ANDERSONS INC
Form S-3
June 30, 2006

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As filed with the Securities and Exchange Commission on June 29, 2006.

Registration No. 333-

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

Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

Ohio	**5150**	**34-1562374**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

480 W. Dussel Drive
Maumee, Ohio 43537
Telephone: (419) 893-5050
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Michael J. Anderson
President and Chief Executive Officer
The Andersons, Inc.
480 W. Dussel Drive
Maumee, Ohio 43537
Telephone: (419) 893-5050
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of	Amount to be	Proposed Maximum Offering	Proposed Maximum Aggregate	Amount of Registration

Securities to be Registered	Registered(1)	Price per Share(1)(2)	Offering Price(2)	Fee
Common Stock, no par value	2,622,000	$38.51	$100,979,775	$10,805

(1) Gives effect to a two-for-one stock split which occurred after the close of the markets on June 28, 2006. Includes 342,000 shares that may be purchased by the underwriters upon exercise of their option to purchase additional shares of common stock.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 and based on the average of the high and low sale prices reported on the Nasdaq Global Market on June 27, 2006.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 29, 2006.

2,280,000 Shares

The Andersons, Inc.

Common Stock

This is a public offering of 2,280,000 shares of common stock of The Andersons, Inc. We are offering 2,000,000 shares of our common stock in this offering and the selling shareholders identified in this prospectus are offering an additional 280,000 shares. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders.

Our common stock is quoted on the Nasdaq Global Market under the symbol ANDE. On June 28, 2006, the last reported sale price of our common stock on the Nasdaq Global Market was $41.33 per share.

Investing in our common stock involves a high degree of risk. Please refer to the section entitled Risk Factors beginning on page 8 for a discussion of factors that you should carefully consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	**Total**
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to The Andersons, Inc.	$	$
Proceeds, before expenses, to the selling shareholders	$	$

The underwriters have the option to purchase up to 342,000 additional shares of our common stock from the Company at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments, if any.

The underwriters expect to deliver the shares of our common stock on or about , 2006.

Joint Book-Running Managers

BB&T Capital Markets	**Piper Jaffray**
Stephens Inc.	**Stifel Nicolaus**

Prospectus dated , 2006.

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Rail The Andersons Plant Nutrient Retail Turf & Specialty Grain & Ethanol Andersons ISO 9001:2000 Certified

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information or make any additional representations. The selling shareholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus or the date of such incorporated information, regardless of the time of delivery of this prospectus or any sale of our common stock. Our business, financial condition, results of operations and business prospects may have changed since those dates.

INDUSTRY AND MARKET DATA

We obtained the industry, market and competitive position data used throughout this prospectus from our own research, internal surveys and studies conducted by third parties, independent industry associations or general publications and other publicly available information. In particular, we have based much of our discussion of the ethanol industry, including government regulation relevant to the industry and forecasted growth in demand, on information published by the Renewable Fuels Association, or the RFA, the national trade association for the U.S. ethanol industry. While we believe this data to be accurate as of the date of this prospectus, market data is subject to change and cannot always be verified with complete certainty, due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey of market size. As a result, you should be aware that market share and other similar data set forth in this prospectus, as well as estimates and beliefs based on such data, may not be reliable beyond the date of this filing. None of the publications, reports or other published industry sources referred to in this prospectus were commissioned by us or prepared at our request. Furthermore, because the RFA is a trade organization for the ethanol industry, it may present information in a manner that is more favorable to that industry than would be presented by an independent source. Forecasts are particularly likely to be inaccurate, especially over long periods of time.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors, and the consolidated financial statements and the related notes relating thereto included elsewhere in this prospectus. Unless otherwise noted, references to The Andersons, the Company, we, us and our refer to The Andersons, Inc., an Ohio corpora together with its consolidated subsidiaries, unless the context requires otherwise.

Our Business

We are an entrepreneurial, customer focused company with diversified interests in the agriculture and transportation markets. Since our founding in 1947, we have developed specific core competencies in risk management, bulk handling, transportation and logistics and an understanding of commodity markets. We have leveraged these competencies to diversify our operations into other complementary markets, including ethanol, railcar leasing, plant nutrients, turf products and general merchandise retailing. For the year ended December 31, 2005, our sales and merchandising revenues were $1,296.7 million, our operating income was $39.3 million and our EBITDA was $74.3 million, which represented increases over 2004 levels of 2%, 31% and 20%, respectively. For the three months ended March 31, 2006, our sales and merchandising revenues were $280.7 million, our operating income was $6.0 million and our EBITDA was $16.2 million, which represented increases over 2005 levels of 9%, 267% and 61%, respectively.

We operate our business in five segments: the Grain & Ethanol Group, the Rail Group, the Plant Nutrient Group, the Turf & Specialty Group and the Retail Group. The principal activities of each of these groups are as follows:

The Grain & Ethanol Group, which achieved 2005 sales and merchandising revenues of approximately $628.0 million, operates grain elevators in Ohio, Michigan, Indiana and Illinois. The Grain & Ethanol Group collectively shipped approximately 167 million bushels of grain in 2005. We are the developer, manager and largest investor in two ethanol facilities currently under construction in Indiana and Michigan. We will provide plant management, including transportation, logistics and marketing services to these facilities. We also have an investment in a third ethanol facility located in Indiana. We will be providing grain origination services for each of these three facilities, which collectively have nameplate capacity of 205 million gallons per year, or MMGY. We have expanded our trading operations through a 36% ownership interest in Lansing Trade Group, LLC, or Lansing, which is an established commodity trader and service provider to the grain and ethanol industries.

The Rail Group, which achieved 2005 sales of approximately $92.0 million, leases and manages a fleet of over 19,000 railcars of various types and 89 locomotives. The Rail Group also operates a repair, refurbishment and custom steel fabrication business.

The Plant Nutrient Group, which achieved 2005 sales and merchandising revenues of approximately $271.4 million, operates fertilizer distribution terminals and farm centers in Ohio, Michigan, Indiana and Illinois, which collectively handle approximately 1.5 million tons of dry and liquid fertilizer products annually.

The Turf & Specialty Group, which achieved 2005 sales of approximately $122.6 million, produces and markets turf and ornamental plant fertilizer and pest control products with a particular focus on the professional lawn care and golf course markets.

The Retail Group, which achieved 2005 sales of approximately $182.8 million, operates six large stores in Ohio offering a combination traditional home center with hardware, plumbing, electrical and building supplies, as well as unique specialty food offerings, indoor and outdoor garden centers, extensive lines of housewares and other domestic products, automotive supplies and pet supplies.

Industry Overview

Our businesses are largely impacted by the overall market for grain and related commodities. The principal grains sold by us are corn, soybeans and wheat, the three principal crops produced in the U.S.

Grains. The U.S. is the largest producer and exporter of corn, the largest producer and exporter of soybeans and the largest exporter of wheat in the world. The U.S. Department of Agriculture, or USDA, has forecast a 2005 corn and soybean harvest of approximately 11.1 billion bushels and 3.1 billion bushels, respectively, each of which were the second-largest harvests on record, and a wheat harvest of approximately 2.1 billion bushels. U.S. corn and soybean production has grown in recent years due to increased yields, usage of new and modified seeds, improved fertilizer and pesticide applications and better management practices. U.S. wheat production has decreased as acreage has been used for higher value crops.

Ethanol. Ethanol is a type of alcohol produced in the U.S. principally from corn. It is primarily used as a blend component in the 140 billion gallon U.S. gasoline fuel market. Gasoline refiners and marketers generally use ethanol as an up to 10% blend component per gallon of gasoline to increase octane and as an oxygenate to reduce tailpipe emissions. According to the RFA, 4.0 billion gallons of ethanol were produced in the U.S. in 2005, accounting for approximately 3% of the domestic gasoline fuel supply. The ethanol industry has grown significantly over the last few years. Production capacity has doubled since 2001 and has expanded at a compounded annual growth rate of approximately 20% from 2000 to 2005.

The key drivers of growth in the grain industry include, among others: continued world population and GDP growth; the use of more effective fertilizers and chemicals; levels of planted acreage; the increased production of renewable fuels from corn, soybeans and other crops; and the increasing demand for fuel and other products. In addition, we believe that increased production of grain and ethanol will result in an increased demand for rail transportation services and plant nutrient products.

Our Competitive Strengths

We have developed specific core competencies in customer service, risk management, bulk handling, transportation and logistics and an understanding of commodity markets, each of which are used across our business groups. We believe that these core competencies and the following strengths differentiate us from our competitors and position us for continued growth:

Strategically Diversified Agribusiness Model. Throughout our history we have leveraged our core competencies to selectively and strategically extend our base grain business. We have transferred our core competencies across our business groups and captured synergies as these businesses interact. Our service culture underlies each of our business groups, placing an emphasis on entrepreneurship and meeting the needs of our customers.

Large Established Grain Infrastructure. We have an established infrastructure and nearly 60 years of experience in purchasing, storing, processing, marketing and transporting corn, soybeans, wheat and other commodities. We operate a network of 14 grain elevators in four states that are strategically located near production and transportation hubs, making us a leading grain handler in the eastern corn belt with 81 million bushels of storage capacity.

Risk Management Capabilities. We believe we are a leading developer and user of proprietary and other risk management tools and instruments in certain of our business groups. We have developed a specific risk management strategy for certain of our business groups and were among the first to use several products and techniques which allow us and our grain suppliers to minimize risk.

Transportation and Logistics Expertise. We believe that the maturation and evolution of any commodities industry favors those market participants who possess competitive advantages in logistics and transportation expertise. Our large fleet of railcars and nearly 60 years of experience with the U.S. rail system gives us the ability to quickly and cost effectively satisfy the transportation needs of commodity contracts and will provide us with a competitive advantage as the ethanol industry matures.

Growing Commodity Trading Platform. Our Grain & Ethanol Group s trading capabilities combined with the over 80 year operating history of our Lansing affiliate positions us as a significant provider of commodity

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trading and delivery services. Our relationship with Lansing allows us to enter into storage and commodity trading contracts outside of our traditional geographic markets in the eastern corn belt, and expand our trading platform into non-storage facility-based transactions and additional commodities, including ethanol.

Rail Car Expertise. In 2005, we grew our fleet by 32% as a result of targeted acquisitions and now manage and lease the nation s eighth largest private fleet of railcars (exclusive of railroads). We believe we have developed industry leading positions in railcar refurbishing, leasing and component manufacturing. With over 19,000 railcars and 89 locomotives that we manage and lease at March 31, 2006, we have the ability to meet our customers needs as demand for rail transportation equipment continues to rise.

Experienced and Proven Management Team. Our management team has significant experience both with our company and within the markets in which we operate. Our 12 top managers have an average of 27 years of experience with our company. Our current management team has fostered a service culture that encourages and rewards continuous improvement in all areas of our business.

Our Business Strategy

Our business strategy includes:

Increasing Services to and Investments in the Grain and Ethanol Industries. We plan to leverage our core competencies by investing in and providing plant management, grain origination and other services to ethanol producers. We expect our future ethanol investments will be in a form similar to our current joint venture investments. We believe that investments through joint ventures in high volume, cost efficient ethanol plants will allow us to deploy capital more efficiently across more plants (enabling us to share in more industry capacity), achieve geographic diversity, reduce earnings volatility, and increase annual management and service contract revenues.

Increasing Our Grain Trading Operations. We intend to increase our trading operations and broaden our trading expertise through continued development of our internal trading group and continued investments in Lansing. Expanding our trading operations is a significant growth opportunity that leverages our grain and commodity, risk management and transportation and logistics expertise. We have options to increase our ownership in Lansing in 2007 and 2008 and, if both options are exercised, we would be the majority owner in 2008.

Growing Our Fleet of Railcars and Locomotives. We plan to continue to grow our diversified fleet of railcars through targeted portfolio acquisitions and open market purchases, which could include both owned and managed railcars and locomotives. We intend to continue our practice of match funding where practical or otherwise financing the acquisitions in ways that mitigate risk. We also expect to increase our investment in railcar refurbishment, conversion and repair facilities.

Improving Our Plant Nutrient Group s Product Offerings. We intend to expand into product and service offerings that are more premium in nature. For example, we are currently exploring the sale of reagents for air pollution control technologies used in coal-fired power plants and marketing the resulting byproducts that can be used as plant nutrients.

Focusing on Our Turf & Specialty and Retail Operations. We intend to continue to focus on improving profitability in our Turf & Specialty and Retail Groups. Within our Turf & Specialty Group, we are focusing on higher value, proprietary products with greater profitability as compared to commodity products. With respect to our retail operations, we plan to continue increasing our specialty offerings such as premium food items, wine and produce, to further grow sales and improve margins.

Our Company

Our principal executive offices are located at 480 West Dussel Drive, Maumee, Ohio 43537. The telephone number for our principal executive offices is (419) 893-5050. Our Internet address is http://www.andersonsinc.com. This Internet address is provided for informational purposes only. The information at this Internet address is not a part of this prospectus.

