

ANDERSONS INC
Form 10-Q
August 08, 2014
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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, 2014

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____
Commission file number 000-20557

THE ANDERSONS, INC.
(Exact name of the registrant as specified in its charter)

OHIO	34-1562374
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
480 W. Dussel Drive, Maumee, Ohio	43537
(Address of principal executive offices)	(Zip Code)
(419) 893-5050	
(Telephone Number)	

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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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 28.4 million common shares outstanding, no par value, at July 31, 2014.

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Part I. Financial Information

Item 1. Financial Statements

The Andersons, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)(In thousands)

	June 30, 2014	December 31, 2013	June 30, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$47,190	\$309,085	\$75,920
Restricted cash	895	408	872
Accounts receivable, net	189,646	173,930	216,432
Inventories (Note 2)	432,996	614,923	444,523
Commodity derivative assets – current	162,427	71,319	121,789
Deferred income taxes	7,443	4,931	2,797
Other current assets	24,596	47,188	44,936
Total current assets	865,193	1,221,784	907,269
Other assets:			
Commodity derivative assets – noncurrent	312	246	87
Goodwill	58,554	58,554	54,387
Other assets, net	58,431	59,456	49,394
Pension asset	13,023	14,328	—
Equity method investments	264,381	291,109	195,241
	394,701	423,693	299,109
Railcar assets leased to others, net (Note 3)	242,147	240,621	242,887
Property, plant and equipment, net (Note 3)	390,587	387,458	371,716
Total assets	\$1,892,628	\$2,273,556	\$1,820,981

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

	June 30, 2014	December 31, 2013	June 30, 2013
Liabilities and equity			
Current liabilities:			
Borrowings under short-term line of credit	\$27,000	\$—	\$50,000
Accounts payable for grain	164,230	592,183	178,017
Other accounts payable	143,535	154,599	183,971
Customer prepayments and deferred revenue	21,670	59,304	25,621
Commodity derivative liabilities – current	86,134	63,954	58,183
Accrued expenses and other current liabilities	81,260	70,295	57,456
Current maturities of long-term debt (Note 10)	89,387	51,998	45,096
Total current liabilities	613,216	992,333	598,344
Other long-term liabilities	15,032	15,386	15,634
Commodity derivative liabilities – noncurrent	7,444	6,644	5,863
Employee benefit plan obligations	39,178	39,477	50,754
Long-term debt, less current maturities (Note 10)	300,220	375,213	409,020
Deferred income taxes	126,258	120,082	87,486
Total liabilities	1,101,348	1,549,135	1,167,101
Commitments and contingencies (Note 11)			
Shareholders' equity:			
Common shares, without par value (42,000 shares authorized; 28,797 shares issued)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)	—	—	—
Additional paid-in-capital	189,098	184,380	182,455
Treasury shares, at cost (378, 607 and 689 shares at 6/30/14, 12/31/13 and 6/30/13, respectively)	(8,801	) (10,222	) (11,448
Accumulated other comprehensive loss	(27,023	) (21,181	) (42,025
Retained earnings	609,024	548,401	506,691
Total shareholders' equity of The Andersons, Inc.	762,394	701,474	635,769
Noncontrolling interests	28,886	22,947	18,111
Total equity	791,280	724,421	653,880
Total liabilities and equity	\$1,892,628	\$2,273,556	\$1,820,981
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 June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Sales and merchandising revenues	\$1,312,082	\$1,566,964	\$2,315,376	\$2,838,934
Cost of sales and merchandising revenues	1,190,587	1,463,735	2,117,106	2,656,432
Gross profit	121,495	103,229	198,270	182,502
Operating, administrative and general expenses	76,275	61,464	147,260	123,472
Interest expense	6,146	4,855	12,148	11,259
Other income:				
Equity in earnings of affiliates, net	32,213	10,010	52,714	17,814
Other income, net	3,797	1,292	23,409	4,018
Income before income taxes	75,084	48,212	114,985	69,603
Income tax provision	25,714	17,480	39,586	26,559
Net income	49,370	30,732	75,399	43,044
Net income attributable to the noncontrolling interests	5,069	1,193	8,390	927
Net income attributable to The Andersons, Inc.	\$44,301	\$29,539	\$67,009	\$42,117
Per common share:				
Basic earnings attributable to The Andersons, Inc. common shareholders	\$1.56	\$1.05	\$2.36	\$1.50
Diluted earnings attributable to The Andersons, Inc. common shareholders	\$1.56	\$1.05	\$2.36	\$1.49
Dividends paid	\$0.1100	\$0.1067	\$0.2200	\$0.2133
See Notes to Condensed Consolidated Financial Statements				

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The Andersons, Inc.
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	\$49,370	\$30,732	\$75,399	\$43,044
Other comprehensive (loss) income, net of tax:				
(Decrease) increase in estimated fair value of investment in debt securities (net of income tax of (\$1,350), \$0, (\$3,308) and \$187)	(2,230	) —	(5,462	) 303
Change in unrecognized actuarial loss and prior service cost (net of income tax of (\$422), \$693, (\$309) and \$925 - Note 14)	(698	) 1,144	(511	) 2,913
Cash flow hedge activity (net of income tax of \$38, \$65, \$80 and \$161)	62	108	131	138
Other comprehensive (loss) income	(2,866	) 1,252	(5,842	) 3,354
Comprehensive income	46,504	31,984	69,557	46,398
Comprehensive income attributable to the noncontrolling interests	5,069	1,193	8,390	927
Comprehensive income attributable to The Andersons, Inc.	\$41,435	\$30,791	\$61,167	\$45,471
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,	
	2014	2013
Operating Activities		
Net income	\$75,399	\$43,044
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	28,434	28,184
Bad debt expense	310	610
Cash distributions in excess of (less than) income of unconsolidated affiliates	13,214	(4,333)
Gain on sale of investments in affiliates	(17,055)) —
Gains on sales of railcars and related leases	(13,284 )	) (14,616)
Excess tax benefit from share-based payment arrangement	(1,645 )	) (278)
Deferred income taxes	7,202	22,525
Stock-based compensation expense	6,053	1,435
Other	(2,368 )	) 714
Changes in operating assets and liabilities:		
Accounts receivable	(17,130 )	) (7,517)
Inventories	181,927	331,596
Commodity derivatives	(68,196 )	) 12,770
Other assets	22,400	7,017
Accounts payable for grain	(427,953 )	) (404,636)
Other accounts payable and accrued expenses	(46,893 )	) (76,184)
Net cash used in operating activities	(259,585 )	) (59,669)
Investing Activities		
Acquisition of businesses, net of cash acquired	—	(3,345)
Purchases of railcars	(30,403 )	) (56,899)
Proceeds from sale of railcars	29,195	53,243
Purchases of property, plant and equipment	(20,633 )	) (18,549)
Proceeds from sale of property, plant and equipment	283	137
Proceeds from sale of investments in affiliates	31,457	—
Other	(138)) —
Change in restricted cash	(488 )	) (474)
Net cash provided by (used in) investing activities	9,273	(25,887)
Financing Activities		
Net change in short-term borrowings	27,000	25,781
Proceeds from issuance of long-term debt	6,712	36,391
Payments of long-term debt	(39,006 )	) (34,708)
Proceeds from sale of treasury shares to employees and directors	1,474	1,547
Payments of debt issuance costs	(3,175 )	) (46)
Dividends paid	(6,233 )	) (5,985)
Excess tax benefit from share-based payment arrangement	1,645	278
Net cash provided by (used in) financing activities	(11,583 )	) 23,258
Decrease in cash and cash equivalents	(261,895 )	) (62,298)
Cash and cash equivalents at beginning of period	309,085	138,218

Cash and cash equivalents at end of period	\$47,190	\$75,920
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	Six months ended	
	June 30,	
	2014	2013
Supplemental disclosure of cash flow information		
Capital project costs incurred but not yet paid	\$4,930	\$3,839
Purchase of capitalized software through seller-financing	\$1,944	\$9,393

See Notes to Condensed Consolidated Financial Statements

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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, 2012	\$96	\$181,627	\$(12,559)	\$ (45,379)	\$470,628	\$ 17,032	\$611,445
Net income					42,117	927	43,044
Other comprehensive income				3,354			3,354
Proceeds received from minority investor						152	152
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$1,099 (128 shares)		773	1,111				1,884
Dividends declared (\$0.2133 per common share)					(5,999)		(5,999)
Performance share unit dividend equivalents		55			(55)		—
Balance at June 30, 2013	\$96	\$182,455	\$(11,448)	\$ (42,025)	\$506,691	\$ 18,111	\$653,880
Balance at December 31, 2013	\$96	\$184,380	\$(10,222)	\$ (21,181)	\$548,401	\$ 22,947	\$724,421
Net income					67,009	8,390	75,399
Other comprehensive loss				(5,842)			(5,842)
Cash distributions to noncontrolling interest						(2,451)	(2,451)
Stock awards, stock option exercises and other shares issued to		4,642	1,421				6,063

employees and directors, net of income tax of \$1,522 (215 shares)							
Payment of cash in lieu for stock split (187 shares)	(58	)				(58)
Dividends declared (\$0.2200 per common share)				(6,252	)	(6,252)
Performance share unit dividend equivalents	134			(134)	—	
Balance at June 30, 2014	\$96	\$189,098	\$(8,801	)	\$(27,023	)	\$609,024
						\$28,886	\$791,280

See Notes to Condensed Consolidated Financial Statements

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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 significant intercompany accounts and transactions are eliminated in consolidation.

