

ANDERSONS INC
Form 10-Q
November 07, 2007

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended September 30, 2007

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

For the transition period from _____ to _____

Commission file number 000-20557

THE ANDERSONS, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State of incorporation
or organization)

34-1562374

(I.R.S. Employer
Identification No.)

480 W. Dussel Drive, Maumee, Ohio
(Address of principal executive offices)

43537

(Zip Code)

(419) 893-5050

(Telephone Number)

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated Filer Non-accelerated filer

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

The registrant had approximately 17.9 million common shares outstanding, no par value, at October 31, 2007.

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

| | September 30, 2007 | December 31, 2006 | September 30, 2006 |
|---|-----------------------|----------------------|--------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 22,357 | \$ 23,398 | \$ 47,773 |
| Restricted cash | 3,737 | 3,801 | 3,815 |
| Accounts and notes receivable, net | 127,382 | 87,698 | 79,552 |
| Margin deposits, net | 28,970 | 15,273 | 10,540 |
| Inventories: | | | |
| Grain & Ethanol | 179,560 | 195,496 | 66,802 |
| Agricultural fertilizer and supplies | 65,792 | 42,604 | 49,119 |
| Lawn and garden fertilizer and corncob products | 24,063 | 26,379 | 19,669 |
| Railcar repair parts | 3,259 | 3,230 | 3,621 |
| Retail merchandise | 33,923 | 28,466 | 32,565 |
| Other | 311 | 282 | 280 |
| | 306,908 | 296,457 | 172,056 |
| Commodity derivative assets current | 108,039 | 85,338 | 9,914 |
| Railcars available for sale | 4,042 | 5,576 | 7,154 |
| Deferred income taxes | | 967 | |
| Prepaid expenses and other current assets | 40,158 | 26,782 | 17,181 |
| Total current assets | 641,593 | 545,290 | 347,985 |
| Other assets: | | | |
| Pension asset | 3,500 | 445 | 9,683 |
| Commodity derivative asset non-current | 29,999 | 20,862 | 5,718 |
| Other assets and notes receivable, net | 7,040 | 12,810 | 8,670 |
| Investments in and advances to affiliates | 105,057 | 59,080 | 45,620 |
| | 145,596 | 93,197 | 69,691 |
| Railcar assets leased to others, net | 143,251 | 145,059 | 148,936 |
| Property, plant and equipment: | | | |
| Land | 12,125 | 12,111 | 12,090 |
| Land improvements and leasehold improvements | 35,451 | 33,817 | 33,442 |
| Buildings and storage facilities | 108,612 | 106,391 | 105,787 |
| Machinery and equipment | 136,064 | 131,152 | 128,844 |
| Software | 7,382 | 7,164 | 7,034 |
| Construction in progress | 8,075 | 5,934 | 4,312 |
| | 307,709 | 296,569 | 291,509 |
| Less allowances for depreciation and amortization | (206,880) | (201,067) | (198,444) |

| | | | |
|--------------|--------------------|------------|------------|
| | 100,829 | 95,502 | 93,065 |
| Total assets | \$1,031,269 | \$ 879,048 | \$ 659,677 |

See notes to condensed consolidated financial statements

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

| | September 30, 2007 | December 31, 2006 | September 30, 2006 |
|---|-----------------------|-------------------------|--------------------------|
| Current liabilities: | | | |
| Short-term borrowings | \$ 163,400 | \$ 75,000 | \$ |
| Accounts payable for grain | 52,016 | 95,915 | 21,819 |
| Other accounts payable | 109,421 | 81,610 | 77,376 |
| Customer prepayments and deferred revenue | 30,177 | 32,919 | 21,420 |
| Commodity derivative liabilities current | 77,617 | 43,173 | 12,785 |
| Accrued expenses | 28,517 | 31,065 | 23,366 |
| Deferred income taxes current | 275 | | 576 |
| Current maturities of long-term debt non-recourse | 13,889 | 13,371 | 14,464 |
| Current maturities of long-term debt | 10,329 | 10,160 | 12,617 |
| Total current liabilities | 485,641 | 383,213 | 184,423 |
| Deferred income and other long-term liabilities | 3,923 | 3,940 | 2,215 |
| Commodity derivative liabilities non-current | 26,285 | 26,531 | 9,007 |
| Employee benefit plan obligations | 21,690 | 21,200 | 15,413 |
| Long-term debt non-recourse, less current maturities | 60,107 | 71,624 | 77,222 |
| Long-term debt, less current maturities | 85,302 | 86,238 | 87,076 |
| Deferred income taxes | 19,702 | 16,127 | 20,204 |
| Total liabilities | 702,650 | 608,873 | 395,560 |
| Minority interest | 12,607 | | |
| Shareholders' equity: | | | |
| Common shares, without par value (25,000 shares authorized; 19,198 shares issued) | 96 | 96 | 96 |
| Additional paid-in capital | 166,270 | 159,941 | 157,730 |
| Treasury shares (1,258, 1,492 and 1,567 shares at 9/30/07, 12/31/06 and 9/30/06, respectively; at cost) | (16,534) | (16,053) | (15,650) |
| Accumulated other comprehensive loss | (11,638) | (9,735) | (1,049) |
| Retained earnings | 177,818 | 135,926 | 122,990 |
| | 316,012 | 270,175 | 264,117 |
| Total liabilities and shareholders' equity | \$1,031,269 | \$879,048 | \$659,677 |

See notes to condensed consolidated financial statements

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

| | Three months ended | | Nine months ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Sales and merchandising revenues | \$ 553,708 | \$ 335,871 | \$ 1,594,425 | \$ 994,638 |
| Cost of sales and merchandising revenues | 502,962 | 284,327 | 1,423,952 | 848,056 |
| Gross profit | 50,746 | 51,544 | 170,473 | 146,582 |
| Operating, administrative and general expenses | 41,430 | 40,310 | 123,527 | 115,583 |
| Interest expense | 4,174 | 3,818 | 13,386 | 12,513 |
| Other income / gains: | | | | |
| Other income, net | 2,144 | 6,352 | 19,085 | 11,763 |
| Equity in earnings (loss) of affiliates | 9,574 | (483) | 17,229 | 5,279 |
| Minority interest in loss of subsidiaries | 549 | | 1,065 | |
| Income before income taxes | 17,409 | 13,285 | 70,939 | 35,528 |
| Income tax expense | 6,844 | 4,898 | 25,647 | 12,959 |
| Net income | \$ 10,565 | \$ 8,387 | \$ 45,292 | \$ 22,569 |
| Per common share: | | | | |
| Basic earnings | \$ 0.59 | \$ 0.52 | \$ 2.54 | \$ 1.46 |
| Diluted earnings | \$ 0.58 | \$ 0.51 | \$ 2.48 | \$ 1.41 |
| Dividends paid | \$ 0.0475 | \$ 0.045 | \$ 0.1425 | \$ 0.1325 |
| Weighted average shares outstanding-basic | 17,878 | 16,080 | 17,800 | 15,467 |
| Weighted average shares outstanding-diluted | 18,311 | 16,591 | 18,282 | 16,021 |

See notes to condensed consolidated financial statements

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

| | Nine months ended September 30, | |
|---|------------------------------------|-----------|
| | 2007 | 2006 |
| Operating Activities | | |
| Net income | \$ 45,292 | \$ 22,569 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 19,457 | 18,263 |
| Minority interest in loss of subsidiaries | (1,065) | |
| Unremitted earnings of unconsolidated affiliates | (8,893) | (1,429) |
| Realized gains on sales of railcars and related leases | (7,856) | (5,887) |
| Excess tax benefit from share-based payment arrangement | (3,853) | (4,168) |
| Deferred income taxes | 6,003 | 7,581 |
| Stock based compensation expense | 3,225 | 2,079 |
| Gain on donation of equity securities | (4,773) | |
| Other | 29 | (1,233) |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (39,684) | (5,098) |
| Inventories | (10,451) | 83,095 |
| Commodity derivatives and margin deposits | (11,337) | (9,869) |
| Prepaid expenses and other assets | (10,173) | 6,204 |
| Accounts payable for grain | (43,899) | (59,126) |
| Other accounts payable and accrued expenses | 4,549 | (33,150) |
| Net cash provided by (used in) operating activities | (63,429) | 19,831 |
| Investing Activities | | |
| Purchases of railcars | (42,888) | (61,065) |
| Proceeds from sale or financing of railcars and related leases | 44,909 | 38,078 |
| Purchases of property, plant and equipment | (15,637) | (10,508) |
| Proceeds from sale of property, plant and equipment and other | 1,271 | 1,554 |
| Investment in affiliates | (37,084) | (23,706) |
| Net cash used in investing activities | (49,429) | (55,647) |
| Financing Activities | | |
| Proceeds from offering of common shares | | 81,633 |
| Net increase (decrease) in short-term borrowings | 88,400 | (12,400) |
| Proceeds received from minority interest | 13,672 | |
| Proceeds from issuance of long-term debt | 6,216 | 15,108 |
| Payments on long-term debt | (6,983) | (4,654) |
| Proceeds from issuance of non-recourse long-term debt | | 2,001 |
| Payments of non-recourse long-term debt | (10,999) | (18,670) |
| Change in overdrafts | 17,574 | 3,207 |