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The Offering

Common stock offered by us	2,000,000 shares
Common stock offered by the selling shareholders	280,000 shares
Total common stock offered hereby	2,280,000 shares
Total common stock outstanding after this offering	17,277,460 shares
Use of proceeds	We expect to receive net proceeds from this offering of approximately $ million, after deducting underwriting discounts, commissions and other offering-related expenses, at an assumed offering price of $ per share. A $1.00 increase (decrease) in the assumed public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by $ million (assuming the number of shares set forth on the cover of this preliminary prospectus remains the same). We intend to use the net proceeds for investments in the ethanol industry, including in additional ethanol plants, investments in additional railcar assets and for general corporate purposes. We will not receive any proceeds from the sale of common stock by the selling shareholders. See Use of Proceeds for additional information.
Dividends	Our dividend practice reflects our intention to pay quarterly dividends on all shares of our common stock, but only if and to the extent such dividends are declared by our board of directors, in its absolute discretion, and permitted by our credit facilities and applicable law. Dividends on our common stock are not cumulative. See Price Range of our Common Stock and Dividends.
Voting rights	The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders. See Description of Capital Stock.
Nasdaq Global Market symbol	ANDE
Risk factors	You should carefully read and consider the information set forth under Risk Factors and all other information included in this prospectus for a discussion of factors that you should consider before deciding to invest in shares of our common stock.

The number of shares of our common stock to be outstanding after this offering is based on 15,277,460 shares of our common stock outstanding as of June 28, 2006 (after giving effect to our two-for-one stock split which occurred on June 28, 2006), excluding:

- an aggregate of 465,852 shares of common stock issuable upon the exercise of options, performance share units and restricted shares outstanding under our 2005 Long-Term Performance Compensation Plan;

an aggregate of 517,218 shares of common stock reserved for future issuance under our equity compensation plans, including the Employee Share Purchase Plan; and

an aggregate of 342,000 shares of common stock issuable upon the exercise of the underwriters over-allotment option.

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Summary Financial Data

The following table sets forth our summary consolidated financial data for the periods indicated. The summary financial data as of December 31, 2005 and for the years ended December 31, 2004 and 2005 have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. The summary financial data as of March 31, 2006 and for the three months ended March 31, 2005 and 2006 have been derived from our unaudited consolidated financial statements and related notes included elsewhere in this prospectus. The as adjusted balance sheet data as of March 31, 2006, has been adjusted to reflect the impact of this offering and an application of the net proceeds therefrom.

You should read this information together with our consolidated financial statements and related notes thereto included elsewhere or incorporated by reference in this prospectus, and the information under the section Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,		Three Months Ended March 31,	
	2004	2005	2005	2006
	(Dollars in thousands, except per share data)			
Statement of Operations Data:				
Sales and merchandising revenues	$ 1,266,932	$ 1,296,652	$ 258,656	$ 280,658
Cost of sales and merchandising revenues	1,077,833	1,098,506	218,697	239,173
Gross profit	189,099	198,146	39,959	41,485
Operating, administrative and general expenses	154,895	153,759	36,901	37,906
Interest expense	10,545	12,079	2,950	4,194
Other income/gains:				
Other income	4,973	4,683	1,079	3,059
Equity in earnings of affiliates	1,471	2,321	446	3,553
Income before income taxes	30,103	39,312	1,633	5,997
Income tax provision	10,959	13,225	599	2,162
Net income	$ 19,144	$ 26,087	$ 1,034	$ 3,835
Per common share:				
Basic earnings	$ 1.32	$ 1.76	$ 0.07	$ 0.26
Diluted earnings	$ 1.28	$ 1.70	$ 0.07	$ 0.25
Dividends paid	$ 0.1525	$ 0.165	$ 0.04	$ 0.045
Weighted average shares outstanding Basic	14,492	14,842	14,746	15,090
Weighted average shares outstanding Diluted	14,996	15,410	15,286	15,638
Segment Data:				
Sales and merchandising revenues:				
Grain & Ethanol Group	$ 664,565	$ 627,958	$ 120,937	$ 128,625
Rail Group	59,283	92,009	17,705	34,383
Plant Nutrient Group	236,574	271,371	44,071	46,033
Turf & Specialty Group	127,814	122,561	40,891	39,505
Retail Group	178,696	182,753	35,052	32,112

Total	$ 1,266,932	$ 1,296,652	$ 258,656	$ 280,658

	Year Ended December 31,		Three Months Ended March 31,	
	2004	2005	2005	2006
	(Dollars in thousands)			
Gross profit:				
Grain & Ethanol Group	$ 52,680	$ 50,159	$ 10,199	$ 6,945
Rail Group	28,793	43,281	8,515	14,092
Plant Nutrient Group	34,692	32,774	5,582	4,133
Turf & Specialty Group	21,503	18,888	5,858	6,635
Retail Group	51,431	53,044	9,805	9,680
Total	$ 189,099	$ 198,146	$ 39,959	$ 41,485
Income (loss) before income taxes:				
Grain & Ethanol Group	$ 14,174	$ 12,623	$ 1,738	$ 1,780
Rail Group	10,986	22,822	3,640	6,218
Plant Nutrient Group	7,128	10,351	(787)	(1,235)
Turf & Specialty Group	(144)	(3,044)	1,077	2,149
Retail Group	2,108	2,921	(2,098)	(2,441)
Other	(4,149)	(6,361)	(1,937)	(474)
Total	$ 30,103	$ 39,312	$ 1,633	$ 5,997
Other Financial Data:				
Depreciation and amortization	$ 21,435	$ 22,888	$ 5,490	$ 6,047
Cash invested in acquisitions/investments in affiliates	85,753	16,005	1,895	22,852
Investments in property, plant and equipment	13,201	11,927	1,896	2,495
Net investments in (sale of) railcars(1)	(90)	29,810	12,008	(1,051)
Interest expense	10,545	12,079	2,950	4,194
EBITDA(2)	62,083	74,279	10,073	16,238

	As of March 31, 2006	
	Actual	As Adjusted
Balance Sheet Data:		
Cash and cash equivalents	$ 15,821	$
Total assets	700,667	
Long-term debt(3)	77,217	
Long-term debt, non-recourse(3)	86,269	
Total shareholders equity	163,573	
Working capital(4)	72,312	

(1) Represents the net purchases of railcars offset by proceeds on sales of railcars. In 2004, proceeds exceeded purchases. In 2004, cars acquired as described in Note 3 of the audited consolidated financial statements included

elsewhere in this prospectus have been excluded from this number.

(2) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a non-GAAP measure. We believe that EBITDA provides additional information for investors and others in determining our ability to meet debt service obligations. EBITDA does not represent and should be not be considered as an alternative to net income or cash flow from operations as determined by generally accepted accounting principles, and EBITDA does not necessarily indicate whether cash flow will be sufficient to meet cash requirements. Because EBITDA,

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as determined by us, excludes some, but not all, items that affect net income, it may not be comparable to EBITDA or similarly titled measures used by other companies.

The following table sets forth our calculation of EBITDA and provides a reconciliation to net cash provided by/(used in) operations:

	Year Ended December 31,		Three Months Ended March 31,	
	2004	2005	2005	2006
Net Income	$ 19,144	$ 26,087	$ 1,034	$ 3,835
Add:				
Income tax provision	10,959	13,225	599	2,162
Interest expense	10,545	12,079	2,950	4,194
Depreciation and amortization	21,435	22,888	5,490	6,047
EBITDA	$ 62,083	$ 74,279	$ 10,073	$ 16,238
Add/(subtract):				
Income tax provision	(10,959)	(13,225)	(599)	(2,162)
Interest expense	(10,545)	(12,079)	(2,950)	(4,194)
(Gain) loss on disposal of property, plant and equipment	(431)	540	(11)	(45)
Realized and unrealized gains (losses) on railcars and related leases	(3,127)	(7,682)	(473)	(2,759)
Deferred income taxes	3,184	1,964	(447)	(370)
Excess tax benefit from share-based payment arrangement				(2,199)
Changes in working capital, unremitted earnings of affiliates and other	22,287	(5,917)	(86,919)	(88,919)
Net cash provided by/(used in) operations	$ 62,492	$ 37,880	$ (81,326)	$ (84,410)

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

(4) Working capital is defined as current assets less current liabilities.

RISK FACTORS

An investment in our stock involves a high degree of risk. You should carefully read and consider the risks described below and all of the information set forth or incorporated by reference in this prospectus, including our consolidated financial statements and related notes included elsewhere in this prospectus, before deciding to invest in our common stock. If any of the following risks actually occur, our business, financial condition, results of operations, cash flows and business prospects could be materially and adversely affected. In any such case, the trading price of our common stock could decline and you could lose all or part of your investment. The risks and uncertainties described below are those that we currently believe may materially affect us. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our financial condition and business operations.

Risks Relating to Our Business

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

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

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

Our ethanol business will compete with other corn processors, ethanol producers and refiners, a number of whom will be divisions of substantially larger enterprises and have substantially greater financial resources than we do. As of June 23, 2006, the top ten producers accounted for 42.0% of the ethanol production capacity in the U.S. according to the RFA. Smaller competitors, including farmer-owned cooperatives and independent firms consisting of groups of individual farmers and investors, will also pose a threat. Currently, international suppliers produce ethanol primarily from sugar cane and have cost structures that may be substantially lower than ours will be. The blenders credit allows blenders having excise tax liability to apply the excise tax credit against the tax imposed on the gasoline-ethanol mixture. Any increase in domestic or foreign competition could cause us to reduce our prices and take other steps to compete effectively, which could adversely affect our future results of operations and financial position.

Our Rail Group is subject to competition in the rail leasing business, where we compete with larger entities that have greater financial resources, higher credit ratings and access to capital at a lower cost. These factors may enable competitors to offer leases and loans to customers at lower rates than we are able to provide.

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

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

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

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

According to the RFA, domestic ethanol production capacity has increased from 1.9 billion gallons per year, or BGY, as of January 2001 to an estimated 4.8 BGY at June 23, 2006. The RFA estimates that, as of June 23, 2006, approximately 2.2 BGY of additional production capacity is under construction. The ethanol industry in the U.S. now consists of more than 90 production facilities. Excess capacity in the ethanol industry would have an adverse effect on our future results of operations, cash flows and financial position. In a manufacturing industry with excess capacity, producers have an incentive to manufacture additional products for so long as the price exceeds the marginal cost of production (*i.e.*, the cost of producing only the next unit, without regard for interest, overhead or fixed costs). This incentive can result in the reduction of the market price of ethanol to a level that is inadequate to generate sufficient cash flow to cover costs.

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

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

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

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

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

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

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

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

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

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

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

The elimination or significant reduction in the blenders credit could have a material adverse effect on our results of operations and financial position. The cost of production of ethanol is made significantly more competitive with regular gasoline by federal tax incentives. Before January 1, 2005, the federal excise tax incentive program allowed gasoline distributors who blended ethanol with gasoline to receive a federal excise tax rate reduction for each blended gallon they sold. If the fuel was blended with 10% ethanol, the refiner/marketer paid $0.052 per gallon less tax, which equated to an incentive of $0.52 per gallon of ethanol. The $0.52 per gallon incentive for ethanol was reduced to $0.51 per gallon in 2005 and is scheduled to expire (unless extended) in 2010. The blenders credits may not be renewed in 2010 or may be renewed on different terms. In addition, the blenders credits, as well as other federal and state programs benefiting ethanol (such as tariffs), generally are subject to U.S. government obligations under international trade agreements, including those under the World Trade Organization Agreement on Subsidies and Countervailing Measures, and might be the subject of challenges thereunder, in whole or in part. The elimination or significant reduction in the blenders credit or other programs benefiting ethanol may have a material adverse effect on our results of operations and financial position.

Ethanol can be imported into the U.S. duty-free from some countries, which may undermine the ethanol industry in the U.S. Imported ethanol is generally subject to a $0.54 per gallon tariff that was designed to offset the $0.51 per gallon ethanol incentive available under the federal excise tax incentive program for refineries that blend ethanol in their fuel. A special exemption from the tariff exists for ethanol imported from 24 countries in Central America and the Caribbean Islands. Imports from the exempted countries may increase as a result of new plants under development. Since production costs for ethanol in these countries are estimated to be significantly less than what they are in the U.S., the duty-free import of ethanol through the countries exempted from the tariff may negatively affect the demand for domestic ethanol and the price at which we sell our ethanol. In May 2006, bills were introduced in both the U.S. House of Representatives and U.S. Senate to repeal the $0.54 per gallon tariff. We do not know the extent to which the volume of imports would increase or the effect on U.S. prices for ethanol if this proposed legislation is enacted or if the tariff is not renewed beyond its current expiration in December 2007. Any

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changes in the tariff or exemption from the tariff could have a material adverse effect on our results of operations and financial position.

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

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

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

Fluctuations in the selling price and production cost of gasoline may reduce future profit margins of our ethanol business.

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

Our ethanol business will be highly sensitive to corn prices and we generally will not be able to pass on increases in corn prices to our customers.

The principal raw material we will use to produce ethanol and co-products, including dry and wet distillers grains, is corn. As a result, changes in the price of corn can significantly affect our business. In general, rising corn prices will produce lower profit margins for our ethanol business. Because ethanol competes with non-corn-based fuels, we generally will be unable to pass along increased corn costs to our customers. At certain levels, corn prices may make ethanol uneconomical to use in fuel markets. The price of corn is influenced by weather conditions and other factors affecting crop yields, farmer planting decisions and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade, and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm our ethanol business. In addition, we may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. Such a shortage could require us to suspend our ethanol operations until corn is available at economical terms, which would have a material adverse effect on our business, results of operations and financial position. The price we pay for corn at one of our facilities could increase if an additional ethanol production facility is built in the same general vicinity.

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

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

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

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

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

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

We may not be able to implement our expansion strategy in our ethanol business as planned or at all.

