ANDERSONS INC
Form 10-K
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
Commission file number 000-20557

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

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

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 ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated Filer	¨

Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the registrant's voting stock which may be voted by persons other than affiliates of the registrant was $795.2 million as of June 30, 2012, 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 approximately 18.7 million common shares outstanding, no par value, at February 7, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2013, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Commission on or about March 13, 2013.

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Part I.

Item 1. Business

Company Overview

The Andersons, Inc. (the "Company) is a diversified company rooted in agriculture. Founded in Maumee, Ohio, in 1947, the Company conducts business across North America in the grain, ethanol, and plant nutrient sectors, railcar leasing, turf and cob products, and consumer retailing.

Segment Descriptions

The Company's operations are classified into six reportable business segments: Grain, Ethanol, Rail, Plant Nutrient, Turf & Specialty, and Retail. Each of these segments is organized based upon the nature of products and services offered. See Note 7 to the Consolidated Financial Statements in Item 8 for information regarding business segments.

Grain Group

The Grain business operates grain elevators in various states in the U.S. Corn Belt. Income is earned on grain bought and sold or “put thru” the elevator, grain that is purchased and conditioned for resale, and space income. Space income consists of appreciation or depreciation in the basis value of grain held and represents the difference between the cash price of a commodity in one of the Company's facilities and the nearest exchange traded futures price (“basis”); appreciation or depreciation between the future exchange contract months (“ spread”); and grain stored for others upon which storage fees are earned. The Grain business also offers a number of unique grain marketing, risk management and corn origination services to its customers and affiliated ethanol facilities for which it collects fees.

In 2008, the Company renewed the five-year lease agreement and the five-year marketing agreement (“the Agreement”) with Cargill, Incorporated (“Cargill”) for Cargill's Maumee and Toledo, Ohio grain handling and storage facilities. As part of the agreement, Cargill is given the marketing rights to grain in the Cargill-owned facilities as well as the adjacent Company-owned facilities in Maumee and Toledo. The lease of the Cargill-owned facilities covers approximately 6%, or 8.9 million bushels, of the Company's total storage space. Grain sales to Cargill totaled $346.8 million in 2012, and includes grain covered by the Agreement (i.e. grain sold out of the Maumee and Toledo facilities) as well as grain sold to Cargill via normal forward sales from locations not covered by the Agreement.

Grain prices are not predetermined, so sales are negotiated by the Company's merchandising staff. The principal grains sold by the Company are yellow corn, yellow soybeans and soft red and white wheat. Approximately 92% of the grain bushels sold by the Company in 2012 were purchased by U.S. grain processors and feeders, and approximately 8% were exported. Most of the Company's exported grain sales are done through intermediaries while some grain is shipped directly to foreign countries, mainly Canada. Most grain shipments from our facilities 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. In addition, grain is transported via truck for direct ship transactions where customers sell grain to the Company but have it delivered directly to the end user.

The Company's grain operations rely principally on forward purchase contracts with producers, dealers and commercial elevators to ensure an adequate supply of grain to the Company's facilities throughout the year. The Company makes grain purchases at prices referenced to the Chicago Mercantile Exchange (“the CME”). Bushels contracted for future delivery at January 31, 2013 approximated 191.3 million.

The Company competes in the sale of grain with other public and private grain brokers, elevator operators and farmer owned cooperative elevators. Some of the Company's competitors are also its customers. Competition is based primarily on price, service and reliability. Because the Company generally buys in smaller lots, its competition for the purchase of grain is generally local or regional in scope, although there are some large national and international companies that maintain regional grain purchase and storage facilities. Significant portions of grain bushels purchased and sold are done so using forward contracts.

The grain handling business is seasonal in nature in that the largest portion of the principal grains are harvested and delivered from the farm and commercial elevators in July, October and November although a significant portion of the principal grains are bought, sold and handled throughout the year.

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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 entering into exchange-traded futures and option contracts with the CME. The contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments. The CME 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 grain risk management practices are designed to reduce the risk of changing commodity prices. In that regard, such practices also limit potential gains from further changes in market prices. The Company has policies that specify the key controls over its risk management practices. These policies include a description of the objectives of the programs and review of position limits by key management outside of the trading function on a daily basis along with other internal controls. 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 monitors the parties to its purchase contracts on a regular basis for credit worthiness, defaults and non-delivery.

