ANDERSONS INC
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

¨ **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.)**
480 W. Dussel Drive, 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes x 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 and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated Filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The registrant had approximately 18.5 million common shares outstanding, no par value, at October 28, 2011.

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THE ANDERSONS, INC.

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Part I. Financial Information

Item 1. Financial Statements

The Andersons, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)(In thousands)

	September 30, 2011	December 31, 2010	September 30, 2010
Assets			
Current assets:			
Cash and cash equivalents	**$ 38,510**	$ 29,219	$ 25,732
Restricted cash	**11,920**	12,134	2,915
Accounts receivable, net	**158,757**	152,227	143,591
Inventories	**458,314**	647,189	432,448
Commodity derivative assets current	**143,010**	246,475	177,100
Deferred income taxes	**17,233**	16,813	13,385
Other current assets	**41,559**	34,501	35,268
Total current assets	**869,303**	1,138,558	830,439
Other assets:			
Commodity derivative assets noncurrent	**3,907**	18,113	9,851
Other assets, net	**48,010**	47,855	39,942
Equity method investments	**189,118**	175,349	165,421
	241,035	241,317	215,214
Railcar assets leased to others, net	**183,346**	168,483	169,694
Property, plant and equipment, net	**164,893**	151,032	147,184
Total assets	**$ 1,458,577**	$ 1,699,390	$ 1,362,531

See notes to condensed consolidated financial statements

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The Andersons, Inc.

Condensed Consolidated Balance Sheets (continued)

(Unaudited)(In thousands)

	September 30, 2011	December 31, 2010	September 30, 2010
Liabilities and Shareholders equity			
Current liabilities:			
Borrowings under short-term line of credit	**$ 105,000**	$ 241,100	$ 101,400
Accounts payable for grain	**77,813**	274,596	131,138
Other accounts payable	**137,872**	111,501	164,475
Customer prepayments and deferred revenue	**82,785**	78,550	48,575
Commodity derivative liabilities current	**55,354**	57,621	47,968
Accrued expenses and other current liabilities	**49,487**	48,851	39,776
Current maturities of long-term debt	**45,171**	24,524	23,953
Total current liabilities	**553,482**	836,743	557,285
Other long-term liabilities	**35,421**	25,183	18,455
Commodity derivative liabilities noncurrent	**6,903**	3,279	1,936
Employee benefit plan obligations	**30,132**	30,152	27,003
Long-term debt, less current maturities	**235,729**	276,825	264,349
Deferred income taxes	**64,841**	62,649	51,649
Total liabilities	**926,508**	1,234,831	920,677
Commitments and contingencies (Note 11)			
Shareholders equity:			
Common shares, without par value (42,000 shares authorized at 9/30/11 and 12/31/10; 25,000 shares authorized at 9/30/10; 19,198 shares issued)	**96**	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)			
Additional paid-in-capital	**178,173**	177,875	177,298
Treasury shares (701, 762 and 768 shares at 9/30/11, 12/31/10 and 9/30/10, respectively; at cost)	**(14,814)**	(14,058)	(14,141)
Accumulated other comprehensive loss	**(29,365)**	(28,799)	(26,798)
Retained earnings	**383,606**	316,317	292,515
Total shareholders equity of The Andersons, Inc.	**517,696**	451,431	428,970
Noncontrolling interest	**14,373**	13,128	12,884
Total shareholders equity	**532,069**	464,559	441,854
Total liabilities and shareholders equity	**$ 1,458,577**	$ 1,699,390	$ 1,362,531

See notes to condensed consolidated financial statements

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The Andersons, Inc.

