

ANDERSONS INC
Form 10-K
March 14, 2006

Table of Contents

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

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

For the fiscal year ended December 31, 2005

Commission file number 000-20557

THE ANDERSONS, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

34-1562374

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

480 W. Dussel Drive, Maumee, Ohio

(Address of principal executive offices)

43537

(Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ 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 ☒

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

Indicate by check mark 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 or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The aggregate market value of the registrant's voting stock which may be voted by persons other than affiliates of the registrant was \$218.8 million on June 30, 2005, computed by reference to the last sales price for such stock on that date as reported on the Nasdaq National Market.

The registrant had 7.6 million Common shares outstanding, no par value, at February 28, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2006, 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, 2006.

TABLE OF CONTENTS

PART I

Item 1. Business

Item 1A. Risk Factors

Item 2. Properties

Item 3. Legal Proceedings

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

Item 4a. Executive Officers of the Registrant

PART II

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

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Item 8. Financial Statements and Supplementary Data

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Item 9A. Controls and Procedures

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

Item 14. Principal Accountant Fees and Services

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

SIGNATURES

EXHIBIT INDEX

Exhibit 21 Consolidated Subsidiaries of the Andersons Inc.

Exhibit 23 Consent of Independent Registered Public Accounting Firm

Exhibit 31.1 302 Certification-Pres and CEO

Exhibit 31.2 302 Certification-V. Pres. and Controller, CIO

Exhibit 31.3 302 Certification-V. Pres. Finance and Treasurer

Exhibit 32.1 906 Cert-Pres-Controller and Treasurer

Table of Contents

PART I

Item 1. Business

(a) General development of business

The Andersons, Inc. (the Company) is a diversified corporation that began operations as a partnership in 1947. The Company is organized into four business segments. The Agriculture Group purchases and merchandises grain, operates grain elevator facilities located in Ohio, Michigan, Indiana and Illinois, invests in and provides management services for ethanol production facilities, manufactures and sells dry and liquid agricultural nutrients, distributes agricultural inputs (nutrients, chemicals, seed and supplies) to dealers and farmers and formulates anti-icers for road and runway use. The Rail Group sells, repairs, reconfigures, manages and leases railcars and locomotives. The Turf & Specialty Group (formerly the Processing Group) manufactures turf and ornamental plant fertilizer and control products for lawn and garden use, professional golf and landscaping industries and 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 14 to the consolidated financial statements in Item 8 for information regarding business segments.

Table of Contents

(c) Narrative description of business

Agriculture Group

The Agriculture Group operates grain elevators, plant nutrient formulation and distribution facilities and farm centers. This Group also has invests in and provides management services for ethanol production facilities.

The Company's grain operations involve merchandising grain and operating terminal grain elevator facilities. This includes purchasing, handling, processing and conditioning grain, storing grain purchased by the Company as well as grain owned by others, and selling grain. The principal grains sold by the Company are yellow corn, yellow soybeans and soft red and white wheat. The Company's grain storage practical capacity was approximately 81.3 million bushels at December 31, 2005.

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 agreements cover 41%, or approximately 33.1 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 \$132.0 million in 2005, 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. If the Marketing Agreement was not in place for the Maumee and Toledo locations, it is likely that Cargill would still purchase grain from the Company at these locations either for consumption in their processing facilities or to market to other end users. There were no sales to any other customer in excess of 10% of consolidated net sales.

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

Table of Contents

cost on the property, inventory and business interruption with a total deductible of \$0.25 million. The Company is continuing to reclaim grain, perform site clean-up, conduct necessary demolition and has begun the repair and reconstruction of the facility. The Company anticipates insurance recoveries for property damage, business interruption and extra expenses incurred. The majority of these insurance proceeds will not be available to the Company until 2006, while business losses were partially incurred in 2005. As of December 31, 2005, the Company's costs of \$2.9 million related to clean up and emergency expenses and \$0.8 million in inventory losses (after deductible) have been funded by the insurance company with a \$2 million advance.

Approximately 81% of the grain bushels sold by the Company in 2005 were purchased by U.S. grain processors and feeders, and approximately 19% 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 price. 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 Grain division'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

Table of Contents

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, 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, 2006 approximated 94.2 million, the majority of which is scheduled to be delivered to the Company for the 2005 and 2006 crop years (i.e., through September 2007). 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.

