ANDERSONS INC
Form 10-K
March 14, 2006

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

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

For the fiscal year ended December 31, 2005
Commission file number 000-20557
THE ANDERSONS, INC.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code (419) 893-5050
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2006, are incorporated by reference into Part III (Items 10, 11, 12 and 14) of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Commission on or about March 16, 2006.

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PART I

Item 1. Business

(a) General development of business

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

(b) Financial information about business segments

See Note 14 to the consolidated financial statements in Item 8 for information regarding business segments.

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(c) Narrative description of business

Agriculture Group

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

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

Grain merchandised by the Company is grown in the Midwestern portion of the United States (the eastern corn-belt) and is acquired from country elevators (grain elevators located in a rural area, served primarily by trucks (inbound and outbound) and possibly rail (outbound)), dealers and producers. The Company makes grain purchases at prices referenced to Chicago Board of Trade (CBOT) quotations. The Company competes for the purchase of grain with grain processors, regional cooperatives and animal feed operations, as well as with other grain merchandisers. Because the Company generally buys in smaller lots, its competition is generally local or regional in scope, although there are some large, national and international companies that maintain regional grain purchase and storage facilities. Some of these competitors are significantly larger than the Company.

In 1998, the Company signed a five-year lease agreement (Lease Agreement) and a five-year marketing agreement (Marketing Agreement) with Cargill, Incorporated (Cargill) for Cargill s Maumee and Toledo, Ohio grain handling and storage facilities. As part of the agreement, Cargill was given the marketing rights to grain in the Cargill-owned facilities as well as the adjacent Company-owned facilities in Maumee and Toledo. These agreements cover 41%, or approximately 33.1 million bushels, of the Company s total storage space and became effective on June 1, 1998. These agreements were renewed with amendments in 2003 for an additional five years. Grain sales to Cargill totaled $132.0 million in 2005, and include grain covered by the Marketing Agreement as well as grain sold to Cargill via normal forward sales from locations not covered by the Marketing Agreement. If the Marketing Agreement was not in place for the Maumee and Toledo locations, it is likely that Cargill would still purchase grain from the Company at these locations either for consumption in their processing facilities or to market to other end users. There were no sales to any other customer in excess of 10% of consolidated net sales.

On July 1, 2005, two explosions and a resulting fire occurred at the Maumee river facility in Toledo, Ohio leased from Cargill. There were no injuries; however, a portion of the grain at the facility was destroyed along with damage to a portion of the storage capacity and the conveyor systems. The facility was insured by the Company for full replacement

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

Approximately 81% of the grain bushels sold by the Company in 2005 were purchased by U.S. grain processors and feeders, and approximately 19% were exported. Exporters purchased most of the exported grain for shipment to foreign markets, while some grain is shipped directly to foreign countries, mainly Canada. Almost all grain shipments are by rail or boat. Rail shipments are made primarily to grain processors and feeders, with some rail shipments made to exporters on the Gulf of Mexico or east coast. Boat shipments are from the Port of Toledo. Grain sales are made on a negotiated basis by the Company s merchandising staff, except for grain sales subject to the Marketing Agreement with Cargill which are made on a negotiated basis with Cargill s merchandising staff.

The Company s grain business may be adversely affected by the grain supply (both crop quality and quantity) in its principal growing area, government regulations and policies, conditions in the shipping and rail industries and commodity price levels. See Government Regulation on page 11. The grain business is seasonal, coinciding with the harvest of the principal grains purchased and sold by the Company.

Fixed price purchase and sale commitments for grain and grain held in inventory expose the Company to risks related to adverse changes in price. The Company attempts to manage these risks by hedging fixed price purchase and sale contracts and inventory through the use of futures and option contracts with the CBOT. The CBOT is a regulated commodity futures exchange that maintains futures markets for the grains merchandised by the Company. Futures prices are determined by worldwide supply and demand.

The Company s hedging program is designed to reduce the risk of changing commodity prices. In that regard, hedging transactions also limit potential gains from further changes in market prices. The Grain division s profitability is primarily derived from margins on grain sold, and revenues generated from other merchandising activities with its customers (including storage income), not from hedging transactions. The Company has policies that specify the key controls over its hedging program. These policies include description of the hedging programs, mandatory review of positions by key management outside of the trading function on a biweekly basis, daily position limits, daily review and reconciliation, modeling of positions for changes in market conditions and other internal controls.

Purchases of grain can be made the day the grain is delivered to a terminal or via a forward contract made prior to actual delivery. Sales of grain generally are made by contract for delivery in a future period. When the Company purchases grain at a fixed

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price, the purchase is hedged with the sale of a futures contract on the CBOT. Similarly, when the Company sells grain at a fixed price, the sale is hedged with the purchase of a futures contract on the CBOT. At the close of business each day, the open inventory ownership positions as well as open futures and option positions are marked-to-market. Gains and losses in the value of the Company s inventory positions due to changing market prices are netted with and generally offset by losses and gains in the value of the Company s futures positions.

When a futures contract is entered into, an initial margin deposit must be sent to the CBOT. The amount of the margin deposit is set by the CBOT and varies by commodity. If the market price of a futures contract moves in a direction that is adverse to the Company s position, an additional margin deposit, called a maintenance margin, is required by the CBOT. Subsequent price changes could require additional maintenance margin deposits or result in the return of maintenance margin deposits by the CBOT. Significant increases in market prices, such as those that occur when weather conditions are unfavorable for extended periods, can have an effect on the Company s liquidity and, as a result, require it to maintain appropriate short-term lines of credit. The Company may utilize CBOT option contracts to limit its exposure to potential required margin deposits in the event of a rapidly rising market.

The Company s grain operations rely on forward purchase contracts with producers, dealers and country elevators to ensure an adequate supply of grain to the Company s facilities throughout the year. Bushels contracted for future delivery at January 31, 2006 approximated 94.2 million, the majority of which is scheduled to be delivered to the Company for the 2005 and 2006 crop years (i.e., through September 2007). The Company relies heavily on its hedging program as the method for minimizing price risk in its grain inventories and contracts. The Company monitors current market conditions and may expand or reduce the purchasing program in response to changes in those conditions. In addition, the Company reviews its purchase contracts and the parties to those contracts on a regular basis for credit worthiness, defaults and non-delivery. The Company s loan agreements also require it to be substantially hedged in its grain transactions.

In January 2003, the Company became a minority investor in Lansing Grain Company LLC, which was formed in late 2002, with the contribution of substantially all the assets of Lansing Grain Company, an established grain trading business with offices in Michigan, Minnesota and Kansas. This investment provides the Company a further opportunity to expand outside of its traditional geographic regions. The Company holds an option to increase its investment in each of 2007 through 2008 with the potential of becoming the majority holder in 2008. In the first quarter of 2006, the Company made an additional investment to increase its ownership from approximately 29.0% to 36.1%.

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

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

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

If the projected growth of the ethanol industry occurs, it could impact the Company s grain business in potentially significant ways. It is expected to increase demand for corn, with resulting higher prices and increased competition. In certain situations, our grain business could be negatively impacted if there are new ethanol plants constructed in our region and near our existing facilities that would compete for locally available corn. Conversely, providing grain origination services and ethanol and distillers dried grain marketing services to the ethanol industry is a potential growth opportunity for our grain trading operations. We also believe that the increase in demand for corn to serve the growing ethanol industry may force a reduction in the plantings of other crops, which would positively impact the Plant Nutrients division by increasing demand for nitrogen, phosphates and potassium. The growth of corn is more dependent on these fertilizer products than soybeans or wheat.

The Company competes in the sale of grain with other grain merchants, other elevator operators and farmer cooperatives that operate elevator facilities. Competition is based primarily on price, service and reliability. Some of the Company s competitors are also its customers and many of its competitors have substantially greater financial resources than the Company.

Grain sales make up approximately 70% of the total sales in the Agriculture Group. Approximately 50% of grain bushels purchased are done so using forward contracts. On the sell-side, approximately 90% of grain bushels sold are done so under forward contracts.

The Company s plant nutrient operations involve purchasing, storing, formulating and selling dry and liquid fertilizer to dealers and farmers; providing warehousing and services to manufacturers and customers; formulating liquid anti-icers and deicers for use on roads and runways; and distributing seeds and various farm supplies. Finally, the division has developed several other products for use in industrial applications within the energy and paper industries. The major fertilizer ingredients sold by the Company are

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nitrogen, phosphate and potash, all of which are readily available, although from a decreasing number of suppliers. The Company s market area for its plant nutrient wholesale business includes major agricultural states in the Midwest, North Atlantic and South. States with the highest concentration of sales are also the states where the Company s facilities are located Illinois, Indiana, Michigan and Ohio. Customers for the Company s fertilizer products are principally retail dealers. Sales of agricultural fertilizer products are heaviest in the spring and fall. The Plant Nutrient division s seven farm centers, located throughout Michigan, Indiana and Ohio, are located within the same regions as the Company s other agricultural facilities. These farm centers offer agricultural fertilizer, custom application of fertilizer, and chemicals, seeds and supplies to the farmer.

Storage capacity at the Company s fertilizer facilities, including its seven farm centers, was approximately 13.9 million cubic feet for dry fertilizers and approximately 35.8 million gallons for liquid fertilizers at December 31, 2005. The Company reserves 6.5 million cubic feet of its dry storage capacity for various fertilizer manufacturers and customers and 16.8 million gallons of its liquid fertilizer capacity is reserved for manufacturers and customers. The agreements for reserved space provide the Company storage and handling fees and are generally for an initial term of one year, renewable at the end of each term. The Company also leases 0.8 million gallons of liquid fertilizer capacity under arrangements with various fertilizer dealers and warehouses in locations where the Company does not have facilities.

In its plant nutrient businesses, the Company competes with regional and local cooperatives, fertilizer manufacturers, multi-state retail/wholesale chain store organizations and other independent wholesalers of agricultural products. Many of these competitors have considerably larger resources than the Company. Competition in the agricultural products business of the Company is based principally on price, location and service.

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

Rail Group

The Company s Rail Group buys, sells, leases, rebuilds and repairs various types of used railcars and rail equipment. The Group also provides fleet management services to fleet owners and operates a custom steel fabrication business. A large portion of the railcar fleet is leased from financial lessors and sub-leased to end-users, generally under operating leases which do not appear on the balance sheet. In addition, the Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary and assigns the related operating lease to the financial intermediary

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on a non-recourse basis. In such transactions, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, receiving a fee for these services. The Company generally holds purchase options on most railcars owned by financial intermediaries.

Of the 19,363 railcars and 96 locomotives that the Company managed at December 31, 2005, 11,224 units or 58%, were included on the balance sheet, primarily as long-lived assets. The remaining 8,161 railcars and 74 locomotives are either in off-balance sheet operating leases or non-recourse arrangements. The Company also managed approximately 797 railcars for third party investors or consumers at December 31, 2005. We are under contract to provide maintenance services for 19,164 of the railcars that we own or manage.

The risk management philosophy of the Company includes match-funding of lease commitments where possible and detailed review of lessee credit quality. Match-funding (in relation to rail lease transactions) means matching the terms between the lease with the customer and the funding arrangement with the financial intermediary for cars where the Company is both lessor and lessee. The 2004 investment in TOP CAT Holding Company, a Limited Liability Company which is a wholly owned subsidiary of the Company, was not match-funded. Other 2005 non-recourse borrowings where railcars serve as the sole collateral for debt are also not match-funded as the terms of the debt are generally longer than the current lease terms. Generally, the Company completes non-recourse lease or debt transactions whenever possible to minimize credit risk.

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

The Company has a diversified fleet of car types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives and also serves a diversified customer base. The Company plans to continue to diversify its fleet both in car types and industries and to expand its fleet in 2006 through portfolio acquisition and open market purchases, which could include both owned and managed railcars and locomotives.