Condensed Consolidated Statements of Income

(Unaudited)(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Sales and merchandising revenues	**$ 938,660**	$ 706,825	**$ 3,278,501**	$ 2,239,822
Cost of sales and merchandising revenues	**873,696**	653,716	**3,012,080**	2,040,609
Gross profit	**64,964**	53,109	**266,421**	199,213
Operating, administrative and general expenses	**54,486**	50,143	**165,923**	146,653
Interest expense	**5,711**	4,625	**20,609**	13,923
Other income (loss):				
Equity in earnings (loss) of affiliates	**9,731**	(1,096)	**29,489**	15,476
Other income, net	**1,217**	3,561	**5,541**	9,096
Income before income taxes	**15,715**	806	**114,919**	63,209
Income tax provision	**4,484**	438	**40,265**	24,406
Net income	**11,231**	368	**74,654**	38,803
Net (income) loss attributable to the noncontrolling interest	**(306)**	1,026	**(1,245)**	25
Net income attributable to The Andersons, Inc.	**$ 10,925**	$ 1,394	**$ 73,409**	$ 38,828
Per common share:				
Basic earnings attributable to The Andersons, Inc. common shareholders	**$ 0.59**	$ 0.08	**$ 3.96**	$ 2.11
Diluted earnings attributable to The Andersons, Inc. common shareholders	**$ 0.59**	$ 0.08	**$ 3.92**	$ 2.09
Dividends paid	**$ 0.1100**	$ 0.0900	**$ 0.3300**	$ 0.2675

See notes to condensed consolidated financial statements

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The Andersons, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)(In thousands)

	Nine months ended September 30, 2011	2010
Operating Activities		
Net income	**$ 74,654**	$ 38,803
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	**30,088**	27,929
Bad debt expense (recovery)	**3,332**	(418)
Equity in earnings of unconsolidated affiliates, net of distributions received	**(13,669)**	(7,666)
Gains on sales of railcars and related leases	**(7,664)**	(6,365)
Excess tax benefit from share-based payment arrangements	**(35)**	(789)
Deferred income taxes	**1,662**	3,545
Stock based compensation expense	**2,758**	1,945
Other	**(1)**	115
Changes in operating assets and liabilities:		
Accounts receivable	**(8,661)**	(5,380)
Inventories	**188,649**	(21,819)
Commodity derivatives	**118,494**	(108,884)
Other assets	**(9,820)**	(5,518)
Accounts payable for grain	**(196,783)**	(106,948)
Other accounts payable and accrued expenses	**39,011**	44,811
Net cash provided by (used in) operating activities	**222,015**	(146,639)
Investing Activities		
Acquisition of business		(7,783)
Investment in convertible preferred securities		(13,100)
Purchases of railcars	**(38,439)**	(13,626)
Proceeds from sale of railcars	**19,840**	17,474
Purchases of property, plant and equipment	**(29,606)**	(23,398)
Proceeds from sale of property, plant and equipment	**832**	224
Change in restricted cash	**214**	208
Investments in affiliates	**(100)**	(395)
Net cash used in investing activities	**(47,259)**	(40,396)
Financing Activities		
Net change in short-term borrowings	**(136,100)**	101,400
Proceeds from issuance of long-term debt	**45,713**	4,315
Payments of long-term debt	**(66,163)**	(34,973)
Proceeds from sale of treasury shares to employees and directors	**730**	1,288
Purchase of treasury stock	**(2,747)**	
Payments of debt issuance costs	**(815)**	(1,059)
Dividends paid	**(6,118)**	(4,922)
Excess tax benefit from share-based payment arrangements	**35**	789
Net cash (used in) provided by financing activities	**(165,465)**	66,838

Increase (decrease) in cash and cash equivalents	**9,291**	(120,197)
Cash and cash equivalents at beginning of period	**29,219**	145,929
Cash and cash equivalents at end of period	**$ 38,510**	$ 25,732

See notes to condensed consolidated financial statements

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The Andersons, Inc.

Condensed Consolidated Statements of Shareholders Equity

(Unaudited)(In thousands, except per share data)