We have never before been in the business of producing ethanol, and our first plant under construction is not yet operational. We plan to grow our ethanol business by investing in new or existing ethanol facilities and to pursue other business opportunities. We believe that there is increasing competition for suitable ethanol production sites. We may not find suitable additional sites for construction of new facilities or other suitable expansion opportunities. We may need additional financing to implement our expansion strategy and we may not have access to the funding required for the expansion of our business or such funding may not be available to us on acceptable terms. We may finance the expansion of our business with additional indebtedness or by issuing additional equity securities. We could face financial risks associated with incurring additional indebtedness, such as reducing our liquidity and access to financial markets and increasing the amount of cash flow required to service such indebtedness, or associated with issuing additional stock, such as dilution of ownership and earnings.

We must also obtain numerous regulatory approvals and permits in order to construct and operate additional or expanded ethanol facilities. These regulatory requirements may not be satisfied in a timely manner or at all. In addition, federal and state governmental requirements may substantially increase our costs, which could have a material adverse effect on our results of operations and the financial position of our ethanol business. Our expansion plans may also result in other unanticipated adverse consequences, such as the diversion of management s attention from our existing operations.

Our construction costs may also increase to levels that would make a new facility too expensive to complete or unprofitable to operate. We have not entered into any construction contracts or other arrangements with respect to the construction of our current facilities that might limit our exposure to higher costs in developing and completing any new facilities. Contractors, engineering firms, construction firms and equipment suppliers also receive requests and orders from other ethanol companies and, therefore, we may not be able to secure their services or products on a timely basis or on acceptable financial terms. We may suffer significant delays or cost overruns as a result of a variety of factors, such as shortages of workers or materials, transportation constraints, adverse weather, unforeseen difficulties or labor issues, any of which could prevent us from commencing operations as expected at our facilities.

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

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

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

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

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

We are exposed to the risk of a decrease in the value of our inventories due to a variety of circumstances in all of our businesses. For example, within our Grain & Ethanol Group, there is the risk that the quality of our grain inventory could deteriorate due to damage, moisture, insects, disease or foreign material. If the quality of our grain were to deteriorate below an acceptable level, the value of our inventory could decrease significantly. In our Plant Nutrient Group, planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Technological advances in agriculture, such as genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could also affect the demand for our crop nutrients and crop protection products. Either of these factors could render some of our inventory obsolete or reduce its value. Within our Rail Group, major design improvements to loading, unloading and transporting of certain products can render existing (especially old) equipment obsolete. A significant portion of our rail fleet is composed of older railcars. In addition, in our Turf & Specialty Group, we build substantial amounts of inventory in advance of the season to prepare for customer demand. If we were to forecast our customer demand incorrectly, we could build up excess inventory which could cause the value of our inventory to decrease.

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The spread between ethanol and corn prices can vary significantly and we do not expect the spread to remain at recent high levels.

The profitability of our ethanol business will depend, in part, on the spread between ethanol and corn prices. In recent periods, the spread between ethanol and corn prices has been at historically high levels, driven in large part by high oil prices and historically low corn prices. During 2005, however, this spread fluctuated widely and fluctuations are likely to continue to occur. Any reduction in the spread between ethanol and corn prices, whether as a result of an increase in corn prices or a reduction in ethanol prices, would adversely affect our future results of operations and financial position.

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

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

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

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

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

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

Our Rail Group is subject to risks associated with the demands and restrictions of the Class 1 railroads, a group of publicly owned rail companies owning a high percentage of the existing rail lines. These companies exercise a high degree of control over whether private railcars can be allowed on their lines and may reject certain railcars or require railcar improvements to carry higher load limits. This presents risk and uncertainty for our Rail Group. In addition, a shift in the railroad strategy to investing in new rail cars and improvements to existing railcars, instead of investing in locomotives and infrastructure, could adversely impact our business by causing increased competition and creating an oversupply of railcars. Our rail fleet consists of a range of railcar types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives. However a large concentration of a particular type of railcar could expose us to risk if demand were to decrease for that railcar type. Failure on our part to identify and assess risks and uncertainties such as these could negatively impact our business.

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

match funded.

Our Rail Group relies upon customers continuing to lease rather than purchase railcar assets. There are a number of items that factor into 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 our customers preferences could negatively impact demand for our leasing

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products. Profitability is largely dependent on the ability to maintain railcars on lease (utilization) at satisfactory lease rates. A number of factors can adversely affect utilization and lease rates including an economic downturn causing reduced demand or oversupply in the markets in which we operate, changes in customer behavior, or any other changes in supply or demand.

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

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

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

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

Our Grain & Ethanol and Plant Nutrient Groups are dependent on grain elevator and nutrient storage capacity, respectively. The loss of use of one of our larger storage facilities could cause a major disruption to our Grain & Ethanol and Plant Nutrient operations. We are currently constructing our first ethanol production facilities and our ethanol operations may be subject to significant interruption if any of these facilities experiences a major accident or is damaged by severe weather or other natural disasters. We currently have only one production facility for our corncob-based products in our Turf & Specialty Group, and only one warehouse in which we store the majority of our retail merchandise inventory for our Retail Group. Any adverse event or occurrence impacting these facilities could cause major disruption to our business operations. In addition, our operations may be subject to labor disruptions and unscheduled downtime, or other operational hazards inherent in our industry, such as equipment failures, fires, explosions, abnormal pressures, blowouts, pipeline ruptures, transportation accidents and natural disasters. Some of these operational hazards may cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. Any disruption in our business operations could decrease our revenues and negatively impact our financial position.

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

Due to the nature of some of the businesses in which we operate, we are exposed to significant safety risks such as grain dust explosions, malfunction of equipment and chemical spills or 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 in our Plant Nutrient Group or Turf & Specialty Group, it could harm not only our employees but the environment as well and could subject us to significant costs.

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

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

- increase our vulnerability to general adverse economic and industry conditions;

limit our ability to obtain additional financing which could impact our ability to fund future working capital, capital expenditures and other general needs as well as limit our flexibility in planning for or reacting to changes in our business and restrict us from making strategic acquisitions, investing in new products or capital assets and taking advantage of business opportunities;

require us to dedicate a substantial portion of cash flows from operating activities to payments on our indebtedness which would reduce the cash flows available for other areas; and

place us at a competitive disadvantage compared to our competitors with less debt.

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

As of March 31, 2006, we had $163.5 million of long-term indebtedness, which represented approximately 50.0% of our total book capitalization as of such date, or approximately % as adjusted to give effect to this offering. In addition, we may incur substantial additional indebtedness in the future. Any additional debt incurred by us could increase the risks associated with our substantial leverage.

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

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

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

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

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

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of internal control over financial reporting and a report by our independent registered public accounting firm attesting to our evaluation as well as issuing their own opinion on our internal controls over financial reporting. If we fail to maintain adequate internal control over financial reporting, it could not only adversely impact our financial results but also cause us to fail to meet our reporting obligations. Although management has concluded that adequate internal control procedures were in place as of March 31, 2006, no system of internal control can provide absolute assurance that the financial statements are accurate and free of error. As a result, the risk remains that our internal controls may not detect all errors or omissions in the financial statements or be able to detect all instances of fraud or illegal acts. In the fourth quarter of 2005 we implemented new controls and procedures to remediate a material weakness in our internal controls over the preparation, review, presentation and disclosure of our condensed consolidated statement of cash flows as a result of the need to restate our financial statements for the quarter ended September 30, 2005 to correct the accounting for a single class of railcar related debt financing transactions. If we or our auditors discover a future material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and have a negative impact on the trading price of our stock.

Disruption or difficulties with our information technology could impair our ability to operate our business.

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

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

We have a significant amount of assets (railcars and related leases) 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 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 Financial Accounting Standards Board, or FASB, has issued an exposure draft 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.

We continue 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. We have amended our 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, modifying the calculation of 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 from 2007 to 2012 will be includable in the final average pay formula calculating the final benefit earned for years prior to December 31, 2006. Our postretirement health care benefit plans are generally contributory and include a limit on our share for most retirees. Although we have actively sought to control increases in these costs, there can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

Our business may be adversely affected by numerous factors outside of our control, such as seasonality and weather conditions, national and international political developments, or other natural disasters or strikes.

Many of our operations are dependent on weather conditions. The success of our Grain & Ethanol Group, for example, is highly dependent on the weather 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 affect the application of fertilizer and other products by golf courses, lawn care operators and consumers, which could decrease demand in our Turf & Specialty Group. These same weather conditions also adversely affect purchases of lawn and garden products in our Retail Group, which generates a significant amount of its sales from these products during the spring season.

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

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

We 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.

The loss of our largest customer, Cargill, Incorporated, could result in lower revenues or higher expenses.

We have a five-year lease agreement and a five-year marketing agreement with Cargill, Incorporated, relating to Cargill s Maumee and Toledo, Ohio grain handling and storage facilities. The lease agreement covers 10%, or approximately 8.5 million bushels, of our total storage space and the marketing agreement covers four of our facilities. Grain sales to Cargill totaled $132.0 million in 2005, and included 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. Both agreements were renewed with amendments in 2003 for an additional five years. If the agreements are terminated or are not renewed and Cargill ceases to purchase grain from us, our revenues could decline, which could cause our business, financial condition and operating results to suffer.

Risks Relating to this Offering

Volatility of our stock price could adversely affect our shareholders.

The market price of our common stock could fluctuate significantly as a result of numerous factors, some of which include:

- quarterly variations in our operating results;
- general conditions in the ethanol or general agricultural industry;
- changes in the supply and demand of our raw materials;
- interest rate changes or changes in our hedging strategies;

changes in governmental laws and regulations affecting our businesses;

changes in the market s expectations about our operating results;

changes in the financial estimates and recommendations by securities analysts concerning our company or the agricultural industry in general;

failure of our operating results in meeting the expectations of securities analysts or investors in a particular period;

operating and stock price performance of other companies that investors deem comparable to us;

news reports relating to trends in our markets;

material announcements by our competitors, manufacturers or suppliers;

sales of substantial amounts of our common stock by our directors, executive officers or significant shareholders or the perception that such sales could occur; and

general economic and political conditions such as recessions, natural disasters and war or terrorism.

Any of the factors listed above could cause fluctuations in the price of our common stock, and our common stock may trade at prices significantly below the offering price. As a result, you could lose part or all of your investment in our common stock.

You may not receive the level of dividends historically paid by us or any dividends at all.

We are not obligated to pay dividends. Dividend payments are not guaranteed and are within the absolute discretion of our board of directors. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, working capital requirements, financial condition, contractual restrictions, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant.

We might not generate sufficient cash from operations in the future to pay dividends on our common stock in the intended amounts or at all. Our board of directors may decide not to pay dividends at any time and for any reason. Our dividend practice is based upon our directors current assessment of our business and the environment in which we operate, and that assessment could change based on competitive developments (which could, for example, increase our need for capital expenditures), new growth opportunities or other factors. If our cash flows from operations for future periods were to fall below our minimum expectations, we would need to either reduce or eliminate dividends or fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively affect our financial condition, our results of operations, our liquidity and our ability to maintain or expand our business. Our board of directors may, in its sole discretion, cease payment of dividends at any time and could do so, for example, if it were to determine that we had insufficient cash to take advantage of growth opportunities. See Price Range of our Common Stock and Dividends. The reduction or elimination of dividends may negatively affect the market price of our common stock.

We will require a significant amount of cash, which may not be available to us, to service our debt, pay dividends and fund our other liquidity needs.

Our ability to make payments on, or to refinance or repay, our debt, fund planned capital expenditures, pay dividends on our common stock and expand our business will depend largely upon our future operating performance. Our future operating performance is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. Our business may not generate enough cash flow, or future borrowings may not be available to us under our senior credit facilities or otherwise, in an amount sufficient to enable us to pay our debt, pay dividends or fund our other liquidity needs. If we are unable to generate sufficient cash to service our debt requirements, we will be required to refinance our senior credit facilities. We may not be able to refinance any of our debt, including the senior credit facilities, under such circumstances, on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including sales of certain assets to meet our debt service requirements, sales of equity and negotiations with our lenders to restructure the applicable debt.

Our senior credit facilities could restrict our ability to do some of these things. If we are forced to pursue any of the above options under distressed conditions, our business and/or the value of our common stock could be adversely affected.

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Provisions in our charter documents could discourage potential acquisition proposals, could delay, deter or prevent a change in control and could limit the price certain investors might be willing to pay for our stock.

Certain provisions of our articles of incorporation and code of regulations may inhibit changes in control of our company not approved by our board of directors or changes in the composition of our board of directors, which could result in the entrenchment of current management. These provisions include:

- a prohibition on shareholder action through written consents;
- a requirement that special meetings of shareholders be called only by the board of directors;
- advance notice requirements for shareholder proposals and director nominations;
- limitations on the ability of shareholders to amend, alter or repeal the code of regulations; and
- the authority of the board of directors to issue, without shareholder approval, preferred stock with such terms as the board of directors may determine and additional shares of our common stock.

