

Andersons, Inc.
Form 10-Q
August 04, 2016
Table of Contents

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 June 30, 2016

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 (I.R.S. Employer or organization) 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 No

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

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

Large accelerated filer Accelerated Filer
Non-accelerated filer Smaller reporting company

Edgar Filing: Andersons, Inc. - Form 10-Q

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 28.2 million common shares outstanding, no par value, at August 4, 2016.

Table of Contents

THE ANDERSONS, INC.
INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets – June 30, 2016, December 31, 2015 and June 30, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations – Three and six months ended June 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and six months ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows – Six months ended June 30, 2016 and 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Equity – Six months ended June 30, 2016 and 2015</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>43</u>

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

The Andersons, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)(In thousands)

	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 31,383	\$ 63,750	\$ 40,773
Restricted cash	987	451	941
Accounts receivable, net	212,588	170,912	238,601
Inventories (Note 2)	486,236	747,399	508,408
Commodity derivative assets – current (Note 5)	115,924	49,826	39,860
Deferred income taxes	—	6,772	6,069
Other current assets	48,754	90,412	44,765
Total current assets	895,872	1,129,522	879,417
Other assets:			
Commodity derivative assets – noncurrent (Note 5)	1,934	412	2,990
Goodwill	63,934	63,934	117,859
Other intangible assets, net	113,245	120,240	126,443
Other assets, net	6,549	9,515	33,370
Equity method investments	238,478	242,107	224,380
	424,140	436,208	505,042
Rail Group assets leased to others, net (Note 3)	340,136	338,111	330,832
Property, plant and equipment, net (Note 3)	447,267	455,260	437,074
Total assets	\$ 2,107,415	\$ 2,359,101	\$ 2,152,365

Table of Contents

The Andersons, Inc.

Condensed Consolidated Balance Sheets (continued)

(Unaudited)(In thousands)

	June 30, 2016	December 31, 2015	June 30, 2015
Liabilities and equity			
Current liabilities:			
Short-term debt (Note 4)	\$ 179,404	\$ 16,990	\$ 141,250
Trade and other payables	302,413	668,788	358,190
Customer prepayments and deferred revenue	18,252	66,762	25,927
Commodity derivative liabilities – current (Note 5)	43,183	37,387	42,622
Accrued expenses and other current liabilities	71,169	70,324	72,034
Current maturities of long-term debt (Note 4)	53,720	27,786	27,188
Total current liabilities	668,141	888,037	667,211
Other long-term liabilities	30,430	18,176	14,934
Commodity derivative liabilities – noncurrent (Note 5)	2,182	1,063	2,177
Employee benefit plan obligations	44,902	45,805	57,686
Long-term debt, less current maturities (Note 4)	398,746	436,208	417,279
Deferred income taxes	179,911	186,073	171,163
Total liabilities	1,324,312	1,575,362	1,330,450
Commitments and contingencies (Note 13)			
Shareholders' equity:			
Common shares, without par value (63,000 shares authorized; 29,430, 29,353 and 29,430 shares issued at 6/30/16, 12/31/15 and 6/30/15, respectively)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)	—	—	—
Additional paid-in-capital	219,489	222,848	223,802
Treasury shares, at cost (1,190, 1,397 and 1,014 shares at 6/30/16, 12/31/15 and 6/30/15, respectively)	(44,970)	(52,902)	(38,880)
Accumulated other comprehensive loss	(17,094)	(20,939)	(55,159)
Retained earnings	606,177	615,151	671,655
Total shareholders' equity of The Andersons, Inc.	763,698	764,254	801,514
Noncontrolling interests	19,405	19,485	20,401
Total equity	783,103	783,739	821,915
Total liabilities and equity	\$ 2,107,415	\$ 2,359,101	\$ 2,152,365
See Notes to Condensed Consolidated Financial Statements			

Table of Contents

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

	Three months ended		Six months ended June	
	June 30,	June 30,	30,	2015
	2016	2015	2016	2015
Sales and merchandising revenues	\$ 1,064,244	\$ 1,187,704	\$ 1,952,123	\$ 2,105,929
Cost of sales and merchandising revenues	967,202	1,079,531	1,787,326	1,914,445
Gross profit	97,042	108,173	164,797	191,484
Operating, administrative and general expenses	75,405	83,743	155,286	162,346
Interest expense	6,554	4,025	13,605	10,063
Other income (loss):				
Equity in earnings (loss) of affiliates, net	2,344	16,190	(4,633	) 19,450
Other income (loss), net	5,682	13,772	8,928	16,880
Income (loss) before income taxes	23,109	50,367	201	55,405
Income tax provision (benefit)	7,668	17,969	382	19,061
Net income (loss)	15,441	32,398	(181	) 36,344
Net income (loss) attributable to the noncontrolling interests	1,018	1,306	92	1,155
Net income (loss) attributable to The Andersons, Inc.	\$ 14,423	\$ 31,092	\$ (273	) \$ 35,189
Per common share:				
Basic earnings (loss) attributable to The Andersons, Inc. common shareholders	\$ 0.51	\$ 1.09	\$ (0.01	) \$ 1.23
Diluted earnings (loss) attributable to The Andersons, Inc. common shareholders	\$ 0.51	\$ 1.09	\$ (0.01	) \$ 1.23
Dividends declared	\$ 0.155	\$ 0.14	\$ 0.31	\$ 0.28
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$15,441	\$32,398	\$(181)	\$36,344
Other comprehensive income (loss), net of tax:				
Recognition of gain on sale of debt securities (net of income tax of \$0, \$0, \$74 and \$0)	—	—	(126)	—
Change in unrecognized actuarial loss and prior service cost (net of income tax of \$653, \$1,289, \$663 and \$1,525 - Note 8)	1,121	2,128	1,294	2,518
Foreign currency translation adjustments (net of income tax of \$0, \$0, \$0 and \$(613))	52	779	2,557	(3,204)
Cash flow hedge activity (net of income tax of \$36, \$39, \$72 and \$74)	60	64	120	122
Other comprehensive income (loss)	1,233	2,971	3,845	(564)
Comprehensive income (loss)	16,674	35,369	3,664	35,780
Comprehensive income (loss) attributable to the noncontrolling interests	1,018	1,306	92	1,155
Comprehensive income (loss) attributable to The Andersons, Inc.	\$15,656	\$34,063	\$3,572	\$34,625
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)(In thousands)

	Six months ended	
	June 30,	
	2016	2015
Operating Activities		
Net income (loss)	\$(181)	\$36,344
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	41,379	36,596
Bad debt expense	491	484
Equity in losses (earnings) of affiliates, net of dividends	7,181	(1,980)
Gain on sale of investments	(685)	—
Gains on sales of Rail Group assets and related leases	(4,725)	(9,213)
Excess tax benefit from share-based payment arrangement	—	(1,299)
Deferred income taxes	(1,601)	10,736
Stock-based compensation expense	3,696	1,988
Other	234	833
Changes in operating assets and liabilities:		
Accounts receivable	(43,650)	(42,209)
Inventories	224,368	312,341
Commodity derivatives	(60,443)	27,835
Other assets	35,612	17,173
Trade and other payables	(396,037)	(449,027)
Net cash provided by (used in) operating activities	(194,361)	(59,398)
Investing Activities		
Acquisition of business, net of cash acquired	—	(124,328)
Purchases of Rail Group assets	(27,504)	(53,756)
Proceeds from sale of Rail Group assets	10,397	26,355
Purchases of property, plant and equipment	(34,443)	(28,214)
Proceeds from sale of property, plant and equipment	173	453
Proceeds from sale of investments	15,013	1,866
Proceeds from sale of facilities	54,330	—
Purchase of Investments	(2,523)	—
Change in restricted cash	(538)	(513)
Net cash provided by (used in) investing activities	14,905	(178,137)
Financing Activities		
Net change in short-term borrowings	164,000	138,000
Proceeds from issuance of long-term debt	77,564	151,608
Payments of long-term debt	(85,177)	(82,014)
Purchase of treasury stock	—	(34,160)
Distributions to noncontrolling interest owner	—	(1,700)
Proceeds from sale of treasury shares to employees and directors	1,282	426
Payments of debt issuance costs	(309)	(271)
Dividends paid	(8,679)	(8,044)
Excess tax benefit from share-based payment arrangement	—	1,299
Other	(1,592)	(1,540)
Net cash provided by (used in) financing activities	147,089	163,604
Decrease in cash and cash equivalents	(32,367)	(73,931)

Edgar Filing: Andersons, Inc. - Form 10-Q

Cash and cash equivalents at beginning of period	63,750	114,704
Cash and cash equivalents at end of period	\$31,383	\$40,773