Investments in unconsolidated entities in which the Company has significant influence, but not control, are accounted for using the equity method of accounting.

In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair statement of the results of operations for the periods indicated, have been made. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014.

The Condensed Consolidated Balance Sheet data at December 31, 2013 was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. A Condensed Consolidated Balance Sheet as of June 30, 2013 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, 2013 (the "2013 Form 10-K").

New Accounting Standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards 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, 2016. The Company is currently assessing the impact this standard will have on its Consolidated Financial Statements and disclosures.

2. Inventories

Major classes of inventories are as follows:

(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Grain	\$290,595	\$432,893	\$303,018
Ethanol and by-products	16,798	14,453	17,966
Agricultural fertilizer and supplies	64,971	100,593	71,226
Lawn and garden fertilizer and corncob products	30,151	39,960	23,434
Retail merchandise	25,180	22,505	25,389
Railcar repair parts	5,107	4,312	3,293
Other	194	207	197
	\$432,996	\$614,923	\$444,523

Inventories on the Condensed Consolidated Balance Sheets at June 30, 2014, December 31, 2013 and June 30, 2013 do not include 3.7 million, 13.3 million and 2.5 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 does not anticipate material losses on any deficiencies.

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3. Property, Plant and Equipment

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

(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Land	\$22,055	\$21,801	\$22,637
Land improvements and leasehold improvements	68,003	67,153	65,625
Buildings and storage facilities	234,745	231,976	224,281
Machinery and equipment	314,427	308,215	295,723
Software	55,710	13,351	13,469
Construction in progress	18,362	48,135	44,146
	713,302	690,631	665,881
Less: accumulated depreciation and amortization	322,715	303,173	294,165
	\$390,587	\$387,458	\$371,716

Depreciation expense on property, plant and equipment amounted to \$20.4 million, \$37.5 million and \$18.5 million for the year-to-date periods ended June 30, 2014, December 31, 2013, and June 30, 2013, respectively.

In December 2013, the Company recorded charges totaling \$4.4 million for asset impairment, primarily due to the write down of asset values in Retail. The Company wrote down the value of these assets to the extent their carrying amounts exceeded fair value. The Company classified the significant assumptions used to determine the fair value of the impaired assets, which were not material, as Level 3 in the fair value hierarchy.

Railcar assets leased to others

The components of Railcar assets leased to others are as follows:

(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Railcar assets leased to others	\$323,881	\$317,750	\$321,269
Less: accumulated depreciation	81,734	77,129	78,382
	\$242,147	\$240,621	\$242,887

Depreciation expense on railcar assets leased to others amounted to \$6.9 million, \$14.7 million and \$7.4 million for the year-to-date periods ended June 30, 2014, December 31, 2013 and June 30, 2013, respectively.

4. 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. 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 same method it uses to value its grain inventory. 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

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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 sales and merchandising revenues.

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 Company nets, by counterparty, its futures and over-the-counter positions against the cash collateral provided or received. 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, 2014, December 31, 2013 and June 30, 2013, 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 short-term commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
(in thousands)						
Collateral paid	\$61,992	\$—	\$15,480	\$—	\$33,364	\$—
Fair value of derivatives	52,731	—	31,055	—	46,329	—
Balance at end of period	\$114,723	\$—	\$46,535	\$—	\$79,693	\$—

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

	June 30, 2014					Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent		
(in thousands)						
Commodity derivative assets	\$113,205	\$323	\$3,143	\$260		\$116,931
Commodity derivative liabilities	(12,770)	(11)	(89,277)	(7,704)		(109,762)
Cash collateral	61,992	—	—	—		61,992
Balance sheet line item totals	\$162,427	\$312	\$(86,134)	\$(7,444)		\$69,161
	December 31, 2013					
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent		Total

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Commodity derivative assets	\$69,289	\$246	\$1,286	\$49	\$70,870
Commodity derivative liabilities	(13,450) —	(65,240) (6,693) (85,383
Cash collateral	15,480	—	—	—	15,480
Balance sheet line item totals	\$71,319	\$246	\$(63,954) \$(6,644) \$967

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(in thousands)	June 30, 2013				Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$98,902	\$87	\$4,133	\$62	\$103,184
Commodity derivative liabilities	(10,477)	—	(62,316)	(5,925)	(78,718)
Cash collateral	33,364	—	—	—	33,364
Balance sheet line item totals	\$121,789	\$87	\$(58,183)	\$(5,863)	\$57,830

The gains included in the Company's Condensed Consolidated Statements of Income and the line items in which they are located for the three and six months ended June 30, 2014 and 2013 are as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Gains on commodity derivatives included in sales and merchandising revenues	\$73,517	\$31,068	\$19,831	\$67,436

The Company had the following volume of commodity derivative contracts outstanding (on a gross basis) at June 30, 2014, December 31, 2013 and June 30, 2013:

Commodity	June 30, 2014			
	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	244,716	—	—	—
Soybeans	42,565	—	—	—
Wheat	10,787	—	—	—
Oats	30,470	—	—	—
Ethanol	—	246,812	—	—
Corn oil	—	—	25,371	—
Other	22	—	—	102
Subtotal	328,560	246,812	25,371	102
Exchange traded:				
Corn	142,580	—	—	—
Soybeans	27,855	—	—	—
Wheat	36,740	—	—	—
Oats	7,980	—	—	—
Ethanol	—	110,586	—	—
Other	—	—	—	5
Subtotal	215,155	110,586	—	5
Total	543,715	357,398	25,371	107

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Commodity	December 31, 2013			
	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	185,978	—	—	—
Soybeans	18,047	—	—	—
Wheat	11,485	—	—	—
Oats	27,939	—	—	—
Ethanol	—	179,212	—	—
Corn oil	—	—	25,911	—
Other	81	—	—	89
Subtotal	243,530	179,212	25,911	89
Exchange traded:				
Corn	124,420	—	—	—
Soybeans	11,030	—	—	—
Wheat	23,980	—	—	—
Oats	6,820	—	—	—
Ethanol	—	21,630	—	—
Subtotal	166,250	21,630	—	—
Total	409,780	200,842	25,911	89

Commodity	June 30, 2013			
	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	196,108	—	—	2
Soybeans	26,244	—	—	—
Wheat	21,205	—	—	—
Oats	12,139	—	—	—
Ethanol	—	36,814	—	—
Corn oil	—	—	9,726	—
Other	28	—	—	98
Subtotal	255,724	36,814	9,726	100
Exchange traded:				
Corn	105,880	—	—	—
Soybeans	15,610	—	—	—
Wheat	32,050	—	—	—
Oats	4,655	—	—	—
Ethanol	—	12,283	—	—
Other	—	—	—	1
Subtotal	158,195	12,283	—	1
Total	413,919	49,097	9,726	101

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5. 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 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 ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income attributable to The Andersons, Inc.	\$44,301	\$29,539	\$67,009	\$42,117
Less: Distributed and undistributed earnings allocated to nonvested restricted stock	254	101	346	155
Earnings available to common shareholders	\$44,047	\$29,438	\$66,663	\$41,962
Earnings per share – basic:				
Weighted average shares outstanding – basic	28,251	27,995	28,203	27,953
Earnings per common share – basic	\$1.56	\$1.05	\$2.36	\$1.50
Earnings per share – diluted:				
Weighted average shares outstanding – basic	28,251	27,995	28,203	27,953
Effect of dilutive awards	30	175	49	163
Weighted average shares outstanding – diluted	28,281	28,170	28,252	28,116
Earnings per common share – diluted	\$1.56	\$1.05	\$2.36	\$1.49

There were no antidilutive stock-based awards outstanding at June 30, 2014 or 2013.

6. Employee Benefit Plans

The following are components of the net periodic benefit cost for the pension and postretirement benefit plans maintained by the Company for the three and six months ended June 30, 2014 and 2013:

(in thousands)	Pension Benefits			
	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Service cost	\$47	\$—	\$90	\$—
Interest cost	1,225	1,048	2,387	2,114
Expected return on plan assets	(1,903)	(1,747)	(3,808)	(3,503)
Recognized net actuarial loss	260	373	467	765
Benefit income	\$(371)	\$(326)	\$(864)	\$(624)

(in thousands)	Postretirement Benefits			
	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Service cost	\$156	\$197	\$343	\$421
Interest cost	362	338	755	683
Amortization of prior service cost	(136)	(136)	(272)	(272)
Recognized net actuarial loss	178	377	407	737
Benefit cost	\$560	\$776	\$1,233	\$1,569

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7. Segment Information

The Company's operations include six 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 Lansing Trade Group, LLC ("LTG") and the Thompsons Limited joint ventures. The Ethanol business purchases and sells ethanol and also manages the ethanol production facilities organized as limited liability companies, one of which is consolidated and three of which are investments accounted for under the equity method, and also has various service contracts for these investments. Rail operations include the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Plant Nutrient business manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers. Turf & Specialty operations include the production and distribution of 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 amounts not attributable 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 normal, unaffiliated customer sales.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
(in thousands)				
Revenues from external customers				
Grain	\$656,004	\$891,350	\$1,239,163	\$1,727,845
Ethanol	226,388	222,240	415,208	421,549
Plant Nutrient	311,895	330,339	419,525	442,241
Rail	33,409	38,601	85,711	84,965
Turf & Specialty	42,913	43,144	86,638	90,331
Retail	41,473	41,290	69,131	72,003
Total	\$1,312,082	\$1,566,964	\$2,315,376	\$2,838,934
(in thousands)				
Inter-segment sales				
Grain	\$3,362	\$1	\$3,362	\$333
Plant Nutrient	2,161	4,015	9,528	11,712
Rail	109	105	218	209
Turf & Specialty	835	841	1,642	1,840
Total	\$6,467	\$4,962	\$14,750	\$14,094

