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Andersons, Inc.

Form 10-Q

November 06, 2018

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[Table of Contents](#)

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2018**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-20557**

**THE ANDERSONS, INC.**

**(Exact name of the registrant as specified in its charter)**

**OHIO**                      **34-1562374**  
(State of incorporation (I.R.S. Employer  
or organization)              Identification No.)

**1947 Briarfield Boulevard, Maumee, Ohio 43537**  
(Address of principal executive offices)                      (Zip Code)

**(419) 893-5050**  
(Telephone Number)

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

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

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

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

Large accelerated filer  Accelerated Filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had approximately 28.3 million common shares outstanding, no par value, at October 26, 2018.

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Table of Contents

THE ANDERSONS, INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2018, December 31, 2017 and September 30, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations – Three and nine months ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Condensed Consolidated Statements of Equity – Nine months ended September 30, 2018 and 2017</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>47</u>

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****The Andersons, Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)(In thousands)**

	September 30, 2018	December 31, 2017	September 30, 2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	<b>\$16,820</b>	\$34,919	\$24,478
Accounts receivable, net	<b>206,380</b>	183,238	196,192
Inventories (Note 2)	<b>490,331</b>	648,703	475,602
Commodity derivative assets – current (Note 5)	<b>76,861</b>	30,702	45,202
Other current assets	<b>58,374</b>	63,790	53,958
Assets held for sale	<b>29,527</b>	37,859	8,383
Total current assets	<b>878,293</b>	999,211	803,815
Other assets:			
Commodity derivative assets – noncurrent (Note 5)	<b>766</b>	310	245
Goodwill	<b>6,024</b>	6,024	23,105
Other intangible assets, net	<b>100,730</b>	112,893	113,371
Other assets, net	<b>26,174</b>	12,557	11,852
Equity method investments	<b>240,350</b>	223,239	215,031
	<b>374,044</b>	355,023	363,604
Rail Group assets leased to others, net (Note 3)	<b>464,776</b>	423,443	377,393
Property, plant and equipment, net (Note 3)	<b>434,505</b>	384,677	419,348
Total assets	<b>\$2,151,618</b>	\$2,162,354	\$1,964,160

Table of Contents

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

	September 30, 2018	December 31, 2017	September 30, 2017
<b>Liabilities and equity</b>			
Current liabilities:			
Short-term debt (Note 4)	<b>\$132,000</b>	\$22,000	\$19,000
Trade and other payables	<b>344,406</b>	503,571	381,359
Customer prepayments and deferred revenue	<b>38,242</b>	59,710	29,520
Commodity derivative liabilities – current (Note 5)	<b>91,403</b>	29,651	38,578
Accrued expenses and other current liabilities	<b>68,925</b>	69,579	67,064
Current maturities of long-term debt (Note 4)	<b>15,677</b>	54,205	53,972
Total current liabilities	<b>690,653</b>	738,716	589,493
Other long-term liabilities	<b>30,615</b>	33,129	34,407
Commodity derivative liabilities – noncurrent (Note 5)	<b>2,548</b>	825	902
Employee benefit plan obligations	<b>25,356</b>	26,716	36,356
Long-term debt, less current maturities (Note 4)	<b>437,280</b>	418,339	371,315
Deferred income taxes	<b>122,523</b>	121,730	181,876
Total liabilities	<b>1,308,975</b>	1,339,455	1,214,349
Commitments and contingencies (Note 14)			
Shareholders' equity:			
Common shares, without par value (63,000 shares authorized; 29,430 shares issued at 9/30/2018, 12/31/17 and 9/30/2017)	<b>96</b>	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)	—	—	—
Additional paid-in-capital	<b>222,368</b>	224,622	223,814
Treasury shares, at cost (929, 1,063 and 1,079 shares at 9/30/2018, 12/31/17 and 9/30/2017, respectively)	<b>(35,039)</b>	(40,312)	(40,905)
Accumulated other comprehensive loss	<b>(4,364)</b>	(2,700)	(9,682)
Retained earnings	<b>628,676</b>	633,496	568,438
Total shareholders' equity of The Andersons, Inc.	<b>811,737</b>	815,202	741,761
Noncontrolling interests	<b>30,906</b>	7,697	8,050
Total equity	<b>842,643</b>	822,899	749,811
Total liabilities and equity	<b>\$2,151,618</b>	\$2,162,354	\$1,964,160
See Notes to Condensed Consolidated Financial Statements			