In January 2003, the Company became a minority investor in 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 in Michigan, Minnesota and Kansas. This investment provides the Company a further opportunity to expand outside of its traditional geographic regions. The Company holds an option to increase its investment in each of 2007 through 2008 with the potential of becoming the majority holder in 2008. In the first quarter of 2006, the Company made an additional investment to increase its ownership from approximately 29.0% to 36.1%.

In the first quarter of 2005, the Company invested \$1 million in Iroquois Bio-Energy Company, LLC, an Ethanol plant which began construction this year in Rensselaer, Indiana. An additional \$1 million was invested in the fourth quarter of 2005 to increase its ownership to 7.9%. The Company will also act as the corn originator and risk manager for this facility.

Table of Contents

In September 2005, the Company invested approximately \$13.1 million for a 44% interest in The Andersons Albion Ethanol LLC which began construction on a 55 million gallon-per-year ethanol production facility adjacent to the Company's Albion, Michigan grain facility. The Company plans to lease the grain elevator facility to the LLC upon completion, operate the ethanol facility under a management contract and provide origination, marketing and risk management services also under contracts with the LLC.

In February 2006, the Company invested \$21.0 million for a 37% interest in The Andersons Clymers Ethanol LLC which is constructing a 110 million gallon-per-year ethanol production facility adjacent to the Company's Clymers, Indiana grain facility. Upon completion, the Company will operate the ethanol facility under a management agreement contract and provide origination, marketing and risk management services also under contracts with the LLC. The Company is continuing its investigation into other possible opportunities in the ethanol industry and may increase its involvement through additional investments in stand-alone facilities, investments in holding companies or contracts to provide services to new or existing facilities.

If the projected growth of the ethanol industry occurs, it could impact the Company's grain business in potentially significant ways. It is expected to increase demand for corn, with resulting higher prices and increased competition. 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 Nutrients division by increasing demand for nitrogen, phosphates and potassium. The growth of corn is more dependent on these fertilizer products than soybeans or wheat.

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.

Grain sales make up approximately 70% of the total sales in the Agriculture Group. 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.

The Company's plant nutrient operations involve purchasing, storing, formulating and selling dry and liquid fertilizer to dealers and farmers; providing warehousing and services to manufacturers and customers; formulating liquid anti-icers and deicers for use on roads and runways; and distributing seeds and various farm supplies. Finally, the division 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

Table of Contents

nitrogen, phosphate and potash, all of which are readily available, although from a decreasing number of suppliers. 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 division'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 13.9 million cubic feet for dry fertilizers and approximately 35.8 million gallons for liquid fertilizers at December 31, 2005. The Company reserves 6.5 million cubic feet of its dry storage capacity for various fertilizer manufacturers and customers and 16.8 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 have considerably larger resources than the Company. Competition in the agricultural products business of the Company is based principally on price, location and service.

Sales of grain (corn, soybeans, wheat and oats) and merchandising revenues totaled \$628.0 million, \$664.6 million and \$696.6 million in 2005, 2004 and 2003 respectively. Sales of dry and liquid fertilizers (primarily nitrogen, phosphate and potash) to dealers and related merchandising revenues totaled \$231.9 million, \$198.7 million and \$157.8 million in 2005, 2004 and 2003, respectively. Sales of fertilizer, chemicals, seeds and supplies to farmers and related merchandising revenues totaled \$39.5 million, \$37.9 million and \$36.8 million in 2005, 2004 and 2003, respectively.

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

Table of Contents

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 19,363 railcars and 96 locomotives that the Company managed at December 31, 2005, 11,224 units or 58%, were included on the balance sheet, primarily as long-lived assets. The remaining 8,161 railcars and 74 locomotives are either in off-balance sheet operating leases or non-recourse arrangements. The Company also managed approximately 797 railcars for third party investors or consumers at December 31, 2005. We are under contract to provide maintenance services for 19,164 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 2005 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 car types and industries and to expand its fleet in 2006 through portfolio acquisition and open market purchases, which could include both owned and managed railcars and locomotives.