	The Andersons, Inc. Shareholders Equity						
	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
Balance at December 31, 2009	$ 96	$ 175,477	$ (15,554)	$ (25,314)	$ 258,662	$ 12,909	$ 406,276
Net income					38,828	(25)	38,803
Other comprehensive income:							
Unrecognized actuarial loss and prior service costs (net of income tax of $882)				(1,078)			(1,078)
Cash flow hedge activity (net of income tax of $252)				(406)			(406)
Comprehensive income							37,319
Stock awards, stock option exercises and other shares issued to employees and directors (151 shares)		1,821	1,413				3,234
Dividends declared ($0.27 per common share)					(4,975)		(4,975)
Balance at September 30, 2010	$ 96	$ 177,298	$ (14,141)	$ (26,798)	$ 292,515	$ 12,884	$ 441,854
Balance at December 31, 2010	$ 96	$ 177,875	$ (14,058)	$ (28,799)	$ 316,317	$ 13,128	$ 464,559
Net income					**73,409**	**1,245**	**74,654**
Other comprehensive income:							
Unrecognized actuarial loss and prior service costs (net of income tax of $290)				**(486)**			**(486)**
Cash flow hedge activity (net of income tax of $48)				**(80)**			**(80)**
Comprehensive income							**74,088**
Purchase of treasury shares (76 shares)			**(2,747)**				**(2,747)**
Stock awards, stock option exercises and other shares issued to employees and directors (137 shares)		**298**	**1,991**				**2,289**
Dividends declared ($0.33 per common share)					**(6,120)**		**(6,120)**
Balance at September 30, 2011	**$ 96**	**$ 178,173**	**$ (14,814)**	**$ (29,365)**	**$ 383,606**	**$ 14,373**	**$ 532,069**

See notes to condensed consolidated financial statements

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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 significant 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 recurring items, considered necessary for a fair presentation of the results of operations for the periods indicated, have been made. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011.

The year-end Condensed Consolidated Balance Sheet data at December 31, 2010 was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. A Condensed Consolidated Balance Sheet as of September 30, 2010 has been included as the Company operates in several seasonal industries.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K).

New Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) updated Accounting Standards Code (ASC) Topic 820, to clarify requirements on fair value measurements and related disclosures. This update is effective for interim and annual periods beginning after December 15, 2011. The additional requirements in this update will be included in the note on fair value measurements upon adoption in the first quarter of 2012. The new standard will have no impact on our financial condition or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The amendments in ASU 2011-05 eliminate the option to report other comprehensive income in the statement of shareholders equity and require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. Management does not expect material financial statement implications relating to the adoption of this ASU.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08). ASU 2011-08 is intended to simplify the testing of goodwill for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, although early adoption is permitted. The Company plans to implement the requirements of ASU 2011-08 for the 2011 annual goodwill impairment analysis that will be completed in the fourth quarter.

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2. Inventories

Major classes of inventories are as follows:

(in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Grain	**$ 253,246**	$ 497,267	$ 312,919
Agricultural fertilizer and supplies	**151,099**	90,182	68,580
Lawn and garden fertilizer and corncob products	**22,794**	32,954	21,527
Retail merchandise	**28,386**	24,416	26,901
Railcar repair parts	**2,434**	2,058	2,212
Other	**355**	312	309
	$ 458,314	$ 647,189	$ 432,448

3. Property, Plant and Equipment

The components of property, plant and equipment are as follows:

(in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Land	**$ 15,402**	$ 15,424	$ 15,427
Land improvements and leasehold improvements	**45,753**	45,080	44,230
Buildings and storage facilities	**144,834**	141,349	137,652
Machinery and equipment	**188,552**	181,650	173,890
Software	**10,873**	10,306	10,224
Construction in progress	**17,323**	2,572	7,224
	422,737	396,381	388,647
Less accumulated depreciation and amortization	**257,844**	245,349	241,463
	$ 164,893	$ 151,032	$ 147,184

Depreciation expense on property, plant and equipment amounted to $15.0 million, $18.7 million and $13.9 million for the nine month period ended September 30, 2011, the year ended December 31, 2010 and the nine month period ended September 30, 2010, respectively.

Railcar assets leased to others

The components of Railcar and other assets leased to others are as follows:

(in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Railcars leased to others	**$ 256,219**	$ 234,667	$ 233,537
Less accumulated depreciation	**72,873**	66,184	63,843
	$ 183,346	$ 168,483	$ 169,694

Depreciation expense on railcar assets leased to others amounted to $10.2 million, $14.0 million and $10.7 million for the nine month period ended September 30, 2011, the year ended December 31, 2010 and the nine month period ended September 30, 2010, respectively.

