ANDERSONS INC
Form 10-K
March 12, 2007

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

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

For the fiscal year ended December 31, 2006

Commission file number 000-20557

THE ANDERSONS, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code (419) 893-5050

Securities registered pursuant to Section 12(b) of the Act: Common Shares

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark 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 o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the registrant s voting stock which may be voted by persons other than affiliates of the registrant was $533.7 million on June 30, 2006, computed by reference to the last sales price for such stock on that date as reported on the Nasdaq Global Select Market.

The registrant had 17.8 million common shares outstanding, no par value, at February 28, 2007.

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Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 11, 2007, are incorporated by reference into Part III (Items 10, 11, 12 and 14) of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Commission on or about March 16, 2007.

PART I

Item 1. Business

(a) General development of business

The Andersons, Inc. (the Company) is an entrepreneurial, customer-focused company with diversified interests in the agriculture and transportation markets. Since our founding in 1947, we have developed specific core competencies in risk management, bulk handling, transportation and logistics and an understanding of commodity markets. We have leveraged these competencies to diversify our operations into other complementary markets, including ethanol, railcar leasing, plant nutrients, turf products and general merchandise retailing. In the first quarter of 2006, the Company re-aligned its business segments by separating the Agriculture Group into two distinct segments, the Grain & Ethanol Group and the Plant Nutrient Group. The decision to change the Company s Agriculture segment was made in order to provide more meaningful information as the Grain & Ethanol Group is redeploying certain of its assets and investing new assets into supporting the ethanol market. All prior periods presented have been restated for this change in reporting and the updated presentation is consistent with the reporting to management during 2006. The Company now operates in five business segments as a result of the re-alignment described above. The Grain & Ethanol Group purchases and merchandises grain, operates grain elevator facilities located in Ohio, Michigan, Indiana and Illinois and invests in and provides management services for ethanol production facilities. The Group also has an investment in Lansing Trade Group

LLC, which is in the grain and ethanol trading business. The Rail Group sells, repairs, reconfigures, manages and leases railcars and locomotives. The Plant Nutrient Group manufactures and sells dry and liquid agricultural nutrients and distributes agricultural inputs (nutrients, chemicals, seed and supplies) to dealers and farmers. The Turf & Specialty Group manufactures turf and ornamental plant fertilizer and control products for lawn and garden use and professional golf and landscaping industries, as well as manufactures corncob-based products for use in various industries. The Retail Group operates six large retail stores, and a distribution center in Ohio.

(b) Financial information about business segments

See Note 13 to the consolidated financial statements in Item 8 for information regarding business segments.

(c) Narrative description of business

Grain & Ethanol Group

The Grain & Ethanol Group operates grain elevators in Ohio, Michigan, Indiana and Illinois. The principal grains sold by the Company are yellow corn, yellow soybeans and soft red and white wheat. In addition to storage and merchandising, the Company performs grain trading, risk management and other services for its customers. The Company s grain storage practical capacity was approximately 82.5 million bushels at December 31, 2006 which includes grain storage leased to ethanol production facilities. The Company is also the developer and significant investor in three ethanol facilities located in Indiana, Michigan and Ohio. One of these facilities is currently producing ethanol while two are expected to begin production in early 2007 and 2008. In addition to its equity investment, the Company operates the facilities under management contracts, provides grain origination, ethanol and distillers dried grains (DDG) marketing and risk management services to these joint ventures for which it is compensated separately.

Grain merchandised by the Company is grown in the Midwestern portion of the United States (the eastern corn-belt) and is acquired from country elevators (grain elevators located in a rural area, served primarily by trucks (inbound and outbound) and possibly rail (outbound)), dealers and producers. The Company makes grain purchases at prices referenced to Chicago Board of Trade (CBOT) quotations. The Company competes for the purchase of grain with grain processors, regional cooperatives and animal feed operations, as well as with other grain merchandisers. Because the Company generally buys in smaller lots, its competition is generally local or regional in scope, although there are some large, national and international companies that maintain regional grain purchase and storage facilities. Some of these competitors are significantly larger than the Company.

In 1998, the Company signed a five-year lease agreement (Lease Agreement) and a five-year marketing agreement (Marketing Agreement) with Cargill, Incorporated (Cargill) for Cargill s Maumee and Toledo, Ohio grain handling and storage facilities. As part of the agreement, Cargill was given the marketing rights to grain in the Cargill-owned facilities as well as the adjacent Company-owned facilities in Maumee and Toledo. These lease agreements cover 12%, or approximately 9.7 million bushels, of the

Company s total storage space and became effective on June 1, 1998. These agreements were renewed with amendments in 2003 for an additional five years. Grain sales to Cargill totaled $186.4 million in 2006, and include grain covered by the Marketing Agreement as well as grain sold to Cargill via normal forward sales from locations not covered by the Marketing Agreement. There were no sales to any other customer in excess of 10% of consolidated net sales.

Approximately 65% of the grain bushels sold by the Company in 2006 were purchased by U.S. grain processors and feeders, and approximately 35% were exported. Exporters purchased most of the exported grain for shipment to foreign markets, while some grain is shipped directly to foreign countries, mainly Canada. Almost all grain shipments are by rail or boat. Rail shipments are made primarily to grain processors and feeders, with some rail shipments made to exporters on the Gulf of Mexico or east coast. Boat shipments are from the Port of Toledo. Grain sales are made on a negotiated basis by the Company s merchandising staff, except for grain sales subject to the Marketing Agreement with Cargill which are made on a negotiated basis with Cargill s merchandising staff.

The Company s grain business may be adversely affected by the grain supply (both crop quality and quantity) in its principal growing area, government regulations and policies, conditions in the shipping and rail industries and commodity price levels. See Government Regulation on page 11. The grain business is seasonal, coinciding with the harvest of the principal grains purchased and sold by the Company.

Fixed price purchase and sale commitments for grain and grain held in inventory expose the Company to risks related to adverse changes in market prices. The Company attempts to manage these risks by hedging fixed price purchase and sale contracts and inventory through the use of futures and option contracts with the CBOT. The CBOT is a regulated commodity futures exchange that maintains futures markets for the grains merchandised by the Company. Futures prices are determined by worldwide supply and demand.

The Company s hedging program is designed to reduce the risk of changing commodity prices. In that regard, hedging transactions also limit potential gains from further changes in market prices. The Company s profitability is primarily derived from margins on grain sold, and revenues generated from other merchandising activities with its customers (including storage income), not from hedging transactions. The Company has policies that specify the key controls over its hedging program. These policies include description of the hedging programs, mandatory review of positions by key management outside of the trading function on a biweekly basis, daily position limits, daily review and reconciliation, modeling of positions for changes in market conditions and other internal controls.

Purchases of grain can be made the day the grain is delivered to a terminal or via a forward contract made prior to actual delivery. Sales of grain generally are made by contract for delivery in a future period. When the Company purchases grain at a fixed price, the purchase is hedged with the sale of a futures contract on the CBOT. Similarly, when the Company sells grain at a fixed price, the sale is hedged with the purchase of a

futures contract on the CBOT. At the close of business each day, the open inventory ownership positions as well as open futures and option positions are marked-to-market. Gains and losses in the value of the Company s inventory positions due to changing market prices are netted with and generally offset by losses and gains in the value of the Company s futures positions.

When a futures contract is entered into, an initial margin deposit must be sent to the CBOT. The amount of the margin deposit is set by the CBOT and 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 by the CBOT. Subsequent price changes could require additional maintenance margin deposits or result in the return of maintenance margin deposits by the CBOT. Significant increases in market prices, such as those that occur when weather conditions are unfavorable for extended periods and/or when increases in demand occur, can have an effect on the Company s liquidity and, as a result, require it to maintain appropriate short-term lines of credit. The Company may utilize CBOT option contracts to limit its exposure to potential required margin deposits in the event of a rapidly rising market.

The Company s grain operations rely on forward purchase contracts with producers, dealers and country elevators to ensure an adequate supply of grain to the Company s facilities throughout the year. Bushels contracted for future delivery at January 31, 2007 approximated 182.0 million, the majority of which is scheduled to be delivered to the Company for the 2006 and 2007 crop years (i.e., through September 2008). The Company relies heavily on its hedging program as the method for minimizing price risk in its grain inventories and contracts. The Company monitors current market conditions and may expand or reduce the purchasing program in response to changes in those conditions. In addition, the Company reviews its purchase contracts and the parties to those contracts on a regular basis for credit worthiness, defaults and non-delivery. The Company s loan agreements also require it to be substantially hedged in its grain transactions.

The Company competes in the sale of grain with other grain merchants, other elevator operators and farmer cooperatives that operate elevator facilities. Competition is based primarily on price, service and reliability. Some of the Company s competitors are also its customers and many of its competitors have substantially greater financial resources than the Company. Approximately 50% of grain bushels purchased are done so using forward contracts. On the sell-side, approximately 90% of grain bushels sold are done so under forward contracts.

On July 1, 2005, two explosions and a resulting fire occurred at the Maumee river facility in Toledo, Ohio leased from Cargill. 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 was insured by the Company for full replacement cost on the property, inventory and business interruption with a total deductible of $0.25 million. Inventory losses have been reimbursed by the insurance company (net of the $0.25 deductible) for an amount totaling $1.2 million as well as clean-up and repair costs in the amount of $4.0 million. Costs related to re-construction of the facility in the amount of $11.9 million have also been reimbursed by the insurance company. The

facility became fully operational again in time for the 2006 fall harvest. In the third quarter of 2006, the Company recognized other income of $4.2 million as full and final settlement of the 2005 portion of the business interruption claim. The 2006 business interruption claim is expected to be settled in early 2007.

In January 2003, the Company became a minority investor in Lansing Trade Group LLC (formerly Lansing Grain Company LLC), which was formed in late 2002, with the contribution of substantially all the assets of Lansing Grain Company, an established grain trading business with offices throughout the country. This investment provides the Company a further opportunity to expand outside of its traditional geographic regions. In the first quarter of 2007, the Company exercised its option to increase its ownership percentage to over 40.0%. The Company holds an option to increase its investment in 2008 with the potential of becoming the majority holder.