These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

FORWARD LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. You are urged to carefully consider these risks and factors, including those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, pre continue or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made, and we undertake no ongoing obligation, other than any imposed by law, to update these statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Forward-looking statements include, but are not limited to, the following:

- the statements in Prospectus Summary The Offering and Price Range of our Common Stock and Dividends about our intention to pay dividends;

- the statements in Prospectus Summary The Offering and Use of Proceeds about the intended use of our proceeds from this offering;

- the statements in Risk Factors concerning, among other things, the competition in our industry; changes in the supply and demand of ethanol; changes in the supply and demand of commodities; changes in government or trade association regulation; our environmental liability exposure; our dependence on certain suppliers for raw materials; the effect of our inventory levels; changes in the spread between ethanol and corn prices; our investments in the ethanol business; our investments in joint ventures; unique risks associated with the railroad industry; our limited production and storage facilities; safety risks; our ability to assess our customers credit worthiness; our ability to attract and retain key personnel; our ability to maintain an effective system of internal control over financial reporting; our susceptibility to changes in accounting policies; general and political factors outside of our control; our ability to maintain adequate insurance; our ability to maintain large customers; our ability to pay dividends; and our indebtedness; and

- all of the statements in Prospectus Summary Our Business Strategy, Business Our Business Strategy and related summaries about our plans, goals, intentions, expectations and beliefs, including those concerning the ethanol industry, our customers and distribution channels, product offerings and cost structure.

All forward-looking statements in this prospectus are made as of the date hereof, based on information available to us as of the date hereof, and we caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this prospectus. We assume no obligation to update any forward-looking statement.

USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately $ million, after deducting underwriting discounts, commissions and other offering-related expenses, at an assumed offering price of $ per share. A $1.00 increase (decrease) in the assumed public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by $ million (assuming the number of shares set forth on the cover of this preliminary prospectus remains the same). We intend to use the net proceeds from this offering for investments in the ethanol industry, including additional ethanol plants, investments in additional railcar assets and for general corporate purposes. We retain broad discretion in the allocation and use of such proceeds, since the amounts that we actually expend for working capital purposes will vary significantly depending on a number of factors, including future revenue growth, if any, and the amount of cash we generate from our operations. Pending the uses of proceeds described herein, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. We will not receive any of the proceeds from the sale of common stock by the selling shareholders in this offering.

PRICE RANGE OF OUR COMMON STOCK AND DIVIDENDS

Our common stock is quoted on the Nasdaq Global Market under the symbol ANDE. The following table sets forth, for the periods indicated, the high and low sale price for shares of our common stock as reported on the Nasdaq Global Market and the cash dividends declared per share of our common stock, in each case after giving effect to our two-for-one stock split which occurred on June 28, 2006.

	High	Low	Dividend
Fiscal Year 2004			
First Quarter Ended March 31	$ 10.00	$ 7.75	$ 0.0375
Second Quarter Ended June 30	9.88	8.04	0.0375
Third Quarter Ended September 30	10.65	8.23	0.0400
Fourth Quarter Ended December 31	13.15	10.01	0.0400
Fiscal Year 2005			
First Quarter Ended March 31	$ 16.66	$ 11.57	$ 0.0400
Second Quarter Ended June 30	18.30	13.22	0.0425
Third Quarter Ended September 30	21.17	13.75	0.0425
Fourth Quarter Ended December 31	22.41	13.25	0.0425
Fiscal Year 2006			
First Quarter Ended March 31	$ 40.83	$ 21.11	$ 0.0450

On June 28, 2006, the last reported sale price of our common stock on the Nasdaq Global Market was $41.33 per share. As of June 28, 2006, there were 742 holders of record of our common stock.

On May 12, 2006, our board of directors approved a two-for-one stock split. In addition, our board of directors approved a cash dividend of $0.045 per common share to shareholders of record on July 3, 2006, payable on July 24, 2006. This will be our 39th consecutive quarterly cash dividend since the listing of our common stock on Nasdaq on February 20, 1996.

We intend to pay quarterly dividends in the future, however, our historical dividend practice could be modified or revoked at any time in the absolute discretion of our board of directors, depending on a number of factors, including our future earnings, capital requirements, financial condition, future prospects and other factors as the board of directors may deem relevant. In addition, our current loan agreements restrict the payment of annual dividends to amounts specified in such agreements.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of March 31, 2006:

on an actual basis; and

on an as adjusted basis, to reflect the receipt by us of the estimated net proceeds from this offering of approximately $ million, after deducting underwriting discounts, commissions and other offering-related expenses payable by us, assuming no exercise of the underwriters over-allotment option.

This capitalization table should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

	As of March 31, 2006	
	Actual	As Adjusted
	(In thousands)	
Cash and cash equivalents	$ 15,821	$
Long-term debt:		
Long-term debt-non-recourse, less current maturities	86,269	
Long-term debt, less current maturities	77,217	
Total long-term debt	163,486	
Shareholders equity:		
Common shares, without par value; 25,000 shares authorized; 16,860 and 18,860 shares issued actual and as adjusted, respectively	84	
Additional paid-in capital	72,597	
Treasury shares (1,658 shares; at cost)	(14,534)	
Accumulated other comprehensive loss	(311)	
Retained earnings	105,737	
Total shareholders equity	163,573	
Total capitalization	$ 327,059	$

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The table below sets forth selected historical consolidated financial data for the periods presented. We have prepared this information using our consolidated financial statements for the five fiscal years ended December 31, 2001, 2002, 2003, 2004 and 2005, and for the three months ended March 31, 2005 and March 31, 2006. The financial statements for the three most recent fiscal years identified above are included in this prospectus and have been audited by PricewaterhouseCoopers LLP, independent accountants. The financial statements for the fiscal years ended December 31, 2001 and 2002 are not included in this prospectus but have been audited by PricewaterhouseCoopers LLP, independent accountants. The financial statements for the three months ended March 31, 2005 and March 31, 2006 have not been audited, but we believe our unaudited statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial condition and results of operations for these periods, and in the opinion of management, have been prepared on the same basis as the audited financial statements.

The summary historical consolidated financial and operating information may not be indicative of our results of future operations and should be read in conjunction with the discussion under the section Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and related notes thereto included elsewhere in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(Dollars in thousands, except per share data)						
Statement of Operations Data:							
Sales and merchandising revenues	$ 976,033	$ 1,070,266	$ 1,239,005	$ 1,266,932	$ 1,296,652	$ 258,656	$ 280,658
Cost of sales and merchandising revenues	815,282	907,165	1,074,911	1,077,833	1,098,506	218,697	239,173
Gross profit	160,751	163,101	164,094	189,099	198,146	39,959	41,485
Operating, administrative and general expenses	141,091	141,028	143,129	154,895	153,759	36,901	37,906
Interest expense	11,570	9,812	8,048	10,545	12,079	2,950	4,194
Other income/gains:(1)							
Other income	3,846	3,728	4,701	4,973	4,683	1,079	3,059
Equity in earnings of affiliates	(5)	13	347	1,471	2,321	446	3,553
Income before income taxes	11,931	16,002	17,965	30,103	39,312	1,633	5,997
Income tax provision	2,889	5,238	6,264	10,959	13,225	599	2,162
Cumulative effect of a change in accounting	(185)	3,480					

principle(2)							
Net income	$ 8,857	$ 14,244	$ 11,701	$ 19,144	$ 26,087	$ 1,034	$ 3,835
Per common share:							
Basic earnings	$ 0.61	$ 0.98	$ 0.82	$ 1.32	$ 1.76	$ 0.07	$ 0.26
Diluted earnings	$ 0.61	$ 0.96	$ 0.80	$ 1.28	$ 1.70	$ 0.07	$ 0.25
Dividends paid	$ 0.13	$ 0.13	$ 0.14	$ 0.1525	$ 0.165	$ 0.04	$ 0.045
Weighted average shares outstanding Basic	14,562	14,566	14,282	14,492	14,842	14,746	15,090
Weighted average shares outstanding Diluted	14,632	14,858	14,680	14,996	15,410	15,286	15,638

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(Dollars in thousands)						
Sales and merchandising revenues:							
Grain & Ethanol Group	$ 471,625	$ 577,685	$ 696,615	$ 664,565	$ 627,958	$ 120,937	$ 128,625
Rail Group	31,061	18,747	35,200	59,283	92,009	17,705	34,383
Plant Nutrient Group	182,571	178,322	194,600	236,574	271,371	44,071	46,033
Turf & Specialty Group	112,827	114,315	134,017	127,814	122,561	40,891	39,505
Retail Group	177,949	181,197	178,573	178,696	182,753	35,052	32,112
Total	$ 976,033	$ 1,070,266	$ 1,239,005	$ 1,266,932	$ 1,296,652	$ 258,656	$ 280,658
Gross Profit:							
Grain & Ethanol Group	$ 52,029	$ 47,348	$ 41,783	$ 52,680	$ 50,159	$ 10,199	$ 6,945
Rail Group	7,267	8,718	13,626	28,793	43,281	8,515	14,092
Plant Nutrient Group	33,363	33,284	34,923	34,692	32,774	5,582	4,133
Turf & Specialty Group	20,337	22,876	23,367	21,503	18,888	5,858	6,635
Retail Group	47,755	50,875	50,395	51,431	53,044	9,805	9,680
Total	$ 160,751	$ 163,101	$ 164,094	$ 189,099	$ 198,146	$ 39,959	$ 41,485
Income (loss) before income taxes:							
Grain & Ethanol Group	$ 14,460	$ 9,627	$ 6,018	$ 14,174	$ 12,623	$ 1,738	$ 1,780
Rail Group	(349)	1,563	4,062	10,986	22,822	3,640	6,218
Plant Nutrient Group	5,305	5,527	7,850	7,128	10,351	(787)	(1,235)
Turf & Specialty Group	(7,654)	(1,322)	1,022	(144)	(3,044)	1,077	2,149
Retail Group	1,868	4,003	3,413	2,108	2,921	(2,098)	(2,441)
Other	(1,699)	(3,396)	(4,400)	(4,149)	(6,361)	(1,937)	(474)
Total	$ 11,931	$ 16,002	$ 17,965	$ 30,103	$ 39,312	$ 1,633	$ 5,997

Year Ended December 31,					Three Months Ended March 31,	
2001	2002	2003	2004	2005	2005	2006

(Dollars in thousands)

Other Financial Data:							
Depreciation and amortization	$ 14,264	$ 14,314	$ 15,139	$ 21,435	$ 22,888	$ 5,490	$ 6,047
Cash invested in acquisitions/investments in affiliates			1,182	85,753	16,005	1,895	22,852
Investments in property, plant and equipment	9,155	9,834	11,749	13,201	11,927	1,896	2,495
Net investment in (sale of) railcars(3)	6,414	(7,782)	3,788	(90)	29,810	12,008	(1,051)
Interest expense	11,570	9,812	8,048	10,545	12,079	2,950	4,194
EBITDA(4)	37,765	40,128	41,152	62,083	74,279	10,073	16,238

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	As of December 31,					As of March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(Dollars in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 5,697	$ 6,095	$ 6,444	$ 8,439	$ 13,876	$ 6,138	$ 15,821
Total assets	458,718	469,780	493,292	573,598	634,144	625,830	700,667
Long-term debt(5)	91,316	84,272	82,127	89,803	79,329	89,151	77,217
Long-term debt, non-recourse(5)				64,343	88,714	61,465	86,269
Total shareholders equity	94,934	105,765	115,791	133,876	158,833	134,755	163,573
Working capital(6)	73,608	80,044	86,871	102,170	96,219	92,525	72,312

(1) Includes gains of $0.3 million in each of 2002 and 2001 for insurance settlements received.

(2) FAS 133 (2001) and EITF D-96 (2002).

(3) Represents net purchases of railcars offset by proceeds on sales of railcars. In 2002 and 2004, proceeds exceeded purchases. In 2004, cars acquired as described in Note 3 to the audited consolidated financial statements included elsewhere in this prospectus have been excluded from this number.

(4) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a non-GAAP measure. We believe that EBITDA provides additional information for investors and others in determining our ability to meet debt service obligations. EBITDA does not represent and should be not be considered as an alternative to net income or cash flow from operations as determined by generally accepted accounting principles, and EBITDA does not necessarily indicate whether cash flow will be sufficient to meet cash requirements. Because EBITDA, as determined by us, excludes some, but not all, items that affect net income, it may not be comparable to EBITDA or similarly titled measures used by other companies.

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The following table sets forth our calculation of EBITDA and provides a reconciliation to net cash provided by/(used in) operations:

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(Dollars in thousands)						
Income before cumulative change in accounting principal	$ 9,042	$ 10,764	$ 11,701	$ 19,144	$ 26,087	$ 1,034	$ 3,835
Add:							
Income tax provision	2,889	5,238	6,264	10,959	13,225	599	2,162
Interest expense	11,570	9,812	8,048	10,545	12,079	2,950	4,194
Depreciation and amortization	14,264	14,314	15,139	21,435	22,888	5,490	6,047
EBITDA	$ 37,765	$ 40,128	$ 41,152	$ 62,083	$ 74,279	$ 10,073	$ 16,238
Add/(subtract):							
Income tax provision	(2,889)	(5,238)	(6,264)	(10,959)	(13,225)	(599)	(2,162)
Interest expense	(11,570)	(9,812)	(8,048)	(10,545)	(12,079)	(2,950)	(4,194)
Gain on insurance settlements	(338)	(302)					
(Gain) loss on disposal of property, plant and equipment	(336)	(406)	(273)	(431)	540	(11)	(45)
Realized and unrealized gains (losses) on railcars and related leases	1,172	(179)	(2,146)	(3,127)	(7,682)	(473)	(2,759)
Deferred income taxes	(539)	1,432	382	3,184	1,964	(447)	(370)
Excess tax benefit from share-based payment arrangement							(2,199)
Changes in working capital, unremitted earnings of affiliates and other	(29,373)	(2,374)	19,290	22,287	(5,917)	(86,919)	(88,919)
Net cash provided by/(used in) operations	$ (6,108)	$ 23,249	$ 44,093	$ 62,492	$ 37,880	$ (81,326)	$ (84,410)

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

(6) Working capital is defined as total current assets minus total current liabilities.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements in this discussion regarding industry outlook, our expectations regarding the future performance of our business and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under Risk Factors. See Forward-Looking Statements for more information. You should read the following discussion together with our consolidated financial statements and related notes thereto included elsewhere or incorporated by reference in this prospectus.

