

ANDERSONS INC
Form 10-Q
November 08, 2010

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

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

For the quarterly period ended September 30, 2010

○ 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 October 29, 2010.

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

	September 30, 2010	December 31, 2009	September 30, 2009
Current assets:			
Cash and cash equivalents	\$ 25,732	\$ 145,929	\$ 180,578
Restricted cash	2,915	3,123	3,612
Accounts and notes receivable, net	143,591	137,195	101,279
Margin deposits, net	58,612	27,012	18,948
Inventories:			
Grain	312,919	268,648	77,107
Agricultural fertilizer and supplies	68,580	80,194	59,515
Lawn and garden fertilizer and corncob products	21,527	32,036	22,724
Retail merchandise	26,901	24,066	28,343
Other	2,521	2,901	3,129
	432,448	407,845	190,818
Commodity derivative assets current	118,488	24,255	26,608
Deferred income taxes	13,385	13,284	11,159
Other current assets	35,268	28,180	40,253
Total current assets	830,439	786,823	573,255
Other assets:			
Commodity derivative assets noncurrent	9,851	3,137	2,065
Other assets and notes receivable, net	39,942	25,629	26,540
Equity method investments	165,421	157,360	143,170
	215,214	186,126	171,775
Railcar assets leased to others, net	169,694	179,154	181,830
Property, plant and equipment:			
Land	15,427	15,191	15,175
Land improvements and leasehold improvements	44,230	42,495	42,579
Buildings and storage facilities	137,652	129,625	127,686
Machinery and equipment	173,890	162,810	161,382
Software	10,224	10,202	9,933
Construction in progress	7,224	2,624	5,020
	388,647	362,947	361,775
Less allowances for depreciation and amortization	(241,463)	(230,659)	(228,425)
	147,184	132,288	133,350

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Total assets	\$ 1,362,531	\$ 1,284,391	\$ 1,060,210
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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)

	September 30, 2010	December 31, 2009	September 30, 2009
Current liabilities:			
Short-term line of credit	\$ 101,400	\$	\$
Accounts payable for grain	131,138	234,396	49,166
Other accounts payable	164,475	110,658	80,704
Customer prepayments and deferred revenue	48,575	56,698	23,364
Commodity derivative liabilities current	47,968	24,871	59,033
Accrued expenses and other current liabilities	39,776	41,563	34,949
Current maturities of long-term debt	23,953	10,935	26,767
Total current liabilities	557,285	479,121	273,983
Other long-term liabilities	18,455	16,051	13,892
Commodity derivative liabilities noncurrent	1,936	830	2,360
Employee benefit plan obligations	27,003	24,949	29,186
Long-term debt, less current maturities	264,349	308,026	307,427
Deferred income taxes	51,649	49,138	46,185
Total liabilities	920,677	878,115	673,033
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	177,298	175,477	174,970
Treasury shares (768, 918 and 924 shares at 9/30/10, 12/31/09 and 9/30/09, respectively; at cost)	(14,141)	(15,554)	(15,549)
Accumulated other comprehensive loss	(26,798)	(25,314)	(27,126)
Retained earnings	292,515	258,662	244,036
Total shareholders' equity of The Andersons, Inc.	428,970	393,367	376,427
Noncontrolling interest	12,884	12,909	10,750
Total shareholders' equity	441,854	406,276	387,177
Total liabilities, and shareholders' equity	\$ 1,362,531	\$ 1,284,391	\$ 1,060,210

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		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Sales and merchandising revenues	\$ 706,825	\$ 601,000	\$ 2,239,822	\$ 2,109,346
Cost of sales and merchandising revenues	653,716	549,990	2,040,609	1,923,628
Gross profit	53,109	51,010	199,213	185,718
Operating, administrative and general expenses	50,143	51,303	146,653	144,556
Interest expense	4,625	5,123	13,923	15,974
Other income (loss):				
Equity in earnings (loss) of affiliates	(1,096)	5,275	15,476	2,385
Other income, net	3,561	2,443	9,096	6,406
Income before income taxes	806	2,302	63,209	33,979
Income tax provision	438	685	24,406	12,803
Net income	368	1,617	38,803	21,176
Net (income) loss attributable to the noncontrolling interest	1,026	(367)	25	944
Net income attributable to The Andersons, Inc.	\$ 1,394	\$ 1,250	\$ 38,828	\$ 22,120
Per common share data:				
Basic earnings attributable to The Andersons, Inc. common shareholders	\$ 0.08	\$ 0.07	\$ 2.11	\$ 1.21
Diluted earnings attributable to The Andersons, Inc. common shareholders	\$ 0.08	\$ 0.07	\$ 2.09	\$ 1.20
Dividends paid	\$ 0.0900	\$ 0.0875	\$ 0.2675	\$ 0.2600