The Company operates in the used car market purchasing used cars and repairing and refurbishing them for specific markets and customers. The recent increase in demand for railcars has allowed the Company to place new leases or renew existing leases at higher rates and for longer terms. Additionally, two of the Company s railcar repair shops located in Maumee, Ohio and Darlington, South Carolina, continue to operate at high capacity doing both repair and reconfiguration work. The Company outsources all of its locomotive and a large part of its railcar maintenance needs.

In April 2005, the Company opened a third railcar repair shop in Bay St. Louis, Mississippi. In late August 2005, the shop was damaged as a result of Hurricane Katrina. The value of property damaged was minimal, however business was interrupted for some time. The hurricane also impacted the Rail Marketing operation by there being two lessees in the area unable to receive railcars from us as well as some of their leased railcars being damaged. The estimated

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

Turf & Specialty Group

The Turf & Specialty Group, formerly the Processing Group, produces and markets turf and ornamental plant fertilizer and control products. It also produces and distributes corncob-based products to the chemical carrier, pet and industrial markets.

Professional turf products are sold both directly and through distributors to golf courses under The Andersons Golf Products™ label and lawn service applicators. The Company also sells consumer fertilizer and control products for do-it-yourself application, to mass merchandisers, small independent retailers and other lawn fertilizer manufacturers and performs contract manufacturing of fertilizer and control products in its industrial line of business. In an industrial arrangement, the Company is not responsible for direct marketing support of the mass merchandiser. Margins on industrial tons are, therefore, lower than margins on consumer tons.

The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. During the off-season, the Company sells ice melt products to many of the same customers that purchase consumer turf products. Principal raw materials for the turf care products are nitrogen, phosphate and potash, which are purchased primarily from the Company s Plant Nutrient division. Competition is based principally on merchandising ability, logistics, service, quality and technology.

The Company attempts to minimize the amount of finished goods inventory it must maintain for customers, however, because demand is highly seasonal and influenced by local weather conditions, it may be required to carry inventory that it has produced into the next season. Also, because a majority of the consumer and industrial businesses use private label packaging, the Company closely manages production to anticipated orders by product and customer. This is consistent with industry practices.

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

The Company is one of a limited number of processors of corncob-based products in the United States. These products serve the chemical and feed ingredient carrier, animal litter and industrial markets, and are distributed throughout the United States and Canada and into Europe and Asia. The principal sources for the corncobs are seed corn producers.

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

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

Retail Group

The Company s Retail Group consists of six stores operated as The Andersons, which are located in the Columbus, Lima and Toledo, Ohio markets and serve urban, suburban and rural customers. The retail concept is MORE FOR YOUR HOME® and includes a full line of home center products plus a wide array of other items not available at the more traditional home center stores. In addition to hardware, home remodeling and lawn and garden products, The Andersons stores offer housewares, automotive products, sporting goods, pet products, bath soft goods and food (bakery, deli, produce, wine and specialty groceries). In 2005, the Company opened a meat market in its fifth store. These meat markets are operated by a third party and the Company earns a percentage commission on each sale. Each store carries more than 80,000 different items, has 100,000 square feet or more of in-store display space plus 40,000 or more square feet of outdoor garden center space, and features do-it-yourself clinics, special promotions and varying merchandise displays. The majority of the Company s non-perishable merchandise is received at a distribution center located in Maumee, Ohio.

The retail merchandising business is highly competitive. The Company competes with a variety of retail merchandisers, including home centers, department and hardware stores. Many of these competitors have substantially greater financial resources and purchasing power than the Company. The principal competitive factors are location, quality of product, price, service, reputation and breadth of selection. The Company s retail business is affected by seasonal factors with significant sales occurring in the spring and during the Christmas season.

The Company also operates a sales and service facility for outdoor power equipment near one of its conventional retail stores.

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

Research and Development

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

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Employees

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

Available Information

We make available free of charge on or through our Internet website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our Company website is http://www.andersonsinc.com. These reports are also available at the SEC s website http://www.sec.gov.

Government Regulation

Grain sold by the Company must conform to official grade standards imposed under a federal system of grain grading and inspection administered by the United States Department of Agriculture (USDA).

The production levels, markets and prices of the grains that the Company merchandises are materially affected by United States government programs, which include acreage control and price support programs of the USDA. For our investments in ethanol production facilities, the U.S. Government provides incentives to the ethanol blender and also has mandated certain volumes of ethanol to be produced. Also, under federal law, the President may prohibit the export of any product, the scarcity of which is deemed detrimental to the domestic economy, or under circumstances relating to national security. Because a portion of the Company s grain sales is to exporters, the imposition of such restrictions could have an adverse effect upon the Company s operations.

The U.S. Food and Drug Administration has developed bioterrorism prevention regulations for food facilities, which require that we register our grain operations with the FDA, provide prior notice of any imports of food or other agricultural commodities coming into the United States and maintain records to be made available upon request that identifies the immediate previous sources and immediate subsequent recipients of our grain commodities.

The Company, like other companies engaged in similar businesses, is subject to a multitude of federal, state and local environmental protection laws and regulations including, but not limited to, laws and regulations relating to air quality, water quality, pesticides and hazardous materials. The provisions of these various regulations could require modifications of certain of the Company s existing plant and processing facilities and could restrict the expansion of future facilities or significantly increase the cost of their operations. The Company made capital expenditures of approximately $1.6 million, $1.5 million and $1.4 million in order to comply with these regulations in 2005, 2004 and 2003, respectively.

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Item 1A. Risk Factors

Our operations are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in this Form 10-K and could have a material adverse impact on our financial results. These risks can be impacted by factors beyond our control as well as by errors and omissions on our part. The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Form 10-K.

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

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

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

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

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

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

We may not be able to maintain sufficient insurance coverage.

Our business operations entail a number of risks including property damage, business interruption and liability coverage. We maintain insurance for certain of these risks including property insurance, worker s compensation insurance, general liability and other insurance. Although we believe our insurance coverage is adequate for our current operations, there is no guarantee that such insurance will be available on a cost-effective basis in the future. In addition, although our insurance is designed to protect us against losses attributable to certain events, coverage may not be adequate to cover all such losses.

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

National and international political developments subject our business to a variety of security risks including bio-terrorism, and other terrorist threats to data security and physical loss to our facilities. In order to protect ourselves against these risks, we may

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

Our business involves significant safety risks.

Due to the nature of some of the businesses in which we operate, we are exposed to significant safety risks such as grain dust explosions, malfunction of equipment and chemical spills/run-off. If one of our elevators were to experience a grain dust explosion or if one of our pieces of equipment were to fail or malfunction due to an accident or improper maintenance, it could put our employees and others at serious risk. In addition, if we were to experience a catastrophic failure of a storage facility at one of our Plant Nutrient or Turf & Specialty facilities, it could harm not only our employees but the environment as well and could subject us to significant costs.

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

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

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

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

Our substantial indebtedness could adversely affect our financial condition and our ability to operate our business.

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

Increase our vulnerability to general adverse economic and industry conditions;

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

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

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

Our peak borrowing occurs in the spring (and to a lesser degree, the fall) due to seasonal inventory requirements in the nutrient and retail businesses, credit sales of fertilizer and a customary reduction in grain payables due to the cash needs and market strategies of grain customers. If cash on hand is insufficient to pay our obligations as they come due at a time when we are unable to draw on our credit facility, it could have an effect on our ability to conduct our business.

Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. Our ability to generate cash is dependent on various factors. These factors include general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Certain of our long-term borrowings include provisions that impose minimum levels of working capital and equity, impose limitations on additional debt and require that grain inventory positions be substantially hedged. Our ability to satisfy these provisions can be affected by events beyond our control. Although we are and have been in compliance with these provisions, noncompliance could result in default and acceleration of long-term debt payments.

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

Our Agriculture Group buys, sells and holds inventories of various commodities, some of which are readily traded on commodity futures exchanges. Our Turf & Specialty Group uses some of these same commodities as base raw materials in its lawn fertilizer. Unfavorable weather conditions, both local and worldwide, as well as other factors beyond our control, can affect the supply and demand of these commodities and expose us to liquidity pressures due to rapidly rising futures market prices. Changes in the supply and demand of these commodities can also affect the value of inventories that we hold as well as the price of raw materials for our Plant Nutrient division and Turf & Specialty Group. We hedge the majority of our grain inventory positions with derivative instruments to manage risk associated with commodity price changes, including purchase and sale contracts. However, we are unable to hedge 100% of the price risk of each transaction due to timing, availability of hedge contracts and third party credit risk, and there is a risk that the derivatives we employ will not be effective in offsetting the changes associated with the risks we are trying to manage. This can happen when the derivative and the hedged item are not perfectly matched. Our grain division derivatives,

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for example, do not hedge the basis pricing component of our grain inventory and contracts. Basis is the difference between the cash price of a commodity in our facility and the nearest exchange-traded futures price. Differences can represent time periods, locations or product forms. Although the basis component is smaller and generally less volatile than the futures component of our grain market price, significant unfavorable basis moves on a grain position as large as ours can significantly impact profitability of both the Agriculture Group and the Company. In our business, we buy and sell commodity derivatives on registered and non-registered exchanges. These derivatives are subject to margin calls and if there is a significant movement in the derivatives market, it could cause us to incur a significant amount of liabilities and impact our liquidity. We generally do not hedge non-grain commodities. We cannot assure you that the efforts we have taken to mitigate the impact of the volatility of the prices of commodities upon which we rely will be successful and any sudden change in the price of these commodities could have an adverse affect on our business and results of operations.

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

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

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

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

In our Agricultural Group, agricultural production and trade flows are affected by government actions. Production levels, markets and prices of the grains we merchandise are affected by US government programs, which include acreage control and price support programs of the USDA. In addition, grain sold by us must conform to official grade standards imposed by the USDA. Other examples of government policies that can have an impact on our business include tariffs, duties, subsidies, import and export

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restrictions and outright embargos. In addition, the development of the ethanol industry in which we have invested has been driven by US governmental programs that provide incentives to ethanol producers. Changes in government policies and producer supports may impact the amount and type of grains planted, which in turn, may impact our ability to buy grain in our market region. Because a portion of our grain sales are to exporters, the imposition of export restrictions could limit our sales opportunities.

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

Our Turf & Specialty Group manufactures lawn fertilizers and weed and pest control products using potentially hazardous materials. All products containing pesticides, fungicides and herbicides must be registered with the U.S. EPA and state regulatory bodies before they can be sold. The inability to obtain or the cancellation of such registrations could have an adverse impact on our business. Regulations governing the use and registration of these materials have in the past required us to adjust the raw material content of our products and make formulation changes, and future regulatory changes may have similar consequences.

Regulatory agencies, such as the EPA, may at any time reassess the safety of our products based on new scientific knowledge or other factors. If it were determined that any of our products were no longer considered to be safe, it could result in the amendment or withdrawal of existing approvals and would, in turn, result in a loss of revenue, cause our inventory to become obsolete and could bring about the potential for lawsuits against us.

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

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

The markets for our products are highly competitive. In the grain industry, we compete with other grain merchandisers, grain processors and end-users for the purchase of grain, as well as with other grain merchandisers, private elevator operators and cooperatives for the sale of grain. While we have substantial operations in the eastern corn-belt, many of our competitors are significantly larger and compete in wider markets. In the plant nutrients business, we compete with regional cooperatives, manufacturers, wholesalers and multi-state retail/wholesalers. Many of these competitors have considerably larger resources than us. Our Rail Group is subject to competition in its rail leasing business where we compete with larger entities that have greater financial resources, higher credit ratings and access to capital at a lower cost. These factors may enable competitors to offer leases and loans to customers at lower rates than we are able to provide. Our Turf & Specialty Group competes with other manufacturers of lawn fertilizer and corn-cob processors and our retail business competes with a variety of retailers, primarily mass merchandisers and do-it-yourself home centers in its three markets. The principle

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competitive factors in the retail business are location, quality of product, price, service, reputation and breadth of selection. Some of these competitors are larger than us, have greater purchasing power and operate more stores in a wider geographical area. Competitive pressures in all of our businesses could affect price or customer demand for our products, negatively impacting our profit margins and/or resulting in a loss of market share.

