

ANDERSONS INC  
Form 10-Q  
August 08, 2007

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**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 June 30, 2007**

**☐ 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 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 ☐ 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 ☐ whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated Filer ☒ Non-accelerated filer ☐

Indicate by check ☐ whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The registrant had 17.8 million common shares outstanding, no par value, at July 31, 2007.

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

	<b>June 30, 2007</b>	<b>December 31, 2006</b>	<b>June 30, 2006</b>
Current assets:			
Cash and cash equivalents	\$ 28,945	\$ 23,398	\$ 15,474
Restricted cash	3,756	3,801	3,836
Accounts and notes receivable, net	138,451	87,698	87,152
Margin deposits, net	27,139	15,273	7,133
Inventories:			
Grain & Ethanol	124,530	195,496	88,782
Agricultural fertilizer and supplies	35,693	42,604	30,572
Lawn and garden fertilizer and corncob products	18,906	26,379	18,514
Railcar repair parts	3,524	3,230	3,932
Retail merchandise	32,963	28,466	32,247
Other	309	282	263
	<b>215,925</b>	<b>296,457</b>	<b>174,310</b>
Commodity derivative assets    current	47,634	85,338	5,686
Railcars available for sale	4,071	5,576	6,224
Deferred income taxes		967	1,250
Prepaid expenses and other current assets	22,236	26,782	17,149
Total current assets	<b>488,157</b>	<b>545,290</b>	<b>318,214</b>
Other assets:			
Pension asset	1,531	445	9,311
Commodity derivative asset    non-current	27,169	20,862	11,192
Other assets and notes receivable, net	7,431	12,810	9,026
Investments in and advances to affiliates	97,515	59,080	46,007
	<b>133,646</b>	<b>93,197</b>	<b>75,536</b>
Railcar assets leased to others, net	146,567	145,059	136,271
Property, plant and equipment:			
Land	12,126	12,111	12,102
Land improvements and leasehold improvements	34,772	33,817	32,928
Buildings and storage facilities	107,423	106,391	105,183
Machinery and equipment	134,833	131,152	128,165
Software	7,296	7,164	7,024
Construction in progress	7,202	5,934	2,146
	<b>303,652</b>	<b>296,569</b>	<b>287,548</b>
Less allowances for depreciation and amortization	<b>(204,535)</b>	<b>(201,067)</b>	<b>(196,193)</b>

	<b>99,117</b>	95,502	91,355
Total assets	<b>\$ 867,487</b>	\$ 879,048	\$ 621,376

See notes to condensed consolidated financial statements

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

	June 30, 2007	December 31, 2006	June 30, 2006
Current liabilities:			
Short-term borrowings	\$ 77,000	\$ 75,000	\$ 51,600
Accounts payable for grain	33,262	95,915	26,742
Other accounts payable	107,858	81,610	69,323
Customer prepayments and deferred revenue	18,417	32,919	23,809
Commodity derivative liabilities current	39,481	43,173	9,562
Accrued expenses	30,704	31,065	24,026
Deferred income taxes current	402		
Current maturities of long-term debt non-recourse	13,357	13,371	13,664
Current maturities of long-term debt	11,196	10,160	12,159
Total current liabilities	331,677	383,213	230,885
Deferred income and other long-term liabilities	3,705	3,940	1,699
Commodity derivative liabilities non-current	26,002	26,531	11,066
Employee benefit plan obligations	21,617	21,200	15,179
Long-term debt non-recourse, less current maturities	64,382	71,624	82,529
Long-term debt, less current maturities	87,150	86,238	88,862
Deferred income taxes	14,825	16,127	16,805
Total liabilities	549,358	608,873	447,025
Minority interest	13,120		
Shareholders' equity:			
Common shares, without par value (25,000 shares authorized; 19,198 shares issued)	96	96	84
Additional paid-in capital	164,205	159,941	74,979
Treasury shares (1,316, 1,492 and 1,581 shares at 6/30/07, 12/31/06 and 6/30/06, respectively; at cost)	(16,354)	(16,053)	(15,497)
Accumulated other comprehensive loss	(11,518)	(9,735)	(611)
Retained earnings	168,580	135,926	115,396
	305,009	270,175	174,351
Total liabilities and shareholders' equity	\$867,487	\$879,048	\$621,376

