

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

Andersons, Inc.  
Form 10-Q  
November 08, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

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

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

OHIO 34-1562374  
(State of incorporation (I.R.S. Employer or organization) Identification No.)  
1947 Briarfield Boulevard, Maumee, Ohio 43537  
(Address of principal executive offices) (Zip Code)  
(419) 893-5050  
(Telephone Number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The registrant had approximately 28.2 million common shares outstanding, no par value, at November 8, 2016.

---

Table of Contents

THE ANDERSONS, INC.  
INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2016, December 31, 2015 and September 30, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations – Three and nine months ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Equity – Nine months ended September 30, 2016 and 2015</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>43</u>

Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

## The Andersons, Inc.

## Condensed Consolidated Balance Sheets

(Unaudited)(In thousands)

	September 30, 2016	December 31, 2015	September 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 78,158	\$ 63,750	\$ 40,658
Restricted cash	190	451	181
Accounts receivable, net	173,593	170,912	201,664
Inventories (Note 2)	427,754	747,399	527,789
Commodity derivative assets – current (Note 5)	59,837	49,826	60,965
Deferred income taxes	—	6,772	6,735
Other current assets	43,761	90,412	66,411
Total current assets	783,293	1,129,522	904,403
Other assets:			
Commodity derivative assets – noncurrent (Note 5)	1,346	412	1,584
Goodwill	63,934	63,934	116,086
Other intangible assets, net	110,155	120,240	124,943
Other assets, net	5,921	9,515	32,049
Equity method investments	225,114	242,107	223,207
	406,470	436,208	497,869
Rail Group assets leased to others, net (Note 3)	334,401	338,111	347,100
Property, plant and equipment, net (Note 3)	460,247	455,260	442,322
Total assets	\$ 1,984,411	\$ 2,359,101	\$ 2,191,694

Table of Contents

The Andersons, Inc.

Condensed Consolidated Balance Sheets (continued)

(Unaudited)(In thousands)

	September 30, 2016	December 31, 2015	September 30, 2015
Liabilities and equity			
Current liabilities:			
Short-term debt (Note 4)	\$ —	\$ 16,990	\$ 82,801
Trade and other payables	356,931	668,788	466,428
Customer prepayments and deferred revenue	15,725	66,762	23,581
Commodity derivative liabilities – current (Note 5)	59,770	37,387	49,911
Accrued expenses and other current liabilities	68,465	70,324	71,593
Current maturities of long-term debt (Note 4)	51,520	27,786	26,989
Total current liabilities	552,411	888,037	721,303
Other long-term liabilities	30,525	18,176	16,510
Commodity derivative liabilities – noncurrent (Note 5)	1,954	1,063	2,912
Employee benefit plan obligations	45,260	45,805	58,123
Long-term debt, less current maturities (Note 4)	395,559	436,208	413,561
Deferred income taxes	178,535	186,073	179,591
Total liabilities	1,204,244	1,575,362	1,392,000
Commitments and contingencies (Note 13)			
Shareholders' equity:			
Common shares, without par value (63,000 shares authorized; 29,430, 29,353 and 29,430 shares issued at 9/30/16, 12/31/15 and 9/30/15, respectively)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)—	—	—	—
Additional paid-in-capital	221,326	222,848	224,595
Treasury shares, at cost (1,195, 1,397 and 1,425 shares at 9/30/16, 12/31/15 and 9/30/15, respectively)	(45,130)	(52,902)	(53,971)
Accumulated other comprehensive loss	(17,305)	(20,939)	(57,459)
Retained earnings	603,556	615,151	666,507
Total shareholders' equity of The Andersons, Inc.	762,543	764,254	779,768
Noncontrolling interests	17,624	19,485	19,926
Total equity	780,167	783,739	799,694
Total liabilities and equity	\$ 1,984,411	\$ 2,359,101	\$ 2,191,694
See Notes to Condensed Consolidated Financial Statements			

Table of Contents

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Sales and merchandising revenues	\$859,612	\$909,093	\$2,811,735	\$3,015,022
Cost of sales and merchandising revenues	782,597	823,903	2,569,923	2,738,348
Gross profit	77,015	85,190	241,812	276,674
Operating, administrative and general expenses	78,767	88,698	234,053	251,044
Interest expense	4,441	6,147	18,046	16,210
Other income (loss):				
Equity in earnings (loss) of affiliates, net	8,422	3,845	3,789	23,295
Other income (loss), net	2,216	3,355	11,144	20,235
Income (loss) before income taxes	4,445	(2,455 )	4,646	52,950
Income tax provision (benefit)	1,104	(1,505 )	1,486	17,556
Net income (loss)	3,341	(950 )	3,160	35,394
Net income (loss) attributable to the noncontrolling interests	1,619	277	1,711	1,433
Net income (loss) attributable to The Andersons, Inc.	\$1,722	\$(1,227 )	\$1,449	\$33,961
Per common share:				
Basic earnings (loss) attributable to The Andersons, Inc. common shareholders	\$0.06	\$(0.04 )	\$0.05	\$1.19
Diluted earnings (loss) attributable to The Andersons, Inc. common shareholders	\$0.06	\$(0.04 )	\$0.05	\$1.19
Dividends declared	\$0.155	\$0.14	\$0.465	\$0.42
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)  
(Unaudited)(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$3,341	\$(950 )	\$3,160	\$35,394
Other comprehensive income (loss), net of tax:				
Recognition of gain on sale of debt securities (net of income tax of \$0, \$0, \$74 and \$0)	—	—	(126 )	—
Change in unrecognized actuarial loss and prior service cost (net of income tax of \$53, \$235, \$716 and \$1,760 - Note 8)	87	388	1,381	2,906
Foreign currency translation adjustments (net of income tax of \$0, (\$696), \$0 and \$(82))	(298 )	(2,750 )	2,259	(5,954 )
Cash flow hedge activity (net of income tax of \$0, \$38, \$72 and \$112)	—	62	120	184
Other comprehensive income (loss)	(211 )	(2,300 )	3,634	(2,864 )
Comprehensive income (loss)	3,130	(3,250 )	6,794	32,530
Comprehensive income (loss) attributable to the noncontrolling interests	1,619	277	1,711	1,433
Comprehensive income (loss) attributable to The Andersons, Inc.	\$1,511	\$(3,527)	\$5,083	\$31,097
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)(In thousands)

	Nine months ended September 30,	
	2016	2015
Operating Activities		
Net income (loss)	\$3,160	\$35,394
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	62,244	57,365
Bad debt expense	789	802
Equity in losses (earnings) of affiliates, net of dividends	12,804	(3,868 )
Gain on sale of investments	(685 )	—
Gains on sales of Rail Group assets and related leases	(6,366 )	(12,438 )
Excess tax benefit from share-based payment arrangement	—	(1,299 )
Deferred income taxes	(46 )	18,921
Stock-based compensation expense	5,542	2,598
Goodwill impairment expense	—	1,985
Other	(102 )	1,061
Changes in operating assets and liabilities:		
Accounts receivable	(5,425 )	(6,003 )
Inventories	283,158	292,960
Commodity derivatives	12,592	16,160
Other assets	36,536	(1,465 )
Payables and other accrued expenses	(362,855)	(344,400)
Net cash provided by (used in) operating activities	41,346	57,773
Investing Activities		
Acquisition of business, net of cash acquired	—	(124,592)
Purchases of Rail Group assets	(57,979 )	(112,346)
Proceeds from sale of Rail Group assets	44,061	64,978
Purchases of property, plant and equipment	(56,138 )	(42,387 )
Proceeds from sale of property, plant and equipment	330	184
Proceeds from returns of investments in affiliates	7,443	1,480
Proceeds from sale of investments	15,013	—
Proceeds from sale of facilities	54,330	—
Purchase of Investments	(2,523 )	—
Change in restricted cash	260	248
Net cash provided by (used in) investing activities	4,797	(212,435)
Financing Activities		
Net change in short-term borrowings	(15,000 )	79,700
Proceeds from issuance of long-term debt	78,199	152,796
Proceeds from long-term financing arrangement	14,027	—
Payments of long-term debt	(91,393 )	(87,032 )
Purchase of treasury stock	—	(49,089 )
Distributions to noncontrolling interest owner	(3,400 )	(2,453 )
Proceeds from sale of treasury shares to employees and directors	1,159	447
Payments of debt issuance costs	(309 )	(271 )
Dividends paid	(13,020 )	(12,011 )
Excess tax benefit from share-based payment arrangement	—	1,299



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

Other	(1,998 )	(2,770 )
Net cash provided by (used in) financing activities	(31,735 )	80,616
Increase (decrease) in cash and cash equivalents	14,408	(74,046 )
Cash and cash equivalents at beginning of period	63,750	114,704
Cash and cash equivalents at end of period	\$78,158	\$40,658

See Notes to Condensed Consolidated Financial Statements

7

---

Table of Contents

The Andersons, Inc.