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Sales and merchandising revenues	<b>\$685,579</b>	\$836,595	<b>\$2,232,720</b>	\$2,682,273
Cost of sales and merchandising revenues	<b>631,715</b>	766,924	<b>2,024,677</b>	2,448,310
Gross profit	<b>53,864</b>	69,671	<b>208,043</b>	233,963
Operating, administrative and general expenses	<b>65,986</b>	68,153	<b>190,096</b>	219,242
Asset impairment	—	—	<b>6,272</b>	—
Goodwill impairment	—	—	—	42,000
Interest expense	<b>5,176</b>	5,384	<b>20,000</b>	17,472
Other income:				
Equity in earnings (loss) of affiliates, net	<b>7,225</b>	3,586	<b>20,601</b>	8,093
Other income, net	<b>6,434</b>	5,285	<b>10,949</b>	17,028
Income (loss) before income taxes	<b>(3,639)</b>	) 5,005	<b>23,225</b>	(19,630 )
Income tax provision (benefit)	<b>(1,764)</b>	) 2,389	<b>5,668</b>	7,505
Net income (loss)	<b>(1,875)</b>	) 2,616	<b>17,557</b>	(27,135 )
Net income (loss) attributable to the noncontrolling interests	<b>223</b>	83	<b>(175)</b>	) 73
Net income (loss) attributable to The Andersons, Inc.	<b>\$(2,098)</b>	) \$2,533	<b>\$17,732</b>	\$(27,208 )
<b>Per common share:</b>				
Basic earnings (loss) attributable to The Andersons, Inc. common shareholders	<b>\$(0.07)</b>	) \$0.09	<b>\$0.63</b>	\$(0.96 )
Diluted earnings (loss) attributable to The Andersons, Inc. common shareholders	<b>\$(0.07)</b>	) \$0.09	<b>\$0.62</b>	\$(0.96 )
Dividends declared	<b>\$0.165</b>	\$0.160	<b>\$0.495</b>	\$0.480
See Notes to Condensed Consolidated Financial Statements				

Table of Contents**The Andersons, Inc.****Condensed Consolidated Statements of Comprehensive Income (Loss)  
(Unaudited)(In thousands)**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	<b>\$(1,875)</b>	\$2,616	<b>\$17,557</b>	\$(27,135)
Other comprehensive income (loss), net of tax:				
Change in fair value of convertible preferred securities (net of income tax of \$0, \$134, \$0 and \$134)	—	211	<b>(87)</b>	) 211
Change in unrecognized actuarial loss and prior service cost (net of income tax of \$(38), \$(64), \$(139) and \$(699))	<b>(129)</b>	) (101)	<b>(467)</b>	) (1,099)
Cash flow hedge activity (net of income tax of \$40, \$0, \$56 and \$0)	<b>119</b>	—	<b>170</b>	—
Foreign currency translation adjustments (net of income tax of \$0, \$0, \$0 and \$0)	<b>993</b>	2,201	<b>(1,280)</b>	) 3,674
Other comprehensive income (loss)	<b>983</b>	2,311	<b>(1,664)</b>	) 2,786
Comprehensive income (loss)	<b>(892)</b>	) 4,927	<b>15,893</b>	(24,349)
Comprehensive income (loss) attributable to the noncontrolling interests	<b>223</b>	83	<b>(175)</b>	) 73
Comprehensive income (loss) attributable to The Andersons, Inc.	<b>\$(1,115)</b>	\$4,844	<b>\$16,068</b>	\$(24,422)
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