In December 2006, the Company invested $11.4 million for a 50% interest in The Andersons Marathon Ethanol LLC(TAME) which is constructing a 110 million gallon-per-year ethanol production facility in Greenville, Ohio, partnering with Marathon Renewable Fuels, LLC, a subsidiary of Marathon Petroleum Company. In February 2007, the Company transferred its 50% share in TAME to The Andersons Ethanol Investment LLC, a majority owned subsidiary of the Company. Upon completion, the Company will operate the ethanol facility under a management contract and provide corn origination, ethanol and DDG marketing and risk management services for which it will be separately compensated.

If the projected growth of the ethanol industry occurs, it will further impact the Company s grain business in potentially significant ways. In certain situations, our grain business could be negatively impacted if there are new ethanol plants constructed in our region and near our existing facilities that would compete for locally available corn. Conversely, providing grain origination services and ethanol and distillers dried grain marketing services to the ethanol industry is a potential growth opportunity for our grain trading operations. We also believe that the increase in demand for corn to serve the growing ethanol industry may force a reduction in the plantings of other crops, which would positively impact the Plant Nutrient Group by increasing demand for nitrogen, phosphates and potassium. The growth of corn is more dependent on these fertilizer products than soybeans or wheat.

For the years ended December 31, 2006, 2005 and 2004, sales and merchandising revenues for the Grain & Ethanol Group totaled $791.2 million, $628.3 million and $664.6 million, respectively.

The Company intends to continue to build its trading operations, increase its service offerings to the ethanol industry and grow its traditional grain business. The Company s investment in Lansing Trade Group LLC increases its trading capabilities, including ethanol, and extends its reach into the western corn-belt. The Company may make additional investments in the ethanol industry through joint venture agreements and providing origination, management, logistics, merchandising and other services.

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Rail Group

The Company s 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. A large portion of the railcar fleet is leased from financial lessors and sub-leased to end-users, generally under operating leases which do not appear on the balance sheet. In addition, 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 transactions, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, receiving a fee for these services. The Company generally holds purchase options on most railcars owned by financial intermediaries.

Of the 21,050 railcars and locomotives that the Company managed at December 31, 2006, 11,289 units, or 54%, were included on the balance sheet, primarily as long-lived assets. The remaining 9,697 railcars and 64 locomotives are either in off-balance sheet operating leases or non-recourse arrangements. We are under contract to provide maintenance services for 16,699 of the railcars that we own or manage.

The risk management philosophy of the Company includes match-funding of lease commitments where possible and detailed review of lessee credit quality. Match-funding (in relation to rail lease transactions) means matching the terms between the lease with the customer and the funding arrangement with the financial intermediary for cars where the Company is both lessor and lessee. The 2004 investment in TOP CAT Holding Company, a limited liability company which is a wholly owned subsidiary of the Company, was not match-funded. Other non-recourse borrowings where railcars serve as the sole collateral for debt are also not match-funded as the terms of the debt are generally longer than the current lease terms. Generally, the Company completes non-recourse lease or debt transactions whenever possible to minimize credit risk.

Competition for railcar marketing and fleet maintenance services is based primarily on service ability, and access to both used rail equipment and third party financing. Repair and fabrication shop competition is based primarily on price, quality and location.

The Company 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. The Company plans to continue to diversify its fleet both in terms of car types and industries and to expand its fleet of railcars and locomotives through targeted portfolio acquisitions and open market purchases. The Company also plans to expand its repair and refurbishment operations by adding fixed and mobile facilities. The Company s growing operations in the rail industry positions it to take advantage of a favorable pricing environment and the increasing need for transportation.

The Company operates in the used car market purchasing used cars and repairing and refurbishing them for specific markets and customers. The Company has been able to place new leases or renew existing leases at higher rates and for longer terms.

For the years ended December 31, 2006, 2005 and 2004, lease revenues and railcar sales in the Company s railcar marketing business were $98.0 million, $81.9 million and $53.9 million, respectively. Sales in the railcar repair and fabrications shops were $15.3 million, $10.1 million and $5.4 million for 2006, 2005 and 2004, respectively.

Plant Nutrient Group

The Company s Plant Nutrient Group purchases, stores, formulates, manufactures and sells dry and liquid fertilizer to dealers and farmers; provides warehousing and services to manufacturers and customers; formulates liquid anti-icers and deicers for use on roads and runways; and distributes seeds and various farm supplies. The Company has developed several other products for use in industrial applications within the energy and paper industries. The major fertilizer ingredients sold by the Company are nitrogen, phosphate and potash.

The Company s market area for its plant nutrient wholesale business includes major agricultural states in the Midwest, North Atlantic and South. States with the highest concentration of sales are also the states where the Company s facilities are located Illinois, Indiana, Michigan and Ohio. Customers for the Company s fertilizer products are principally retail dealers. Sales of agricultural fertilizer products are heaviest in the spring and fall. The Plant Nutrient Group s seven farm centers, located throughout Michigan, Indiana and Ohio, are located within the same regions as the Company s other agricultural facilities. These farm centers offer agricultural fertilizer, custom application of fertilizer, and chemicals, seeds and supplies to the farmer.

Storage capacity at the Company s fertilizer facilities, including its seven farm centers, was approximately 14.0 million cubic feet for dry fertilizers and approximately 37.3 million gallons for liquid fertilizers at December 31, 2006. The Company reserves 6.9 million cubic feet of its dry storage capacity for various fertilizer manufacturers and customers and 15.9 million gallons of its liquid fertilizer capacity is reserved for manufacturers and customers. The agreements for reserved space provide the Company storage and handling fees and are generally for an initial term of one year, renewable at the end of each term. The Company also leases 0.8 million gallons of liquid fertilizer capacity under arrangements with various fertilizer dealers and warehouses in locations where the Company does not have facilities.

In its plant nutrient businesses, the Company competes with regional and local cooperatives, fertilizer manufacturers, multi-state retail/wholesale chain store organizations and other independent wholesalers of agricultural products. Many of these competitors are also suppliers and have considerably larger resources than the Company. Competition in the agricultural products business of the Company is based principally on price, location and service.

For the years ended December 31, 2006, 2005 and 2004, sales of dry and liquid fertilizers (primarily nitrogen, phosphate and potash) to dealers and related merchandising revenues totaled $228.9 million, $231.9 million and $198.7 million, respectively. Sales of fertilizer, chemicals, seeds and supplies to farmers and related merchandising revenues

totaled $36.2 million, $39.5 million and $37.9 million in 2006, 2005 and 2004, respectively.

The Company intends to offer more premium products. For example, the Company is currently selling reagents for air pollution control technologies used in coal-fired power plants and is exploring marketing the resulting by-products that can be used as plant nutrients. Focusing on higher value added products and services and improving the sourcing of raw materials will leverage the Company s existing infrastructure.

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.

Professional turf products are sold both directly and through distributors to golf courses under The Andersons Golf Products™ label and lawn service applicators. The Company also sells consumer fertilizer and control products for do-it-yourself application, to mass merchandisers, small independent retailers and other lawn fertilizer manufacturers and performs contract manufacturing of fertilizer and control products. As a contract manufacturer, the Company is not responsible for direct marketing support of the mass merchandiser. Margins for contract manufacturing are, therefore, lower than margins on consumer tons.

The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. During the off-season, the Company sells ice melt products to many of the same customers that purchase consumer turf products. Principal raw materials for the turf care products are nitrogen, phosphate and potash, which are purchased primarily from the Company s Plant Nutrient Group. Competition is based principally on merchandising ability, logistics, service, quality and technology.

The Company attempts to minimize the amount of finished goods inventory it must maintain for customers, however, because demand is highly seasonal and influenced by local weather conditions, it may be required to carry inventory that it has produced into the next season. Also, because a majority of the consumer and industrial businesses use private label packaging, the Company closely manages production to anticipated orders by product and customer. This is consistent with industry practices.

For the years ended December 31, 2006, 2005 and 2004, sales of granular plant fertilizer and control products totaled $97.5 million, $110.1 million and $116.9 million, respectively.

The Company is one of a limited number of processors of corncob-based products in the United States. These products serve the chemical and feed ingredient carrier, animal litter and industrial markets, and are distributed throughout the United States and Canada and into Europe and Asia. The principal sources for the corncobs are seed corn producers.

For the years ended December 31, 2006, 2005 and 2004, sales of corncob and related products totaled $13.8 million, $12.4 million and $10.9 million, respectively.

The Company intends to focus on leveraging its leading position in the golf fertilizer market and its research and development capabilities to develop higher value, proprietary products. For example, the Company has recently developed a patented premium dispersible golf course fertilizer and a patented corncob-based cat litter that is being sold through a major national brand.

Retail Group

The Company s Retail Group consists of six stores operated as The Andersons, which are located in the Columbus, Lima and Toledo, Ohio markets and serve urban, suburban and rural customers. The retail concept is *More for Your Home*® and our stores focus on providing significant product breadth with offerings in hardware, plumbing, electrical, building supplies and other housewares as well as specialty foods, wine and indoor and outdoor garden centers. Each store carries more than 80,000 different items, has 100,000 square feet or more of in-store display space plus 40,000 or more square feet of outdoor garden center space, and features do-it-yourself clinics, special promotions and varying merchandise displays. The majority of the Company s non-perishable merchandise is received at a distribution center located in Maumee, Ohio. In 2006, the Company announced that it will open The Andersons Market , a specialty foods store, in the first half of 2007. This new store concept will have a product offering with a strong emphasis on freshness that features produce, deli and bakery items, fresh meats, specialty and conventional dry goods and wine.

The retail merchandising business is highly competitive. The Company competes with a variety of retail merchandisers, including home centers, department and hardware stores. Many of these competitors have substantially greater financial resources and purchasing power than the Company. The principal competitive factors are location, quality of product, price, service, reputation and breadth of selection. The Company s retail business is affected by seasonal factors with significant sales occurring in the spring and during the Christmas season.

The Company also operates a sales and service facility for outdoor power equipment near one of its conventional retail stores.

For the years ended December 31, 2006, 2005 and 2004, sales of retail merchandise including commissions on third party sales totaled $177.2 million, $182.8 million and $178.7 million respectively.

The Company intends to continue to refine its *More for Your Home*® concept and focus on expense control and customer service. The Company is also planning on expanding its offering of specialty foods, wine and produce.

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Employees

At December 31, 2006 the Company had 1,277 full-time and 1,585 part-time or seasonal employees. The Company believes it maintains good relationships with its employees.