Condensed Consolidated Statements of Equity

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

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2014	\$ 96	\$222,789	\$(9,743 )	\$(54,595 )	\$644,556	\$ 20,946	\$824,049
Net income					33,961	1,433	35,394
Other comprehensive loss				(2,864 )			(2,864 )
Cash distributions to noncontrolling interest						(2,453 )	(2,453 )
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$819 (163 shares)		(2,635 )	4,861				2,226
Purchase of Treasury Shares (1,193 shares)			(49,089 )				(49,089 )
Dividends declared (\$0.42 per common share)					(11,872 )		(11,872 )
Shares Issued for acquisitions (77 shares)		4,303					4,303
Performance share unit dividend equivalents		138			(138 )		—
Balance at September 30, 2015	\$ 96	\$224,595	\$(53,971)	\$(57,459 )	\$666,507	\$ 19,926	\$799,694
Balance at December 31, 2015	\$ 96	\$222,848	\$(52,902)	\$(20,939 )	\$615,151	\$ 19,485	\$783,739
Net income					1,449	1,711	3,160
Other comprehensive income				3,634			3,634
Cash distributions to noncontrolling interest						(3,400 )	(3,400 )
Other change in noncontrolling interest						(172 )	(172 )
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$471 (202 shares)		(1,542 )	7,772				6,230
Dividends declared (\$0.465 per common share)					(13,024 )		(13,024 )
Restricted share award dividend equivalents		\$20			\$(20 )		—
Balance at September 30, 2016	\$ 96	\$221,326	\$(45,130)	\$(17,305 )	\$603,556	\$ 17,624	\$780,167

See Notes to Condensed Consolidated Financial Statements

Table of Contents

The Andersons, Inc.

Notes to Condensed Consolidated Financial Statements  
(unaudited)

1. Basis of Presentation and Consolidation

These Condensed Consolidated Financial Statements include the accounts of The Andersons, Inc. and its wholly owned and controlled subsidiaries (the "Company"). All intercompany accounts and transactions are eliminated in consolidation.

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

In the opinion of management, all adjustments consisting of normal and recurring items, considered necessary for the fair presentation of the results of operations, financial position, and cash flows for the periods indicated, have been made. The results in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. An unaudited Condensed Consolidated Balance Sheet as of September 30, 2015 has been included as the Company operates in several seasonal industries.

The Condensed Consolidated Balance Sheet data at December 31, 2015 was derived from the audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K").

New Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue From Contracts With Customers. They issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, and May 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12, respectively. 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. These standards are effective for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the method of adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures.

Leasing

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

Other applicable standards

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard clarifies how companies present and classify certain cash receipts and payments in the statement of cash flows. The standard is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating when to adopt this standard but has not done so in the current period. At the time of future adoption, the Company will make the election to continue classifying distributions from equity method investments using the cumulative earnings approach which is consistent with current practice.

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

adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures. In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. This standard provides guidance for the recognition, measurement, presentation, and disclosure

Table of Contents

of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. The Company is currently evaluating the impact of this standard.

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

## 2. Inventories

Major classes of inventories are as follows:

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Grain	\$ 262,165	\$ 534,548	\$ 325,536
Ethanol and by-products	7,734	8,576	8,365
Plant nutrients and cob products	126,922	172,815	161,562
Retail merchandise	24,985	24,510	26,079
Railcar repair parts	5,948	6,894	6,057
Other	—	56	190
	\$ 427,754	\$ 747,399	\$ 527,789

Inventories on the Condensed Consolidated Balance Sheets at September 30, 2016, December 31, 2015 and September 30, 2015 do not include 1.0 million, 3.4 million and 3.2 million bushels of grain, respectively, held in storage for others. The Company does not have title to the grain and is only liable for any deficiencies in grade or shortage of quantity that may arise during the storage period. Management has not experienced historical losses on any deficiencies and does not anticipate material losses in the future.

## 3. Property, Plant and Equipment

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

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Land	\$ 28,473	\$ 29,928	\$ 30,285
Land improvements and leasehold improvements	82,908	77,191	76,414
Buildings and storage facilities	319,950	303,482	301,125
Machinery and equipment	393,178	375,028	368,338
Construction in progress	21,284	32,871	21,044
	845,793	818,500	797,206
Less: accumulated depreciation	385,546	363,240	354,884
	\$ 460,247	\$ 455,260	\$ 442,322

Depreciation expense on property, plant and equipment was \$35.7 million and \$34.1 million for the nine months ended September 30, 2016 and 2015, respectively. Additionally, Depreciation expense on property, plant and equipment was \$12.0 million and \$11.9 million for the three months ended September 30, 2016 and 2015, respectively. Capitalized software has been reclassified from property, plant, and equipment, and is now presented as a component of other intangible assets. Prior year balance sheets have been recast to conform with the current period presentation.

### Rail Group Assets

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



Table of Contents

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Rail Group assets leased to others	\$ 438,211	\$ 434,051	\$ 441,267
Less: accumulated depreciation	103,810	95,940	94,167
	\$ 334,401	\$ 338,111	\$ 347,100

Depreciation expense on Rail Group assets leased to others amounted to \$14.0 million and \$12.9 million for the nine months ended September 30, 2016 and 2015, respectively. Additionally, depreciation expense on Rail Group assets leased to others amounted to \$4.7 million and \$4.6 million for the three months ended September 30, 2016 and 2015, respectively.

## 4. Debt

The Company is party to borrowing arrangements with a syndicate of banks. See Note 5 in the Company's 2015 Form 10-K for a description of these arrangements. Total borrowing capacity for the Company under all lines of credit is currently at \$872.5 million, including \$22.5 million of debt of The Andersons Denison Ethanol LLC ("TADE"), which is non-recourse to the Company. At September 30, 2016, the Company had a total of \$809.9 million available for borrowing under its lines of credit. Our borrowing capacity is reduced by a combination of outstanding borrowings and letters of credit. The Company was in compliance with all financial covenants as of September 30, 2016.

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

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Short-term Debt - Recourse	\$ —	\$ 16,990	\$ 82,801
Total Short-term Debt	—	16,990	82,801
Current Maturities of Long-term Debt – Recourse	51,520	27,786	26,989
Total Current Maturities of Long-term Debt	51,520	27,786	26,989
Long-term Debt, Less: Current Maturities – Recourse	395,559	436,208	413,561
Total Long-term Debt, Less: Current Maturities	\$ 395,559	\$ 436,208	\$ 413,561

## 5. Derivatives

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

All of these contracts meet the definition of derivatives. While the Company considers its commodity contracts to be effective economic hedges, the Company does not designate or account for its commodity contracts as hedges as defined under current accounting standards. The Company accounts for its commodity derivatives at estimated fair value. The estimated fair value of the commodity derivative contracts that require the receipt or posting of cash collateral is recorded on a net basis (offset against cash collateral posted or received, also known as margin deposits) within commodity derivative assets or liabilities. Management determines fair value based on exchange-quoted prices

and in the case of its forward purchase and sale contracts, estimated fair value is adjusted for differences in local markets and non-performance risk. For contracts for which physical delivery occurs, balance sheet classification is based on estimated delivery date. For futures, options and over-the-counter contracts in which physical delivery is not expected to occur but, rather, the contract is expected to be net settled, the Company classifies these contracts as current or noncurrent assets or liabilities, as appropriate, based on the Company's expectations as to when such contracts will be settled.