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| | | |
|--|------------------|-----------|
| Proceeds from sale of treasury shares to employees and directors | 2,622 | 1,386 |
| Payments of debt issuance costs | | (52) |
| Dividends paid | (2,538) | (2,014) |
| Excess tax benefit from share-based payment arrangement | 3,853 | 4,168 |
| Net cash provided by financing activities | 111,817 | 69,713 |
| Increase (decrease) in cash and cash equivalents | (1,041) | 33,897 |
| Cash and cash equivalents at beginning of period | 23,398 | 13,876 |
| Cash and cash equivalents at end of period | \$ 22,357 | \$ 47,773 |

See notes to condensed consolidated financial statements

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The Andersons, Inc.
Condensed Consolidated Statements of Shareholders Equity
(Unaudited) (In thousands)

| | Common Shares | Additional Paid-in Capital | Treasury Shares | Accumulated Other Comprehensive Loss | Unearned Compensation | Retained Earnings | Total |
|---|------------------|----------------------------------|--------------------|---|--------------------------|----------------------|----------------|
| Balance at January 1, 2006 | \$ 84 | \$ 70,121 | \$ (13,195) | \$ (455) | \$ (259) | \$ 102,587 | \$ 158,883 |
| Net income | | | | | | 36,347 | 36,347 |
| Other comprehensive income: | | | | | | | |
| Minimum pension liability (net of income tax of \$8) | | | | 13 | | | 13 |
| Cash flow hedge activity (net of income tax of \$185) | | | | (60) | | | (60) |
| Unrealized gains on investment (net of income tax of \$1,461) | | | | 2,488 | | | 2,488 |
| Comprehensive income | | | | | | | 38,788 |
| Equity offering (2,238 shares) | 12 | 81,595 | | | | | 81,607 |
| Unrecognized actuarial loss and prior service costs (net of income tax of \$6,886) | | | | (11,721) | | | (11,721) |
| Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$6,307 (208 shares) | | 8,225 | (2,858) | | 259 | | 5,626 |
| Dividends declared (\$0.01825 per common share) | | | | | | (3,008) | (3,008) |
| Balance at December 31, 2006 | 96 | 159,941 | (16,053) | (9,735) | | 135,926 | 270,175 |

| | | | | | | | |
|---|--------------|-------------------|--------------------|--------------------|-----------|-------------------|-------------------|
| Net income | | | | | | 45,292 | 45,292 |
| Other comprehensive income: | | | | | | | |
| Unrecognized actuarial loss and prior service costs (net of income tax of \$338) | | | | | | 575 | 575 |
| Cash flow hedge activity (net of income tax of \$7) | | | | | | 11 | 11 |
| Unrealized gain on investment (net of income tax of \$305) | | | | | | 519 | 519 |
| Disposal of equity securities (net of income tax of \$1,766) | | | | | | (3,008) | (3,008) |
| Comprehensive income | | | | | | | 43,389 |
| Impact of adoption of FIN 48 | | | | | | (320) | (320) |
| Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$4,186 (234 shares) | | 6,329 | (481) | | | | 5,848 |
| Dividends declared (\$0.1725 per common share) | | | | | | (3,080) | (3,080) |
| Balance at September 30, 2007 | \$ 96 | \$ 166,270 | \$ (16,534) | \$ (11,638) | \$ | \$ 177,818 | \$ 316,012 |

See notes to condensed consolidated financial statements

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The Andersons, Inc.

Notes to Condensed Consolidated Financial Statements

Note A: Basis of Presentation and Consolidation

These consolidated financial statements include the accounts of The Andersons, Inc. and its wholly and majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in unincorporated joint ventures in which the Company has significant influence, but not control, are accounted for using the equity method of accounting and are recorded at cost plus the Company's accumulated proportional share of income or loss, less any distributions it has received. Differences in the basis of the investment and the separate net asset value of the investee, if any, are amortized into income over the remaining life of the underlying assets, with the exception of certain permanent basis differences related to entity formation.

In the opinion of management, all adjustments, consisting of normal recurring items and the effects of the adoption of the provisions of Financial Accounting Standards Board Interpretation 48, Accounting for Uncertainty in Income Taxes, considered necessary for a fair presentation of the results of operations for the periods indicated, have been made. Operating results for the fiscal quarter and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. A condensed consolidated balance sheet as of September 30, 2006 was included as the Company operates in several seasonal industries.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2006.

Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These reclassifications are not considered material and had no effect on net income or shareholders' equity as previously presented.

Newly Adopted Accounting Standards

In the second quarter of 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FIN 39-1 (FSP FIN 39-1), which permits a party to a master netting arrangement to offset fair value amounts recognized for the right to reclaim cash collateral or obligation to return cash collateral against the fair value amounts recognized for derivative instruments that have been offset under the same

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master netting arrangement. FSP FIN 39-1 would be required to be adopted by the Company beginning in 2008; however, the Company elected to adopt this presentation in the second quarter of 2007 as permitted by FSP FIN 39-1. The Company has a master netting arrangement for its futures contracts. When the Company enters into a futures contract, an initial margin deposit must be sent to the counterparty. The amount of the margin deposit varies by commodity. If the market price of a futures contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required. Under FSP FIN 39-1 and consistent with the balance sheets presented herein, the Company nets its futures position with its margin deposits and has included the required disclosures. At September 30, 2007, December 31, 2006 and September 30, 2006, the Company offset \$63.3 million, \$33.8 million and \$2.8 million, respectively, of margin deposits against its net futures position.

Financial Statement Revision

In the second quarter of 2007, the Company determined that it should revise its classification of all forward purchase and sale contracts for commodities. Historically, the Company had recorded its net position in these commodity contracts on the balance sheet within inventory. Although this presentation had been disclosed in the Company's significant accounting policies, the Company has revised its presentation to show the commodity contracts in separate line items on the consolidated balance sheet and display a gross position rather than a net position. As the Company's forward and futures contracts are considered economic hedges of inventory, the cash flows from these derivatives will remain as a part of cash flows from operating activities, although for disclosure purposes the gross, rather than net, effects of cash flows from these contracts will be reflected in the Company's consolidated statements of cash flows. The Company has concluded that the effect of historically reflecting these contracts on a net, rather than gross, basis did not materially misstate any previously issued consolidated balance sheets or consolidated statement of cash flows. However, the Company has elected to revise prior period comparative information presented herein in order to present such information on a basis consistent with the separate line item disclosure described above. A summary of the effects of these revisions are in the following table. The revisions have no effect on net income or shareholders' equity as previously reported.

| (in thousands) | Consolidated Balance Sheet At December 31, 2006 | | Consolidated Balance Sheet At September 30, 2006 | |
|--|--|------------|---|------------|
| | As Reported | As Revised | As Reported | As Revised |
| Margin deposits | \$ 49,121 | \$ 15,273 | \$ 13,315 | \$ 10,540 |
| Inventory | 299,105 | 296,457 | 163,121 | 172,056 |
| Commodity derivative assets - current | | 85,338 | | 9,914 |
| Total current assets | 496,448 | 545,290 | 331,911 | 347,985 |
| Commodity derivative assets - non-current | | 20,862 | | 5,718 |
| Total assets | 809,344 | 879,048 | 637,885 | 659,677 |
| Commodity derivative liabilities - current | | 43,173 | | 12,785 |
| Total current liabilities | 340,040 | 383,213 | 171,638 | 184,423 |
| Commodity derivative liability - non-current | | 26,531 | | 9,007 |
| Total liabilities | 539,169 | 608,873 | 373,768 | 395,560 |

Table of Contents**Note B: Earnings Per Share**

Basic earnings per share is equal to net income divided by weighted average shares outstanding. Diluted earnings per share is equal to basic earnings per share plus the incremental per share effect of dilutive options and unvested restricted shares.

| (in thousands) | Three months ended | | Nine months ended | |
|---|--------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Weighted average shares outstanding basic | 17,878 | 16,080 | 17,800 | 15,467 |
| Restricted shares and shares contingently issuable upon exercise of options | 433 | 511 | 482 | 554 |
| Weighted average shares outstanding diluted | 18,311 | 16,591 | 18,282 | 16,021 |

Diluted earnings per share in the third quarter of 2007 and 2006 excludes the impact of approximately 8,000 and 51,000 employee stock options, respectively, as such options were anti-dilute. In the first nine months of 2007 and 2006, diluted earnings per share excludes the impact of approximately 2,000 and 5,000 employee stock options, respectively, as such options were anti-dilutive.

Note C: Employee Benefit Plans

In the first quarter of 2006, the Company's Board of Directors approved changes to its defined benefit plans that became effective on January 1, 2007. These changes included freezing benefits for certain employee groups and adjusting the formula for employees who continue to earn benefits after January 1, 2007. This plan amendment triggered a new valuation at February 28, 2006 resulting in an actuarial gain of \$1.8 million.