Available Information

We make available free of charge on or through our Internet website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our Company website is http://www.andersonsinc.com. These reports are also available at the SEC s website: http://www.sec.gov.

Government Regulation

Grain sold by the Company must conform to official grade standards imposed under a federal system of grain grading and inspection administered by the United States Department of Agriculture (USDA).

The production levels, markets and prices of the grains that the Company merchandises are materially affected by United States government programs, which include acreage control and price support programs of the USDA. For our investments in ethanol production facilities, the U.S. Government provides incentives to the ethanol blender, has mandated certain volumes of ethanol to be produced and has imposed tariffs on ethanol imported from other countries. Also, under federal law, the President may prohibit the export of any product, the scarcity of which is deemed detrimental to the domestic economy, or under circumstances relating to national security. Because a portion of the Company s grain sales is to exporters, the imposition of such restrictions could have an adverse effect upon the Company s operations.

The U.S. Food and Drug Administration (FDA) has developed bioterrorism prevention regulations for food facilities, which require that we register our grain operations with the FDA, provide prior notice of any imports of food or other agricultural commodities coming into the United States and maintain records to be made available upon request that identifies the immediate previous sources and immediate subsequent recipients of our grain commodities.

The Company, like other companies engaged in similar businesses, is subject to a multitude of federal, state and local environmental protection laws and regulations including, but not limited to, laws and regulations relating to air quality, water quality, pesticides and hazardous materials. The provisions of these various regulations could require modifications of certain of the Company s existing plant and processing facilities and could restrict the expansion of future facilities or significantly increase the cost of their operations. The Company made capital expenditures of approximately $2.2 million, $1.6 million and $1.5 million in order to comply with these regulations in 2006, 2005 and 2004, respectively.

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-K 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 following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Form 10-K.

Our ability to effectively operate our company could be impaired if we fail to attract and retain key personnel.

Our ability to operate our business and implement our strategies effectively depends, in part, on the efforts of our executive officers and other key employees. Our management team has significant industry experience and would be difficult to replace. These individuals possess sales, marketing, engineering, manufacturing, financial, risk management and administrative skills that are critical to the operation of our business. In addition, the market for employees with the required technical expertise to succeed in our business is highly competitive and we may be unable to attract and retain qualified personnel to replace or succeed key employees should the need arise. The loss of the services of any of our key employees or the failure to attract or retain other qualified personnel could impair our ability to operate and make it difficult to execute our internal growth strategies, thereby adversely affecting our business.

Compliance with the internal control requirements of the Sarbanes-Oxley Act may not detect all errors or omissions in our financial reporting. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, our shareholders could lose confidence in our financial reporting, which could harm the trading price of our stock.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of internal control over financial reporting and a report by our independent registered public accounting firm attesting to our evaluation, as well as issuing their own opinion on our internal controls over financial reporting. If we fail to maintain adequate internal control over financial reporting, it could not only adversely impact our financial results but also cause us to fail to meet our reporting obligations. Although management has concluded that adequate internal control procedures were in place as of December 31, 2006, no system of internal control can provide absolute assurance that the financial statements are accurate and free of error. As a result, the risk remains that our internal controls may not detect all errors or omissions in the financial statements or be able to detect all instances of fraud or illegal acts. If we or our auditors discover a material weakness in our system of internal controls, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and have a negative impact on the trading price of our stock.

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Disruption or difficulties with our information technology could impair our ability to operate our business.
Our business depends on our effective and efficient use of information technology. We expect to continually invest in updating and expanding our technology, however, a disruption or failure of these systems could cause system interruptions, delays in production and a loss of critical data that could severely affect our ability to conduct normal business operations.

Changes in accounting rules can affect our financial position and results of operations.
We have a significant amount of assets (railcars and related leases) that are off-balance sheet. If generally accepted accounting principles were to change to require that these items be reported in the financial statements, it would cause us to record a significant amount of assets and corresponding liabilities on our balance sheet that we, up to this point, have not had to do, which could have a negative impact on our debt covenants.

Our pension and postretirement benefit plans are subject to changes in assumptions which could have a significant impact on the necessary cash flows needed to fund these plans and introduce volatility into the annual expense for these plans.
We could be impacted by the rising cost of pension and other post-retirement benefits. We may be required to make cash contributions to the extent necessary to comply with minimum funding requirements under applicable law. These cash flows are dependent on various assumptions used to calculate such amounts including discount rates, long-term return on plan assets, salary increases, health care cost trend rates and other factors. Changes to any of these assumptions could have a significant impact on these estimates.

We may not be able to maintain sufficient insurance coverage.
Our business operations entail a number of risks including property damage, business interruption and liability coverage. We maintain insurance for certain of these risks including property insurance, worker s compensation insurance, general liability and other insurance. Although we believe our insurance coverage is adequate for our current operations, there is no guarantee that such insurance will be available on a cost-effective basis in the future. In addition, although our insurance is designed to protect us against losses attributable to certain events, coverage may not be adequate to cover all such losses.

Our business may be adversely affected by numerous factors outside of our control, such as seasonality and weather conditions, national and international political developments, or other natural disasters or strikes.
Many of our operations are dependent on weather conditions. The success of our Grain & Ethanol Group, for example, is highly dependent on the weather, primarily during the spring planting season and through the summer (wheat) and fall (corn and soybean) harvests. Additionally, wet and cold conditions during the spring adversely affect the application of fertilizer and other products by golf courses, lawn care operators and

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consumers, which could decrease demand in our Turf & Specialty Group. These same weather conditions also adversely affect purchases of lawn and garden products in our Retail Group, which generates a significant amount of its sales from these products during the spring season.

National and international political developments subject our business to a variety of security risks including bio-terrorism, and other terrorist threats to data security and physical loss to our facilities. In order to protect ourselves against these risks and stay current with new government legislation and regulatory actions affecting us, we may need to incur significant costs. No level of regulatory compliance can guarantee that security threats will never occur.

If there were a disruption in available transportation due to natural disaster, strike or other factors, we may be unable to get raw materials inventory to our facilities or product to our customers. This could disrupt our operations and cause us to be unable to meet our customers demands.

We face increasing competition and pricing pressure from other companies in our industries. If we are unable to compete effectively with these companies, our sales and profit margins would decrease, and our earnings and cash flows would be adversely affected.

The markets for our products in each of our business segments are highly competitive. Competitive pressures in all of our businesses could affect the price of, and customer demand for, our products, thereby negatively impacting our profit margins and resulting in a loss of market share.

Our grain business competes with other grain merchandisers, grain processors and end-users for the purchase of grain, as well as with other grain merchandisers, private elevator operators and cooperatives for the sale of grain. While we have substantial operations in the eastern corn-belt, many of our competitors are significantly larger than we are and compete in wider markets.

Our ethanol business will compete with other corn processors, ethanol producers and refiners, a number of whom will be divisions of substantially larger enterprises and have substantially greater financial resources than we do. Smaller competitors, including farmer-owned cooperatives and independent firms consisting of groups of individual farmers and investors, will also pose a threat. Currently, international suppliers produce ethanol primarily from sugar cane and have cost structures that may be substantially lower than ours will be. The blenders credit allows blenders having excise tax liability to apply the excise tax credit against the tax imposed on the gasoline-ethanol mixture. Any increase in domestic or foreign competition could cause us to reduce our prices and take other steps to compete effectively, which could adversely affect our future results of operations and financial position.

Our Rail Group is subject to competition in the rail leasing business, where we compete with larger entities that have greater financial resources, higher credit ratings and access

to capital at a lower cost. These factors may enable competitors to offer leases and loans to customers at lower rates than we are able to provide.

Our Plant Nutrient Group competes with regional cooperatives, manufacturers, wholesalers and multi-state retail/wholesalers. Many of these competitors have considerably larger resources than we.

Our Turf & Specialty Group competes with other manufacturers of lawn fertilizer and corncob processors that are substantially bigger and have considerably larger resources than we.

Our Retail Group competes with a variety of retailers, primarily mass merchandisers and do-it-yourself home centers in its three markets. The principle competitive factors in our Retail Group are location, product quality, price, service, reputation and breadth of selection. Some of these competitors are larger than us, have greater purchasing power and operate more stores in a wider geographical area.

Certain of our business segments are affected by the supply and demand of commodities, and are sensitive to factors outside of our control. Adverse price movements could adversely affect our profitability and results of operations.

Our Grain & Ethanol and Plant Nutrient Groups buy, sell and hold inventories of various commodities, some of which are readily traded on commodity futures exchanges. In addition, our Turf & Specialty Group uses some of these same commodities as base raw materials in manufacturing golf course and landscape fertilizer. Unfavorable weather conditions, both local and worldwide, as well as other factors beyond our control, can affect the supply and demand of these commodities and expose us to liquidity pressures due to rapidly rising futures market prices. Changes in the supply and demand of these commodities can also affect the value of inventories that we hold, as well as the price of raw materials for our Plant Nutrient and Turf & Specialty Groups. Increased costs of inventory and prices of raw material would decrease our profit margins and adversely affect our results of operations.

While we hedge the majority of our grain inventory positions with derivative instruments to manage risk associated with commodity price changes, including purchase and sale contracts, we are unable to hedge 100% of the price risk of each transaction due to timing, availability of hedge contracts and third party credit risk. Furthermore, there is a risk that the derivatives we employ will not be effective in offsetting the changes associated with the risks we are trying to manage. This can happen when the derivative and the hedged item are not perfectly matched. Our grain derivatives, for example, do not hedge the basis pricing component of our grain inventory and contracts. (Basis is defined as the difference between the cash price of a commodity in our facility and the nearest exchange-traded futures price.) Differences can reflect time periods, locations or product forms. Although the basis component is smaller and generally less volatile than the futures component of our grain market price, significant unfavorable basis moves on a grain position as large as ours can significantly impact the profitability of the Grain & Ethanol Group and our business as a whole. In addition, we do not hedge non-grain commodities.

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Since we buy and sell commodity derivatives on registered and non-registered exchanges, our derivatives are subject to margin calls. If there is a significant movement in the derivatives market, we could incur a significant amount of liabilities, which would impact our liquidity. We cannot assure you that the efforts we have taken to mitigate the impact of the volatility of the prices of commodities upon which we rely will be successful and any sudden change in the price of these commodities could have an adverse affect on our business and results of operations.