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 or at a price where a component of the purchase price is fixed via reference to a futures price on the CME, it also enters into an offsetting sale of a futures contract on the CME. Similarly, when the Company sells grain at a fixed price, the sale is offset with the purchase of a futures contract on the CME. At the close of business each day, inventory and open purchase and sale contracts as well as open futures and option positions are marked-to-market. Gains and losses in the value of the Company's ownership positions due to changing market prices are netted with and generally offset in the income statement 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 CME. The amount of the margin deposit is set by the CME 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 CME. Subsequent price changes could require additional maintenance margin deposits or result in the return of maintenance margin deposits by the CME. Significant increases in market prices, such as those that occur when grain supplies are affected by unfavorable weather conditions 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 CME option contracts to limit its exposure to potential required margin deposits in the event of a rapidly rising market.

The Company owns 51% of the diluted equity in Lansing Trade Group LLC (“LTG”). LTG is largely focused on the movement of physical commodities, including grain and ethanol and is exposed to the some of the same risks as the Company's grain and ethanol businesses. LTG also trades in commodities that the Company's grain and ethanol businesses do not trade in, some of which are not exchange traded. This investment provides the Company with further opportunity to diversify and complement its income through activity outside of its traditional product and geographic regions. This investment is accounted for under the equity method. The Company periodically enters into transactions with LTG as disclosed in Note 8 of Item 8.

Sales of grain and related service and merchandising revenues totaled $3,293.6 million, $2,849.4 million and $1,936.8 million for the years ended December 31, 2012, 2011 and 2010. Bushels shipped by the Grain Group approximated 378 million bushels in 2012.
The Group continued to strategically grow the business during the year. In the third quarter, the Grain Group opened newly constructed 3.7 million bushel elevator in Anselmo, Nebraska that primarily handles corn and soybeans. In

addition, the Company completed the purchase of 7 grain facilities in Iowa and 5 grain facilities in Tennessee in early December. Total storage capacity of our Grain Group increased to 142 million bushels as of December 31, 2012.

The Company intends to continue to grow its traditional grain business through geographic expansion of its physical operations, pursuit of grain handling agreements, expansion at existing facilities and acquisitions.

Ethanol Group

The Ethanol Group has ownership interests in four Limited Liability Companies (“the ethanol LLCs” or “LLCs”). Each of the LLCs owns an ethanol plant that is operated by the Company's Ethanol Group. The plants are located in Iowa, Indiana, Michigan, and Ohio and have combined capacity of 330 million gallons of ethanol. The Group offers facility operations, risk management and marketing services to the LLCs it operates as well as third parties.

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The Company holds a majority interest (85%) in The Andersons Denison Ethanol LLC ("TADE"), which is a consolidated entity that was acquired on May 1, 2012. The Company holds a 50% interest in The Andersons Albion Ethanol LLC (“TAAE”) and a 38% interest in The Andersons Clymers Ethanol LLC (“TACE”). The Company holds a 50% interest in The Andersons Marathon Ethanol LLC (“TAME”) through its majority owned subsidiary The Andersons Ethanol Investment LLC (“TAEI”). A third party owns 34% of TAEI. All ethanol LLC investments, except TADE, are accounted for using the equity method of accounting.

The Company has a management agreement with each of the LLCs. As part of these agreements, the Ethanol Group runs the day-to-day operations of the plants and provides all administrative functions. The Company is compensated for these services based on a fixed cost plus an indexed annual increase determined by a consumer price index and is accounted for on a gross basis. Additionally, the Company has entered into agreements with each of the unconsolidated LLCs under which the Grain Group has the exclusive right to act as supplier for 100% of the corn used by the LLCs in the production of ethanol. For this service, the Grain Group receives a fee for each bushel of corn sold. The Company has entered into marketing agreements with each of the ethanol LLCs. Under the ethanol marketing agreements, the Company purchases 100% of the ethanol produced by TAAE, TACE and TADE and 50% of the ethanol produced by TAME to sell to external customers. The Ethanol Group receives a fee for each gallon of ethanol sold to external customers. Under the DDG marketing agreement, the Grain Group markets the DDG and receives a fee for each ton of DDG sold. Most recently, the Company has entered into corn oil marketing agreements with the LLCs for which a commission is earned on units sold.

Sales of ethanol, co-products and related merchandising and service fee revenues totaled $742.9 million, $641.5 million and $468.6 million in 2012, 2011 and 2010.