Included as charges against income for the quarter and year-to-date period are the following amounts for pension and postretirement benefit plans maintained by the Company:

| (in thousands) | Pension Benefits | | | |
|------------------------------------|--------------------|---------|-------------------|----------|
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 664 | \$ 891 | \$ 1,994 | \$ 2,775 |
| Interest cost | 785 | 740 | 2,353 | 2,284 |
| Expected return on plan assets | (1,141) | (1,009) | (3,424) | (3,005) |
| Amortization of prior service cost | (159) | (158) | (476) | (368) |
| Recognized net actuarial loss | 268 | 440 | 804 | 1,358 |
| Benefit cost | \$ 417 | \$ 904 | \$ 1,251 | \$ 3,044 |

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| (in thousands) | Postretirement Benefits | | | |
|------------------------------------|--------------------------------|---------------|--------------------------|-----------------|
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 109 | \$ 136 | \$ 327 | \$ 407 |
| Interest cost | 291 | 311 | 872 | 932 |
| Amortization of prior service cost | (128) | (110) | (383) | (330) |
| Recognized net actuarial loss | 198 | 228 | 595 | 685 |
| Benefit cost | \$ 470 | \$ 565 | \$ 1,411 | \$ 1,694 |

The Company made contributions to its defined benefit pension plan of \$3.5 million and \$2.5 million in the first nine months of 2007 and 2006, respectively. The Company currently expects to make a total contribution of approximately \$7.0 million in fiscal 2007, which exceeds the required minimum contribution. The Company contributed \$5.0 million in fiscal 2006.

The postretirement benefit plan is not funded. Company contributions in the quarter represent actual claim payments and insurance premiums for covered retirees. In the first nine months of 2007 and 2006, payments of \$1.2 million and \$1.0 million, respectively, were made by the Company.

Note D: Segment Information

Results of Operations Segment Disclosures
(unaudited)(in thousands)

| Third Quarter 2007 | Grain & Ethanol | Rail | Plant Nutrient | Turf & Specialty | Retail | Other | Total |
|----------------------------------|--------------------------------|-------------|---------------------------|---------------------------------|---------------|--------------|--------------|
| Revenues from external customers | \$ 382,907 | \$ 33,890 | \$ 76,732 | \$ 17,911 | \$ 42,268 | \$ | \$ 553,708 |
| Inter-segment sales | | 114 | 3,052 | 121 | | | 3,287 |
| Other income | 709 | 188 | 348 | 185 | 149 | 565 | 2,144 |
| Equity in earnings of affiliates | 9,517 | 55 | 2 | | | | 9,574 |
| Interest expense | 1,470 | 1,429 | 657 | 265 | 274 | 79 | 4,174 |
| Operating income (loss) | 13,706 | 5,792 | 815 | (1,626) | (554) | (724) | 17,409 |
| Identifiable assets | 533,599 | 184,073 | 154,314 | 51,884 | 60,407 | 46,992 | 1,031,269 |
| Third Quarter 2006 | Grain & Ethanol | Rail | Plant Nutrient | Turf & Specialty | Retail | Other | Total |
| Revenues from external customers | \$ 208,540 | \$ 27,339 | \$ 38,580 | \$ 20,396 | \$ 41,016 | \$ | \$ 335,871 |
| Inter-segment sales | | 124 | 55 | 120 | | | 299 |
| Other income | 4,549 | 127 | 346 | 569 | 265 | 496 | 6,352 |
| Equity in earnings of affiliates | (485) | | 2 | | | | (483) |
| Interest expense (income)(a) | 1,158 | 1,781 | 705 | 271 | 327 | (424) | 3,818 |
| Operating income (loss) | 11,950 | 4,898 | (1,868) | (420) | (418) | (857) | 13,285 |
| Identifiable assets | 190,449 | 194,283 | 106,239 | 44,344 | 56,191 | 68,171 | 659,677 |

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| Nine months ended September 30, 2007 | Grain & Ethanol | Rail | Plant Nutrient | Turf & Specialty | Retail | Other | Total |
|---|--------------------------------|-------------|---------------------------|---------------------------------|---------------|--------------|--------------|
| Revenues from external customers | \$ 950,430 | \$ 102,251 | \$ 326,200 | \$ 84,609 | \$ 130,935 | \$ | \$ 1,594,425 |
| Inter-segment sales | | 588 | 7,843 | 957 | | | 9,388 |
| Other income | 10,232 | 710 | 801 | 380 | 467 | 6,495 | 19,085 |
| Equity in earnings of affiliates | 17,169 | 55 | 5 | | | | 17,229 |
| Interest expense (income)(a) | 5,682 | 4,503 | 1,535 | 1,202 | 742 | (278) | 13,386 |
| Operating income | 35,857 | 15,702 | 18,363 | 880 | 775 | (638) | 70,939 |
| Nine months ended September 30, 2006 | Grain & Ethanol | Rail | Plant Nutrient | Turf & Specialty | Retail | Other | Total |
| Revenues from external customers | \$ 485,928 | \$ 89,558 | \$ 197,921 | \$ 93,329 | \$ 127,902 | \$ | \$ 994,638 |
| Inter-segment sales | | 376 | 4,323 | 1,045 | | | 5,744 |
| Other income | 6,794 | 442 | 776 | 1,087 | 697 | 1,967 | 11,763 |
| Equity in earnings of affiliates | 5,274 | | 5 | | | | 5,279 |
| Interest expense (income)(a) | 4,103 | 5,108 | 2,062 | 1,227 | 928 | (915) | 12,513 |
| Operating income (loss) | 15,653 | 16,115 | 1,938 | 3,073 | 1,296 | (2,547) | 35,528 |

(a) The interest income reported in Other includes net interest income at the corporate level. These amounts result from a rate differential between the interest rate at which interest is allocated to the operating segments and the actual rate at which borrowings are made.

Note E: Equity Method Investments and Related Party Transactions

The Company, directly or indirectly, holds investments in six limited liability 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.

Each of the operating ethanol LLCs has a marketing agreement with the Company under which the Company buys ethanol produced and markets it to external customers. Substantially all of the Company's ethanol purchases from the LLCs and sales to external parties are done through forward contracts on matching terms and, therefore, the Company does not recognize any gross profit on the sales transactions. As compensation for these marketing services, the Company earns a fee on each gallon of ethanol sold. For the quarter and year to date periods, sales made by the Company under these arrangements are as follows:

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| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------|-------------------------------------|------|------------------------------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| Sales of ethanol (a) | \$85,319 | \$ | \$170,887 | \$ |

(a) The Company's ethanol sales include direct ship sales made on behalf of the Company's ethanol joint ventures. These are sales of ethanol purchased from unaffiliated third party producers and traded.

Prior to 2007, sales of ethanol were made directly from The Andersons Albion Ethanol LLC to third parties. The following table presents summarized financial information of Lansing Trade Group LLC as this investment qualified as a significant subsidiary for the quarter ended September 30, 2007. Income from continuing operations is presented as the subsidiary is structured as a limited liability company.

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Sales | \$1,320,921 | \$803,579 | \$3,817,974 | \$1,703,276 |
| Gross profit (loss) | 20,036 | (1,507) | 43,048 | 36,842 |
| Income from continuing operations | 8,497 | (3,513) | 14,580 | 14,577 |
| Net income (loss) | 8,497 | (3,513) | 14,580 | 14,577 |

The following table presents summarized financial information of The Andersons Clymers Ethanol LLC (TACE) as this investment also qualified as a significant subsidiary for the quarter ended September 30, 2007. Income from continuing operations is presented as the subsidiary is structured as a limited liability company. Sales include sales of ethanol made to the Company as well as sales of distillers dried grain made directly to third parties.

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|-------------------------------------|-------|------------------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Sales | \$60,152 | \$ | \$92,553 | \$ |
| Gross profit (loss) | 14,383 | (186) | 20,600 | (317) |
| Income from continuing operations | 11,973 | (903) | 13,334 | (1,355) |
| Net income (loss) | 11,973 | (903) | 13,334(a) | (1,355) |

- (a) In 2007, TACE restated its operating results for 2006 to correct an error. Because the amount is not considered material to The Andersons, the Company's share of this adjustment was recorded in the second quarter of 2007.

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The following table summarizes income earned from the Company's equity method investees by entity.

| (in thousands) | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| The Andersons Albion Ethanol LLC | \$1,941 | \$ 1,114 | \$ 9,231 | \$ 536 |
| The Andersons Clymers Ethanol LLC | 4,411 | (331) | 3,329 | (498) |
| The Andersons Marathon Ethanol LLC (a) | (447) | | (1,175) | |
| Lansing Trade Group LLC | 3,612 | (1,268) | 6,194 | 5,262 |
| Other | 57 | 2 | (350) | (21) |
| Total | \$9,574 | \$ (483) | \$17,229 | \$5,279 |

(a) In the second quarter of 2007, certain expenses were erroneously included in earnings (loss) of affiliates rather than cost of sales. The amount was not material and the year-to-date results for the nine month period ending September 30, 2007 have been revised to correct this error.