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

Many of our operations are dependent on weather conditions. The success of our Agriculture Group, for example, is highly dependent on the weather in the eastern corn belt (Ohio, Michigan, Indiana and Illinois), primarily during the spring planting season and through the summer (wheat) and fall (corn and soybean) harvests. Additionally, wet and cold conditions during the spring adversely affects the application of fertilizer and other products to golf course and other consumers which could decrease demand in our Turf & Specialty Group. These same weather conditions also adversely affect purchases of lawn and garden products in our Retail Group which generates a significant amount of their sales from these products during the spring season.

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

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

We have limited production and storage facilities for our products.

In our Turf & Specialty Group, we currently have only one production facility for our cob based products. Within our Retail Group, we have only one warehouse which stores all of our retail merchandise inventory. Any event or occurrence impacting these facilities could cause major disruption to our business operations. Additionally, our Agriculture Group is dependent on grain elevator and nutrient storage capacity. The loss of use of one of our larger storage facilities could cause a major disruption to our agriculture business operations.

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

We rely on a limited number of suppliers for certain of our raw materials and other products. If we were unable to obtain these raw materials and products from our current vendors, or if there were significant increases in our supplier s prices, it could have the impact of disrupting operations due to lack of available raw materials or significantly increasing our costs which could cause us to be unable to sell our products at a reasonable margin.

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

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

In our plant nutrients business, planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Technological advances in agriculture, such as genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could also affect the demand for our crop nutrients and crop protection products. Either of these factors could render some of our inventory obsolete or reduce its value.

Within our rail business, major design improvements to loading, unloading and transporting of certain products can render existing (especially old) equipment obsolete. A significant portion of our rail fleet is composed of older railcars.

In our Turf & Specialty Group, we build substantial amounts of inventory in advance of the season to prepare for customer demand. If we were to forecast our customer demand incorrectly, we could build up excess inventory which could cause the value of our inventory to decrease.

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

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

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

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

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

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

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

We are subject to risks associated with the demands and restrictions of the Class 1 railroads, a group of privately owned rail companies owning a high percentage of the existing rail lines. The railroads exercise a high degree of control over whether private railcars can be allowed on their lines and may reject certain railcars or require railcar improvements to carry higher load limits. Also, a shift in the railroad strategy to investing in new rail cars and improvements to existing railcars, instead of investing in locomotives and infrastructure could adversely impact our business by causing increased competition and creating an over supply of railcars.

In addition, our rail fleet consists of a range of railcar types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives, however a large concentration of a particular type of railcar could expose us to risk if demand were to decrease for that railcar type.

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

The Rail Group relies upon its customers continuing to lease rather than purchase assets. There are a number of items that factor into the customer s decision to lease or purchase assets, such as tax considerations, interest rates, balance sheet considerations and operational flexibility. We have no control over these external considerations and changes in these factors could negatively impact demand for our leasing products. Profitability is largely dependent on the ability to maintain railcars on lease (utilization) at satisfactory lease rates. A number of factors can adversely affect utilization and lease rates including an economic downturn causing reduced demand or oversupply in the markets in which the company operates, changes in customer behavior, or any other changes in supply or demand.

A portion of our railcar leases are not match funded.

Match funding (in relation to rail lease transactions) means matching terms between the lease with the customer and the funding arrangement with the financial intermediary. This is not always possible. We are exposed to risk to the extent that the lease terms do

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

Our future operating results may not meet expectations.

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

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

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

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

Effective internal controls are necessary to provide reliable financial reports and help reduce the likelihood of fraud, theft and other illegal acts. Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of internal control over financial reporting and a report by our independent registered public accounting firm attesting to our evaluation as well as issuing their own opinion on our internal controls over financial reporting. If we fail to maintain adequate internal controls over financial reporting, it could not only adversely impact our financial results but also cause us to fail to meet our reporting obligations. Although management has concluded that adequate internal control procedures are in place, no system of internal control can provide absolute assurance that the financial statements are accurate and free of error. As a result, the risk remains that our internal controls may not detect all errors or omissions in the financial statements or be able to detect all instances of fraud or illegal acts. If we or our auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and harm our stock price.

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

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

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financial statements, it would cause us to record a significant amount of assets and liabilities on our balance sheet that we, up to this point, have not had to do, which could have a negative impact on our debt covenants. The FASB currently has a project on their agenda that, if adopted, would require the recognition of the overfunded and underfunded status of defined benefit postretirement plans as an asset or a liability on the balance sheet.

Our pension and postretirement benefit plans are subject to changes in assumptions which could have a significant impact on the necessary cash flows needed to fund these plans and introduce volatility into the annual expense for these plans.

Our Company, like most companies, continues to be impacted by the rising cost of pension and other post-retirement benefits. We may be required to make cash contributions to the extent necessary to comply with minimum funding requirements under applicable law. These cash flows are dependent on various assumptions used to calculate such amounts including discount rates, long-term return on plan assets, salary increases, health care cost trend rates and other factors. Changes to any of these assumptions could have a significant impact on these estimates. Subsequent to December 31, 2005, the Company amended its defined benefit pension plans effective January 1, 2007. The provisions of this amendment include freezing benefits for the retail line of business employees as of December 31, 2006, freezing benefits for the non-retail line of business employees at December 31, 2006 with future benefits to be calculated using a new career average formula and in the case of all employees, compensation for the years 2007-2012 will be includable in the final average pay formula calculating the final benefit earned for years prior to December 31, 2006.

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

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Item 2. Properties

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

Agriculture Facilities

(in thousands)		Agricultural Fertilizer	
Location	Grain Storage (bushels)	Dry Storage (cubic feet)	Liquid Storage (gallons)
Maumee, OH (3)	21,942	4,500	2,878
Toledo, OH Port (4)	11,196	1,800	5,623
Metamora, OH	5,774		
Toledo, OH (1)	983		
Lyons, OH	350		
Lordstown, OH		530	
Gibsonburg, OH (2)		37	349
Fremont, OH (2)		40	271
Fostoria, OH (2)		40	250
Champaign, IL	12,732	1,200	
Dunkirk, IN	7,800	833	
Delphi, IN	7,063	923	
Clymers, IN (5)	4,716		
Oakville, IN	3,450		
Walton, IN (2)		435	8,690
Poneto, IN		10	5,750
Logansport, IN		83	3,652
Waterloo, IN (2)		992	1,656
Seymour, IN		720	943
North Manchester, IN (2)		25	211
Albion, MI (5)	2,552		
White Pigeon, MI	2,703		
Webberville, MI		1,747	5,060
Litchfield, MI (2)		30	457
	81,261	13,945	35,790

(1) Facility leased.

(2) Facility is or includes a farm center.

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

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

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

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The grain facilities are mostly concrete and steel tanks, with some flat storage, which is primarily cover-on-first temporary storage. The Company also owns grain inspection buildings and dryers, maintenance buildings and truck scales and dumps.

The Plant Nutrient division s wholesale fertilizer and farm center properties consist mainly of fertilizer warehouse and distribution facilities for dry and liquid fertilizers. The Maumee, Ohio; Champaign, Illinois; Seymour, Indiana; and Walton, Indiana locations have fertilizer mixing, bagging and bag storage facilities. The Maumee, Ohio; Webberville, Michigan; Logansport, Indiana; Walton, Indiana; and Poneto, Indiana locations also include liquid manufacturing facilities.

Retail Store Properties

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

(1) Facility Leased

The leases for the two stores and the distribution center are operating leases with several renewal options and provide for minimum aggregate annual lease payments approximating $1.0 million. The two store leases provide for contingent lease payments based on achieved sales volume. One store had sales triggering payments of contingent rental each of the last three years. In addition, the Company owns a service and sales facility for outdoor power equipment adjacent to its Maumee, Ohio retail store.

Other Properties

In its railcar business, the Company owns, leases or manages for financial institutions 96 locomotives and 19,363 railcars. Future minimum lease payments for the railcars and locomotives are $77.6 million with future minimum contractual lease and service income of approximately $169.0 million for all railcars, regardless of ownership. Lease terms range from one to eight years. The Company also operates railcar repair facilities in Maumee, Ohio; Darlington, South Carolina; and Bay St. Louis, Mississippi, a steel fabrication facility in Maumee, Ohio, and owns or leases a number of switch engines, mobile repair units, cranes and other equipment.

The Company owns lawn fertilizer production facilities in Maumee, Ohio; Bowling Green, Ohio; and Montgomery, Alabama. It also owns corncob processing and storage facilities in Maumee, Ohio and Delphi, Indiana. A portion of the Maumee, Ohio facility was closed in late 2005 and milling operations consolidated in Delphi, Indiana. The Company leases a lawn fertilizer warehouse facility in Toledo, Ohio.

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The Company also owns an auto service center that is leased to its former venture partner. The Company s administrative office building is leased under a net lease expiring in 2015. The Company owns approximately 1,147 acres of land on which the above properties and facilities are located and approximately 306 acres of farmland and land held for sale or future use.

Real properties, machinery and equipment of the Company were subject to aggregate encumbrances of approximately $60.9 million at December 31, 2005. Additionally, 8,345 railcars and 44 locomotives are held in bankruptcy-remote entities collateralizing $103.2 million of non-recourse debt at December 31, 2005. Additions to property, including intangible assets but excluding railcar assets, for the years ended December 31, 2005, 2004 and 2003 amounted to $11.9 million, $16.8 million and $11.7 million, respectively. Additions to the Company s railcar assets totaled $98.9 million, $127.7 million and $20.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. These additions were offset by sales and financings of railcars of $69.1 million, $45.6 million and $16.7 million for the same periods. See Note 11 to the Company s consolidated financial statements in Item 8 for information as to the Company s leases.

The Company believes that its properties, including its machinery, equipment and vehicles, are adequate for its business, well maintained and utilized, suitable for their intended uses and adequately insured.

Item 3. Legal Proceedings

The Company previously disclosed its receipt of a notice of alleged violation of certain City of Toledo Municipal code environmental regulations in connection with stormwater drainage from potentially contaminated soil at the Company s Toledo, Ohio port facility, and its submission of a surface water drainage plan to address the concerns raised in the notice. The Company has been advised by regulatory authorities that its proposed surface water drainage plan has been approved, and the City of Toledo, Department of Public Utilities, Division of Environmental Services has advised the Company that no orders or findings will be issued in connection with its notice of alleged violation. The Company is keeping local authorities apprised of its implementation schedule, and is attempting to secure consent from needed landowners. Management has no reason to believe that implementation of the approved surface water drainage plan should materially affect the Company s operations.

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

No matters were voted upon during the fourth quarter of fiscal 2005.

Item 4a. Executive Officers of the Registrant

The information under this Item 4A is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K. The executive officers of The Andersons, Inc., their positions and age (as of February 28, 2006) are presented below.