The Company operates in the used car market purchasing used cars and repairing and refurbishing them for specific markets and customers. The recent increase in demand for railcars has allowed the Company to place new leases or renew existing leases at higher rates and for longer terms. Additionally, two of the Company's railcar repair shops located in Maumee, Ohio and Darlington, South Carolina, continue to operate at high capacity doing both repair and reconfiguration work. The Company outsources all of its locomotive and a large part of its railcar maintenance needs. In April 2005, the Company opened a third railcar repair shop in Bay St. Louis, Mississippi. In late August 2005, the shop was damaged as a result of Hurricane Katrina. The value of property damaged was minimal, however business was interrupted for some time. The hurricane also impacted the Rail Marketing operation by there being two lessees in the area unable to receive railcars from us as well as some of their leased railcars being damaged. The estimated

Table of Contents

losses are not expected to be material. Currently this facility is repairing cars damaged by Hurricane Katrina. Lease revenues and railcar sales in the Company's railcar marketing business were \$81.9 million, \$53.9 million and \$30.5 million for 2005, 2004 and 2003 respectively. Sales in the railcar repair and fabrications shops were \$10.1 million, \$5.4 million and \$4.7 million for 2005, 2004 and 2003, respectively.

Turf & Specialty Group

The Turf & Specialty Group, formerly the Processing Group, produces and markets turf and ornamental plant fertilizer and control products. It also produces and distributes corncob-based products to the chemical carrier, pet and industrial 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 in its industrial line of business. In an industrial arrangement, the Company is not responsible for direct marketing support of the mass merchandiser. Margins on industrial tons 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 division. 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.

Sales of turf and ornamental plant fertilizer and control products totaled \$110.1 million, \$116.9 million and \$123.5 million in 2005, 2004 and 2003, 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.

Sales of corncob and related products totaled \$12.4 million, \$10.9 million and \$10.5 million in 2005, 2004 and 2003, respectively.

Table of Contents

During the third quarter of 2005, the Company announced a restructuring of the Turf & Specialty Group. The Turf & Specialty Group was re-focused on the professional lawn market and on areas where value can be added in the consumer and industrial markets. Corncob milling was also consolidated into one facility. Costs of this restructuring expensed in 2005 were \$1.2 million. Also during the third quarter of 2005, a steel cob tank caught fire. No one was injured, however, estimated damage to the property and inventory is \$0.6 million. It is unknown to what extent this loss will be covered by the Company's insurance policy which carries a deductible of \$0.25 million.

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 includes a full line of home center products plus a wide array of other items not available at the more traditional home center stores. In addition to hardware, home remodeling and lawn and garden products, The Andersons stores offer housewares, automotive products, sporting goods, pet products, bath soft goods and food (bakery, deli, produce, wine and specialty groceries). In 2005, the Company opened a meat market in its fifth store. These meat markets are operated by a third party and the Company earns a percentage commission on each sale. 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.

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.

Sales of retail merchandise including commissions on third party sales totaled \$182.8 million, \$178.7 million and \$178.6 million in 2005, 2004 and 2003, respectively.

Research and Development

The Company's research and development program is mainly involved with the development of improved products and processes, primarily for the Turf & Specialty and Agriculture Groups. The Company expended approximately \$635,000 on research and development activities during 2005 and \$650,000 in each of 2004 and 2003.

Table of Contents

Employees

At December 31, 2005 the Company had 1,208 full-time and 1,542 part-time or seasonal employees. The Company believes its relations with its employees are good.

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 and also has mandated certain volumes of ethanol to be produced. 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 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 \$1.6 million, \$1.5 million and \$1.4 million in order to comply with these regulations in 2005, 2004 and 2003, respectively.

Table of Contents

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.

Adverse changes to the general economic climate can impact our business.

Our business is subject to economic conditions that may fluctuate in the markets in which we operate. Factors that could cause economic conditions to fluctuate include recession, inflation, changes in consumer purchasing power and preferences.

Problems with our product and service quality or performance may adversely affect our reputation.

Problems with our product and service quality, our product performance, or accusations of illegality, even if unfounded, could cause our reputation as a company to become damaged and prevent us from achieving increased sales and market share as well as affect the price of our common stock.

Our business depends on our effective and efficient use of information technology.

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 and could severely affect our ability to conduct normal business operations.

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.

National and international political developments may subject our business to additional risks and costs.

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, we may

Table of Contents

need to incur significant costs and we need to make sure that we are current with new government legislation and regulatory actions affecting us. Finally, no level of regulatory compliance can guaranty that security threats will never occur.

Our business involves significant safety risks.

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, malfunction of equipment and chemical spills/run-off. 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 at one of our Plant Nutrient or Turf & Specialty facilities, it could harm not only our employees but the environment as well and could subject us to significant costs.

Many of our sales are executed on credit and 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.

Our ability to operate our company effectively 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 have a material adverse effect on our business.