See Notes to Condensed Consolidated Financial Statements

7

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Equity

(Unaudited)(In thousands, except per share data)

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2014	\$ 96	\$222,789	\$(9,743)	\$(54,595)	\$644,556	\$ 20,946	\$824,049
Net income					35,189	1,155	36,344
Other comprehensive loss				(564)			(564)
Cash distributions to noncontrolling interest						(1,700)	(1,700)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$819 (163 shares)		(3,428)	5,023				1,595
Purchase of Treasury Shares (786 shares)			(34,160)				(34,160)
Dividends declared (\$0.28 per common share)					(7,952)		(7,952)
Shares Issued for acquisitions (77 shares)		4,303					4,303
Performance share unit dividend equivalents		138			(138)		—
Balance at June 30, 2015	\$ 96	\$223,802	\$(38,880)	\$(55,159)	\$671,655	\$ 20,401	\$821,915
Balance at December 31, 2015	\$ 96	\$222,848	\$(52,902)	\$(20,939)	\$615,151	\$ 19,485	\$783,739
Net loss					(273)	92	(181)
Other comprehensive income				3,845			3,845
Other change in noncontrolling interest						(172)	(172)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$424 (207 shares)		(3,379)	7,932				4,553
Dividends declared (\$0.155 per common share)					(8,681)		(8,681)
Restricted share award dividend equivalents		\$20			\$(20)		—
Balance at June 30, 2016	\$ 96	\$219,489	\$(44,970)	\$(17,094)	\$606,177	\$ 19,405	\$783,103

See Notes to Condensed Consolidated Financial Statements

Table of Contents

The Andersons, Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation and Consolidation

These Condensed Consolidated Financial Statements include the accounts of The Andersons, Inc. and its wholly owned and controlled subsidiaries (the "Company"). All 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 and recurring items, considered necessary for the fair presentation of the results of operations, financial position, and cash flows for the periods indicated, have been made. The results in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

The Condensed Consolidated Balance Sheet data at December 31, 2015 was derived from the audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. An unaudited Condensed Consolidated Balance Sheet as of June 30, 2015 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, 2015 (the "2015 Form 10-K").

New Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-10, Identifying Performance Obligations and Licensing. This standard is intended to clarify guidance under ASC 606 related to the definition of performance obligations and materiality considerations as well as revenue recognition questions around the licensing of intellectual property. The standard is effective for annual and interim periods beginning after December 15, 2017. The portions of this standard related to licensing are not applicable but the Company is currently assessing the method of adoption and the impact the remaining provisions in this standard will have on its Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This standard simplifies the accounting treatment for excess tax benefits and deficiencies, forfeitures, and cash flow considerations related to share-based compensation. The standard is effective for annual and interim periods beginning after December 15, 2016. The Company is currently assessing the method of adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Principal versus Agent Considerations. This standard is intended to clarify the process to determine whether a company should record certain revenue transactions on a gross or a net basis. The standard is effective for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the method of adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. This standard is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet with expanded disclosures around those items. This guidance is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of this standard.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. This standard provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. The Company is currently evaluating the

impact of this standard.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes. This standard simplifies the presentation of deferred income taxes by eliminating the requirement for companies to present deferred tax liabilities and assets as current and non-current on the Consolidated Balance Sheets. Instead, companies

9

Table of Contents

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory. This standard requires entities to measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. The standard is effective for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact of this standard.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue From Contracts With Customers. The core principle of the new revenue model is that an entity recognizes revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the method of adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures.

Table of Contents

2. Inventories

Major classes of inventories are as follows:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Grain	\$348,757	\$ 534,548	\$327,480
Ethanol and by-products	15,298	8,576	12,802
Plant nutrients and cob products	91,227	172,815	136,472
Retail merchandise	25,161	24,510	25,415
Railcar repair parts	5,793	6,894	6,050
Other	—	56	189
	\$486,236	\$ 747,399	\$508,408

Inventories on the Condensed Consolidated Balance Sheets at June 30, 2016, December 31, 2015 and June 30, 2015 do not include 4.0 million, 3.4 million and 1.2 million bushels of grain, respectively, held in storage for others. The Company does not have title to the grain and is only liable for any deficiencies in grade or shortage of quantity that may arise during the storage period. Management has not experienced historical losses on any deficiencies and does not anticipate material losses in the future.

3. Property, Plant and Equipment

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

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Land	\$28,472	\$ 29,928	\$29,902
Land improvements and leasehold improvements	77,849	77,191	75,822
Buildings and storage facilities	290,528	303,482	296,035
Machinery and equipment	374,107	375,028	356,759
Construction in progress	51,672	32,871	21,803
	822,628	818,500	780,321
Less: accumulated depreciation	375,361	363,240	343,247
	\$447,267	\$ 455,260	\$437,074

Depreciation expense on property, plant and equipment was \$23.8 million and \$22.3 million for the six months ended June 30, 2016 and 2015, respectively. Additionally, Depreciation expense on property, plant and equipment was \$11.6 million and \$11.4 million for the three months ended June 30, 2016 and 2015, respectively. Capitalized software has been reclassified from property, plant, and equipment, and is now presented as a component of other intangible assets. Prior year balance sheets have been recast to conform with the current period presentation.

Rail Group Assets

The components of Rail Group assets leased to others are as follows:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Rail Group assets leased to others	\$442,239	\$ 434,051	\$422,810
Less: accumulated depreciation	102,103	95,940	91,978
	\$340,136	\$ 338,111	\$330,832

Depreciation expense on Rail Group assets leased to others amounted to \$9.3 million and \$8.3 million for the six months ended June 30, 2016 and 2015, respectively. Additionally, Depreciation expense on Rail Group assets leased to others amounted to \$4.7 million and \$4.3 million for the three months ended June 30, 2016 and 2015, respectively.

Table of Contents

4. Debt

The Company is party to borrowing arrangements with a syndicate of banks. See Note 5 in the Company's 2015 Form 10-K for a description of these arrangements. Total borrowing capacity for the Company under all lines of credit is currently at \$872.5 million, including \$22.5 million of debt of The Andersons Denison Ethanol LLC ("TADE"), which is non-recourse to the Company. At June 30, 2016, the Company had a total of \$630.9 million available for borrowing under its lines of credit. Our borrowing capacity is reduced by a combination of outstanding borrowings and letters of credit. The Company was in compliance with all financial covenants as of June 30, 2016.

The Company's short-term and long-term debt at June 30, 2016, December 31, 2015 and June 30, 2015 consisted of the following:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Short-term Debt – Non-Recourse	\$—	\$—	\$—
Short-term Debt – Recourse	\$179,404	16,990	141,250
Total Short-term Debt	179,404	16,990	141,250
Current Maturities of Long-term Debt – Non-Recourse	—	—	—
Current Maturities of Long-term Debt – Recourse	53,720	27,786	27,188
Total Current Maturities of Long-term Debt	53,720	27,786	27,188
Long-term Debt, Less: Current Maturities – Non-Recourse	—	—	—
Long-term Debt, Less: Current Maturities – Recourse	398,746	436,208	417,279
Total Long-term Debt, Less: Current Maturities	\$398,746	\$ 436,208	\$417,279

5. Derivatives

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

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

Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices, changes in performance or credit risk, or due to sale, maturity or extinguishment of the commodity contract) and grain inventories are included in cost of sales and merchandising revenues. These amounts were previously classified in sales and merchandising revenues but were reclassified starting in the fourth quarter of 2015.