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Name	Position	Age	Year Assumed
Dennis J. Addis	President, Plant Nutrient Division, Agriculture Group	53	2000
	Vice President and General Manager, Plant Nutrient Division, Agriculture Group		1999
Daniel T. Anderson	President, Retail Group	50	1996
Michael J. Anderson	President and Chief Executive Officer	54	1999
	President and Chief Operating Officer		1996
Thomas Waggoner	President, Turf & Specialty Group	51	2005
	Vice President, Sales & Marketing, Turf & Specialty Group		2002
	Director of Supply Chain/Consumer & Industrial Sales, Turf & Specialty Group		2001
	Director of Supply Chain, Turf & Specialty Group		2000
Naran U. Burchinow	Vice President, General Counsel and Secretary	52	2005
	Formerly Operations Counsel, GE Commercial Distribution Finance Corporate		2003
	Formerly General Counsel, ITT Commercial Finance Corporation and Deutsche Financial Services		1993
Dale W. Fallat	Vice President, Corporate Services	61	1992
Philip C. Fox	Vice President, Corporate Planning	63	1996
Charles E. Gallagher	Vice President, Human Resources	64	1996
Richard R. George	Vice President, Controller and CIO	56	2002
	Vice President and Controller		1996
Harold M. Reed	President, Grain Division	49	2000
	Vice President and General Manager, Grain Division, Agriculture Group		1999
Rasesh H. Shah	President, Rail Group	51	1999
Gary L. Smith	Vice President, Finance and Treasurer	60	1996

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PART II

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

The Common Shares of The Andersons, Inc. trade on the Nasdaq National Market under the symbol ANDE. On February 28, 2006, the closing price for the Company s Common Shares was $56.25 per share. The following table sets forth the high and low bid prices for the Company s Common Shares for its four quarters in each of 2005 and 2004.

	2005		2004	
Quarter Ended	High	Low	High	Low
March 31	$33.31	$23.14	$20.00	$15.50
June 30	36.60	26.44	19.75	16.08
September 30	42.33	27.50	21.30	16.45
December 31	44.82	26.50	26.29	20.01

The Company s transfer agent and registrar is Computershare Investor Services, LLC, 2 North LaSalle Street, Chicago, IL 60602. Telephone 312-588-4991.

Shareholders

At February 28, 2006, there were 7.6 million common shares outstanding: 747 shareholders of record and approximately 2,700 shareholders for whom security firms acted as nominees.

Dividends

The Company has declared and paid 38 consecutive quarterly dividends since the end of 1996, its first year of trading. The Company paid $0.075 per common share for the dividends paid in January, April and July, 2004, $0.08 per common share for the dividends paid in October 2004 and January and April 2005 and $0.085 per common share for the dividends paid in July and October 2005 and January 2006. On February 27, 2006, the Company announced a dividend of $0.09 per common share to be paid on April 24, 2006 to shareholders of record on April 3, 2006.

The Company s objective is to pay a quarterly cash dividend, however, dividends are subject to Board of Director approval and loan covenant restrictions.

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Equity Plans

The following table gives information as of December 31, 2005 about the Company s Common Shares that may be issued upon the exercise of options under all of its existing equity compensation plans.

	Equity Compensation Plan Information		
Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	734,446(1)	$ 18.28	682,488(2)

(1) This number includes options (697,433), performance share units (16,760) and restricted shares (20,253) outstanding under The Andersons, Inc. 2005 Long-Term Performance Compensation Plan dated May 6, 2005. This number does not include any shares related to the Employee Share Purchase Plan. The Employee Share Purchase Plan allows employees to purchase common shares at the lower of the market value on the beginning or end of the calendar year through payroll withholdings. These purchases are completed as of December 31.

(2) This number includes 272,309 Common Shares available to be purchased under the Employee Share Purchase Plan.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of common stock during 2005. The Company s Board of Directors approved the repurchase of 2.8 million shares for use in employee, officer and director stock purchase and stock compensation plans. Since the beginning of this repurchase program in 1996, the Company has purchased 2.1 million shares in the open market.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data of the Company. The data for each of the five years in the period ended December 31, 2005 are derived from the consolidated financial statements of the Company. The data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7, and the Consolidated Financial Statements and notes thereto included in Item 8.

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(in thousands, except for per share and ratios and other data)

	For the years ended December 31				
	2005	**2004**	**2003**	**2002**	**2001**
Operating results					
Grain sales and revenues	**$ 627,958**	$ 664,565	$ 696,615	$ 577,686	$471,625
Fertilizer, retail & other sales	**668,694**	602,367	542,390	492,580	504,408
Total sales & revenues	**1,296,652**	1,266,932	1,239,005	1,070,266	976,033
Gross profit grain	**50,159**	52,680	41,783	47,348	52,029
Gross profit fertilizer, retail & other	**147,987**	136,419	122,311	115,753	108,722
Total gross profit	**198,146**	189,099	164,094	163,101	160,751
Other income / gains (a)	**4,683**	4,973	4,701	3,728	3,846
Equity in earnings (losses) of affiliates	**2,321**	1,471	347	13	(5)
Pretax income	**39,312**	30,103	17,965	16,002	11,931
Income before cumulative effect of change in accounting principle	**26,087**	19,144	11,701	10,764	9,042
Cumulative effect of change in accounting principle (net of tax)				3,480	(185)
Net income	**26,087**	19,144	11,701	14,244	8,857
Financial position					
Total assets	**634,144**	573,598	493,292	469,780	458,718
Working capital	**96,219**	102,170	86,871	80,044	73,608
Long-term debt (b)	**79,329**	89,803	82,127	84,272	91,316
Long-term debt, non-recourse (b)	**88,714**	64,343			
Shareholders equity	**158,833**	133,876	115,791	105,765	94,934
Cash flows / liquidity					
Cash flows from operations	**37,880**	62,492	44,093	23,249	(6,108)
Depreciation and amortization	**22,888**	21,435	15,139	14,314	14,264
Cash invested in acquisitions / investments in affiliates	**16,005**	85,753	1,182		
Investments in property, plant & equipment	**11,927**	13,201	11,749	9,834	9,155
Net investment in (sale of) railcars (c)	**29,810**	(90)	3,788	(7,782)	6,414
EBITDA (d)	**74,279**	62,083	41,152	40,128	37,765
Per share data:					
Net income basic	**3.52**	2.64	1.64	1.96	1.22
Net income diluted	**3.39**	2.55	1.59	1.92	1.21
Dividends paid	**0.33**	0.305	0.28	0.26	0.26
Year-end market value	**43.08**	25.50	15.97	12.70	10.00
Ratios and other data					
Pretax return on beginning equity	**29.4%**	26.0%	17.0%	16.9%	13.3%
Net income return on beginning equity	**19.5%**	16.5%	11.1%	15.0%	9.9%
Funded long-term debt to equity ratio (e)	**0.5-to-1**	0.7-to-1	0.7-to-1	0.8-to-1	1.0-to-1
Weighted average shares outstanding (000 s)	**7,421**	7,246	7,141	7,283	7,281

Effective tax rate	**33.6%**	36.4%	34.9%	32.7%	24.2%

Note: Prior years have been revised to conform to the 2005 presentation; these changes did not impact net income.

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

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

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

(d) 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 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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(e) Calculated by dividing long-term debt by total year-end equity as stated under Financial position. Does not include non-recourse debt.

The following table sets forth (1) our calculation of EBITDA and (2) a reconciliation of EBITDA to our cash flow provided by operating activities.

(in thousands)	For the years ended December 31				
	2005	**2004**	**2003**	**2002**	**2001**
Income before cumulative effect of change in accounting principle	**$ 26,087**	$ 19,144	$ 11,701	$ 10,764	$ 9,042
Add:					
Provision for income taxes	**13,225**	10,959	6,264	5,238	2,889
Interest expense	**12,079**	10,545	8,048	9,812	11,570
Depreciation and amortization	**22,888**	21,435	15,139	14,314	14,264
EBITDA	**74,279**	62,083	41,152	40,128	37,765
Add/(subtract):					
Provision for income taxes	**(13,225)**	(10,959)	(6,264)	(5,238)	(2,889)
Interest expense	**(12,079)**	(10,545)	(8,048)	(9,812)	(11,570)
Gain on insurance settlements				(302)	(338)
(Gain) loss on disposal of property, plant & equipment and business	**540**	(431)	(273)	(406)	(336)
Realized & unrealized gains (losses) on railcars & related leases	**(7,682)**	(3,127)	(2,146)	(179)	1,172
Deferred income taxes	**1,964**	3,184	382	1,432	(539)
Changes in working capital, unremitted earnings of affiliates & other	**(5,917)**	22,287	19,290	(2,374)	(29,373)
Net cash provided by / (used in) operations	**$ 37,880**	$ 62,492	$ 44,093	$ 23,249	$ (6,108)

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

Forward Looking Statements

The following Management s Discussion and Analysis contains various forward-looking statements which reflect the Company s current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including but not limited to those identified below, which could cause actual results to differ materially from historical results or those anticipated. The words believe, expect, anticipate, will and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors could cause actual results to differ materially from historical results or those anticipated: weather; supply and demand of commodities including grains, fertilizer and other basic raw materials; market prices for grains and the potential for increased margin requirements; environmental and governmental policies; competition; economic conditions; risks associated with

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acquisitions; interest rates; and income taxes. See a more complete discussion of risk factors in Item 1A, Risk Factors.

Critical Accounting Policies and Estimates

The process of preparing financial statements requires management to make estimates and judgments that affect the carrying values of the Company s assets and liabilities as well as the recognition of revenues and expenses. These estimates and judgments are based on the Company s historical experience and management s knowledge and understanding of current facts and circumstances. Certain of the Company s accounting policies are considered critical, as these policies are important to the depiction of the Company s financial statements and/or require significant or complex judgment by management. Note 2 to the consolidated financial statements more fully describes our significant accounting policies, however, following are those accounting policies that management considers most critical to the Company s financial statements.

Grain Inventories The Company marks 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 the Company marks to market inventories and sales commitments, gross profit on a grain sale 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 held by the Company. These quality reserves also require management to exercise judgment.

Marketing Agreement The Company has negotiated a marketing agreement that covers certain of its grain facilities (certain of which are leased from Cargill). Under this five year amended and restated agreement (ending in May 2008), the Company sells grain from these facilities to Cargill at market prices. Income earned from operating the facilities (including buying, storing and selling grain and providing grain marketing services to its producer customers) over a specified threshold is shared 50/50 with Cargill. Measurement of this threshold is made on a cumulative basis and cash is paid to Cargill (if required) at each contract year end. The Company recognizes its share of income to date at each month-end and accrues 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,

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2002, resulted in a cumulative effect adjustment increase of $3.5 million after tax in 2002.

Derivatives Commodity Contracts The Company utilizes regulated commodity futures and options contracts to hedge its market price exposure on the grain it owns and related forward purchase and sale contracts. These contracts are included in the 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 the income statement as a component of sales and merchandising revenues. While the Company considers all of its commodity contracts to be effective economic hedges, the Company does not designate its commodity futures and options contracts as hedges. Therefore, the Company does not defer gains and losses on these same contracts as would occur 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 The Company s various business segments are each highly capital intensive and require significant investment in facilities and / or rolling stock. In addition, the Company has a limited amount of intangible assets and goodwill (described more fully in Note 5 to the Company s consolidated financial statements in Item 8) that it 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 reviews for impairment 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 its evaluation of these cash flows, the Company could recognize different amounts of expense in future periods.

Employee Benefit Plans The Company provides 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 the Company s historical experience combined with management s knowledge and understanding of current facts and circumstances. The Company uses 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, the funded status of the plans could vary significantly and then the Company could recognize different amounts of expense over future periods. Subsequent December 31, 2005, the Company amended its defined benefit pension plans effective January 1, 2007. The provisions of this amendment

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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 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 2007-2012 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 the Company s consolidated financial statements in Item 8. 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 The Company recognizes revenue for the sales of its products at the time of shipment. Gross profit on sales of grain is recognized when sales contracts are entered into as the Company marks its contracts to the market on a daily basis. Revenues from other merchandising activities are recognized as open grain contracts are marked-to-market or as related services are provided. Rental revenues on operating leases are recognized on a straight-line basis over the term of the lease. Sales returns and allowances, if required, are provided for at the time sales are recorded. Shipping and handling costs are included in cost of sales.