Overview

We are an entrepreneurial, customer focused company with diversified interests in the agriculture and transportation markets. Since our founding in 1947, we have developed specific core competencies in risk management, bulk handling, transportation and logistics and an understanding of commodity markets. We have leveraged these competencies to diversify our operations into other complementary markets, including ethanol, railcar leasing, plant nutrients, turf products and general merchandise retailing. For the year ended December 31, 2005, our sales and merchandising revenues were $1,296.7 million, our operating income was $39.3 million and our EBITDA was $74.3 million, which represented increases over 2004 levels of 2%, 31% and 20%, respectively. For the three months ended March 31, 2006, our sales and merchandising revenues were $280.7 million, our operating income was $6.0 million and our EBITDA was $16.2 million, which represented increases over 2005 levels of 9%, 267% and 61%, respectively.

We operate our business in five segments: the Grain & Ethanol Group, the Rail Group, the Plant Nutrient Group, the Turf & Specialty Group and the Retail Group. Included below in Other are the corporate level amounts that are not attributable to an operating group and other amounts that are attributable to the sale of excess real estate.

The Grain & Ethanol Group

Our Grain & Ethanol Group operates grain elevators in Ohio, Michigan, Indiana and Illinois, which have 81 million bushels of capacity and shipped approximately 167 million bushels of grain in 2005. In addition to storage and merchandising, we perform grain trading, risk management and other services for our customers. We are also the developer and largest investor in two ethanol facilities currently under construction in Indiana and Michigan. In addition to our equity investment, we provide management, grain origination, risk management and other services to these joint ventures for which we are paid annual service fees. We are also an investor in a third ethanol facility located in Indiana for which we also provide grain origination services. For the year ended December 31, 2005 and the three months ended March 31, 2006, our Grain & Ethanol Group represented 48% and 46% of our sales and merchandising revenues, respectively, and 32% and 30% of our operating income, respectively.

We intend to continue building our trading operations, increasing our investments and service offerings to the ethanol industry and growing our traditional grain business. Our investment in Lansing increases our trading capabilities, including ethanol, and extends our reach into the western corn belt. We anticipate making additional investments in large scale ethanol plants through joint venture agreements and providing origination, management, logistics, merchandising and other services to the facilities. We believe efficiently using capital in this manner will extend our geographic reach and availability of ethanol as well as leverage our core competencies in the growing ethanol industry.

The Rail Group

With over 19,000 railcars, we own one of the largest diversified, private fleets (exclusive of railroads) in the U.S. Our Rail Group provides leasing, repair and management services as well as periodically sells cars from the fleet. We also operate a leading refurbishment business that extends the life and uses of railcars and a custom component manufacturing business. For the year ended December 31, 2005 and the three months ended March 31, 2006, our Rail Group represented 7% and 12% of our sales and merchandising revenues, respectively, and 58% and 104% of our operating income, respectively.

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We intend to grow our fleet of rail cars and locomotives through targeted portfolio acquisitions and open market purchases. We also plan to expand our repair and refurbishment operations by adding fixed and mobile facilities. Our growing operations in the rail industry positions us to take advantage of a favorable pricing environment and the increasing need for transportation.

The Plant Nutrient Group

We are a significant plant nutrient distributor in North America with 1.5 million tons of shipments in 2005 and 600,000 tons of storage capacity. We operate 12 distribution centers and 7 farm centers serving approximately 600 wholesale and 3,500 farm center customers. For the year ended December 31, 2005 and the three months ended March 31, 2006, our Plant Nutrient Group represented 21% and 17% of our sales and merchandising revenues, respectively, and 26% and (21)% of our operating income, respectively.

We intend to transition our offering to more premium products from commodity products and services. For example, we are currently exploring an expansion in our Plant Nutrient Group s product offerings by selling reagents for air pollution control technologies used in coal-fired power plants and marketing the resulting byproducts that can be used as plant nutrients. Focusing on higher value added products and services and improving our sourcing of raw materials will leverage our infrastructure.

The Turf & Specialty Group

Our Turf & Specialty Group produces granular fertilizer products for the professional lawn care and golf course markets. We also produce private label fertilizer and corncob based animal bedding and cat litter for the consumer markets. For the year ended December 31, 2005 and the three months ended March 31, 2006, our Turf & Specialty Group represented 10% and 14% of our sales and merchandising revenues, respectively, and (8)% and 36% of our operating income, respectively.

We intend to focus on leveraging our leading position in the golf fertilizer market and our research and development capabilities to develop higher value, proprietary products. For example, we have recently developed a patented premium dispersible golf course fertilizer and a patented corncob-based cat litter that will be sold through a major national brand. We also plan to continue to improve our cost structure and asset utilization.

The Retail Group

We operate six large format stores in Ohio that feature *More for Your Home*®. Our stores focus on providing significant product breadth with offerings in hardware, plumbing, electrical, building supplies and other housewares as well as specialty foods and indoor and outdoor garden centers. The majority of our non-perishable goods are received at our 245,000 square foot distribution center in Maumee, Ohio. For the year ended December 31, 2005 and the three months ended March 31, 2006, our Retail Group represented 14% and 11% of our sales and merchandising revenues, respectively, and 7% and (41)% of our operating income, respectively.

We intend to continue to refine our *More for Your Home*® concept and focus on expense control and customer service. We also plan to expand our offering of specialty foods, wine and produce.

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Results of Operations

The following tables highlight sales and merchandising revenues, gross profit and operating income by segment. In the first quarter of 2006, we re-aligned our business segments by separating the business segment that we had previously referred to as the Agriculture Group into two distinct segments: the Grain & Ethanol Group and the Plant Nutrient Group. The decision to change our Agriculture segment was made in order to provide more meaningful information, as the Grain & Ethanol Group is redeploying certain of its assets into supporting the ethanol market. All prior periods have been restated for this change in reporting and the updated presentation is consistent with the reporting to management during the first quarter of 2006. Additional segment information is included in Note 14 to our consolidated financial statements contained elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(Dollars in thousands)				
Sales and merchandising revenues:					
Grain & Ethanol Group	$ 696,615	$ 664,565	$ 627,958	$ 120,937	$ 128,625
Rail Group	35,200	59,283	92,009	17,705	34,383
Plant Nutrient Group	194,600	236,574	271,371	44,071	46,033
Turf & Specialty Group	134,017	127,814	122,561	40,891	39,505
Retail Group	178,573	178,696	182,753	35,052	32,112
Total	$ 1,239,005	$ 1,266,932	$ 1,296,652	$ 258,656	$ 280,658

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(Dollars in thousands)				
Gross profit:					
Grain & Ethanol Group	$ 41,783	$ 52,680	$ 50,159	$ 10,199	$ 6,945
Rail Group	13,626	28,793	43,281	8,515	14,092
Plant Nutrient Group	34,923	34,692	32,774	5,582	4,133
Turf & Specialty Group	23,367	21,503	18,888	5,858	6,635
Retail Group	50,395	51,431	53,044	9,805	9,680
Total	$ 164,094	$ 189,099	$ 198,146	$ 39,959	$ 41,485

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(Dollars in thousands)				

Income (loss) before income taxes:					
Grain & Ethanol Group	$ 6,018	$ 14,174	$ 12,623	$ 1,738	$ 1,780
Rail Group	4,062	10,986	22,822	3,640	6,218
Plant Nutrient Group	7,850	7,128	10,351	(787)	(1,235)
Turf & Specialty Group	1,022	(144)	(3,044)	1,077	2,149
Retail Group	3,413	2,108	2,921	(2,098)	(2,441)
Other	(4,400)	(4,149)	(6,361)	(1,937)	(474)
Total	$ 17,965	$ 30,103	$ 39,312	$ 1,633	$ 5,997

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Sales and merchandising revenues

Sales and merchandising revenues for the three months ended March 31, 2006 totaled $280.7 million, an increase of $22.0 million, or 8.5%, from the three months ended March 31, 2005.

Grain & Ethanol Group. In the first quarter of 2006, sales in the Grain & Ethanol Group were up $11.8 million, or 10%, over the prior year period due entirely to an increase in volume. The 2004 record corn crop is being followed by, what appears at this time, to be the second largest corn crop on record. This expectation has continued to hold down prices. In the first quarter of 2006, merchandising revenues were down $4.1 million, or 63%, over the prior year period due to a $5.3 million decrease in grain space income partially offset by management fees earned of $0.4 million from contracts with our two ethanol equity method investees as well as $0.8 million in other merchandising revenues. Space income is earned on grain held for our account or for our customers and includes storage fees earned and appreciation in the value of grain owned. We anticipate that some or all of this space income decrease will be recovered in the second quarter of 2006. A majority of this space income decrease has resulted from inventory of wheat that we hold in our Toledo area grain elevators. Toledo is one of a limited number of designated delivery locations for the fulfillment of Chicago Board of Trade, or CBOT, futures contracts for soft red wheat and physical demand for this specific commodity has been soft for some time, despite strong demand and price increases in the wheat futures market. Our decline in space income results from the economics of soft demand for and high supply of the physical commodity all impacting the basis component of grain price. Grain inventories on hand at March 31, 2006 were 58.4 million bushels, of which 11.8 million bushels were stored for others. This compares to 63.1 million bushels on hand at March 31, 2005, of which 10.4 million bushels were stored for others. Wheat held in inventory was 19.8 million and 18.3 million bushels at March 31, 2006 and 2005, respectively. Crop conditions at June 30, 2006 are the same or slightly better than last year with all planting complete in the four states in which we source grain. The wheat harvest begins in these same states in late June.

We have continued, and are continuing, repair of the grain storage and loading facility located on the Maumee River in Toledo, Ohio that was damaged on July 1, 2005. Although leased, we insured the facility for full replacement cost under the terms of the lease agreement. Until this facility is fully operational, we anticipate some logistical challenges due to the reduction in capacity, the inability to segregate grains to facilities and the loss of the use of a grain dryer and boat-loading facility. Claims for business interruption, including inventory loss, are in process.

With our significant investments in ethanol production facilities and the commitment to convert two of the existing grain elevator locations to service ethanol plants under construction, our Grain & Ethanol Group is expected to continue to grow. Ethanol industry growth could impact us in a variety of ways. In certain situations, construction of unrelated ethanol production facilities could negatively impact existing grain elevators buying corn for more traditional uses. However, growth of ethanol is expected to increase demand for corn as well. Opportunities exist for us to leverage our grain origination services, DDGS and ethanol marketing services and commodity risk management services to our own and other ethanol production facilities. We continue to evaluate additional opportunities to move into the ethanol industry through investments in stand-alone facilities or contracts to provide services to new or existing facilities. Four of the limited liability companies in which we hold investments also participate and/or are expected to participate in the ethanol industry either through commodity trading or production. Increased demand for corn could be positive for our Plant Nutrient Group as corn requires more nutrients (as opposed to other crops) that are supplied by this segment. Finally, ethanol transportation requirements could benefit our Rail Group.

Rail Group. In the first quarter of 2006, the Rail Group had a $16.7 million, or 94%, increase in revenues over the prior year period. The increase is due to a $9.5 million increase in car sales, a $4.3 million increase in leasing revenue in our lease fleet and a $2.9 million increase in revenue from our railcar repair and fabrication shops. Included in the

$9.5 million of car sales are $0.9 million of revenue on cars at the end of their useful lives sold for scrap. A significant component of the railcar repair shop increase related to activity in the repair shop opened in Mississippi in the third quarter of 2005 and relates primarily to repairing cars damaged by Hurricane Katrina. Finally, our purchase of additional product lines in the third quarter of 2005 added some additional revenues. Railcars under management (owned, leased or managed for financial institutions in non-recourse arrangements) at

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March 31, 2006 were 19,185 compared to 16,106 at March 31, 2005. The railcar utilization rate (railcars under management in lease service, exclusive of railcars managed for third party investors) increased from 93% at March 31, 2005 to 95% at March 31, 2006.

Plant Nutrient Group. In the first quarter of 2006, sales in our Plant Nutrient Group were up $2.0 million, or 5% over the prior year period, due to a 12% increase in the average price per ton sold partially offset by a 7% decrease in volume. Much of the price increase relates to escalation in prices of the basic raw materials, primarily nitrogen, phosphates and potassium. Generally, these increases can be passed through to customers although price increases may also reduce demand at the producer level. Merchandising revenues decreased $0.1 million, or 12%, from the first quarter of 2005 due to decreases in storage income. Planting of corn and soybeans is nearly complete in the four states we serve.

Turf & Specialty Group. In the first quarter of 2006, the Turf & Specialty Group had a $1.4 million, or 3%, decrease in sales and merchandising revenues over the prior year period resulting from decreased sales of $7.8 million in the Group s consumer and industrial lawn business partially offset by a $6.3 million or 43% increase in sales in the Group s professional lawn business. The decrease in the consumer and industrial lawn business was a direct result of a 34% decrease in volume. The decrease in volume is a result of the restructuring plan that was announced in the third quarter of 2005. The increase in the professional lawn business was a result of a 42% increase in volume. The cob-based business realized a sales increase of $0.1 million or 4% due to a 24% increase in the average price per ton sold partially offset by a 16% decrease in volume.