Table of Contents

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

The following table presents at June 30, 2016, December 31, 2015 and June 30, 2015, a summary of the estimated fair value of the Company's commodity derivative instruments that require cash collateral and the associated cash posted/received as collateral. The net asset or liability positions of these derivatives (net of their cash collateral) are determined on a counterparty-by-counterparty basis and are included within current or noncurrent commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

(in thousands)	June 30, 2016		December 31, 2015		June 30, 2015	
	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
Collateral paid (received)	\$38,252	\$ (480)	\$ 3,008	\$ —	\$ —	\$ (49,007)
Fair value of derivatives	13,491	1,480	25,356	—	—	(58,195)
Balance at end of period	\$51,743	\$ 1,000	\$ 28,364	\$ —	\$ —	\$ (9,188)

The following table presents, on a gross basis, current and noncurrent commodity derivative assets and liabilities:

(in thousands)	June 30, 2016				Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$ 134,504	\$ 2,095	\$ 5,925	\$ 84	\$ 142,608
Commodity derivative liabilities	(56,832)	(161)	(48,628)	(2,266)	(107,887)
Cash collateral	38,252	—	(480)	—	37,772
Balance sheet line item totals	\$ 115,924	\$ 1,934	\$ (43,183)	\$ (2,182)	\$ 72,493

(in thousands)	December 31, 2015				Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$ 51,647	\$ 412	\$ 371	\$ 2	\$ 52,432
Commodity derivative liabilities	(4,829)	—	(37,758)	(1,065)	(43,652)
Cash collateral	3,008	—	—	—	3,008
Balance sheet line item totals	\$ 49,826	\$ 412	\$ (37,387)	\$ (1,063)	\$ 11,788

(in thousands)	June 30, 2015				Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$ 52,405	\$ 3,072	\$ 3,956	\$ 43	\$ 59,476

Edgar Filing: Andersons, Inc. - Form 10-Q

Commodity derivative liabilities	(61,552)	(82)	(46,578)	(2,220)	(110,432)
Cash collateral	49,007	—	—	—	49,007
Balance sheet line item totals	\$39,860	\$ 2,990	\$(42,622)	\$(2,177)	\$(1,949)

Table of Contents

The gains (losses) included in the Company's Condensed Consolidated Statements of Operations and the line items in which they are located are as follows:

(in thousands)	Three months		Six months	
	ended June 30, 2016	2015	ended June 30, 2016	2015
Gains (losses) on commodity derivatives included in cost of sales and merchandising revenues	\$34,800	\$(41,017)	\$25,941	\$2,805

The Company had the following volume of commodity derivative contracts outstanding (on a gross basis) at June 30, 2016, December 31, 2015 and June 30, 2015:

Commodity	June 30, 2016			
	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	242,269	—	—	—
Soybeans	52,599	—	—	—
Wheat	13,100	—	—	—
Oats	30,722	—	—	—
Ethanol	—	130,464	—	—
Corn oil	—	—	13,800	—
Other	17	—	—	128
Subtotal	338,707	130,464	13,800	128
Exchange traded:				
Corn	148,665	—	—	—
Soybeans	46,570	—	—	—
Wheat	22,790	—	—	—
Oats	2,820	—	—	—
Ethanol	—	36,540	—	—
Other	—	—	—	—
Subtotal	220,845	36,540	—	—
Total	559,552	167,004	13,800	128

Table of Contents

December 31, 2015				
Commodity	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	227,248	—	—	—
Soybeans	13,357	—	—	—
Wheat	13,710	—	—	—
Oats	15,019	—	—	—
Ethanol	—	138,660	—	—
Corn oil	—	—	11,532	—
Other	297	—	—	116
Subtotal	269,631	138,660	11,532	116
Exchange traded:				
Corn	106,260	—	—	—
Soybeans	17,255	—	—	—
Wheat	28,135	—	—	—
Oats	3,480	—	—	—
Ethanol	—	840	—	—
Other	—	840	—	—
Subtotal	155,130	1,680	—	—
Total	424,761	140,340	11,532	116
June 30, 2015				
Commodity	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	233,812	—	—	—
Soybeans	29,823	—	—	—
Wheat	8,809	—	—	—
Oats	24,180	—	—	—
Ethanol	—	139,789	—	—
Corn oil	—	—	6,394	—
Other	350	—	—	118
Subtotal	296,974	139,789	6,394	118
Exchange traded:				
Corn	139,965	—	—	—
Soybeans	30,945	—	—	—
Wheat	22,585	—	—	—
Oats	4,690	—	—	—
Ethanol	—	25,620	—	—
Other	—	—	—	—
Subtotal	198,185	25,620	—	—
Total	495,159	165,409	6,394	118

Table of Contents

At June 30, 2016, December 31, 2015 and June 30, 2015, the Company had recorded the following amounts for the fair value of the Company's interest rate derivatives:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Derivatives not designated as hedging instruments			
Interest rate contracts included in other long term liabilities	(5,422)	(3,133)	—
Total fair value of interest rate derivatives not designated as hedging instruments	\$ (5,422)	\$ (3,133)	\$ —
Derivatives designated as hedging instruments			
Interest rate contract included in other short term liabilities	—	(191)	—
Total fair value of interest rate derivatives designated as hedging instruments	\$ —	\$ (191)	\$ —

The losses included in the Company's Consolidated Statements of Operations and the line item in which they are located for interest rate derivatives not designated as hedging instruments are as follows:

(in thousands)	Three months ended June 30, 2016	Six months ended June 30, 2016	2015
Interest expense	\$(694)	\$(2,294)	\$ —

The Company also has foreign currency derivatives which are considered effective economic hedges of specified economic risks but which are not designated as accounting hedges. At June 30, 2016, December 31, 2015 and June 30, 2015, the Company had recorded the following amounts for the fair value of the Company's foreign currency derivatives:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Derivatives not designated as hedging instruments			

Edgar Filing: Andersons, Inc. - Form 10-Q

Foreign currency contracts included in short term assets	1,391	—	—
Total fair value of foreign currency contract derivatives not designated as hedging instruments	\$1,391	\$	—\$ —

The losses included in the Company's Consolidated Statements of Operations and the line item in which they are located for foreign currency contract derivatives not designated as hedging instruments are as follows:

	Three months ended June 30,	Six months ended June 30,		
(in thousands)	2016	2015	2016	2015
Foreign currency derivative gains (losses) included in Other income, net	\$(87)	\$	-\$1,391	\$ —

Table of Contents

6. Employee Benefit Plans

The following are components of the net periodic benefit cost for the pension and post-retirement benefit plans maintained by the Company for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Pension Benefits			
	Three months ended June 30, 2016		Six months ended June 30, 2015	
Service cost	\$—	\$63	\$—	\$118
Interest cost	48	(1,118)	97	91
Expected return on plan assets	—	1,561	—	—
Recognized net actuarial loss	37	388	73	758
Benefit cost	\$85	\$894	\$170	\$967
(in thousands)	Post-retirement Benefits			
	Three months ended June 30, 2016		Six months ended June 30, 2015	
Service cost	\$167	\$210	\$380	\$450
Interest cost	370	386	775	792
Amortization of prior service cost	(89)	(136)	(177)	(272)
Recognized net actuarial loss	149	367	384	759
Benefit cost	\$597	\$827	\$1,362	\$1,729

7. Income Taxes

On a quarterly basis, the Company estimates the effective tax rate expected to be applicable for the full year and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecast based on actual historical information and forward-looking estimates and is used to provide for income taxes in interim reporting periods. The Company also recognizes the tax impact of certain unusual or infrequently occurring items, such as the effects of changes in tax laws or rates and impacts from settlements with tax authorities, discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily due to the impact of state income taxes and to benefits related to the domestic production activities deduction.

For the three months ended June 30, 2016, the Company recorded income tax expense of \$7.7 million at an effective tax rate of 33.2%, which varied from the U.S. Federal tax rate of 35% primarily due to a 1.9% tax benefit related to the domestic production activities deduction and a 1.7% tax benefit attributable to the accounting for the investment in a foreign affiliate. For the three months ended June 30, 2015, the Company recorded income tax expense of \$18.0 million at an effective tax rate of 35.7%.

For the six months ended June 30, 2016, the Company recorded income tax expense of \$0.4 million at an effective tax rate of 189.6%, which varied from the U.S. Federal tax rate of 35% primarily due to a 174.7% discrete tax charge related to state income taxes. For the six months ended June 30, 2015, the Company recorded income tax expense of \$19.1 million at an effective tax rate of 34.4%.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2015. During the quarter ended March 31, 2016, the IRS completed its audit of the Company's 2011 and 2012 consolidated Federal income tax returns. The results of the examination will not have a material effect on the Company's 2016 effective tax rate.