Plant Nutrient Group

The Plant Nutrient Group is a leading manufacturer, distributor and retailer of agricultural and related plant nutrients and pelleted lime and gypsum products in the U.S. Corn Belt, Florida and Puerto Rico. The Group provides warehousing, packaging and manufacturing services to basic nutrient manufacturers and other distributors.

In its plant nutrient businesses, the Company competes with regional and local cooperatives wholesalers and retailers, predominantly publicly owned manufacturers and privately owned retailers, wholesalers and importers. Some of these competitors are also suppliers and have considerably larger resources than the Company. Competition in the nutrient business of the Company is based largely on depth of product offering, price, location and service.

Wholesale Nutrients - The Wholesale Nutrients business manufactures, stores, and distributes nearly 1.8 million tons of dry and liquid agricultural nutrients, and pelleted lime and gypsum products annually. The major nutrient products sold by the business principally contain nitrogen, phosphate, potassium and sulfur.

The Plant Nutrient business also manufactures and distributes a variety of industrial products throughout the U.S. and Puerto Rico including nitrogen reagents for air pollution control systems used in coal-fired power plants, water treatment and dust abatement products, and de-icers and anti-icers for airport runways, roadways, and other commercial applications.

Farm Centers - The Farm Centers offer a variety of essential crop nutrients, crop protection chemicals and seed products in addition to application and agronomic services to commercial and family farmers. Soil and tissue sampling along with global satellite assisted services provide for pinpointing crop or soil deficiencies and prescriptive agronomic advice is provided to farmers.

Storage capacity at our wholesale nutrient and farm center facilities was approximately 470,000 tons for dry nutrients and approximately 400,000 tons for liquid nutrients at December 31, 2012. Approximately 392,000 tons of storage capacity is reserved for basic manufacturers and customers use. The agreements for reserved space provide the Company storage and handling fees and are generally for one to three year terms, renewable at the end of each term. The Company also leases approximately 10,000 tons of liquid fertilizer capacity and 7,500 tons of dry fertilizers capacity under arrangements with other distributors, farm supply dealers and public warehouses where the Company does not have facilities. Sales and warehouse shipments of agricultural nutrients are heaviest in the spring and fall.

For the years ended December 31, 2012, 2011 and 2010, sales and service revenues in the wholesale business totaled $656.0 million, $577.2 million and $520.5 million, respectively. Sales of crop production inputs and service revenues in the farm center business totaled $141.0 million, $113.4 million and $98.8 million in 2012, 2011 and 2010, respectively.

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Rail Group

The Company's Rail Group repairs, sells and leases a fleet of over 23,000 railcars and locomotives of various types, as well as a small number of containers. There are twelve railcar repair facilities across the country. In addition, fleet management services are offered to private railcar owners. The Rail Group is also an investor in the short-line railroad, Iowa Northern Railway Company ("IANR").

The Company has a diversified fleet of car types (boxcars, gondolas, covered and open top hopper cars, tank cars and pressure differential cars), locomotives, and containers serving a broad customer base. The Company principally operates in the used car market - purchasing used cars and repairing and refurbishing them for specific markets and customers. The Company plans to continue to diversify its fleet both in terms of car types, industries and age of cars. The Rail Group will execute its strategy through expansion of its fleet of railcars and locomotives through targeted portfolio acquisitions and open market purchases as well as strategic selling or scrapping of railcars. The Company also plans to expand its repair and refurbishment operations by adding fixed and mobile facilities.

A significant portion of the railcars and locomotives managed by the Company are included on the balance sheet as long-lived assets. The others are either in off-balance sheet operating leases (with the Company leasing railcars from financial intermediaries and leasing those same railcars to the end-users of the railcars) or non-recourse arrangements (where the Company is not subject to any lease arrangement related to the railcars, but provides management services to the owner of the railcars). The Company generally holds purchase options on most railcars owned by financial intermediaries. We are under contract to provide maintenance services for many of the railcars that we own or manage. Refer to the Off-Balance Sheet Transactions section of Management's Discussion and Analysis for a breakdown of our railcar and locomotive positions at December 31, 2012.

In the case of our off-balance sheet railcars and locomotives, the risk management philosophy of the Company is to match-fund the lease commitments where possible. Match-funding (in relation to rail lease transactions) means matching the terms of the financial intermediary funding arrangement with the lease terms of the customer where the Company is both lessee and sublessor. If the Company is unable to match-fund, it will attempt to get an early buyout provision within the funding arrangement to match the underlying customer lease. The Company does not attempt to match-fund lease commitments for railcars that are on our balance sheet.