Our substantial indebtedness could adversely affect our financial condition and 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;

Table of Contents

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.

Our peak borrowing occurs in the spring (and to a lesser degree, the fall) due to seasonal inventory requirements in the nutrient and retail businesses, credit sales of fertilizer and a customary reduction in grain payables due to the cash needs and market strategies of grain customers. If cash on hand is insufficient to pay our obligations 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. Although we are and have been in compliance with these provisions, noncompliance could result in default and acceleration of long-term debt payments.

Our business is affected by the supply and demand of commodities, and adverse price movements can depress our results of operations.

Our Agriculture Group buys, sells and holds inventories of various commodities, some of which are readily traded on commodity futures exchanges. Our Turf & Specialty Group uses some of these same commodities as base raw materials in its lawn 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 division and Turf & Specialty Group. 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. However, 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, and 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 division derivatives,

Table of Contents

for example, do not hedge the basis pricing component of our grain inventory and contracts. Basis is the difference between the cash price of a commodity in our facility and the nearest exchange-traded futures price. Differences can represent 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 profitability of both the Agriculture Group and the Company. In our business, we buy and sell commodity derivatives on registered and non-registered exchanges. These derivatives are subject to margin calls and if there is a significant movement in the derivatives market, it could cause us to incur a significant amount of liabilities and impact our liquidity. We generally do not hedge non-grain commodities. 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.

We handle potentially hazardous materials and environmental risks related to those materials can increase the cost of operating our business or subject us to significant costs and liabilities.

A significant part of our operations are 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.

Many of our businesses operate in highly regulated industries, and changes in government or trade association policy can adversely affect our business.

Many of our businesses 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 Agricultural Group, agricultural production and trade flows are affected by government actions. Production levels, markets and prices of the grains we merchandise are affected by US 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

Table of Contents

restrictions and outright embargos. In addition, the development of the ethanol industry in which we have invested has been driven by US 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. 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. Regulations governing the use and registration of these materials have in the past required us to adjust the raw material content of our products and make formulation changes, and 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 and would, in turn, result in a loss of revenue, cause our inventory to become obsolete and could bring about the potential for lawsuits against us.

Consequently, changes in existing and future government or trade association policies may restrict our ability to do business and/or cause our financial results to suffer.

We face increasing competition and pricing pressure from other companies in our industries, and if we are unable to compete effectively with these companies, our sales and profitability could be adversely affected.

The markets for our products are highly competitive. In the grain industry, we compete 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 and compete in wider markets. In the plant nutrients business, we compete with regional cooperatives, manufacturers, wholesalers and multi-state retail/wholesalers. Many of these competitors have considerably larger resources than us. Our Rail Group is subject to competition in its 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 Turf & Specialty Group competes with other manufacturers of lawn fertilizer and corn-cob processors and our retail business competes with a variety of retailers, primarily mass merchandisers and do-it-yourself home centers in its three markets. The principle

Table of Contents

competitive factors in the retail business are location, quality of product, 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. Competitive pressures in all of our businesses could affect price or customer demand for our products, negatively impacting our profit margins and/or resulting in a loss of market share.

Our business can be adversely affected by seasonality and weather conditions.

Many of our operations are dependent on weather conditions. The success of our Agriculture Group, for example, is highly dependent on the weather in the eastern corn belt (Ohio, Michigan, Indiana and Illinois), 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 affects the application of fertilizer and other products to golf course and other 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 their sales from these products during the spring season.

Disruptions in available transportation channels may interrupt our operations and adversely affect our business.

If there were a disruption in available transportation due to natural disaster, strike or other factors, we may be unable to get 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 have limited production and storage facilities for our products.

In our Turf & Specialty Group, we currently have only one production facility for our cob based products. Within our Retail Group, we have only one warehouse which stores all of our retail merchandise inventory. Any event or occurrence impacting these facilities could cause major disruption to our business operations. Additionally, our Agriculture Group is dependent on grain elevator and nutrient storage capacity. The loss of use of one of our larger storage facilities could cause a major disruption to our agriculture business 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 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 suppliers' prices, it could have the impact of disrupting operations due to lack of available raw materials or significantly increasing our costs which could cause us to be unable to sell our products at a reasonable margin.

Table of Contents

We are required to carry significant amounts of inventory across all of our businesses.