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4. Derivatives

The margin deposit assets and liabilities which were shown net on the face of the balance sheet in previous periods are now included in short-term commodity derivative assets and liabilities, as appropriate. Prior periods have been reclassified to conform to current year presentation. The change in presentation had no effect on current or total assets and liabilities on the Consolidated Balance Sheets.

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, primarily via a regulated exchange such as the Chicago Mercantile Exchange and, to a lesser extent, via over-the-counter contracts with various counterparties. 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.

All of these contracts are considered 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 same method it uses to value its grain inventory. 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 sales and merchandising revenues in the Condensed Consolidated Statements of Income.

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. Note 1 of the Company s 2010 Form 10-K provides information surrounding the Company s various master netting arrangements related to its futures, options and over-the-counter contracts. The following table presents at September 30, 2011, December 31, 2010 and September 30, 2010, 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 short-term commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

	September 30, 2011		December 31, 2010		September 30, 2010	
(in thousands)	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
Collateral paid	$	$	$ 166,589	$	$ 161,274	$
Collateral received	(60,247)					
Fair value of derivatives	139,882		(146,330)		(102,662)	
Balance at end of period	$ 79,635	$	$ 20,259	$	$ 58,612	$

Certain of our contracts allow the Company to post grain inventory as collateral rather than cash. Grain inventory posted as collateral on our derivative contracts are recorded in Inventories on the Condensed Consolidated Balance Sheets and the estimated fair value of

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such inventory was $89.3 million, $27.3 million and $1.6 million as of September 30, 2011, December 31, 2010 and September 30, 2010, respectively.

The gains included in the Company s Condensed Consolidated Statements of Income and the line items in which they are located for the three and nine months ended September 30, 2011 are as follows:

(in thousands)	Three months ended September 30, 2011	Nine months ended September 30, 2011
Gains on commodity derivatives included in sales and merchandising revenues	$ 16,076	$ 119,743

At September 30, 2011, the Company had the following bushels, tons and gallons outstanding (on a gross basis) on all commodity derivative contracts:

Commodity	Number of bushels (in thousands)	Number of tons (in thousands)	Number of gallons (in thousands)
Non-exchange traded:			
Corn	288,009		
Soybeans	30,819		
Wheat	6,618		
Oats	12,988		
Soymeal			
Ethanol			156,364
Other	1,033		
Subtotal	339,467		156,364
Exchange traded:			
Corn	112,170		
Soybeans	20,740		
Wheat	47,705		
Oats	3,845		
Ethanol			31,059
Other			70
Subtotal	184,460		31,129
Total	523,927		187,493

Interest Rate and Foreign Currency Derivatives

The Company periodically enters into interest rate contracts to manage interest rate risk on borrowing or financing activities. Information regarding the nature and terms of the Company s interest rate derivatives is presented in Note 15 Derivatives, in the Company s 2010 Form 10-K and such information is consistent with that as of September 30, 2011. The fair values of these derivatives are not material for any of the periods presented and are included in the Company s Condensed Consolidated Balance Sheet in either other current assets or liabilities (if short-term in nature) or in other assets or other long-term liabilities (if non-current in nature). The impact to the Company s results of operations related to these interest rate derivatives was not material for any period presented.

The Company holds a zero cost foreign currency collar to hedge the change in conversion rate between the Canadian dollar and the U.S. dollar for railcar leases in Canada. Information regarding the nature and terms of this derivative is presented in Note 15 Derivatives, in the Company s

2010 Form 10-K and such information is consistent with that as of September 30, 2011. The fair value of this derivative and its impact to the Company s results of operations for any of the periods presented were not material.

5. Earnings Per Share

Unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. The Company s nonvested restricted stock are considered participating securities since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest.