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)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Sales and merchandising revenues	<b>\$634,214</b>	\$378,109	<b>\$1,040,717</b>	\$658,767
Cost of sales and merchandising revenues	<b>559,601</b>	323,342	<b>920,083</b>	563,729
Gross profit	<b>74,613</b>	54,767	<b>120,634</b>	95,038
Operating, administrative and general expenses	<b>42,477</b>	38,581	<b>82,097</b>	75,273
Interest expense	<b>4,190</b>	4,501	<b>9,212</b>	8,695
Other income / gains:				
Other income, net	<b>7,068</b>	2,352	<b>16,941</b>	5,411
Equity in earnings of affiliates	<b>3,916</b>	2,209	<b>6,748</b>	5,762
Minority interest in loss of subsidiaries	<b>433</b>		<b>516</b>	
Income before income taxes	<b>39,363</b>	16,246	<b>53,530</b>	22,243
Income tax expense	<b>13,875</b>	5,899	<b>18,803</b>	8,061
Net income	<b>\$ 25,488</b>	\$ 10,347	<b>\$ 34,727</b>	\$ 14,182
<b>Per common share:</b>				
Basic earnings	<b>\$ 1.43</b>	\$ 0.68	<b>\$ 1.96</b>	\$ 0.94
Diluted earnings	<b>\$ 1.40</b>	\$ 0.66	<b>\$ 1.90</b>	\$ 0.90
Dividends paid	<b>\$ 0.0475</b>	\$ 0.045	<b>\$ 0.0950</b>	\$ 0.0875
Weighted average shares outstanding-basic	<b>17,792</b>	15,220	<b>17,761</b>	15,155
Weighted average shares outstanding-diluted	<b>18,245</b>	15,776	<b>18,260</b>	15,728

See notes to condensed consolidated financial statements

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

	Six months ended June 30,	
	2007	2006
<b>Operating Activities</b>		
Net income	\$ 34,727	\$ 14,182
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	12,747	12,092
Minority interest in loss of subsidiaries	(516)	
Unremitted earnings of unconsolidated affiliates	(1,351)	(2,670)
Realized gains on sales of railcars and related leases	(5,048)	(4,434)
Excess tax benefit from share-based payment arrangement	(2,804)	(3,983)
Deferred income taxes	1,219	2,356
Stock based compensation expense	2,182	1,277
Gain on donation of equity securities	(4,773)	
Other	(22)	(894)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(50,753)	(12,673)
Inventories	80,532	80,840
Commodity derivatives and margin deposits	15,310	(8,872)
Prepaid expenses and other assets	9,536	6,632
Accounts payable for grain	(62,653)	(54,203)
Other accounts payable and accrued expenses	7,302	(36,789)
Net cash provided by (used in) operating activities	35,635	(7,139)
<b>Investing Activities</b>		
Purchases of railcars	(37,213)	(29,512)
Proceeds from sale or financing of railcars and related leases	36,319	21,434
Purchases of property, plant and equipment	(10,467)	(5,866)
Proceeds from sale of property, plant and equipment	847	1,046
Investment in affiliates	(37,084)	(22,852)
Change in restricted cash	45	100
Net cash used in investing activities	(47,553)	(35,650)
<b>Financing Activities</b>		
Net increase in short-term borrowings	2,000	39,200
Proceeds received from minority interest	13,673	
Proceeds from issuance of long-term debt	6,216	14,697
Payments on long-term debt	(4,268)	(2,915)
Proceeds from issuance of non-recourse long-term debt		2,001
Payments of non-recourse long-term debt	(7,256)	(14,163)
Change in overdrafts	4,204	1,752
Proceeds from sale of treasury shares to employees and directors	1,781	1,211
Payments of debt issuance costs		(52)



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Dividends paid	<b>(1,689)</b>	(1,327)
Excess tax benefit from share-based payment arrangement	<b>2,804</b>	3,983
Net cash provided by financing activities	<b>17,465</b>	44,387
Increase in cash and cash equivalents	<b>5,547</b>	1,598
Cash and cash equivalents at beginning of period	<b>23,398</b>	13,876
Cash and cash equivalents at end of period	<b>\$ 28,945</b>	\$ 15,474

See notes to condensed consolidated financial statements

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

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Total
Balance at January 1, 2006	\$84	\$ 70,121	\$(13,195)	\$ (455)	\$ (259)	\$102,587	\$158,883
Net income						36,347	36,347
Other comprehensive income:							
Minimum pension liability (net of income tax of \$8)				13			13
Cash flow hedge activity (net of income tax of \$185)				(60)			(60)
Unrealized gains on investment (net of income tax of \$1,461)				2,488			2,488
Comprehensive income							38,788
Equity offering (2,238 shares)	12	81,595					81,607
Unrecognized actuarial loss and prior service costs (net of income tax of \$6,886)				(11,721)			(11,721)
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$6,307 (208 shares)		8,225	(2,858)		259		5,626
Dividends declared (\$0.01825 per common share)						(3,008)	(3,008)
	<b>96</b>	<b>159,941</b>	<b>(16,053)</b>	<b>(9,735)</b>		<b>135,926</b>	<b>270,175</b>

Balance at  
December 31, 2006

Net income						34,727	34,727
Other comprehensive income:							
Unrecognized actuarial loss and prior service costs (net of income tax of \$271)			461				461
Cash flow hedge activity (net of income tax of \$144)			245				245
Unrealized gain on investment (net of income tax of \$305)			519				519
Disposal of equity securities (net of income tax of \$1,766)			(3,008)				(3,008)
Comprehensive income							32,944
Impact of adoption of FIN 48						(383)	(383)
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$1,517 (176 shares)	4,264	(301)					3,963
Dividends declared (\$0.095 per common share)						(1,690)	(1,690)
Balance at June 30, 2007	\$96	\$164,205	\$(16,354)	\$(11,518)	\$	\$168,580	\$305,009

See notes to condensed consolidated financial statements

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**The Andersons, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**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 unincorporated joint ventures in which the Company has significant influence, but not control, are accounted for using the equity method of accounting and are recorded at cost plus the Company's accumulated proportional share of income or loss, less any distributions it has received. Differences in the basis of the investment and the separate net asset value of the investee, if any, are amortized into income over the remaining life of the underlying assets, with the exception of certain permanent basis differences related to entity formation.