Table of Contents

8. Accumulated Other Comprehensive Loss

The following tables summarize the after-tax components of accumulated other comprehensive income (loss) attributable to the Company for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Changes in Accumulated Other Comprehensive Income (Loss) by Component (a) For the three months ended June 30, 2016					For the Six months ended June 30, 2016				
	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investm in Debt Securities	Defin Benefit Plan Items	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investm in Debt Securities	Defin Benefit Plan Items	Total
Beginning Balance	\$(51)	\$(9,536)	\$ —	\$(8,740)	\$(18,327)	\$(111)	\$(12,041)	\$ 126	\$(8,913)	\$(20,939)
Other comprehensive income (loss) before reclassifications	60	52	—	1,177	1,289	120	2,557	—	1,406	4,083
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(56)	(56)	—	—	(126)	(112)	(238)
Net current-period other comprehensive income (loss)	60	52	—	1,121	1,233	120	2,557	(126)	1,294	3,845
Ending balance	\$9	\$(9,484)	\$ —	\$(7,619)	\$(17,094)	\$9	\$(9,484)	\$ —	\$(7,619)	\$(17,094)
(in thousands)	Changes in Accumulated Other Comprehensive Income (Loss) by Component (a) For the three months ended June 30, 2015					For the six months ended June 30, 2015				
	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investm in Debt Securities	Defin Benefit Plan Items	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investm in Debt Securities	Defin Benefit Plan Items	Total
Beginning Balance	\$(306)	\$(8,692)	\$ 126	\$(49,258)	\$(58,130)	\$(364)	\$(4,709)	\$ 126	\$(49,648)	\$(54,595)
Other comprehensive income (loss) before reclassifications	64	779	—	2,213	3,056	122	(3,204)	—	2,688	(394)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(85)	(85)	—	—	—	(170)	(170)
Net current-period other comprehensive income (loss)	64	779	—	2,128	2,971	122	(3,204)	—	2,518	(564)
Ending balance	\$(242)	\$(7,913)	\$ 126	\$(47,130)	\$(55,159)	\$(242)	\$(7,913)	\$ 126	\$(47,130)	\$(55,159)

(a) All amounts are net of tax. Amounts in parentheses indicate debits

Table of Contents

The following tables show the reclassification adjustments from accumulated other comprehensive loss to net income (loss) for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)	
	For the three months ended June 30, 2016	For the Six months ended June 30, 2016
Amount	Amount	Amount
Reclassified	Reclassified	Reclassified
from	from	from
Accumulated	Accumulated	Accumulated
Other	Other	Other
Components	Is Presented	Is Presented
Comprehensive	Comprehensive	Comprehensive
Income	Income	Income
(Loss)	(Loss)	(Loss)
Details about Accumulated Other Comprehensive Income (Loss) Components	Affected Line Item in the Statement Where Net Income Is Presented	Affected Line Item in the Statement Where Net Income Is Presented
Defined Benefit Plan Items		
Amortization of prior-service cost	\$ (89) (b)	\$ (177) (b)
	(89) Total before tax	(177) Total before tax
	33 Income tax provision	65 Income tax provision
	\$ (56) Net of tax	\$ (112) Net of tax
Other items		
Recognition of gain on sale of investment	\$—	(200)
	— Total before tax	(200) Total before tax
	— Income tax provision	74 Income tax provision
	\$— Net of tax	\$ (126) Net of tax
Total reclassifications for the period	(56) Net of tax	(238) Net of tax
(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)
	For the three months ended June 30, 2015	For the six months ended June 30, 2015
Amount	Amount	Amount
Reclassified	Reclassified	Reclassified
from	from	from
Accumulated	Accumulated	Accumulated
Other	Other	Other
Components	Is Presented	Is Presented
Comprehensive	Comprehensive	Comprehensive
Income	Income	Income
(Loss)	(Loss)	(Loss)
Defined Benefit Plan Items		
Amortization of prior-service cost	\$ (136) (b)	\$ (272) (b)
	(136) Total before tax	(272) Total before tax
	51 Income tax provision	102 Income tax provision
	\$ (85) Net of tax	\$ (170) Net of tax
Total reclassifications for the period	\$ (85) Net of tax	\$ (170) Net of tax

(a) Amounts in parentheses indicate credits to profit/loss

(b) This accumulated other comprehensive loss component is included in the computation of net periodic benefit cost (see Note 6).

Table of Contents

9. Earnings Per Share

Unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. The Company's nonvested restricted stock that was granted prior to March 2015 is considered a participating security since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest.

(in thousands, except per common share data)	Three months		Six months	
	ended June 30, 2016	2015	ended June 30, 2016	2015
Net income (loss) attributable to The Andersons, Inc.	\$14,423	\$31,092	\$(273)	\$35,189
Less: Distributed and undistributed earnings allocated to nonvested restricted stock	8	52	5	66
Earnings (loss) available to common shareholders	\$14,415	\$31,040	\$(278)	\$35,123
Earnings per share – basic:				
Weighted average shares outstanding – basic	28,227	28,375	28,164	28,558
Earnings (loss) per common share – basic	\$0.51	\$1.09	\$(0.01)	\$1.23
Earnings per share – diluted:				
Weighted average shares outstanding – basic	28,227	28,375	28,164	28,558
Effect of dilutive awards	86	13	—	51
Weighted average shares outstanding – diluted	28,313	28,388	28,164	28,609
Earnings (loss) per common share – diluted	\$0.51	\$1.09	\$(0.01)	\$1.23

All outstanding share awards were antidilutive for the six months ended June 30, 2016 as the Company experienced a net loss. There were no antidilutive stock-based awards outstanding for the three months ended June 30, 2016 or at June 30, 2015.

Table of Contents

10. Fair Value Measurements

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2016, December 31, 2015 and June 30, 2015:

(in thousands)	June 30, 2016			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 11,578	\$ —	\$ —	\$ 11,578
Restricted cash	987	—	—	987
Commodity derivatives, net (a)	48,412	24,083	—	72,495
Provisionally priced contracts (b)	(42,213)	(18,495)	—	(60,708)
Convertible preferred securities (c)	—	—	3,294	3,294
Other assets and liabilities (d)	6,080	(5,426)	—	654
Total	\$24,844	\$ 162	\$ 3,294	\$28,300
(in thousands)	December 31, 2015			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	\$26,931	\$—	\$—	\$26,931
Restricted cash	450	—	—	450
Commodity derivatives, net (a)	26,890	(15,101)	—	11,789
Provisionally priced contracts (b)	(133,842)	(103,148)	—	(236,990)
Convertible preferred securities (c)	—	—	13,550	13,550
Other assets and liabilities (d)	8,635	(3,324)	350	5,661
Total	\$(70,936)	\$(121,573)	\$ 13,900	\$(178,609)
(in thousands)	June 30, 2015			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	\$8,943	\$—	\$—	\$8,943
Restricted cash	941	—	—	941
Commodity derivatives, net (a)	(6,960)	5,011	—	(1,949)
Provisionally priced contracts (b)	(50,001)	(35,085)	—	(85,086)
Convertible preferred securities (c)	—	—	13,300	13,300
Other assets and liabilities (d)	11,531	(2,565)	—	8,966
Total	\$(35,546)	\$(32,639)	\$ 13,300	\$(54,885)

(a) Includes associated cash posted/received as collateral

(b) Included in "Provisionally priced contracts" are those instruments based only on underlying futures values (Level 1) and delayed price contracts (Level 2)

(c) Recorded in "Other noncurrent assets" on the Company's Condensed Consolidated Balance Sheets

Included in other assets and liabilities are deferred compensation assets, ethanol risk management contracts, and

(d) foreign exchange derivative contracts (Level 1), interest rate derivatives (Level 2), and contingent consideration to the former owners of Kay Flo Industries, Inc (Level 3).

Level 1 commodity derivatives reflect the fair value of the exchange-traded futures and options contracts that the Company holds, net of the cash collateral that the Company has in its margin account.

The majority of the Company's assets and liabilities measured at fair value are based on the market approach valuation technique. With the market approach, fair value is derived using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company's net commodity derivatives primarily consist of futures or options contracts via regulated exchanges and contracts with producers or customers under which the future settlement date and bushels (or gallons in the case of ethanol contracts) of commodities to be delivered (primarily wheat, corn, soybeans and ethanol) are fixed and under which the price may or may not be fixed. Depending on the specifics of the individual contracts, the fair value is derived from the futures or

21

Table of Contents

options prices on the CME or the New York Mercantile Exchange for similar commodities and delivery dates as well as observable quotes for local basis adjustments (the difference, which is attributable to local market conditions, between the quoted futures price and the local cash price). Because basis for a particular commodity and location typically has multiple quoted prices from other agribusinesses in the same geographical vicinity and is used as a common pricing mechanism in the Agribusiness industry, we have concluded that basis is a Level 2 fair value input for purposes of the fair value disclosure requirements related to our commodity derivatives. Although nonperformance risk, both of the Company and the counterparty, is present in each of these commodity contracts and is a component of the estimated fair values, based on the Company's historical experience with its producers and customers and the Company's knowledge of their businesses, the Company does not view nonperformance risk to be a material input to fair value for these commodity contracts.

These fair value disclosures exclude physical grain inventories measured at net realizable value. The net realizable value used to measure the Company's agricultural commodity inventories is the fair value (spot price of the commodity in an exchange), less cost of disposal and transportation based on the local market. This valuation would generally be considered Level 2. The amount is disclosed in Note 2 Inventories. Changes in the net realizable value of commodity inventories are recognized as a component of cost of sales and merchandising revenues.

Provisionally priced contract liabilities are those for which the Company has taken ownership and possession of grain but the final purchase price has not been established. In the case of payables where the unpriced portion of the contract is limited to the futures price of the underlying commodity or we have delivered provisionally priced grain and a subsequent payable or receivable is set up for any futures changes in the grain price, quoted CBOT prices are used and the liability is deemed to be Level 1 in the fair value hierarchy. For all other unpriced contracts which include variable futures and basis components, the amounts recorded for delayed price contracts are determined on the basis of local grain market prices at the balance sheet date and, as such, are deemed to be Level 2 in the fair value hierarchy.