In the ordinary course of business, the Company enters into related party transactions with its equity method investees. The following table sets forth financial information with respect to the related party transactions entered into for the time periods presented:

| (in thousands) | Three months ended | | Nine months ended | |
|-------------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Sales and revenues from services | \$87,182 | \$28,901 | \$186,908 | \$33,503 |
| Purchases of product | 80,563 | 17,867 | 163,939 | 17,872 |
| Lease income | 1,197 | 380 | 3,377 | 893 |
| Labor & benefits reimbursement (a) | 1,647 | 729 | 4,481 | 1,011 |
| Accounts receivable at September 30 | | | 18,377 | 2,823 |

Accounts payable at September 30

4,672

- (a) The Company provides administrative support to the ethanol LLCs, and charges them an allocation of the Company's costs of the related services.

Note F: Insurance Recoveries

On July 1, 2005, two explosions and a resulting fire occurred in a grain storage and loading facility operated by the Company and located on the Maumee River in Toledo, Ohio. There were no injuries; however, a portion of the grain at the facility was destroyed along with damage to a portion of the storage capacity and the conveyor systems. The facility, although leased, was insured by the Company for full replacement cost as the Company is responsible for the complete repair of the facility under the terms of the lease agreement. The Company also carried insurance on inventories and business interruption with a total deductible of \$0.25 million. As of September 30, 2007, inventory losses have been reimbursed by the insurance company (net of the \$0.25 million deductible) in the amount of \$1.2 million. Clean-up and repair costs have been reimbursed by the insurance company in the amount of \$4.6 million and re-construction

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costs have been reimbursed in the amount of \$11.9 million. The 2006 business interruption claim was settled in the second quarter of 2007 for \$2.9 million. As of September 30, 2007, the Company had a receivable on its balance sheet from the insurance company for reconstruction costs in the amount of \$2.4 million compared to a receivable of \$5.8 million at September 30, 2006.

Note G: Equity Securities

In June 2007, the Company donated the remaining \$1.8 million of available-for-sale equity securities it held on its balance sheet to a charitable foundation. The entire amount was recorded as charitable giving expense. The Company had also donated \$3.1 million of available-for-sale securities in the first quarter of 2007. These donations resulted in a realized gain of \$4.8 million in the first nine months of 2007, which was recognized in other income.

Note H: Uncertain Tax Positions

The Company adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109, effective January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$0.4 million decrease to beginning retained earnings during the first quarter of 2007.

The Company has elected to classify interest and penalties, accrued as required by FIN 48, as interest expense and penalty expense, respectively, rather than as income tax expense. The total amount of accrued interest and penalties as of the date of adoption was \$0.5 million. \$0.1 million of the accrued interest as of the date of adoption was reversed during the third quarter of 2007 as a result of the expiration of the U.S. federal statute of limitations for the 2003 tax year. An additional \$0.2 million of interest and penalties was accrued during the first nine months of 2007.

The total amount of unrecognized tax benefits as of the date of adoption is \$1.5 million. If recognized, \$1.0 million of unrecognized tax benefits would decrease the Company's effective tax rate. The Company anticipates that the amount of unrecognized tax benefits will decrease by \$0.4 million in the fourth quarter of 2007. This decrease relates to unrecognized tax benefits associated with investment tax credits and royalty expense deductions taken on state income tax returns in tax years that will no longer be subject to examination.

U.S. federal income tax and various state and city income tax returns filed by the Company remain subject to examination for the tax years 2003 through 2006. Canadian federal income tax returns remain subject to examination for the tax years 2004 through 2006 and Mexican federal income tax returns remain subject to examination for the tax years 2002 through 2006.

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There have been no material changes during the first nine months of 2007 in the amounts of unrecognized tax benefits recorded as a result of tax positions taken during the current period or any prior periods, or in the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

Note I: Inventory Commitments

The Company's inventory commitments include the fair value of forward contracts to buy and sell grain and ethanol, and exchange traded futures and option contracts used as economic hedges of the value of both owned grain and grain and ethanol forward contracts. The forward contracts require performance in future periods. Contracts to purchase grain from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of grain to processors or other grain and ethanol consumers generally do not extend beyond one year. The terms of contracts for the purchase and sale of grain are consistent with industry standards. These grain contracts are considered derivatives under Financial Accounting Standards Board (FASB) Statement No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities, and are marked to the market price. Forward contracts in a gain position are recorded on the balance sheet as either Commodity derivative assets current or Commodity derivative assets non-current based on their delivery period. Forward contracts in a loss position are recorded on the balance sheet as either Commodity derivative liabilities current or Commodity derivative liabilities non-current. Futures contracts are netted against margin deposits as permitted under FSP FIN 39-1. Set forth below is a table outlining the Company's net position in its grain and ethanol inventory and commodity derivative contracts at September 30, 2007, December 31, 2006 and September 30, 2006.

| (in thousands) | September 30, 2007 | December 31, 2006 | September 30, 2006 |
|--|-----------------------------------|----------------------------------|-----------------------------------|
| Physical inventory | \$179,560 | \$195,496 | \$ 66,802 |
| Commodity derivative assets current | 108,039 | 85,338 | 9,914 |
| Commodity derivative assets non-current | 29,999 | 20,862 | 5,718 |
| Commodity derivative liabilities current | (77,617) | (43,173) | (12,785) |
| Commodity derivative liabilities non-current | (26,285) | (26,531) | (9,007) |
| Futures contracts | (63,262) | (33,848) | (2,775) |
| Net position | \$150,434 | \$198,144 | \$ 57,867 |

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Note J: Recently Issued Accounting Pronouncements

In February 2007, the FASB released Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows an entity to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for the Company s annual period beginning January 1, 2008. The Company is currently assessing the impact on the financial statements of the application of SFAS 159.

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, 2006 (2006 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 estimates, as described in our 2006 Form 10-K, have not materially changed during the first nine months of 2007 other than the changes to the Company s accounting treatment for its commodity contracts as described in Note A: Basis of Presentation and Consolidation to the condensed consolidated financial statements, included elsewhere herein.

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Executive Overview

Grain & Ethanol Group

The Grain & Ethanol Group operates grain elevators in Ohio, Michigan, Indiana and Illinois. In addition to storage and merchandising, the Group performs grain trading risk management and other services for its customers. The Group is also the developer and significant investor in three ethanol facilities located in Indiana, Michigan and Ohio with a nameplate capacity of 275 million gallons. Two of these facilities are now producing ethanol while the third is expected to begin production in early 2008. In addition to its investment in these ethanol facilities, the Group operates the facilities under management contracts and provides grain origination and marketing and risk management services for which it is separately compensated. The expected surge in demand for corn to be used in ethanol production has caused corn prices to escalate and has resulted in an increase of corn acres planted in 2007 of 19% over last year.

As of this writing, the corn and soybean harvest is ahead of the 2006 harvest in the Company's primary region (Indiana, Illinois, Michigan and Ohio) due to favorable weather conditions. The extremely dry weather that occurred during the summer has caused corn rated as good to excellent in the Company's primary region to be an average of only 53% compared to 73% at the same point last year. Michigan was the hardest hit with only 31% of their corn crop rated as good to excellent. Next year's winter wheat crop is 73% planted as of this writing compared to 52% at the same time last year. Unprecedented volatility in the recent wheat market could have an impact on future earnings and currently, high wheat and soybean prices are expected to cause some producers to switch acres from corn to wheat and soybeans for the 2008 harvest.

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 Company deals in, will have a relatively equal impact on sales and cost of sales and a minimal impact on gross profit. As a result, the significant increase in sales for the period is not necessarily indicative of the Group's overall performance and more focus should be placed on changes to merchandising revenues and service income. A portion of the sales increase relates to the Company's position as the ethanol marketer for its ethanol ventures. In this role the Company buys ethanol from its ventures and then resells the ethanol to ethanol blenders. For this service, it earns a volume-based fee rather than a traditional sales margin.

Grain inventories on hand at September 30, 2007 were 45.2 million bushels, of which 17.3 million bushels were stored for others. This compares to 38.3 million bushels on hand at September 30, 2006, of which 19.1 million bushels were stored for others. The 45% increase in owned bushels has resulted in a 169% increase in value as noted on the balance sheet due to the significantly higher market prices.

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Production at the Clymers, Indiana ethanol plant began in early May. The ethanol ventures in which the Company has interests and where production is occurring have the majority of their 2007 and 2008 ethanol margins locked in through the use of forward purchase contracts for corn and natural gas and forward sale contracts of ethanol.

Rail Group

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

Railcars and locomotives under management (owned, leased or managed for financial institutions in non-recourse arrangements) at September 30, 2007 were 22,552 compared to 20,415 at September 30, 2006. With overall U.S. rail traffic decreasing more than 3% over the last year, the Group's utilization rate (railcars and locomotives under management that are in lease service, exclusive of railcars managed for third party investors) has fallen from 96% at September 30, 2006 to 93% at September 30, 2007. This, along with declining lease rates and increased maintenance costs, has had an adverse impact on the Group's results for the period.

Plant Nutrient Group

The Company's Plant Nutrient Group purchases, stores, formulates, manufactures and sells dry and liquid fertilizer to dealers and farmers as well as sells reagents for air pollution control technologies used in coal-fired power plants. In addition, they provide warehousing and services to manufacturers and customers, formulate liquid anti-icers and deicers for use on roads and runways and distribute seeds and various farm supplies. The major fertilizer ingredients sold by the Company are nitrogen, phosphate and potash.