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

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net income (loss)	<b>\$ 17,557</b>	\$(27,135)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	<b>67,960</b>	64,546
Bad debt expense (recovery)	<b>(436)</b>	) 1,076
Equity in (earnings) losses of affiliates, net of dividends	<b>(18,390)</b>	) (2,168 )
Gains on sale of Rail Group assets and related leases	<b>(5,911)</b>	) (7,642 )
Gain on sale of assets	<b>(4,181)</b>	) (11,443 )
Stock-based compensation expense	<b>4,898</b>	4,550
Goodwill impairment	<b>—</b>	42,000
Asset impairment	<b>6,272</b>	—
Other	<b>(2,626)</b>	) (610 )
Changes in operating assets and liabilities:		
Accounts receivable	<b>(20,853)</b>	) (334 )
Inventories	<b>156,375</b>	200,667
Commodity derivatives	<b>18,080</b>	16,073
Other assets	<b>127</b>	10,422
Payables and other accrued expenses	<b>(190,042)</b>	) (229,268 )
Net cash provided by (used in) operating activities	<b>28,830</b>	60,734
<b>Investing Activities</b>		
Acquisition of business, net of cash acquired	<b>—</b>	) (3,507 )
Purchases of Rail Group assets	<b>(108,054)</b>	) (77,513 )
Proceeds from sale of Rail Group assets	<b>47,644</b>	18,368
Purchases of property, plant and equipment and capitalized software	<b>(86,694)</b>	) (26,705 )
Proceeds from sale of assets	<b>42,307</b>	26,601
Proceeds from returns of investments in affiliates	<b>—</b>	1,339
Purchase of investments	<b>(11,086)</b>	) (4,929 )
Other	<b>—</b>	1,470
Net cash provided by (used in) investing activities	<b>(115,883)</b>	) (64,876 )
<b>Financing Activities</b>		
Net change in short-term borrowings	<b>110,000</b>	) (11,059 )
Proceeds from issuance of long-term debt	<b>57,000</b>	35,175
Proceeds from long-term financing arrangement	<b>—</b>	12,195
Payments of long-term debt	<b>(112,995)</b>	) (54,326 )
Proceeds from noncontrolling interest owner	<b>31,115</b>	—
Proceeds from sale of treasury shares to employees and directors	<b>—</b>	450
Payments of debt issuance costs	<b>(1,446)</b>	) (2,024 )
Dividends paid	<b>(13,976)</b>	) (13,485 )
Other	<b>(744)</b>	) (936 )
Net cash provided by (used in) financing activities	<b>68,954</b>	) (34,010 )
Decrease in cash and cash equivalents	<b>(18,099)</b>	) (38,152 )
Cash and cash equivalents at beginning of period	<b>34,919</b>	62,630
Cash and cash equivalents at end of period	<b>\$ 16,820</b>	\$ 24,478



See Notes to Condensed Consolidated Financial Statements

7

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Table of Contents

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

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2016	\$ 96	\$222,910	\$(45,383)	\$(12,468)	\$609,206	\$16,336	\$790,697
Net income (loss)					(27,208)	73	(27,135)
Other comprehensive income (loss)				2,786			2,786
Other change in noncontrolling interest						(8,359)	(8,359)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$(323) (122 shares)		899	4,426				5,325
Dividends declared (\$0.48 per common share)					(13,503)		(13,503)
Restricted share award dividend equivalents		5	52		(57)		—
Balance at September 30, 2017	\$ 96	\$223,814	\$(40,905)	\$(9,682)	\$568,438	\$8,050	\$749,811
Balance at December 31, 2017	\$ 96	\$224,622	\$(40,312)	\$(2,700)	\$633,496	\$7,697	\$822,899
Net income (loss)					17,732	(175)	17,557
Other comprehensive income (loss)				(1,664)			(1,664)
Cash received from (paid to) noncontrolling interest		(2,268)				23,384	21,116
Adoption of accounting standard, net of income tax of \$2,869					(8,441)		(8,441)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$(0) (134 shares)		14	5,153				5,167
Dividends declared (\$0.495 per common share)					(13,991)		(13,991)
Restricted share award dividend equivalents			120		(120)		—
Balance at September 30, 2018	\$ 96	\$222,368	\$(35,039)	\$(4,364)	\$628,676	\$30,906	\$842,643

See Notes to Condensed Consolidated Financial Statements

Table of Contents

**The Andersons, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**1. Basis of Presentation and Consolidation**

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

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

In the opinion of management, all adjustments consisting of normal and recurring items considered necessary for the fair presentation of the results of operations, financial position, and cash flows for the periods indicated have been made. The results in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. An unaudited Condensed Consolidated Balance Sheet as of September 30, 2017 has been included as the Company operates in several seasonal industries.

The Condensed Consolidated Balance Sheet data at December 31, 2017 was derived from the audited Consolidated Financial Statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").

New Accounting Standards

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12 Targeted Improvements to Accounting for Hedging Activities. This standard simplifies the recognition and presentation of changes in the fair value of hedging instruments and, among other things, eliminates the requirement to separately measure and record hedge ineffectiveness. The Company early adopted ASU 2017-12 during the current year noting the effects of this standard on our condensed consolidated financial statements were not material. There was no transition impact.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (ASC 606). The FASB issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016, and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10 ASU 2016-12 and ASU 2016-20, respectively. The core principle of the new revenue standard is that an entity recognizes revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard in the current year using the modified retrospective method. As a result of the adoption we recognized a cumulative catch-up transition adjustment in beginning retained earnings at January 1, 2018 for non-recourse financing transactions that were open as of December 31, 2017. This resulted in a \$25.6 million increase in Rail Group net assets, \$34.0 million increase in financing liabilities and deferred tax liabilities and \$8.4 million decrease to retained earnings. See Note 7 for further detail.