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(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Net income attributable to The Andersons, Inc.	**$ 10,925**	$ 1,394	**$ 73,409**	$ 38,828
Less: Distributed and undistributed earnings allocated to nonvested restricted stock	**44**	4	**283**	119
Earnings available to common shareholders	**$ 10,881**	$ 1,390	**$ 73,126**	$ 38,709
Earnings per share basic:				
Weighted average shares outstanding basic	**18,469**	18,369	**18,469**	18,350
Earnings per common share basic	**$ 0.59**	$ 0.08	**$ 3.96**	$ 2.11
Earnings per share diluted:				
Weighted average shares outstanding basic	**18,469**	18,369	**18,469**	18,350
Effect of dilutive awards	**118**	100	**166**	143
Weighted average shares outstanding diluted	**18,586**	18,469	**18,635**	18,493
Earnings per common share diluted	**$ 0.59**	$ 0.08	**$ 3.92**	$ 2.09

There were no antidilutive stock-based awards outstanding for the third quarter and nine months ended September 30, 2011. There were approximately 8,000 and 40 antidilutive stock-based awards outstanding for the third quarter and nine months ended September 30, 2010.

6. Employee Benefit Plans

Included as charges against income for the three and nine months ended September 30, 2011 and 2010 are the following amounts for pension and postretirement benefit plans maintained by the Company:

	Pension Benefits			
(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Service cost	**$**	$	**$**	$ 1,614
Interest cost	**1,145**	1,085	**3,434**	3,254
Expected return on plan assets	**(1,559)**	(1,363)	**(4,677)**	(4,088)
Recognized net actuarial loss	**235**	251	**705**	1,567
Benefit (income) cost	**$ (179)**	$ (27)	**$ (538)**	$ 2,347

	Postretirement Benefits			
(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Service cost	**$ 139**	$ 116	**$ 416**	$ 349
Interest cost	**321**	304	**964**	910

Amortization of prior service cost credit	**(136)**	(128)	**(407)**	(383)
Recognized net actuarial loss	**225**	173	**676**	518
Benefit cost	**$ 549**	$ 465	**$ 1,649**	$ 1,394

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. One of the provisions of the PPACA eliminates the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. As a result, the Company was required to make an adjustment to its deferred tax asset associated with its postretirement benefit plan in the amount of $1.5 million during the first quarter of 2010. The offset to this adjustment was included in the provision for income taxes on the Company s Condensed Consolidated Statement of Income.

7. Segment Information

During the first quarter of 2011, management re-evaluated the Company s reportable segments. Based on that evaluation, the Company has separated the segment previously reported as Grain & Ethanol into two separate reportable segments for external financial reporting. The Company also evaluated the impact of this change on the recoverability of goodwill and no impairment charge was necessary. Corresponding items of segment information for earlier periods have been reclassified to conform to current year presentation.

The Company s operations include six reportable business segments that are distinguished primarily on the basis of products and services offered. The Grain business includes grain merchandising, the operation of terminal grain elevator facilities and the investment in Lansing Trade Group, LLC (LTG). The Ethanol business purchases and sells ethanol and also manages the ethanol production facilities organized as limited liability companies (ethanol LLCs) in which the Company has investments and various service contracts for these investments. Rail operations include the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Plant Nutrient business manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers. Turf & Specialty operations include the production and distribution of turf care and corncob-based products. The Retail business operates large retail stores, a specialty food market, a distribution center and a lawn and garden equipment sales and service shop. Included in Other are the corporate level amounts not attributable to an operating segment.

Results of Operations Segment Disclosures

(in thousands)

	00000000	00000000	00000000	00000000	00000000	00000000	00000000	00000000
Third quarter ended								
September 30, 2011	**Grain**	**Ethanol**	**Rail**	**Plant Nutrient**	**Turf & Specialty**	**Retail**	**Other**	**Total**
Revenues from external customers	$ 538,723	$ 179,331	$ 24,067	$ 137,637	$ 23,051	$ 35,851	$	$ 938,660
Inter-segment sales	1		111	4,224	317			4,653
Equity in earnings of affiliates	6,459	3,270		2				9,731
Other income (loss), net	652	38	604	282	167	130	(656)	1,217
Interest expense (income)	2,674	194	1,614	940	273	238	(222)	5,711
Operating income (loss) (a)	8,313	4,443	1,123	6,622	(1,245)	(1,233)	(2,614)	15,409
Income attributable to noncontrolling interest								