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(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Interest expense (income)				
Grain	\$2,705	\$2,474	\$5,480	\$6,323
Ethanol	76	280	176	606
Plant Nutrient	960	797	1,731	1,715
Rail	1,904	1,429	3,560	2,942
Turf & Specialty	422	346	840	748
Retail	164	152	334	367
Other	(85	) (623	) 27	(1,442
Total	\$6,146	\$4,855	\$12,148	\$11,259

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Equity in earnings of affiliates, net				
Grain	\$8,467	\$5,027	\$10,351	\$12,937
Ethanol	23,746	4,983	42,363	4,877
Total	\$32,213	\$10,010	\$52,714	\$17,814

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Other income (expense), net				
Grain (a)	\$975	\$(349	) \$19,321	\$222
Ethanol	356	199	130	430
Plant Nutrient	391	164	576	139
Rail	787	702	1,497	1,648
Turf & Specialty	467	175	774	450
Retail	190	100	302	214
Other	631	301	809	915
Total	\$3,797	\$1,292	\$23,409	\$4,018

(a) Increase is related to gain on LTG partial share redemption. See Note 8. Related Party Transactions for details of the LTG gain in the first quarter of 2014.

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Income (loss) before income taxes				
Grain	\$10,355	\$2,053	\$21,661	\$10,352
Ethanol	33,904	10,601	53,728	13,080
Plant Nutrient	25,004	23,240	23,593	22,678
Rail	6,684	9,680	21,729	24,254
Turf & Specialty	1,998	2,195	3,373	6,196
Retail	1,637	1,539	(698	) (1,630
Other	(9,567	) (2,289	) (16,791	) (6,254
Noncontrolling interests	5,069	1,193	8,390	927
Total	\$75,084	\$48,212	\$114,985	\$69,603

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(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Identifiable assets			
Grain	\$823,957	\$921,914	\$794,913
Ethanol	255,077	229,797	207,977
Plant Nutrient	235,241	268,238	240,192
Rail	312,354	312,654	298,525
Turf & Specialty	85,696	89,939	73,343
Retail	46,319	44,910	50,313
Other	133,984	406,104	155,718
Total	\$1,892,628	\$2,273,556	\$1,820,981

8. 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 January 22, 2014, the Company entered into an agreement with LTG for a partial redemption of the Company's investment in LTG for \$60 million. The redemption reduced the Company's interest in LTG from approximately 47.5 percent to approximately 39.2 percent on a fully diluted basis. A portion of the proceeds (\$28.5 million) was considered a distribution of earnings and reduced the Company's cost basis in LTG. The difference between the remaining proceeds of \$31.5 million and the new cost basis of the shares sold, net of deal costs, resulted in a book gain of \$17.1 million (\$10.7 million after tax). This gain was recorded in Other income, net for the six months ended June 30, 2014.

In July 2013, the Company, along with Lansing Trade Group, LLC established joint ventures that acquired 100% of the stock of Thompsons Limited, including its investment in the related U.S. operating company, for a purchase price of \$152 million, which included an adjustment for excess working capital. The purchase price included \$48 million cash paid by the Company, \$40 million cash paid by LTG, and \$64 million of external debt at Thompsons Limited. As part of the purchase LTG also contributed a Canadian branch of its business to Thompsons Limited. Each Company owns 50% of the investment. Thompsons Limited is a grain and food-grade bean handler and agronomy input provider, headquartered in Blenheim, Ontario, and operates 12 locations across Ontario and Minnesota. The Company does not hold a majority of the outstanding shares of the Thompsons Limited joint ventures. All major operating decisions of these joint ventures are made by their Board of Directors, and the Company does not have a majority of the board seats. Due to these factors, the Company does not have control over these joint ventures and accounts for these investments under the equity method of accounting.

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

(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
The Andersons Albion Ethanol LLC (a)	\$38,187	\$40,194	\$32,047
The Andersons Clymers Ethanol LLC (a)	47,129	44,418	34,257
The Andersons Marathon Ethanol LLC (a)	56,320	46,811	34,818
Lansing Trade Group, LLC (b)	65,730	106,028	91,573
Thompsons Limited (c)	53,058	49,833	—
Other	3,957	3,825	2,546
Total	\$264,381	\$291,109	\$195,241

(a) LLCs investment balance considers cash distributions made during the first quarter of 2014

(b) Decrease in LTG investment balance is driven by the sale of a portion of the Company's interest in LTG during the first quarter of 2014

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

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.

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

(in thousands)	% ownership at June 30, 2014	Three months ended		Six months ended	
		June 30, 2014	2013	June 30, 2014	2013
The Andersons Albion Ethanol LLC	53%	\$6,656	\$972	\$11,599	\$1,916
The Andersons Clymers Ethanol LLC	38%	6,716	1,358	12,255	1,139
The Andersons Marathon Ethanol LLC	50%	10,374	2,654	18,509	1,822
Lansing Trade Group, LLC	40% (a)	4,893	4,873	7,114	12,864
Thompsons Limited (b)	50%	3,399	—	3,086	—
Other	5%-23%	175	153	151	73
Total		\$32,213	\$10,010	\$52,714	\$17,814

(a) This does not consider restricted management units which once vested will reduce the ownership percentage by approximately 1.5%

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

Total distributions received from unconsolidated affiliates, excluding proceeds on sale of investments of affiliates, were \$0.3 million and \$65.9 million for the three and six months ended June 30, 2014.

Investment in Debt Securities

The Company owns 100% of the cumulative convertible preferred shares of Iowa Northern Railway Corporation ("IANR"), which operates a short-line railroad in Iowa. As a result of this investment, the Company has a 49.9% voting interest in IANR, with the remaining 50.1% voting interest held by the common shareholders. The preferred shares have certain rights associated with them, including voting, dividends, liquidation, redemption and conversion.

Dividends accrue to the Company at a rate of 14% annually whether or not declared by IANR and are cumulative in nature. The Company can convert its preferred shares into common shares of IANR at any time, but the shares cannot be redeemed until May 2015. This investment is accounted for as "available-for-sale" debt securities in accordance with ASC 320 and is carried at estimated fair value in "Other noncurrent assets" on the Company's Condensed Consolidated Balance Sheet. The estimated fair value of the Company's investment in IANR as of June 30, 2014 was \$17.0 million. See Footnote 9 for additional discussion on the change in the investment value.

Based on the Company's assessment, IANR is considered a variable interest entity ("VIE"). Since the Company does not possess the power to direct the activities of the VIE that most significantly impact the entity's economic performance, it is not considered to be the primary beneficiary of IANR and therefore does not consolidate IANR. The decisions that most significantly impact the economic performance of IANR are made by IANR's Board of Directors. The Board of Directors has five directors; two directors from the Company, two directors from the common shareholders and one independent director who is elected by unanimous decision of the other four directors. The vote of four of the five directors is required for all key decisions.

The Company's current maximum exposure to loss related to IANR is \$23.4 million, which represents the Company's investment at fair value plus unpaid accrued dividends to date of \$6.4 million. The Company does not have any obligation or commitments to provide additional financial support to IANR.

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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:

(in thousands)	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
Sales revenues	\$297,108	\$359,759	\$519,102	\$669,464
Service fee revenues (a)	6,203	5,814	11,841	11,615
Purchases of product	169,601	183,105	324,616	345,060
Lease income (b)	1,596	1,518	3,260	3,070
Labor and benefits reimbursement (c)	2,931	2,623	5,799	5,266
Other expenses (d)	238	395	724	753
Accounts receivable at June 30 (e)	27,028	24,149		
Accounts payable at June 30 (f)	21,829	27,936		

- (a) Service fee revenues include management fee, corn origination fee, ethanol and 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.
- (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 quarters ended June 30, 2014 and 2013, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$168.1 million and \$162.8 million, respectively. For the six months ended June 30, 2014 and 2013, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$312.5 million and \$308.6 million, respectively. For the quarters ended June 30, 2014 and 2013, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$158.1 million and \$200.2 million, respectively. For the six months ended June 30, 2014 and 2013, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$275.3 million and \$405.1 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 derivative contracts it enters into with unrelated parties. The fair value of derivative contract assets with related parties for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013 was \$17.4 million, \$8.9 million, and \$8.6 million, respectively. The fair value of derivative contract liabilities with related parties for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013 was \$5.5 million, \$1.2 million, and \$0.6 million, respectively.