Retail Group. In the first quarter of 2006, the Retail Group had a $2.9 million, or 8%, decrease in same-store sales over the prior year period with decreases experienced in each of the Group s market areas. The average sale per customer decreased approximately 6% and customer counts were down 3%. Sales for the Easter holiday occurred in the first quarter in 2005 and second quarter in 2006. Typically, the retail stores see a large spike in revenues before this holiday.

Gross profit

Gross profit for the first quarter of 2006 totaled $41.5 million, an increase of $1.5 million, or less than 4%, from the first quarter of 2005. Gross profit in the Grain & Ethanol Group was down $3.3 million, resulting primarily from the decrease in merchandising revenues and specifically space income mentioned previously. Gross profit in the Rail Group increased $5.6 million, or 65%. Lease fleet income increased by $1.5 million and income generated from car sales increased $2.5 million. The railcar repair and fabrication shops realized an increase in gross profit of $1.6 million, primarily due to the additional work in the Mississippi railcar repair shop as a result of Hurricane Katrina and the product lines added in the third quarter of 2005.

Gross profit in the Plant Nutrient Group decreased $1.4 million or 26% resulting primarily from improvements to the absorption costing of wholesale fertilizer tons manufactured and warehoused in the second quarter of 2005. This change resulted in a reclassification of approximately $1.8 million from operating, administrative and general expenses to cost of sales. Gross profit for the Turf & Specialty Group increased $0.7 million, or 13%, due to increased volumes in the professional lawn business and increased margins in the cob businesses. Gross profit in the consumer and industrial business was down 14% due to lower volumes. The 2005 restructuring of this Group is resulting in a shift in product mix to higher margin, value-added product lines from commodity or contract manufacturing resulting in more gross profit on lower revenues. Gross profit in the Retail Group decreased $0.1 million, or 1%, from the first quarter of 2005. In spite of lower sales, favorable first quarter inventory results limited the gross profit reduction.

Operating, administrative and general expenses

Operating, administrative and general expenses for the first quarter of 2006 totaled $37.9 million, a $1.0 million, or 3%, increase from the first quarter of 2005. Employee costs were up $0.2 million and include $0.3 million increase for stock compensation recognized in accordance with SFAS 123(R), a $0.8 million increase in cash incentive plan accrual due to increased earnings and a reduction in benefits expense for the one time 2005 correction. Insurance expense increased by $0.2 million. Approximately $1.8 million of additional product related costs were reclassified to cost of sales for certain Plant Nutrient Group products. The remaining increases were spread across a variety of lines and generally reflect business growth.

Interest expense

Interest expense for the first quarter of 2006 was $4.2 million, a $1.2 million, or 42%, increase from 2005. The majority of the increase was due to increased short term interest expense. Average 2006 daily short-term borrowings were significantly higher in the first quarter of 2006 compared to the first quarter of 2005 going from $71.4 million to $103.0 million. The average daily short-term interest rate increased 2.0% to 5.05%. Long-term interest increased slightly.

Equity in earnings of unconsolidated subsidiaries and other income

We received $3.0 million from TACE for services provided relating to the formation of this entity of which $1.9 million was recognized in other income for the first quarter of 2006. Additionally, our share of earnings in our equity investees increased from $0.4 million in the first quarter of 2005 to $3.6 million in the first quarter of 2006. Nearly all of this income was recognized from our investment in Lansing. All of this income was included in the Grain & Ethanol Group and caused income to remain flat in that group despite the decrease in gross profit as noted previously.

Pretax income; Income tax expense

As a result of the above, the pretax income of $6.0 million for the first quarter of 2006 was $4.4 million higher than pretax income of $1.6 million recognized in the first quarter of 2005. Income tax expense of $2.2 million was provided at 36.0%. We anticipate that our 2006 effective annual tax rate will be 36.0%. In the first quarter of 2005, income tax expense of $0.6 million was provided at 36.7%. Our actual 2005 effective tax rate was 33.6% after a one-time adjustment of $0.6 million for a change in legislation relating to the State of Ohio franchise tax law.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Sales and merchandising revenues

Sales and merchandising revenues for 2005 totaled $1.3 billion, an increase of $29.7 million, or 2%, from 2004.

Grain & Ethanol Group. Sales in the Grain & Ethanol Group for 2005 decreased $41.0 million from 2004 resulting from a 12% decrease in the average price of bushels sold partially offset by a 6% volume increase. The largest decrease in average price per bushel sold was a decrease in corn of 20%. Revenues in the grain businesses are significantly impacted by the market price of the commodities being sold. Merchandising revenues for 2005 in the Grain & Ethanol Group increased $4.4 million, or 18%, from 2004 due primarily to increased space income (before interest charges). Space income is income earned on grain held for our account or for our customers and includes storage fees earned and appreciation or depreciation in the value of grain owned. Grain on hand at December 31, 2005 was 63.8 million bushels, of which 16.9 million bushels were stored for others. This compares to 67.1 million bushels on hand at December 31, 2004, of which 14.5 million bushels were stored for others. The 2005 harvest results were weaker than 2004 in our market area for all three primary grains handled corn, soybeans and wheat. Although weaker, the 2005 harvest was better than originally anticipated. Corn production in 2005 in Ohio, Indiana, Illinois and Michigan decreased from 2004 production by 11%, soybean production decreased by 7% and wheat production decreased by 10%. Illinois crops were the hardest hit in the region by dry weather and consequently experienced the largest reduction.

In July 2005, we invested approximately $13.1 million for a 44% interest in TAAE, which began construction of a 55 million gallon-per-year ethanol production facility adjacent to our Albion, Michigan grain facility. We are under contract to lease the grain elevator facility to TAAE upon completion, operate the ethanol facility under a management contract and provide origination, marketing and risk management services also under contracts with TAAE. We also invested $2.0 million in 2005 for a 7.9% interest in another limited liability company constructing an ethanol plant in Rensselaer, Indiana.

Rail Group. Sales in the Rail Group for 2005 increased $32.7 million, or 55% from 2004. Lease fleet income increased $19.0 million or 42% when compared with 2004. The lease fleet revenue increase is a direct result of increased cars in lease service along with continued increases in lease rates. Sales of railcars and related leases increased $9.0 million or 104%. Sales transacted in the fourth quarter accounted for 69% of total 2005 sales. One of these sales, amounting to $5.7 million, occurred when one of our lessees negotiated the outright purchase of railcars under lease. The remainder of the increase in the Rail Group resulted from a $4.7 million or 88% increase in revenue in the repair and fabrication shops due to both growth in railcar repair and new product lines added in the beginning of July 2005. Railcars under management at December 31, 2005 were 19,363 compared to 14,649 under management at December 31, 2004. Locomotives under management were 96 at December 31, 2005 and 118 at December 31, 2004. The railcar utilization (railcars in lease service) rate was 94% at December 31, 2005 and 92% at December 31, 2004. Demand for railcars continued to strengthen in 2005. Continual lease renewals for higher monthly rates and longer terms puts this segment in a good position for continued growth.

Plant Nutrient Group. Sales in our Plant Nutrient Group for 2005 were up $35.3 million, or 15%, from 2004 due to an 18% increase in the average price per ton sold partially offset by a 3% decrease in volume. Much of the price increase relates to escalation in prices of the basic raw materials, primarily phosphates, potassium and nitrogen. Generally, these increases can be passed through to customers although a price increase may also reduce consumer demand at the producer level. As in the grain business, revenues in the fertilizer business are significantly impacted by the price of the commodities being sold.

Turf & Specialty Group. Sales and merchandising revenues in the Turf & Specialty Group for 2005 decreased $5.3 million, or 4% from 2004, resulting primarily from an overall 10% decrease in volume partially offset by a 7% increase in the average price per ton sold. In the professional lawn business, serving the golf course and lawn care operator markets, sales increased $1.4 million or 3% due primarily to a 12% increase in the average price per ton sold partially offset by a 9% decrease in volume. In the consumer and industrial lawn businesses, where we announced some customer rationalization in the third quarter of 2005, volume was down 16% and sales down 13%. This industry continues to operate with excess manufacturing capacity. In response to this, as mentioned previously, we announced a restructuring of our Turf & Specialty Group in the third quarter of 2005. The Turf & Specialty Group has re-focused on the professional lawn market and on areas where value can be added in the consumer and industrial markets. The cob business, a much smaller component of the Turf & Specialty Group, had a 15% increase in sales due both to a 5% increase in volume and a 9% increase in the average price per ton sold.

Retail Group. Same-store sales and revenues in the Retail Group increased slightly in 2005 as compared to 2004 with increases experienced in each of the Retail Groups six retail stores. In 2005, the Retail Group s fiscal year ended on the same day as the calendar year, which resulted in an extra week of sales for the Retail Group. This occurrence happens approximately once every seven years and is the primary reason for the increase in sales in 2005 as compared to 2004. After removing the additional week of sales, retail sales were up slightly. The retail business continues to be faced with continued competition in its primary markets by competitors of significant size.

Gross profit

Gross profit for 2005 totaled $198.1 million, an increase of $9.0 million, or 5%, from 2004. Gross profit in the Grain & Ethanol Group totaled $50.2 million, a decrease of $2.5 million, or 5% resulting primarily from the decrease in grain sales mentioned previously. Gross profit in the Rail Group increased $14.5 million, or 50%. This increase included $8.0 million in increased lease fleet income, a $4.1 million increase in gross profit on car sales, and a $2.4 million increase in gross profit in the railcar repair and fabrication shops. Lease fleet income is gross lease (rent) and fleet management income less direct costs of cars leased to customers (rental expense or depreciation, property taxes and maintenance).

The Plant Nutrient Group recognized a decrease in gross profit in 2005 of $2.0 million as compared to 2004 in spite of the significant increase in sales. Cost of goods sold in 2005 includes approximately $5.8 million of additional labor and overhead costs for which the classification has been changed from operating, administrative and general expenses when compared to 2004. Turf & Specialty Group gross profit in 2005 decreased $2.6 million, or 12%, when compared to 2004 due primarily to increases in product costs in the Turf & Specialty Group s consumer and industrial business that were not recovered from customers as well as the overall reduction in sales.

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Gross profit in the professional turf business was flat and gross profit in the cob business increased 8% when compared to 2004.

Gross profit in the Retail Group in 2005 increased $1.6 million, or 3%, from 2004 due to a strong fourth quarter performance in each of the Group s market areas. Additional gross profit from the 53rd week in 2005 mentioned previously was $0.9 million of the $1.6 million overall increase.

Equity in earnings of unconsolidated subsidiaries and other income

In 2005, we recognized $2.3 million of equity in earnings of unconsolidated subsidiaries, most notably from Lansing. This was a 58% increase from 2004, which was $1.5 million. This increase was attributable to increased performance of unconsolidated subsidiaries, as well as an increase in the percentage that we owned in Lansing from 21.9% to approximately 29%.

Operating, administrative and general expenses

Operating, administrative and general expenses for 2005 totaled $153.8 million, a $1.1 million decrease from 2004. Approximately $5.8 of the 2005 expense reduction is related to a change in classification of overhead costs from expense to cost of sales for certain manufactured and stored fertilizer inventory within the Plant Nutrient Group. Included in operating, administrative and general expenses for 2005 was $1.2 million in one-time termination benefits and fixed asset write-downs related to the Turf & Specialty Group restructuring noted previously. In addition, there were $0.9 million in unreimbursed losses and deductibles related to the grain and cob fires and the Mississippi railcar repair shop loss also noted previously. In the first quarter of 2005, there was a $0.6 million adjustment to correct errors in measuring our pension and postretirement benefit expense that occurred from 2001 through 2004. Also contributing to the increase in 2005 were $1.1 million in increased performance incentive accruals due to our strong performance for the year. We have taken steps to mitigate continued increases in retirement and health care benefits expense in 2006 based on known changes in actuarial assumptions and health care claims inflation by evaluating our benefit programs, amending our plans and looking for additional opportunities to provide competitive benefits at a reasonable cost.

Interest expense

Interest expense for 2005 was $12.1 million, a $1.5 million, or 15%, increase from 2004 primarily due to a 68% increase in short-term interest expense. Average daily short-term borrowings for 2005 were down 15.2% when compared to 2004, however, the average short-term interest rate increased from 1.9% for 2004 to 3.8% for 2005. Long-term interest expense increased 3% for the same period and relates primarily to higher weighted average outstanding borrowings in 2005.

Pretax income; Income tax expense

As a result of the above, pretax income of $39.3 million for 2005 was 31% higher than the pretax income of $30.1 million in 2004. Income tax expense of $13.2 million was recorded in 2005 at an effective rate of 33.6% after a one-time reduction of $0.6 million related to state deferred tax liabilities associated with the State of Ohio. On June 30, 2005, the State of Ohio enacted legislation that repealed the Ohio franchise tax, phasing out the tax over five years. Accordingly, the deferred tax liabilities associated with the State of Ohio were decreased to reflect this phase out. In addition, a decrease in tax reserves for uncertain tax positions and the tax accounting for the Medicare Part D reimbursement contributed to the lower effective tax rate in 2005. In 2004, income tax expense of $11.0 million was recorded at an effective rate of 36.4%.