The Company sells 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 the Company. Revenue on operating leases (where the Company is the lessor) and on servicing and maintenance contracts in non-recourse transactions is recognized over the term of the lease or service contract.

Leasing activities The Company accounts for its leasing activity in accordance with FASB Statement No. 13, as amended, and related pronouncements. The Company s Rail Group leases and manages railcars for third parties and leases railcars for internal use. Most leases to Rail Group customers are structured as operating leases. Railcars leased by the Company to its customers are either owned by the Company, 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-

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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 railroad rolling stock and leasing assets from Progress Energy and subsidiaries described in Note 3 to the consolidated financial statements in Item 8, the Company acquired some existing leases where the monthly lease fee is contingent upon some measure of usage (per diem leases). This monthly usage is tracked, billed and collected by third party service providers and funds are generally remitted to the company along with usage data three months after they are earned. The Company records lease revenue for these per diem arrangements based on recent historical usage patterns and records a true up adjustment when the actual data is received. Revenues recognized under per diem arrangements totaled $10.5 million in 2005 and $8.4 million in 2004.

The Company periodically finances some of its railcars through leases with a financial intermediary, the terms of which require the Company to capitalize the assets and record the net present value of the lease obligation on its balance sheet as a long-term borrowing. There are no gains or losses on these financing transactions. The obligation is included with the Company s long-term debt as described in Note 8 to the consolidated financial statements. Railcars under these leases are being depreciated to their residual value over the term of the lease.

The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to financial intermediaries and assigns the related operating lease on a non-recourse basis. The Company generally provides ongoing railcar maintenance and management services for the financial intermediaries, and receives a fee for such services when earned. On the date of sale, the Company recognizes the proceeds from sales of railcars in non-recourse lease transactions as revenue. Management and service fees are recognized as revenue as the underlying services are provided, which is generally spread evenly over the lease term.

Taxes Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may not prevail. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit. An estimated effective tax rate for a year is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item.

New Accounting Standards In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. This standard provides guidance on the recognition of a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably assured. This standard is effective no later than the end of fiscal years ending

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after December 15, 2005. The Company has adopted this standard for its fiscal year ending December 31, 2005. This standard does not have a material impact to the Company s financial statements.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FAS No. 3. This standard requires retrospective application to prior period financial statements for changes in accounting principles. This standard also provides guidance on reporting the correction of an error by requiring the restatement of previously issued financial statements. This standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will be adopting this new standard beginning January 1, 2006. This standard will not have a material impact to the Company s financial statements.

In December 2004, the FASB issued Statement No. 123R (Revised 2004), Share-Based Payment. This standard requires expensing of stock options and other share-based payments and supersedes SFAS No. 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. On April 14, 2005, the Securities and Exchange Commission (SEC) approved a delay to the effective date of SFAS No. 123R. Under the new SEC rule, SFAS No. 123R is effective for the Company as of January 1, 2006 and will apply to all awards granted, modified, cancelled or repurchased after that date as well as the unvested portion of prior awards.

Operating Results

The following discussion focuses on the operating results as shown in the consolidated statements of income. Following are tables (in thousands) highlighting sales and merchandising revenues, gross profit and operating income by segment. Additional segment information is included in Note 14 to the Company s consolidated financial statements in Item 8.

	2005	2004	2003
Sales and merchandising revenues			
Agriculture	**$ 899,329**	$ 901,139	$ 891,215
Rail	**92,009**	59,283	35,200
Turf & Specialty	**122,561**	127,814	134,017
Retail	**182,753**	178,696	178,573
Total	**$1,296,652**	$1,266,932	$1,239,005

	2005	2004	2003
Gross profit			
Agriculture	**$ 82,933**	$ 87,372	$ 76,706
Rail	**43,281**	28,793	13,626
Turf & Specialty	**18,888**	21,503	23,367
Retail	**53,044**	51,431	50,395
Total	**$198,146**	$189,099	$164,094

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	2005	2004	2003
Operating income (loss)			
Agriculture	**$22,974**	$21,302	$13,868
Rail	**22,822**	10,986	4,062
Turf & Specialty	**(3,044)**	(144)	1,022
Retail	**2,921**	2,108	3,413
Other	**(6,361)**	(4,149)	(4,400)
Total	**$39,312**	$30,103	$17,965

Comparison of 2005 with 2004

Sales and merchandising revenues for 2005 totaled $1.3 billion, an increase of $29.7 million, or 2%, from 2004. Sales in the Agriculture Group were down $5.7 million, or less than 1%. Grain sales decreased $41.0 million 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%. Fertilizer sales were up $35.3 million, or 15%, 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. Revenues in both grain and fertilizer businesses are significantly impacted by the market price of the commodities being sold.

Merchandising revenues in the Agriculture Group were up $3.9 million, or 13%, due primarily to increased space income (before interest charges) in the Grain division. 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 the Company s 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 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 September 2005, the Company invested approximately $13.1 million for a 44% interest in The Andersons Albion Ethanol LLC which began construction of a 55 million gallon-per-year ethanol production facility adjacent to the Company s Albion, Michigan grain facility. The Company is under contract to lease the grain elevator facility to the LLC upon completion, operate the ethanol facility under a management contract and provide origination, marketing and risk management services also under contracts with the LLC.

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The Company also invested $2.0 million in 2005 for a 7.9% interest in another LLC constructing an ethanol plant in Rensselaer, Indiana.

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

If the projected growth of the ethanol industry occurs, it could impact the Company s grain business in potentially significant ways. It is expected to increase demand for corn, with resulting higher prices and increased competition. In certain situations, our grain business could be negatively impacted if there are new ethanol plants constructed in our region and near our existing facilities that would compete for locally available corn. Conversely, providing grain origination services and distillers dried grain marketing services to the ethanol industry is a potential growth opportunity for our grain trading operations. We believe that the increase in demand for corn to serve the growing ethanol industry may force a reduction in the plantings of other crops, which would positively impact the Plant Nutrient division by increasing demand for nitrogen, phosphates and potassium. The growth of corn is more dependent on these fertilizer products than soybeans or wheat.

The Rail Group had a $32.7 million, or 55% increase in sales. 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 the Company s 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 put this segment in a good position for continued growth.

The Turf & Specialty Group had a $5.3 million, or 4%, decrease in sales and merchandising revenues 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

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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, the Company announced a restructuring of its Turf & Specialty Group in the third quarter of 2005. The Group will re-focus 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.

Same-store sales and revenues in the Retail Group increased slightly in 2005 as compared to 2004 with increases experienced in each of the Groups six retail stores. In 2005, the Retail Group s fiscal year ended on the same day as the Company s 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 for 2005 totaled $198.1 million, an increase of $9.0 million, or 5%, from 2004. The Agriculture Group had a $4.5 million, or 5%, decrease in gross profit. Gross profit in the Grain division totaled $50.2 million, a decrease of $2.5 million, or 5% resulting primarily from the decrease in grain sales mentioned previously. The Plant Nutrient division recognized a decrease in gross profit of $2.0 million 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.

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).

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 Group s consumer and industrial business that were not recovered from customers as well as the overall reduction in sales. 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 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.

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In 2005, the Company recognized $2.3 million of equity in earnings of unconsolidated subsidiaries, most notably Lansing Grain LLC. This was a 58% increase from the 2004 amount of $1.5 million and resulted both from increased performance of unconsolidated subsidiaries as well as an increase in the percentage owned by the Company in Lansing Grain LLC from 21.9% to approximately 29.0%.

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 Agriculture 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 the Company s 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 the Company s strong performance for the year.

The Company has 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 its benefit programs, amending its plans and looking for additional opportunities to provide competitive benefits at a reasonable cost.

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.

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 this FSP, the Company determined in 2004 that the benefits for a small group of retirees were

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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, the Company s actuaries completed their final determination of actuarial equivalency of the Company s postretirement health plan in accordance with these regulations and determined that the Company s 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.

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 $3.52 increased $0.88 from 2004 and diluted earnings per share of $3.39 increased $0.84 from 2004.

Comparison of 2004 with 2003

Sales and merchandising revenues for 2004 totaled $1.3 billion, an increase of $27.9 million, or 2%, from 2003. Sales in the Agriculture Group were up $1.5 million, or less than 1%. Grain sales decreased $41.0 million 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. Fertilizer sales were up $42.5 million, or 23%, 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. Revenues in both grain and fertilizer businesses are significantly impacted by the market price of the commodities being sold.

Merchandising revenues in the Agriculture Group were up $8.4 million, or 38%, due primarily to increased space income (before interest charges) in the Grain division. 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 the Company s market area for both corn and soybeans. Corn production in Ohio, Indiana, Illinois and Michigan exceed the 2003 production by 13% and soybean production in the same states exceed 2003 production by 33%. Although the wheat production for 2004 was down 10% as compared to 2003, it exceeded the Company s initial expectations. The Company received more grain in 2004 than 2003 for all grain types. Despite this strong harvest, demand continued and the

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Company was able to sell grain throughout the fourth quarter. Winter wheat acres planted in 2004 for harvest in 2005 are down 15%.

The Rail Group had a $24.1 million, or 68% increase in sales. 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.

The Turf & Specialty Group had a $6.2 million, or 5%, decrease in sales and merchandising revenues resulting primarily from an overall 8% decrease in volume partially offset 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 the Company s customers have struggled with their own programs. Because of this excess capacity, the Company 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.

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. January 2005 results were positive and showed increased sales, however, this business continues to be faced with continued competition in its primary markets by competitors of significant size.

Gross profit for 2004 totaled $189.1 million, an increase of $25.0 million, or 15%, from 2003. The Agriculture Group had a $10.7 million, or 14%, increase in gross profit. Gross profit in the Grain division 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. The Plant Nutrient division recognized a decrease in gross profit of $0.2 million, primarily due to a

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significant increase in cost per ton that couldn t be fully recouped through increased prices.

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).

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.

In 2004, the Company recognized $1.5 million of equity in earnings of unconsolidated subsidiaries, most notably Lansing Grain LLC. 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 owned by the Company from 15.1% to 21.9%.

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 Agriculture 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.

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.

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.

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In October 2004, the American Jobs Creation Act was enacted. Two provisions of this Act will impact the Company s 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 the Company 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.

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 $2.64 increased $1.00 from 2003 and diluted earnings per share of $2.55 increased $0.96 from 2003.

Liquidity and Capital Resources

The Company s 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. Net working capital at December 31, 2005 was $96.2 million, a decrease of $6.0 million from December 31, 2004.

The Company has significant short-term lines of credit available to finance working capital, primarily inventories and accounts receivable. In November 2002, the Company entered into a borrowing arrangement with a syndicate of banks. This borrowing arrangement was renewed in the third quarter of 2005. The agreement provides the Company 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 allowing the Company to increase the available short-term line by $50 million. Prior to the syndication agreement, the Company managed several separate short-term lines of credit. The Company had drawn $12.4 million on its short-term line of credit at December 31, 2005. Peak short-term borrowing during 2005 was $119.8 million on March 30, 2005. Typically, the Company s 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.

The Company utilizes interest rate contracts to manage a portion of its interest rate risk on both its short and long-term debt and lease commitments. At December 31, 2005, 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 $0.1 million.

Quarterly cash dividends of $0.075 were paid in the first three quarters of 2004 with a dividend of $0.08 in the fourth quarter of 2004 and the first two quarters of 2005. The Company paid a quarterly cash dividend of $0.085 in the last two quarters of 2005. A cash dividend of $0.085 per common share was paid on January 23, 2006. The Company made income tax payments of $6.9 million in 2005. During 2005, the Company issued approximately 168,000 shares to employees and directors under its share compensation plans.