See notes to condensed consolidated financial statements

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

	Nine months ended	
	September 30,	
	2010	2009
Operating Activities		
Net income	\$ 38,803	\$ 21,176
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	27,929	25,414
Bad debt expense (recovery)	(418)	5,483
Equity in (earnings)loss of unconsolidated affiliates, net of distributions received	(7,666)	(2,016)
Gain from pension curtailment		(4,132)
Gains on sales of railcars and related leases	(6,365)	(1,587)
Excess tax benefit from share-based payment arrangement	(789)	(559)
Deferred income taxes	3,545	16,466
Stock based compensation expense	1,945	2,136
Lower of cost or market inventory and contract adjustment		2,944
Other	115	(155)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(5,380)	19,570
Inventories	(21,819)	248,638
Commodity derivatives and margin deposits	(108,884)	44,686
Prepaid expenses and other assets	(5,518)	51,464
Accounts payable for grain	(106,948)	(167,141)
Other accounts payable and accrued expenses	44,811	(71,214)
Net cash (used in) provided by operating activities	(146,639)	191,173
Investing Activities		
Acquisition of business	(7,783)	(30,480)
Investment in convertible preferred securities	(13,100)	
Purchases of railcars	(13,626)	(20,587)
Proceeds from sale of railcars	17,474	6,034
Purchases of property, plant and equipment	(23,398)	(12,249)
Proceeds from sale of property, plant and equipment	224	437
Change in restricted cash	208	315
Investments in affiliates	(395)	(100)
Net cash (used in) investing activities	(40,396)	(56,630)
Financing Activities		
Net increase in short-term borrowings	101,400	
Proceeds received from issuance of long-term debt	4,315	7,097
Payments on long-term debt	(34,973)	(34,691)
Proceeds from sale of treasury shares to employees and directors	1,288	858
Purchase of treasury stock		(229)

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Payments of debt issuance costs	(1,059)	(4,494)
Dividends paid	(4,922)	(4,747)
Excess tax benefit from share-based payment arrangement	789	559
Net cash (used in) provided by financing activities	66,838	(35,647)
Increase(decrease) in cash and cash equivalents	(120,197)	98,896
Cash and cash equivalents at beginning of period	145,929	81,682
Cash and cash equivalents at end of period	\$ 25,732	\$ 180,578

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							
	Common Shares	Additional Paid-in Capital	Treasury Shares	Shareholders 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)					22,120	(944)	21,176	
Other comprehensive income:								
Unrecognized actuarial gain and prior service costs (net of income tax of \$1,630)				2,799			2,799	
Cash flow hedge activity (net of income tax of \$39)				121			121	
Comprehensive income							24,096	
Purchase of treasury shares (20 shares)			(229)				(229)	
Stock awards, stock option exercises and other shares issued to employees and directors (166 shares)		1,577	1,417				2,994	
Dividends declared (\$0.2625 per common share)					(4,791)		(4,791)	
Balance at September 30, 2009	96	174,970	(15,549)	(27,126)	244,036	10,750	387,177	
Balance at December 31, 2009	96	175,477	(15,554)	(25,314)	258,662	12,909	406,276	
Net income (loss)					38,828	(25)	38,803	

Other comprehensive income:								
Unrecognized actuarial loss and prior service costs (net of income tax of \$882)								(1,078)
Cash flow hedge activity (net of income tax of \$252)								(406)
Comprehensive income								37,319
Stock awards, stock option exercises and other shares issued to employees and directors (151 shares)	1,821		1,413					3,234
Dividends declared (\$0.27 per common share)							(4,975)	(4,975)
Balance at September 30, 2010	\$ 96	\$ 177,298	\$ (14,141)	\$ (26,798)	\$ 292,515	\$ 12,884	\$ 441,854	

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 and nine months ended September 30, 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 September 30, 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).

During the first quarter of 2010, ASU 2009-17 became effective for the Company. ASU 2009-17 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 2009-17 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 and therefore not subject to consolidation under this standard. During the second quarter of 2010, the Company made an investment in an entity that is considered a VIE. See Note F for further information.

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.

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The Company's operating results are affected by changes to commodity prices. The Company 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 commodity futures contracts, primarily via a regulated exchange such as the Chicago Mercantile Exchange and, to a lesser extent, via over-the-counter contracts with various counterparties. 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. 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 that do not require the receipt or posting of cash collateral on the balance sheet as commodity derivative 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 commodity futures and options contracts that require the receipt or posting of cash collateral 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, as appropriate. 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 September 30, 2010, December 31, 2009 and September 30, 2009, and the balance sheet line item in which they are located:

(in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Forward commodity contracts included in Commodity derivative asset - current	\$ 118,488	\$ 24,255	\$ 26,608
Forward commodity contracts included in Commodity derivative asset	9,851	3,137	2,065
Forward commodity contracts included in Commodity derivative liability -current	(47,968)	(24,871)	(59,033)
Forward commodity contracts included in Commodity derivative liability	(1,936)	(830)	(2,360)
Regulated futures and options contracts included in Margin deposits (a)	(73,246)	(11,354)	16,220
Over-the-counter contracts included in Margin deposits (a)	(29,416)	(1,824)	5,591
Over-the-counter contracts included in accrued expenses and other current liabilities (a)		(4,193)	
Total net fair value of commodity derivatives	\$ (24,227)	\$ (15,680)	\$ (10,909)

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(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-K provides information surrounding the Company's various master netting arrangements related to its futures, options and over-the-counter contracts. At September 30, 2010, December 31, 2009 and September 30, 2009, the Company's margin deposit assets and margin deposit liabilities consisted of the following:

(in thousands)	September 30, 2010		December 31, 2009		September 30, 2009	
	Margin deposit assets	Margin deposit liabilities	Margin deposit assets	Margin deposit liabilities	Margin deposit assets	Margin deposit liabilities
Collateral paid	\$ 161,274	\$	\$ 40,190	\$ 2,228	\$ 10,795	\$
Collateral received					(13,658)	
Fair value of derivatives	(102,662)		(13,178)	(4,193)	21,811	