In the opinion of management, all adjustments, consisting of normal recurring items and the effects of the adoption of the provisions of Financial Accounting Standards Board Interpretation 48, Accounting for Uncertainty in Income Taxes, considered necessary for a fair presentation of the results of operations for the periods indicated, have been made. Operating results for the fiscal quarter and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. A condensed consolidated balance sheet as of June 30, 2006 was 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, 2006.

Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These reclassifications are not considered material and had no effect on net income or shareholders' equity as previously presented.

**Newly Adopted Accounting Standards**

In the second quarter of 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FIN 39-1 (FSP FIN 39-1), which permits a party to a master netting arrangement to offset fair value amounts recognized for the right to reclaim cash collateral or obligation to return cash collateral against the fair value amounts recognized for derivative instruments that have been offset under the same

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master netting arrangement. FSP FIN 39-1 would be required to be adopted by the Company beginning in 2008, however, the Company has elected to adopt this presentation in the current period as permitted by FSP FIN 39-1. The Company has a master netting arrangement for its futures contracts. When the Company enters into a futures contract, an initial margin deposit must be sent. The amount of the margin deposit varies by commodity. If the market price of a futures contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required. Under FSP FIN 39-1 and consistent with the balance sheets presented herein, the Company will net its open futures position with its margin deposits and include the required disclosures. At June 30, 2007, December 31, 2006 and June 30, 2006, the Company offset \$2.2 million, \$33.8 million and \$1.6 million, respectively, of margin deposits against its net open futures position.

**Financial Statement Revision**

In addition to the adoption of FSP FIN 39-1, the Company has also determined that it should revise its classification of all forward purchase and sale contracts for commodities in connection with the presentation of its financial statements for the quarter ended June 30, 2007. Historically, the Company had recorded its net position in these commodity contracts on the balance sheet within inventory. Although this presentation has been disclosed in the Company's significant accounting policies, the Company has revised its presentation to show the commodity contracts in separate line items on the consolidated balance sheet and display a gross position rather than a net position. As the Company's forward and futures contracts are considered economic hedges of inventory, the cash flows from these derivatives will remain as a part of cash flows from operating activities although for disclosure purposes the gross, rather than net effects of cash flows from these contracts will be reflected in the consolidated statements of cash flows. The Company has concluded that the effect of historically reflecting these contracts on a net, rather than gross basis did not materially misstate any previously issued consolidated balance sheets or consolidated statements of cash flows. However, the Company has elected to revise prior period comparative information presented herein in order to present such information on a basis consistent with the separate line item disclosure described above. A summary of the effects of these revisions are in the following table. The revisions have no effect on the previously reported income or stockholders' equity.

(in thousands)	Consolidated Balance Sheet At December 31, 2006		Consolidated Balance Sheet At June 30, 2006	
	As Reported	As Revised	As Reported	As Revised
Margin deposits	\$ 49,121	\$ 15,273	\$ 8,775	\$ 7,133
Inventory	299,105	296,457	168,918	174,310
Commodity derivative assets    current		85,338		5,686
Total current assets	496,448	545,290	308,778	318,214
Commodity derivative assets    non-current		20,862		11,192
Total assets	809,344	879,048	600,748	621,376
Commodity derivative liabilities    current		43,173		9,562
Total current liabilities	340,040	383,213	221,323	230,885
Commodity derivative liability    non-current		26,531		11,066
Total liabilities	539,169	608,873	426,397	447,025
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Basic earnings per share is equal to net income divided by weighted average shares outstanding. Diluted earnings per share is equal to basic earnings per share plus the incremental per share effect of dilutive options and unvested restricted shares.

(in thousands)	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Weighted average shares outstanding basic	<b>17,792</b>	15,220	<b>17,761</b>	15,155
Restricted shares and shares contingently issuable upon exercise of options	<b>453</b>	556	<b>499</b>	573
Weighted average shares outstanding diluted	<b>18,245</b>	15,776	<b>18,260</b>	15,728

Diluted earnings per share in the first half of 2007 and 2006 excludes the impact of approximately 7,000 and 14,000 employee stock options, respectively, as such options were anti-dilutive.

**Note C: Employee Benefit Plans**

In the first quarter of 2006, the Company's Board of Directors approved changes to its defined benefit plans that became effective on January 1, 2007. These changes included freezing benefits for certain employee groups and adjusting the formula for employees who continue to earn benefits after January 1, 2007. This plan amendment triggered a new valuation at February 28, 2006 resulting in an actuarial gain of \$1.8 million.