9. Fair Value Measurements

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2014, December 31, 2013 and June 30, 2013:

(in thousands)	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets (liabilities)				

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Cash equivalents	\$13,364	\$—	\$—	\$13,364
Restricted cash	895	—	—	895
Commodity derivatives, net (a)	111,184	(42,021) —	69,163
Convertible preferred securities (b)	—	—	16,950	16,950
Other assets and liabilities (c)	10,662	(1,863) —	8,799
Total	\$136,105	\$(43,884) \$16,950	\$109,171

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(in thousands)	December 31, 2013			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	\$97,751	\$—	\$—	\$97,751
Restricted cash	408	—	—	408
Commodity derivatives, net (a)	50,777	(49,810	) —	967
Convertible preferred securities (b)	—	—	25,720	25,720
Other assets and liabilities (c)	10,143	(159	) —	9,984
Total	\$159,079	\$(49,969	) \$25,720	\$134,830

(in thousands)	June 30, 2013			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	\$32,272	\$—	\$—	\$32,272
Restricted cash	872	—	—	872
Commodity derivatives, net (a)	79,006	(21,176	) —	57,830
Convertible preferred securities (b)	—	—	17,710	17,710
Other assets and liabilities (c)	8,837	(726	) —	8,111
Total	\$120,987	\$(21,902	) \$17,710	\$116,795

(a) Includes associated cash posted/received as collateral

(b) Recorded in “Other noncurrent assets” on the Company’s Condensed Consolidated Balance Sheets

(c) Included in other assets and liabilities are interest rate and foreign currency derivatives and swaptions (Level 2) and deferred compensation assets (Level 1)

Level 1 commodity derivatives reflect the fair value of the exchanged-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 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 significant input to fair value for these commodity contracts.

The Company’s convertible preferred securities are measured at fair value using a combination of the income and market approaches. Specifically, the income approach incorporates the use of the Discounted Cash Flow method, whereas the Market Approach incorporates the use of the Guideline Public Company method. Application of the Discounted Cash Flow method requires estimating the annual cash flows that the business enterprise is expected to generate in the future. The assumptions input into this method are estimated annual cash flows for a specified

estimation period, the discount rate, and the terminal value at the end of the estimation period. In the Guideline Public Company method, valuation multiples, including total invested capital, are calculated based on financial statements and stock price data from selected guideline publicly traded companies. On an annual basis, a comparative analysis is then performed for factors including, but not limited to size, profitability and growth to determine fair value.

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

(in thousands)	2014 Convertible preferred securities	2013 Convertible preferred securities
Asset at January 1,	\$25,720	\$17,220
Unrealized gains (losses) included in other comprehensive income (a)	(5,190	) 490
Asset at March 31,	\$20,530	\$17,710
Unrealized gains (losses) included in other comprehensive income (a)	(3,580) —
Asset at June 30,	\$16,950	\$17,710

(a) The decrease in value from year end is due to reductions in forecasted traffic on the railroad

The following tables summarize quantitative information about the Company's Level 3 fair value measurements as of June 30, 2014 and June 30, 2013:

Quantitative Information about Level 3 Fair Value Measurements

(in thousands)				Range			
	Fair Value as of June 30, 2014	Valuation Method	Unobservable Input	Low	High	Weighted Average	
Convertible Preferred Securities	\$16,950	Market Approach	EBITDA Multiples	7.50	8.00		
		Income Approach	Discount Rate	14.5	% 14.5	%	14.5
				Range			
(in thousands)				Range			
	Fair Value as of December 31, 2013	Valuation Method	Unobservable Input	Low	High	Weighted Average	
Convertible Preferred Securities	\$25,720	Market Approach	EBITDA Multiples	7.50	8.00		
		Income Approach	Discount Rate	14.5	% 14.5	%	14.5
				Range			
(in thousands)				Range			
	Fair Value as of June 30, 2013	Valuation Method	Unobservable Input	Low	High	Weighted Average	
Convertible Preferred Securities	\$17,710	Market Approach	EBITDA Multiples	5.50	7.00		
		Income Approach	Discount Rate	17.0	% 17.0	%	17.0
				Range			

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, 2014	December 31, 2013
Fair value of long-term debt, including current maturities	\$394,670	\$429,723
Fair value in excess of carrying value	5,063	2,512

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

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10. Debt

The Company is party to borrowing arrangements with a syndicate of banks. One such agreement was amended on March 4, 2014 and provides the Company with \$850 million in lines of credit. The Company can designate up to \$400 million of borrowings as long-term when the debt is used for long-term purposes such as replacing long-term debt that is maturing, funding the purchase of long-term assets, or increasing permanent working capital when needed. The maturity date for the lines of credit is March 2019. See Note 10 in the Company's 2013 Form 10-K for an additional description of the remaining arrangements. Total borrowing capacity for the Company under all lines of credit is currently at \$878.1 million, including \$28.1 million non-recourse debt of The Andersons Denison Ethanol LLC ("TADE"). At June 30, 2014, the Company had a total of \$820.1 million available for borrowing under its lines of credit. The Company was in compliance with all financial and non-financial covenants as of June 30, 2014.

The Company's short-term and long-term debt at June 30, 2014, December 31, 2013 and June 30, 2013 consisted of the following:

(in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Borrowings under short-term line of credit – non-recourse	\$—	\$—	\$—
Borrowings under short-term line of credit – recourse	27,000	—	50,000
Total borrowings under short-term line of credit	\$27,000	\$—	\$50,000
Current maturities of long-term debt – non-recourse	\$3,100	\$6,012	\$3,274
Current maturities of long-term debt – recourse	86,287	45,986	41,822
Total current maturities of long-term debt	\$89,387	\$51,998	\$45,096
Long-term debt, less current maturities – non-recourse	\$2,515	\$4,063	\$19,621
Long-term debt, less current maturities – recourse	297,705	371,150	389,399
Total long-term debt, less current maturities	\$300,220	\$375,213	\$409,020

11. 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 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. In 2013, the Company recorded a \$3.5 million gain in other income related to the settlement of an early rail lease termination.

The estimated range of loss for all outstanding claims that are considered reasonably possible of occurring is not material. The Company has received, and is cooperating fully with, a request for information from the United States Environmental Protection Agency ("U.S. EPA") regarding the history of our grain and fertilizer facility along the Maumee River in Toledo, Ohio. The U.S. EPA is investigating the possible introduction into the Maumee River of hazardous materials potentially leaching from rouge piles deposited along the riverfront by glass manufacturing operations that existed in the area prior to our initial acquisition of the land in 1960. The Company has on several prior occasions cooperated with local, state and federal regulators to install or improve drainage systems to contain storm water runoff and sewer discharges along our riverfront property to minimize the potential for such leaching.

Other area land owners and the successor to the original glass making operations have also been contacted by the U.S. EPA for information. No claim or finding has been asserted thus far.

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12. Business Acquisitions

There were no business acquisitions completed through the second quarter of 2014.

Prior Years Business Acquisitions

On December 9, 2013, the Turf and Specialty Group completed the purchase of substantially all of the assets of Cycle Group, Inc. for a purchase price of \$4.2 million. The operation consists of a modern granulated products facility in Mocksville, North Carolina.

The summarized final purchase price allocation is as follows:

(in thousands)	
Inventory	\$77
Intangible assets	330
Property, plant and equipment	3,825
Total purchase price	\$4,232

Details of the intangible assets acquired are as follows:

(in thousands)	Fair Value	Useful Life
Customer relationships	\$150	5 years
Noncompete agreement	55	7 years
Patents	125	5 years
Total identifiable intangible assets	\$330	5 years *

*weighted average number of years

On August 5, 2013, the Company completed the purchase of substantially all of the assets of Mile Rail, LLC and a sister entity for a purchase price of \$7.8 million. The operations consist of a railcar repair and cleaning facility headquartered in Kansas City, Missouri, with 2 satellite locations in Nebraska and Indiana.

The summarized final purchase price allocation is as follows:

(in thousands)	
Inventory	\$512
Other assets	14
Intangible assets	650
Goodwill	4,167
Property, plant and equipment	2,605
Other liabilities	(144)
Total purchase price	\$7,804

The goodwill recognized as a result of the Mile Rail acquisition is \$4.2 million, which is fully deductible for tax purposes, and is included in the Rail segment. The goodwill relates to geography that is complimentary to the Rail Group's existing repair network and from its additional connections to several U.S. Class I railroads, from which we anticipate future growth and capacity to generate gross profit.

Details of the intangible assets acquired are as follows:

(in thousands)	Fair Value	Useful Life
Customer relationships	\$400	5 years
Noncompete agreement	250	5 years
Total identifiable intangible assets	\$650	5 years *

*weighted average number of years

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On December 3, 2012, the Company completed the purchase of a majority of the grain and agronomy assets of Green Plains Grain Company ("GPG"), a subsidiary of Green Plains Renewable Energy, Inc. for a purchase price of \$120.2 million, which included a \$3.3 million payable to the acquiree that was outstanding as of December 31, 2012 and paid in January 2013. The various facilities located in Iowa and Tennessee have a combined grain storage capacity of more than 32.0 million bushels and 12,000 tons of nutrient storage.

During the first quarter of 2013, the purchase price allocation for Green Plains Grain Company, which was acquired in the fourth quarter of 2012, was finalized. The measurement period adjustments to the purchase price allocation were the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2012. December 31, 2012 balances have been revised to include the effect of the adjustment as if the additional information had been available on the acquisition date. Due to these revision of estimates, goodwill increased \$3 million with the majority of the offset to intangible assets.

The summarized final purchase price allocation is as follows:

(in thousands)	
Accounts receivable	\$19,174
Inventory	121,983
Property, plant and equipment	57,828
Intangible assets	4,600
Goodwill	33,175
Commodity derivatives	4,701
Other assets	1,775
Accounts payable	(91,001)
Debt assumed	(29,632)
Other liabilities and noncontrolling interests	(2,371)
Total purchase price	\$120,232

The goodwill recognized as a result of the GPG acquisition is \$33.2 million, for which the full amount is deductible for tax purposes, and is included in the Grain reportable segment. The goodwill relates to the value of a fully functional business consisting of a successful management team and an experienced and talented work force.