Many of our business segments operate in highly regulated industries. Changes in government regulations or trade association policies could adversely affect our results of operations.

Many of our business segments are subject to government regulation and regulation by certain private sector associations, compliance with which can impose significant costs on our business. Failure to comply with such regulations can result in additional costs, fines or criminal action.

In our Grain & Ethanol Group and Plant Nutrient Group, agricultural production and trade flows are affected by government actions. Production levels, markets and prices of the grains we merchandise are affected by U.S. government programs, which include acreage control and price support programs of the USDA. In addition, grain sold by us must conform to official grade standards imposed by the USDA. Other examples of government policies that can have an impact on our business include tariffs, duties, subsidies, import and export restrictions and outright embargos. In addition, the development of the ethanol industry in which we have invested has been driven by U.S. governmental programs that provide incentives to ethanol producers. Changes in government policies and producer supports may impact the amount and type of grains planted, which in turn, may impact our ability to buy grain in our market region. Because a portion of our grain sales are to exporters, the imposition of export restrictions could limit our sales opportunities.

Our Rail Group is subject to regulation by the American Association of Railroads and the Federal Railroad Administration. These agencies regulate rail operations with respect to health and safety matters. New regulatory rulings could negatively impact financial results through higher maintenance costs or reduced economic value of railcar assets.

Our Turf & Specialty Group manufactures lawn fertilizers and weed and pest control products using potentially hazardous materials. All products containing pesticides, fungicides and herbicides must be registered with the U.S. Environmental Protection Agency (EPA) and state regulatory bodies before they can be sold. The inability to obtain or the cancellation of such registrations could have an adverse impact on our business. In the past, regulations governing the use and registration of these materials have required us to adjust the raw material content of our products and make formulation changes. Future regulatory changes may have similar consequences. Regulatory agencies, such as the EPA, may at any time reassess the safety of our products based on new scientific knowledge or other factors. If it were determined that any of our products were no longer considered to be safe, it could result in the amendment or withdrawal of existing approvals, which, in turn, could result in a loss of revenue, cause our inventory to

become obsolete or give rise to potential lawsuits against us. Consequently, changes in existing and future government or trade association polices may restrict our ability to do business and cause our financial results to suffer.

We handle potentially hazardous materials in our businesses. If environmental requirements become more stringent or if we experience unanticipated environmental hazards, we could be subject to significant costs and liabilities.

A significant part of our operations is regulated by environmental laws and regulations, including those governing the labeling, use, storage, discharge and disposal of hazardous materials. Because we use and handle hazardous substances in our businesses, changes in environmental requirements or an unanticipated significant adverse environmental event could have a material adverse effect on our business. We cannot assure you that we have been, or will at all times be, in compliance with all environmental requirements, or that we will not incur material costs or liabilities in connection with these requirements. Private parties, including current and former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us, or contained in our products. We are also exposed to residual risk because some of the facilities and land which we have acquired may have environmental liabilities arising from their prior use. In addition, changes to environmental regulations may require us to modify our existing plant and processing facilities and could significantly increase the cost of those operations.

We rely on a limited number of suppliers for certain of our raw materials and other products and the loss of one or several of these suppliers could increase our costs and have a material adverse effect on our business.

We rely on a limited number of suppliers for certain of our raw materials and other products. If we were unable to obtain these raw materials and products from our current vendors, or if there were significant increases in our supplier s prices, it could disrupt our operations, thereby significantly increasing our costs and reducing our profit margins.

We are required to carry significant amounts of inventory across all of our businesses. If a substantial portion of our inventory becomes damaged or obsolete, its value would decrease and our profit margins would suffer.

We are exposed to the risk of a decrease in the value of our inventories due to a variety of circumstances in all of our businesses. For example, within our Grain & Ethanol Group, there is the risk that the quality of our grain inventory could deteriorate due to damage, moisture, insects, disease or foreign material. If the quality of our grain were to deteriorate below an acceptable level, the value of our inventory could decrease significantly. In our Plant Nutrient Group, planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Technological advances in agriculture, such as genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could also affect the demand for our crop nutrients and crop protection products. Either of these factors could render some of our inventory obsolete or reduce its value. Within our Rail Group, major

design improvements to loading, unloading and transporting of certain products can render existing (especially old) equipment obsolete. A significant portion of our rail fleet is composed of older railcars. In addition, in our Turf & Specialty Group, we build substantial amounts of inventory in advance of the season to prepare for customer demand. If we were to forecast our customer demand incorrectly, we could build up excess inventory which could cause the value of our inventory to decrease.

Our competitive position, financial position and results of operations may be adversely affected by technological advances.

The development and implementation of new technologies may result in a significant reduction in the costs of ethanol production. For instance, any technological advances in the efficiency or cost to produce ethanol from inexpensive, cellulosic sources such as wheat, oat or barley straw could have an adverse effect on our business, because our ethanol facilities are being designed to produce ethanol from corn, which is, by comparison, a raw material with other high value uses. We cannot predict when new technologies may become available, the rate of acceptance of new technologies by our competitors or the costs associated with new technologies. In addition, advances in the development of alternatives to ethanol or gasoline could significantly reduce demand for or eliminate the need for ethanol.

Any advances in technology which require significant capital expenditures to remain competitive or which reduce demand or prices for ethanol would have a material adverse effect on our results of operations and financial position.

Our investments in joint ventures are subject to risks beyond our control.

We currently have investments in six joint ventures. By operating a business through a joint venture arrangement, we have less control over operating decisions than if we were to own the business outright. Specifically, we cannot act on major business initiatives without the consent of the other investors who may not always be in agreement with our ideas.

We have limited production and storage facilities for our products, and any adverse events or occurrences at these facilities could disrupt our business operations and decrease our revenues and profitability.

Our Grain & Ethanol and Plant Nutrient Groups are dependent on grain elevator and nutrient storage capacity, respectively. The loss of use of one of our larger storage facilities could cause a major disruption to our Grain & Ethanol and Plant Nutrient operations. We currently have investments in three ethanol production facilities (in production or under construction) and our ethanol operations may be subject to significant interruption if any of these facilities experiences a major accident or is damaged by severe weather or other natural disasters. We currently have only one production facility for our corncob-based products in our Turf & Specialty Group, and only one warehouse in which we store the majority of our retail merchandise inventory for our Retail Group. Any adverse event or occurrence impacting these facilities could cause major disruption to our business operations. In addition, our operations may be

subject to labor disruptions and unscheduled downtime. Any disruption in our business operations could decrease our revenues and negatively impact our financial position.

Our business involves significant safety risks. Significant unexpected costs and liabilities would have a material adverse effect on our profitability and overall financial position.

Due to the nature of some of the businesses in which we operate, we are exposed to significant safety risks such as grain dust explosions, fires, malfunction of equipment, abnormal pressures, blowouts, pipeline ruptures, chemical spills or run-off, transportation accidents and natural disasters. Some of these operational hazards may cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. If one of our elevators were to experience a grain dust explosion or if one of our pieces of equipment were to fail or malfunction due to an accident or improper maintenance, it could put our employees and others at serious risk. In addition, if we were to experience a catastrophic failure of a storage facility in our Plant Nutrient or Turf & Specialty Group, it could harm not only our employees but the environment as well and could subject us to significant costs.

Our substantial indebtedness could adversely affect our financial condition, decrease our liquidity and impair our ability to operate our business.

We are dependent on a significant amount of debt to fund our operations and contractual commitments. Our indebtedness could interfere with our ability to operate our business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing which could impact our ability to fund future working capital, capital expenditures and other general needs as well as limit our flexibility in planning for or reacting to changes in our business and restrict us from making strategic acquisitions, investing in new products or capital assets and taking advantage of business opportunities;
- require us to dedicate a substantial portion of cash flows from operating activities to payments on our indebtedness which would reduce the cash flows available for other areas; and
- place us at a competitive disadvantage compared to our competitors with less debt.

If cash on hand is insufficient to pay our obligations or margin calls as they come due at a time when we are unable to draw on our credit facility, it could have an effect on our ability to conduct our business. Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. Our ability to generate cash is dependent on various factors. These factors include general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Certain of our long-term borrowings include provisions that impose minimum levels of working capital and equity, impose limitations on additional debt and require that grain inventory positions be substantially hedged. Our ability to satisfy these

provisions can be affected by events beyond our control, such as the demand for and fluctuating price of grain. Although we are and have been in compliance with these provisions, noncompliance could result in default and acceleration of long-term debt payments.

Many of our sales to our customers are executed on credit. Failure on our part to properly investigate the credit history of our customers or a deterioration in economic conditions may adversely impact our ability to collect on our accounts.

A significant amount of our sales are executed on credit and are unsecured. Extending sales on credit to new and existing customers requires an extensive review of the customer s credit history. If we fail to do a proper and thorough credit check on our customers, delinquencies may rise to unexpected levels. If economic conditions deteriorate, the ability of our customers to pay current obligations when due may be adversely impacted and we may experience an increase in delinquent and uncollectible accounts.

New ethanol plants under construction or decreases in the demand for ethanol may result in excess production capacity.

According to the Renewable Fuels Association (RFA), domestic ethanol production capacity has increased from 1.9 billion gallons per year (BGY) as of January 2001 to an estimated 5.4 BGY at January 11, 2007. The RFA estimates that, as of January 11, 2007, approximately 6.1 BGY of additional production capacity is under construction. The ethanol industry in the U.S. now consists of more than 111 production facilities. Excess capacity in the ethanol industry would have an adverse effect on our future results of operations, cash flows and financial position. In a manufacturing industry with excess capacity, producers have an incentive to manufacture additional products for so long as the price exceeds the marginal cost of production (i.e., the cost of producing only the next unit, without regard for interest, overhead or fixed costs). This incentive can result in the reduction of the market price of ethanol to a level that is inadequate to generate sufficient cash flow to cover costs.

Excess capacity may also result from decreases in the demand for ethanol, which could result from a number of factors, including regulatory developments and reduced U.S. gasoline consumption. Reduced gasoline consumption could occur as a result of increased prices for gasoline or crude oil, which could cause businesses and consumers to reduce driving or acquire vehicles with more favorable gasoline mileage.

The U.S. ethanol industry is highly dependent upon a myriad of federal and state legislation and regulation and any changes in such legislation or regulation could materially and adversely affect our future results of operations and financial position.