Included as charges against income for the quarter and year-to-date period are the following amounts for pension and postretirement benefit plans maintained by the Company:

(in thousands)	<b>Pension Benefits</b>			
	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	<b>\$ 665</b>	\$ 891	<b>\$ 1,329</b>	\$ 1,884
Interest cost	<b>784</b>	740	<b>1,568</b>	1,544
Expected return on plan assets	<b>(1,141)</b>	(1,009)	<b>(2,283)</b>	(1,996)
Amortization of prior service cost	<b>(159)</b>	(158)	<b>(317)</b>	(210)
Recognized net actuarial loss	<b>232</b>	440	<b>536</b>	918
Benefit cost	<b>\$ 381</b>	\$ 904	<b>\$ 833</b>	\$ 2,140

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(in thousands)	Postretirement Benefits			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Service cost	\$ 109	\$ 136	\$ 218	\$ 271
Interest cost	290	311	581	621
Amortization of prior service cost	(127)	(110)	(255)	(220)
Recognized net actuarial loss	198	228	396	457
Benefit cost	\$ 470	\$ 565	\$ 940	\$1,129

The Company made contributions to its defined benefit pension plan of \$1.3 million in each of the first six months of 2007 and 2006. The Company currently expects to make a total contribution of approximately \$5.0 million for fiscal 2007, which exceeds the required minimum contribution. The Company contributed \$5.0 million in fiscal 2006.

The postretirement benefit plan is not funded. Company contributions in the quarter represent actual claim payments and insurance premiums for covered retirees. In the first half of 2007 and 2006, payments of \$0.7 million and \$0.6 million, respectively, were made by the Company.

**Note D: Segment Information**

**Results of Operations    Segment Disclosures**  
**(unaudited)(in thousands)**

<b>Second Quarter 2007</b>	<b>Grain &amp; Ethanol</b>	<b>Rail</b>	<b>Plant Nutrient</b>	<b>Turf &amp; Specialty</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Revenues from external customers	\$323,580	\$ 42,445	\$182,908	\$30,394	\$54,887	\$	\$634,214
Inter-segment sales	1,016	272	937	376			2,601
Other income	3,538	431	300	133	158	2,508	7,068
Equity in earnings of affiliates	3,916						3,916
Interest expense	1,079	1,701	524	454	285	147	4,190
Operating income (loss)	11,981	6,902	17,117	706	3,616	(959)	39,363
Identifiable assets	394,614	189,270	127,025	50,043	59,443	47,092	867,487
<b>Second Quarter 2006</b>	<b>Grain &amp; Ethanol</b>	<b>Rail</b>	<b>Plant Nutrient</b>	<b>Turf &amp; Specialty</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Revenues from external customers	\$148,763	\$ 27,836	\$113,308	\$33,428	\$54,774	\$	\$378,109
Inter-segment sales	20	117	1,982	395			2,514
Other income	157	195	329	155	268	1,248	2,352
Equity in earnings of affiliates	2,206		3				2,209
Interest expense	1,278	1,733	698	416	286	90	4,501
Operating income (loss)	1,923	4,999	5,041	1,344	4,155	(1,216)	16,246
Identifiable assets	205,641	184,579	90,544	49,482	55,256	35,874	621,376

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<b>Six months ended June 30, 2007</b>	<b>Grain &amp; Ethanol</b>	<b>Rail</b>	<b>Plant Nutrient</b>	<b>Turf &amp; Specialty</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Revenues from external customers	\$567,523	\$68,361	\$249,468	\$66,698	\$88,667	\$	\$1,040,717
Inter-segment sales	1,379	474	4,791	835			7,479
Other income	9,523	522	453	195	318	5,930	16,941
Equity in earnings of affiliates	6,745		3				6,748
Interest expense (income)(a)	4,212	3,074	878	937	467	(356)	9,212
Operating income	22,151	9,910	17,548	2,506	1,329	86	53,530
<b>Six months ended June 30, 2006</b>	<b>Grain &amp; Ethanol</b>	<b>Rail</b>	<b>Plant Nutrient</b>	<b>Turf &amp; Specialty</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Revenues from external customers	\$277,388	\$62,219	\$159,341	\$72,933	\$86,886	\$	\$658,767
Inter-segment sales	354	252	4,269	924			5,799
Other income	2,245	315	430	518	432	1,471	5,411
Equity in earnings of affiliates	5,759		3				5,762
Interest expense (income)(a)	2,946	3,327	1,358	956	601	(493)	8,695
Operating income (loss)	3,703	11,217	3,806	3,493	1,714	(1,690)	22,243

(a) The interest income reported in Other includes net interest income at the corporate level. These amounts result from a rate differential between the interest rate at which interest is allocated to the operating segments and the actual rate at which borrowings are made.

**Note E: Equity Method Investments and Related Party Transactions**

The Company, directly or indirectly, holds investments in six limited liability 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.

Each of the operating ethanol LLCs has a marketing agreement with the Company under which the Company buys ethanol produced and markets it to external customers. Substantially all of the Company's ethanol purchases from the LLCs and sales to external parties are done through forward contracts on matching terms and, therefore, the Company does not recognize any gross profit on the sales transactions. As compensation for these marketing services, the Company earns a fee on each gallon of ethanol sold. For the quarter and year to date periods, sales made by the Company under these arrangements are as follows:

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	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Sales of ethanol	<b>\$56,857</b>	\$	<b>\$85,567</b>	\$

Prior to 2007, sales of ethanol were made directly from the applicable LLC to third parties.