The risk management contract liability allows related ethanol customers to effectively unprice the futures component of their inventory for a period of time, subjecting the bushels to market fluctuations. The Company records an asset or liability for the market value changes of the commodities over the life of the contracts based on quoted CBOT prices and as such, the balance is deemed to be Level 1 in the fair value hierarchy.

The Company's stake in the Iowa Northern Railway Company ("IANR") was redeemed in the first quarter of 2016. The remaining convertible preferred securities are interests in two early-stage enterprises in the form of debt securities with the possibility of conversion to equity under certain circumstances.

A reconciliation of beginning and ending balances for the Company's fair value measurements using Level 3 inputs is as follows:

(in thousands)	2016 Contingent Consideration	2015 Contingent Consideration	2016 Convertible Securities	2015 Convertible Securities
Asset (liability) at January 1,	\$ (350)	\$ —	\$ 13,550	\$ 13,300
Gains (losses) included in earnings	190	—	710	—
Sales proceeds	—	—	(13,485)	—
Asset (liability) at March 31,	\$ (160)	\$ —	\$ 775	\$ 13,300
Gains (losses) included in earnings	160	—	19	—
New agreements	—	—	2,500	—
Asset (liability) at June 30,	—	—	3,294	13,300

The following tables summarize quantitative information about the Company's Level 3 fair value measurements as of June 30, 2016, December 31, 2015 and June 30, 2015:

Quantitative Information about Level 3 Fair Value Measurements

Edgar Filing: Andersons, Inc. - Form 10-Q

(in thousands)	Fair Value as of June 30, 2016	Valuation Method	Unobservable Input	Weighted Average
Convertible Notes	\$3,294	Cost basis plus interest	N/A	N/A

Table of Contents

(in thousands)	Fair Value as of December 31, 2015	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	\$ 12,800	Market Approach	EBITDA Multiples	5.6
		Income Approach	Discount Rate	14.5 %
Convertible Notes	\$ 750	Cost basis plus interest	N/A	N/A

(in thousands)	Fair Value as of June 30, 2015	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	\$ 13,300	Market Approach	EBITDA Multiples	6.15
		Income Approach	Discount Rate	14.5 %

Fair Value of Financial Instruments

The fair value of the Company's long-term debt is estimated using quoted market prices or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. As such, the Company has concluded that the fair value of long-term debt is considered Level 2 in the fair value hierarchy.

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Fair value of long-term debt, including current maturities	\$472,714	\$ 467,703	\$448,298
Fair value in excess of carrying value	16,498	3,708	3,831

The fair value of the Company's cash equivalents, accounts receivable and accounts payable approximate their carrying value as they are close to maturity.

11. Related Party Transactions

Equity Method Investments

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

On December 4, 2015, Lansing Trade Group, LLC ("LTG") agreed to the sale of equity to New Hope Liuhe Investment (USA), Inc., a U.S. subsidiary of the Chinese company, New Hope Liuhe Co. Ltd. New Hope paid cash for a 20 percent equity interest in LTG. The impact of this transaction to the Company was a reduction in total ownership share of LTG from approximately 38.5 percent to 31.0 percent which includes dilution from newly issued shares as well as a redemption of shares that occurred on a pro rata basis between the Company and the other existing owners of LTG. The Company recognized a total gain of \$23.1 million on these transactions. Cash of \$8.2 million was received of which \$1.3 million was a return of capital and \$6.7 million was a return on capital. The remainder was a book gain on cash received in excess of basis in the shares redeemed.

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

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
The Andersons Albion Ethanol LLC	\$34,133	\$ 32,871	\$30,943
The Andersons Clymers Ethanol LLC	30,088	29,278	29,698

Edgar Filing: Andersons, Inc. - Form 10-Q

The Andersons Marathon Ethanol LLC	31,158	31,255	29,681
Lansing Trade Group, LLC	90,884	101,531	84,092
Thompsons Limited (a)	47,948	43,964	47,232
Other	4,267	3,208	2,734
Total	\$238,478	\$ 242,107	\$224,380

(a) Thompsons Limited and related U.S. operating company held by joint ventures

23

Table of Contents

The Company holds a majority interest (66%) in The Andersons Ethanol Investment LLC (“TAEI”). This consolidated entity holds a 50% interest in The Andersons Marathon Ethanol LLC (“TAME”). The noncontrolling interest in TAEI is attributed 34% of the gains and losses of TAME recorded by the Company in its equity in earnings of affiliates.

The following table summarizes income earned from the Company’s equity method investments by entity:

(in thousands)	% Ownership at June 30, 2016	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
The Andersons Albion Ethanol LLC	55%	\$1,650	\$2,324	\$1,328	\$3,416
The Andersons Clymers Ethanol LLC	38%	1,889	3,180	810	3,468
The Andersons Marathon Ethanol LLC	50%	1,712	2,812	(97)	3,144
Lansing Trade Group, LLC	33% (a)	(5,333)	5,498	(8,101)	7,908
Thompsons Limited (b)	50%	2,426	2,229	1,427	1,367
Other	5% - 34%	—	147	—	147
Total		\$2,344	\$16,190	\$(4,633)	\$19,450

(a) This does not consider restricted management units which once vested will reduce the ownership percentage by approximately 0.8%

(b) Thompsons Limited and related U.S. operating company held by joint ventures

Total distributions received from unconsolidated affiliates were \$2.7 million and \$19.2 million for the six months ended June 30, 2016 and June 30, 2015, respectively.

In the second quarter of 2016, The Andersons Albion Ethanol LLC, The Andersons Clymers Ethanol LLC, The Andersons Marathon Ethanol LLC, Lansing Trade Group, and Thompsons Limited qualified as significant equity investees of the Company under the income test. The following table presents combined summarized unaudited financial information of these investments for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues	\$1,340,809	\$1,357,038	\$3,029,680	\$2,880,689
Gross profit	52,204	77,891	77,782	137,686
Income (loss) from continuing operations	556	37,506	(17,568)	47,719
Net income (loss)	(2,051)	33,859	(20,164)	42,386
Net income (loss) attributable to companies	(1,410)	34,340	(19,122)	41,856

Investment in Debt Securities

The Company previously owned 100% of the cumulative convertible preferred shares of Iowa Northern Railway Company (“IANR”), which operates a short-line railroad in Iowa. In the first quarter of 2016, these shares were redeemed and the Company no longer has an ownership stake with this entity. See Footnote 10 for additional information on the effects of this transaction.

Related Party Transactions

In the ordinary course of business, the Company will enter into related party transactions with each of the investments described above, along with other related parties. The following table sets forth the related party transactions entered into for the time periods presented:

Table of Contents

(in thousands)	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Sales revenues	\$176,865	\$197,253	\$371,702	\$346,724
Service fee revenues (a)	9,490	6,330	14,126	11,255
Purchases of product	116,556	113,314	218,509	216,108
Lease income (b)	1,994	1,582	3,861	3,245
Labor and benefits reimbursement (c)	6,841	2,779	10,738	5,811
Other expenses (d)	—	224	149	557

- (a) Service fee revenues include management fees, corn origination fees, ethanol and distillers dried grains (DDG) marketing fees, and other commissions.
- (b) Lease income includes the lease of the Company's Albion, Michigan and Clymers, Indiana grain facilities as well as certain railcars to the various ethanol LLCs and IANR.
- (c) The Company provides all operational labor to the unconsolidated ethanol LLCs and charges them an amount equal to the Company's costs of the related services.
- (d) Other expenses include payments to IANR for repair facility rent and use of their railroad reporting mark, payment to LTG for the lease of railcars and other various expenses.

(in thousands)	June 30, December 31, June 30,		
	2016	2015	2015
Accounts receivable (e)	\$20,685	\$13,362	\$31,495
Accounts payable (f)	10,022	13,784	13,848

- (e) Accounts receivable represents amounts due from related parties for sales of corn, leasing revenue and service fees.
- (f) Accounts payable represents amounts due to related parties for purchases of ethanol and other various items.

For the three months ended June 30, 2016 and 2015, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$111.3 million and \$109.1 million, respectively. Additionally, for the six months ended June 30, 2016 and 2015, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$198.9 million and \$210.8 million, respectively.

For the three months ended June 30, 2016 and 2015, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$105.6 million and \$107.7 million, respectively. Additionally, for the six months ended June 30, 2016 and 2015, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$224.1 million and \$204.4 million, respectively.

