

ANDERSONS INC
Form 10-Q
May 10, 2006

Table of Contents

**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 March 31, 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 7.6 million common shares outstanding, no par value, at April 28, 2006.

THE ANDERSONS, INC.
INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets March 31, 2006 December 31, 2005 and March 31, 2005 3

Condensed Consolidated Statements of Income Three months ended March 31, 2006 and 2005 5

Condensed Consolidated Statements of Cash Flows Three months ended March 31, 2006 and 2005 6

Condensed Consolidated Statements of Shareholders Equity Three months ended March 31, 2006 and year ended December 31, 2005 7

Notes to Condensed Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures about Market Risk 25

Item 4. Controls and Procedures 27

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 28

Item 1A. Risk Factors 28

Item 5. Other Information 28

Item 6. Exhibits 29

Signatures 29

Exhibit Index 30

EX-10.19

The Andersons EX-10.20

The Andersons EX-31.1

The Andersons EX-31.2

The Andersons EX-31.3

The Andersons EX-32.1

Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

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

	March 31 2006	December 31 2005	March 31 2005
Current assets:			
Cash and cash equivalents	\$ 15,821	\$ 13,876	\$ 6,138
Restricted cash	3,856	3,936	1,482
Accounts and notes receivable:			
Trade receivables, net	95,313	74,436	81,587
Margin deposits	4,750	8,855	9,191
	100,063	83,291	90,778
Inventories:			
Grain	137,220	143,442	148,337
Agricultural fertilizer and supplies	62,248	35,442	55,827
Lawn and garden fertilizer and corncob products	25,357	31,280	31,367
Railcar repair parts	3,945	3,177	1,937
Retail merchandise	33,160	27,189	32,909
Other	268	276	273
	262,198	240,806	270,650
Railcars available for sale	2,407	5,375	5,351
Deferred income taxes	2,511	2,087	2,819
Prepaid expenses and other current assets	27,371	23,170	22,944
Total current assets	414,227	372,541	400,162
Other assets:			
Pension asset	8,939	10,130	5,688
Other assets and notes receivable, net	9,252	8,393	9,926
Investments in and advances to affiliates	45,315	20,485	5,335
	63,506	39,008	20,949
Railcar assets leased to others, net	131,991	131,097	113,318
Property, plant and equipment:			
Land	12,104	12,154	11,956
Land improvements and leasehold improvements	32,404	32,265	31,002
Buildings and storage facilities	105,397	104,656	102,704
Machinery and equipment	128,909	128,276	126,850
Software	6,750	6,652	6,262
Construction in progress	1,105	1,183	1,858

Edgar Filing: ANDERSONS INC - Form 10-Q

	286,669	285,186	280,632
Less allowances for depreciation and amortization	195,726	193,688	189,231
	90,943	91,498	91,401
	\$ 700,667	\$ 634,144	\$ 625,830

See notes to condensed consolidated financial statements

3

Table of Contents

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

	March 31 2006	December 31 2005	March 31 2005
Current liabilities:			
Short-term borrowings	\$ 132,100	\$ 12,400	\$ 114,400
Accounts payable for grain	30,656	80,945	29,881
Other accounts payable	72,855	72,240	72,088
Customer prepayments and deferred revenue	60,162	53,502	59,922
Accrued expenses	21,342	27,684	15,291
Current maturities of long-term debt non-recourse	13,777	19,641	10,119
Current maturities of long-term debt	11,023	9,910	5,936
Total current liabilities	341,915	276,322	307,637
Deferred income and other long-term liabilities	1,585	1,131	1,095
Employee benefit plan obligations	14,582	14,290	17,888
Long-term debt non-recourse, less current maturities	86,269	88,714	61,465
Long-term debt, less current maturities	77,217	79,329	89,151
Deferred income taxes	15,526	15,475	13,839
Total liabilities	537,094	475,261	491,075
Shareholders' equity:			
Common shares (25,000 shares authorized; stated value of \$.01 per share; 8,430 shares issued)	84	84	84
Additional paid-in capital	72,597	70,121	68,376
Treasury shares (829, 910 and 1,030 shares at 3/31/06, 12/31/05 and 3/31/05, respectively; at cost)	(14,534)	(13,195)	(12,530)
Accumulated other comprehensive loss	(311)	(455)	(529)
Unearned compensation		(259)	(89)
Retained earnings	105,737	102,587	79,443
	163,573	158,883	134,755
	\$ 700,667	\$ 634,144	\$ 625,830