The following table presents summarized financial information of Lansing Trade Group LLC as this investment qualified as a significant subsidiary for the six months ended June 30, 2006. Income before income taxes is presented as the subsidiary is structured as a limited liability company.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
(in thousands)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Sales	\$ 608,976	\$ 339,899	\$ 1,149,060	\$ 683,567
Gross profit	7,641	8,847	18,111	25,650
Income from continuing operations	2,825	7,920	6,082	18,090
Net Income	2,825	7,920	6,082	18,090

The following table summarizes income earned from the Company's equity method investees by entity.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
(in thousands)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
The Andersons Albion Ethanol LLC	<b>\$ 4,136</b>	\$ (498)	<b>\$ 7,290</b>	\$ (579)
The Andersons Clymers Ethanol LLC	<b>(123)</b>	(129)	<b>(1,082)</b>	(167)
The Andersons Marathon Ethanol LLC	<b>(1,275)</b>		<b>(1,635)</b>	
Lansing Trade Group LLC	<b>1,178</b>	2,859	<b>2,582</b>	6,531
Other		(23)	<b>(407)</b>	(23)
Total	<b>\$ 3,916</b>	\$2,209	<b>\$ 6,748</b>	\$5,762

Included in these amounts were losses of \$1.7 million and \$0.6 million for the second quarters of 2007 and 2006, respectively, as well as \$3.4 million and \$0.8 million in the first six months of 2007 and 2006, respectively, from investments in ethanol joint ventures that were still in the process of constructing ethanol plants or were not yet fully operational.

In the ordinary course of business, the Company enters into related party transactions with its equity method investees. The following table sets forth financial information with respect to the related party transactions entered into for the time periods presented:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
(in thousands)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Sales and revenues	<b>\$71,731</b>	\$5,685	<b>\$99,488</b>	\$7,704
Purchases	<b>55,064</b>	5	<b>84,852</b>	1
Lease income	<b>807</b>	255	<b>1,424</b>	510
Accounts receivable at June 30			<b>15,877</b>	1,752

**Note F: Insurance Recoveries**

On July 1, 2005, two explosions and a resulting fire occurred in a grain storage and loading facility operated by the Company and located on the Maumee River in Toledo, Ohio. There were no injuries; however, a portion of the grain at the facility was

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destroyed along with damage to a portion of the storage capacity and the conveyor systems. The facility, although leased, was insured by the Company for full replacement cost as the Company is responsible for the complete repair of the facility under the terms of the lease agreement. The Company also carried insurance on inventories and business interruption with a total deductible of \$0.25 million. As of June 30, 2007, inventory losses have been reimbursed by the insurance company (net of the \$0.25 million deductible) in the amount of \$1.2 million. Clean-up and repair costs have been reimbursed by the insurance company in the amount of \$4.6 million and re-construction costs have been reimbursed in the amount of \$11.9 million. The 2006 business interruption claim was settled in the second quarter of 2007 for \$2.9 million. As of June 30, 2007, the Company had a receivable on its balance sheet from the insurance company for reconstruction costs in the amount of \$2.4 million compared to a liability of \$0.5 million at June 30, 2006.

**Note G: Equity Securities**

In June 2007, the Company donated the remaining \$1.8 million of available-for-sale equity securities it held on its balance sheet to a charitable foundation. The entire amount was recorded as charitable giving expense. The Company had also donated \$3.1 million of available-for-sale securities in the first quarter of 2007. These donations resulted in a realized gain of \$4.8 million in the first six months of 2007, which was recognized in other income.

**Note H: Uncertain Tax Positions**

The Company adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109, effective January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$0.4 million decrease to beginning retained earnings.

The Company has elected to classify interest and penalties, accrued as required by FIN 48, as interest expense and penalty expense, respectively, rather than as income tax expense. The total amount of accrued interest and penalties as of the date of adoption is \$0.5 million. An additional \$0.1 million of interest and penalties was accrued during each of the first and second quarters of 2007.

The total amount of unrecognized tax benefits as of the date of adoption is \$1.5 million. If recognized, \$1.0 million of unrecognized tax benefits would decrease the Company's effective tax rate. The Company anticipates that the amount of unrecognized tax benefits will decrease by \$0.4 million in the fourth quarter of 2007. This decrease relates to unrecognized tax benefits associated with investment tax credits and royalty expense deductions taken on state income tax returns in tax years that will no longer be subject to examination.

