ANDERSONS INC
Form 10-Q
May 08, 2009

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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, 2009

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	34-1562374
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
480 W. Dussel Drive, Maumee, Ohio	43537
(Address of principal executive offices)	(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 þ No o

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 o No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The registrant had approximately 18.2 million common shares outstanding, no par value, at April 30, 2009.

THE ANDERSONS, INC.

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Part I. Financial Information

Item 1. Financial Statements

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

	March 31, 2009	December 31, 2008	March 31, 2008
Current assets:			
Cash and cash equivalents	$ 42,285	$ 81,682	$ 34,765
Restricted cash	7,342	3,927	3,689
Accounts and notes receivable, net	154,528	126,255	176,225
Margin deposits, net	11,883	13,094	65,932
Inventories:			
Grain	198,305	223,107	372,644
Agricultural fertilizer and supplies	117,164	144,536	121,589
Lawn and garden fertilizer and corncob products	31,090	38,011	27,492
Retail merchandise	31,374	27,579	32,606
Other	3,373	3,687	3,699
	381,306	436,920	558,030
Commodity derivative assets current	58,804	84,919	283,417
Deferred income taxes	11,158	15,338	3,612
Prepaid expenses and other current assets	67,785	93,827	56,189
Total current assets	735,091	855,962	1,181,859
Other assets:			
Pension asset			10,551
Commodity derivative assets noncurrent	2,110	3,662	50,828
Other assets and notes receivable, net	11,869	12,433	8,344
Investments in and advances to affiliates	137,416	141,055	137,626
	151,395	157,150	207,349
Railcar assets leased to others, net	174,849	174,132	172,142
Property, plant and equipment:			
Land	14,524	14,524	11,670
Land improvements and leasehold improvements	39,223	39,040	35,851
Buildings and storage facilities	120,602	119,174	111,003
Machinery and equipment	154,826	151,401	138,721
Software	9,334	8,899	8,631
Construction in progress	3,234	6,597	3,553
	341,743	339,635	309,429
Less allowances for depreciation and amortization	(221,182)	(218,106)	(209,237)
	120,561	121,529	100,192

Total assets	**$1,181,896**	$1,308,773	$1,661,542

See notes to condensed consolidated financial statements

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

	March 31, 2009	December 31, 2008	March 31, 2008
Current liabilities:			
Short-term borrowings	**$ 25,200**	$	$ 390,000
Accounts payable for grain	**96,180**	216,307	49,866
Other accounts payable	**99,800**	99,801	164,148
Customer prepayments and deferred revenue	**66,982**	55,953	93,882
Commodity derivative liabilities current	**39,345**	67,055	153,791
Accrued expenses and other current liabilities	**40,246**	58,406	31,378
Current maturities of long-term debt non-recourse	**17,274**	13,147	13,681
Current maturities of long-term debt	**23,873**	14,594	9,781
Total current liabilities	**408,900**	525,263	906,527
Deferred income and other long-term liabilities	**13,934**	12,977	4,858
Commodity derivative liabilities noncurrent	**1,754**	3,706	8,734
Employee benefit plan obligations	**36,407**	35,513	18,906
Long-term debt non-recourse, less current maturities	**32,552**	40,055	51,667
Long-term debt, less current maturities	**284,827**	293,955	279,348
Deferred income taxes	**33,963**	32,197	25,655
Total liabilities	**812,337**	943,666	1,295,695
Shareholders equity:			
The Andersons, Inc. shareholders equity:			
Common shares, without par value (25,000 shares authorized; 19,198 shares issued and outstanding)	**96**	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)			
Additional paid-in-capital	**173,220**	173,393	170,297
Treasury shares (972 1,069 and 1,098 shares at 3/31/09, 12/31/08 and 3/31/08, respectively; at cost)	**(15,139)**	(16,737)	(16,414)
Accumulated other comprehensive loss	**(29,337)**	(30,046)	(7,555)
Retained earnings	**230,064**	226,707	206,269
Total shareholders equity of The Andersons, Inc.	**358,904**	353,413	352,693
Noncontrolling interest	**10,655**	11,694	13,154
Total shareholders equity	**369,559**	365,107	365,847
Total liabilities, and shareholders equity	**$1,181,896**	$1,308,773	$1,661,542