See notes to condensed consolidated financial statements

Table of Contents

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

	Three Months ended March	
	2006	2005
	31	
Sales and merchandising revenues	\$ 280,658	\$ 258,656
Cost of sales and merchandising revenues	239,173	218,697
Gross profit	41,485	39,959
Operating, administrative and general expenses	37,906	36,901
Interest expense	4,194	2,950
Other income / gains:		
Other income, net	3,059	1,079
Equity in earnings of affiliates	3,553	446
Income before income taxes	5,997	1,633
Income tax expense	2,162	599
Net income	\$ 3,835	\$ 1,034
Per common share:		
Basic earnings	\$ 0.51	\$ 0.14
Diluted earnings	\$ 0.49	\$ 0.14
Dividends paid	\$ 0.09	\$ 0.08
Weighted average shares outstanding-basic	7,545	7,373
Weighted average shares outstanding-diluted	7,819	7,643
See notes to condensed consolidated financial statements		

Table of Contents

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

	Three Months ended	
	March 31	
	2006	2005
Operating Activities		
Net income	\$ 3,835	\$ 1,034
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	6,047	5,490
Unremitted earnings of unconsolidated affiliates	(1,978)	597
Realized gains on sales of railcars and related leases	(2,759)	(473)
Gain on sale of property, plant and equipment	(45)	(11)
Excess tax benefit from share-based payment arrangement	(2,199)	
Deferred income taxes	(370)	(447)
Other	583	65
Changes in operating assets and liabilities:		
Accounts and notes receivable	(16,728)	(24,543)
Inventories	(21,392)	(19,222)
Prepaid expenses and other assets	(3,187)	(523)
Accounts payable for grain	(50,289)	(57,441)
Other accounts payable and accrued expenses	4,072	14,148
Net cash used in operating activities	(84,410)	(81,326)
Investing Activities		
Purchases of railcars	(12,347)	(21,826)
Proceeds from sale or financing of railcars and related leases	13,398	9,818
Purchases of property, plant and equipment	(2,495)	(1,896)
Proceeds from sale of property, plant and equipment	151	85
Investment in affiliates	(22,852)	(1,895)
Change in restricted cash	80	50
Net cash used in investing activities	(24,065)	(15,664)
Financing Activities		
Net increase in short-term borrowings	119,700	102,300
Proceeds from issuance of long-term debt	258	692
Payments on long-term debt	(1,257)	(1,413)
Proceeds from issuance of non-recourse long-term debt	2,001	
Payments of non-recourse long-term debt	(10,310)	(2,822)
Change in overdrafts	(2,360)	(4,017)
Proceeds from sale of treasury shares to employees and directors	830	540
Dividends paid	(641)	(591)
Excess tax benefit from share-based payment arrangement	2,199	
Net cash provided by financing activities	110,420	94,689

Edgar Filing: ANDERSONS INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	1,945	(2,301)
Cash and cash equivalents at beginning of period	13,876	8,439
Cash and cash equivalents at end of period	\$ 15,821	\$ 6,138

See notes to condensed consolidated financial statements

6

Table of Contents

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 (168 shares)		2,161	(541)		(421)		1,199
Amortization of unearned compensation					281		281
Dividends declared (\$.335 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						3,835	3,835
Other comprehensive income:							
Cash flow hedge activity				144			144
Comprehensive income		2,476	(1,339)		259		3,979 1,396

Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$2,337 (81 shares)

Dividends declared (\$0.09 per common share)

(685) (685)

Balance at March 31, 2006

\$ 84 \$ 72,597 \$ (14,534) \$ (311) \$ 105,737 \$ 163,573

See notes to condensed consolidated financial statements

7

Table of Contents

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. Such adjustments consist only of normal recurring adjustments.

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 March 31, 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: 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 quarter 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 will be based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company will recognize these compensation costs on a straight-line basis over the requisite service period of the award. Prior to the adoption of 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 \$0.4 million in the first quarter of 2006. The result of adopting SFAS 123(R), was an additional charge to income before income taxes and net income of \$0.3 million and \$0.2 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 three months ended March 31, 2006 was \$0.02 per share. In addition, prior to the adoption of SFAS 123(R), the Company presented the tax benefit of stock option exercises as 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.