U.S. federal income tax and various state and city income tax returns filed by the Company remain subject to examination for the tax years 2003 through 2006. Canadian federal income tax returns remain subject to examination for the tax years 2004 through

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2006 and Mexican federal income tax returns remain subject to examination for the tax years 2001 through 2006. There have been no material changes during the first or second quarters of 2007 in the amounts of unrecognized tax benefits recorded as a result of tax positions taken during the current period or a prior periods, or in the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

**Note I: Inventory Commitments**

The Company's inventory commitments include the fair value of forward contracts to buy and sell grain and ethanol, and exchange traded futures and option contracts used as economic hedges of the value of both owned grain and grain and ethanol forward contracts. The forward contracts require performance in future periods. 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 grain and ethanol consumers generally do not extend beyond one year. The terms of contracts for the purchase and sale of grain are consistent with industry standards. These grain contracts are considered derivatives under Financial Accounting Standards Board (FASB) Statement No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities, and are marked to the market price. Forward contracts in a gain position are recorded on the balance sheet as either Commodity derivative assets - current or Commodity derivative assets - non-current based on their delivery period. Forward contracts in a loss position are recorded on the balance sheet as either Commodity derivative liabilities - current or Commodity derivative liabilities - non-current. Futures contracts are netted against margin deposits as permitted under FSP FIN 39-1. Set forth below is a table outlining the Company's net position in its commodity derivative contracts at June 30, 2007, December 31, 2006 and June 30, 2006.

	<b>June 30, 2007</b>	<b>December 31, 2006</b>	<b>June 30, 2006</b>
Physical inventory	<b>\$124,530</b>	\$195,496	\$ 88,722
Commodity derivative assets - current	<b>47,634</b>	85,338	5,686
Commodity derivative assets - non-current	<b>27,169</b>	20,862	11,192
Commodity derivative liabilities - current	<b>(39,481)</b>	(43,173)	(9,562)
Commodity derivative liabilities - non-current	<b>(26,002)</b>	(26,531)	(11,066)
Futures contracts	<b>2,168</b>	(33,848)	(1,642)
Net position	<b>\$136,018</b>	\$198,144	\$ 83,330

**Note J: New Accounting Standards**

In February 2007 the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for the Company's annual period beginning January 1, 2008. The Company is currently assessing the impact on the financial statements of the application of SFAS 159.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward Looking Statements**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. You are urged to carefully consider these risks and factors, including those listed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006 (2006 Form 10-K). In some cases, you can identify forward-looking statements by terminology such as may, anticipates, believes, estimates, predicts, or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. These forward-looking statements relate only to events as of the date on which the statements are made and the Company undertakes no obligation, other than any imposed by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

**Critical Accounting Policies and Estimates**

Our critical accounting estimates, as described in our 2006 Form 10-K, have not materially changed during the second quarter of 2007 other than the changes to the Company's accounting treatment for its commodity contracts as described in Note A: Basis of Presentation and Consolidation.

**Executive Overview**

***Grain & Ethanol Group***

The Grain & Ethanol Group operates grain elevators in Ohio, Michigan, Indiana and Illinois. In addition to storage and merchandising, the Group performs grain trading risk management and other services for its customers. The Group is also the developer and significant investor in three ethanol facilities located in Indiana, Michigan and Ohio with a nameplate capacity of 275 million gallons. Two of these facilities are now producing ethanol while the third is expected to begin production in early 2008. In addition to its investment in these ethanol facilities, the Group operates the facilities under management contracts and provides grain origination and marketing and risk management services for which it is separately compensated. The expected surge in demand for corn to be used in ethanol production has caused corn prices to escalate and has resulted in an increase of corn acres planted in 2007 of 19% over last year.

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Although corn acreage has increased, the extremely dry weather has caused planted corn rated as good to excellent, as of this writing, in Indiana and Ohio to be only 43% compared to 71% at the same point last year. In Illinois, which has experienced more regular rain, corn rated as good to excellent is 77% compared to 70% last year. In Michigan, planted corn rated as good to excellent is only 12% compared to 75% at the same point last year. Ohio and Michigan are expecting some reduction in yields due to the less than favorable growing conditions. The 2007 wheat harvest is complete in the Company's four state region. Total wheat production in this region dropped 20% on a combination of fewer acres harvested and lower yields.

The agricultural commodity-based business is one in which changes in selling prices generally move in relationship to changes in purchase prices. Therefore, increases or decreases in prices of the agricultural commodities that the Company deals in, will have a relatively equal impact on sales and cost of sales and a minimal impact on gross profit. As a result, the significant increase in sales for the period is not necessarily indicative of the Group's overall performance and more focus should be placed on changes to merchandising revenues and service income. A portion of the sales increase relates to the Company's position as ethanol marketer for its ethanol ventures. In this role the Company buys ethanol from its ventures and then resells the ethanol to ethanol blenders. For this service, it earns a volume-based fee rather than a traditional sales margin.

Grain inventories on hand at June 30, 2007 were 43.5 million bushels, of which 14.8 million bushels were stored for others. This compares to 43.1 million bushels on hand at June 30, 2006, of which 14.3 million bushels were stored for others.

Production at the Clymers, Indiana ethanol plant began in early May, slightly behind schedule. The ethanol ventures in which the Company has interests and where production is occurring have the majority of their 2007 and 2008 ethanol margins locked in through forward purchase contracts for corn and natural gas and forward sale contracts of ethanol.

***Rail Group***

The Rail Group buys, sells, leases rebuilds and repairs various types of used railcars and rail equipment. The Group also provides fleet management services to fleet owners and operates a custom steel fabrication business. The Group has a diversified fleet of car types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives and also serves a diversified customer base.