In May, 2004, the Financial Accounting Standards Board issued FASB Staff Position (FSP) 106-2, providing final guidance on accounting for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Under the provisions of FSP 106-2, we determined in 2004 that the benefits for a small group of retirees were actuarially equivalent to Medicare Part D and qualified for the future U.S. government subsidy. In January 2005, the Centers for Medicare and Medicaid Services issued their final regulations on determination of actuarial equivalency. During the third quarter of 2005, our actuaries completed their final determination of actuarial equivalency of our postretirement health plan in accordance with these regulations and determined that our plans for all retirees would qualify as actuarially equivalent. The total reduction of the January 1, 2005 accumulated postretirement benefit obligation related to Medicare Part D is $4.6 million and the year-to-date 2005 expense reduction (from previous expectations) is $0.7 million. The amount recognized as a reduction in 2004 for Medicare Part D actuarially equivalency was less than $0.1 million.

Net income

The 2005 net income of $26.1 million was $7.0 million higher than the 2004 net income of $19.1 million. Basic earnings per share of $1.76 increased $0.44 from 2004 and diluted earnings per share of $1.70 increased $0.42 from 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Sales and merchandising revenues

Sales and merchandising revenues for 2004 totaled $1.3 billion, an increase of $27.9 million, or 2%, from 2003.

Grain & Ethanol Group. Sales in the Grain & Ethanol Group for 2004 decreased $41.0 million from 2003 resulting from a 7% decrease in the average price of bushels sold partially offset by a 1% volume increase. Corn volume and price per bushel increased but volume in soybeans, wheat and oats declined. In both 2004 and 2003, grain expected to ship in the following calendar year was shipped in the fourth quarter. This occurred because of increased demand and/or market prices favoring sales rather than storage of grain. Revenues in the grain businesses are significantly impacted by the market price of the commodities being sold. Merchandising revenues in the Grain & Ethanol Group for 2004 were up $8.9 million, or 57% from 2003, due primarily to increased space income (before interest charges). Space income is income earned on grain held for our account or for our customers and includes storage fees earned and appreciation or depreciation in the value of grain owned. Grain on hand at December 31, 2004 was 67.1 million bushels, of which 14.5 million bushels were stored for others. This compares to 56.1 million bushels on hand at December 31, 2003, of which 17.3 million bushels were stored for others. The 2004 harvest results were strong in our market area for both corn and soybeans. Corn production in Ohio, Indiana, Illinois and Michigan exceeded the 2003 production by 13% and soybean production in the same states exceeded 2003 production by 33%. Although the wheat production for 2004 was down 10% as compared to 2003, it exceeded our initial expectations. We received more grain in 2004 than 2003 for all grain types. Despite this strong harvest, demand continued and we were able to sell grain throughout the fourth quarter. Winter wheat acres planted in 2004 for harvest in 2005 were down 15%.

Rail Group. Sales in the Rail Group increased $24.1 million, or 68% from 2003. Lease fleet income increased $30.2 million, $21.6 million of which was from the large railcar acquisition completed in February 2004. Sales of railcars and related leases decreased $6.8 million and the remainder of the increase resulted from a $0.7 million increase in revenue in the repair and fabrication shops. Railcars under management at December 31, 2004 were 14,649 compared to 6,291 under management at December 31, 2003. Locomotives under management were 118 at December 31, 2004 and 74 at December 31, 2003. The railcar utilization (railcars in lease service) rate was 92% at both December 31, 2004 and December 31, 2003 in spite of the significant increase in railcars and locomotives. Demand for railcars continued to strengthen in 2004 and high steel prices have limited new car construction. Continual lease renewals for higher monthly rates and longer terms position this segment well for continued growth.

Plant Nutrient Group. Sales in the Plant Nutrient Group for 2004 were up $42.5 million, or 23% from 2003, due to an 11% increase in the average price per ton sold and an 11% increase in volume. Much of the price increase relates to escalation in prices of the basic raw materials, primarily potassium and nitrogen. Generally, these increases can be passed through to customers although a price increase may also reduce consumer demand at the producer level. As in the grain business, revenues in the fertilizer business are significantly impacted by the market price of the commodities being sold.

Turf & Specialty Group. Sales and merchandising revenues for the Turf & Specialty Group for 2004 decreased \$6.2 million, or 5% from 2003, resulting primarily from an overall 8% decrease in volume partially offset

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by a 4% increase in the average price per ton sold. In the professional lawn business, serving the golf course and lawn care operator markets, volume was down 6% and sales down 5%, primarily due to reduced demand in the golf course market. Pressure on golf course profitability, coupled with some low-price competition has reduced demand for premium golf course fertilizers. In the consumer and industrial lawn businesses, where we serve as contract manufacturer for several large brand companies, a manufacturer of private label products and also manufacture our own brands, volume was down 15% and sales down 5%. This industry continues to operate with excess manufacturing capacity and some of our customers have struggled with their own programs. Because of this excess capacity, we decided in the fourth quarter of 2004 to close down a small (five employee) manufacturing operation in a leased facility in Pennsylvania. The cob business, a much smaller component of the Turf & Specialty Group, had a 3% increase in sales primarily due to an 11% increase in volume.

Retail Group. Same-store sales and revenues in the Retail Group were flat in 2004 as compared to 2003. Individual store results were mixed; however, the Columbus market again showed improvement. As expected, sales in the Toledo market were down due to significant new competition from national Big Box retailers. This business continues to be faced with continued competition in its primary markets by competitors of significant size.

Gross profit

Gross profit for 2004 totaled $189.1 million, an increase of $25.0 million, or 15%, from 2003. Gross profit in the Grain & Ethanol Group totaled $52.7 million, an increase of $10.9 million, or 26% resulting primarily from the increased merchandising revenues mentioned previously along with a $1.6 million increase in gross profit on grain sales. Gross profit in the Rail Group increased $15.2 million, or 111%. This increase included $15.3 million in increased lease fleet income ($12.4 million on the newly acquired fleet), a $0.6 million increase in gross profit on car sales, and a $0.7 million reduction in gross profit in the railcar repair and fabrication shops. Lease fleet income is gross lease (rent) and fleet management income less direct costs of cars leased to customers (rental expense or depreciation, property taxes and maintenance).

The Plant Nutrient Group recognized a decrease in gross profit of $0.2 million from 2003 to 2004, primarily due to a significant increase in cost per ton that could not be fully recouped through increased prices. Gross profit for the Turf & Specialty Group in 2004 decreased $1.9 million, or 8%, when compared to 2003. Although there was a slight increase in gross profit per ton, the significant decrease in volume in the lawn businesses resulted in the overall decrease. The majority of the decreased gross profit occurred in the consumer/industrial lawn business. Gross profit in the cob business was flat from 2003 to 2004. Gross profit in the Retail Group increased $1.0 million, or 2%, from 2003. This was due to a modest increase in margins, as a result of changes in the mix of products sold on flat sales.

Equity in earnings of unconsolidated subsidiaries and other income

In 2004, we recognized $1.5 million of equity in earnings of unconsolidated subsidiaries, most notably Lansing. This was a significant increase from the 2003 amount of $0.3 million and resulted both from increased performance of unconsolidated subsidiaries as well as an increase in the percentage that we owned from 15.1% to 21.9%.

Operating, administrative and general expenses

Operating, administrative and general expenses for 2004 totaled $154.9 million, an $11.8 million increase from 2003. Included in this increase is $4.5 million related to growth in the Rail and Plant Nutrient Groups. The remaining $7.3 million increase is 5% higher than 2003 and represents a variety of cost increases, most notably $1.9 million in increased retirement and health care benefits expense, $1.4 million in professional services costs relating to compliance with the Sarbanes-Oxley Act, and $2.8 million in additional labor and performance incentives. A portion of the additional labor was related to additional staffing to support the ongoing requirements of the Sarbanes-Oxley

Act.

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Interest expense

Interest expense for 2004 was $10.5 million, a $2.5 million, or 31%, increase from 2003. Average daily short-term borrowings for 2004 were down 17.5% when compared to 2003 while the average short-term interest rate decreased from 2.1% for 2003 to 1.9% for 2004. Long-term interest expense increased 53% for the same period and relates primarily to the significant increase in long-term debt incurred to complete the railcar acquisition.

Pretax income; Income tax expense

As a result of the above, pretax income of $30.1 million for 2004 was 68% higher than the pretax income of $18.0 million in 2003. Income tax expense of $11.0 million was recorded in 2004 at an effective rate of 36.4%. In 2003, income tax expense of $6.3 million was recorded at an effective rate of 34.9%. The increase in effective tax rates between 2003 and 2004 resulted primarily from an increase in state income taxes and a slight reduction in the Extraterritorial Income (ETI) exclusion. In October 2004, the American Jobs Creation Act was enacted. Two provisions of this Act will impact our 2005 effective tax rate. The Act repealed the Extraterritorial Income regime for transactions entered into after December 31, 2004, subject to a phase-out that allows us to claim 80% of the normal ETI benefit in 2005. In addition, the Act provides for a tax deduction for certain domestic production activities. The deduction for 2005 is equal to 3% of the lesser of: (a) taxable income derived from qualified production activities or (b) total taxable income for the year. The impact of these provisions were reflected in the 2005 first quarter effective tax rate.

Net income

The 2004 net income of $19.1 million was $7.4 million higher than the 2003 net income of $11.7 million. Basic earnings per share of $1.32 increased $0.50 from 2003 and diluted earnings per share of $1.28 increased $0.48 from 2003.

Liquidity and Capital Resources

Operating Activities and Liquidity

Our operations used cash of $84.5 million in the first quarter of 2006, a change from a use of cash in operating activities of $81.3 million in the first quarter of 2005. This significant use of cash for operating activities is common in the first quarter of the year due to the nature of our commodity businesses. Our operations provided cash of $37.9 million in 2005, a decrease of $24.6 million from 2004 due to changes in working capital. Short-term borrowings used to fund these operations increased $0.3 million from December 31, 2004 to December 31, 2005. Net working capital at March 31, 2006 was $72.3 million, a $23.9 million decrease from December 31, 2005 and a $20.2 million decrease from March 31, 2005. Net working capital at December 31, 2005 was $96.2 million, a decrease of $6.0 million from December 31, 2004. We have significant short-term lines of credit available to finance working capital, primarily inventories and accounts receivable.

Cash dividends of $0.04 per common share were paid in the first two quarters of 2005 with a dividend of $0.0425 per common share in the third and fourth quarters of 2005. A cash dividend of $0.0425 per common share was paid on January 23, 2006 and a cash dividend of $0.045 per common share was paid on April 24, 2006. We made income tax payments of $2.6 million in the first quarter of 2006 and expect to make payments totaling approximately $10.9 million for the remainder of 2006. During the first three months of 2006, we issued approximately 148,000 shares to employees under our share compensation plans. We made income tax payments of $6.9 million in 2005, and also issued approximately 336,000 shares to employees and directors under our share compensation plans.

Capital Expenditures

Total capital spending for 2006 on property, plant and equipment within our base business is expected to approximate $28.6 million and may include $3.8 million in the Rail Group for expansion of operations in railcar repair facilities, $2.5 million in the Retail Group including information technology and store improvements, $2.9 million for expansion and improvements in the Plant Nutrient Group, $1.2 million for additional grain storage in the Grain & Ethanol Group and $0.8 million for manufacturing improvements in the Turf & Specialty Group. The remaining amount of $17.4 million will be spent on numerous assets and projects; no single such project expecting to cost more than $0.6 million. This forecasted spending does not include any expected repairs to the Toledo grain facility damaged in the events of July 1, 2005 as we expect to receive insurance proceeds to cover such repairs.

Total capital spending for 2005 on property, plant and equipment was $11.9 million which includes $1.4 million for expansion and improvements in the Grain & Ethanol Group and $0.6 million in the Plant Nutrient Group. The remaining amount was spent on numerous assets and projects with no single project costing more than $0.5 million. In addition to the spending on conventional property, plant and equipment, we spent $98.9 million in 2005 for the purchase of railcars and capitalized modifications on railcars for use in our Rail Group and sold or financed $69.1 million of railcars during 2005.

We invested $21.0 million in TACE in the first quarter of 2006 for approximately 37% of the business. We increased our investment in Lansing in March 2005 and March 2006 by $0.9 million and $2.4 million, respectively. At March 31, 2006, we owned approximately 36.1% of the equity and account for it under the equity method. We also hold an option to increase our investment in each of 2007 and 2008, with the potential of attaining majority ownership in 2008. In July 2005, we invested approximately $13.1 million for a 44% interest in TAAE which began construction of a 55 million gallon-per-year ethanol production facility adjacent to our Albion, Michigan grain facility. We account for this investment using the equity method as well.

In the first quarter of 2005, we invested $1 million in Iroquois Bio-Energy Company, LLC, an ethanol plant which began construction in 2005 in Rensselaer, Indiana. An additional $1 million was invested in the fourth quarter of 2005 to increase our ownership to 7.9%. We will also act as the corn originator for this facility.

Financing Arrangements

In November 2002, we entered into a borrowing arrangement with a syndicate of banks. This borrowing arrangement was renewed in the third quarter of 2005. The agreement provides us with $100 million in short-term lines of credit and an additional $100 million in a three-year line of credit. In addition, the amended agreements include a flex line, which allows us to increase our available short-term line by $50 million. Prior to the syndication agreement, we managed several separate short-term lines of credit. We had drawn $132.1 million on our short-term line of credit at March 31, 2006. Peak short-term borrowing to date was $152.5 million on March 2, 2006. Typically, our highest borrowing occurs in the spring due to seasonal inventory requirements in the fertilizer 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.