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Total capital spending for 2005 on property, plant and equipment was $11.9 million which includes $2.0 million for expansion and improvements in Agricultural Group facilities. 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, the Company spent $98.9 million in 2005 for the purchase of railcars and capitalized modifications on railcars for use in its Rail Group and sold or financed $69.1 million of railcars during 2005.

The Company increased its investment in Lansing Grain Company, LLC (LGC) in March 2005 by $0.9 million. At December 31, 2005, the Company owned approximately 29.0% of the equity and accounts for it using the equity method. The Company also holds an option to increase its investment in each of 2006-2008 with the potential of attaining majority ownership in 2008. In January 2006, the Company s ownership interest increased to 36.1%.

In September 2005, the Company invested approximately $13.1 million for a 44% interest in The Andersons Albion Ethanol LLC which began construction of a 55 million gallon-per-year ethanol production facility adjacent to the Company s Albion, Michigan grain facility. The Company accounts for this investment using the equity method as well.

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

Certain of the Company s 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. The Company was in compliance with all of these provisions at December 31, 2005. In addition, certain of the Company s 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 and the Company pledged, as collateral, 2,293 railcars and related leases which are held by a wholly-owned bankruptcy-remote entity.

Because the Company is a significant consumer of short-term debt in peak seasons and the majority of this is variable rate debt, increases in interest rates could have a significant impact on the profitability of the Company. In addition, periods of high grain prices and / or unfavorable market conditions could require the Company to make additional margin deposits on its CBOT futures contracts. Conversely, in periods of declining prices, the Company receives a return of cash. The marketability of the Company s grain inventories and the availability of short-term lines of credit enhance the Company s liquidity. In the opinion of management, the Company s liquidity is adequate to meet short-term and long-term needs.

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Contractual Obligations

Future payments due under contractual obligations at December 31, 2005 are as follows:

Contractual Obligations (in thousands)	Payments Due by Period				
	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
Long-term debt	$ 9,840	$ 18,808	$27,879	$32,397	$ 88,924
Long-term debt non-recourse	19,641	26,143	26,185	36,386	108,355
Capital lease obligations	70	245			315
Operating leases	18,569	33,496	25,423	16,820	94,308
Purchase commitments (a)	223,529	28,504			252,033
Other long-term liabilities (b)	6,207	2,398	2,438	6,985	18,028
Total contractual cash obligations	$277,856	$109,594	$81,925	$92,588	$561,963

(a) Includes the value of purchase obligations in the Company s operating units, including $217.3 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. See narrative description of business for the Agriculture Group in Item 1 for further discussion.

(b) 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 2010 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.

The Company had standby letters of credit outstanding of $18.2 million at December 31, 2005 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 6,626 railcars and 30 locomotives that the Company leases from financial intermediaries. See Off-Balance Sheet Transactions.

The Company is subject to various loan covenants as highlighted previously. Although the Company is and has been in compliance with its covenants, noncompliance could result in default and acceleration of long-term debt payments. The Company does not anticipate noncompliance with its covenants.

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Off-Balance Sheet Transactions

The Company s Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. The Company leases railcars from financial intermediaries through sale-leaseback transactions, the majority of which involve operating leasebacks. Railcars owned by the Company, or leased by the Company from a financial intermediary, are generally leased to a customer under an operating lease. The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary, and assigns the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, and receives a fee for such services. On most of the railcars and locomotives, the Company holds an option to purchase these assets at the end of the lease.

The following table describes the railcar and locomotive positions at December 31, 2005.

Method of Control	Financial Statement	Number
Owned-railcars available for sale	On balance sheet current	388
Owned-railcar assets leased to others	On balance sheet non-current	10,814
Railcars leased from financial intermediaries	Off balance sheet	6,626
Railcars non-recourse arrangements	Off balance sheet	1,535
Total Railcars		19,363
Locomotive assets leased to others	On balance sheet non-current	22
Locomotives leased from financial intermediaries under limited recourse arrangements	Off balance sheet	30
Locomotives non-recourse arrangements	Off balance sheet	44
Total Locomotives		96

In addition, the Company manages approximately 797 railcars for third-party customers or owners for which it receives a fee.

The Company has future lease payment commitments aggregating $77.7 million for the railcars leased by the Company from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding eight years. The majority of these railcars have been leased to customers at December 31, 2005 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, the Company prefers non-recourse lease transactions, whenever possible, in order to minimize its credit risk.

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Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in the Company s 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, the Company follows a policy of hedging its 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) is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. The Company manages this less volatile risk using its daily grain position report to constantly monitor its position relative to the price changes in the market. The Company s accounting policy for its futures and options hedges, as well as the underlying inventory positions and purchase and sale contracts, is to mark them to the market 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 the Company s exposure to market risk of its commodity position (exclusive of basis risk). The Company s 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:

	December 31	
(in thousands)	**2005**	**2004**
Net long position	**$478**	$2,869
Market risk	**48**	287

Interest Rates

The fair value of the Company s long-term debt is estimated using quoted market prices or discounted future cash flows based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. In addition, the Company has derivative interest rate contracts recorded in its balance sheet at their fair value. The fair value of these contracts is estimated based on quoted market termination values. Market

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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:

(in thousands)	December 31 2005	2004
Fair value of long-term debt and interest rate contracts	**$192,844**	$168,668
Fair value in excess of (less than) carrying value	**(4,570)**	(1,443)
Market risk	**4,659**	1,508

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Item 8. Financial Statements and Supplementary Data

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Management s Report on Internal Control Over Financial Reporting

The management of The Andersons, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on the results of this assessment and on those criteria, management concluded that, as of December 31, 2005, the Company s internal control over financial reporting was effective.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
The Andersons, Inc.:

We have completed integrated audits of The Andersons, Inc. s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of The Andersons, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of

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internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Toledo, Ohio

March 14, 2006

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The Andersons, Inc.
Consolidated Statements of Income

(in thousands, except per common share data)	Year ended December 31 2005	2004	2003
Sales and merchandising revenues	**$ 1,296,652**	$ 1,266,932	$ 1,239,005
Cost of sales and merchandising revenues	**1,098,506**	1,077,833	1,074,911
Gross profit	**198,146**	189,099	164,094
Operating, administrative and general expenses	**153,759**	154,895	143,129
Interest expense	**12,079**	10,545	8,048
Other income / gains:			
Other income net	**4,683**	4,973	4,701
Equity in earnings of affiliates	**2,321**	1,471	347
Income before income taxes	**39,312**	30,103	17,965
Income tax provision	**13,225**	10,959	6,264
Net income	**$ 26,087**	$ 19,144	$ 11,701
Per common share:			
Basic earnings	**$ 3.52**	$ 2.64	$ 1.64
Diluted earnings	**$ 3.39**	$ 2.55	$ 1.59
Dividends paid	**$ 0.33**	$ 0.305	$ 0.28

The Notes to Consolidated Financial Statements are an integral part of these statements.

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The Andersons, Inc.
Consolidated Balance Sheets

(in thousands)	December 31 2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,876**	$ 8,439
Restricted cash	**3,936**	1,532
Accounts and notes receivable:		
Trade receivables, less allowance for doubtful accounts of $2,106 in 2005; $2,136 in 2004	**74,436**	64,458
Margin deposits	**8,855**	1,777
	83,291	66,235
Inventories	**240,806**	251,428
Railcars available for sale	**5,375**	6,937
Deferred income taxes	**2,087**	2,650
Prepaid expenses and other current assets	**23,170**	21,072
Total current assets	**372,541**	358,293
Other assets:		
Pension asset	**10,130**	6,936
Other assets and notes receivable, less allowance for doubtful notes receivable of $32 in 2005; $173 in 2004	**8,393**	10,464
Investments in and advances to affiliates	**20,485**	4,037
	39,008	21,437
Railcar assets leased to others, net	**131,097**	101,358
Property, plant and equipment, net	**91,498**	92,510
	$ 634,144	$ 573,598
Liabilities and Shareholders equity		
Current liabilities:		
Notes payable	**$ 12,400**	$ 12,100
Accounts payable for grain	**80,945**	87,322
Other accounts payable	**72,240**	66,208
Customer prepayments and deferred revenue	**53,502**	50,105
Accrued expenses	**27,684**	24,320
Current maturities of long-term debt non-recourse	**19,641**	10,063
Current maturities of long-term debt	**9,910**	6,005
Total current liabilities	**276,322**	256,123
Deferred income and other long-term liabilities	**1,131**	1,213
Employee benefit plan obligations	**14,290**	14,123
Long-term debt non-recourse, less current maturities	**88,714**	64,343
Long-term debt, less current maturities	**79,329**	89,803

Deferred income taxes	**15,475**	14,117
Total liabilities	**475,261**	439,722
Shareholders equity:		
Common shares, without par value, 25,000 shares authorized Issued 8,430 shares at stated value of $0.01 per share	**84**	84
Additional paid-in capital	**70,121**	67,960
Treasury shares, at cost (910 in 2005; 1,077 in 2004)	**(13,195)**	(12,654)
Accumulated other comprehensive loss	**(455)**	(397)
Unearned compensation	**(259)**	(119)
Retained earnings	**102,587**	79,002
	158,883	133,876
	$ 634,144	$ 573,598

The Notes to Consolidated Financial Statements are an integral part of these statements.

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The Andersons, Inc.
Consolidated Statements of Cash Flows

(in thousands)	Year ended December 31 2005	2004	2003
Operating activities			
Net income	**$ 26,087**	$ 19,144	$ 11,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**22,888**	21,435	15,139
Unremitted earnings of affiliates	**(443)**	(854)	(353)
(Gain) loss on disposal of property, plant and equipment	**540**	(431)	(273)
Realized and unrealized gains on railcars and related leases	**(7,682)**	(3,127)	(2,146)
Deferred income taxes	**1,964**	3,184	382
Other	**407**	739	446
Changes in operating assets and liabilities:			
Accounts and notes receivable	**(17,056)**	2,311	(8,814)
Inventories	**10,622**	8,327	(3,480)
Prepaid expenses and other assets	**(4,647)**	(2,731)	(6,266)
Accounts payable for grain	**(6,377)**	(992)	12,893
Other accounts payable and accrued expenses	**11,577**	15,487	24,864
Net cash provided by operating activities	**37,880**	62,492	44,093
Investing activities			
Purchases of property, plant and equipment	**(11,927)**	(13,201)	(11,749)
Purchases of railcars	**(98,880)**	(45,550)	(20,498)
Proceeds from sale or financing of railcars and related leases	**69,070**	45,640	16,710
Investment in affiliate	**(16,005)**	(675)	(1,182)
Change in restricted cash	**(2,404)**	(1,532)	
Proceeds from disposals of property, plant and equipment	**658**	1,386	607
Acquisition of business		(85,078)	
Net cash used in investing activities	**(59,488)**	(99,010)	(16,112)
Financing activities			
Net increase (decrease) in short-term borrowings	**300**	(35,900)	(22,000)
Proceeds from issuance of long-term debt	**2,717**	14,678	2,916
Proceeds from issuance of non-recourse, securitized long-term debt	**46,566**	86,400	
Payments of long-term debt	**(9,286)**	(6,449)	(9,385)
Payments of non-recourse, securitized long-term debt	**(12,617)**	(11,994)	
Change in overdrafts	**887**	(2,307)	3,126
Payment of debt issuance costs	**(268)**	(4,704)	
Proceeds from sale of treasury shares under stock compensation plans	**1,199**	1,004	964
Dividends paid	**(2,453)**	(2,215)	(2,009)
Purchase of treasury shares			(1,244)
Net cash provided by (used in) financing activities	**27,045**	38,513	(27,632)

Increase in cash and cash equivalents	**5,437**	1,995	349
Cash and cash equivalents at beginning of year	**8,439**	6,444	6,095
Cash and cash equivalents at end of year	**$ 13,876**	$ 8,439	$ 6,444

The Notes to Consolidated Financial Statements are an integral part of these statements.