As stated previously, U.S. corn acreage in 2007 has increased 19% over last year and the Company's year to date average corn sales price has risen 55%. The significant rise in corn prices, along with expectations for future increased demand to supply ethanol plants, has contributed to the increase in acreage. This has benefited the Plant Nutrient Group significantly, as corn requires more nutrients than other crops. Because of this, volumes have increased 48% for the quarter and 43% year-to-date over the same periods in 2006. Weather, as well as the pricing relationship between corn, wheat and soybeans, will play an important role in the outlook for the remainder of the year as farmers begin to make decisions about the next year's crop and fall nutrient applications. High wheat and soybean prices are expected to cause some producers to switch acres from corn to wheat and soybeans, which require less nutrients. This could adversely impact the Group for 2008.

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Turf & Specialty Group

The Turf & Specialty Group produces granular fertilizer products for the professional lawn care and golf course markets. It also produces private label fertilizer and corncob-based animal bedding and cat litter for the consumer markets. The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. Corncob based products are sold throughout the year.

As part of the restructuring plan announced in 2005 by the Turf & Specialty Group, many new value-added products were introduced and, in spite of high raw material prices this year, average gross margins in the lawn business have improved when compared to the same period last year. The expansion of the Group's manufacturing facility, which manufactures a patented fertilizer product primarily for use on golf course greens, is expected to be fully operational before the end of 2007. With this increased capacity, the Group has begun the launch of several new products for the 2008 season.

Through the first nine months of 2007, the cob business has been challenged by a shortage of cobs which have increased raw material costs. This problem has been somewhat alleviated with the fall harvest.

Retail Group

The Retail Group consists of six stores operated as The Andersons, which are located in the Columbus, Lima and Toledo, Ohio markets. In the second quarter of 2007, the Group opened a new specialty food store operated as The Andersons Market, located in the Toledo, Ohio market. The Group also operates a sales and service facility for outdoor power equipment near one of its conventional retail stores. The retail concept is *More for Your Home*® and the conventional retail stores focus on providing significant product breadth with offerings in home improvement and other mass merchandise categories as well as specialty foods, wine and indoor and outdoor garden centers.

The retail business is highly competitive. The Company competes with a variety of retail merchandisers, including home centers, department and hardware stores, as well as local grocers.

Company

The Other business segment of the Company represents corporate functions that provide support and services to the operating segments. The operating results contained within this segment include expenses and benefits not allocated back to the operating segments.

Beginning in 2007, changes were made to the allocation of certain costs and benefits that were previously held at the corporate level. These consist primarily of increased interest expense (credit) and other corporate costs.

Table of Contents**Operating Results**

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Sales and merchandising revenues | \$553,708 | \$335,871 | \$1,594,425 | \$994,638 |
| Cost of sales | 502,962 | 284,327 | 1,423,952 | 848,056 |
| Gross profit | 50,746 | 51,544 | 170,473 | 146,582 |
| Operating, administrative & general | 41,430 | 40,310 | 123,527 | 115,583 |
| Interest expense | 4,174 | 3,818 | 13,386 | 12,513 |
| Equity in earnings (loss) of affiliates | 9,574 | (483) | 17,229 | 5,279 |
| Other income/gains | 2,144 | 6,352 | 19,085 | 11,763 |
| Minority interest in loss of subsidiaries | 549 | | 1,065 | |
| Operating income | \$ 17,409 | \$ 13,285 | \$ 70,939 | \$ 35,528 |

The following discussion focuses on the operating results as shown in the consolidated statements of income with a separate discussion by segment. Additional segment information is included in the notes to the condensed consolidated financial statements herein in Note D: Segment Information.

**Comparison of the three months ended September 30, 2007 with the three months ended September 30, 2006:
Grain & Ethanol Group**

| (in thousands) | Three months ended September 30, | |
|---|-------------------------------------|-----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$382,907 | \$208,540 |
| Cost of sales | 366,613 | 188,039 |
| Gross profit | 16,294 | 20,501 |
| Operating, administrative & general | 11,893 | 11,457 |
| Interest expense | 1,470 | 1,158 |
| Minority interest in loss of subsidiaries | 549 | |
| Equity in earnings of affiliates | 9,517 | (485) |
| Other income/gains | 709 | 4,549 |
| Operating income | \$ 13,706 | \$ 11,950 |

Operating results for the Grain & Ethanol Group improved \$1.8 million over its third quarter 2006 results. Sales of grain (corn, soybeans, wheat and oats) increased 61%, the majority of which came from sales of corn. The increased demand for corn from ethanol has driven up the average selling price per bushel over 49% from the same period last year and resulted in an increase in sales volume of 28%. While bushels of corn sold

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increased, bushels of other grains (soybeans, wheat and oats) decreased. The Group sold \$85.3 million of ethanol during the quarter and earned \$3.8 million for services provided to its ethanol joint ventures and other entities. This compares to sales of ethanol of \$17.5 million and fees earned of \$1.0 million in the third quarter of 2006. Other merchandising revenues for the Group decreased \$3.5 million. The largest contributor to the decrease came in space income, which is income earned from storage fees and appreciation in the value of grain owned.

Gross profit for the Group decreased \$4.2 million. In the third quarter of 2006, there were a significant amount of wheat sales at very good margins. This was not repeated in the third quarter of 2007. In addition, the Group recorded some physical inventory write-downs and quality adjustments on its owned inventory (primarily corn and wheat) that contributed to the decreased gross profit. Gross profit earned on the \$85.3 million of ethanol sales was limited to a small per gallon commission.

Operating expenses increased 4% over the third quarter of 2006 due to a variety of factors, primarily personnel costs, including labor and incentive compensation.

Interest expense increased 27% over the third quarter of 2006 due to increased borrowings to finance higher working capital, primarily inventory and margin deposits.

Other income for the Group decreased \$3.8 million over the same period last year primarily due to the third quarter 2006 settlement of the 2005 business interruption claim that resulted from the July 1, 2005 explosion at one of its grain elevators.

Income earned from the Group's investments in affiliates increased \$10.0 million over the third quarter of 2006. The Company now has investments in two ethanol entities that are producing ethanol compared to only one in the third quarter of 2006 that was only in production for the last half of the quarter. This contributed to \$5.6 million of the increase. Lansing Trade Group LLC, another entity in which the Company is an investor, had significantly better results than the same period last year. This contributed to \$4.9 million of the increase in income earned from investments in affiliates.

Rail Group

| | (in thousands) | | Three months ended September 30, | |
|-------------------------------------|----------------|--|-------------------------------------|----------|
| | | | 2007 | 2006 |
| Sales and merchandising revenues | | | \$33,890 | \$27,339 |
| Cost of sales | | | 21,590 | 15,711 |
| Gross profit | | | 12,300 | 11,628 |
| Operating, administrative & general | | | 5,322 | 5,076 |
| Interest expense | | | 1,429 | 1,781 |
| Equity in earnings of affiliates | | | 55 | |
| Other income/gains | | | 188 | 127 |
| Operating income | | | \$ 5,792 | \$ 4,898 |

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Operating results for the Rail Group increased \$0.9 million over results from the third quarter of 2006. Leasing revenues increased \$2.4 million, car sales for the Group increased \$3.2 million and sales from the railcar repair and fabrication shops increased \$0.9 million. The increase in leasing revenue is a factor of the increased cars in the Group's rail fleet and has been partially offset by decreasing lease rates for renewals and new leases.

Gross profit for the Group increased \$0.7 million, resulting from a \$1.4 million increase in gross profit on car sales partially offset by a \$0.4 million decrease in gross profit on leases and \$0.3 million decrease in gross profit from railcar repair and fabrication shops. Maintenance costs continue to be higher than expected and are impacting the Group's gross profit from its leasing business.

Operating expenses for the Group increased 5% from the same period last year which is spread amongst a variety of expense items.

Interest expense decreased 20% as the Group continues to pay off its long-term debt and recognized a reduction in its allocated share of the Company's interest.

Plant Nutrient Group

| | (in thousands) | |
|-------------------------------------|-------------------------------------|------------|
| | Three months ended September 30, | |
| | 2007 | 2006 |
| Sales and merchandising revenues | \$76,732 | \$38,580 |
| Cost of sales | 70,274 | 34,957 |
| Gross profit | 6,458 | 3,623 |
| Operating, administrative & general | 5,336 | 5,134 |
| Interest expense | 657 | 705 |
| Equity in earnings of affiliates | 2 | 2 |
| Other income/gains | 348 | 346 |
| Operating income (loss) | \$ 815 | \$ (1,868) |

Operating results for the Plant Nutrient Group improved \$2.7 million over results from the third quarter of 2006. Sales increased 101% due to a 48% increase in volume and a 36% increase in the average price per ton sold. The increased demand for nutrients is primarily the result of increased corn acres stemming from new ethanol demand and corn requires more nutrients than other crops. Anticipation of rising nutrient prices have also caused some of the Group's customers to buy earlier for next year's crop in order to lock in their price. Merchandising revenues increased 19% due to increased application acres and increased storage income.

Gross profit improved 78% over the same period last year due to the increase in sales and merchandising revenues as well as a significant increase in the gross profit per ton.