Details of the intangible assets acquired are as follows:

(in thousands)	Fair	Useful
	Value	Life
Supplier relationships	\$4,600	3 to 5 years
Total identifiable intangible assets	\$4,600	4 years *
*weighted average number of years		

13. Income Taxes

For the three months ended June 30, 2014, income tax expense of \$25.7 million was provided at 34.2%. For the three months ended June 30, 2013, income tax expense of \$17.5 million was provided at 36.3%. The lower 2014 effective tax rate is due primarily to the benefit associated with income attributable to noncontrolling interests that does not increase tax expense and to increased deductions related to domestic production activities.

For the six months ended June 30, 2014, income tax expense of \$39.6 million was provided at 34.4%. For the six months ended June 30, 2013, income tax expense of \$26.6 million was provided at a rate of 38.2%. The higher 2013 effective tax rate was due primarily to a correction made with respect to the accounting for the other comprehensive income ("OCI") portion of the Company's retiree health care plan liability and the Medicare Part D subsidy. The 2014 effective tax rate also reflects a benefit associated with income attributable to noncontrolling interests that does not

increase tax expense.

The Company made tax payments of \$3.6 million in the second quarter of 2014.

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14. 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, 2014 and 2013:

Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)

(in thousands)	For the three months ended June 30, 2014				For the six months ended June 30, 2014			
	Losses on Cash Flow Hedges	Investment in Debt Securities	Defined Benefit Plan Items	Total	Losses on Cash Flow Hedges	Investment in Debt Securities	Defined Benefit Plan Items	Total
Beginning Balance	\$ (568)	\$ 4,629	\$ (28,218)	\$ (24,157)	\$ (637)	\$ 7,861	\$ (28,405)	\$ (21,181)
Other comprehensive income (loss) before reclassifications	62	(2,230)	(613)	(2,781)	131	(5,462)	(341)	(5,672)
Amounts reclassified from accumulated other comprehensive loss	—	—	(85)	(85)	—	—	(170)	(170)
Net current-period other comprehensive income (loss)	62	(2,230)	(698)	(2,866)	131	(5,462)	(511)	(5,842)
Ending balance	\$ (506)	\$ 2,399	\$ (28,916)	\$ (27,023)	\$ (506)	\$ 2,399	\$ (28,916)	\$ (27,023)

Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)

(in thousands)	For the three months ended June 30, 2013				For the six months ended June 30, 2013			
	Losses on Cash Flow Hedges	Investment in Debt Securities	Defined Benefit Plan Items	Total	Losses on Cash Flow Hedges	Investment in Debt Securities	Defined Benefit Plan Items	Total
Beginning Balance	\$ (872)	\$ 2,872	\$ (45,277)	\$ (43,277)	\$ (902)	\$ 2,569	\$ (47,046)	\$ (45,379)
Other comprehensive income before reclassifications	108	—	1,229	1,337	138	303	3,083	3,524
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(85)	(85)	—	—	(170)	(170)
Net current-period other comprehensive income	108	—	1,144	1,252	138	303	2,913	3,354
Ending balance	\$ (764)	\$ 2,872	\$ (44,133)	\$ (42,025)	\$ (764)	\$ 2,872	\$ (44,133)	\$ (42,025)

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

The following tables show the reclassification adjustments from accumulated other comprehensive income to net income for the three and six months ended June 30, 2014:

Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)

(in thousands)	For the three months ended June 30, 2014		For the six months ended June 30, 2014	
	Amount	Affected Line	Amount	Affected Line
Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated	Item in the Statement Where	Reclassified from Accumulated	Item in the Statement Where

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	Other Comprehensive Income	Net Income Is Presented	Other Comprehensive Income	Net Income Is Presented
Defined Benefit Plan Items				
Amortization of prior-service cost	\$(136	) (b)	\$(272	) (b)
	(136	) Total before tax	(272	) Total before tax
	51	Tax expense	102	Tax expense
	\$(85) Net of tax	\$(170) Net of tax
Total reclassifications for the period	\$(85) Net of tax	\$(170) Net of tax

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)				
(in thousands)	For the three months ended June 30, 2013		For the six months ended June 30, 2013	
	Amount	Affected Line	Amount	Affected Line
Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Item in the Statement Where Net Income Is Presented	Reclassified from Accumulated Other Comprehensive Income	Item in the Statement Where Net Income Is Presented
Defined Benefit Plan Items				
Amortization of prior-service cost	\$(136)	) (b)	\$(272)	) (b)
	(136)	) Total before tax	(272)	) Total before tax
	51	) Tax expense	102	) Tax expense
	\$(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 debits to profit/loss

(b) This accumulated other comprehensive income component is included in the computation of net periodic benefit cost (see Note 6. Employee Benefit Plans footnote for additional details).

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements which relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. You are urged to carefully consider these risks and others, including those risk factors listed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 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 2013 Form 10-K, have not materially changed during the first and second quarters of 2014.

Executive Overview

Our 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 merchandising revenues and service income.

Grain Group

Our Grain Group operates grain elevators in various states in the U.S. Corn Belt. In addition to storage, merchandising and grain trading, Grain performs marketing, risk management, and corn origination services to its customers and affiliated ethanol production facilities. Grain is a significant investor in Lansing Trade Group, LLC ("LTG"), an established commodity trading, grain handling and merchandising business with operations throughout the country and with global trading/merchandising offices. On January 22, 2014, we entered into an agreement with LTG for a partial share redemption of our investment in LTG, reducing our interest from approximately 47.5 percent to approximately 39.2 percent on a fully diluted basis.

Grain inventories on hand at June 30, 2014 were 67.6 million bushels, of which 3.7 million bushels were stored for others. This compares to 48.9 million bushels on hand at June 30, 2013, of which 2.5 million bushels were stored for others.

The first half of 2014 results reflect the refilling of the pipeline at both the farm level and commercial level, along with strong exports and difficult weather conditions that provided limited opportunity for space income across the U.S. grain industry. During the second quarter, we did experience some improvement in space income from price appreciation and more bushels on hand as of June 30, 2014 and we expect this trend to continue for the balance of the year. However, it is dependent on the progress of the new crop. If weather conditions remain favorable we have the potential for record corn and soybean yields.

Ethanol Group

Our Ethanol Group holds investments in four ethanol production facilities organized as separate limited liability companies, three of which are accounted for under the equity method (the "unconsolidated ethanol LLCs") and one that is consolidated, The Andersons Denison Ethanol LLC ("TADE"). The Ethanol Group purchases and sells ethanol, offers facility operations, risk management, and ethanol, corn oil and distillers dried grains ("DDG") marketing to the ethanol plants in which it invests in and operates.

This second quarter reflects continued strong margins due to several key factors, including a drop in corn prices due to optimal weather conditions and relatively strong ethanol prices driven by strong ethanol export volumes. At this time, we have approximately 75 percent of the third quarter and 33 percent of the fourth quarter hedged. The majority of those hedges were placed in the first quarter, consistent with our strategy to lock-in reasonable forward returns when available in the market. Other hedges were added in the second quarter, consistent with our risk management strategy. At this time we are managing margins in the spot market for the rest of our production.

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Ethanol volumes shipped for the three and six months ended June 30, 2014 and 2013 were as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Ethanol (gallons shipped) (a)	75,451	69,881	147,766	139,716
E-85 (gallons shipped)	7,232	6,626	12,800	10,347
Corn Oil (pounds shipped)	22,985	21,609	43,348	38,856
DDG (tons shipped) (b)	53	58	104	118

(a) The sales volumes are less than the total produced by the LLCs, as a portion of the volume is sold directly to one of its other investors

(b) The sales volumes are less than the total produced by the LLCs, as the unconsolidated LLCs ship directly to their customers

Plant Nutrient Group

Our Plant Nutrient Group is a leading manufacturer, distributor and retailer of agricultural and related plant nutrients and pelleted lime and gypsum products in the U.S. Corn Belt, Florida and Puerto Rico. The Plant Nutrient Group provides warehousing, packaging and manufacturing services to basic manufacturers and other distributors. The Group also manufactures and distributes a variety of industrial products throughout the U.S. and Puerto Rico including nitrogen reagents for air pollution control systems used in coal-fired power plants and water treatment products. The major nutrient products sold by the business principally contain nitrogen, phosphate, potassium and sulfur.

Storage capacity at our wholesale nutrient and farm center facilities was approximately 485,000 tons for dry nutrients and approximately 417,000 tons for liquid nutrients at June 30, 2014.

Fertilizer tons sold (including sales and service tons) for the three and six months ended June 30, 2014 and 2013 were as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Fertilizer tons	876	830	1,204	1,143

Volume for the period was higher than anticipated due to the harsh weather experienced during the first quarter 2014 that shifted tonnage into the second quarter. With a large potential crop yield in the fall, and the nutrient depletion high yields cause to soil, we expect good demand for the remainder of the year, barring rail and barge logistical interruptions.

Rail Group

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

In the second quarter, Rail had gains on sales of railcars and related leases in the amount of \$2.5 million compared to \$4.6 million in the prior year. Railcars and locomotives under management (owned, leased or managed for financial institutions in non-recourse arrangements) at June 30, 2014 were 22,162 compared to 23,245 at June 30, 2013. The average utilization rate (railcars and locomotives under management that are in lease services, exclusive of railcars managed for third party investors) has increased to 89.3% from 85.7% for the quarters ended June 30, 2014 and 2013, respectively.