Leasing

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842). The FASB issued subsequent amendments to the initial guidance in July 2018 with ASU 2018-10 and in August 2018 with ASU 2018-11. ASC 842 supersedes the current accounting for leases. The new standard, while retaining two distinct types of leases, finance and operating, (i) requires lessees to record a right of use asset and a related liability for the rights and obligations

associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (ii) eliminates current real estate specific lease provisions, (iii) modifies the lease classification criteria and (iv) aligns many of the underlying lessor model principles with those in the new revenue standard. ASC 842 is effective for fiscal years beginning after December 15, 2018, and interim periods within. Early adoption is permitted, however the Company does not plan to early adopt. The new standard is effective for the Company beginning January 1, 2019 and must be adopted using either the modified retrospective approach, which requires application of the new guidance at the beginning of the earliest comparative period presented or the optional alternative approach, which requires application of the new guidance at the beginning of the standard's effective date.

Table of Contents

The Company expects this standard to have the effect of bringing certain off balance-sheet rail assets onto the balance sheet along with a corresponding liability for the associated obligations. Additionally, we have other arrangements currently classified as operating leases which will be recorded as a right of use asset and corresponding liability on the balance sheet. We are currently evaluating the impact these changes will have on the Consolidated Financial Statements.

Other applicable standards

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This ASU reduces the complexity of accounting for costs of implementing a cloud computing service arrangement. This standard aligns the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. The guidance is effective for fiscal years beginning after December 15, 2020. The Company does not expect this standard to have a material impact on its Consolidated Financial Statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This standard modified the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The standard is effective for fiscal years ending after December 15, 2020, and early adoption is permitted. The Company is currently evaluating when to adopt this standard but has not done so in the current period.

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement which removes and modifies some existing disclosure requirements and adds others. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company is currently evaluating when to adopt this standard but has not done so in the current period.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings in their consolidated financial statements. This guidance is effective for fiscal years beginning after December 15, 2018. We have evaluated the impact of this new standard on our consolidated financial statements noting it is not material. Early adoption is permitted, but the Company has not chosen to do so at this time.

In May 2017, the FASB issued ASU 2017-09 Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. Under this standard, if the vesting conditions, fair value, and classification of the awards are the same immediately before and after the modification an entity would not apply modification accounting. The FASB then issued ASU 2018-07 which expands the scope to include share-based payment transactions for acquiring goods and services from nonemployees. The Company has adopted these standards during the year, noting no impact as the Company has not made any modifications to our stock compensation awards.

In March 2017, the FASB issued ASU 2017-07 Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard requires that the service cost component be reported in the same line item as other compensation costs arising from services rendered by the employees during the period. The other components of net benefit costs should be presented in the

income statement separately from the service cost component and outside of income from operations if that subtotal is presented. The Company has adopted this standard in the current year using the retrospective approach and prior periods have been recast to reflect this change, noting the amounts are immaterial.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard clarifies how companies present and classify certain cash receipts and payments in the statement of cash flows. The Company has adopted this standard in the current year noting the impact is immaterial.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This update changes the accounting for credit losses on loans and held-to-maturity debt securities and requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. This includes allowances for trade receivables. The Company has not historically incurred significant credit losses and does not currently anticipate circumstances that would lead to a CECL approach differing from the Company's existing allowance estimates in a material way. The guidance is effective for fiscal years beginning after December 15, 2019 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Early adoption is permitted, but the Company does not plan to do so.

Table of Contents

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The FASB issued subsequent amendments to the initial guidance in February 2018 and March 2018 within ASU 2018-03 and ASU 2018-04, respectively. This standard provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. The Company has adopted this standard in the current year noting the impact is immaterial.