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Operating expenses for the Group only increased 4% over the third quarter of 2006 in spite of the increased sales activity. The biggest increase came in maintenance repairs necessary as a result of the higher activity during the season.

The reduction in interest expense for the Group in the third quarter of 2007 relates primarily to a change in the amount of interest allocated to the Group.

Turf & Specialty Group

| (in thousands) | Three months ended | |
|-------------------------------------|---------------------------|-------------|
| | September 30, | |
| | 2007 | 2006 |
| Sales and merchandising revenues | \$17,911 | \$20,396 |
| Cost of sales | 14,158 | 16,258 |
| Gross profit | 3,753 | 4,138 |
| Operating, administrative & general | 5,299 | 4,856 |
| Interest expense | 265 | 271 |
| Other income/gains | 185 | 569 |
| Operating loss | \$ (1,626) | \$ (420) |

Operating results for the Turf & Specialty Group decreased \$1.2 million over results from the third quarter of 2006. Sales in the lawn fertilizer business decreased \$2.7 million due to decreased volume partially offset by a 5% increase in the average price per ton sold. Most of this decrease came in the industrial line of business which has been experiencing soft demand. Sales in the cob business increased \$0.2 million due entirely to increased volumes. Gross profit for the Group decreased 9% over the same period last year. The decrease in gross profit in the lawn fertilizer business is a direct result of the decrease in volume as the actual gross profit per ton increased 13%. The decrease in gross profit in the cob business is a result of increased costs of raw cobs.

Operating expenses for the Group increased 9% due mostly to increased advertising costs incurred for the rollout of a new product line set for the fourth quarter of 2007. The other income recognized in 2006 related to an insurance settlement for a cob tank that was destroyed in a fire.

Table of Contents**Retail Group**

| (in thousands) | Three months ended September 30, | |
|-------------------------------------|-------------------------------------|----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$42,268 | \$41,016 |
| Cost of sales | 30,327 | 29,362 |
| Gross profit | 11,941 | 11,654 |
| Operating, administrative & general | 12,370 | 12,010 |
| Interest expense | 274 | 327 |
| Other income/gains | 149 | 265 |
| Operating loss | \$ (554) | \$ (418) |

Operating results for the Retail Group decreased \$0.1 million over results from the same period last year in spite of the addition of the new market in the second quarter of 2007. Sales and merchandising revenues increased \$1.3 million over the same period last year; however, after removing the sales from the Group's new concept food store, The Andersons Market, same store sales decreased 1.6%, all coming from the Toledo, Ohio area stores. The decrease in this market is a result of economic conditions and local competition. Overall, customer counts decreased nearly 3%. Gross profit increased by 2% due primarily to changes in the mix of products sold as well as a favorable physical inventory adjustment in the third quarter. The Retail Group continues to experience unusually low inventory shrink when compared to industry averages.

There was a 3% increase in the Group's operating expense in the third quarter of 2007 as compared to the third quarter of 2006. While the Group has seen a significant current year benefit from the pension plan change approved in 2006, the benefits were offset by increased expenses relating to the new concept food store.

Other

| (in thousands) | Three months ended September 30, | |
|-------------------------------------|-------------------------------------|----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$ | \$ |
| Cost of sales | | |
| Gross profit | | |
| Operating, administrative & general | 1,210 | 1,777 |
| Interest expense | 79 | (424) |
| Other income | 565 | 496 |
| Operating (loss) | \$ (724) | \$ (857) |

Net corporate losses not allocated to business segments decreased \$0.1 million over the same period last year. Operating expenses decreased \$0.6 million which is the result of a decrease in charitable contribution expense recorded in the third quarter. The Company normally recognizes expense for its charitable giving donation throughout the year as the Company recognizes income; however, because the Company donated a majority of its 2007 giving in the first half of the year with the donation of its available-for-sale

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securities, the expense to be recognized for the remainder of the year is expected to be minimal.

As a result of the above, pretax operating income of \$17.4 million for the third quarter of 2007 was \$4.1 million higher than pretax operating income of \$13.3 million recognized in the third quarter of 2006. Income tax expense of \$6.8 million was provided at 39.3%. The Company anticipates that its 2007 effective annual tax rate will be 35.5%. In the third quarter of 2006, income tax expense of \$4.9 million was provided at 36.9%. The Company's actual 2006 effective tax rate was 33.3%.

**Comparison of the nine months ended September 30, 2007 with the nine months ended September 30, 2006:
Grain & Ethanol Group**

| (in thousands) | Nine months ended September 30, | |
|---|------------------------------------|-----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$950,430 | \$485,928 |
| Cost of sales | 903,462 | 448,178 |
| Gross profit | 46,968 | 37,750 |
| Operating, administrative & general | 33,895 | 30,062 |
| Interest expense | 5,682 | 4,103 |
| Equity in earnings of affiliates | 17,169 | 5,274 |
| Other income/gains | 10,232 | 6,794 |
| Minority interest in loss of subsidiaries | 1,065 | |
| Operating income | \$ 35,857 | \$ 15,653 |

Operating results for the Grain & Ethanol Group improved \$20.2 million over its 2006 results for the same period. Sales of grain (corn, soybeans, wheat and oats) increased 66% over the first nine months of 2006. The majority of this increase came in sales of corn which experienced a 30% increase in volume and a 55% increase in the average price per bushel sold. The improved sales are due to the increased demand for corn created by ethanol demand mentioned previously. Sales of ethanol totaled \$170.9 million during the first nine months of 2007 and fees earned for services provided to ethanol affiliates totaled \$9.7 million. Fees earned in the first nine months of 2006 for services provided to ethanol affiliates totaled \$2.1 million. Other merchandising revenues for the Group increased \$7.9 million, a large portion of which came from increases in space income and flex fees, which are customer service fees for forward contracting.

Gross profit for the Group increased \$9.2 million due mostly to the increases in space income and service fees mentioned previously. Gross profit earned on the \$170.9 million of 2007 ethanol sales was limited to a small per gallon commission included in the service fees mentioned previously.

Operating expenses increased 13% over the first nine months of 2006. This was due to a variety of factors including increased energy costs and personnel costs, including labor, incentives and stock compensation.

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Interest expense for the Group increased \$1.6 million resulting from increased interest rates and higher commodity values.

Other income for the Grain & Ethanol Group increased \$3.4 million as a result of development fees earned in the first quarter of 2007 from the formation of an ethanol LLC.

The Group's equity in earnings of affiliates increased \$11.9 million from the first nine months of 2006 and is a result of having two ethanol affiliates with plants in operation whereas in the prior year, only one of its affiliates was operational for a portion of the third quarter. The Group has one remaining ethanol affiliate still in the construction phase, and that plant is expected to be in service in 2008. The Group's earnings from its investment in Lansing Trade Group LLC increased \$0.9 million.

Rail Group

| (in thousands) | Nine months ended September 30, | |
|-------------------------------------|------------------------------------|----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$102,251 | \$89,558 |
| Cost of sales | 67,915 | 53,169 |
| Gross profit | 34,336 | 36,389 |
| Operating, administrative & general | 14,896 | 15,608 |
| Interest expense | 4,503 | 5,108 |
| Equity in earnings of affiliates | 55 | |
| Other income/gains | 710 | 442 |
| Operating income | \$ 15,702 | \$16,115 |

Operating results for the Rail Group decreased \$0.4 million over results from the first nine months of 2006. Leasing revenues increased \$5.9 million over 2006 and sales from car dispositions increased \$8.5 million. Sales from the railcar repair and fabrication shops decreased \$1.7 million. The increase in leasing revenue is a result of increased cars in the Group's rail fleet. In the second quarter the Group acquired a portfolio of railcars and sold a number of excess cars which contributed to the significant increase in car sales. The reduction in sales in the Group's railcar repair and fabrication shops is a result of significant sales in the first half of 2006 related to work obtained as a result of hurricane Katrina. That work has been completed and the shops are operating now at more typical activity levels.

Gross profit for the Group decreased \$2.1 million, resulting from a \$1.6 million decrease in gross profit on leases, a \$2.4 million decrease in gross profit from the railcar repair and fabrication shops and a \$1.9 million increase in gross profit on car sales. Maintenance costs remain high and have impacted the Group's gross profit from its leasing business.

Operating expenses for the Group decreased 5% from the same period last year due to decreased employee costs such as labor and benefits.

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Interest expense for the Group decreased 12% as it continues to pay off its long-term debt obligations.

Plant Nutrient Group

| (in thousands) | Nine months ended September 30, | |
|-------------------------------------|------------------------------------|-----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$326,200 | \$197,921 |
| Cost of sales | 290,926 | 180,055 |
| Gross profit | 35,274 | 17,866 |
| Operating, administrative & general | 16,182 | 14,647 |
| Interest expense | 1,535 | 2,062 |
| Equity in earnings of affiliates | 5 | 5 |
| Other income/gains | 801 | 776 |
| Operating income | \$ 18,363 | \$ 1,938 |

Operating results for the Plant Nutrient Group improved \$16.4 million over results from the first nine months of 2006. Sales increased \$126.8 million, or 65%, due to a 43% increase in volume and a 16% increase in the average price per ton sold. The increase in acres planted in corn as a result of ethanol needs has contributed to the increased volume, as corn requires more nutrients than other crops. Merchandising revenues increased 40% and comes from storage and application income.

