/31/09 and 3/31/09, respectively; at cost)	(14,168)	(15,554)	(15,139)
Accumulated other comprehensive loss	(24,955)	(25,314)	(29,337)
Retained earnings	269,270	258,662	230,064
Total shareholders' equity of The Andersons, Inc.	406,365	393,367	358,904
Noncontrolling interest	13,300	12,909	10,655
Total shareholders' equity	419,665	406,276	369,559
Total liabilities, and shareholders' equity	\$ 1,209,582	\$ 1,284,391	\$ 1,181,896

See notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2010	2009
Sales and merchandising revenues	\$ 721,998	\$ 697,392
Cost of sales and merchandising revenues	663,448	636,018
Gross profit	58,550	61,374
Operating, administrative and general expenses	45,403	46,530
Interest expense	4,635	5,690
Other income (loss):		
Equity in earnings (loss) of affiliates	9,905	(3,674)
Other income, net	3,654	1,239
Income before income taxes	22,071	6,719
Income tax provision	9,415	2,806
Net income	12,656	3,913
Net (income) loss attributable to the noncontrolling interest	(391)	1,039
Net income attributable to The Andersons, Inc.	\$ 12,265	\$ 4,952
Earnings per common share:		
Basic earnings attributable to The Andersons, Inc. common shareholders	\$ 0.67	\$ 0.27
Diluted earnings attributable to The Andersons, Inc. common shareholders	\$ 0.66	\$ 0.27
Dividends paid	\$ 0.0875	\$ 0.0850

See notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2010	2009
Operating Activities		
Net income	\$ 12,656	\$ 3,913
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	9,750	7,894
Bad debt expense (recovery)	(596)	191
Equity in earnings/loss of unconsolidated affiliates, net of distributions received	(9,807)	3,739
Gains on sales of railcars and related leases	(2,559)	(344)
Excess tax benefit from share-based payment arrangement	(728)	
Deferred income taxes	927	5,533
Stock based compensation expense	768	872
Other	13	2,975
Changes in operating assets and liabilities:		
Accounts and notes receivable	(3,475)	(28,400)
Inventories	32,951	52,670
Commodity derivatives and margin deposits	36,171	(784)
Prepaid expenses and other assets	(10,170)	25,503
Accounts payable for grain	(149,239)	(120,127)
Other accounts payable and accrued expenses	19,820	(4,199)
Net cash used in operating activities	(63,518)	(50,564)
Investing Activities		
Purchases of railcars and related leases	(8,361)	(5,626)
Proceeds from sale of railcars and related leases	6,014	2,407
Purchases of property, plant and equipment	(4,859)	(3,123)
Proceeds from sale of property, plant and equipment	21	52
Change in restricted cash	(213)	(3,415)
Investments in affiliates		(100)
Net cash used in investing activities	(7,398)	(9,805)
Financing Activities		
Net increase in short-term borrowings		25,200
Proceeds received from issuance of long-term debt	994	2,998
Payments on long-term debt	(640)	(2,847)
Payments of non-recourse long-term debt	(1,143)	(3,376)
Proceeds from sale of treasury shares to employees and directors	1,263	781
Purchase of treasury stock		(229)
Payments of debt issuance costs	(151)	
Dividends paid	(1,605)	(1,555)
Excess tax benefit from share-based payment arrangement	728	

Net cash (used in) provided by financing activities	(554)	20,972
Decrease in cash and cash equivalents	(71,470)	(39,397)
Cash and cash equivalents at beginning of period	145,929	81,682
Cash and cash equivalents at end of period	\$ 74,459	\$ 42,285

See notes to condensed consolidated financial statements

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The Andersons, Inc.
Condensed Consolidated Statements of Shareholders' 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, 2008	\$ 96	\$ 173,393	\$ (16,737)	\$ (30,046)	\$ 226,707	\$ 11,694	\$ 365,107
Net income (loss)					4,952	(1,039)	3,913
Other comprehensive income:							
Unrecognized actuarial loss and prior service costs (net of income tax of \$329)				565			565
Cash flow hedge activity (net of income tax of \$84)				144			144
Comprehensive income							4,622
Purchase of treasury shares (20 shares)			(229)				(229)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$220 (117 shares)		(173)	1,827				1,654
Dividends declared (\$0.0875 per common share)					(1,595)		(1,595)
Balance at March 31, 2009	96	173,220	(15,139)	(29,337)	230,064	10,655	369,559
Balance at December 31, 2009	96	175,477	(15,554)	(25,314)	258,662	12,909	406,276
Net income					12,265	391	12,656

Other comprehensive income:								
Unrecognized actuarial loss and prior service costs (net of income tax of \$23)				431				431
Cash flow hedge activity (net of income tax of \$52)				(72)				(72)
Comprehensive income								13,015
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$360 (148 shares)	645	1,386						2,031
Dividends declared (\$0.09 per common share)						(1,657)		(1,657)
Balance at March 31, 2010	\$ 96	\$ 176,122	\$ (14,168)	\$ (24,955)	\$ 269,270	\$ 13,300		\$ 419,665

See notes to condensed consolidated financial statements

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The Andersons, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note A: 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, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010.