## 2. Inventories

Major classes of inventories are as follows:

(in thousands)	<b>September 30,</b>	<b>December 31,</b>	<b>September 30,</b>
	<b>2018</b>	<b>2017</b>	<b>2017</b>
Grain	<b>\$ 324,232</b>	\$ 505,217	\$ 342,837
Ethanol and co-products	<b>15,419</b>	11,003	12,502
Plant nutrients and cob products	<b>145,363</b>	126,962	114,131
Retail merchandise	—	—	718
Railcar repair parts	<b>5,317</b>	5,521	5,414
	<b>\$ 490,331</b>	\$ 648,703	\$ 475,602

Inventories on the Condensed Consolidated Balance Sheets at December 31, 2017 and September 30, 2017 do not include 1.0 million and 1.0 million bushels of grain, respectively, held in storage for others. Inventories held in storage for others was di minimis as of September 30, 2018. The Company does not have title to the grain and is only liable for any deficiencies in grade or shortage of quantity that may arise during the storage period. Management has not experienced historical losses on any deficiencies and does not anticipate material losses in the future.

## 3. Property, Plant and Equipment

The components of Property, plant and equipment, net are as follows:

(in thousands)	<b>September 30,</b>	<b>December 31,</b>	<b>September 30,</b>
	<b>2018</b>	<b>2017</b>	<b>2017</b>
Land	<b>\$ 29,545</b>	\$ 22,388	\$ 23,342
Land improvements and leasehold improvements	<b>68,859</b>	69,127	71,559
Buildings and storage facilities	<b>282,826</b>	284,820	298,951
Machinery and equipment	<b>380,109</b>	373,127	384,422
Construction in progress	<b>65,539</b>	7,502	7,703
	<b>826,878</b>	756,964	785,977
Less: accumulated depreciation	<b>392,373</b>	372,287	366,629
	<b>\$ 434,505</b>	\$ 384,677	\$ 419,348

Capitalized interest totaled \$0.9 million for the nine months ended September 30, 2018.

Depreciation expense on property, plant and equipment was \$34.7 million and \$36.0 million for the nine months ended September 30, 2018 and 2017, respectively. Additionally, depreciation expense on property, plant and equipment was \$11.5 million and \$11.9 million for the three months ended September 30, 2018 and 2017, respectively.

In June 2018, the Company recorded charges totaling \$1.6 million for impairment of property, plant and equipment in the Grain segment related to assets that were reclassified as assets held for sale at June 30, 2018 and were sold in the third quarter. In December 2017, the Company recorded charges totaling \$10.9 million for impairment of property, plant and equipment in the Grain segment, of which \$5.6 million relates to assets that are deemed held and used

and \$5.3 million related to assets that have been reclassified as assets held for sale at December 31, 2017. The Company wrote down the value of these assets to the extent their carrying amounts exceeded fair value. The Company classified the significant assumptions used to determine the fair value of the impaired assets as Level 3 inputs in the fair value hierarchy.



Table of ContentsRail Group Assets

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

(in thousands)	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Rail Group assets leased to others	<b>\$ 576,622</b>	\$ 531,391	\$ 484,214
Less: accumulated depreciation	<b>111,846</b>	107,948	106,821
	<b>\$ 464,776</b>	\$ 423,443	\$ 377,393

Depreciation expense on Rail Group assets leased to others amounted to \$18.4 million and \$14.9 million for the nine months ended September 30, 2018 and 2017, respectively. Additionally, depreciation expense on Rail Group assets leased to others amounted to \$6.1 million and \$5.2 million for the three months ended September 30, 2018 and 2017, respectively.

In June 2018, the Company recorded charges totaling \$4.7 million related to Rail Group assets leased to others that have been reclassified as assets held for sale at June 30, 2018. The Company classified the significant assumptions used to determine the fair value of the impaired assets as Level 3 inputs in the fair value hierarchy.

**4. Debt**

The Company has a line of credit agreement with a syndicate of banks. The agreement provides for a credit facility of \$800 million. During the third quarter, the Andersons Railcar Leasing Company LLC amended and restated their revolving asset based loan agreement, increasing the credit facility to \$200.0 million. Total borrowing capacity for the Company under all lines of credit is currently at \$1,085.0 million, including subsidiary debt that is non-recourse to the Company of \$15.0 million for The Andersons Denison Ethanol LLC ("TADE"), \$70.0 million for ELEMENT LLC and \$200.0 million for The Andersons Railcar Leasing Company LLC. At September 30, 2018, the Company had a total of \$823.1 million available for borrowing under its lines of credit. The Company's borrowing capacity is reduced by a combination of outstanding borrowings and letters of credit. The Company was in compliance with all financial covenants as of September 30, 2018.