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

For the years ended December 31, 2012, 2011 and 2010, revenues were $156.4 million, $107.5 million and $94.8 million, respectively, which include lease revenues of $82.2 million, $70.8 million and $63.1 million, respectively.

Turf & Specialty Group

The Turf & Specialty Group produces granular fertilizer and control products for the turf and ornamental markets. It also produces private label fertilizer and control products, and corncob-based animal bedding and cat litter for the consumer markets.

Cob Products - The Company is one of a very 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 corncobs are seed corn producers.

On October 30, 2012, the Company completed the purchase of substantially all of the assets of Mt. Pulaski Products, LLC. The operations consist of several corncob processing facilities in central Illinois. This acquisition doubled our raw cob supply and will enable us to enhance the service to our existing customers and expand our presence in the higher value segments of this business.

For the years ended December 31, 2012, 2011 and 2010, sales of corncob and related products totaled $22.5 million, $20.5 million and $19.6 million, respectively.

Turf Products - Proprietary professional turf care products are produced for the golf course and professional turf care markets, serving both U.S. and international customers. These products are sold both directly and through distributors to golf courses

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(under The Andersons Golf Products™ label) and lawn service applicators. The Company also produces and sells 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.

The turf products industry is seasonal with the majority of sales occurring from early spring to early summer. 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.

For the years ended December 31, 2011, 2010 and 2009, sales of granular plant fertilizer and control products totaled $108.5 million, $109.2 million and $104.0 million, respectively.

Retail Group

The Company's Retail Group includes large retail stores operated as “The Andersons,” which are located in the Columbus and Toledo, Ohio markets. The retail concept is More for Your Home® and the stores focus on providing significant product breadth with offerings in home improvement and other mass merchandise categories as well as specialty foods, wine and indoor and outdoor garden centers. Each store 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 Company also operates a specialty food store operated as “The Andersons Market”™ located in the Toledo, Ohio market area. The specialty food store concept has product offerings with a strong emphasis on “freshness” that features produce, deli and bakery items, fresh meats, specialty and conventional dry goods and wine. The majority of the Company's non-perishable merchandise is received at a distribution center located in Maumee, Ohio. The Company also operates a sales and service facility for outdoor power equipment near one of its retail stores.

The retail merchandising business is highly competitive. The Company competes with a variety of retail merchandisers, including grocery stores, 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 holiday season.

For the years ended December 31, 2012, 2011 and 2010, sales of retail merchandise including commissions on third party sales totaled $151.0 million, $157.6 million and $150.6 million, respectively.

Employees

The Andersons offers a broad range of full-time and part-time career opportunities. Each position in the Company is important to our success, and we recognize the worth and dignity of every individual. We strive to treat each person with respect and utilize his or her unique talents. At December 31, 2012, the Company had 1,833 full-time and 1,278 part-time or seasonal employees. In addition, with the recent purchase of 12 grain facilities from Green Plains Grain Company, over 100 of its former employees officially became Anderson employees on January 1, 2013.

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 affected by United States government programs, which include acreage control and price support programs of the USDA. In regards to our investments in ethanol production facilities, the U.S. government has mandated a ten percent blend for motor fuel gasoline sold. In addition, the U.S. Government provided incentives to the ethanol blender through December 2011 but has discontinued these incentives beginning in 2012. 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.

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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 facilities and could restrict the expansion of future facilities or significantly increase the cost of their operations. The Company spent approximately $4.4 million, $1.7 million and $1.9 million in order to comply with these regulations in 2012, 2011, and 2010, respectively.

In addition, the Company has assessed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) signed into law on July 21, 2010 and has concluded that the Company is not a major swap dealer or major swap participant.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available on our Company website soon after filing with the Securities and Exchange Commission. Our Company website is http://www.andersonsinc.com. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports are also available at the SEC's website: http://www.sec.gov.

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 elsewhere in this Form 10-K.

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 negatively affect our profitability and results of operations.

Our Grain, Ethanol and Plant Nutrient businesses buy, sell and hold inventories of agricultural input and output commodities, some of which are readily traded on commodity futures exchanges. In addition, our Turf & Specialty business uses some of the same nutrient commodities sourced by the Plant Nutrient business as base raw materials in manufacturing turf products. 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 to finance hedges in the grain business in rapidly rising markets. In our Plant Nutrient and Turf & Specialty businesses, 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 as we are unable to effectively hedge these commodities. Increased costs of inventory and prices of raw material would decrease our profit margins and adversely affect our results of operations.