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, 2009	Three months ended March 31, 2008
Sales and merchandising revenues	**$697,392**	$713,001
Cost of sales and merchandising revenues	**636,018**	660,760
Gross profit	**61,374**	52,241
Operating, administrative and general expenses	**46,339**	39,586
Bad debt expense	**191**	1,705
Interest expense	**5,690**	9,122
Other income (loss):		
Equity in earnings (loss) of affiliates	**(3,674)**	8,639
Other income, net	**1,239**	2,884
Income before income taxes	**6,719**	13,351
Income tax expense	**2,806**	4,593
Net income	**3,913**	8,758
Net (income) loss attributable to the noncontrolling interest	**1,039**	(935)
Net income attributable to The Andersons, Inc.	**$ 4,952**	$ 7,823
Earnings per common share:		
Basic earnings attributable to The Andersons, Inc. common shareholders	**$ 0.27**	$ 0.43
Diluted earnings attributable to The Andersons, Inc. common shareholders	**$ 0.27**	$ 0.42
Dividends paid	**$ 0.0850**	$ 0.0775

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, 2009	Three months ended March 31, 2008
Operating Activities		
Net income	**$ 3,913**	$ 8,758
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	**7,894**	6,845
Bad debt expense	**191**	1,705
Equity in earnings/loss of unconsolidated affiliates, net of distributions received	**3,739**	1,784
Realized gains on sales of railcars and related leases	**(344)**	(2,216)
Excess tax benefit from share-based payment arrangement		(1,143)
Deferred income taxes	**5,533**	435
Stock based compensation expense	**872**	1,606
Lower of cost or market inventory and contract adjustment	**2,944**	
Other	**31**	(13)
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(28,400)**	(65,662)
Inventories	**52,670**	(55,126)
Commodity derivatives and margin deposits	**(784)**	(106,349)
Prepaid expenses and other assets	**25,503**	(15,158)
Accounts payable for grain	**(120,127)**	(86,148)
Other accounts payable and accrued expenses	**(4,199)**	88,149
Net cash used in operating activities	**(50,564)**	(222,533)
Investing Activities		
Purchases of railcars	**(5,626)**	(27,619)
Proceeds from sale of railcars and related leases	**2,407**	1,667
Purchases of property, plant and equipment	**(3,123)**	(3,561)
Proceeds from sale of property, plant and equipment	**52**	49
Change in restricted cash	**(3,415)**	37
Investments in affiliates	**(100)**	(20,500)
Net cash used in investing activities	**(9,805)**	(49,927)
Financing Activities		
Net increase in short-term borrowings	**25,200**	144,500
Proceeds received from issuance of long-term debt	**2,998**	197,640
Payments on long-term debt	**(2,847)**	(51,802)
Payments of non-recourse long-term debt	**(3,376)**	(4,651)
Proceeds from sale of treasury shares to employees and directors	**781**	661
Purchase of treasury stock	**(229)**	
Payments of debt issuance costs		(1,167)

Dividends paid	**(1,555)**	(1,399)
Excess tax benefit from share-based payment arrangement		1,143
Net cash provided by financing activities	**20,972**	284,925
Increase (decrease) in cash and cash equivalents	**(39,397)**	12,465
Cash and cash equivalents at beginning of period	**81,682**	22,300
Cash and cash equivalents at end of period	**$ 42,285**	$ 34,765

See notes to condensed consolidated financial statements

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The Andersons, Inc.
Condensed Consolidated Statements of Shareholders Equity
(Unaudited)(In thousands)

	The Andersons, Inc. Shareholders						
	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
Balance at December 31, 2007	$ 96	$ 168,286	$ (16,670)	$ (7,197)	$ 199,849	$ 12,219	$ 356,583
Net income (loss)					7,823	935	8,758
Other comprehensive income:							
Unrecognized actuarial loss and prior service costs (net of income tax of $11)				(18)			(18)
Cash flow hedge activity (net of income tax of $200)				(340)			(340)
Comprehensive income (a)							8,400
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of $1,362 (97 shares)		2,011	256				2,267
Dividends declared ($0.0775 per common share)					(1,403)		(1,403)
Balance at March 31, 2008	96	170,297	(16,414)	(7,555)	206,269	13,154	365,847
Balance at December 31, 2008	96	173,393	(16,737)	(30,046)	226,707	11,694	365,107
Net income					**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 (b)							**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**

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 and majority-owned 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, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009.

The year-end condensed consolidated balance sheet data at December 31, 2008 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, 2008 has been included as the Company operates in several seasonal industries.