Gross profit improved 97% over the same period last year due to both the increased sales as well as a 38% increase in gross margin per ton.

Operating expenses for the Group increased 10% over the first nine months of 2006 as a result of increased business, as well as increased incentive compensation expense from the significantly improved performance. The reduction in interest expense for the Group relates primarily to a change in the amount of interest allocated to the Group.

Turf & Specialty Group

| (in thousands) | Nine months ended September 30, | |
|-------------------------------------|------------------------------------|----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$84,609 | \$93,329 |
| Cost of sales | 69,618 | 76,928 |
| Gross profit | 14,991 | 16,401 |
| Operating, administrative & general | 13,289 | 13,188 |
| Interest expense | 1,202 | 1,227 |
| Other income/gains | 380 | 1,087 |
| Operating income | \$ 880 | \$ 3,073 |

Operating results for the Turf & Specialty Group decreased \$2.2 million over results from the first nine months of 2006. Sales in the lawn fertilizer business decreased \$8.9

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million, or 11%, due to both decreased volumes and a slight decrease in the average price per ton sold. Sales in the cob business increased 3% due to slight increases in volume and the average price per ton sold.

Gross profit for the Group decreased 9% over the same period last year. The decrease in gross profit within the lawn fertilizer business is due entirely to the decreased volumes as the actual gross profit per ton increased 6%. The decrease in gross profit in the cob business is the result of a short supply of raw cobs, which caused the Group to purchase processed cobs at a higher cost.

Operating and interest expenses remained relatively unchanged period over period.

The change in other income relates primarily to an insurance settlement received in 2006 for a cob tank destroyed in a fire.

Retail Group

| | (in thousands) | Nine months ended September 30, | |
|-------------------------------------|----------------|------------------------------------|------------|
| | | 2007 | 2006 |
| Sales and merchandising revenues | | \$ 130,935 | \$ 127,902 |
| Cost of sales | | 92,031 | 89,726 |
| Gross profit | | 38,904 | 38,176 |
| Operating, administrative & general | | 37,854 | 36,649 |
| Interest expense | | 742 | 928 |
| Other income/gains | | 467 | 697 |
| Operating income | | \$ 775 | \$ 1,296 |

Operating results for the Retail Group decreased 40% over results from the same period last year. Same store sales and merchandising revenues remained relatively flat; however, with the new market store, which opened in April of 2007, revenues for the Group increased \$3.0 million. Customer counts remained relatively flat period over period while the average sale per customer increased nearly 3%.

Gross profit for the Group improved 2% over gross profit from the same period in 2006 due primarily to changes in the mix of products sold and the increased sales.

There was a 3% increase in the Group's operating expense in the first nine months of 2007. While the Group has seen a significant benefit from the pension plan change approved in 2006, the benefits were offset by increased expenses relating to pre-opening and operating costs of the new food market.

The reduction in interest expense for the Group relates primarily to a change in the amount of interest allocated to the Group.

Table of Contents**Other**

| (in thousands) | Nine months ended September 30, | |
|-------------------------------------|------------------------------------|-----------|
| | 2007 | 2006 |
| Sales and merchandising revenues | \$ | \$ |
| Cost of sales | | |
| Gross profit | | |
| Operating, administrative & general | 7,411 | 5,429 |
| Interest income | (278) | (915) |
| Other income | 6,495 | 1,967 |
| Operating income (loss) | \$ (638) | \$(2,547) |

Net corporate expenses not allocated to business segments improved \$1.9 million over the same period last year. Operating expenses increased \$2.0 million, which is primarily the result of an increase in the 2007 charitable contribution expense recorded in the first nine months of 2007. As mentioned previously, the Company elected to donate certain assets classified as available-for-sale securities to meet its 2007 planned contribution. The Company normally expenses its charitable giving donation throughout the year as the Company recognizes income. The Company's charitable donations are generally based on a percentage of income; however, this donation accelerated the recognition of the 2007 expense. The Company also saw increases in stock compensation and performance incentives for corporate office employees.

The corporate interest credit resulted from the timing of certain interest benefits that have not yet been passed back to the operating Groups.

A majority of the \$6.5 million increase in other income is a result of realized gains on the Company's available-for-sale securities that were donated to various charities as mentioned previously.

As a result of the above, pretax income of \$70.9 million for the first nine months of 2007 was \$35.4 million higher than pretax income of \$35.5 million recognized in the first nine months of 2006. Income tax expense of \$25.6 million was provided at a rate of 36.2%. The Company anticipates that its 2007 effective annual tax rate will be 35.5%. In the first nine months of 2006, income tax expense of \$13.0 million was provided at a rate of 36.5%. The donation of the Company's available-for-sale securities contributed to the decrease in tax rate for the first nine months of 2007. The Company's actual 2006 effective tax rate was 33.3%.

Liquidity and Capital Resources*Operating Activities and Liquidity*

The Company's operations used cash of \$63.4 million in the first nine months of 2007, a change from cash provided by operations of \$19.8 million in the first nine months of 2006. Net working capital at September 30, 2007 was \$156.0 million, a \$6.1 million

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decrease from December 31, 2006 and a \$7.6 million increase from September 30, 2006. Short-term borrowings used to fund operations increased \$163.4 million compared to the same period in 2006. The substantial increase is due to higher commodity values and the related need to send in additional margin deposit money to the Chicago Board of Trade.

The Company utilizes interest rate contracts to manage a portion of its interest rate risk on both its short and long-term debt and lease commitments. At September 30, 2007, the fair value of these derivative financial instruments (primarily interest rate swaps and interest rate caps) was a net liability of \$0.1 million and was recorded in the consolidated balance sheet.

The Company made income tax payments of \$23.8 million in the first nine months of 2007 and expects to make payments totaling approximately \$5.7 million for the remainder of 2007.

Investing Activities

Total capital spending for 2007 on property, plant and equipment within our base businesses is expected to be approximately \$27.8 million and may include \$3.2 million for information technology and expanded storage capacity in the Grain & Ethanol Group, \$2.6 million for information technology and new store fixtures in the Retail Group and \$1.5 million for expansion and improvements in the Plant Nutrient Group. The remaining amount of \$20.5 million will be spent on numerous assets and projects, none of which the Company expects to be in excess of \$1.0 million. In addition, the Company is expecting continued significant investment in railcars and related leases and anticipates that spending for the purchase of additional railcars and capitalized modifications to railcars that may then be sold, financed off-balance sheet or owned by the Company for lease to customers will continue for the remainder of the year.

The Company increased its investments in affiliates by \$37.1 million in the first nine months of 2007 and sold a 34% interest in its share of an ethanol joint venture for \$13.7 million.

Financing Arrangements

The Company has significant short-term lines of credit available to finance working capital, primarily inventories and accounts receivable. The Company is party to a borrowing arrangement with a syndicate of banks to provide the Company with \$300 million in short-term lines of credit and an additional \$50 million in a three-year line of credit. In addition, the agreement includes a flex line which was amended in March 2007 to allow the company to increase the available short-term line by \$250 million and the long-term line by \$150 million. The Company had drawn \$163.4 million on its short-term line of credit at September 30, 2007. Peak short-term borrowing for the Company to date is \$183.4 million on February 23, 2007. Typically, the Company's highest borrowing occurs in the spring due to seasonal inventory requirements in the fertilizer

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and retail businesses, credit sales of fertilizer and a customary reduction in grain payables due to the cash needs and market strategies of grain customers. Escalating commodity prices, especially corn, have created a significant increase in cash needs. The proceeds received from the follow-on equity offering in 2006 has helped to satisfy some of these cash needs.

A cash dividend of \$0.0425 per common share was paid for the first quarter of 2006 and a dividend of \$0.045 was paid for the last three quarters of 2006. A cash dividend of \$0.0475 per common share was paid in the first three quarters of 2007. On August 16, 2007, the Company declared a cash dividend of \$0.0775 per common share payable on October 22, 2007 to shareholders of record on October 1, 2007. During the first nine months of 2007, the Company issued approximately 233 thousand shares to employees and directors under its equity-based compensation plans. Certain of the Company's long-term borrowings include covenants that, among other things, impose minimum levels of working capital and equity, and impose limitations on additional debt. The Company was in compliance with all such covenants at September 30, 2007. Certain of the Company's loan covenants relating to limits on unhedged bushels of grain were removed in the second quarter of 2007 to accommodate the Company's growing and evolving business. In addition, certain of the long-term borrowings are collateralized by first mortgages on various facilities or are collateralized by railcar assets. The Company's non-recourse long-term debt is collateralized by railcar and locomotive assets.

Because the Company is 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 the profitability of the Company. In addition, periods of high grain prices and/or unfavorable market conditions could require the Company to make additional margin deposits on its exchange traded futures contracts. Conversely, in periods of declining prices, the Company receives a return of cash. The marketability of the Company's grain inventories and the availability of short-term lines of credit enhance the Company's liquidity. In the opinion of management, the Company's liquidity is adequate to meet short-term and long-term needs.