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. We were in compliance with all of these provisions as of March 31, 2006. In addition, certain of our long-term borrowings are secured by first mortgages on various facilities or are collateralized by railcar assets. Additional long-term debt financing of $41.0 million was obtained in the fourth quarter of 2005 and we pledged, as collateral, 2,293 railcars and related leases which are held by a wholly-owned bankruptcy-remote entity. Because we are a significant consumer of short-term debt in peak seasons, the majority of which is variable rate debt, increases in interest rates could have a significant impact on our profitability. In addition, periods of high grain prices and/or unfavorable market conditions could require us to make additional margin deposits on our CBOT futures contracts. Conversely, in periods of declining prices, we receive a return of cash. The marketability of our grain inventories and the availability of short-term lines of credit enhance our liquidity. In the opinion of management, our liquidity is adequate to meet short-term and long-term needs.

We utilize interest rate contracts to manage a portion of our interest rate risk on both our short and long-term debt and lease commitments. At March 31, 2006, the fair value of these derivative financial instruments recorded in the balance sheet (primarily interest rate swaps and interest rate caps) was a net asset of $0.3 million.

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Contractual Obligations

The following table reflects a summary of our contractual obligations as of March 31, 2006:

Contractual Obligations	Payments Due by Period Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Long-term debt	$ 10,952	$ 18,943	$ 26,064	$ 31,983	$ 87,942
Long-term debt non recourse	13,777	26,282	26,628	33,359	100,046
Capital lease obligations	71	227			298
Operating leases	18,419	33,359	24,888	14,767	91,433
Purchase commitments(1)	291,823	102,757			394,580
Other long-term liabilities	6,870	3,758	4,006	6,985	21,619
Total	$ 341,912	$ 185,326	$ 81,586	$ 87,094	$ 695,918

(1) Includes the value of purchase obligations in our business groups, including $364.0 million for the purchase of grain from producers. There are also forward grain sales contracts to consumers and traders and the net of these forward contracts are offset by exchange-traded futures and options contracts.

(2) Other long-term liabilities include estimated obligations under our retiree healthcare programs and the estimated 2006 contribution to our defined benefit pension plan. Obligations under the retiree healthcare programs are not fixed commitments and will vary depending on various factors, including the level of participant utilization and inflation. Our estimates of postretirement payments through 2011 have considered recent payment trends and actuarial assumptions. We have not estimated pension contributions beyond 2006 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.

We had standby letters of credit outstanding of $18.0 million at March 31, 2006, of which $8.3 million are credit enhancements for industrial revenue bonds included in the contractual obligations table above. Approximately 82% of the operating lease commitments above relate to 6,563 railcars and 30 locomotives that we lease from financial intermediaries. See Off-Balance Sheet Arrangements.

We are subject to various loan covenants as highlighted previously. Although we are, and have been, in compliance with our debt covenants, noncompliance could result in default and acceleration of long-term debt payments. We do not anticipate noncompliance with our covenants.

Off-Balance Sheet Arrangements

Our Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. We lease railcars from financial intermediaries through sale-leaseback transactions, the majority of which involve operating leasebacks. Railcars that we own or lease from a financial intermediary are generally leased to a customer under an operating lease. We also arrange non-recourse lease transactions under which we sell railcars or locomotives to a financial intermediary, and assign the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, we generally provide ongoing railcar maintenance and management services for the financial intermediary, and receive a fee for such services. On most of the railcars and locomotives, we hold an option to purchase these assets at the end of the lease.

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The following table describes our railcar and locomotive positions at March 31, 2006:

Method of Control	**Financial Statement**		**Number**
Owned-railcars available for sale	On balance sheet	current	127
Owned-railcar assets leased to others	On balance sheet	non-current	10,785
Railcars leased from financial intermediaries	Off balance sheet		6,563
Railcars-non-recourse arrangements	Off balance sheet		1,710
Total railcars			19,185
Locomotive assets leased to others	On balance sheet	non-current	15
Locomotives leased from financial intermediaries under limited recourse arrangements	Off balance sheet		30
Locomotives non-recourse arrangements	Off balance sheet		44
Total locomotives			89

In addition, we manage approximately 728 railcars for third-party customers or owners for which we receive a fee. We have future lease payment commitments aggregating $75.4 million for the railcars that we lease from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding seven years. The majority of these railcars have been leased to customers at March 31, 2006 over similar terms. This segment manages risk by match funding (which means matching terms between the lease to the customer and the funding arrangement with the financial intermediary), where possible, and ongoing evaluation of lessee credit worthiness. In addition, we prefer non-recourse lease transactions, whenever possible, in order to minimize our credit risk.

Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in our market risk-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices and interest rates as discussed below.

Commodity Prices

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand created by population growth and higher standards of living, and global production of similar and competitive crops. To reduce price risk caused by market fluctuations, we follow a policy of hedging our inventories and related purchase and sale contracts. The instruments used are exchange-traded futures and options contracts that function as hedges. The market value of exchange-traded futures and options used for hedging has a high, but not perfect correlation, to the underlying market value of grain inventories and related purchase and sale contracts. The less correlated portion of inventory and purchase and sale contract market value (known as basis, which is defined as the difference between the cash price of a commodity in our facility and the nearest exchange-traded futures price) is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. We manage this less volatile risk using our daily grain position report to constantly monitor our position relative to the price changes in the market. Our accounting policy for our futures and options hedges, as well as the underlying inventory positions and purchase and sale contracts, is to mark-to-market the price daily and include gains and losses in the statement of income in sales and merchandising revenues.

A sensitivity analysis has been prepared to estimate our exposure to market risk of our commodity position (exclusive of basis risk). Our daily net commodity position consists of inventories, related purchase and sale contracts and exchange-traded contracts. The fair value of the position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. The result of this analysis, which may differ from actual results, is as follows:

	As of March 31, 2006	As of December 31, 2005
	(Dollars in thousands)	
Net long position	$ (3,058)	$ 478
Market risk	306	48

Interest Rates

The fair value of our long-term debt is estimated using quoted market prices or discounted future cash flows based on our current incremental borrowing rates for similar types of borrowing arrangements. In addition, we have derivative interest rate contracts recorded in our balance sheet at their fair value. The fair value of these contracts is estimated based on quoted market termination values. Market risk, which is estimated as the potential increase in fair value resulting from a hypothetical one-half percent decrease in interest rates, is summarized below:

	As of March 31, 2006	As of December 31, 2005
	(Dollars in thousands)	
Fair value of long-term debt and interest rate contracts	$ 182,587	$ 192,844
Fair value in excess of (less than) carrying value	(5,366)	(4,570)
Market risk	5,645	4,659

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities and expenses, as well as the recognition of revenues and expenses. We review our estimates on an ongoing basis. We base our estimates on our experience, management s knowledge and understanding of certain facts and circumstances and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements included elsewhere in this prospectus, we believe the following accounting policies are critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Grain Inventories

We mark-to-market all grain inventory, forward purchase and sale contracts for grain, and exchange-traded futures and options contracts. The grain inventories are freely traded, have quoted market prices, and may be sold without significant additional processing. Management estimates market value based on exchange-quoted prices, adjusted for differences in local markets. Changes in market value are recorded as merchandising revenues in the statement of income. If management used different methods or factors to estimate market value, amounts reported as inventories and merchandising revenues could differ. Additionally, if market conditions change subsequent to year-end, amounts reported in future periods as inventories and merchandising revenues could differ.

Because we mark-to-market inventories and sales commitments, gross profit on a grain sales transaction is recognized when a contract for sale of the grain is executed. The related revenue is recognized upon shipment of the grain, at which time title transfers and customer acceptance occurs. Grain inventories contain valuation reserves established to recognize the difference in quality and value between contractual grades and the actual quality grades of inventory that we hold. These quality reserves also require management to exercise judgment.

Marketing Agreement

We have negotiated a marketing agreement with Cargill, Incorporated that covers four of our grain facilities (two of which are leased from Cargill). Under this five-year amended and restated agreement (ending in May 2008), we sell grain from these facilities to Cargill at a price determined by Cargill. Income earned from operating the facilities (including buying, storing and selling grain and providing grain marketing services to our producer customers) over a specified threshold is shared equally with Cargill. If the income earned from operating the facilities falls below such threshold, then Cargill will pay us 50% of any such shortfall. Measurement of this threshold is made on a cumulative basis and cash is paid to Cargill or to us (if required) at each contract year end. We recognize our share of income to date at each month-end and accrue for any payment to Cargill in accordance with Emerging Issues Task Force Topic D-96, *Accounting for Management Fees Based on a Formula.* The adoption of this standard, effective for periods beginning after January 1, 2002, resulted in a cumulative effect adjustment increase of $3.5 million after tax in 2002.

Derivatives Commodity Contracts

We utilize regulated commodity futures and options contracts to hedge our market price exposure on the grain we own, and related forward purchase and sale contracts. These contracts are included in our balance sheet in inventory at their current market value. Realized and unrealized gains and losses in the market value of these futures and option contracts are included in our income statement as a component of sales and merchandising revenues. While we consider all of our commodity contracts to be effective economic hedges, we do not designate our commodity futures and options contracts as hedges. Therefore, we do not defer gains and losses on these same contracts as we would for designated hedges under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Both the underlying inventory and forward purchase and sale contracts and the related futures and options contracts are marked to market on a daily basis.

Impairment of Long-Lived Assets

Our business segments are each highly capital intensive and require significant investments in facilities and/or rolling stock. In addition, we have a limited amount of intangible assets and goodwill (described more fully in Note 5 to our consolidated financial statements included elsewhere in this prospectus) that we acquired in various business combinations. Whenever changing conditions warrant, we review the fair value of the tangible and intangible assets that may be impacted. We also annually review the balance of goodwill for impairment in the fourth quarter. These impairment reviews take into account estimates of future undiscounted cash flows. Our estimates of future cash flows are based upon a number of assumptions including lease rates, lease terms, operating costs, life of the assets, potential disposition proceeds, budgets and long-range plans. While we believe the assumptions we use to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. If management used different estimates and assumptions in our evaluation of these cash flows, we could recognize different amounts of expense in future periods.

Employee Benefit Plans

We provide substantially all full-time employees with pension benefits and full-time employees hired before January 1, 2003 with postretirement health care benefits. In order to measure the expense and funded status of these employee benefit plans, management makes several estimates and assumptions, including interest rates used to discount certain liabilities, rates of return on assets set aside to fund these plans, rates of compensation increases, employee turnover rates, anticipated mortality rates and anticipated future healthcare cost trends. These estimates and assumptions are based on our historical experience combined with management s knowledge and understanding of current facts and circumstances. We use third-party specialists to assist management in measuring the expense and funded status of these employee benefit plans. If management used different estimates and assumptions regarding these plans, for example, the funded status of the plans could vary significantly and we could recognize different amounts of expense over future periods.

As of December 31, 2005, we amended our 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,

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2006, modifying the calculation of benefits for the non-retail line of business employees as of 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 from 2007 to 2012 will be includable in the final average pay formula calculating the final benefit earned for years prior to December 31, 2006.

Certain accounting guidance, including the guidance applicable to pensions and postretirement benefits does not require immediate recognition of the effects of a deviation between actual and assumed experience or the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted. Although this netting occurs outside the basic financial statements, the net amount is disclosed as an unrecognized gain or loss in Note 12 to our audited consolidated financial statements included elsewhere in this prospectus. At December 31, 2005, we had an unrecognized loss related to our pension plans of $24.7 million compared to an unrecognized loss of $16.7 million at December 31, 2004. For the postretirement benefit plans, our December 31, 2005 unrecognized loss was $12.9 million as compared to an unrecognized loss of $17.0 million at December 31, 2004. A portion of the December 31, 2005 unrecognized loss for both pension and postretirement benefits will be amortized into earnings in 2006. The effect on years after 2006 will depend in large part on the actual experience of the plans in 2006 and beyond. In 2005, benefits expense included $1.4 million and $0.7 million of amortization of the unrecognized loss existing at December 31, 2004 for the pension and postretirement plans, respectively.

Revenue Recognition

We recognize revenues for the sales of our products at the time of shipment. Gross profit on sales of grain is recognized when sales contracts are entered into, since the contracts are marked-to-market on a daily basis. Revenues from other merchandising activities are recognized as open grain contracts, and are either marked-to-market or as the related services are provided. Rental revenues on operating leases are recognized on a straight-line basis over the terms of the leases. Sales returns and allowances, if required, are provided for at the time that the sales are recorded. Shipping and handling costs are included in the cost of sales.

We sell railcars to financial intermediaries and other customers. Proceeds from railcar sales, including railcars sold in non-recourse transactions, are recognized as revenue at the time of sale if there is no leaseback or the operating lease is assigned to the buyer, non-recourse to us. Revenues on operating leases (where we are the lessor) and on servicing and maintenance contracts in non-recourse transactions are recognized over the term of the lease or service contract.

Leasing Activities

We account for our leasing activity in accordance with FASB Statement No. 13, as amended, and related pronouncements. Our Rail Group leases and manages railcars for third parties and leases railcars for internal use. Most leases to our Rail Group customers are structured as operating leases. Railcars that we lease to our customers are either owned by us, leased from financial intermediaries under operating leases or leased from financial intermediaries under capital leases. The leases from financial intermediaries are generally structured as sale-leaseback transactions. Lease income and lease expense are recognized on a straight-line basis over the term of the lease for most leases.

As part of the railcar acquisition of used railcar rolling stock and leasing assets from Progress Energy, Inc. and subsidiaries described in Note 3 to our audited consolidated financial statements included elsewhere in this prospectus, we acquired some existing leases where the monthly lease fee is contingent upon some measure of usage (per diem leases). This