Corn - The principal raw material the ethanol LLCs use to produce ethanol and co-products is corn. As a result, changes in the price of corn in the absence of a corresponding increase in petroleum based fuel prices will decrease

ethanol margins thus adversely affecting financial results in the ethanol LLCs. At certain levels, corn prices may make ethanol uneconomical to produce for fuel markets. The price of corn is influenced by weather conditions and other factors affecting crop yields, shift in acreage allocated to corn versus other major crops and general economic 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 share of the ethanol LLCs results. 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 ethanol operations until corn is available on economical terms, which would have a material adverse effect on operating results.

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Grains - While we attempt to manage the risk associated with commodity price changes for our grain inventory positions with derivative instruments, including purchase and sale contracts, we are unable to offset 100% of the price risk of each transaction due to timing, availability of futures and options contracts and third party credit risk. Furthermore, there is a risk that the derivatives we employ will not be effective in offsetting all of the risks we are trying to manage. This can happen when the derivative and the underlying value of grain inventories and purchase and sale contracts are not perfectly matched. Our grain derivatives, for example, do not perfectly correlate with the basis component of our grain inventory and contracts. (Basis is defined as the difference between the cash price of a commodity and the corresponding 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 basis moves on a large grain position can significantly impact the profitability of the Grain business.

Our futures, options and over-the-counter contracts are subject to margin calls. If there is a significant movement in the commodities market, we could be required to post significant levels of margin, which would impact our liquidity. There is no assurance 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.

Natural Gas - We rely on third parties for our supply of natural gas, which is consumed in the drying of wet grain, manufacturing of certain turf products, pelleted lime and gypsum, and manufacturing of ethanol within the LLCs. The prices for and availability of natural gas are subject to 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 the operations of the ethanol facilities. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect future results of operations and financial position.

Gasoline - In addition, we market ethanol 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 petroleum based 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 adversely affected if gasoline demand or price changes.

Potash, phosphate and nitrogen - Raw materials used by the Plant Nutrient business include potash, phosphate and nitrogen, for which prices can be volatile driven by global and local supply and demand factors. Significant increases in the price of these commodities may result in lower customer demand and higher than optimal inventory levels. In contrast, reductions in the price of these commodities may create lower-of-cost-or-market inventory adjustments to inventories.

Some 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.

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.

Grain and Ethanol businesses - In our Grain and Ethanol businesses, agricultural production and trade flows can be affected by government programs and legislation. Production levels, markets and prices of the grains we merchandise can be affected by U.S. government programs, which include acreage controls and price support programs administered 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 embargoes. Because a portion of our grain sales are to exporters, the imposition of export restrictions could limit our sales opportunities.

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The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010 and stipulates requirements for companies to comply with swap dealer reporting rules for derivative activities. The SEC and the Commodity Futures Trading Commission ("CFTC") recently released final rules indicating what qualifies companies to be deemed "swap dealers" or "major swap participants" ("MSPs") under the Dodd-Frank Act. The SEC and the CFTC also recently released final rules defining the terms "swap," "security-based swap," and "mixed swap," an important step in finalizing the regulatory framework applicable to derivatives activities. Although management has concluded that the Company is not considered to be a swap dealer or major swap participant as currently defined, it is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written rules and regulations will have on our business. However, it is expected that at a minimum they will increase our operating and compliance costs.

Rail - Our Rail business 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.

The Rail business is also subject to risks associated with the demands and restrictions of the Class 1 railroads, a group of 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 business and it can increase 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 business by causing increased competition and creating a greater 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), locomotives and a small number of containers. 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.

Turf & Specialty - Our Turf & Specialty business manufactures lawn fertilizers and weed and pest control products and uses 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 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 and Ethanol businesses, 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 business, 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 business, 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 business, 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 substantial indebtedness could negatively affect our financial condition, decrease our liquidity and impair our ability to operate the business.

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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 adverse 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 require minimum levels of working capital and equity, and impose limitations on additional debt. 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.

Adoption of new accounting rules can affect our financial position and results of operations.