In December 2007, the Financial Accounting Standards Board (FASB) released Statement No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the noncontrolling interest in a subsidiary to be presented within equity, separate from the parent s equity. In addition, the amount of consolidated net income attributable to the parent and the noncontrolling interest must be clearly identified and presented on the face of the income statement with the caption net income being defined as net income attributable to the consolidated group. SFAS 160 became effective for the Company beginning with the first quarter of 2009. Prior periods have been revised to reflect the current presentation.

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, 2008 (the 2008 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.

New Accounting Pronouncements

In April 2009, the FASB issued FSP No. FAS 157-4 Determining Whether a Market is Not Active and a Transaction is Not Distressed . This FSP provides additional guidance to highlight and expand on the factors that should be considered in estimating fair value where there has been a significant decrease in market activity for a financial asset. This FSP is effective for interim and annual periods ending after June 15, 2009. It is not expected that this FSP will have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments . This FSP requires an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP is effective for interim an annual periods ending after June 15, 2009. This FSP will not have an impact on the Company s consolidated financial statements as it is disclosure only.

Note B: Master Netting Arrangements

FASB Staff Position No. FIN 39-1 (FSP FIN 39-1), permits 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 2008 Form 10-K provides information surrounding the Company s various master netting arrangements related to its futures, options and over-the-counter contracts. At March 31, 2009, December 31, 2008 and March 31, 2008, the Company s margin deposit assets and margin deposit liabilities consisted of the following:

(in thousands)	March 31, 2009 Margin deposit assets	March 31, 2009 Margin deposit liabilities	December 31, 2008 Margin deposit assets	December 31, 2008 Margin deposit liabilities	March 31, 2008 Margin deposit assets	March 31, 2008 Margin deposit liabilities
Collateral posted	$12,972	$	$ 26,023	$	$131,801	$ 13,300
Collateral received		(3,696)		(5,858)		
Fair value of derivatives	(1,089)	3,085	(12,929)	4,080	(65,869)	(31,061)
Balance at end of period	$11,883	$ (611)	$ 13,094	$(1,778)	$ 65,932	$(17,761)

Note C: Derivatives

In March 2008, the FASB issued SFAS 161 Disclosures about Derivative Instruments and Hedging Activities which requires companies with derivative instruments to disclose additional information that will enable users of financial statements to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133 and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows.

The Company s operating results can be affected by changes to commodity prices. Company policy limits the Company s unhedged grain position (the amount of grain 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 for ethanol. The 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 are consistent with industry standards. The Company also enters into option contracts for the purpose of providing pricing features to its customers.

All of these contracts are considered derivatives under FASB Statement No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). 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. 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 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.

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

(in thousands)		March 31, 2009
Forward commodity contracts included in Commodity derivative asset current	$	58,804
Forward commodity contracts included in Commodity derivative asset		2,110
Forward commodity contracts included in Commodity derivative liability -current		(39,345)
Forward commodity contracts included in Commodity derivative liability		(1,754)
Regulated futures and options contracts included in Margin deposits (a)		(1,089)
Over-the-counter contracts included in accounts payable		3,085
Total fair value of commodity derivatives	$	21,811

(a) The fair value of futures contracts are offset by cash collateral posted or received and included as a net amount in the Consolidated Balance Sheets in accordance with FSP FIN 39-1. See Note B for additional information.

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, 2009 are as follows:

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

At March 31, 2009, the Company had the following bushels and gallons outstanding (on a gross basis) on all commodity derivative contracts:

Commodity	Number of bushels (in thousands)	Number of gallons (in thousands)
Corn	204,315	
Soybeans	11,432	
Wheat	5,388	
Oats	3,902	
Ethanol		245,438

Total	225,037	245,438

Interest Rate Derivatives

The Company periodically enters into interest rate contracts to manage interest rate risk on borrowing or financing activities. The Company has a long-term interest rate swap recorded in other long-term liabilities that is designated as a cash flow hedge and accordingly, changes in the fair value of this instrument is recognized in other comprehensive income. The terms of the swap match the terms of the underlying debt instrument. The deferred derivative gains and losses on closed treasury rate locks and the changes in fair value of the interest rate corridors are reclassified into income over the term of the underlying hedged items. The Company expects to reclassify less than $0.1 million of accumulated other comprehensive loss into earnings in the next twelve months.

The Company has other interest rate contracts that are not designated as hedges. While the Company considers all of its interest rate derivative positions to be effective economic hedges of specified risks, these in