From time to time, the Company enters into derivative contracts with certain of its related parties for the purchase and sale of corn and ethanol, for similar price risk mitigation purposes and on similar terms as the purchase and sale of derivative contracts it enters into with unrelated parties. The fair value of derivative contract assets with related parties as of June 30, 2016, December 31, 2015 and June 30, 2015 was \$5.2 million, \$2.3 million and \$1.5 million, respectively. The fair value of derivative contract liabilities with related parties as of June 30, 2016, December 31, 2015 and June 30, 2015 was \$1.0 million, \$0.3 million and \$2.4 million, respectively.

12. Segment Information

The Company's operations include five reportable business segments that are distinguished primarily on the basis of products and services offered. The Grain business includes grain merchandising, the operation of terminal grain elevator facilities and the investments in LTG and Thompsons Limited. The Ethanol business purchases and sells ethanol and also manages the ethanol production facilities organized as limited liability companies, one is consolidated and three are investments accounted for under the equity method. There are various service contracts for these investments. Rail operations include the leasing, marketing and fleet management of railcars and other assets,

railcar repair and metal fabrication. The Plant Nutrient business manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers, along with turf care and corncob-based products. The Retail business operates large retail stores, a specialty food market, a distribution center and a lawn and garden equipment sales and service facility. Included in "Other" are the corporate level costs not attributed to an operating segment. The segment information below includes the allocation of expenses shared by one or more operating segments. Although management believes such allocations are reasonable, the operating information does not necessarily reflect how such data might appear if the segments were operated as separate businesses. Inter-segment sales are made at prices comparable to

Table of Contents

normal, unaffiliated customer sales. The Company does not have any customers who represent 10 percent or more of total revenues.

(in thousands)	Three months ended		Six months ended June	
	June 30, 2016	2015	30, 2016	2015
Revenues from external customers				
Grain	\$522,989	\$601,397	\$1,061,803	\$1,160,073
Ethanol	142,520	142,564	257,213	275,365
Plant Nutrient	320,036	357,186	487,027	511,137
Rail	40,342	45,523	79,951	89,739
Retail	38,357	41,034	66,129	69,615
Total	\$1,064,244	\$1,187,704	\$1,952,123	\$2,105,929

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Inter-segment sales				
Grain	\$174	\$440	\$1,625	\$2,129
Plant Nutrient	114	148	361	465
Rail	355	243	734	424
Total	\$643	\$831	\$2,720	\$3,018

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Income (loss) before income taxes				
Grain	\$(13,037)	\$3,149	\$(30,442)	\$3,892
Ethanol	6,187	9,667	3,507	14,946
Plant Nutrient	23,535	18,873	25,239	19,297
Rail	6,569	21,689	15,944	32,002
Retail	1,010	1,469	(1,066)	(714)
Other	(2,173)	(5,786)	(13,073)	(15,173)
Noncontrolling interests	1,018	1,306	92	1,155
Total	\$23,109	\$50,367	\$201	\$55,405

(in thousands)	June 30,	December 31,	June 30,
	2016	2015	2015
Identifiable assets			
Grain	\$879,055	\$1,010,810	\$867,655
Ethanol	192,470	183,080	194,359
Plant Nutrient	448,225	531,753	517,586
Rail	388,456	405,702	395,798
Retail	43,878	44,135	45,194
Other	155,331	183,621	131,773
Total	\$2,107,415	\$2,359,101	\$2,152,365

13. Commitments and Contingencies

The Company is party to litigation, or threats thereof, both as defendant and plaintiff with some regularity, although individual cases that are material in size occur infrequently. As a defendant, the Company establishes reserves for claimed amounts that are considered probable, and capable of estimation. If those cases are resolved for lesser

amounts, the excess reserves are taken into income and, conversely, if those cases are resolved for larger than the amount the Company has accrued, the Company records additional expense. The Company believes it is unlikely that the results of its current legal proceedings for which it is

Table of Contents

the defendant, even if unfavorable, will be material. As a plaintiff, amounts that are collected can also result in sudden, non-recurring income.

Litigation results depend upon a variety of factors, including the availability of evidence, the credibility of witnesses, the performance of counsel, the state of the law, and the impressions of judges and jurors, any of which can be critical in importance, yet difficult, if not impossible, to predict. Consequently, cases currently pending, or future matters, may result in unexpected, and non-recurring losses, or income, from time to time. Finally, litigation results are often subject to judicial reconsideration, appeal and further negotiation by the parties, and as a result, the final impact of a particular judicial decision may be unknown for some time, or may result in continued reserves to account for the potential of such post-verdict actions.

The estimated range of loss for all outstanding claims that are considered reasonably possible is not material.

Build-to-Suit Lease

In August, 2015, the Company entered into a lease agreement with an initial term of 15 years for a build-to-suit facility to be used as the new corporate headquarters. Construction is expected to be completed in the third quarter of 2016. Since the Company is deemed to be the owner of this facility for accounting purposes during the construction period, we have recognized an asset and a corresponding financing obligation.

As of June 30, 2016, we have recorded a build-to-suit financing obligation of \$13.0 million in other long-term liabilities and \$1.5 million in other current liabilities.

Table of Contents

14. Supplemental Cash Flow Information

Certain supplemental cash flow information, including noncash investing and financing activities for the six months ended June 30, 2016 and 2015 are as follows:

(in thousands)	Six months ended June 30,	
	2016	2015
Noncash investing and financing activity		
Capital projects incurred but not yet paid	\$9,653	\$5,709
Purchase of a productive asset through seller-financing	—	1,010
Purchase of Rail Group assets not yet paid	—	2,209
Shares issued for acquisition of business	—	4,303
Dividends declared not yet paid	4,341	3,967

15. Business Acquisitions

There were no business acquisitions completed in the six months ended June 30, 2016.

Prior Year Business Acquisitions

On May 18, 2015, the Company purchased Kay Flo Industries, Inc. and certain subsidiaries. The Company acquired 100% of the outstanding shares of Kay Flo Industries, Inc. In connection with the acquisition, the Company agreed to pay contingent consideration based on the achievement of specified objectives, including reaching targeted gross profit thresholds. The range of undiscounted amounts the Company could be required to pay under the contingent consideration arrangement is between \$0 and \$24 million.

The total fair value of consideration for the acquisitions was \$129.4 million, including working capital and \$0.4 million in estimated fair value of the contingent consideration arrangement. The Company has funded this transaction with long-term debt, short-term debt, and cash on hand. The debt has been drawn from the Company's existing line of credit. The purchase price allocation was finalized as of December 31, 2015.

16. Sale of Assets

On April 5, 2016 the Company's Board of Directors approved the sale of eight grain and agronomy locations in Iowa to MaxYield Cooperative of West Bend, Iowa. The Andersons acquired these locations as a part of its 2012 acquisition from Green Plains Grain Company. The Tennessee assets acquired during that same transaction will remain a part of the Company.

This transaction closed on May 2, 2016.

Total cash received was \$54.3 million and a nominal gain was recognized on the sale.

Table of Contents

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 others, including those risk factors listed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 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 policies and critical accounting estimates, as described in our 2015 Form 10-K, have not materially changed through the second quarter of 2016.

Executive Overview

Our operations are organized, managed and classified into five reportable business segments: Grain, Ethanol, Plant Nutrient, Rail, and Retail. Each of these segments is based on the nature of products and services offered.

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 business deals in will have a relatively equal impact on sales and cost of sales and a much less significant impact on gross profit. As a result, changes in sales for the period may not necessarily be indicative of the overall performance of the business and more focus should be placed on changes to gross profit.

Grain Group

The Grain Group's performance in the second quarter reflects continued performance challenges in its core grain assets, as well as lower returns from affiliates. The decline in results is attributable to limited opportunities for space income on corn and wheat, offset by significant improvements in margin per bushel on contracted sales.

Grain inventories on hand at June 30, 2016 were 75.7 million bushels, of which 4.0 million bushels were stored for others. This compares to 66.1 million bushels on hand at June 30, 2015, of which 1.2 million bushels were stored for others. Total grain storage capacity was approximately 153 million bushels at June 30, 2016 compared to 162 million bushels at June 30, 2015 due to the sale of Iowa grain assets and the construction of a new elevator in Tennessee. The outlook for the Grain Group has improved after a good wheat harvest in our core markets and expectation of higher industry inventory levels at harvest than we have seen in the last several years. We expect the impact of the prior year crop conditions to continue to gradually minimize in the second half of 2016.

Ethanol Group

The Ethanol Group's second quarter results reflect lower margins on ethanol sales, which is driven by continued low ethanol prices, as well as elevated basis levels for corn supply in several of our primary markets. Driving demand remains strong which supports high sales volumes, however pressure from unleaded prices as well as high levels of production maintained pressure on margins. In addition to lower prices on the finished product side, regional weather challenges adversely impacted the corn crop in 2015 leading to a continued increase in average feedstock costs at several of our facilities. This will continue to put pressure on profitability at these locations at least until the fall harvest normalizes this regional price variation in the second half of the year.