Table of Contents

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

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

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

	September 30, 2016		December 31, 2015		September 30, 2015	
	Net	Net	Net	Net	Net	Net
(in thousands)	derivative asset position	derivative liability position	derivative asset position	derivative liability position	derivative asset position	derivative liability position
Collateral paid (received)	\$ 13,358	\$ —	—\$ 3,008	\$ —	—\$ 28,585	\$ —
Fair value of derivatives	16,258	—	25,356	—	5,733	—
Balance at end of period	\$ 29,616	\$ —	—\$ 28,364	\$ —	—\$ 34,318	\$ —

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

	September 30, 2016				Total
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$60,372	\$ 1,356	\$ 3,318	\$ 58	\$65,104
Commodity derivative liabilities	(13,893 )	(10 )	(63,088 )	(2,012 )	(79,003 )
Cash collateral	13,358	—	—	—	13,358
Balance sheet line item totals	\$59,837	\$ 1,346	\$(59,770 )	\$(1,954 )	\$(541 )
	December 31, 2015				Total
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$51,647	\$ 412	\$ 371	\$ 2	\$52,432
Commodity derivative liabilities	(4,829 )	—	(37,758 )	(1,065 )	(43,652 )
Cash collateral	3,008	—	—	—	3,008
Balance sheet line item totals	\$49,826	\$ 412	\$(37,387 )	\$(1,063 )	\$11,788



Table of Contents

(in thousands)	September 30, 2015				Total
	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	
Commodity derivative assets	\$43,892	\$ 1,591	\$ 2,306	\$ 32	\$47,821
Commodity derivative liabilities	(11,512 )	(7 )	(52,217 )	(2,944 )	(66,680 )
Cash collateral	28,585	—	—	—	28,585
Balance sheet line item totals	\$60,965	\$ 1,584	\$(49,911 )	\$(2,912 )	\$9,726

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

(in thousands)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gains (losses) on commodity derivatives included in cost of sales and merchandising revenues	\$(48,620)	\$(16,910)	\$(22,679)	\$34,902

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

Commodity (in thousands)	September 30, 2016			
	Number of Bushels	Gallons	Number of Pounds	Number of Tons
Non-exchange traded:				
Corn	226,492	—	—	—
Soybeans	60,614	—	—	—
Wheat	7,933	—	—	—
Oats	28,939	—	—	—
Ethanol	—	191,906	—	—
Corn oil	—	—	7,153	—
Other	129	—	—	251
Subtotal	324,107	191,906	7,153	251
Exchange traded:				
Corn	105,395	—	—	—
Soybeans	35,245	—	—	—
Wheat	39,715	—	—	—
Oats	2,800	—	—	—
Ethanol	—	74,046	—	—
Subtotal	183,155	74,046	—	—
Total	507,262	265,952	7,153	251

Table of Contents

		December 31, 2015			
Commodity (in thousands)	Number of Bushels	Number of Gallons	Number of Pounds	Number of Tons	
Non-exchange traded:					
Corn	227,248	—	—	—	
Soybeans	13,357	—	—	—	
Wheat	13,710	—	—	—	
Oats	15,019	—	—	—	
Ethanol	—	138,660	—	—	
Corn oil	—	—	11,532	—	
Other	297	—	—	116	
Subtotal	269,631	138,660	11,532	116	
Exchange traded:					
Corn	106,260	—	—	—	
Soybeans	17,255	—	—	—	
Wheat	28,135	—	—	—	
Oats	3,480	—	—	—	
Ethanol	—	840	—	—	
Other	—	840	—	—	
Subtotal	155,130	1,680	—	—	
Total	424,761	140,340	11,532	116	
		September 30, 2015			
Commodity (in thousands)	Number of Bushels	Number of Gallons	Number of Pounds	Number of Tons	
Non-exchange traded:					
Corn	331,740	—	—	—	
Soybeans	47,208	—	—	—	
Wheat	12,631	—	—	—	
Oats	19,449	—	—	—	
Ethanol	—	131,789	—	—	
Corn oil	—	—	10,063	—	
Other	572	—	—	123	
Subtotal	411,600	131,789	10,063	123	
Exchange traded:					
Corn	129,810	—	—	—	
Soybeans	24,860	—	—	—	
Wheat	28,360	—	—	—	
Oats	3,285	—	—	—	
Ethanol	—	3,192	—	—	
Subtotal	186,315	3,192	—	—	
Total	597,915	134,981	10,063	123	

Table of Contents

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

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Derivatives not designated as hedging instruments			
Interest rate contracts included in other long term liabilities	\$ (4,774 )	\$ (3,133 )	\$ —
Total fair value of interest rate derivatives not designated as hedging instruments	\$ (4,774 )	\$ (3,133 )	\$ —
Derivatives designated as hedging instruments			
Interest rate contract included in other short term liabilities	\$ —	\$ (191 )	\$ —
Total fair value of interest rate derivatives designated as hedging instruments	\$ —	\$ (191 )	\$ —

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

(in thousands)	Three months ended September 30, 2016	September 30, 2015	Nine months ended September 30, 2016	September 30, 2015
Interest expense	\$ 652	\$ —	—\$(1,642)	\$ —

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

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

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

Foreign currency contracts included in short term assets	\$ 1,130	\$	—\$	—
Total fair value of foreign currency contract derivatives not designated as hedging instruments	\$ 1,130	\$	—\$	—

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
(in thousands)				
Foreign currency derivative gains (losses) included in Other income, net	\$ (261 )	\$	—\$ 1,130	\$ —

Table of Contents

## 6. Employee Benefit Plans

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

(in thousands)	Pension Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	\$—	\$59	\$—	\$177
Interest cost	49	45	145	136
Recognized net actuarial loss	36	379	109	1,137
Benefit cost	\$85	\$483	\$254	\$1,450
(in thousands)	Post-retirement Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	\$190	\$225	\$570	\$675
Interest cost	387	396	1,162	1,188
Amortization of prior service cost	(88 )	(136 )	(266 )	(408 )
Recognized net actuarial loss	192	379	576	1,138
Benefit cost	\$681	\$864	\$2,042	\$2,593

## 7. Income Taxes

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

For the three months ended September 30, 2016, the Company recorded income tax expense of \$1.1 million at an effective tax rate of 24.8%, which varied from the U.S. Federal tax rate of 35% primarily due to 5.8% in discrete tax benefits related to prior years and a 3.4% tax benefit related to railroad track maintenance credit transactions. For the three months ended September 30, 2015, the Company recorded an income tax benefit of \$1.5 million at an effective tax rate of 61.3%. The higher effective tax rate in the prior year was primarily due to the cumulative impact of revised full year earnings expectations, driven by the inclusion of a one-time charge which occurred in the fourth quarter related to the termination of the Company's pension plan, and relatively low third quarter earnings.

For the nine months ended September 30, 2016, the Company recorded income tax expense of \$1.5 million at an effective tax rate of 32.0%, which varied from the U.S. Federal tax rate of 35% primarily due to a 3.3% tax benefit related to railroad track maintenance credit transactions. The discrete tax benefits related to prior years that impacted

the third quarter tax rate did not have a significant impact on the nine month effective tax rate due to an offsetting discrete tax charge related to prior years that was recorded in the first quarter. For the nine months ended September 30, 2015, the Company recorded income tax expense of \$17.6 million at an effective tax rate of 33.2%.