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The Andersons, Inc.
Consolidated Statements of Shareholders Equity

(in thousands, except per share data)	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Total
Balances at January 1, 2003	84	66,662	(12,558)	(815)	(73)	52,465	105,765
Net income						11,701	11,701
Other comprehensive income :							
Cash flow hedge activity				460			460
Comprehensive income							12,161
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of $387 (129 shares)		517	684		(237)		964
Amortization of unearned compensation					190		190
Purchase of treasury shares (100 shares)			(1,244)				(1,244)
Dividends declared ($0.285 per common share)						(2,045)	(2,045)
Balances at December 31, 2003	84	67,179	(13,118)	(355)	(120)	62,121	115,791
Net income						19,144	19,144
Other comprehensive income:							
Cash flow hedge activity				(42)			(42)
Comprehensive income							19,102
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of $1,147 (151 shares)		781	464		(241)		1,004
Amortization of unearned compensation					242		242
Dividends declared ($0.31 per common share)						(2,263)	(2,263)
Balances at December 31, 2004	84	67,960	(12,654)	(397)	(119)	79,002	133,876
Net income						**26,087**	**26,087**
Other comprehensive income:							
Minimum pension liability (net of $61 income tax)				**(106)**			**(106)**
Cash flow hedge activity				**48**			**48**

Comprehensive income							**26,029**
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of $2,569 (168 shares)	**2,161**	**(541)**		**(421)**			**1,199**
Amortization of unearned compensation				**281**			**281**
Dividends declared ($0.335 per common share)						**(2,502)**	**(2,502)**
Balances at December 31, 2005	**$ 84**	**$ 70,121**	**$ (13,195)**	**$ (455)**	**$ (259)**	**$ 102,587**	**$ 158,883**

The Notes to Consolidated Financial Statements are an integral part of these statements.

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The Andersons, Inc.
Notes to Consolidated Financial Statements

1. Basis of Financial Presentation

These consolidated financial statements include the accounts of The Andersons, Inc. and its wholly-owned subsidiaries (the Company). All significant intercompany accounts and transactions are eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid debt instruments purchased with an initial maturity of three months or less. The carrying values of these assets approximate their fair values.

Restricted cash is held as collateral for the non-recourse debt issued in 2004 as well as the $41 million additional non-recourse debt issued in 2005 by TARO I, a wholly owned subsidiary of the Company, described further in Note 8.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and may bear interest if past due. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience by industry. We review our allowance for doubtful accounts quarterly. Past due balances over 90 days and greater than a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis.

Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance sheet credit exposure related to our customers.

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Inventories and Inventory Commitments

Grain inventories include owned bushels of grain, the value of forward contracts to buy and sell grain, and exchange traded futures and option contracts used to hedge the value of both owned grain and forward contracts. Each of these grain inventory components is marked to the market price. The forward contracts require performance in future periods. Contracts to purchase grain from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of grain to processors or other consumers generally do not extend beyond one year. The terms of contracts for the purchase and sale of grain are consistent with industry standards.

All other inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

Investments In and Advances To Affiliates and Related Party Transactions

The Company holds investments in five limited liability companies that are accounted for under the equity method. The Company s equity in these entities is presented at cost plus its accumulated proportional share of income / loss less any distributions it has received. The Company s share of income on its investment in these entities aggregated $2.3 million in 2005, $1.5 million in 2004 and $0.3 million in 2003.

In January 2003, the Company invested $1.2 million in Lansing Grain Company, LLC (LGC) for a 15.1% interest. Lansing Grain Company, LLC was formed in late 2002 and includes the majority of the assets of the Lansing Grain Company. The terms of the Company s investment include options to increase its investment in each of the four years following the initial investment with the potential of attaining majority ownership in 2008. Under this option agreement, the Company contributed an additional $0.7 million in the first quarter of 2004 and $0.9 million in the first quarter of 2005, bringing its ownership up to approximately 29.0%. In January 2006, the Company s ownership interest increased to 36.1%.

The Company invested $13.1 million for a 44% interest in The Andersons Albion Ethanol LLC (TAAE) in the third quarter of 2005. The Company s share of the underlying equity in the net assets of TAAE is $15.1 million. The difference is a result of services contributed by the Company that have been capitalized by TAAE. The Company plans to lease its Albion, Michigan grain facility to the LLC upon completion of a 55 million gallon-per-year ethanol production facility. The Company will operate the ethanol facility under a management contract and provide origination, marketing and risk management services also under contracts with the LLC. In 2005, the Company recognized income of $0.3 million relating to the management agreement noted above.

In 2005, the Company invested $2.0 million for a 7.9% interest in Iroquois Bio-Energy Company LLC (IBEC). The Company holds a contract for the originations of grain into the facility for which it will be separately compensated.

In February 2006, the Company invested $21.0 million for a 37% interest in The Andersons Clymers Ethanol LLC which is constructing a 110 million gallon-per-year ethanol production facility adjacent to the Company s Clymers, Indiana grain facility. Upon completion, the

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Company will operate the ethanol facility under a management agreement contract and provide origination, marketing and risk management services also under contracts with the LLC.

In the ordinary course of business, the Company has related party transactions with its equity method investees. Sales to related parties amounted to $20.0 million, $23.3 million and $15.8 million in 2005, 2004 and 2003 respectively. Purchases from related parties amounted to $0.6 million, $1.3 million and $3.0 million in 2005, 2004 and 2003 respectively. The company recognized lease income on railcars leased to Lansing Grain Company of $0.7 million, $0.5 million and $0.3 million in 2005, 2004 and 2003 respectively.

Derivatives Commodity and Interest Rate Contracts

For the purpose of hedging its market price risk exposure on grain owned and related forward grain purchase and sale contracts, the Company holds regulated commodity futures and options contracts for corn, soybeans, wheat and oats. The Company accounts for all commodity contracts using a daily mark-to-market method, the same method it uses to value grain inventory and forward purchase and sale contracts. Company policy limits the Company s unhedged grain position. While the Company considers its commodity contracts to be effective economic hedges, the Company does not designate or account for its commodity contracts as hedges. Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices or due to sale, maturity or extinguishment of the commodity contract), grain inventories and related forward grain contracts are included in sales and merchandising revenues in the statements of income.

The Company also periodically enters into interest rate contracts to manage interest rate risk on borrowing or financing activities. The Company accounts for long-term interest rate swaps, treasury rate locks and interest rate corridor contracts as cash flow hedges; accordingly, changes in the fair value of the instruments are recognized in other comprehensive income. While the Company considers all of its derivative positions to be effective economic hedges of specified risks, the Company does not designate or account for other open interest rate contracts as hedges. Changes in the market value of all other interest rate contracts are recognized currently in income. Upon termination of a derivative instrument or a change in the hedged item, any remaining fair value recorded on the balance sheet is immediately recorded as interest expense. The deferred derivative gains and losses on closed treasury rate locks and the changes in fair value of the interest rate corridors are reclassified into income over the term of the underlying hedged items, which are either long-term debt or lease contracts.

In 2005, the Company reclassified less than $0.1 million of other comprehensive income into the Rail Group s lease cost of sales under the reclassification policy noted above for amortization of the closed treasury rate locks. In 2004 and 2003, the reclassification was $0.3 and $0.2 million respectively. Less than $0.1 million in each of 2005, 2004 and 2003 was reclassified to interest expense as a result of amortization of other comprehensive income from the change in fair value of the interest rate corridors.

In 2003, the Company entered into Canadian currency forward contracts totaling $13.8 million in anticipation of acquiring a Canadian company. The value of these contracts was included on the balance sheet and marked-to-market and the resulting unrealized gains and losses were included

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in the statement of income. When the acquisition failed to be consummated, these positions were liquidated and the resulting realized gain of $0.4 million was included in other income.

Railcars Available for Sale

The Company s Rail Group purchases, leases, markets and manages railcars for third parties and for internal use. Railcars to which the Company holds title are shown on the balance sheet in one of two categories railcars available for sale or railcar assets leased to others. Railcars that have been acquired but have not been placed in service are classified as current assets and are stated at the lower of cost or market. Railcars leased to others, both on short- and long-term leases, are classified as long-term assets and are depreciated over their estimated useful lives.

Railcars have statutory lives of either 40 or 50 years (measured from the date built) depending on type and year built. Railcars leased to others are depreciated over the shorter of their remaining statutory lives or 15 years. Additional information about the Rail Group s leasing activities is presented in Note 11 to the consolidated financial statements.

Property, Plant and Equipment

Property, plant and equipment is carried at cost. Repairs and maintenance are charged to expense as incurred, while betterments that extend useful lives are capitalized. Depreciation is provided over the estimated useful lives of the individual assets, principally by the straight-line method. Estimated useful lives are generally as follows: land improvements and leasehold improvements 10 to 16 years; buildings and storage facilities 20 to 30 years; machinery and equipment 3 to 20 years; and software 3 to 10 years. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts, with any gain or loss realized upon sale or disposal credited or charged to operations.

Deferred Debt Issue Costs

Costs associated with the issuance of long-term debt are capitalized. These costs are amortized on a straight-line basis over the earlier of the stated term of the debt or the period from the issue date through the first early payoff date without penalty, if any. Capitalized costs associated with the short-term syndication agreement are amortized over the term of the syndication.

Intangible Assets and Goodwill

Intangible assets are recorded at cost, less accumulated amortization. Amortization of intangible assets is provided over their estimated useful lives (generally 5 to 10 years; patents 17 years) on the straight-line method. In accordance with Financial Accounting Standards Board (FASB) Statement No. 142, Goodwill and Other Intangible Assets , goodwill is not amortized but is subject to annual impairment tests, or more often when events or circumstances indicate that the carrying amount of goodwill may not be recoverable. A goodwill impairment loss is recognized to the extent the carrying amount of goodwill exceeds the implied fair value of goodwill. In accordance with FASB No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company assesses long-lived assets, including intangible assets subject to amortization, for impairment on an annual basis, or when events or circumstances indicate that the carrying amount of those assets may not be recoverable. Impairments of intangible assets are

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recognized when the carrying value of the assets are less than the expected cash flows of the assets on an undiscounted basis.

Impairment of Long-lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the assets to the undiscounted future net cash flows the Company expects to generate with the asset. If such assets are considered to be impaired, the Company recognizes impairment expense for the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Accounts Payable for Grain

Accounts payable for grain includes the liability for grain purchases on which price has not been established (delayed price). This amount has been computed on the basis of market prices at the balance sheet date, adjusted for the applicable premium or discount.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company has adopted the disclosure only provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No.148. Accordingly, the Company provides pro forma disclosures assuming that the Company had accounted for its stock-based compensation programs using the fair value method promulgated by Statement No. 123.

(in thousands, except for per share data)	Year Ended December 31		
	2005	**2004**	**2003**
Net income reported	**$ 26,087**	$ 19,144	$ 11,701
Add: Stock-based compensation expense included in reported net income, net of related tax effects	**348**	151	124
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(1,105)**	(677)	(557)
Pro forma net income	**$ 25,330**	$ 18,618	$ 11,268
Earnings per share:			
Basic as reported	**$ 3.52**	$ 2.64	$ 1.64
Basic pro forma	**$ 3.41**	$ 2.57	$ 1.58
Diluted as reported	**$ 3.39**	$ 2.55	$ 1.59
Diluted pro forma	**$ 3.32**	$ 2.51	$ 1.54

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In December 2004, the FASB issued Statement No. 123R (Revised 2004), Share-Based Payment. This standard requires expensing of stock options and other share-based payments and supersedes FASB Statement No. 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. The standard is effective for the Company as of January 1, 2006 and will apply to all awards granted, modified, cancelled or repurchased after that date as well as the unvested portion of prior awards.