Table of Contents**Contractual Obligations**

Future payments due under debt and lease obligations and other commitments as of September 30, 2007 are as follows:

| Contractual Obligations (in thousands) | Payments Due by Period | | | | Total |
|--|------------------------|-----------|-----------|------------------|-------------|
| | Less than 1 year | 1-3 years | 4-5 years | After 5 years | |
| Long-term debt | \$ 10,253 | \$ 30,862 | \$22,902 | \$31,423 | \$ 95,440 |
| Long-term debt, securitized, non-recourse | 13,889 | 26,197 | 16,193 | 17,717 | 73,996 |
| Interest obligations | 8,988 | 13,727 | 8,076 | 5,766 | 36,557 |
| Uncertain tax positions | 477 | 746 | 138 | | 1,361 |
| Capital lease obligations | 76 | 115 | | | 191 |
| Operating leases | 26,157 | 47,461 | 35,030 | 29,459 | 138,107 |
| Purchase commitments (a) | 1,009,164 | 288,529 | 12,743 | | 1,310,436 |
| Other long-term liabilities (b) | 5,171 | 3,386 | 3,681 | 7,273 | 19,511 |
| Total contractual cash obligations | \$1,074,175 | \$411,023 | \$98,763 | \$91,638 | \$1,675,599 |

(a) Includes the value of purchase obligations in the Company's operating units, including \$797 million for the purchase of grain from producers and \$436 million for the purchase of ethanol from our ethanol joint ventures. There are also forward grain and ethanol sales contracts to consumers and traders. The net of the forward grain purchase and sale contracts are substantially offset by exchange-traded futures and options contracts.

(b) Other long-term liabilities include estimated obligations under our retiree healthcare programs and the estimated 2007 contribution to our defined benefit pension plan. Obligations under the retiree healthcare programs are not fixed commitments and will vary depending on various factors, including the level of participant utilization and inflation. The Company has considered recent payment trends and actuarial assumptions in its estimates of postretirement payments through 2011. We have not estimated pension contributions beyond 2007 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.

The Company had standby letters of credit outstanding of \$8.9 million at September 30, 2007, of which \$8.2 million represents a credit enhancement for industrial revenue bonds included in the contractual obligations table above. Approximately 86% of the operating lease commitments above relate to 8,235 railcars and 17 locomotives, as well as 200 railcars on order but not yet received, that the Company leases from financial intermediaries. See Off-Balance Sheet Transactions.

The Company is subject to various loan covenants highlighted previously. The Company is and has been in compliance with such covenants. Noncompliance could result in default under the documents governing such indebtedness and acceleration of long-term

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debt payments. The Company anticipates it will continue to be in compliance with its covenants.

Off-Balance Sheet Transactions

The Company's Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. The Company leases railcars from financial intermediaries through sale-leaseback transactions, the majority of which involve operating leasebacks. Railcars owned by the Company, or leased by the Company from a financial intermediary, are generally leased to a customer under an operating lease. The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary, and assigns the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, and receives a fee for such services. On most of the railcars and locomotives that are not on its balance sheet, the Company holds an option to purchase at the end of the lease.

The following table describes the Company's railcar and locomotive positions at September 30, 2007:

| Method of Control | Financial Statement | Number |
|--|---------------------------------|---------------|
| Owned-railcars available for sale | On balance sheet current | 196 |
| Owned-railcar assets leased to others | On balance sheet non-current | 11,684 |
| Railcars leased from financial intermediaries | Off balance sheet | 8,235 |
| Railcars non-recourse arrangements | Off balance sheet | 2,356 |
| Total Railcars | | 22,471 |
| Locomotive assets leased to others | On balance sheet non-current | 25 |
| Locomotives leased from financial intermediaries under limited recourse arrangements | Off balance sheet | 17 |
| Locomotives non-recourse arrangements | Off balance sheet | 39 |
| Total Locomotives | | 81 |

In addition, the Company manages 599 railcars for third-party customers or owners for which it receives a fee. The Company has future lease payment commitments aggregating approximately \$118.6 million for the railcars leased by the Company from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding 14 years. Included in the above car counts are 5,503 railcars and 12 locomotives owned outright by subsidiaries of TOP CAT Holding Company LLC, a wholly-owned subsidiary of the Company, and included in the balance sheet. These assets are included in bankruptcy-remote entities whose debt is non-recourse to the Company and is collateralized only by the applicable railcar and locomotive assets. Lease terms with customers utilizing these

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assets are generally less than the remaining term of the non-recourse debt. Also included in the above car counts are 2,271 railcars and 1 locomotive owned by TARO-I, another wholly-owned subsidiary and bankruptcy remote entity.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in the Company's market risk-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices and interest rates as discussed below.

Commodity Prices

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand created by demand for ethanol, population growth and higher standards of living, and global production of similar and competitive crops. To reduce price risk caused by market fluctuations, the Company follows a policy of hedging its inventories and related purchase and sale contracts. The instruments used are exchange-traded futures and options contracts that function as hedges. The market value of exchange-traded futures and options used for hedging has a high, but not perfect correlation, to the underlying market value of grain inventories and related purchase and sale contracts. The less correlated portion of inventory and purchase and sale contract market value (known as basis) is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. The Company manages this less volatile risk using its daily grain position report to constantly monitor its position relative to the price changes in the market. In addition, inventory values are affected by the month-to-month spread relationships in the regulated futures markets, as the Company carries inventories over time. These spread relationships are also less volatile than the overall market value and tend to follow historical patterns but also represent a risk that cannot be directly hedged. The Company's accounting policy for its futures and options hedges, as well as the underlying inventory positions and purchase and sale contracts, is to mark them to the market price daily and include gains and losses in the statement of income in sales and merchandising revenues.

A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its commodity position (exclusive of basis risk). The Company's daily net commodity position consists of inventories, related purchase and sale contracts and exchange-traded contracts. The fair value of the position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. The result of this analysis, which may differ from actual results, is as follows:

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| (in thousands) | September 30, 2007 | December 31, 2006 |
|---------------------------|-----------------------------------|----------------------------------|
| Net long (short) position | \$(7,609) | \$ 1,793 |
| Market risk | (761) | 179 |

Interest Rates

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. In addition, the Company has derivative interest rate contracts recorded on its balance sheet at their fair values. The fair value of these contracts is estimated based on quoted market termination values. Market risk, which is estimated as the potential increase in fair value resulting from a hypothetical one-half percent decrease in interest rates, is summarized below:

| (in thousands) | September 30, 2007 | December 31, 2006 |
|--|-----------------------------------|------------------------------|
| Fair value of long-term debt and interest rate contracts | \$169,022 | \$178,082 |
| Fair value in excess of (less than) carrying value | (1,211) | (3,729) |
| Market risk | 3,492 | 4,412 |

Item 4. Controls and Procedures

The Company is not organized with one Chief Financial Officer. Our Vice President, Controller and CIO is responsible for all accounting and information technology decisions while our Vice President, Finance and Treasurer is responsible for all treasury functions and financing decisions. Each of them, along with the President and Chief Executive Officer (Certifying Officers), are responsible for evaluating our disclosure controls and procedures. These Certifying Officers have evaluated our disclosure controls and procedures as defined in the rules of the Securities and Exchange Commission, as of September 30, 2007, and have determined that such controls and procedures were effective.

Our Certifying Officers are primarily responsible for the accuracy of the financial information that is presented in this report. To meet their responsibility for financial reporting, they have established internal controls and procedures which they believe are adequate to provide reasonable assurance that the Company's assets are protected from loss. These procedures are reviewed by the Company's internal auditors in order to monitor compliance. In addition, our Board of Director's Audit Committee, which is composed entirely of independent directors, meets regularly with each of management and our internal auditors to review accounting, auditing and financial matters.

There were no changes in internal controls over financial reporting or in other factors that have materially affected or could materially affect internal controls over financial reporting, in each case, during the third quarter of 2007.

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Part II. Other Information

Item 1A . Risk Factors

Our operations are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in this Form 10-Q and could have a material adverse impact on our financial results. These risks can be impacted by factors beyond our control as well as by errors and omissions on our part. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in the 2006 10-K (Item 1A). There have been no material changes in the risk factors set forth therein.

Item 6. Exhibits

(a) Exhibits

No. Description

31.1 Certification of the President and Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a)

31.2 Certification of the Vice President, Controller and CIO under Rule 13(a)-14(a)/15d-14(a)

31.3 Certification of the Vice President, Finance and Treasurer under Rule 13(a)-14(a)/15d-14(a)

32.1 Certifications Pursuant to 18 U.S.C. Section 1350

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Signatures

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

THE ANDERSONS, INC.
(Registrant)

Date: November 7, 2007

By /s/ Michael J. Anderson
Michael J. Anderson
President and Chief Executive Officer

Date: November 7, 2007

By /s/ Richard R. George
Richard R. George
Vice President, Controller and CIO
(Principal Accounting Officer)

Date: November 7, 2007

By /s/ Gary L. Smith
Gary L. Smith
Vice President, Finance and Treasurer
(Principal Financial Officer)
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**Exhibit Index
The Andersons, Inc.**

No. Description

31.1 Certification of the President and Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a)

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32.1 Certifications Pursuant to 18 U.S.C. Section 1350

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