The Rail Group is focused on strategically growing the rail fleet and continues to look for opportunities to open new repair facilities. We also anticipate future business related to mandated modification in the tank car industry.

Turf & Specialty Group

Turf & Specialty produces granular fertilizer products for the professional lawn care and golf course markets. It also sells consumer fertilizer and weed and turf pest control products for “do-it-yourself” application to mass merchandisers, small independent retailers and other lawn fertilizer manufacturers, and performs contract manufacturing of fertilizer

and weed and turf pest control products. These products are distributed throughout the United States and Canada and into Europe and Asia. The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. Turf & Specialty is also one of a very limited number of processors of corncob-based products in the United States. Corncob-based products are manufactured for a variety of uses including laboratory animal bedding, cat litter, as well as absorbents, blast cleaners, carriers and polishers. Corncob-based products are sold throughout the year.

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Retail Group

Our Retail Group includes large retail stores operated as “The Andersons” and a specialty food market operated as “The Andersons Market”. It also operates a sales and service facility for outdoor power equipment. The retail concept is More for Your Home ® and the conventional retail stores focus on providing significant product breadth with offerings in home improvement and other mass merchandise categories, as well as specialty foods, wine and indoor and outdoor garden centers.

The retail business 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. The Retail Group continues to optimize departments and products to maximize the profitability.

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 back to the operating segments, including implementation expenses for our Enterprise Resource Planning (“ERP”) project. We anticipate an increase in our ERP project expenses throughout the remainder of the year as the first stage of the project implementation commenced during the second quarter.

Operating Results

The following discussion focuses on the operating results as shown in the Condensed Consolidated Statements of Income with a separate discussion by segment. Additional segment information is included in the Notes to the Condensed Consolidated Financial Statements herein in Note 7. Segment Information.

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	2013	June 30, 2014	2013
Sales and merchandising revenues	\$1,312,082	\$1,566,964	\$2,315,376	\$2,838,934
Cost of sales and merchandising revenues	1,190,587	1,463,735	2,117,106	2,656,432
Gross profit	121,495	103,229	198,270	182,502
Operating, administrative and general expenses	76,275	61,464	147,260	123,472
Interest expense	6,146	4,855	12,148	11,259
Equity in earnings of affiliates, net	32,213	10,010	52,714	17,814
Other income, net	3,797	1,292	23,409	4,018
Income before income taxes	75,084	48,212	114,985	69,603
Income attributable to noncontrolling interests	5,069	1,193	8,390	927
Income before income taxes attributable to The Andersons, Inc.	\$70,015	\$47,019	\$106,595	\$68,676

Comparison of the three months ended June 30, 2014 with the three months ended June 30, 2013:

Grain Group

(in thousands)	Three months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$656,004	\$891,350
Cost of sales and merchandising revenues	628,095	869,258
Gross profit	27,909	22,092
Operating, administrative and general expenses	24,294	22,243
Interest expense	2,705	2,474
Equity in earnings of affiliates, net	8,467	5,027
Other income (expense), net	975	(349)
Income before income taxes	10,352	2,053
Loss attributable to noncontrolling interest	(3)	—

Income before income taxes attributable to The Andersons, Inc.	\$ 10,355	\$ 2,053
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Operating results for the Grain Group have improved \$8.3 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$235.3 million and primarily is the result of lower grain prices, of which corn decreased more than 30 percent. Wheat and soybean revenues were also lower due to decreases in volume. Cost of sales and merchandising revenues decreased \$241.2 million compared to the second quarter of 2013 and was also driven by lower prices in corn and volume in wheat and soybeans. Gross profit is up \$5.8 million over the second quarter of 2013 with most of the increase a result of higher basis appreciation in corn. Basis is defined as the difference between cash price of a commodity in one of the Company's facilities and the nearest exchange traded futures price.

Operating expenses increased \$2.1 million compared to the same period in 2013, driven primarily by higher labor and benefit costs, of which a majority relates to incentive compensation and merit increases. Equity in earnings of affiliates increased \$3.4 million over the same period in 2013, primarily driven by increased operating results of Thompsons Limited in the second quarter of 2014.

Ethanol Group

(in thousands)	Three months ended	
	June 30, 2014	2013
Sales and merchandising and service fee revenues	\$226,388	\$222,240
Cost of sales and merchandising revenues	207,750	212,591
Gross profit	18,638	9,649
Operating, administrative and general expenses	3,688	2,757
Interest expense	76	280
Equity in earnings of affiliates, net	23,746	4,983
Other income, net	356	199
Income before income taxes	38,976	11,794
Income attributable to noncontrolling interests	5,072	1,193
Income before income taxes attributable to The Andersons, Inc.	\$33,904	\$10,601

Operating results for the Ethanol Group increased \$23.3 million over the results of the same period last year. Sales and merchandising and service fee revenues increased \$4.1 million and primarily is due to an increase in volume for ethanol. The decrease in cost of sales is due primarily to lower ethanol prices. The increase in gross profit quarter over quarter is attributed to the increase in ethanol demand and the price of ethanol relative to corn value.

Operating expenses increased slightly due to higher incentive compensation expense in 2014, while interest expense was comparable to the same period last year. Equity in earnings of affiliates improved \$18.8 million and relates to improved earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was favorably impacted by higher ethanol margins resulting from declining corn costs and higher demand for ethanol.

Plant Nutrient Group

(in thousands)	Three months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$311,895	\$330,339
Cost of sales and merchandising revenues	271,162	293,138
Gross profit	40,733	37,201
Operating, administrative and general expenses	15,160	13,328
Interest expense	960	797
Other income, net	391	164
Income before income taxes	\$25,004	\$23,240

Operating results for the Plant Nutrient Group increased \$1.8 million from the same period last year. Sales and merchandising revenues decreased \$18.4 million due to a decrease in average price per ton sold, which followed the price of nutrients in the

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market. This decrease was partially offset by a 4 percent increase in volume. The decreases in cost of sales and merchandising revenues was driven by lower costs per ton sold, comparable with the selling price decrease and reflective of the market. The increase of \$3.5 million in gross profit was the result of higher volumes due to the weather related deferrals from the first quarter.

Operating expenses were up slightly from the same period in 2013, due to increases in incentive compensation expense and additional depreciation from recent capital projects. There were no significant changes in interest expense or other income.

Rail Group

(in thousands)	Three months ended	
	June 30,	
	2014	2013
Sales and merchandising revenues	\$33,409	\$38,601
Cost of sales and merchandising revenues	19,546	24,044
Gross profit	13,863	14,557
Operating, administrative and general expenses	6,062	4,150
Interest expense	1,904	1,429
Other income, net	787	702
Income before income taxes	\$6,684	\$9,680

Operating results for the Rail Group decreased by \$3.0 million compared to the results from the same period last year. The decrease in revenues was driven by a \$7.9 million decrease in car sales, partially offset by an increase in leasing revenues of \$0.8 million and an increase in revenues at the repair facilities of \$1.9 million. Cost of sales and merchandising revenues decreased \$4.5 million compared to the same period last year primarily as a result of a lower volume of car sales. Rail gross profit decreased by \$0.7 million compared to the second quarter of 2013. Despite lower car sales, margins were significantly higher due to lease rates reflecting high demand for cars.

Operating expenses increased \$1.9 million quarter over quarter due to increased labor and benefits costs from recent expansion in the repair business and incentive compensation expense. There were no significant changes in interest expense and other income compared to the same period last year.

Turf & Specialty Group

(in thousands)	Three months ended	
	June 30,	
	2014	2013
Sales and merchandising revenues	\$42,913	\$43,144
Cost of sales and merchandising revenues	35,108	35,823
Gross profit	7,805	7,321
Operating, administrative and general expenses	5,852	4,955
Interest expense	422	346
Other income, net	467	175
Income before income taxes	\$1,998	\$2,195

Operating results for the Turf & Specialty Group decreased slightly compared to results from the same period last year. Sales and merchandising revenues remained consistent, while cost of sales and merchandising revenues decreased \$0.7 million. Although volumes were down slightly, a two percent increase in the average selling price and a reduction in costs of sales resulted in an increase in gross profit.

Operating expenses increased \$0.9 million. The largest drivers of this increase were labor and benefit costs, and depreciation expense due to recent acquisitions, and additional incentive compensation expense. There were no

significant fluctuations in interest expense and other income quarter over quarter.

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Retail Group

(in thousands)	Three months ended	
	June 30,	
	2014	2013
Sales and merchandising revenues	\$41,473	\$41,290
Cost of sales and merchandising revenues	28,926	28,881
Gross profit	12,547	12,409
Operating, administrative and general expenses	10,936	10,818
Interest expense	164	152
Other income, net	190	100
Income before income taxes	\$1,637	\$1,539

Operating results for the Retail Group remained consistent with the second quarter 2013.

Other

(in thousands)	Three months ended		
	June 30,		
	2014	2013	
Sales and merchandising revenues	\$—	\$—	
Cost of sales and merchandising revenues	—	—	
Gross profit	—	—	
Operating, administrative and general expenses	10,283	3,213	
Interest income	(85) (623)
Other income, net	631	301	
Loss before income taxes	\$(9,567) \$(2,289)

The other operating loss not allocated to business segments increased \$7.3 million compared to the second quarter 2013. Operating expenses were higher in the second quarter of 2014 due to higher labor and benefit costs and additional ERP project expenses. Interest expense and other income remained comparable to prior year.