Table of Contents

The pro forma table below reflects net earnings and basic and diluted net earnings per share for the three months ended March 31, 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 March 31, 2005
(in thousands, except per share data)	
Net income reported	\$ 1,034
Add: Stock based compensation included in reported net income, net of related tax effects	19
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(37)
Pro forma net income	\$ 1,016
Earnings per share:	
Basic as reported	\$ 0.14
Basic pro forma	\$ 0.14
Diluted as reported	\$ 0.14
Diluted pro forma	\$ 0.13

The Company's 2005 Long-Term Performance Compensation Plan dated May 6, 2005 (the "LT Plan") authorizes the Board of Directors to grant options, performance shares and share awards to employees and outside directors for up to 200 thousand of the Company's common shares. Additionally, options and share awards (totaling 210 thousand common shares) that remained available under The Andersons, Inc. Amended and Restated Long-Term Performance Plan (the "Prior Plan") upon termination 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. Options granted to outside directors have a fixed term of five years and vest after one year.

Option Awards

Options granted to management personnel under the LT Plan prior to 2006 have a term of five-years and vest 40% immediately, an additional 30% after one year and the remaining 30% after two years. Options granted to directors prior to 2006 vested after one year. Options 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. There were no grants of options in the first quarter of 2006.

The fair value for stock options was estimated at the date of grant, using a Black-Scholes option pricing model, which requires management to make certain assumptions.

Table of Contents

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.

2005**Long Term Performance Compensation Plan**

Risk free interest rate	4.18%
Dividend yield	1.10%
Volatility factor of the expected market price of the Company's common shares	.228
Expected life for the options (in years)	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 prior to 2006 vest 50% after one year and the remaining 50% after two years. Restricted stock issued is recorded based on the market value of the Company's common shares on the date of the award and the related compensation expense is recognized over the vesting period.

Performance Share Units

The LT Plan also allows for the award of Performance Share Units (PSUs). 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. Currently, the Company is accounting for the awards granted in 2005 at the maximum amount available for issuance at December 31, 2007. 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.

Employee Share Purchase Plan

The Company's 2004 Employee Share Purchase Plan (the ESP Plan) allows employees to purchase common shares through payroll withholdings. The Company has registered 272 thousand 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

Table of Contents

beginning or end of the year. The Company records a liability for withholdings not yet applied towards the purchase of common stock.

Fair Value

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

Stock Option Activity

A reconciliation of the number of options outstanding and exercisable under the Long-Term Performance Compensation Plan as of March 31, 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)
Outstanding at January 1, 2006	697	\$ 17.76		
Granted				
Exercised	(118)	12.41		
Cancelled / forfeited	(1)	31.00		
Outstanding at March 31, 2006	578	\$ 18.83	2.74	\$ 34,362
Vested and Expected to vest at March 31, 2006	577	\$ 18.81	2.74	\$ 34,305
Exercisable at March 31, 2006	457	\$ 15.59	2.41	\$ 28,646

There were no options granted in either the three months ended March 31, 2006 or 2005.

Table of Contents

	2006	2005
Total intrinsic value of options exercised during the three months ended March 31 (000 s)	\$ 5,989	\$ 945
Total fair value of shares vested during the three months ended March 31 (000 s)	\$ 223	\$ 467

As of March 31, 2006, there was \$0.1 million of total unrecognized compensation cost related to stock options granted under the LT Plan. That cost is expected to be recognized over the next twelve months.

A summary of the status of the Company's nonvested restricted shares as of March 31, 2006, and changes during the period then ended, is presented below:

Nonvested Shares	Shares (000)	Weighted-Average Grant- Date Fair Value
Nonvested at January 1, 2006	20	\$ 25.91
Granted		
Vested	7	17.18
Forfeited		
Nonvested at March 31, 2006	13	\$ 31.00

As of March 31, 2006, there was \$0.2 million of total unrecognized compensation cost related to nonvested restricted shares granted under the LT Plan. That cost is expected to be recognized over the next twelve months.

A summary of the status of the Company's performance share units as of March 31, 2006, and changes during the period then ended, is presented below: