

ANDERSONS INC
Form 10-Q
August 07, 2006

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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, 2006

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 15.3 million common shares outstanding, no par value, at July 31, 2006.

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

	June 30	December	June 30
	2006	31	2005
		2005	2005
Current assets:			
Cash and cash equivalents	\$ 15,474	\$ 13,876	\$ 7,864
Restricted cash	3,836	3,936	1,435
Accounts and notes receivable:			
Trade receivables, net	87,152	74,436	77,397
Margin deposits	8,775	8,855	13,628
	95,927	83,291	91,025
Inventories:			
Grain	83,400	143,442	103,970
Agricultural fertilizer and supplies	30,572	35,442	22,407
Lawn and garden fertilizer and corncob products	18,514	31,280	22,067
Railcar repair parts	3,932	3,177	2,216
Retail merchandise	32,247	27,189	31,477
Other	253	276	268
	168,918	240,806	182,405
Railcars available for sale	6,224	5,375	4,870
Deferred income taxes	1,250	2,087	2,096
Prepaid expenses and other current assets	17,149	23,170	9,211
Total current assets	308,778	372,541	298,906
Other assets:			
Pension asset	9,311	10,130	4,254
Other assets and notes receivable, net	9,026	8,393	9,582
Investments in and advances to affiliates	46,007	20,485	5,092
	64,344	39,008	18,928
Railcar assets leased to others, net	136,271	131,097	134,450
Property, plant and equipment:			
Land	12,102	12,154	11,986
Land improvements and leasehold improvements	32,928	32,265	31,822
Buildings and storage facilities	105,183	104,656	103,154
Machinery and equipment	128,165	128,276	128,237
Software	7,024	6,652	6,612
Construction in progress	2,146	1,183	1,034
	287,548	285,186	282,845

Less allowances for depreciation and amortization	196,193	193,688	191,167
	91,355	91,498	91,678
	\$ 600,748	\$ 634,144	\$ 543,962

See notes to condensed consolidated financial statements

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

	June 30	December	June 30
	2006	31	2005
		2005	2005
Current liabilities:			
Short-term borrowings	\$ 51,600	\$ 12,400	\$ 69,900
Accounts payable for grain	26,742	80,945	27,590
Other accounts payable	69,323	72,240	58,169
Customer prepayments and deferred revenue	23,809	53,502	27,258
Accrued expenses	24,026	27,684	23,067
Current maturities of long-term debt non-recourse	13,664	19,641	10,780
Current maturities of long-term debt	12,159	9,910	5,020
Total current liabilities	221,323	276,322	221,784
Deferred income and other long-term liabilities	1,699	1,131	1,240
Employee benefit plan obligations	15,179	14,290	14,181
Long-term debt non-recourse, less current maturities	82,529	88,714	59,333
Long-term debt, less current maturities	88,862	79,329	89,105
Deferred income taxes	16,805	15,475	13,812
Total liabilities	426,397	475,261	399,455
Shareholders' equity:			
Common shares (25,000 shares authorized; no par value; 16,860 shares issued and outstanding)	84	84	84
Additional paid-in capital	74,979	70,121	69,039
Treasury shares (1,581, 1,819 and 1,967 shares at 6/30/06, 12/31/05 and 6/30/05, respectively; at cost)	(15,497)	(13,195)	(12,651)
Accumulated other comprehensive loss	(611)	(455)	(675)
Unearned compensation		(259)	(453)
Retained earnings	115,396	102,587	89,163
	174,351	158,883	144,507
	\$ 600,748	\$ 634,144	\$ 543,962

See notes to condensed consolidated financial statements

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The Andersons, Inc.
Condensed Consolidated Statements of Income
(Unaudited)(In thousands, except Per Share Data)

	Three Months ended		Six Months ended June	
	June 30		30	
	2006	2005	2006	2005
Sales and merchandising revenues	\$378,109	\$365,117	\$ 658,767	\$ 623,773
Cost of sales and merchandising revenues	323,342	312,099	563,729	530,796
Gross profit	54,767	53,018	95,038	92,977
Operating, administrative and general expenses	38,581	35,855	75,273	72,756
Interest expense	4,501	3,191	8,695	6,141
Other income / gains:				
Other income, net	2,352	1,430	5,411	2,509
Equity in earnings of affiliates	2,209	14	5,762	460
Income before income taxes	16,246	15,416	22,243	17,049
Income tax expense	5,899	5,063	8,061	5,662
Net income	\$ 10,347	\$ 10,353	\$ 14,182	\$ 11,387
Per common share:				
Basic earnings	\$ 0.68	\$ 0.70	\$ 0.94	\$ 0.77
Diluted earnings	\$ 0.66	\$ 0.67	\$ 0.90	\$ 0.74
Dividends paid	\$ 0.045	\$ 0.040	\$ 0.0875	\$ 0.08
Weighted average shares outstanding-basic	15,220	14,798	15,155	14,772
Weighted average shares outstanding-diluted	15,776	15,392	15,728	15,340

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	
	2006	2005
Operating Activities		
Net income	\$ 14,182	\$ 11,387
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	12,092	11,238
Unremitted earnings of unconsolidated affiliates	(2,670)	840
Realized gains on sales of railcars and related leases	(4,434)	(519)
Gain on sale of property, plant and equipment	(927)	(29)
Excess tax benefit from share-based payment arrangement	(3,983)	
Deferred income taxes	2,356	249
Stock based compensation expense	1,277	116
Other	33	65
Changes in operating assets and liabilities:		
Accounts and notes receivable	(12,593)	(24,790)
Inventories	71,888	69,023
Prepaid expenses and other assets	6,632	14,560
Accounts payable for grain	(54,203)	(59,732)
Other accounts payable and accrued expenses	(36,789)	(29,297)
Net cash used in operating activities	(7,139)	(6,889)
Investing Activities		
Purchases of railcars	(29,512)	(54,741)
Proceeds from sale or financing of railcars and related leases	21,434	19,749
Purchases of property, plant and equipment	(5,866)	(5,114)
Proceeds from sale of property, plant and equipment	1,046	113
Investment in affiliates, net	(22,852)	(1,895)
Change in restricted cash	100	97
Net cash used in investing activities	(35,650)	(41,791)
Financing Activities		
Net increase in short-term borrowings	39,200	57,800
Proceeds from issuance of long-term debt	14,697	2,274
Payments on long-term debt	(2,915)	(3,957)
Proceeds from issuance of non-recourse long-term debt	2,001	1,547
Payments of non-recourse long-term debt	(14,163)	(5,840)
Change in overdrafts	1,752	(3,135)
Proceeds from sale of treasury shares to employees and directors	1,211	632
Excess tax benefit from share-based payment arrangement	3,983	
Payments of debt issuance costs	(52)	(32)
Dividends paid	(1,327)	(1,184)

Net cash provided by financing activities	44,387	48,105
Increase (decrease) in cash and cash equivalents	1,598	(575)
Cash and cash equivalents at beginning of period	13,876	8,439
Cash and cash equivalents at end of period	\$ 15,474	\$ 7,864

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, 2005	\$84	\$67,960	\$(12,654)	\$ (397)	\$ (119)	\$ 79,002	\$133,876
Net income						26,087	26,087
Other comprehensive income:							
Minimum pension liability (net of \$61 income tax)				(106)			(106)
Cash flow hedge activity				48			48
Comprehensive income							26,029
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$2,569 (336 shares)		2,161	(541)		(421)		1,199
Amortization of unearned compensation					281		281
Dividends declared (\$0.1675 per common share)						(2,502)	(2,502)
Balance at December 31, 2005	84	70,121	(13,195)	(455)	(259)	102,587	158,883
Net income						14,182	14,182
Other comprehensive income:							
Minimum pension liability (net of \$98 income tax)				(168)			(168)
Cash flow hedge activity				12			12
Comprehensive income							14,026
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$4,193 (238 shares)		4,858	(2,302)		259		2,815
Dividends declared (\$0.09 per common share)						(1,373)	(1,373)
Balance at June 30, 2006	\$84	\$74,979	\$(15,497)	\$ (611)	\$	\$115,396	\$174,351

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

In the opinion of management, all adjustments necessary for a fair presentation of the results of operations for the periods indicated, have been made. Other than the adjustment noted in the following paragraph, such adjustments consist only of normal recurring adjustments.

Certain expenses for the Company and Rail Group were erroneously included in operating, administrative and general expenses, rather than cost of sales for the three month period ended March 31, 2006. The year-to-date results for the six month period ending June 30, 2006 have been revised to correct this error. There was no impact on revenues, operating income, net income or earnings per share. This revision is not considered material for restatement of prior periods' results of operations.

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, 2005 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, 2005.

Note B: Common Stock Split

On June 28, 2006, the Company effected a two-for-one stock split to shareholders of record as of June 1, 2006. All share and per share information has been retroactively adjusted to reflect the stock split.

Note C: Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), using the modified prospective transition method. Under this transition method, stock-based compensation expense for the first six months of 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 are based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award. Prior to the adoption of

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SFAS 123(R), the Company recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

Total compensation expense recognized in the Consolidated Statement of Income for all stock compensation programs was \$1.3 million in the first six months of 2006. The result of adopting SFAS 123(R), was an additional charge to income before income taxes and net income for the six months ended June 30, 2006 of \$1.1 million and \$0.7 million, respectively, than if we had continued to account for stock-based compensation under APB No. 25. The impact of adoption on both basic and diluted earnings per share for the six months ended June 30, 2006 was \$0.05 and \$0.04 per share respectively. In addition, prior to the adoption of SFAS 123(R), the Company presented the tax benefit of stock option exercises as a component of operating cash flows. Upon the adoption of SFAS 123(R), tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows.

The pro forma table below reflects net earnings and basic and diluted net earnings per share for the three and six months ended June 30, 2005 assuming that the Company had accounted for its stock based compensation programs using the fair value method promulgated by SFAS 123 at that time.

	Three months ended June 30, 2005	Six months ended June 30, 2005
(in thousands, except per share data)		
Net income reported	\$10,353	\$ 11,387
Add: Stock-based compensation included in reported net income, net of related tax effects	125	143
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(571)	(607)
Pro forma net income	\$ 9,907	\$ 10,923
Earnings per share:		
Basic as reported	\$ 0.70	\$ 0.77
Basic pro forma	\$ 0.67	\$ 0.74
Diluted as reported	\$ 0.68	\$ 0.74
Diluted pro forma	\$ 0.65	\$ 0.72

The Company's 2005 Long-Term Performance Compensation Plan dated May 6, 2005 (the LT Plan) authorizes the Board of Directors to grant options, stock appreciation rights, performance shares and share awards to employees and outside directors for up to 400,000 of the Company's common shares. Additionally, options and share awards (totaling 420,000 common shares) that remained available under The Andersons, Inc. Amended and Restated Long-Term Performance Plan (the Prior Plan) upon termination

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of that plan on May 7, 2005 have been transferred to the LT Plan. Options granted under the LT Plan and Prior Plan have a maximum term of 10 years. Prior to 2006, options granted to managers had a fixed term of five years and vested 40% immediately, 30% after one year and 30% after two years. Options granted to outside directors had a fixed term of five years and vested after one year.

Stock Only Stock Appreciation Rights (SOSAR s) and Stock Options

Beginning in 2006, the Company discontinued granting options to directors and management and instead began granting SOSAR s. SOSAR s granted to directors and management personnel under the LT Plan have a term of five-years and vest after three years. SOSAR s granted under the LT Plan are structured as fixed grants with exercise price equal to the market value of the underlying stock on the date of the grant. On April 1, 2006 307,220 SOSAR s were granted to directors and management personnel.

The fair value for SOSAR s was estimated at the date of grant, using a Black-Scholes option pricing model, which requires management to make certain assumptions. Expected volatility was estimated based on the historical volatility of the Company s common shares over the past five years. The average expected life was based on the contractual term of the stock option and expected employee exercise and post-vesting employment termination trends. The risk-free rate is based on U.S. Treasury issues with a term equal to the expected life assumed at the date of grant. Forfeitures are estimated at the date of grant based on historical experience. Prior to the adoption of SFAS 123(R), the Company recorded forfeitures as they occurred for purposes of estimating pro forma compensation expense under SFAS 123. The impact of forfeitures is not material.

	2006	2005
Long Term Performance Compensation Plan		
Risk free interest rate	4.82%	4.18%
Dividend yield	0.50%	1.10%
Volatility factor of the expected market price of the Company s common shares	.290	.228
Expected life for the options (in years)	4.50	5.00

Restricted Stock Awards

The LT Plan permits awards of restricted stock. These shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting. Restricted shares granted after January 1, 2006 have a three year vesting period. Total restricted stock expense is equal to the market value of the Company s common shares on the date of the award and is recognized over the service period. On April 1, 2006, 22,006 shares were issued to members of management.

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The LT Plan also allows for the award of PSU s. Each PSU gives the participant the right to receive one common share dependent on achievement of specified performance results over a three calendar year performance period. At the end of the performance period, the number of shares of stock issued will be determined by adjusting the award upward or downward from a target award. Fair value of performance share units issued is based on the market value of the Company s common shares on the date of the award. The related compensation expense is recognized over the performance period and adjusted for changes in the number of shares expected to be issued if changes in performance are expected. Currently, the Company is accounting for the awards granted in 2005 at the maximum amount available for issuance at December 31, 2007. On April 1, 2006, 25,280 PSU s were granted and are being expensed based on the assumption that the Company will reach the targeted 7% earnings per share growth rate in which 50% of the maximum award will be granted.

Employee Share Purchase Plan (the ESP Plan)

The Company s 2004 ESP Plan allows employees to purchase common shares through payroll withholdings. The Company has registered 517,218 common shares remaining available for issuance to and purchase by employees under this plan. The ESP Plan also contains an option component. The purchase price per share under the ESP Plan is the lower of the market price at the beginning or end of the year. The Company records a liability for withholdings not yet applied towards the purchase of common stock.

The fair value of the option component of the ESP Plan is estimated at the date of grant under the Black-Scholes option pricing model with the following assumptions for the appropriate year. Expected volatility was estimated based on the historical volatility of the Company s common shares over the past year. The average expected life was based on the contractual term of the plan. The risk-free rate is based on the U.S. Treasury issues with a one year term. Forfeitures are estimated at the date of grant based on historical experience. Prior to the adoption of SFAS 123(R), the Company recorded forfeitures as they occurred for purposes of estimating pro forma compensation expense under SFAS 123. The impact of forfeitures is not material.

	2006	2005
Employee Share Purchase Plan		
Risk free interest rate	4.38%	2.75%
Dividend yield	0.84%	1.10%
Volatility factor of the expected market price of the Company s common shares	.419	.228
Expected life for the options (in years)	1.00	1.00
<i>Stock Option and SOSAR Activity</i>		

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A reconciliation of the number of SOSAR s and stock options outstanding and exercisable under the Long-Term Performance Compensation Plan as of June 30, 2006, and changes during the period then ended is as follows:

	Shares (000)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Options outstanding at January 1, 2006	1,395	\$ 8.88		
SOSAR s granted	307	39.12		