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



Table of Contents

## 8. Accumulated Other Comprehensive Loss

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

(in thousands)	Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)									
	For the three months ended September 30, 2016					For the nine months ended September 30, 2016				
	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investment in Debt Securities	Defined Benefit Plans	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investment in Debt Securities	Defined Benefit Plans	Total
Beginning Balance	\$9	\$(9,484)	\$—	\$(7,619)	\$(17,094)	\$(111)	\$(12,041)	\$126	\$(8,913)	\$(20,939)
Other comprehensive income (loss) before reclassifications	—	(298)	—	143	(155)	120	2,259	—	1,547	3,926
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(56)	(56)	—	—	(126)	(166)	(292)
Net current-period other comprehensive income (loss)	—	(298)	—	87	(211)	120	2,259	(126)	1,381	3,634
Ending balance	\$9	\$(9,782)	\$—	\$(7,532)	\$(17,305)	\$9	\$(9,782)	\$—	\$(7,532)	\$(17,305)
(in thousands)	Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)									
	For the three months ended September 30, 2015					For the nine months ended September 30, 2015				
	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investment in Debt Securities	Defined Benefit Plans	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustment	Investment in Debt Securities	Defined Benefit Plans	Total
Beginning Balance	\$(242)	\$(7,913)	\$126	\$(47,130)	\$(55,159)	\$(364)	\$(4,709)	\$126	\$(49,648)	\$(54,595)
Other comprehensive income (loss) before reclassifications	62	(2,750)	—	473	(2,215)	184	(5,954)	—	3,161	(2,609)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(85)	(85)	—	—	—	(255)	(255)
Net current-period other comprehensive income (loss)	62	(2,750)	—	388	(2,300)	184	(5,954)	—	2,906	(2,864)

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

income (loss)

Ending balance \$(180) \$(10,663) \$ 126 \$(46,742) \$(57,459) \$(180) \$(10,663) \$ 126 \$(46,742) \$(57,459)

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

Table of Contents

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

(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)	
	For the three months ended September 30, 2016	For the nine months ended September 30, 2016
Amount	Amount	Amount
Reclassified	Reclassified	Reclassified
from	from	from
Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income Is Presented	Affected Line Item in the Statement Where Net Income Is Presented
Components	Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss)
Defined Benefit Plan Items		
Amortization of prior-service cost	\$ (89) (b)	\$ (266) (b)
	(89 ) Total before tax	(266 ) Total before tax
	33 Income tax provision	100 Income tax provision
	\$ (56) Net of tax	\$ (166) Net of tax
Other items		
Recognition of gain on sale of investment	\$—	(200 )
	— Total before tax	(200 ) Total before tax
	— Income tax provision	74 Income tax provision
	\$— Net of tax	\$ (126) Net of tax
Total reclassifications for the period	(56 ) Net of tax	(292 ) Net of tax
(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)
	For the three months ended September 30, 2015	For the nine months ended September 30, 2015
Amount	Amount	Amount
Reclassified	Reclassified	Reclassified
from	from	from
Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income Is Presented	Affected Line Item in the Statement Where Net Income Is Presented
Components	Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss)
Defined Benefit Plan Items		
Amortization of prior-service cost	\$ (136) (b)	\$ (408) (b)
	(136 ) Total before tax	(408 ) Total before tax
	51 Income tax provision	153 Income tax provision
	\$ (85 ) Net of tax	\$ (255) Net of tax
Total reclassifications for the period	\$ (85 ) Net of tax	\$ (255) Net of tax

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

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



Table of Contents

## 9. Earnings Per Share

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

(in thousands, except per common share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss) attributable to The Andersons, Inc.	\$1,722	\$(1,227)	\$1,449	\$33,961
Less: Distributed and undistributed earnings (loss) allocated to nonvested restricted stock	2	(2)	7	61
Earnings (loss) available to common shareholders	\$1,720	\$(1,225)	\$1,442	\$33,900
Earnings per share – basic:				
Weighted average shares outstanding – basic	28,222	28,071	28,184	28,394
Earnings (loss) per common share – basic	\$0.06	\$(0.04)	\$0.05	\$1.19
Earnings per share – diluted:				
Weighted average shares outstanding – basic	28,222	28,071	28,184	28,394
Effect of dilutive awards	140	—	196	60
Weighted average shares outstanding – diluted	28,362	28,071	28,380	28,454
Earnings (loss) per common share – diluted	\$0.06	\$(0.04)	\$0.05	\$1.19

There were no antidilutive stock-based awards outstanding at September 30, 2016 or September 30, 2015.

Table of Contents

## 10. Fair Value Measurements

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

(in thousands)		September 30, 2016			
Assets (liabilities)	Level 1	Level 2	Level 3	Total	
Cash equivalents	\$—	\$—	\$—	\$—	\$—
Restricted cash	190	—	—	190	
Commodity derivatives, net (a)	34,620	(35,161 )	—	(541 )	
Provisionally priced contracts (b)	(79,022 )	(20,500 )	—	(99,522 )	
Convertible preferred securities (c)	—	—	3,294	3,294	
Other assets and liabilities (d)	11,015	(4,774 )	—	6,241	
Total	\$(33,197)	\$(60,435)	\$3,294	\$(90,338)	
(in thousands)		December 31, 2015			
Assets (liabilities)	Level 1	Level 2	Level 3	Total	
Cash equivalents	\$26,931	\$—	\$—	\$26,931	
Restricted cash	450	—	—	450	
Commodity derivatives, net (a)	26,890	(15,101 )	—	11,789	
Provisionally priced contracts (b)	(133,842 )	(103,148 )	—	(236,990 )	
Convertible preferred securities (c)	—	—	13,550	13,550	
Other assets and liabilities (d)	8,635	(3,324 )	350	5,661	
Total	\$(70,936)	\$(121,573)	\$13,900	\$(178,609)	
(in thousands)		September 30, 2015			
Assets (liabilities)	Level 1	Level 2	Level 3	Total	
Cash equivalents	\$16,121	\$—	\$—	\$16,121	
Restricted cash	181	—	—	181	
Commodity derivatives, net (a)	34,337	(24,611 )	—	9,726	
Provisionally priced contracts (b)	(81,037 )	(54,612 )	—	(135,649 )	
Convertible preferred securities (c)	—	—	12,800	12,800	
Other assets and liabilities (d)	10,814	(4,010 )	350	7,154	
Total	\$(19,584)	\$(83,233)	\$13,150	\$(89,667)	

(a) Includes associated cash posted/received as collateral

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

(in thousands)	2016	2015	2016	2015
	Contingent	Contingent	Convertible	Convertible
	Consideration	Consideration	Securities	Securities
Asset (liability) at January 1,	\$ (350 )	\$ —	\$ 13,550	\$ 13,300
Gains (losses) included in earnings	190	—	710	—
Sales proceeds	—	—	(13,485 )	—
Asset (liability) at March 31,	\$ (160 )	\$ —	\$ 775	\$ 13,300
Gains (losses) included in earnings	160	—	19	—
New agreements	—	350	2,500	—
Asset (liability) at June 30,	—	350	3,294	13,300
Sales proceeds	—	—	—	(992 )
Realized gains (losses) included in earnings	—	—	—	492
Asset at September 30,	\$ —	\$ 350	\$ 3,294	\$ 12,800



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

21

---

Table of Contents

## Quantitative Information about Level 3 Fair Value Measurements

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

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

(in thousands)	Fair Value as of September 30, 2015	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	\$ 12,800	Market Approach	EBITDA Multiples	5.535
		Income Approach	Discount Rate	14.5 %

## Fair Value of Financial Instruments

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

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Fair value of long-term debt, including current maturities	\$ 458,268	\$ 467,703	\$ 448,298
Fair value in excess of carrying value	7,714	3,708	8,040

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

## 11. Related Party Transactions

## Equity Method Investments

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

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

book gain on cash received in excess of basis in the shares redeemed.

Table of Contents

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

(in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
The Andersons Albion Ethanol LLC	\$ 36,661	\$ 32,871	\$ 31,409
The Andersons Clymers Ethanol LLC	21,340	29,278	31,151
The Andersons Marathon Ethanol LLC	23,812	31,255	30,066
Lansing Trade Group, LLC	91,573	101,531	84,081
Thompsons Limited (a)	47,494	43,964	43,803
Other	4,234	3,208	2,697
Total	\$ 225,114	\$ 242,107	\$ 223,207

(a) 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 in its equity in earnings of affiliates.

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

(in thousands)	% Ownership at September 30, 2016	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
The Andersons Albion Ethanol LLC	55%	\$2,528	\$665	\$3,857	\$4,080
The Andersons Clymers Ethanol LLC	38%	2,706	1,454	3,516	4,922
The Andersons Marathon Ethanol LLC	50%	2,655	385	2,557	3,530
Lansing Trade Group, LLC	33% (a)	689	1,382	(7,412 )	9,290
Thompsons Limited (b)	50%	(156 )	17	1,271	1,385
Other	5% - 34%	—	(58 )	—	88
Total		\$8,422	\$3,845	\$3,789	\$23,295

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

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

Total distributions received from unconsolidated affiliates were \$24.1 million and \$20.8 million for the nine months ended September 30, 2016 and September 30, 2015.