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 business. For example, within our grain business, there is the risk that the quality of our grain inventory could deteriorate due to damage, moisture, disease or foreign material. If the quality of our grain were to deteriorate below an acceptable level, it could decrease the value of our inventory significantly.

In our plant nutrients 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 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.

We have made significant investments in the ethanol business, and any decline in the value of a market for ethanol could have a material adverse affect on our business.

We have recently invested in two joint ventures involved in the production of ethanol. In February 2006, we invested in a third joint venture involved in the ethanol business. These are new investments for us in a line of business in which we have limited experience. The ethanol business is impacted by government regulation, the price of corn and the price of natural gas as there is a significant amount of this product required in the production process. If natural gas prices continue to rise, it could have an impact on profitability. The demand for ethanol is driven in large part by factors beyond our control including unleaded gas prices, government regulations and incentives and other alternative sources of fuel. The U.S. Government provides incentives to the ethanol blender and also has mandated certain volumes of ethanol to be produced. The price at which we can sell ethanol depends in great measure upon the price of unleaded gasoline while the cost of producing ethanol depends upon the price of corn and natural gas. Because the costs of production may have very little direct relationship to our ability to demand a price, the ethanol industry poses inherent risks. If there were significant changes in any of these factors, it could adversely affect the demand and profitability of ethanol which could cause our investments in these joint ventures to become impaired.

The construction of ethanol plants in our market region is also causing our grain division to have to compete for available corn. Ethanol requires a significant

Table of Contents

number of bushels of corn for its production and if corn were to become unavailable to us, it would impact the dynamics of our entire grain business.

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

We currently have investments in five 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.

A significant portion of our business operates in the railroad industry, which is subject to unique, industry specific risks.

We are subject to risks associated with the demands and restrictions of the Class 1 railroads, a group of privately owned rail companies owning a high percentage of the existing rail lines. The railroads exercise a high degree of control over whether private railcars can be allowed on their lines and may reject certain railcars or require railcar improvements to carry higher load limits. Also, 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 an over supply of railcars.

In addition, 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.

Our rail business relies upon customers continuing to lease rather than purchase railcar assets and a shift from leasing to purchase could adversely impact our business.

The Rail Group relies upon its customers continuing to lease rather than purchase assets. There are a number of items that factor into the customer's decision to lease or purchase assets, such as tax considerations, interest rates, balance sheet considerations and operational flexibility. We have no control over these external considerations and changes in these factors 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 the company operates, changes in customer behavior, or any other changes in supply or demand.

A portion of our railcar leases are not match funded.

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

Table of Contents

not perfectly match the funding terms, leading to non-income generating assets if a replacement lessee cannot be found.

Our future operating results may not meet expectations.

Our business consists of four very diverse and complex operating segments. As a result of this as well as any of the other risk factors mentioned previously, our quarterly revenues and operating results for a particular period are sometimes difficult to predict. Our operating results may differ from previous periods and may not meet current expectations. Material differences from expectation or previous periods could subject the market price of our stock to volatility.

Compliance with U.S. generally accepted accounting principles requires the use of estimates and assumptions which can differ from actual results.

The process of preparing financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the carrying values of our assets and liabilities as well as the recognition of revenues and expenses. There is a risk that actual amounts could differ from such estimates. Significant items subject to such estimates and assumptions include allowance for doubtful accounts receivable, inventory reserves, carrying values of long-lived assets, liabilities for litigation and claims, liabilities for self-insurance, liabilities for deferred taxes and pension liabilities.

Compliance with the internal controls requirements of the Sarbanes-Oxley Act may not detect all errors or omissions.

Effective internal controls are necessary to provide reliable financial reports and help reduce the likelihood of fraud, theft and other illegal acts. 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 controls 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 are in place, 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, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price.

Changes in accounting rules can affect our financial position and results of operations.

We have a significant amount of assets (railcars and related leases) and liabilities (pension and postretirement benefits) that are off-balance sheet. If generally accepted accounting principles were to change to require that these items be reported in the

Table of Contents

financial statements, it would cause us to record a significant amount of assets and 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. The FASB currently has a project on their agenda that, if adopted, would require the recognition of the overfunded and underfunded status of defined benefit postretirement plans as an asset or a liability on the balance sheet.

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.

Our Company, like most companies, continues to 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. Subsequent to December 31, 2005, the Company amended its defined benefit pension plans effective January 1, 2007. The provisions of this amendment include freezing benefits for the retail line of business employees as of December 31, 2006, freezing benefits for the non-retail line of business employees at December 31, 2006 with future benefits to be calculated using a new career average formula and in the case of all employees, compensation for the years 2007-2012 will be includable in the final average pay formula calculating the final benefit earned for years prior to December 31, 2006.