The elimination or significant reduction in the blenders credit could have a material adverse effect on our results of operations and financial position. The cost of production of ethanol is made significantly more competitive with regular gasoline by federal tax incentives. Before January 1, 2005, the federal excise tax incentive program allowed gasoline distributors who blended ethanol with gasoline to receive a federal excise tax

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rate reduction for each blended gallon they sold. If the fuel was blended with 10% ethanol, the refiner/marketer paid $0.052 per gallon less tax, which equated to an incentive of $0.52 per gallon of ethanol. The $0.52 per gallon incentive for ethanol was reduced to $0.51 per gallon in 2005 and is scheduled to expire (unless extended) in 2010. The blenders credits may not be renewed in 2010 or may be renewed on different terms. In addition, the blenders credits, as well as other federal and state programs benefiting ethanol (such as tariffs), generally are subject to U.S. government obligations under international trade agreements, including those under the World Trade Organization Agreement on Subsidies and Countervailing Measures, and might be the subject of challenges thereunder, in whole or in part. The elimination or significant reduction in the blenders credit or other programs benefiting ethanol may have a material adverse effect on our results of operations and financial position.

Ethanol can be imported into the U.S. duty-free from some countries, which may undermine the ethanol industry in the U.S. Imported ethanol is generally subject to a $0.54 per gallon tariff that was designed to offset the $0.51 per gallon ethanol incentive available under the federal excise tax incentive program for refineries that blend ethanol in their fuel. A special exemption from the tariff exists, with certain limitations, for ethanol imported from 24 countries in Central America and the Caribbean Islands. Imports from the exempted countries may increase as a result of new plants under development. Since production costs for ethanol in these countries are estimated to be significantly less than what they are in the U.S., the duty-free import of ethanol through the countries exempted from the tariff may negatively affect the demand for domestic ethanol and the price at which we sell our ethanol. Any changes in the tariff or exemption from the tariff could have a material adverse effect on our results of operations and financial position.

The effect of the Renewable Fuel Standard, or RFS, in the Energy Policy Act is uncertain. The use of fuel oxygenates, including ethanol, was mandated through regulation, and much of the forecasted growth in demand for ethanol was expected to result from additional mandated use of oxygenates. Most of this growth was projected to occur in the next few years as the remaining markets switch from methyl tertiary butyl ether, or MTBE, to ethanol. The energy bill, however, eliminated the mandated use of oxygenates and established minimum nationwide levels of renewable fuels (ethanol, biodiesel or any other liquid fuel produced from biomass or biogas) to be included in gasoline. Because biodiesel and other renewable fuels in addition to ethanol are counted toward the minimum usage requirements of the RFS, the elimination of the oxygenate requirement for reformulated gasoline may result in a decline in ethanol consumption, which in turn could have a material adverse effect on our results of operations and financial condition. The legislation also included provisions for trading of credits for use of renewable fuels and authorized potential reductions in the RFS minimum by action of a governmental administrator.

The legislation did not include MTBE liability protection sought by refiners, and ethanol producers have estimated that this will result in accelerated removal of MTBE and increased demand for ethanol. Refineries may use other possible replacement additives, such as iso-octane, iso-octene or alkylate. Accordingly, the actual demand for ethanol may increase at a lower rate than production for estimated demand, resulting in excess

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production capacity in our industry, which would negatively affect our results of operations, financial position and cash flows.
Waivers of the RFS minimum levels of renewable fuels included in gasoline could have a material adverse affect on our future results of operations. Under the Energy Policy Act, the U.S. Department of Energy, in consultation with the Secretary of Agriculture and the Secretary of Energy, may waive the renewable fuels mandate with respect to one or more states if the EPA determines that implementing the requirements would severely harm the economy or the environment of a state, a region or the U.S., or that there is inadequate supply to meet the requirement. Any waiver of the RFS with respect to one or more states would adversely offset demand for ethanol and could have a material adverse effect on our future results of operations and financial condition.

Fluctuations in the selling price and production cost of gasoline as well as the spread between ethanol and corn prices may reduce future profit margins of our ethanol business.

We will market ethanol both as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of gasoline with which it is blended and as a substitute for oil derived gasoline. As a result, ethanol prices will be influenced by the supply and demand for gasoline and our future results of operations and financial position may be materially adversely affected if gasoline demand or price decreases.

The principal raw material we use to produce ethanol and co-products, including DDG, is corn. As a result, changes in the price of corn can significantly affect our business. In general, rising corn prices will produce lower profit margins for our ethanol business. Because ethanol competes with non-corn-based fuels, we generally will be unable to pass along increased corn costs to our customers. At certain levels, corn prices may make ethanol uneconomical to use in fuel markets. The price of corn is influenced by weather conditions and other factors affecting crop yields, farmer planting decisions and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade, and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm our ethanol business. The Company will attempt to lock in ethanol margins as far out as practical in order to lock in reasonable returns using whatever risk management tools are available in the marketplace. In addition, we may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. High costs or shortages could require us to suspend our ethanol operations until corn is available on economical terms, which would have a material adverse effect on our business.

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The market for natural gas is subject to market conditions that create uncertainty in the price and availability of the natural gas that we will use in our ethanol manufacturing process.

We rely on third parties for our supply of natural gas, which is consumed in the manufacture of ethanol. The prices for and availability of natural gas are subject to volatile market conditions. These market conditions often are affected by factors beyond our control such as higher prices resulting from colder than average weather conditions and overall economic conditions. Significant disruptions in the supply of natural gas could impair our ability to manufacture ethanol for our customers. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect our future results of operations and financial position.

Growth in the sale and distribution of ethanol is dependent on the changes to and expansion of related infrastructure that may not occur on a timely basis, if at all, and our future operations could be adversely affected by infrastructure disruptions.

Substantial development of infrastructure will be required by persons and entities outside our control for our operations, and the ethanol industry generally, to grow. Areas requiring expansion include, but are not limited to:

- additional rail capacity;
- additional storage facilities for ethanol;
- increases in truck fleets capable of transporting ethanol within localized markets; and
- expansion of refining and blending facilities to handle ethanol.

Substantial investments required for these infrastructure changes and expansions may not be made or they may not be made on a timely basis. Any delay or failure in making the changes to or expansion of infrastructure could hurt the demand or prices for our ethanol products, impede our delivery of our ethanol products, impose additional costs on us or otherwise have a material adverse effect on our results of operations or financial position. Our business will be dependent on the continuing availability of infrastructure and any infrastructure disruptions could have a material adverse effect on our business.

A significant portion of our business operates in the railroad industry, which is subject to unique, industry specific risks and uncertainties. Our failure in assessing these risks and uncertainties could be detrimental to our Rail Group business.

Our Rail Group is subject to risks associated with the demands and restrictions of the Class 1 railroads, a group of publicly owned rail companies owning a high percentage of the existing rail lines. These companies exercise a high degree of control over whether private railcars can be allowed on their lines and may reject certain railcars or require maintenance or improvements to the railcars. This presents risk and uncertainty for our Rail Group and it can increase the Group s maintenance costs. In addition, a shift in the railroad strategy to investing in new rail cars and improvements to existing railcars, instead of investing in locomotives and infrastructure, could adversely impact our

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business by causing increased competition and creating an oversupply of railcars. Our rail fleet consists of a range of railcar types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives. However a large concentration of a particular type of railcar could expose us to risk if demand were to decrease for that railcar type. Failure on our part to identify and assess risks and uncertainties such as these could negatively impact our business.

Our Rail Group relies upon customers continuing to lease rather than purchase railcar assets. Our business could be adversely impacted if there were a large customer shift from leasing to purchasing railcars, or if railcar leases are not match funded.

Our Rail Group relies upon customers continuing to lease rather than purchase railcar assets. There are a number of items that factor into a customer s decision to lease or purchase assets, such as tax considerations, interest rates, balance sheet considerations, fleet management and maintenance and operational flexibility. We have no control over these external considerations, and changes in our customers preferences could negatively impact demand for our leasing products. Profitability is largely dependent on the ability to maintain railcars on lease (utilization) at satisfactory lease rates. A number of factors can adversely affect utilization and lease rates including an economic downturn causing reduced demand or oversupply in the markets in which we operate, changes in customer behavior, or any other changes in supply or demand.

Furthermore, match funding (in relation to rail lease transactions) means matching terms between the lease with the customer and the funding arrangement with the financial intermediary. This is not always possible. We are exposed to risk to the extent that the lease terms do not perfectly match the funding terms, leading to non-income generating assets if a replacement lessee cannot be found.

During economic downturns, the cyclical nature of the railroad business results in lower demand for railcars and reduced revenue.

The railcar business is cyclical. Overall economic conditions and the purchasing and leasing habits of railcar users have a significant effect upon our railcar leasing business due to the impact on demand for refurbished and leased products. Economic conditions that result in higher interest rates increase the cost of new leasing arrangements, which could cause some of our leasing customers to lease fewer of our railcars or demand shorter terms. An economic downturn or increase in interest rates may reduce demand for railcars, resulting in lower sales volumes, lower prices, lower lease utilization rates and decreased profits or losses.

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Item 2. Properties

The Company s principal agriculture, retail and other properties are described below. Except as otherwise indicated, the Company owns all listed properties.

Agriculture Facilities

(in thousands)		Agricultural Fertilizer	
	Grain Storage	Dry Storage	Liquid Storage
Location	(bushels)	(cubic feet)	(gallons)
Maumee, OH (3)	21,942	4,500	2,878
Toledo, OH Port (4)	12,446	1,800	5,623
Metamora, OH	5,774		
Toledo, OH (1)	983		
Lyons, OH	350		
Lordstown, OH		530	
Gibsonburg, OH (2)		37	349
Fremont, OH (2)		47	271
Fostoria, OH (2)		40	250
Champaign, IL	12,732	1,200	
Dunkirk, IN	7,800	833	
Delphi, IN	7,063	923	
Clymers, IN (6)	4,716		
Oakville, IN	3,450		
Walton, IN (2)		435	9,907
Poneto, IN		10	5,750
Logansport, IN		83	3,913
Waterloo, IN (2)		992	1,641
Seymour, IN		720	943
North Manchester, IN (2)		25	211
Albion, MI (5)	2,552		
White Pigeon, MI	2,703		
Webberville, MI		1,747	5,060
Litchfield, MI (2)		30	457
	82,511	13,952	37,253

(1) Facility leased.