Ethanol volumes shipped for the three and six months ended June 30, 2016 and 2015 were as follows:

29

Table of Contents

(in thousands)	Three months		Six months	
	ended June 30,		ended June 30,	
	2016	2015	2016	2015
Ethanol (gallons shipped)	75,463	73,171	149,246	148,695
E-85 (gallons shipped)	9,093	9,580	15,413	15,139
Corn Oil (pounds shipped)	3,668	3,989	7,282	7,357
DDG (tons shipped) *	40	41	80	82

* DDG tons shipped converts wet tons to a dry ton equivalent amount

The above table shows only shipped volumes that flow through the Company's sales revenues. Total ethanol, corn oil and DDG production by the unconsolidated LLCs are higher, however, the portion of this volume that is sold directly to their customers is excluded here.

Plant Nutrient Group

The Plant Nutrient Group's results reflect higher volumes in our agricultural nutrient businesses due to the second quarter 2015 acquisition of Kay Flo Industries, Inc. as well as a modest decline in overhead costs, offset by decreases in our retail farm center operations.

Storage capacity at our wholesale nutrient and farm center facilities, including leased storage, was approximately 497 thousand tons for dry nutrients and approximately 550 thousand tons for liquid nutrients at June 30, 2016 and approximately 508 thousand tons for dry nutrients and approximately 546 thousand tons for liquid nutrients at June 30, 2015. The decrease in our dry storage capacity is a result of sale of Iowa farm center assets in the second quarter of 2016.

Fertilizer tons shipped (including sales and service tons) for the three months ended June 30, 2016 and 2015 were as follows:

(in thousands)	Three months		Six months	
	ended June 30,		ended June 30,	
	2016	2015	2016	2015
Sales tons	836	813	1,233	1,140
Service tons	89	81	132	122
Total tons	925	894	1,365	1,262

Rail Group

The Rail Group saw a decline in average utilization rates from 93.5 percent in the second quarter of 2015 to 88.6 percent in the second quarter of 2016. Average lease rates remained relatively flat. Railcars, locomotives, and barges under management (owned, leased or managed for financial institutions in non-recourse arrangements) at June 30, 2016 were 23,220 compared to 22,992 at June 30, 2015.

The Group will continue to focus on ways to strategically grow the rail fleet and continue to look for opportunities to open new repair facilities and other adjacent businesses. We also anticipate future repair business related to new U.S. Department of Transportation rules affecting tank cars across the country.

Retail Group

The retail industry is highly competitive. Our stores compete with a variety of retail merchandisers, including home centers, department and hardware stores, as well as local and national grocers.

Other

Our "Other" represents corporate functions that provide support and services to the operating segments. The results contained within this segment include expenses and benefits not allocated to the operating segments, including a portion of our ERP project.

Table of Contents

Operating Results

The following discussion focuses on the operating results as shown in the Condensed Consolidated Statements of Operations with a separate discussion by segment. Additional segment information is included in the Notes to the Condensed Consolidated Financial Statements herein in Note 12. Segment Information.

(in thousands)	Three months ended		Six months ended June	
	June 30,	2015	30,	2015
Sales and merchandising revenues	\$1,064,244	\$1,187,704	\$1,952,123	\$2,105,929
Cost of sales and merchandising revenues	967,202	1,079,531	1,787,326	1,914,445
Gross profit	97,042	108,173	164,797	191,484
Operating, administrative and general expenses	75,405	83,744	155,286	162,346
Interest expense	6,554	4,024	13,605	10,063
Equity in earnings (loss) of affiliates, net	2,344	16,190	(4,633	) 19,450
Other income, net	5,682	13,772	8,928	16,880
Income (loss) before income taxes	23,109	50,367	201	55,405
Income (loss) attributable to noncontrolling interests	1,018	1,306	92	1,155
Income (loss) before income taxes attributable to The Andersons, Inc.	\$22,091	\$49,061	\$109	\$54,250

Comparison of the three months ended June 30, 2016 with the three months ended June 30, 2015:

Grain Group

(in thousands)	Three months ended		
	June 30,	2015	
Sales and merchandising revenues	\$522,989	\$601,397	
Cost of sales and merchandising revenues	505,438	576,392	
Gross profit	17,551	25,005	
Operating, administrative and general expenses	27,362	28,971	
Interest expense	2,961	1,992	
Equity in earnings (loss) of affiliates, net	(2,907	) 7,875
Other income, net	2,642	1,230	
Income (loss) before income taxes	(13,037	) 3,147
Income (loss) attributable to noncontrolling interest	—	(2)
Income (loss) before income taxes attributable to The Andersons, Inc.	\$(13,037)	\$3,149	

Operating results for the Grain Group have decreased \$16.2 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$78.4 million. This was partially offset by a decrease of cost of sales and merchandising revenues of \$71.0 million for a net unfavorable gross profit impact of \$7.5 million. This decrease was driven by significantly lower space income, including limited basis appreciation, partially offset by increased margin on bushels sold. Blending income also provided a modest positive impact to gross profit.

Operating, administrative and general expenses showed a decrease of \$1.6 million compared to the same period in 2015 due primarily to decreases in labor and benefit costs.

Equity in earnings of affiliates decreased \$10.8 million compared to the same period in 2015. This was entirely driven by reduced performance at Lansing Trade Group caused by losses on trading positions during periods of market volatility in the quarter.

Table of Contents

Ethanol Group

(in thousands)	Three months ended	
	June 30,	
	2016	2015
Sales and merchandising revenues	\$142,520	\$142,564
Cost of sales and merchandising revenues	137,950	136,721
Gross profit	4,570	5,843
Operating, administrative and general expenses	2,607	3,170
Interest expense	12	19
Equity in earnings (loss) of affiliates, net	5,251	8,315
Other income, net	3	6
Income (loss) before income taxes	7,205	10,975
Income (loss) attributable to noncontrolling interests	1,018	1,308
Income (loss) before income taxes attributable to The Andersons, Inc.	\$6,187	\$9,667

Operating results for the Ethanol Group decreased \$3.5 million over the results of the same period last year. Sales and merchandising revenues were flat, however gross profit declined \$1.3 million due to higher cost of sales and merchandising revenues. Ethanol gallons sold increased 3 percent and the average price of ethanol increased 1 percent compared to the prior year. However, sales of ethanol by-products declined as well as their price relative to the cost of corn which reduced margins on those products.

Equity in earnings of affiliates decreased \$3.1 million due to significantly lower earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was unfavorably impacted by the same factors noted above for our consolidated entities.

Plant Nutrient Group

(in thousands)	Three months ended	
	June 30,	
	2016	2015
Sales and merchandising revenues	\$320,036	\$357,186
Cost of sales and merchandising revenues	270,459	310,488
Gross profit	49,577	46,698
Operating, administrative and general expenses	25,186	26,326
Interest expense	2,078	1,958
Other income, net	1,222	459
Income (loss) before income taxes	\$23,535	\$18,873

Operating results for the Plant Nutrient Group increased \$4.7 million from the same period last year. Sales and merchandising revenues decreased \$37.2 million primarily due to a 15 percent decline in the average price per fertilizer ton. This was partially offset by higher volumes from the new facilities acquired from Kay Flo Industries, Inc in May of the prior year. The decrease in cost of sales and merchandising revenues follows the commodity price declines noted above. Additionally, we saw a greater proportion of high-margin products compared to the prior year. The total impact of the volume increases and margin expansion to gross profit was \$2.9 million.

Operating, administrative, and general expenses decreased \$1.1 million, partly due to the prior year including costs associated with the acquisition of Kay Flo Industries, Inc. Other income increased \$0.8 million due to an insurance settlement associated with property damage at one of our facilities.

Table of Contents

Rail Group

(in thousands)	Three months ended June 30,	
	2016	2015
Sales and merchandising revenues	\$40,342	\$45,523
Cost of sales and merchandising revenues	26,740	27,274
Gross profit	13,602	18,249
Operating, administrative and general expenses	4,997	6,500
Interest expense	2,221	1,894
Other income, net	185	11,834
Income (loss) before income taxes	\$6,569	\$21,689

Operating results for the Rail Group decreased \$15.1 million from the same period last year. Sales and merchandising revenues decreased \$5.2 million. Revenue from car sales decreased \$4.6 million, leasing revenues decreased \$0.9 million, and repair and other revenues increased \$0.3 million. Cost of sales and merchandising revenues decreased \$0.5 million compared to the same period last year primarily due to lower car sales. Gross profit decreased by \$4.6 million compared to last year. This was driven by a \$2.4 million reduction in gross profit on car sales as that activity was down from the prior year and a \$3.4 million reduction in gross profit on leasing activities. The decline in other income of \$11.6 million was due entirely to higher than normal lease settlement activity in the prior year.