The Company's implementation of and compliance with changes in accounting rules and interpretations could adversely affect its operating results or cause unanticipated fluctuations in its results in future periods. The accounting rules and regulations that the Company must comply with are complex and continually changing. The Financial Accounting Standards Board has recently introduced several new or proposed accounting standards, or is developing new proposed standards, such as International Financial Reporting Standards convergence projects, which would represent a significant change from current industry practices. Potential changes in accounting for leases, for example, will eliminate the off-balance sheet treatment of operating leases, which would not only impact the way we account for these leases, but may also impact our customers lease-versus-buy decisions and could have a negative impact on demand for our rail leases. The Company cannot predict the impact of future changes to accounting principles or its accounting policies on its financial statements going forward.

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. While we have substantial operations in our region, some of our competitors are significantly larger, compete in wider markets, have greater purchasing power, and have considerably larger financial resources. We also may enter into new markets where our brand is not recognized and do not have an established customer base. 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 and ethanol businesses use derivative contracts to reduce volatility in the commodity markets. Non-performance by the counter-parties to those contracts could adversely affect our future results of operations and financial position.

A significant amount of our grain and ethanol purchases and sales are done through forward contracting. In addition, the Company uses exchange traded and to a lesser degree over-the-counter contracts to reduce volatility in changing commodity prices. A significant adverse change in commodity prices could cause a counter-party to one or more of our derivative contracts not to perform on their obligation.

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 any one of our business segments.

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 significantly increase our costs and reduce our profit margins.

Our investments in limited liability companies are subject to risks beyond our control.

We currently have investments in numerous limited liability companies. By operating a business through this arrangement, we do not have full control over operating decisions like we would if we owned 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.

The Company may not be able to effectively integrate additional businesses it acquires in the future.

We continuously look for opportunities to enhance our existing businesses through strategic acquisitions. The process of integrating an acquired business into our existing business and operations may result in unforeseen operating difficulties and expenditures as well as require a significant amount of management resources. There is also the risk that our due diligence efforts may not uncover significant business flaws or hidden liabilities. In addition, we may not realize the anticipated benefits of an acquisition and they may not generate the anticipated financial results. Additional risks may include the inability to

effectively integrate the operations, products, technologies and personnel of the acquired companies. The inability to maintain uniform standards, controls, procedures and policies would also negatively impact operations.

Our business involves considerable 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 operational hazards such as grain dust explosions, fires, malfunction of equipment, abnormal pressures, blowouts, pipeline and tank 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.

The Company's information technology systems may impose limitations or failures which may affect the Company's ability to conduct its business.

The Company's information technology systems, some of which are dependent on services provided by third-parties, provide critical data connectivity, information and services for internal and external users. These interactions include, but are not limited to, ordering and managing materials from suppliers, converting raw materials to finished products, inventory management, shipping products to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, and other processes necessary to manage the business. The Company has put in place business continuity plans for its critical systems. However, if the Company's information technology systems are damaged, or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches, and the Company's business continuity plans do not effectively recover on a timely basis, the Company may suffer interruptions in the ability to manage its operations, which may adversely impact the Company's revenues and operating results. In addition, although the system has been refreshed periodically, the infrastructure is outdated and may not be adequate to support new business processes, accounting for new transactions, or implementation of new accounting standards if requirements are complex or materially different than what is currently in place.

Unauthorized disclosure of sensitive or confidential customer information could harm the Company's business and standing with our customers.
The protection of our customer, employee and Company data is critical to us. The Company relies on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as payment card and personal information. Despite the security measures the Company has in place, its facilities and systems, and those of its third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by the Company or its vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations and harm our business.

The Company may be unable to recover process development and testing costs, which could increase the cost of operating its business.

Early in 2012, the Company began implementing an Enterprise Resource Planning (“ERP”) system that requires significant amounts of capital and human resources to deploy. If for any reason this implementation is not successful, the Company could be required to expense rather than capitalize related amounts. Throughout implementation of the system there are also risks to the Company's ability to successfully and efficiently operate. These risks include, but are

not limited to, the inability to resource the appropriate combination of highly skilled employees, distractions to operating the base business due to use of employees time for the project, as well as unforeseen additional costs due to the inability to appropriately integrate within the planned time frame.

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Item 2. Properties

The Company's principal agriculture, rail, retail and other properties are described below.

Agriculture Facilities

		Agricultural Fertilizer	
(in thousands)	Grain Storage	Dry Storage	Liquid Storage
Location	(bushels)	(tons)	(tons)
Florida	—	3	22
Illinois	13,389	67	—
Indiana	25,989		