The Company's postretirement health care benefit plans are generally contributory and include a limit on the Company's share for most retirees. The Company has tried to mitigate some of the risk associated with these plans by eliminating all retiree health care benefits for employees hired after January 1, 2003. In addition, the Company has limited its premium contribution for future years to the rates in effect at December 31, 2002 plus a 3% inflation factor per year after that date.

Table of Contents**Item 2. Properties**

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

Agriculture Facilities

(in thousands)			
Location	Grain Storage (bushels)	Agricultural Fertilizer Dry Storage (cubic feet)	Liquid Storage (gallons)
Maumee, OH (3)	21,942	4,500	2,878
Toledo, OH Port (4)	11,196	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)		40	271
Fostoria, OH (2)		40	250
Champaign, IL	12,732	1,200	
Dunkirk, IN	7,800	833	
Delphi, IN	7,063	923	
Clymers, IN (5)	4,716		
Oakville, IN	3,450		
Walton, IN (2)		435	8,690
Poneto, IN		10	5,750
Logansport, IN		83	3,652
Waterloo, IN (2)		992	1,656
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
	81,261	13,945	35,790

(1) Facility leased.

(2) Facility is or includes a farm center.

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

(4) Due to explosion and resulting fire that occurred at the leased portion of this facility in the third quarter of 2005, current capacity has been reduced from the normal 5,900 bushels to 4,650.

(5) Planned lease to ethanol production facilities under construction.

Table of Contents

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 division'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	131,000
Toledo Store	Toledo, OH	130,000
Woodville Store (1)	Northwood, OH	100,000
Lima Store (1)	Lima, OH	117,000
Sawmill Store	Columbus, OH	134,000
Brice Store	Columbus, OH	128,000
Distribution Center (1)	Maumee, OH	245,000

(1) Facility Leased

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 \$1.0 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 96 locomotives and 19,363 railcars. Future minimum lease payments for the railcars and locomotives are \$77.6 million with future minimum contractual lease and service income of approximately \$169.0 million for all railcars, regardless of ownership. Lease terms range from one to eight years. The Company also operates railcar repair facilities in Maumee, Ohio; Darlington, 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.

Table of Contents

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 1,147 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 \$60.9 million at December 31, 2005. Additionally, 8,345 railcars and 44 locomotives are held in bankruptcy-remote entities collateralizing \$103.2 million of non-recourse debt at December 31, 2005. Additions to property, including intangible assets but excluding railcar assets, for the years ended December 31, 2005, 2004 and 2003 amounted to \$11.9 million, \$16.8 million and \$11.7 million, respectively. Additions to the Company's railcar assets totaled \$98.9 million, \$127.7 million and \$20.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. These additions were offset by sales and financings of railcars of \$69.1 million, \$45.6 million and \$16.7 million for the same periods. See Note 11 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. The Company is keeping local authorities apprised of its implementation schedule, and is attempting to secure consent from needed landowners. 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 2005.

Item 4a. 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 age (as of February 28, 2006) are presented below.

Table of Contents

Name	Position	Age	Year Assumed
Dennis J. Addis	President, Plant Nutrient Division, Agriculture Group Vice President and General Manager, Plant Nutrient Division, Agriculture Group	53	2000 1999
Daniel T. Anderson	President, Retail Group	50	1996
Michael J. Anderson	President and Chief Executive Officer President and Chief Operating Officer	54	1999 1996
Thomas Waggoner	President, Turf & Specialty Group Vice President, Sales & Marketing, Turf & Specialty Group Director of Supply Chain/Consumer & Industrial Sales, Turf & Specialty Group Director of Supply Chain, Turf & Specialty Group	51	2005 2002 2001 2000
Naran U. Burchinow	Vice President, General Counsel and Secretary Formerly Operations Counsel, GE Commercial Distribution Finance Corporate Formerly General Counsel, ITT Commercial Finance Corporation and Deutsche Financial Services	52	2005 2003 1993
Dale W. Fallat	Vice President, Corporate Services	61	1992
Philip C. Fox	Vice President, Corporate Planning	63	1996
Charles E. Gallagher	Vice President, Human Resources	64	1996
Richard R. George	Vice President, Controller and CIO	56	2002