(2) Facility is or includes a farm center.

(3) Includes leased facilities with a 3,842-bushel capacity.

(4) Includes leased facility with a 5,900-bushel capacity.

(5) Leased to ethanol production facility in operation.

(6) Planned lease to ethanol production facility under construction.

The grain facilities are mostly concrete and steel tanks, with some flat storage, which is primarily cover-on-first temporary storage. The Company also owns grain inspection buildings and dryers, maintenance buildings and truck scales and dumps.

The Plant Nutrient Group s wholesale fertilizer and farm center properties consist mainly of fertilizer warehouse and distribution facilities for dry and liquid fertilizers. The Maumee, Ohio; Champaign, Illinois; Seymour, Indiana; and Walton, Indiana locations have fertilizer mixing, bagging and bag storage facilities. The Maumee, Ohio; Webberville, Michigan; Logansport, Indiana; Walton, Indiana; and Poneto, Indiana locations also include liquid manufacturing facilities.

Retail Store Properties

Name	Location	Square Feet
Maumee Store	Maumee, OH	153,000
Toledo Store	Toledo, OH	149,000
Woodville Store (1)	Northwood, OH	120,000
Lima Store (1)	Lima, OH	120,000
Sawmill Store	Columbus, OH	146,000
Brice Store	Columbus, OH	159,000
The Andersons Market (2)	Sylvania, OH	30,000
Distribution Center (1)	Maumee, OH	245,000

(1) Facility Leased

(2) Leased facility currently under construction

The leases for the two stores and the distribution center are operating leases with several renewal options and provide for minimum aggregate annual lease payments approximating $1.1 million. The two store leases provide for contingent lease payments based on achieved sales volume. One store had sales triggering payments of contingent rental each of the last three years. In addition, the Company owns a service and sales facility for outdoor power equipment adjacent to its Maumee, Ohio retail store.

Other Properties

In its railcar business, the Company owns, leases or manages for financial institutions 84 locomotives and 20,966 railcars at December 31, 2006. Future minimum lease payments for the railcars and locomotives are $100.8 million with future minimum contractual lease and service income of approximately $200.0 million for all railcars, regardless of ownership. Lease terms range from one month to fourteen years. The Company also operates railcar repair facilities in Maumee, Ohio; Darlington and Rains, South Carolina; and Bay St. Louis, Mississippi, a steel fabrication facility in Maumee, Ohio, and owns or leases a number of switch engines, mobile repair units, cranes and other equipment.

The Company owns lawn fertilizer production facilities in Maumee, Ohio; Bowling Green, Ohio; and Montgomery, Alabama. It also owns corncob processing and storage facilities in Maumee, Ohio and Delphi, Indiana. A portion of the Maumee, Ohio facility was closed in late 2005 and milling operations consolidated in Delphi, Indiana. The Company leases a lawn fertilizer warehouse facility in Toledo, Ohio.

The Company also owns an auto service center that is leased to its former venture partner. The Company s administrative office building is leased under a net lease expiring in

2015. The Company owns approximately 1,158 acres of land on which the above properties and facilities are located and approximately 306 acres of farmland and land held for sale or future use.

Real properties, machinery and equipment of the Company were subject to aggregate encumbrances of approximately $69.6 million at December 31, 2006. Additionally, 7,977 railcars and 16 locomotives are held in bankruptcy-remote entities collateralizing $80.6 million of non-recourse debt at December 31, 2006. Additions to property, including intangible assets but excluding railcar assets, for the years ended December 31, 2006, 2005 and 2004 amounted to $16.0 million, $11.9 million and $16.8 million, respectively. Additions to the Company s railcar assets totaled $85.9 million, $98.9 million and $127.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. These additions were offset by sales and financings of railcars of $65.2 million, $69.1 million and $45.6 million for the same periods. See Note 10 to the Company s consolidated financial statements in Item 8 for information as to the Company s leases.

The Company believes that its properties, including its machinery, equipment and vehicles, are adequate for its business, well maintained and utilized, suitable for their intended uses and adequately insured.

Item 3. Legal Proceedings

The Company previously disclosed its receipt of a notice of alleged violation of certain City of Toledo Municipal code environmental regulations in connection with stormwater drainage from potentially contaminated soil at the Company s Toledo, Ohio port facility, and its submission of a surface water drainage plan to address the concerns raised in the notice. The Company has been advised by regulatory authorities that its proposed surface water drainage plan has been approved, and the City of Toledo, Department of Public Utilities, Division of Environmental Services has advised the Company that no orders or findings will be issued in connection with its notice of alleged violation. Management has no reason to believe that implementation of the approved surface water drainage plan should materially affect the Company s operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were voted upon during the fourth quarter of fiscal 2006.

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Executive Officers of the Registrant

The information under this Item 4A is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K. The executive officers of The Andersons, Inc., their positions and ages (as of February 28, 2007) are presented below.

Name	Position	Age	Year Assumed
Dennis J. Addis	President, Plant Nutrient Group	54	2000
	Vice President and General Manager, Plant Nutrient Division, Agriculture Group		1999
Daniel T. Anderson	President, Retail Group	51	1996
Michael J. Anderson	President and Chief Executive Officer	55	1999
	President and Chief Operating Officer		1996
Naran U. Burchinow	Vice President, General Counsel and Secretary	53	2005
	Formerly Operations Counsel, GE Commercial Distribution Finance Corporate		2003
	Formerly General Counsel, ITT Commercial Finance Corporation and Deutsche Financial Services		1993
Dale W. Fallat	Vice President, Corporate Services	62	1992
Philip C. Fox	Vice President, Corporate Planning	64	1996
Charles E. Gallagher	Vice President, Human Resources	65	1996
Richard R. George	Vice President, Controller and CIO	57	2002
	Vice President and Controller		1996
Harold M. Reed	President, Grain & Ethanol Group	50	2000
	Vice President and General Manager, Grain Division, Agriculture Group		1999
Rasesh H. Shah	President, Rail Group	52	1999
Gary L. Smith	Vice President, Finance and Treasurer	61	1996
Thomas L. Waggoner	President, Turf & Specialty Group	52	2005
	Vice President, Sales & Marketing, Turf & Specialty Group		2002
	Director of Supply Chain/Consumer & Industrial Sales, Turf & Specialty Group		2001

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PART II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters

The Common Shares of The Andersons, Inc. trade on the Nasdaq Global Select Market under the symbol ANDE. On February 28, 2007, the closing price for the Company s Common Shares was $42.08 per share. The following table sets forth the high and low bid prices for the Company s Common Shares for its four quarters in each of 2006 and 2005.

	2006		2005	
	High	**Low**	**High**	**Low**
Quarter Ended				
March 31	$40.83	$21.11	$16.66	$11.57
June 30	62.70	35.01	18.30	13.22
September 30	47.38	31.37	21.17	13.75
December 31	43.00	31.05	22.41	13.25

The Company s transfer agent and registrar is Computershare Investor Services, LLC, 2 North LaSalle Street, Chicago, IL 60602. Telephone: 312-588-4991.

Shareholders

On June 28, 2006, the Company effected a two-for-one stock split to its outstanding shares as of June 1, 2006. All share, dividend and per share information set forth in this 10-K has been retroactively adjusted to reflect the stock split.

At February 28, 2007, there were approximately 17.8 million common shares outstanding, 1,405 shareholders of record and approximately 9,300 shareholders for whom security firms acted as nominees.

Dividends

The Company has declared and paid 42 consecutive quarterly dividends since the end of 1996, its first year of trading on NASDAQ. The Company paid $0.04 per common share for the dividends paid in January and April 2005, $0.0425 per common share for the dividends paid in July and October 2005 and January 2006, $0.045 per common share for the dividends paid in April, July and October 2006 and $0.0475 for the dividend paid in January 2007. On February 28, 2007, the Company announced a dividend of $0.0475 per common share to be paid on April 23, 2007 to shareholders of record on April 2, 2007.

The Company s objective is to pay a quarterly cash dividend, however, dividends are subject to Board of Director approval and loan covenant restrictions.

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Equity Plans

The following table gives information as of December 31, 2006 about the Company s Common Shares that may be issued upon the exercise of options under all of its existing equity compensation plans.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,328,560(1)	$ 18.02	984,543(2)

(1) This number includes options (1,235,344), performance share units (58,800) and restricted shares (34,416) outstanding under The Andersons, Inc. 2005 Long-Term Performance Compensation Plan dated May 6, 2005. This number does not include any shares related to the Employee Share Purchase Plan. The Employee Share Purchase Plan allows employees to purchase

common shares at the lower of the market value on the beginning or end of the calendar year through payroll withholdings. These purchases are completed as of December 31.

(2) This number includes 515,617 Common Shares available to be purchased under the Employee Share Purchase Plan.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In 1996, the Company s Board of Directors approved the repurchase of 2.8 million shares of common stock for use in employee, officer and director stock purchase and stock compensation plans. Since the beginning of this repurchase program, the Company has purchased 2.1 million shares in the open market. There were no repurchases of common stock during 2006.

Performance Graph

The graph below compares the total shareholder return on the Corporation s Common Shares to the cumulative total return for the NASDAQ U.S. Index and a Peer Group Index. The indices reflect the year-end market value of an investment in the stock of each company in the index, including additional shares assumed to have been acquired with cash dividends, if any. The Peer Group Index, weighted for market capitalization, includes the following companies:

Agrium, Inc.

Archer-Daniels-Midland Co.

Corn Products International, Inc.

GATX Corp.

Greenbrier Companies, Inc.

Lesco, Inc.

Lowes Companies

This Peer Group Index was adjusted in 2004 as two of the companies previously used were no longer in existence as public companies and two companies (Scotts Company and Conagra, Inc.) have changed their focus to brand / packaged foods from the previous focus on agribusiness / lawn / turf products.