Railcars and locomotives under management (owned, leased or managed for financial institutions in non-recourse arrangements) at June 30, 2007 were 22,573 compared to 19,569 at June 30, 2006. With overall U.S. rail traffic decreasing more than 4% over the last year, the Group's utilization rate (railcars and locomotives under management that are in lease service, exclusive of railcars managed for third party investors) has fallen from 95% at June 30, 2006 to 92% at June 30, 2007.

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***Plant Nutrient Group***

The Company's Plant Nutrient Group purchases, stores, formulates, manufactures and sells dry and liquid fertilizer to dealers and farmers as well as sells reagents for air pollution control technologies used in coal-fired power plants. In addition, they provide warehousing and services to manufacturers and customers, formulate liquid anti-icers and deicers for use on roads and runways and distribute seeds and various farm supplies. The major fertilizer ingredients sold by the Company are nitrogen, phosphate and potash.

As stated previously, U.S. corn acreage in 2007 has increased 19% over last year and the Company's year to date average corn sales price has risen 59%. The significant rise in corn prices, along with expectations for future demand to supply ethanol plants, has contributed to the increase in acreage. This has benefited the Plant Nutrient Group significantly as corn requires more nutrients than other crops. Because of this, volumes have increased 44% for the quarter and 41% year-to-date. Weather will play an important role in the outlook for the remainder of the year as farmers begin to make decisions about the next year's crop and fall nutrient applications.

***Turf & Specialty Group***

The Turf & Specialty Group produces granular fertilizer products for the professional lawn care and golf course markets. It also produces private label fertilizer and corncob-based animal bedding and cat litter for the consumer markets. The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. Corncob based products are sold throughout the year.

As part of the restructuring plan announced in 2005 by the Turf & Specialty Group, many new value-added products were introduced and, in spite of high raw material prices this year, average gross margins in the lawn business have improved when compared to the same period last year. The expansion of the Group's manufacturing facility, which manufactures a patented fertilizer product primarily for use on golf course greens, is expected to be fully operational before the end of 2007. With this increased capacity, the Group is planning the launch of several new products.

The cob business continues to be challenged by a current shortage of cobs, which has increased raw material costs. This cob shortage is expected to continue through the summer.

***Retail Group***

The Retail Group consists of six stores operated as The Andersons, which are located in the Columbus, Lima and Toledo, Ohio markets. In the second quarter of 2007, the Group opened a new specialty food store operated as The Andersons Market, located in the Toledo, Ohio market. The Group also operates a sales and service facility for outdoor power equipment near one of its conventional retail stores. The retail concept is *More for*



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*Your Home*® and the conventional retail stores focus on providing significant product breadth with offerings in building supplies and other housewares as well as specialty foods, wine and indoor and outdoor garden centers. The retail business is highly competitive. The Company competes with a variety of retail merchandisers, including home centers, department and hardware stores, as well as local grocers.

***Company***

The Other business segment of the Company represents corporate functions that provide support and services to the operating segments. The operating results contained within this segment include expenses and benefits not allocated back to the operating segments.

Beginning in 2007, changes were made to the allocation of certain costs and benefits that were previously held at the corporate level. These consist primarily of increased interest expense (credit) and other corporate costs.

**Operating Results**

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Sales and merchandising revenues	\$634,214	\$378,109	\$1,040,717	\$658,767
Cost of sales	559,601	323,342	920,083	563,729
Gross profit	74,613	54,767	120,634	95,038
Operating, administrative & general	42,477	38,581	82,097	75,273
Interest expense	4,190	4,501	9,212	8,695
Equity in earnings of affiliates	3,916	2,209	6,748	5,762
Other income/gains	7,068	2,352	16,941	5,411
Minority interest in loss of subsidiaries	433		516	
Operating income	\$ 39,363	\$ 16,246	\$ 53,530	\$ 22,243

The following discussion focuses on the operating results as shown in the consolidated statements of income with a separate discussion by segment. Additional segment information is included herein in Note E: Segment Information.

**Table of Contents****Comparison of the three months ended June 30, 2007 with the three months ended June 30, 2006:  
*Grain & Ethanol Group***

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Sales and merchandising revenues	<b>\$323,580</b>	\$148,763
Cost of sales	<b>307,419</b>	138,459
Gross profit	<b>16,161</b>	10,304
Operating, administrative & general	<b>10,988</b>	9,466
Interest expense	<b>1,079</b>	1,278
Minority interest in loss of subsidiaries	<b>433</b>	
Equity in earnings of affiliates	<b>3,916</b>	2,206
Other income/gains	<b>3,538</b>	157
Operating income	<b>\$ 11,981</b>	\$ 1,923

Operating results for the Grain & Ethanol Group improved \$10.1 million over its 2006 results. Sales of grain (corn, soybeans, wheat and oats) increased 75% over the second quarter of 2006. The majority of this increase came in sales of corn as expected increased demand from ethanol has driven up the average selling price per bushel over 50% from the same period last year. The volume of grains sold also increased by 26% over the second quarter of 2006. The Group sold \$56.9 million of ethanol during the quarter and earned \$2.8 million for services provided to its ethanol affiliates. There were no comparable sales of ethanol in the second quarter of 2006 and fees earned totaled \$0.6 million. Merchandising revenues for the Group increased \$7.2 million, a majority of which came from increased space income, which is income earned on grain held for our account or for our customers and includes storage fees earned and appreciation in the value of grain owned.