Income Taxes

Income tax expense of \$25.7 million was provided at 34.2%. In the second quarter of 2013, income tax expense of \$17.5 million was provided at a rate of 36.3%. The lower 2014 effective tax rate is due primarily to the benefit associated with income attributable to noncontrolling interests that does not increase tax expense and to increased deductions related to domestic production activities.

The Company anticipates that its 2014 effective annual rate will be 33.9%. The Company's actual 2013 effective tax rate was 36.0%. The lower effective rate for 2014 is due to increased benefits related to domestic production activities and the 2013 correction made with respect to the accounting for the OCI portion of the Company's retiree health care plan liability and the Medicare Part D subsidy.

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Comparison of the six months ended June 30, 2014 with the six months ended June 30, 2013:

Grain Group

(in thousands)	Six months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$1,239,163	\$1,727,845
Cost of sales and merchandising revenues	1,194,246	1,680,903
Gross profit	44,917	46,942
Operating, administrative and general expenses	47,454	43,426
Interest expense	5,480	6,323
Equity in earnings of affiliates, net	10,351	12,937
Other income, net	19,321	222
Income before income taxes	21,655	10,352
Loss attributable to noncontrolling interest	(6) —
Income before income taxes attributable to The Andersons, Inc.	\$21,661	\$10,352

Operating results for the Grain Group have improved \$11.3 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$488.7 million, the result of lower grain prices, including an average corn selling price decrease of more than 35 percent. Wheat and soybean revenues were also lower due to a decrease in volume. These decreases were partially offset by higher oats volumes and prices. Cost of sales and merchandising revenues decreased \$486.7 million, driven by lower prices in corn and volume in wheat and soybeans. The above items were the primary driver of the \$2.0 million decrease in gross profit from the prior year.

Operating expenses increased \$4.0 million compared to prior year, primarily driven by higher labor and benefit costs, of which a majority relates to incentive compensation and merit increases. Interest expense is lower compared to the prior year due to lower commodity prices resulting in lower inventory values. Equity in earnings of affiliates decreased \$2.6 million over prior year, primarily driven by a decreased ownership percentage of the investment in LTG and lower operating results of LTG through the second quarter of 2014. This decrease was partially offset by earnings from our Thompsons Limited investment. Other income is higher in the current year due to a gain, net of deal costs, recognized from the partial share redemption in our investment in LTG of \$17.1 million.

Ethanol Group

(in thousands)	Six months ended	
	June 30, 2014	2013
Sales and merchandising and service fee revenues	\$415,208	\$421,549
Cost of sales and merchandising revenues	389,205	407,095
Gross profit	26,003	14,454
Operating, administrative and general expenses	6,196	5,148
Interest expense	176	606
Equity in earnings of affiliates, net	42,363	4,877
Other income, net	130	430
Income before income taxes	62,124	14,007
Income attributable to noncontrolling interests	8,396	927
Income before income taxes attributable to The Andersons, Inc.	\$53,728	\$13,080

Operating results for the Ethanol Group increased \$40.6 million over the prior year. Sales and merchandising and service fee revenues decreased \$6.3 million and primarily is due to a decrease in the average price per gallon of ethanol sold and price per tons of DDG sold, partially offset by an increase in volume for both. The decrease in cost of sales primarily is due to lower ethanol prices. The increase in gross profit quarter over quarter is attributed to the

increase in ethanol demand and the price of ethanol and DDG relative to corn value which contributed to more favorable margins.

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Operating expenses increased slightly due to higher incentive compensation expense in 2014, while interest expense was comparable to the same period last year. Equity in earnings of affiliates improved \$37.5 million and relates to improved earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was impacted favorably by higher ethanol margins resulting from declining corn costs and strong demand for ethanol.

Plant Nutrient Group

(in thousands)	Six months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$419,525	\$442,241
Cost of sales and merchandising revenues	364,717	391,091
Gross profit	54,808	51,150
Operating, administrative and general expenses	30,060	26,896
Interest expense	1,731	1,715
Other income, net	576	139
Loss before income taxes	\$23,593	\$22,678

Operating results for the Plant Nutrient Group increased \$0.9 million from the same period last year. Sales and merchandising revenues decreased \$22.7 million due to a 10 percent decrease in average price per ton sold, which followed the price of nutrients in the market. This decrease was partially offset by a 6 percent increase in volume. The decreases in cost of sales and merchandising revenues was driven by lower costs per ton sold, comparable with the selling price decrease and reflective of the market. The majority of the \$3.7 million increase in gross profit relates to the increase in volume.

Operating expenses were up slightly from the same period in 2013, due to increases in incentive compensation expense and additional depreciation from recent capital projects. There were no significant changes in interest expense or other income.

Rail Group

(in thousands)	Six months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$85,711	\$84,965
Cost of sales and merchandising revenues	49,983	51,429
Gross profit	35,728	33,536
Operating, administrative and general expenses	11,936	7,988
Interest expense	3,560	2,942
Other income, net	1,497	1,648
Income before income taxes	\$21,729	\$24,254

Operating results for the Rail Group decreased by \$2.6 million compared to the results from the same period last year. The slight increase in revenues was driven by an increase in leasing revenues of \$1.6 million and an increase in revenues at the repair facilities of \$1.3 million, offset by a \$2.1 million decrease in car sales. Cost of sales and merchandising revenues decreased \$1.4 million compared to the same period last year primarily as a result of a lower volume of car sales. Rail gross profit increased by \$2.2 million compared to prior year. Despite lower car sales, margins were higher primarily in the leasing business.

Operating expenses increased \$3.9 million quarter over quarter primarily due to increased labor and benefits costs from recent expansion in the repair business and incentive compensation expense. There were no significant changes in interest expense and other income compared to the prior year.

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Turf & Specialty Group

(in thousands)	Six months ended	
	June 30,	
	2014	2013
Sales and merchandising revenues	\$86,638	\$90,331
Cost of sales and merchandising revenues	70,358	73,992
Gross profit	16,280	16,339
Operating, administrative and general expenses	12,841	9,845
Interest expense	840	748
Other income, net	774	450
Income before income taxes	\$3,373	\$6,196

Operating results for the Turf & Specialty Group decreased \$2.8 million compared to results from the prior year. Sales and merchandising revenues decreased \$3.7 million primarily due to a lower volumes and average price per ton. Cost of sales and merchandising revenues decreased \$3.6 million compared to the prior year and was driven by a lower average cost per ton. Gross profit decreased slightly and is a result of the sales mix.

Operating expenses increased \$3.0 million. The largest drivers of this increase were labor and benefit costs, and depreciation expense due to recent acquisitions, and additional incentive compensation expense. There were no significant fluctuations in interest expense and other income from prior year.

Retail Group

(in thousands)	Six months ended	
	June 30,	
	2014	2013
Sales and merchandising revenues	\$69,131	\$72,003
Cost of sales and merchandising revenues	48,597	51,922
Gross profit	20,534	20,081
Operating, administrative and general expenses	21,200	21,558
Interest expense	334	367
Other income, net	302	214
Loss before income taxes	\$(698)	\$(1,630)

Operating results for the Retail Group improved \$0.9 million from the same period last year. Sales and merchandising revenues decreased \$2.9 million, of which \$2.3 million relates to the closing of the Woodville store in the first quarter of 2013. The average sale per customer remained consistent but we saw a decrease in customer count from prior year, caused, in part, by the weather conditions in the first quarter of 2014 and the closing of the Woodville store in the prior year. Cost of sales and merchandising revenues decreased \$3.3 million and was also driven by lower customer counts. Despite lower volumes, gross profit increased due to the strong margins realized on work wear and winter goods.

Operating expenses were \$0.4 million lower than the comparable period last year primarily due to lower labor and benefits and lower depreciation expense related to the Woodville store closing and the impairment charge taken in 2013. There were no significant changes in interest expense and other income quarter over quarter.

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Other

(in thousands)	Six months ended	
	June 30, 2014	2013
Sales and merchandising revenues	\$—	\$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	17,573	8,611
Interest (income) expense	27	(1,442)
Other income, net	809	915
Loss before income taxes	\$(16,791)	\$(6,254)

The other operating loss not allocated to business segments increased \$10.5 million compared to the prior year. Operating expenses were higher in 2014 due to higher labor and benefit costs, particularly performance based compensation accruals, and additional ERP project expenses. Interest (income) expense increased due to mark-to-market adjustments on interest rate derivative contracts. Other income remained comparable to prior year.

Income Taxes

Income tax expense of \$39.6 million was provided at 34.4%. In 2013, income tax expense of \$26.6 million was provided at a rate of 38.2%. The higher 2013 effective tax rate was due primarily to a correction made with respect to the accounting for the other comprehensive income (“OCI”) portion of the Company’s retiree health care plan liability and the Medicare Part D subsidy. The 2014 effective tax rate also reflects a benefit associated with income attributable to noncontrolling interests that does not increase tax expense.

The Company anticipates that its 2014 effective annual rate will be 33.9%. The Company’s actual 2013 effective tax rate was 36.0%. The lower effective rate for 2014 is due to increased benefits related to domestic production activities and the 2013 correction made with respect to the accounting for the OCI portion of the Company’s retiree health care plan liability and the Medicare Part D subsidy.