The graph assumes a $100 investment in The Andersons, Inc. Common Shares on December 31, 2001 and also assumes investments of $100 in each of the NASDAQ U.S. and Peer Group indices, respectively, on December 31 of the first year of the graph. The value of these investments as of the following calendar year ends is shown in the table below the graph.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
December 2006

	Base Period December 31, 2001	Cumulative Returns 2002	2003	2004	2005	2006
The Andersons, Inc.	$ 100.00	$129.77	$166.53	$269.20	$459.30	$907.93
NASDAQ U.S.	100.00	68.76	103.68	113.18	115.57	127.58
Peer Group Index	100.00	83.02	118.11	133.89	153.91	162.72

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data of the Company. The data for each of the five years in the period ended December 31, 2006 are derived from the consolidated financial statements of the Company. The data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7, and the Consolidated Financial Statements and notes thereto included in Item 8.

(in thousands, except for per share and ratios and other data)	For the years ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Operating results					
Grain sales and revenues	**$ 791,207**	$ 628,255	$ 664,565	$ 696,615	$ 577,685
Fertilizer, retail & other sales	**666,846**	668,694	602,367	542,390	492,581
Total sales & revenues	**1,458,053**	1,296,949	1,266,932	1,239,005	1,070,266
Gross profit grain	**62,809**	50,456	52,680	41,783	47,348
Gross profit fertilizer, retail & other	**144,323**	147,987	136,419	122,311	115,753
Total gross profit	**207,132**	198,443	189,099	164,094	163,101
Other income / gains (a)	**13,914**	4,386	4,973	4,701	3,728
Equity in earnings (losses) of affiliates	**8,190**	2,321	1,471	347	13
Pretax income	**54,469**	39,312	30,103	17,965	16,002
Income before cumulative effect of change in accounting principle	**36,347**	26,087	19,144	11,701	10,764
Cumulative effect of change in accounting principle (net of tax)					3,480
Net income	**36,347**	26,087	19,144	11,701	14,244
Financial position					
Total assets	**809,344**	634,144	573,598	493,292	469,780
Working capital	**156,408**	96,219	102,170	86,871	80,044
Long-term debt (b)	**86,238**	79,329	89,803	82,127	84,272
Long-term debt, non-recourse (b)	**71,624**	88,714	64,343		
Shareholders equity	**270,175**	158,883	133,876	115,791	105,765
Cash flows / liquidity					
Cash flows from (used in) operations	**(62,903)**	37,880	62,492	44,093	23,249
Depreciation and amortization	**24,737**	22,888	21,435	15,139	14,314
Cash invested in acquisitions / investments in affiliates	**34,255**	16,005	85,753	1,182	
Investments in property, plant & equipment	**16,031**	11,927	13,201	11,749	9,834
Net investment in (sale of) railcars (c)	**20,643**	29,810	(90)	3,788	(7,782)
EBITDA (d)	**95,505**	74,279	62,083	41,152	40,128
Per share data:					
Net income basic	**2.27**	1.76	1.32	0.82	0.98
Net income diluted	**2.19**	1.69	1.28	0.80	0.96
Dividends paid	**0.178**	0.165	0.153	0.140	0.130
Year-end market value	**42.39**	21.54	12.75	7.99	6.35

Ratios and other data					
Pretax return on beginning equity	**34.3%**	29.4%	26.0%	17.0%	16.9%
Net income return on beginning equity	**22.9%**	19.5%	16.5%	11.1%	15.0%
Funded long-term debt to equity ratio (e)	**0.3-to-1**	0.5-to-1	0.7-to-1	0.7-to-1	0.8-to-1
Weighted average shares outstanding (000 s)	**16,007**	14,842	14,492	14,282	14,566
Effective tax rate	**33.3%**	33.6%	36.4%	34.9%	32.7%

Note: Prior years have been revised to conform to the 2006 presentation; these changes did not impact net income.

(a) Includes gains on insurance settlements of $4.6 million in 2006 and $0.3 million in 2002.

(b) Excludes current portion of long-term debt.

(c) Represents the net of purchases of railcars offset by proceeds on sales of railcars. In 2004 and 2002, proceeds exceeded purchases. In 2004, cars acquired as part of an acquisition of a business have been excluded from this number.

(d) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a non-GAAP measure. We believe that EBITDA

provides additional information important to investors and others in determining our ability to meet debt service obligations. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations as determined by generally accepted accounting principles, and EBITDA does not necessarily indicate whether cash flow will be sufficient to meet cash requirements, for debt service obligations or otherwise. Because EBITDA, as determined by us, excludes some, but not all, items that affect net income, it may not be comparable to EBITDA or similarly titled measures used by other companies.

(e) Calculated by dividing

long-term debt by total year-end equity as stated under Financial position. Does not include non-recourse debt. The following table sets forth (1) our calculation of EBITDA and (2) a reconciliation of EBITDA to our net cash flow provided by (used in) operations.

(in thousands)	For the years ended December 31, 2006	2005	2004	2003	2002
Income before cumulative effect of change in accounting principle	**$ 36,347**	$ 26,087	$ 19,144	$11,701	$10,764
Add:					
Provision for income taxes	**18,122**	13,225	10,959	6,264	5,238
Interest expense	**16,299**	12,079	10,545	8,048	9,812
Depreciation and amortization	**24,737**	22,888	21,435	15,139	14,314
EBITDA	**95,505**	74,279	62,083	41,152	40,128
Add/(subtract):					
Provision for income taxes	**(18,122)**	(13,225)	(10,959)	(6,264)	(5,238)
Interest expense	**(16,299)**	(12,079)	(10,545)	(8,048)	(9,812)
(Gain) loss on disposal of property, plant & equipment and business	**(1,238)**	540	(431)	(273)	(406)
Realized & unrealized gains on railcars & related leases	**(5,887)**	(7,682)	(3,127)	(2,146)	(179)
Deferred income taxes	**7,371**	1,964	3,184	382	1,432
Excess tax benefit from share-based payment arrangement	**(5,921)**				
Unremitted earnings of unconsolidated affiliates	**(4,340)**	(443)	(854)	(353)	(41)
Changes in working capital & other	**(113,972)**	(5,474)	23,141	19,643	(2,635)
Net cash provided by / (used in) operations	**$ (62,903)**	$ 37,880	$ 62,492	$44,093	$23,249

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Item 7. 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 factors, including those listed under Item 1A, Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, anticipates, believes, estimates, predict 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.

Executive Overview

Grain & Ethanol Group

At the end of 2005, the Company entered into the ethanol business through its investment in The Andersons Albion Ethanol LLC (TAAE). The ethanol business is a logical extension of the Company s grain business and an additional market for its corn producers. The Company s strategy is to (1) be an equity investor in the ethanol industry, (2) provide infrastructure services including corn originations, plant operations management and marketing of ethanol and distillers dried grains (DDG) and (3) complement its value proposition through the trading of ethanol and DDG. In August 2006, production started at TAAE, in which the Company had a 44% interest at December 31, 2006. In the time period from August through December 2006, the Company earned $3.3 million from this investment. The Company operates the facility under a management contract and provides corn origination, ethanol and DDG marketing and risk management services for which it is separately compensated. The Company also leases its Albion, Michigan grain elevator to TAAE under an operating lease agreement. In February 2007, the Company exchanged its $2 million (book value) initial investment in Iroquois Bio Energy Corporation (IBEC), an ethanol production facility that began production in January 2007, for a comparable amount of additional equity in TAAE. The Company now has a 49% interest in TAAE. The Company will continue to provide corn origination services for IBEC.

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During 2006, the Grain & Ethanol Group invested in two additional ethanol production facilities. In the first quarter of 2006, the Company invested $20.4 million for a 37% interest in TACE. TACE is currently constructing a 110 million gallon-per-year ethanol production facility that is expected to be completed during the second quarter of 2007. The Company is under contract to lease its Clymers, Indiana grain elevator to TACE upon completion of the facility. The Company will also operate the facility under a management contract and will provide corn origination, ethanol and DDG marketing and risk management services for which it will be separately compensated.

In the fourth quarter of 2006, the Company invested $11.4 million for a 50% interest in TAME. TAME is also constructing a 110 million gallon-per-year ethanol production facility which is expected to be completed in 2008. As with TACE, the Company will provide corn origination, ethanol and DDG marketing and risk management services for which it will be separately compensated. In February 2007, the Company transferred its 50% interest in TAME to The Andersons Ethanol Investment LLC, a majority owned subsidiary of the Company.

If the projected growth of the ethanol industry occurs, it could further impact the Company s business in potentially significant ways. In addition to the service fees the Company will earn from the various ethanol facilities, it will also earn its proportional share of each of the LLC s income. In certain situations, the Company s grain business could be negatively impacted if new ethanol plants are constructed in the regions in which the Company does business and near its existing facilities that would compete for locally available corn.

The Company s investment in Lansing Trade Group LLC continues to be profitable for the Company as it turned in another record year. In 2006, the Company invested an additional $2.4 million to increase its ownership to 36.1%. In the first quarter of 2007 the Company exercised its option to further increase its investment and now has over a 40.0% ownership. The Company holds an option to increase its investment in 2008 with the potential of becoming the majority owner.

The Company intends to continue to build its trading operations, extending into the ethanol markets, increase its service offerings to the ethanol industry and grow its traditional grain business. The Company s investment in Lansing Trade Group LLC increases its trading capabilities, including ethanol, and extends its reach into the western corn-belt. The Company anticipates that overall bushel volume will be up in 2007, with corn production a large percentage of that growth. Many market analysts are predicting the rise in demand for ethanol will lead to an additional 10 million acres of corn grown during 2007 alone. This translates well for the Company and its customers corn producers, ethanol blenders and farmers with livestock that consume DDG. The Company s proprietary services to producers also continue to increase as such services assist them in managing their business and navigating the changing agricultural landscape.

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Rail Group

One of the Company s key strategies within its Rail Group is to build a diversified portfolio of railcars that enables it to service a wide range of customer needs in many industries. Building a portfolio of long-lived railcar assets is key for the success of the Rail Group. It must ensure that its fleet has the proper mix of railcars to fulfill the requirements of its customers. As a result, the Group continues to selectively make additions, or liquidate assets to optimize its portfolio. During 2006, the Rail Group increased its rail fleet by 8% while maintaining a high rate of utilization.

The Rail Group also provides repair and fabrication services to its customers. The addition of two new product lines and a repair shop in Mississippi in 2005 have had a positive impact on the business of the Rail Group.

Timely maintenance to the railcars within the Group s rail fleet is crucial to providing quality service to its customers. While necessary, rising maintenance costs have impacted the profitability of this Group as maintenance costs have increased significantly.