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

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	\$1,646,697	\$2,250,326	\$4,676,583	\$5,129,523
Gross profit	50,141	73,881	127,963	211,470
Income (loss) from continuing operations	18,965	18,008	1,428	65,645
Net income (loss)	17,217	17,310	(2,924 )	59,637
Net income (loss) attributable to companies	17,752	15,990	(1,347 )	57,787

#### Investment in Debt Securities

The Company previously owned 100% of the cumulative convertible preferred shares of Iowa Northern Railway Company ("IANR"), which operates a short-line railroad in Iowa. In the first quarter of 2016, these shares were

redeemed and the

23

---

Table of Contents

Company no longer has an ownership stake with this entity. See Footnote 10 for additional information on the effects of this transaction.

## Related Party Transactions

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

(in thousands)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales revenues	\$ 177,724	\$ 230,409	\$ 549,426	\$ 577,133
Service fee revenues (a)	3,800	3,610	13,290	14,865
Purchases of product	128,081	123,051	346,590	339,159
Lease income (b)	1,300	1,542	4,662	4,787
Labor and benefits reimbursement (c)	2,862	2,950	9,702	8,761
Other expenses (d)	—	269	149	827

(a) Service fee revenues include management fees, corn origination fees, ethanol and distillers dried grains (DDG) marketing fees, and other commissions.

(b) Lease income includes the lease of the Company's Albion, Michigan and Clymers, Indiana grain facilities as well as certain railcars to the various ethanol LLCs and IANR.

(c) The Company provides all operational labor to the unconsolidated ethanol LLCs and charges them an amount equal to the Company's costs of the related services.

(d) Other expenses include payments to IANR for repair facility rent and use of their railroad reporting mark, payment to LTG for the lease of railcars and other various expenses.

(in thousands)	September 30, December 31, September 30,		
	2016	2015	2015
Accounts receivable (e)	\$ 18,028	\$ 13,362	\$ 19,799
Accounts payable (f)	15,352	13,784	15,929

(e) Accounts receivable represents amounts due from related parties for sales of corn, leasing revenue and service fees.

(f) Accounts payable represents amounts due to related parties for purchases of ethanol and other various items.

For the three months ended September 30, 2016 and 2015, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$109.3 million and \$105.1 million, respectively. Additionally, for the nine months ended September 30, 2016 and 2015, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were \$220.6 million and \$315.9 million, respectively.

For the three months ended September 30, 2016 and 2015, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$90.4 million and \$119.4 million, respectively. Additionally, for the nine months ended September 30, 2016 and 2015, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were \$314.5 million and \$323.7 million, respectively.

The Company enters into derivative contracts with certain of its related parties for the purchase and sale of corn and ethanol, for similar price risk mitigation purposes and on similar terms as the purchase and sale of derivative contracts it enters into with unrelated parties. The fair value of derivative contract assets with related parties as of September 30, 2016, December 31, 2015 and September 30, 2015 was \$5.0 million, \$2.3 million and \$3.4 million, respectively. The fair value of derivative contract liabilities with related parties as of September 30, 2016, December 31, 2015 and September 30, 2015 was \$0.2 million, \$0.3 million and \$0.3 million, respectively.

12. Segment Information

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

Table of Contents

manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers, along with turf care and corn-cob-based products. The Retail business operates large retail stores, a distribution center, and a lawn and garden equipment sales and service facility. Included in "Other" are the corporate level costs not attributed to an operating segment.

The segment information below includes the allocation of expenses shared by one or more operating segments. Although management believes such allocations are reasonable, the operating information does not necessarily reflect how such data might appear if the segments were operated as separate businesses. Inter-segment sales are made at prices comparable to normal, unaffiliated customer sales. The Company does not have any customers who represent 10 percent or more of total revenues.

(in thousands)	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Revenues from external customers				
Grain	\$550,189	\$545,320	\$1,611,992	\$1,705,393
Ethanol	139,413	137,765	396,626	413,130
Plant Nutrient	101,770	149,303	588,797	660,440
Rail	38,201	44,758	118,152	134,497
Retail	30,039	31,947	96,168	101,562
Total	\$859,612	\$909,093	\$2,811,735	\$3,015,022

(in thousands)	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Inter-segment sales				
Grain	\$7	\$404	\$1,632	\$2,534
Plant Nutrient	61	53	422	517
Rail	328	388	1,062	813
Total	\$396	\$845	\$3,116	\$3,864

(in thousands)	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Income (loss) before income taxes				
Grain	\$1,879	\$131	\$(28,563)	\$4,024
Ethanol	9,541	5,888	13,048	20,833
Plant Nutrient	(7,231)	(11,114)	18,008	8,183
Rail	6,754	11,913	22,698	43,915
Retail	(1,578)	(769)	(2,644)	(1,483)
Other	(6,539)	(8,781)	(19,612)	(23,955)
Noncontrolling interests	1,619	277	1,711	1,433
Total	\$4,445	\$(2,455)	\$4,646	\$52,950

(in thousands)	September 30,	December 31,	September 30,
	2016	2015	2015
Identifiable assets			
Grain	\$721,412	\$1,010,810	\$852,388
Ethanol	174,822	183,080	186,250
Plant Nutrient	462,328	531,753	546,673



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

Rail	383,631	405,702	413,955
Retail	42,880	44,135	45,403
Other	199,338	183,621	147,025
Total	\$ 1,984,411	\$ 2,359,101	\$ 2,191,694

25

---

Table of Contents

## 13. Commitments and Contingencies

The Company is party to litigation, or threats thereof, both as defendant and plaintiff with some regularity, although individual cases that are material in size occur infrequently. As a defendant, the Company establishes reserves for claimed amounts that are considered probable, and capable of estimation. If those cases are resolved for lesser amounts, the excess reserves are taken into income and, conversely, if those cases are resolved for larger than the amount the Company has accrued, the Company records additional expense. The Company believes it is unlikely that the results of its current legal proceedings for which it is the defendant, even if unfavorable, will be material. As a plaintiff, amounts that are collected can also result in sudden, non-recurring income.

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

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

**Build-to-Suit Lease**

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

As of September 30, 2016, we have recorded a build-to-suit financing obligation of \$13.7 million in other long-term liabilities and \$1.3 million in other current liabilities.

## 14. Supplemental Cash Flow Information

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

(in thousands)	Nine months ended September 30,	
	2016	2015
Noncash investing and financing activity		
Capital projects incurred but not yet paid	\$ 13,104	\$ 10,708
Purchase of a productive asset through seller-financing	—	1,010
Shares issued for acquisition of business	—	4,303
Dividends declared not yet paid	4,342	3,967

## 15. Business Acquisitions

There were no business acquisitions completed in the nine months ended September 30, 2016.

**Prior Year Business Acquisitions**

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

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

Table of Contents

16. Sale of Assets

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

This transaction closed on May 2, 2016.

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

Table of Contents

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

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements which relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. You are urged to carefully consider these risks and others, including those risk factors listed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"). In some cases, you can identify forward-looking statements by terminology such as "may," "anticipates," "believes," "estimates," "predicts," or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. These forward-looking statements relate only to events as of the date on which the statements are made and the Company undertakes no obligation, other than any imposed by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Critical Accounting Policies and Estimates

Our critical accounting policies and critical accounting estimates, as described in our 2015 Form 10-K, have not materially changed through the third quarter of 2016.

Executive Overview

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

The agricultural commodity-based business is one in which changes in selling prices generally move in relationship to changes in purchase prices. Therefore, increases or decreases in prices of the agricultural commodities that the business deals in will have a relatively equal impact on sales and cost of sales and a much less significant impact on gross profit. As a result, changes in sales for the period may not necessarily be indicative of the overall performance of the business and more focus should be placed on changes to gross profit.

Grain Group

The Grain Group's performance in the third quarter reflects continued performance challenges in its core grain assets, as well as lower returns from affiliates. Overall results did improve, primarily due to the divestiture of underperforming assets in Iowa during the first half of 2016. The impact of the challenged harvest in the prior year continued to limit opportunities for space income and earnings from blending activities.

Grain inventories on hand at September 30, 2016 were 67.0 million bushels, of which 1.0 million bushels were stored for others. This compares to 67.3 million bushels on hand at September 30, 2015, of which 3.2 million bushels were stored for others. Total grain storage capacity was approximately 152 million bushels at September 30, 2016 compared to 163 million bushels at September 30, 2015 due to the sale of Iowa grain assets and the construction of a new elevator in Tennessee.

Based on preliminary indications, the Grain Group is expecting an increase in soybean and corn production in our core markets in the fourth quarter of 2016 compared to the prior year.

Ethanol Group

The Ethanol Group's third quarter results reflect improvements in overall margins as reductions in corn and natural gas input prices were only partially offset by modest decreases in the sales price of ethanol. Additionally, higher prices were realized on ethanol by-products in relation to the cost of the underlying corn inputs. Driving demand remains strong which supports high sales volumes.



Table of Contents

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

(in thousands)	Three months		Nine months	
	ended		ended September	
	September 30, 30,			
	2016	2015	2016	2015
Ethanol (gallons shipped)	73,990	72,839	223,236	221,535
E-85 (gallons shipped)	11,309	10,294	26,722	25,433
Corn Oil (pounds shipped)	3,639	4,244	10,921	11,601
DDG (tons shipped) *	42	42	122	124

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

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

**Plant Nutrient Group**

The Plant Nutrient Group's results reflect price declines, particularly in base nutrient products, which has put pressure on overall margins. Volumes have also declined compared to the prior year as a result of lower farm income and a market that continues to experience uncertainty around future nutrient prices leading to lower immediate demand.

Storage capacity at our wholesale nutrient and farm center facilities, including leased storage, was approximately 488 thousand tons for dry nutrients and approximately 547 thousand tons for liquid nutrients at September 30, 2016 and approximately 508 thousand tons for dry nutrients and approximately 546 thousand tons for liquid nutrients at September 30, 2015. The decrease in our dry storage capacity is a result of the sale of Iowa farm center assets in the second quarter of 2016.

Tons of product shipped (including sales and service tons) for the three and nine months ended September 30, 2016 and 2015 were as follows:

(in thousands)	Three		Nine	
	months		months	
	ended		ended	
	September		September	
	30,		30,	
	2016	2015	2016	2015
Basic Nutrients (Tons)	219	240	980	956
Specialty Nutrients (Tons)	78	78	404	295
Other (Farm Centers, Lawn, Cob)	73	80	398	443
Total tons	370	398	1,782	1,694

Margins in our wholesale fertilizer business continue to be under pressure due to an uncertain outlook for future crop prices and decreased domestic demand for fertilizer. The analysis of goodwill held by this reporting unit is subject to changes in key assumptions that affect the calculated fair value at the annual October 1 assessment date as the annual budgeting and long-term planning process is completed. The goodwill fair value is highly sensitive to changes in those assumptions, including interest rates and outlook for future volume and margins. If recent weakness in our wholesale fertilizer business affects our forecast for future years, this may result in a goodwill impairment charge. Total goodwill in the wholesale nutrient reporting unit is \$59.1 million.

**Rail Group**

The Rail Group saw a decline in average utilization rates from 91.6 percent in the third quarter of 2015 to 86.2 percent in the third quarter of 2016. Average lease rates remained relatively flat. Railcars, locomotives, and barges under management (owned, leased or managed for financial institutions in non-recourse arrangements) at September 30,

2016 were 23,203 compared to 23,301 at September 30, 2015.

Utilization rates are under pressure due to substantial increases in operational efficiency of the railroads in North America driving a decrease in the number of cars needed to move the same volume of freight. This has made it more difficult for us to re-market cars as they are returned from existing leases.

The Group will continue to focus on ways to strategically grow the rail fleet and look for opportunities to open new repair facilities.



Table of Contents

Retail Group

The retail industry is highly competitive. Our stores compete with a variety of retail merchandisers, including home centers, department and hardware stores, as well as local and national grocers. In the fourth quarter of 2016, we announced the closure of our specialty food concept store.

Other

Our “Other” activities include corporate costs and functions that provide support and services to the operating segments. The results include expenses and benefits not allocated to the operating segments, including a portion of our ERP project.

30

---

Table of Contents

## Operating Results

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

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Sales and merchandising revenues	\$859,612	\$909,093	\$2,811,735	\$3,015,022
Cost of sales and merchandising revenues	782,597	823,903	2,569,923	2,738,348
Gross profit	77,015	85,190	241,812	276,674
Operating, administrative and general expenses	78,767	88,698	234,053	251,044
Interest expense	4,441	6,147	18,046	16,210
Equity in earnings (loss) of affiliates, net	8,422	3,845	3,789	23,295
Other income, net	2,216	3,355	11,144	20,235
Income (loss) before income taxes	4,445	(2,455 )	4,646	52,950
Income (loss) attributable to noncontrolling interests	1,619	277	1,711	1,433
Income (loss) before income taxes attributable to The Andersons, Inc.	\$2,826	\$(2,732 )	\$2,935	\$51,517

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

## Grain Group

(in thousands)	Three months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$550,189	\$545,320
Cost of sales and merchandising revenues	519,724	515,394
Gross profit	30,465	29,926
Operating, administrative and general expenses	27,743	31,087
Interest expense	1,737	668
Equity in earnings (loss) of affiliates, net	533	1,340
Other income, net	361	618
Income (loss) before income taxes	1,879	129
Income (loss) attributable to noncontrolling interest	—	(2 )
Income (loss) before income taxes attributable to The Andersons, Inc.	\$1,879	\$131

Operating results for the Grain Group have increased \$1.7 million compared to the results of the same period last year. Sales and merchandising revenues increased \$4.9 million. This was partially offset by an increase of cost of sales and merchandising revenues for a net favorable gross profit impact of \$0.5 million. The increase was driven by improved trading income, and partially offset by modest declines in margins on sale of grain, income from blending operations, and limited opportunities for basis appreciation. Additionally, the 2016 divestiture of Iowa grain assets reduced gross profit by \$1.5 million. However, it also provided a \$3.0 million reduction in other, administrative and general expenses for a net positive impact of \$1.5 million compared to the same quarter in 2015.

Operating, administrative and general expenses showed a decrease of \$3.3 million compared to the same period in 2015 due primarily to decreases in labor and benefit costs and the Iowa divestiture noted above.

Equity in earnings of affiliates were not a major driver of performance in the current quarter with a decrease of \$0.8 million compared to the same period in 2015.



Table of Contents

## Ethanol Group

(in thousands)	Three months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$139,413	\$137,765
Cost of sales and merchandising revenues	133,112	131,500
Gross profit	6,301	6,265
Operating, administrative and general expenses	3,025	2,625
Interest expense	11	14
Equity in earnings (loss) of affiliates, net	7,889	2,505
Other income, net	6	36
Income (loss) before income taxes	11,160	6,167
Income (loss) attributable to noncontrolling interests	1,619	279
Income (loss) before income taxes attributable to The Andersons, Inc.	\$9,541	\$5,888

Operating results for the Ethanol Group increased \$3.7 million from the same period last year. Sales and merchandising revenues increased \$1.6 million compared to the results of the same period last year with cost of sales and merchandising revenues increasing by a similar amount. These changes were due to minor fluctuations in ethanol sales prices and volumes related to our consolidated operations during the quarter but were not a significant driver of results.

Equity in earnings of affiliates increased \$5.4 million due to higher earnings from the unconsolidated ethanol LLCs. This was driven by a variety of factors. Corn and natural gas input prices declined more than the price of the ethanol being produced, increasing margins during the current period in the markets where we operate our unconsolidated ethanol facilities. Additionally, the ratio of price realized on ethanol by-products relative to the price of corn inputs improved.

## Plant Nutrient Group

(in thousands)	Three months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$101,770	\$149,303
Cost of sales and merchandising revenues	82,383	126,983
Gross profit	19,387	22,320
Operating, administrative and general expenses	25,746	32,593
Interest expense	1,583	1,788
Other income, net	711	947
Income (loss) before income taxes	\$(7,231)	\$(11,114)

Operating results for the Plant Nutrient Group improved \$3.9 million from the same period last year. Sales and merchandising revenues decreased \$47.5 million primarily due to significant declines in fertilizer prices as well as a 6.9 percent decline in total tons sold. The decrease in cost of sales and merchandising revenues follows the commodity price and volume declines noted above. Additionally, we saw margin compression in products used in agricultural end markets. The total impact of the volume decreases and lower margins to gross profit was a decrease of \$2.9 million. The primary driver of performance during the current quarter has been pressure on farmer income causing nutrient purchases to be deferred or reduced.

Operating, administrative, and general expenses decreased \$6.8 million, primarily due to decreased labor and benefits cost as well as a \$2.0 million goodwill impairment charge related to the cob business in the prior year.



Table of Contents

## Rail Group

	Three months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$38,201	\$44,758
Cost of sales and merchandising revenues	25,674	27,267
Gross profit	12,527	17,491
Operating, administrative and general expenses	4,528	6,165
Interest expense	1,696	1,506
Other income, net	451	2,093
Income (loss) before income taxes	\$6,754	\$11,913

Operating results for the Rail Group decreased \$5.2 million from the same period last year. Sales and merchandising revenues decreased \$6.6 million, partially offset by a \$1.6 million decrease in cost of sales. The net gross profit decline of \$5.0 million was primarily driven by a \$2.6 million reduction in base leasing margin due to lower utilization rates and a decrease of \$1.6 million in gains on the sale of railcars.

The decline in other income of \$1.6 million was due mostly to a \$0.6 million decline in end of lease settlement activity and prior year dividends of \$0.5 million on our investment in Iowa Northern Railway Corporation which was sold in 2016.

## Retail Group

	Three months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$30,039	\$31,947
Cost of sales and merchandising revenues	21,704	22,759
Gross profit	8,335	9,188
Operating, administrative and general expenses	9,858	9,999
Interest expense	138	50
Other income, net	83	92
Income (loss) before income taxes	\$(1,578)	\$(769)

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

## Other

	Three months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$—	\$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	7,867	6,229
Interest expense (income)	(724)	2,121
Other income (loss), net	604	(431)
Income (loss) before income taxes	\$(6,539)	\$(8,781)

The other operating loss not allocated to business segments decreased \$2.2 million compared to the same period in the prior year. The majority of the change was a \$2.8 million decrease in interest expense due to lower borrowing during the period as well as mark-to-market adjustments on interest rate derivative contracts. This was offset by increased operating,

Table of Contents

administrative, and general expenses which were primarily due to the timing of certain employee benefit charges being incurred and allocated to the operating segments compared to the prior year.

## Income Taxes

Income tax expense of \$1.1 million was provided at 24.8% in the current quarter. In the third quarter of 2015, income tax benefit of \$1.5 million was provided at 61.3%. The high 2015 effective tax rate is primarily due to the cumulative impact of revised full year earnings expectations and relatively low third quarter earnings, while the lower 2016 effective tax rate is primarily due to tax benefits related to railroad track maintenance credit transactions and tax benefits related to prior years.

The Company anticipates that its 2016 effective annual rate will be 30.7%. The Company's actual 2015 effective tax rate was a benefit of 2.1%. The lower benefit rate in 2015 relative to our losses before income taxes is primarily due to the impact of the 2015 write-off of goodwill that did not provide a corresponding tax benefit.

Comparison of the nine months ended September 30, 2016 with the nine months ended September 30, 2015:

## Grain Group

(in thousands)	Nine months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$1,611,992	\$1,705,393
Cost of sales and merchandising revenues	1,547,776	1,620,737
Gross profit	64,216	84,656
Operating, administrative and general expenses	83,127	89,020
Interest expense	7,185	5,066
Equity in earnings (loss) of affiliates, net	(6,141	) 10,764
Other income, net	3,671	2,682
Income (loss) before income taxes	(28,566	) 4,016
Income (loss) attributable to noncontrolling interest	(3	) (8
Income (loss) before income taxes attributable to The Andersons, Inc.	\$(28,563	) \$4,024

Operating results for the Grain Group have decreased \$32.6 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$93.4 million. This was partially offset by a decrease of cost of sales and merchandising revenues of \$73.0 million for a net unfavorable gross profit impact of \$20.4 million. This decrease was primarily driven by elevated basis levels in the eastern corn belt causing significant reductions in space income and basis appreciation as well as reduced opportunities to earn margins on grain purchases and sales. Additionally, we saw reduced gross profit of \$3.2 million from the sale of our Iowa grain assets in 2016.

Operating, administrative and general expenses showed a decrease of \$5.9 million compared to the same period in 2015, \$5.3 million of which was due to prior year expenses incurred at the underperforming assets in Iowa which were sold earlier in the year and lower labor and benefit expenses.

The reductions in gross profit and expenses noted above in relation to the sale of Iowa assets have combined for a net positive impact of \$2.1 million so far this year, excluding the impact of the sale transaction itself.

Equity in earnings of affiliates decreased \$16.9 million compared to the same period in 2015. This was driven by reduced performance at Lansing Trade Group.





Table of Contents

## Ethanol Group

(in thousands)	Nine months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$396,626	\$413,130
Cost of sales and merchandising revenues	383,419	394,736
Gross profit	13,207	18,394
Operating, administrative and general expenses	8,380	8,684
Interest expense	34	50
Equity in earnings (loss) of affiliates, net	9,930	12,531
Other income, net	39	83
Income (loss) before income taxes	14,762	22,274
Income (loss) attributable to noncontrolling interests	1,714	1,441
Income (loss) before income taxes attributable to The Andersons, Inc.	\$13,048	\$20,833

Operating results for the Ethanol Group decreased \$7.8 million compared to the results of the same period last year. Sales and merchandising revenues decreased \$16.5 million, due to a decline in the average price of ethanol and a decrease in DDG prices. Ethanol gallons sold were up 1.3 percent compared to the prior year. The \$11.3 million decrease in cost of sales is due to lower input costs, primarily corn and natural gas. The ethanol plants' performance was also unfavorably impacted by pricing pressure on ethanol byproducts compared to the prior year.

## Plant Nutrient Group

(in thousands)	Nine months ended	
	September 30,	
	2016	2015
Sales and merchandising revenues	\$588,797	\$660,440
Cost of sales and merchandising revenues	493,144	569,456
Gross profit	95,653	90,984
Operating, administrative and general expenses	74,814	80,136
Interest expense	5,559	5,106
Other income, net	2,728	2,441
Income (loss) before income taxes	\$18,008	\$8,183

Operating results for the Plant Nutrient Group increased \$9.8 million from the same period last year. Sales and merchandising revenues decreased \$71.6 million primarily due to significant declines in fertilizer prices. The decrease in cost of sales and merchandising revenues of \$76.3 million exceeds the impact of lower sales noted above due to a decrease in the cost of raw materials and is also impacted by an increase in the proportion of higher margin specialty products. The total net positive impact to gross profit of the items noted above was \$4.7 million.

Operating, administrative, and general expenses decreased \$5.3 million due primarily to a \$2.3 million decrease in labor and benefits as well as a \$1.4 million reduction in maintenance costs compared to the prior year.



Table of Contents

## Rail Group

	Nine months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$118,152	\$134,497
Cost of sales and merchandising revenues	77,463	81,435
Gross profit	40,689	53,062
Operating, administrative and general expenses	14,396	18,984
Interest expense	5,608	4,929
Other income, net	2,013	14,766
Income (loss) before income taxes	\$22,698	\$43,915

Operating results for the Rail Group decreased \$21.2 million from the same period last year. Sales and merchandising revenues decreased \$16.3 million, partially offset by a \$4.0 million decrease in cost of sales. The net gross profit decline of \$12.3 million was primarily driven by a decrease of \$6.0 million in gains on the sale of railcars, and a \$4.2 million reduction in base leasing margin caused by lower utilization rates compared to the prior year.

The decline in other income of \$12.8 million is primarily driven by higher than normal lease settlement activity in the prior year.

## Retail Group

	Nine months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$96,168	\$101,562
Cost of sales and merchandising revenues	68,121	71,984
Gross profit	28,047	29,578
Operating, administrative and general expenses	30,513	31,037
Interest expense	441	308
Other income, net	263	284
Income (loss) before income taxes	\$(2,644)	\$(1,483)

Operating results for the Retail Group declined by \$1.2 million from the same period last year. This was driven primarily by a 3% decrease in customer count.