The year-end condensed consolidated balance sheet data at December 31, 2009 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, 2009 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, 2009 (the 2009 Form 10-K).

Certain balance sheet items have been reclassified from their prior presentation to more appropriately reflect the nature of such items. These reclassifications are not considered material and had no effect on the income statement, statement of shareholders' equity, current assets, current liabilities, or operating cash flows as previously reported. During the first quarter of 2010, ASU 2009-16 became effective for the Company. ASU 2009-16 provides guidance for identifying entities for which analysis of voting interests, and the holding of those voting interests, is not effective in determining whether a controlling financial interest exists. These entities are considered variable interest entities (VIEs). The Company holds investments in four significant equity method investments that were evaluated under ASU 2009-16 to determine whether they were considered VIEs of the Company and subject to consolidation under this standard. The Company concluded that these entities were not VIEs Company and therefore not subject to consolidation under this standard.

New Accounting Pronouncements

ASC 820 *Improving Disclosures about Fair Value Measurements* became effective for the Company beginning with the first quarter of 2010. ASC 820 provides additional guidance and enhances the disclosures regarding fair value measurements. ASC 820 also requires new disclosures regarding transfers between levels of fair value measurements. ASC 820 did not have a material impact to the Company's disclosures.

Note B: Derivatives

The Company's operating results are affected by changes to commodity prices. The grain division has established unhedged grain position limits (the amount of grain, 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 grain owned and forward grain and ethanol purchase and sale contracts, the Company enters into regulated commodity futures contracts for corn, soybeans, wheat and oats and over-the-counter contracts

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for grain and ethanol. The Company's forward contracts are for physical delivery of the commodity in a future period. Contracts to purchase grain from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of grain to processors or other consumers generally do not extend beyond one year. Contracts for the purchase and sale of ethanol currently do not extend beyond one year. The terms of the contracts for the purchase and sale of grain and ethanol are consistent with industry standards. The Company, although to a lesser extent, also enters into option contracts for the purpose of providing pricing features to its customers and to manage price risk on its own inventory.

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 records forward commodity contracts on the balance sheet as assets or liabilities, as appropriate, and accounts for them at estimated fair value, the same method it uses to value its grain inventory. The estimated fair value of the regulated commodity futures and options contracts as well as the over-the-counter contracts is recorded on a net basis (offset against cash collateral posted or received) within margin deposits or accrued expenses and other current liabilities on the balance sheet. 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.

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 in the statements of income.

The following table presents the fair value of the Company's commodity derivatives as of March 31, 2010, December 31, 2009 and March 31, 2009, and the balance sheet line item in which they are located:

(in thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Forward commodity contracts included in Commodity derivative asset - current	\$ 25,942	\$ 24,255	\$ 58,804
Forward commodity contracts included in Commodity derivative asset	158	3,137	2,110
Forward commodity contracts included in Commodity derivative liability -current	(62,636)	(24,871)	(39,345)
Forward commodity contracts included in Commodity derivative liability	(3,190)	(830)	(1,754)
Regulated futures and options contracts included in Margin deposits (a)	23,186	(11,354)	(1,089)
Over-the-counter contracts included in Margin deposits (a)	15,325	(1,824)	
Over-the-counter contracts included in accrued expenses and other current liabilities		(4,193)	3,085
Total net fair value of commodity derivatives	\$ (1,215)	\$ (15,680)	\$ 21,811

(a) The fair value of futures, options and over-the-counter contracts are offset by cash

collateral posted
or received and
included as a net
amount in the
Consolidated
Balance Sheets.
See below for
additional
information.

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. Note 1 of the Company's 2009 Form 10-

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K provides information surrounding the Company's various master netting arrangements related to its futures, options and over-the-counter contracts. At March 31, 2010, December 31, 2009 and March 31, 2009, the Company's margin deposit assets and margin deposit liabilities consisted of the following:

(in thousands)	March 31, 2010		December 31, 2009		March 31, 2009	
	Margin deposit assets	Margin deposit liabilities	Margin deposit assets	Margin deposit liabilities	Margin deposit assets	Margin deposit liabilities
Collateral paid	\$ 215	\$	\$ 40,190	\$ 2,228	\$ 12,972	\$
Collateral received	(6,471)					(3,696)
Fair value of derivatives	38,511		(13,178)	(4,193)	(1,089)	3,085
Balance at end of period	\$ 32,255	\$	\$ 27,012	\$ (1,965)	\$ 11,883	\$ (611)

The gains included in the Company's Consolidated Statement of Income and the line items in which they are located for the three months ended March 31, 2010 and 2009 are as follows:

(in thousands)	Three months ended March 31, 2010	Three months ended March 31, 2009
Gains on commodity derivatives included in sales and merchandising revenues	\$ 44,703	\$ 19,107

At March 31, 2010, the Company had the following bushels and gallons outstanding (on a gross basis) on all commodity derivative contracts:

Number of
bushels