The Company's short-term and long-term debt at September 30, 2018, December 31, 2017 and September 30, 2017 consisted of the following:

(in thousands)	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Short-term Debt – Non-Recourse	<b>\$ —</b>	\$ —	\$ —
Short-term Debt – Recourse	<b>132,000</b>	22,000	19,000
Total Short-term Debt	<b>\$ 132,000</b>	\$ 22,000	\$ 19,000
Current Maturities of Long-term Debt – Non-Recourse	<b>\$ 3,772</b>	\$ —	\$ —
Current Maturities of Long-term Debt – Recourse	<b>11,905</b>	54,205	53,972
Total Current Maturities of Long-term Debt	<b>\$ 15,677</b>	\$ 54,205	\$ 53,972
Long-term Debt, Less: Current Maturities – Non-Recourse	<b>\$ 77,114</b>	\$ —	\$ —
Long-term Debt, Less: Current Maturities – Recourse	<b>360,166</b>	418,339	371,315
Total Long-term Debt, Less: Current Maturities	<b>\$ 437,280</b>	\$ 418,339	\$ 371,315

**5. Derivatives**

The Company's operating results are affected by changes to commodity prices. The Grain and Ethanol businesses have established "unhedged" position limits (the amount of a commodity, either owned or contracted for, that does not have an offsetting derivative contract to lock in the price). To reduce the exposure to market price risk on commodities owned and forward grain and ethanol purchase and sale contracts, the Company enters into exchange traded

commodity futures and options contracts and over-the-counter forward and option contracts with various counterparties. These contracts are primarily traded via the regulated CME. The Company's forward purchase and sales contracts are for physical delivery of the commodity in a future period. Contracts to purchase commodities from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of commodities to processors or other commercial consumers generally do not extend beyond one year.

Table of Contents

All these contracts meet the definition of derivatives. While the Company considers its commodity contracts to be effective economic hedges, the Company does not designate or account for its commodity contracts as hedges as defined under current accounting standards. The Company accounts for its commodity derivatives at estimated fair value. The estimated fair value of the commodity derivative contracts that require the receipt or posting of cash collateral is recorded on a net basis (offset against cash collateral posted or received, also known as margin deposits) within commodity derivative assets or liabilities. Management determines fair value based on exchange-quoted prices and in the case of its forward purchase and sale contracts, estimated fair value is adjusted for differences in local markets and non-performance risk. For contracts for which physical delivery occurs, balance sheet classification is based on estimated delivery date. For futures, options and over-the-counter contracts in which physical delivery is not expected to occur but, rather, the contract is expected to be net settled, the Company classifies these contracts as current or noncurrent assets or liabilities, as appropriate, based on the Company's expectations as to when such contracts will be settled.

Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices, changes in performance or credit risk, or due to sale, maturity or extinguishment of the commodity contract) and grain inventories are included in cost of sales and merchandising revenues.

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

The following table presents at September 30, 2018, December 31, 2017 and September 30, 2017, a summary of the estimated fair value of the Company's commodity derivative instruments that require cash collateral and the associated cash posted/received as collateral. The net asset or liability positions of these derivatives (net of their cash collateral) are determined on a counterparty-by-counterparty basis and are included within current or noncurrent commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

	September 30, 2018		December 31, 2017		September 30, 2017	
(in thousands)	Net derivative asset position	Net derivative liability	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
Collateral paid (received)	\$14,942	\$ —	—\$1,351	\$ —	—\$27,737	\$ —
Fair value of derivatives	36,653	—	17,252	—	(999 )	—
Balance at end of period	\$51,595	\$ —	—\$18,603	\$ —	—\$26,738	\$ —

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

	September 30, 2018				Total
(in thousands)	Commodity Derivative Assets - Current	Commodity Derivative Assets - Noncurrent	Commodity Derivative Liabilities - Current	Commodity Derivative Liabilities - Noncurrent	
Commodity derivative assets	\$69,957	\$ 767	\$731	\$38	\$71,493
Commodity derivative liabilities	(8,038 )	(1 )	(92,134 )	(2,586 )	(102,759 )
Cash collateral	14,942	—	—	—	14,942
Balance sheet line item totals	\$76,861	\$ 766	\$(91,403 )	\$(2,548 )	\$(16,324 )



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Table of Contents

(in thousands)	December 31, 2017				Total
	Commodity Derivative Assets - Current	Commodity Derivative Assets - Noncurrent	Commodity Derivative Liabilities - Current	Commodity Derivative Liabilities - Noncurrent	
Commodity derivative assets	\$36,929	\$ 311	\$ 489	\$ 1	\$37,730
Commodity derivative liabilities	(7,578 )	(1 )	(30,140)	(826 )	(38,545 )
Cash collateral	1,351	—	—	—	1,351
Balance sheet line item totals	\$30,702				