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Liquidity and Capital Resources

Working Capital

At June 30, 2014, we had working capital of \$252.0 million. The following table presents changes in the components of current assets and current liabilities:

(in thousands)	June 30, 2014	June 30, 2013	Variance
Current Assets:			
Cash and cash equivalents	\$47,190	\$75,920	\$(28,730)
Restricted cash	895	872	23
Accounts receivable, net	189,646	216,432	(26,786)
Inventories	432,996	444,523	(11,527)
Commodity derivative assets – current	162,427	121,789	40,638
Deferred income taxes	7,443	2,797	4,646
Other current assets	24,596	44,936	(20,340)
Total current assets	865,193	907,269	(42,076)
Current Liabilities:			
Borrowing under short-term line of credit	27,000	50,000	(23,000)
Accounts payable for grain	164,230	178,017	(13,787)
Other accounts payable	143,535	183,971	(40,436)
Customer prepayments and deferred revenue	21,670	25,621	(3,951)
Commodity derivative liabilities – current	86,134	58,183	27,951
Accrued expenses and other current liabilities	81,260	57,456	23,804
Current maturities of long-term debt	89,387	45,096	44,291
Total current liabilities	613,216	598,344	14,872
Working capital	\$251,977	\$308,925	\$(56,948)

In comparison to June 30, 2013, current assets decreased primarily related to cash and accounts receivable. See the discussion below on sources and uses of cash for an understanding of the change in cash from prior year. Accounts receivable is lower in the current year due to lower grain prices and decreased revenues in several of our business units. Other current assets decreased in 2014 as we continue to use up the prepaid federal income tax balance that resulted from significant overpayments in 2013. Commodity derivative assets and liabilities have increased and reflect the net asset or liability by customer position based on the value of the forward contract as compared to the market price at the end of the period. Current liabilities increased primarily due to increases in current maturities of long-term debt, commodity derivative liabilities and accrued expenses. Current maturities of long-term debt increased due to reclassification of certain notes that are due within the next year. Higher accrued expenses and other current liabilities include accrued compensation related to performance incentives and accrued taxes. Offsetting this increase, was a decrease in borrowings on the short-term line of credit, which fluctuates with the funding of margin calls on commodity contracts and other working capital needs. Accounts payable for grain and other accounts payable also decreased due to lower grain prices and timing of payments, specifically in the Grain and Plant Nutrient businesses, respectively.

Sources and Uses of Cash

Operating Activities

Our operating activities used cash of \$259.6 million in the first six months of 2014 compared to net cash used in operating activities of \$59.7 million in the first six months of 2013. The most significant use of cash in both periods relates to the significant payout to farmers in January of each year. Other working capital changes that used cash include increases in accounts receivable and commodity derivatives. Partially offsetting these uses includes distributions from investments in affiliates and working capital decreases in inventories, other assets and other accounts payable and accrued expenses. In the first quarter, the ethanol LLCs made distributions to us as a result of strong financial performance, and a portion of the proceeds received from LTG as part of the partial share redemption agreement was a distribution of earnings.

We have only made income tax payments of \$3.6 million through the second quarter of 2014 due to an overpayment of income taxes in 2013. We expect to make payments totaling approximately \$41.8 million for the remainder of 2014.

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Investing Activities

Total capital spending for 2014 on property, plant and equipment in our base business, inclusive of information technology spending is expected to be approximately \$78 million. In addition to spending on conventional property, plant and equipment, we expect to spend \$110 million for the purchase of railcars, locomotives and related leases and capitalized modifications of railcars. We also expect to offset this amount by proceeds from the sales and dispositions of railcars of \$85 million. Through June 30, 2014, we invested \$30.4 million in the purchase of additional railcars, which is almost offset by proceeds from sales of railcars of \$29.2 million. Through June 30, 2013, we invested \$56.9 million in the purchase of additional railcars, partially offset by proceeds from sales of \$53.2 million. In the first quarter of 2014, we also recognized a portion of the proceeds received from LTG as part of the partial share redemption as proceeds from sale of investments.

Financing Activities

We have a significant amount of committed short-term lines of credit available to finance working capital, primarily inventories, margin calls on commodity contracts and accounts receivable. We are party to a borrowing arrangement with a syndicate of banks that provides a total of \$878.1 million in borrowings, which includes \$28.1 million non-recourse debt of The Andersons Denison Ethanol LLC. Of that total, we had \$820.1 million remaining available for borrowing at June 30, 2014. Peak short-term borrowings to date were \$270.6 million on April 2, 2014. Typically, our highest borrowing occurs in the Spring due to seasonal inventory requirements in our fertilizer and grain businesses.

We paid \$0.1067 per common share for the dividends paid in January, April, July and October 2013, and \$0.11 per common share for the dividends paid in January and April 2014. On May 2, 2014, we declared a cash dividend of \$0.11 per common share payable on July 22, 2014 to shareholders of record on July 1, 2014. During the first six months, we granted approximately 156 thousand shares and share units to employees and directors under our equity-based compensation plans. During the first six months of 2013, we did not grant any shares under our equity-based compensation plans.

Certain of our long-term borrowings include covenants that, among other things, impose minimum levels of equity and limitations on additional debt. We are in compliance with all such covenants as of June 30, 2014. In addition, certain of our long-term borrowings are collateralized by first mortgages on various facilities or are collateralized by railcar assets. Our non-recourse long-term debt is collateralized by railcar and ethanol plant assets.

Because we are a significant consumer of short-term debt in peak seasons and the majority of this is variable rate debt, increases in interest rates could have a significant impact on our profitability. In addition, periods of high grain prices and/or unfavorable market conditions could require us to make additional margin deposits on our exchange traded futures contracts. Conversely, in periods of declining prices, we receive a return of cash.

We believe our sources of liquidity will be adequate to fund our operations, capital expenditures and payments of dividends through the next twelve months.

Off-Balance Sheet Transactions

Our Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. We lease railcars from financial intermediaries through sale-leaseback transactions, the majority of which involve operating sale leasebacks. Railcars we own or lease from a financial intermediary are generally leased to a customer under an operating lease. We also arrange non-recourse lease transactions under which we sell railcars or locomotives to a financial intermediary and assign the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, we generally provide ongoing railcar maintenance and management services for the financial intermediary, and receive a fee for such services. On most of the railcars and locomotives, we hold an option to purchase these assets at the end of the lease.

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The following table describes our railcar and locomotive positions at June 30, 2014:

Method of Control	Financial Statement	Units
Owned-railcars available for sale	On balance sheet – current	10
Owned-railcar assets leased to others	On balance sheet – non-current	14,600
Railcars leased from financial intermediaries	Off balance sheet	3,791
Railcars – non-recourse arrangements	Off balance sheet	3,715
Total Railcars		22,116
Locomotive assets leased to others	On balance sheet – non-current	42
Locomotives leased from financial intermediaries	Off balance sheet	4
Locomotives – non-recourse arrangements	Off balance sheet	—
Total Locomotives		46

In addition, we manage 377 railcars for third-party customers or owners for which we receive a fee.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2013. There were no material changes in market risk, specifically commodity and interest rate risk during the quarter ended June 30, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer ("Certifying Officers"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on the results of this evaluation, management concluded that, as of June 30, 2014, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2013. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company is undertaking the phased implementation of an ERP software system. The phased implementation was started during the second quarter of 2014, resulting in changes to certain processes, primarily close and consolidations. The Company believes it is maintaining and monitoring appropriate internal controls during the implementation period and further believes that its internal control environment will be enhanced as a result of this implementation. There have been no other changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

We have received, and are cooperating fully with, a request for information from the United States Environmental Protection Agency (“U.S. EPA”) regarding the history of our grain and fertilizer facility along the Maumee River in Toledo, Ohio. The U.S. EPA is investigating the possible introduction into the Maumee River of hazardous materials potentially leaching from rouge piles deposited along the riverfront by glass manufacturing operations that existed in the area prior to our initial acquisition of the land in 1960. We have on several prior occasions cooperated with local, state and federal regulators to install or improve drainage systems to contain storm water runoff and sewer discharges along our riverfront property to minimize the potential for such leaching. Other area land owners and the successor to the original glass making operations have also been contacted by the U.S. EPA for information. No claim or finding has been asserted thus far.

We are also currently subject to various claims and suits arising in the ordinary course of business, which include environmental issues, employment claims, contractual disputes, and defensive counter claims. We accrue liabilities where litigation losses are deemed probable and estimable. We believe it is unlikely that the results of our current legal proceedings, even if unfavorable, will be materially different from what we currently have accrued. There can be no assurance, however, that any claims or suits arising in the future, whether taken individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Our operations are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in this Form 10-Q and could have a material adverse impact on our financial results. These risks can be impacted by factors beyond our control as well as by errors and omissions on our part. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in the 2013 10-K (Item 1A).

Item 6. Exhibits

(a) Exhibits

No.	Description
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of the Chairman and Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a)
31.2	Certification of the Chief Financial Officer under Rule 13(a)-14(a)/15d-14(a)
32.1	Certifications Pursuant to 18 U.S.C. Section 1350
101	Financial Statements from the interim report on Form 10-Q of The Andersons, Inc. for the period ended June 30, 2014, formatted in XBRL: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statement of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ANDERSONS, INC.
(Registrant)

Date: August 8, 2014

By /s/ Michael J. Anderson
Michael J. Anderson
Chairman and Chief Executive Officer (Principal
Executive Officer)

Date: August 8, 2014

By /s/ John Granato
John Granato
Chief Financial Officer (Principal Financial Officer)

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Exhibit Index

The Andersons, Inc.

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