The Company is exploring the possibilities of adding to its mobile unit fleet and expanding the railcar repair shops as it makes sense and provides value to its customers. The Group will continue to pursue the expansion of its current offering of proprietary rail components such as outlet gates and hatch covers and to increase the customer base for these products.

Plant Nutrient Group

Increases in production costs, primarily in the form of nutrients, energy and seed, adversely affected the customers of the Plant Nutrient Group in 2006 and thus resulted in a reduction of agricultural plant nutrient volume for the Company. Although 2006 was not a good year for the Plant Nutrient Group, the increasing demand for ethanol is expected to have a positive impact on this group going forward. With increased corn prices and an acreage shift to corn production in the United States expected to reach its highest level in recent history, and since corn requires more nutrient inputs than other crops, early industry projections have crop input sales growing at least 10 percent during 2007.

The Company will continue to grow market share in its core region as well as strengthen its geographic coverage by expanding the wholesale and industrial businesses into new territories. The Company intends to continue to broaden its product and service offerings and capitalize on its core formulation and distribution strengths. Seeking alternative nitrogen sourcing, particularly off-shore, remains a very high priority as well as serving its customers better.

Moving beyond the Company s core customer base, it believes there are opportunities to broaden its nitrogen products market into the scrubbing of flue gas emissions from coal-fired burners in power plants. The Company is actively pursuing service agreements, in conjunction with Powerspan s ECO technology, for use at major

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coal-fired power plants. This multi-pollutant control technology will convert nitrous oxide emissions into harmless elemental nitrogen and sulfur dioxide emissions into a commercially saleable nitrogen-sulfur combination nutrient product for agriculture and turf applications.

Turf & Specialty Group

In the third quarter of 2005, the Company announced a restructuring plan for its Turf & Specialty Group. As part of this plan, the Group has re-focused its efforts on the professional lawn business and on areas within the consumer and industrial business where value could be added. This move toward proprietary and professional products started to pay off in 2006. The Company improved operating efficiency, asset utilization and introduced new products into the marketplace that have received a favorable response from customers.

Concentrating on proprietary and professional products has required the Company to invest in additional manufacturing capacity. This proprietary technology will enable the Company to serve new customers who bring more stringent requirements for production, as well as elevates its ability to service its core customers better. In addition to improving manufacturing abilities, the Company has also become more flexible with its production, supporting the objective of reducing customer order cycle times.

There are many opportunities for The Andersons-branded products in the Company s markets. The dispersible product lines based on DGLite® & Contec DG® form the core of the professional business growth. Innovation has led to the newly released Enrich-o Cobs that offers greater opportunities in many of the Company s cob based products. The Company believes the Turf & Specialty Group can continue to grow profitably with a focus on delivering better solutions through technology.

Retail Group

Warmer weather in both the first and fourth quarters of 2006 adversely impacted sales for the Retail Group, however most of this was offset by increased sales in produce, specialty foods, wine, housewares, sporting goods and workwear. Improving the product mix offered to customers has contributed to improved margins. With the Group s continued success in the specialty food category in its existing stores, the Company embarked on a new specialty fresh food store concept which broke ground in October 2006. The Andersons Market will have a product offering with a strong emphasis on freshness that features produce, deli and bakery items, fresh meats, specialty and conventional dry goods and wine.

Getting feedback from customers is important to enhancing service, especially in a retail environment. In 2006 the Company conducted an extensive customer satisfaction survey and is currently applying those responses to product assortment and service metrics.

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Operating Results

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 Note 13 to the Company s consolidated financial statements in Item 8.

	2006	2005	2004
Sales and merchandising revenues	**$1,458,053**	$1,296,949	$1,266,932
Cost of sales	**1,250,921**	1,098,506	1,077,833
Gross profit	**207,132**	198,443	189,099
Operating, administrative & general	**158,468**	153,759	154,895
Interest expense	**16,299**	12,079	10,545
Other income/gains	**22,104**	6,707	6,444
Operating income	**$ 54,469**	$ 39,312	$ 30,103

Comparison of 2006 with 2005

Operating income for the Company was $54.5 million in 2006, an increase of $15.2 million over 2005. The 2006 net income of $36.3 million was $10.3 million higher than 2005. Basic earnings per share of $2.27 increased $0.51 from 2005 and diluted earnings per share of $2.19 increased $0.50 from 2005.

Grain & Ethanol Group

	2006	2005
Sales and merchandising revenues	**$791,207**	$628,255
Cost of sales	**728,398**	577,799
Gross profit	**62,809**	50,456
Operating, administrative & general	**44,159**	36,905
Interest expense	**6,562**	3,818
Other income/gains	**15,867**	2,890
Operating income	**$ 27,955**	$ 12,623

Operating income for the Grain & Ethanol Group increased $15.3 million, or 121%, over 2005 results. Sales for the Group increased $155.8 million from 2005. The 2006 harvest results were better than 2005 in the Company s market area for all grains with a 9% increase in soybean production, a 29% increase in wheat production and a 2% increase in corn production. A delayed harvest caused a short supply of grain which the Group was able to take advantage of with pre-harvest inventory. This, coupled with the increasing price of corn, contributed to the increase in sales. Merchandising revenues for the Group increased $7.2 million. The increased merchandising revenues can be attributed to a slight increase in space income, increased customer service fees for forward contracting and a significant increase in ethanol related service fees from the Group s ethanol business which includes management fees, corn origination fees, ethanol marketing fees and DDG marketing fees earned. Gross profit for the Group increased $12.4 million due to the increased merchandising revenues mentioned previously as well as an increase in drying and mixing income as a result of wet weather during harvest. Drying and mixing

income, which involves drying wet grain and blending grain, is recorded as a reduction of cost of sales when earned. Operating, administrative and general expenses increased $7.3 million. A majority of the increase is due to the growth of the Group; however, other notable items include a $1.3 million increase in performance incentives and stock compensation expense due to improved performance and the adoption of SFAS 123(R) and a $0.4 million increase in insurance expense due to increased premiums imposed as a result of the fire and explosion at one of the Groups grain storage and loading facilities that occurred in July 2005. Outside professional services were also up $1.2 million over 2005 which primarily related to growth in ethanol. Interest expense increased $2.7 million mostly due to higher short-term interest rates and higher inventory values and margin deposits.

The Grain & Ethanol Group experienced a significant increase in other income in 2006. The 2005 portion of the business interruption claim related to the fire and explosion mentioned previously was settled in the third quarter of 2006 for $4.2 million. In the first quarter of 2006, the Group recognized $1.9 million of other income related to development fees earned upon the formation of TACE. Income from the Group s investment in Lansing Trade Group was $6.8 million in 2006, an increase of $4.3 million over 2005. Income from the Group s investment in TAAE was $2.5 million in 2006, an increase of $2.6 million over 2005. The Grain & Ethanol Group recognized a loss of $1.1 million on its investment in the three ethanol facilities under construction. Finally, rental of the Company s Albion, Michigan grain facility to TAAE began in the third quarter of 2006 which amounted to $0.3 million for 2006.

Grain on hand at December 31, 2006 was 66.1 million bushels, of which 19.4 million bushels were stored for others. This compares to 63.8 million bushels on hand at December 31, 2005, of which 16.9 million bushels were stored for others.

Rail Group

	2006	**2005**
Sales and merchandising revenues	**$113,326**	$92,009
Cost of sales	**67,617**	48,728
Gross profit	**45,709**	43,281
Operating, administrative & general	**19,860**	16,254
Interest expense	**6,817**	4,847
Other income	**511**	642
Operating income	**$ 19,543**	$22,822

Operating income for the Rail Group decreased $3.3 million, or 14%, from the 2005 results. While sales of railcars and related leases increased $4.2 million, the gross profit on those sales decreased $1.4 million. This was mostly the result of a large sale in the fourth quarter of 2005 that realized significant margins. Leasing revenue in the Rail Group increased $11.9 million due to an 8% increase in the Company s rail fleet and increased lease rates. Gross profit on railcar leases decreased slightly for the year. The main driver of the decrease was a $7.7 million increase in maintenance costs over last year.

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Sales in the railcar repair and fabrication shops increased $5.3 million, over half of which is due to the addition of the repair shop in Mississippi and the added work as a result of hurricane Katrina. The remaining increase is due to the two new product lines which were added in the second half of 2005 and contributed a full year of sales in 2006. Gross profit for the repair and fabrication shops increased $4.2 million with increases experienced at all of the Group s shops. Operating, administrative and general expenses for the Group increased $3.6 million. A large portion of the increase can be attributed to the two new product lines and the addition of the Mississippi repair shop, both of which occurred in the second half of 2005. Stock compensation expense for this group increased $0.2 million due to the SFAS 123(R) implementation. Interest expense increased $2.0 million due to both increases in debt to finance purchases of railcars and increased interest rates.

Plant Nutrient Group

	2006	**2005**
Sales and merchandising revenues	$265,038	$271,371
Cost of sales	240,915	238,597
Gross profit	24,123	32,774
Operating, administrative & general	19,023	21,564
Interest expense	2,828	1,955
Other income/gains	1,015	1,096
Operating income	$ 3,287	$ 10,351

Operating income for the Plant Nutrient group decreased $7.1 million, or 68%, from the 2005 results. Sales for the Group decreased 2% as a result of a 9% decrease in volume partially offset by increases in the average price per ton sold. Merchandising revenues remained flat. Gross profit for the Group decreased $8.7 million due both to the decrease in volume as well as an 11% increase in the cost per ton. Much of the cost increase relates to escalation in prices of the basic raw materials, primarily nitrogen. Generally, these increases can be passed through to customers, although price increases have also resulted in decreased demand causing the decrease in volume. Operating, administrative and general expenses decreased $2.5 million. This can be attributed to improvements to the Group s absorption costing of wholesale fertilizer tons manufactured and warehoused that occurred in the second quarter of 2005. This change resulted in a reclassification of approximately $1.8 million from operating, administrative and general expenses to cost of sales. There was also a decrease in the Group s performance incentives as a result of decreased operating results. Interest expense for the Group increased $0.9 million and is the result of rising interest rates.

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Turf & Specialty Group

	2006	2005
Sales and merchandising revenues	**$111,284**	$122,561
Cost of sales	**89,556**	