Retail Group

(in thousands)	Three months ended June 30,	
	2016	2015
Sales and merchandising revenues	\$38,357	\$41,034
Cost of sales and merchandising revenues	26,615	28,656
Gross profit	11,742	12,378
Operating, administrative and general expenses	10,666	10,870
Interest expense	157	133
Other income, net	91	94
Income (loss) before income taxes	\$1,010	\$1,469

Operating results for the Retail Group declined slightly from the same period last year, with a 4% decrease in customer count, partially offset by a slight decline in general expenses.

Other

(in thousands)	Three months ended June 30,	
	2016	2015
Sales and merchandising revenues	\$—	\$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	4,587	7,907
Interest expense	(875)	(1,972)
Other income, net	1,539	149
Income (loss) before income taxes	\$(2,173)	\$(5,786)

The other operating loss not allocated to business segments decreased \$3.6 million compared to the same period in the prior year. The majority of the change was a \$1.3 million gain on final settlement of our pension plan as well as decreased general expenses in the corporate functions.

Table of Contents

Income Taxes

Income tax expense of \$7.7 million was provided at 33.2 percent. In the second quarter of 2015, income tax expense of \$18.0 million was provided at 35.7 percent. The lower 2016 effective tax rate is primarily due to a decreased charge related to state and local income taxes and an increased benefit attributable to the accounting for the investment in a foreign affiliate.

The Company anticipates that its 2016 effective annual rate will be 32.6 percent. The Company's actual 2015 effective tax rate was a benefit of 2.1 percent. The lower benefit rate in 2015 relative to our losses before income taxes is primarily due to the impact of the 2015 write-off of goodwill that did not provide a corresponding tax benefit.

Comparison of the six months ended June 30, 2016 with the six months ended June 30, 2015:

Grain Group

(in thousands)	Six months ended June	
	30, 2016	2015
Sales and merchandising revenues	\$1,061,803	\$1,160,073
Cost of sales and merchandising revenues	1,028,052	1,105,343
Gross profit	33,751	54,730
Operating, administrative and general expenses	55,384	57,932
Interest expense	5,448	4,398
Equity in earnings (loss) of affiliates, net	(6,674	) 9,423
Other income, net	3,310	2,064
Income (loss) before income taxes	(30,445	) 3,887
Income (loss) attributable to noncontrolling interest	(3	) (5
Income (loss) before income taxes attributable to The Andersons, Inc.	\$(30,442	) \$3,892

Operating results for the Grain Group have decreased \$34.3 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$98.3 million. This was partially offset by a decrease of cost of sales and merchandising revenues of \$77.3 million for a net unfavorable gross profit impact of \$21.0 million. This decrease was driven by elevated basis levels in the eastern corn belt causing significant reductions in space income and basis appreciation as well as an 8.7 percent decline in bushels sold. The impact of risk management positions and blending income were minimal compared to prior year.

Operating, administrative and general expenses showed a decrease of \$2.5 million compared to the same period in 2015, primarily due to the sale of underperforming assets in Iowa and lower labor and benefit expenses.

Equity in earnings of affiliates decreased \$16.1 million compared to the same period in 2015. This was driven by reduced performance at Lansing Trade Group.

Table of Contents

Ethanol Group

(in thousands)	Six months ended	
	June 30,	
	2016	2015
Sales and merchandising revenues	\$257,213	\$275,365
Cost of sales and merchandising revenues	250,307	263,236
Gross profit	6,906	12,129
Operating, administrative and general expenses	5,355	6,062
Interest expense	23	36
Equity in earnings (loss) of affiliates, net	2,041	10,027
Other income, net	33	48
Income (loss) before income taxes	3,602	16,106
Income (loss) attributable to noncontrolling interests	95	1,160
Income (loss) before income taxes attributable to The Andersons, Inc.	\$3,507	\$14,946

Operating results for the Ethanol Group decreased \$11.4 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$18.2 million, due to a 6 percent decline in the average price of ethanol. Ethanol gallons sold were flat compared to the prior year. The \$12.9 million decrease in cost of sales is due to lower input costs, primarily corn and natural gas.

Equity in earnings of affiliates decreased \$8.0 million due to significantly lower earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was unfavorably impacted by the same factors noted for our consolidated operations as well as pricing pressure on ethanol byproducts compared to the prior year.

Plant Nutrient Group

(in thousands)	Three months ended	
	June 30,	
	2016	2015
Sales and merchandising revenues	\$487,027	\$511,137
Cost of sales and merchandising revenues	410,761	442,473
Gross profit	76,266	68,664
Operating, administrative and general expenses	49,068	47,543
Interest expense	3,976	3,318
Other income, net	2,017	1,494
Income (loss) before income taxes	\$25,239	\$19,297

Operating results for the Plant Nutrient Group increased \$5.9 million from the same period last year. Sales and merchandising revenues decreased \$24.1 million due to a 13 percent decline in average price per fertilizer ton, partially offset by a 9 percent increase in tons sold. The decrease in cost of sales and merchandising revenues follows the lower sales noted above due to a decrease in the cost of raw materials and is also impacted by an increase in the proportion of higher margin specialty products. The total impact to gross profit of the items noted above was \$7.6 million.

Operating, administrative, and general expenses increased \$1.5 million due to modest increases in labor costs due to acquisition activity.

Table of Contents

Rail Group

	Three months ended June 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$79,951	\$89,739
Cost of sales and merchandising revenues	51,789	54,168
Gross profit	28,162	35,571
Operating, administrative and general expenses	9,868	12,819
Interest expense	3,912	3,423
Other income, net	1,562	12,673
Income (loss) before income taxes	\$15,944	\$32,002

Operating results for the Rail Group decreased \$16.1 million from the same period last year. Sales and merchandising revenues decreased \$9.8 million. Revenue from car sales decreased \$11.9 million, leasing revenues were flat, and repair and other revenues increased \$2.2 million. Cost of sales and merchandising revenues decreased \$2.4 million compared to the same period last year primarily as a result of lower car sales volume. Gross profit decreased by \$7.4 million compared to last year. This was largely driven by a \$4.5 million reduction in gross profit on car sales as that activity was down from the prior year as well as a \$3.6 million decline in our base leasing business. Other income for 2016 was down \$11.1 million due to higher than normal lease settlement activity in the prior year.

Retail Group

	Three months ended June 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$66,129	\$69,615
Cost of sales and merchandising revenues	46,417	49,225
Gross profit	19,712	20,390
Operating, administrative and general expenses	20,655	21,037
Interest expense	303	258
Other income, net	180	191
Income (loss) before income taxes	\$(1,066)	\$(714)

Operating results for the Retail Group declined slightly from the same period last year, with a 3% decrease in customer count, partially offset by a \$0.4 million decline in general expenses.

Other

	Three months ended June 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$—	\$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	14,956	16,953
Interest expense	(57)	(1,370)
Other income, net	1,826	410
Income (loss) before income taxes	\$(13,073)	\$(15,173)

The other operating loss not allocated to business segments decreased \$2.1 million compared to the same period in the prior year. The majority of the change was a \$1.3 million gain on final settlement of our pension plan as well as decreased general expenses in the corporate functions.

Table of Contents

Income Taxes

Income tax expense of \$0.4 million was provided at 189.6 percent. In 2015, income tax expense of \$19.1 million was provided at 34.4 percent. The higher 2016 effective tax rate is due primarily to a discrete tax charge related to state income taxes.

37

Table of Contents

Liquidity and Capital Resources

Working Capital

At June 30, 2016, we had working capital of \$227.7 million. The following table presents changes in the components of current assets and current liabilities:

(in thousands)	June 30, 2016	June 30, 2015	Variance
Current Assets:			
Cash and cash equivalents	\$31,383	\$40,773	\$(9,390)
Restricted cash	987	941	46
Accounts receivable, net	212,588	238,601	(26,013)
Inventories	486,236	508,408	(22,172)
Commodity derivative assets – current	115,924	39,860	76,064
Deferred income taxes	—	6,069	(6,069)
Other current assets	48,754	44,765	3,989
Total current assets	895,872	879,417	16,455
Current Liabilities:			
Short-term debt	179,404	141,250	38,154
Trade and other payables	302,413	358,190	(55,777)
Customer prepayments and deferred revenue	18,252	25,927	(7,675)
Commodity derivative liabilities – current	43,183	42,622	561
Accrued expenses and other current liabilities	71,169	72,034	(865)
Current maturities of long-term debt	53,720	27,188	