## Other

	Nine months ended September 30,	
(in thousands)	2016	2015
Sales and merchandising revenues	\$—	\$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	22,823	23,183
Interest expense (income)	(781)	751
Other income (loss), net	2,430	(21)
Income (loss) before income taxes	\$(19,612)	\$(23,955)

The other operating loss not allocated to business segments decreased \$4.3 million compared to the same period in the prior year. Interest expense declined due to mark-to-market adjustments on interest rate derivative contracts.

The majority of the change in other income was a \$1.3 million gain on final settlement of our pension plan.



Table of Contents

Income Taxes

Income tax expense of \$1.5 million was provided at 32.0%. In 2015, income tax expense of \$17.6 million was provided at 33.2%. The lower 2016 effective tax rate is due primarily to a tax benefit related to railroad track maintenance credit transactions.

Table of Contents

## Liquidity and Capital Resources

## Working Capital

At September 30, 2016, we had working capital of \$230.9 million. The following table presents changes in the components of current assets and current liabilities:

(in thousands)	September 30, 2016	September 30, 2015	Variance
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 78,158	\$ 40,658	\$37,500
Restricted cash	190	181	9
Accounts receivable, net	173,593	201,664	(28,071 )
Inventories	427,754	527,789	(100,035)
Commodity derivative assets – current	59,837	60,965	(1,128 )
Deferred income taxes	—	6,735	(6,735 )
Other current assets	43,761	66,411	(22,650 )
Total current assets	783,293	904,403	(121,110)
<b>Current Liabilities:</b>			
Short-term debt	—	82,801	(82,801 )
Trade and other payables	356,931	466,428	(109,497)
Customer prepayments and deferred revenue	15,725	23,581	(7,856 )
Commodity derivative liabilities – current	59,770	49,911	9,859
Accrued expenses and other current liabilities	68,465	71,593	(3,128 )
Current maturities of long-term debt	51,520	26,989	24,531
Total current liabilities	552,411	721,303	(168,892)
Working Capital	\$ 230,882	\$ 183,100	\$47,782

In comparison to September 30, 2015, current assets decreased significantly. This was primarily due to declining commodity prices resulting in a decline in the value of both inventory and accounts receivable in our Grain and Plant Nutrient segments. This was partially offset by increases in our cash on hand compared to the prior year which is caused by a reduced need for margin deposits on our grain contracts due to the lower prices.

Current liabilities were down compared to the prior year due to many of the same factors driving the changes in our current assets. We paid off all of our short-term line of credit borrowings due to reduced margin needs in the grain business. Additionally, our accounts payable balance is lower due to substantial declines in prices for recently purchased fertilizer and grain inventory. This was partially offset by a greater portion of our long-term debt becoming current compared to the prior year.

## Sources and Uses of Cash

## Operating Activities

Our operating activities provided cash of \$41.3 million and \$57.8 million in the first nine months of 2016 and 2015, respectively. The cash provided year to date is primarily a result of seasonal changes in the use of working capital, particularly the fact that we have seen significant reductions in prepaid fertilizer balances compared to the beginning of the period and that our prepaid income tax balances have declined compared to the prior year.

## Investing Activities

Investing activities provided cash of \$4.8 million through the first nine months of 2016, compared to using cash of \$212.4 million in the prior year. This change is due to \$124.6 million for the prior year acquisition of Kay Flo Industries, Inc, net of cash received and prior to final working capital adjustments, as well as a \$33.5 million decrease in net spend on railcar acquisitions and sales. Cash provided in the current year was positively impacted by the \$54.3 million sale of underperforming assets in Iowa as well as the redemption of our investment in the Iowa Northern Railway Corporation which provided proceeds of \$13.5 million. We also received \$7.4 million in return of capital distributions from our ethanol investments. This was offset by a \$13.8 million increase in purchases of other property, plant, and equipment. The variability in railcar purchases and sales is driven by timing of opportunities in the Rail Group asset market.





Table of Contents

In 2016, we expect to spend a total of \$99.8 million for the purchase of railcars, barges and related leases and capitalized modifications of railcars. We also expect to offset this amount by proceeds from the sales and dispositions of approximately \$73.9 million during the year.

Additionally, total capital spending for 2016 on property, plant and equipment in our base business excluding rail leasing activity, but inclusive of information technology spending and the construction of a new corporate headquarters building is expected to be approximately \$106.4 million.

**Financing Activities**

Financing activities used cash of \$31.7 million and provided cash of \$80.6 million for the nine months ended September 30, 2016 and 2015, respectively. Short term borrowings used cash of \$15.0 million in the current year compared to providing cash of \$79.7 million in the prior year. This change was driven primarily by declines in commodity prices and associated working capital requirements. In addition, the current year saw a decrease of \$74.6 million in funds provided by long-term debt issuance, but this was largely offset by \$49.1 million in prior year repurchases of the company's common stock. We also received \$14.0 million in reimbursement payments related to the long-term financing agreement of our new corporate headquarters.

We are party to borrowing arrangements with a syndicate of banks that provides a total of \$872.5 million in borrowings, which includes \$22.5 million of debt of The Andersons Denison Ethanol LLC which is non-recourse to the Company. Of that total, we had \$809.9 million remaining available for borrowing at September 30, 2016. Peak short-term borrowings to date were \$412.0 million on January 6, 2016. Typically, our highest borrowing occurs in the late Winter and early Spring due to seasonal inventory requirements in our fertilizer and grain businesses.

We paid \$13.0 million in dividends in the first nine months of 2016 compared to \$12.0 million in the prior year. We paid \$0.155 per common share for the dividends paid in January, April, and July 2016, and \$0.14 per common share for the dividends paid in January, April, and July 2015. On August 26, 2016, we declared a cash dividend of \$0.155 per common share payable on October 24, 2016 to shareholders of record on October 3, 2016.

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 September 30, 2016. 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 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 in the foreseeable future.

Table of Contents

## Off-Balance Sheet Transactions

Our Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. We lease assets from financial intermediaries through sale-leaseback transactions, the majority of which involve operating leasebacks. Rail Group assets 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 assets 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 maintenance and management services for the financial intermediary, and receive a fee for such services. On most of the assets, we hold an option to purchase the assets at the end of the lease.

The following table describes our Rail Group asset positions at September 30, 2016:

Method of Control	Financial Statement	Units
Owned-railcars available for sale	On balance sheet – current	255
Owned-railcar assets leased to others	On balance sheet – non-current	15,695
Railcars leased from financial intermediaries	Off balance sheet	4,282
Railcars – non-recourse arrangements	Off balance sheet	2,971
Total Railcars		23,203
Locomotive assets leased to others	On balance sheet – non-current	36
Locomotives leased from financial intermediaries	Off balance sheet	4
Total Locomotives		40
Barge assets leased to others	On balance sheet – non-current	—
Barge assets leased from financial intermediaries	Off balance sheet	65
Total Barges		65

In addition, we manage 413 railcars for third-party customers or owners for which we receive a fee.

Table of Contents

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, 2015. There were no material changes in market risk, specifically commodity and interest rate risk during the quarter ended September 30, 2016.

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 September 30, 2016, 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, 2015. 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 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.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

We are 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 most significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in our 2015 Form 10-K (Item 1A).

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No sales or repurchases of shares have occurred in 2016.

Table of Contents

Item 6. Exhibits

(a) Exhibits

No. Description

12 Computation of Ratio of Earnings to Fixed Charges

31.1 Certification of the 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 September 30, 2016, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations, (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.

43

---

Table of Contents

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: November 8, 2016 By /s/ Patrick E. Bowe  
Patrick E. Bowe  
Chief Executive Officer (Principal Executive Officer)

Date: November 8, 2016 By /s/ John Granato  
John Granato  
Chief Financial Officer (Principal Financial Officer)

Table of Contents

Exhibit Index

The Andersons, Inc.

No. Description

12 Computation of Ratio of Earnings to Fixed Charges

31.1 Certification of the 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 September 30, 2016, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations, (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.

45