Gross profit for the Group increased \$5.9 million due mostly to the increases in space income and ethanol service fees mentioned previously. Gross profit earned on the \$56.9 million of ethanol sales was limited to a small per gallon commission.

Operating expenses increased 16% over the second quarter of 2006. This was due to a variety of factors, primarily personnel costs, including labor and incentive compensation.

In the second quarter of 2007, the Group settled its 2006 business interruption claim that resulted from the July 1, 2005 explosion at one of its grain elevators. Included in other income is \$2.8 million from this settlement.

The Group's equity in earnings of affiliates increased \$1.7 million from the second quarter of 2006. The Company now has investments in two ethanol entities that are producing ethanol. One was operating the entire second quarter and one commenced

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operations at the beginning of May. During the same period in 2006, none of the Company's ethanol affiliates were operational.

***Rail Group***

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Sales and merchandising revenues	<b>\$42,445</b>	\$27,836
Cost of sales	<b>29,674</b>	15,953
Gross profit	<b>12,771</b>	11,883
Operating, administrative & general	<b>4,599</b>	5,346
Interest expense	<b>1,701</b>	1,733
Other income/gains	<b>431</b>	195
Operating income	<b>\$ 6,902</b>	\$ 4,999

Operating results for the Rail Group increased \$1.9 million over results from the second quarter of 2006. Leasing revenues increased \$1.5 million, car sales for the Group increased \$13.2 million and sales from the railcar repair and fabrication shops remained relatively flat. The increase in leasing revenue is a factor of the increased cars in the Group's rail fleet. Decisions on car sales are made based on portfolio needs and the second quarter increase was the result of an opportunity that presented itself for the sale of a large number of cars.

Gross profit for the Group increased \$0.9 million, resulting from a \$2.4 million increase in gross profit on car sales, a \$0.5 million decrease in gross profit on leases and a \$1.0 million decrease in gross profit from the Group's railcar repair and fabrication shops. Maintenance costs continue to be a problem and are impacting the Group's gross profit from its leasing business. The decrease in gross profit from the fabrication shops are a result of sales of product with lower margins.

Operating expenses for the Group decreased 14% from the same period last year which is due mostly to the decreased repair shop activity. The second quarter of 2006 saw a lot of work resulting from Hurricane Katrina and with the elimination of that work in the second quarter of 2007, there has been less need for temporary labor and other expenses.

**Table of Contents*****Plant Nutrient Group***

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Sales and merchandising revenues	<b>\$182,908</b>	\$113,308
Cost of sales	<b>159,517</b>	103,198
Gross profit	<b>23,391</b>	10,110
Operating, administrative & general	<b>6,050</b>	4,703
Interest expense	<b>524</b>	698
Equity in earnings of affiliates		3
Other income/gains	<b>300</b>	329
Operating income	<b>\$ 17,117</b>	\$ 5,041

Operating results for the Plant Nutrient Group improved \$12.1 million over results from the second quarter of 2006. Sales increased 61% due to a 44% increase in volume and a 12% increase in the average price per ton sold. The increased demand for corn as a result of ethanol production has contributed to the increased volume as corn requires more nutrients than other crops. Merchandising revenues increased 52% due to increased application acres and increased storage income.

Gross profit improved 131% over the same period last year due to the increase in sales and merchandising revenues as well as a significant increase in the gross profit per ton.

Operating expenses for the Group increased 29% over the first quarter of 2007 which is a result of increased business as well as increased incentive compensation expense from their significantly improved performance. The reduction in interest expense for the Group in the second quarter of 2007 relates primarily to a change in the amount of interest allocated to the Group.

***Turf & Specialty Group***

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Sales and merchandising revenues	<b>\$30,394</b>	\$33,428
Cost of sales	<b>25,227</b>	27,800
Gross profit	<b>5,167</b>	5,628
Operating, administrative & general	<b>4,140</b>	4,023
Interest expense	<b>454</b>	416
Other income/gains	<b>133</b>	155
Operating income	<b>\$ 706</b>	\$ 1,344

Operating results for the Turf & Specialty Group decreased \$0.6 million over results from the second quarter of 2006. Sales in the lawn fertilizer business decreased \$2.8 million due to both decreased volume and a decrease in the average price per ton sold. The decreased volume can be attributed to a decrease in the demand for granular insecticides



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as dry weather conditions have lessened the need for these types of products. Sales in the cob business decreased \$0.2 million due mostly to decreased volumes which resulted from product rationalization due to a limited supply of cobs.

Gross profit for the Group decreased 8% over the same period last year. The decrease in gross profit in the lawn fertilizer business is a direct result of the decreased sales. Gross profit per ton experienced a slight increase over the same period last year due to more sales made in the value-add professional market. The decrease in gross profit in the cob business is a combined result of the decrease in sales as well as having to outsource cobs at higher prices in order to meet customer demand.

Operating and interest expenses for the Group remained relatively flat quarter over quarter.

***Retail Group***

**Three months  
ended  
June 30,  
2007                  2006**