Deferred Compensation Liability

Included in accrued expenses are $4.3 million and $3.6 million at December 31, 2005 and 2004, respectively, of deferred compensation for certain employees who, due to Internal Revenue Service guidelines, may not take full advantage of the Company s primary defined contribution plan. Assets funding this plan are marked to market and are equal to the value of this liability. This plan has no impact on income.

Revenue Recognition

Sales of products are recognized at the time title transfers to the customer, which is generally at the time of shipment or when the customer takes possession of goods in the retail stores. Under the Company s mark-to-market method for its grain operations, gross profit on grain sales is recognized when sales contracts are executed. Sales of grain are then recognized at the time of shipment when title to the grain transfers to the customer. Revenues from other grain merchandising activities are recognized as open grain contracts are marked-to-market or as services are provided. Revenues for all other services are recognized as the service is provided. Rental revenues on operating leases are recognized on a straight-line basis over the term of the lease. Sales of railcars to financial intermediaries on a non-recourse basis are recognized as revenue on the date of sale. Sales for these transactions totaled $8.9 million, $3.7 million and $11.9 million in 2005, 2004 and 2003, respectively.

Certain of the Company s operations provide for customer billings, deposits or prepayments for product that is stored at the Company s facilities. The sales and gross profit related to these transactions is not recognized until the product is shipped in accordance with the previously stated revenue recognition policy and these amounts are classified as a current liability titled customer prepayments and deferred revenue.

Sales returns and allowances are provided for at the time sales are recorded. Shipping and handling costs are included in cost of sales. In all cases, revenues are recognized only if collectibility is reasonably assured.

Lease Accounting

The Company accounts for its leases under FASB Statement No. 13, as amended, and related pronouncements.

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The Company s Rail Group leases railcars and locomotives to customers, manages railcars for third parties, and leases railcars for internal use. The Company is an operating lessor of railcars that are owned by the Company, or leased by the Company from financial intermediaries. The Company records lease income for its activities as an operating lessor as earned, which is generally spread evenly over the lease term. Certain of the Company s leases include monthly lease fees that are contingent upon some measure of usage (per diem leases). This monthly usage is tracked, billed and collected by third party service providers and funds are generally remitted to the Company along with usage data three months after they are earned. The Company records lease revenue for these per diem arrangements based on recent historical usage patterns and records a true up adjustment when the actual data is received. Revenues recognized under per diem arrangements totaled $10.5 and $8.4 million, in 2005 and 2004, respectively. There were no per diem arrangements prior to 2004. The Company expenses operating lease payments made to financial intermediaries on a straight-line basis over the lease term.

The Company periodically enters into leases with Rail Group customers that are classified as direct financing capital leases. Although lease terms are not significantly different from other operating leases that the Company maintains with its railcar customers, they qualify as capital leases. For these leases, the net minimum lease payments, net of unearned income is included in prepaid expenses and other current assets for the amount to be received within one year and the remainder in other assets. In 2003, the Company sold all of its direct financing lease receivables to a financial intermediary for $3.1 million and recognized a gain of $1.6 million.

The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to financial intermediaries and assigns the related operating lease on a non-recourse basis. The Company generally provides ongoing railcar maintenance and management services for the financial intermediaries, and receives a fee for such services when earned. On the date of sale, the Company recognizes the proceeds from sales of railcars in non-recourse lease transactions as revenue. Management and service fees are recognized as revenue as the underlying services are provided, which is generally spread evenly over the lease term.

The Company has financed the cost of certain railcar assets through leases with financial intermediaries. The terms of these leases required the Company to capitalize the assets and record the net present value of the lease obligations on its balance sheet as long-term borrowings. There was no gain or loss on these financing transactions. These obligations are included with the Company s long-term debt as described in Note 8 to the consolidated financial statements. The railcars under these leases are being depreciated to their residual value over the term of the lease. Details of the book value of the railcars are included in Note 5 to the consolidated financial statements.

Income Taxes

Income tax expense for each period includes taxes currently payable plus the change in deferred income tax assets and liabilities. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws governing periods in which the differences are expected to reverse. The Company evaluates the realizability of deferred tax assets and provides a valuation allowance for

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amounts that management does not believe are more likely than not to be recoverable, as applicable.

Advertising

Advertising costs are expensed as incurred. Advertising expense of $3.9 million, $4.3 million and $3.6 million in 2005, 2004, and 2003, respectively, is included in operating, administrative and general expenses.

Earnings per Share

Basic earnings per share is equal to net income divided by weighted average shares outstanding. Diluted earnings per share is equal to basic earnings per share plus the incremental per share effect of dilutive options, restricted shares and performance share units.

	Year ended December 31		
(in thousands)	**2005**	**2004**	**2003**
Weighted average shares outstanding basic	**7,421**	7,246	7,141
Unvested restricted shares and shares contingently issuable upon exercise of options	**284**	252	199
Weighted average shares outstanding diluted	**7,705**	7,498	7,340

Diluted earnings per share for the year ended December 31, 2005 excludes the impact of approximately one thousand employee stock options, as such options were antidilutive. There were no such antidilutive options in 2004 and 2003.

New Accounting Standards

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. This standard provides guidance on the recognition of a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably assured. This standard is effective no later than the end of fiscal years ending after December 15, 2005. The Company has adopted this standard for its fiscal year ending December 31, 2005. This standard does not have a material impact to the Company s financial statements.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FAS No. 3. This standard requires retrospective application to prior period financial statements for changes in accounting principles. This standard also provides guidance on reporting the correction of an error by requiring the restatement of previously issued financial statements. This standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will be adopting this new standard beginning January 1, 2006. This standard is not expected to have a material impact on the Company s financial statements.

Reclassifications

Certain amounts in the 2004 and 2003 financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on net income or shareholders equity as previously presented.

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3. Business Combinations

In February 2004, the Company acquired used railcar rolling stock and leasing assets (railcars and a limited number of locomotives) from Railcar Ltd. and Progress Rail Services Corporation, both of which are part of Progress Energy, Inc., for $82.1 million plus $1.6 million directly to a financial institution for the exercise of a purchase option assigned to the Company by the sellers and $1.4 million in acquisition costs. The acquisition was financed primarily with long-term borrowings secured solely by the railcar rolling stock and current and future leases. The acquisition was accounted for under the purchase method of accounting, and the results of operations have been included in the consolidated statements of income from February 12, 2004. The allocation of cost to the acquired assets (in thousands) is as follows:

Railcar assets leased to others	$ 75,405
Railcars available for sale	6,497
Intangible assets (primarily customer lists)	3,620
Residual value guarantee liabilities assumed	(444)
Total cost of acquired assets	$ 85,078

The acquisition costs have been allocated to intangible assets and railcars on the basis of appraised value. Intangible assets will be amortized over 5 years. Railcar assets leased to others are depreciated over the shorter of their remaining useful life, which is limited by a statutory life of 40 or 50 years (measured from the date built) depending on car type and when built, or 15 years. Railcars available for sale are not depreciated as they are not productive assets but they are stated at the lower of cost or market value. The assets acquired are located in the United States, Canada and Mexico.

All of the debt and assets are held by three bankruptcy-remote entities that are wholly-owned by TOP CAT Holding Company LLC, a wholly-owned subsidiary of the Company. The debt holders have recourse only to the assets of those bankruptcy remote entities. These entities are also governed by an indenture agreement. Wells Fargo Bank, N.A. serves as Indenture Trustee. The Company serves as manager of the railcar assets and servicer of the leases for the bankruptcy-remote entities. The Indenture Trustee ensures that the bankruptcy remote entities are managed in accordance with the Indenture and all payees (both service providers and creditors) of the bankruptcy-remote entities are paid in accordance to the payment priority specified within the Indenture.

If the acquisition had taken place on January 1, 2003, pro forma revenues (unaudited) would have been $1,277.9 million and $1,270.6 million for 2004 and 2003, respectively. The business has been integrated into the Company s Rail Group and has resulted in significantly different cost and expense structures. Therefore, pro forma operating income, net earnings and earnings per common share are not presented as they are not meaningful.

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4. Insurance Recoveries

On July 1, 2005, two explosions and a resulting fire occurred in a grain storage and loading facility operated by the Company and located on the Maumee River in Toledo, Ohio. There were no injuries; however, a portion of the grain at the facility was destroyed along with damage to a portion of the storage capacity and the conveyor systems. The facility, although leased, was insured by the Company for full replacement cost that also includes coverage for inventories and business interruption with a total deductible of $0.25 million. The Company is continuing demolition and site clean-up and has begun the full repair of the facility. The Company anticipates insurance recoveries for property damage, business interruption and extra expenses incurred. The majority of the insurance proceeds will not be available to the Company until 2006, while business losses were partially incurred in 2005. As of December 31, 2005, the Company s costs of $2.9 million related to clean up and emergency expenses and $0.8 million in inventory losses (after deductible) have been funded by the insurance company with a $2 million advance.

Additional property losses occurred in the third quarter of 2005. There was the loss of a tank of corn cobs due to an August fire in Maumee, Ohio. There was also a loss of certain inventory and equipment destroyed by Hurricane Katrina at the Mississippi rail shop as well as a potential impact on lease income for the Rail Marketing operations. Expense recorded in 2005 for these two events approximates $0.6 million and less than $0.1 million respectively. To date, no proceeds have been received from insurance for these losses and the Company has not yet determined whether these two events will be covered.

5. Details of Certain Financial Statement Accounts

Major classes of inventories are as follows:

	December 31	
(in thousands)	**2005**	**2004**
Grain	**$ 143,442**	$ 146,912
Agricultural fertilizer and supplies	**35,442**	37,604
Lawn and garden fertilizer and corncob products	**31,280**	36,885
Retail merchandise	**27,189**	28,099
Railcar repair parts	**3,177**	1,653
Other	**276**	275
	$ 240,806	$ 251,428

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The Company s intangible assets are included in Other assets and notes receivable and are as follows:

(in thousands)	Group	Original Cost	Accumulated Amortization	Net Book Value
December 31, 2005				
Amortized intangible assets				
Trademarks / noncompete agreements / customer lists and other acquired intangibles	Turf & Specialty	**$ 3,988**	**$ 3,988**	**$**
Acquired customer list	Rail	**$ 3,462**	**$ 1,226**	**$ 2,236**
Patents and other	Various	**277**	**131**	**146**
		$ 7,727	**$ 5,345**	**$ 2,382**
December 31, 2004				
Amortized intangible assets				
Trademarks / noncompete agreements / customer lists and other acquired intangibles	Turf & Specialty	$ 3,988	$ 3,656	$ 332
Acquired customer list	Rail	3,462	575	2,887
Patents and other	Various	267	97	170
		$ 7,717	$ 4,328	$ 3,389

Amortization expense for intangible assets was $1.0 million, $1.4 million and $0.8 million for 2005, 2004 and 2003, respectively. Expected aggregate annual amortization is as follows: 2006 through 2008 $0.7 million each; $0.1 million for 2009; and less than $0.1 million for 2010.

The Company also has goodwill of $1.3 million included in other assets and notes receivable. There has been no change in goodwill for any of the years presented. Goodwill includes $0.6 million in the Agriculture Group and $0.7 million the Turf & Specialty Group.

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

(in thousands)	December 31 2005	2004
Land	**$ 12,154**	$ 11,961
Land improvements and leasehold improvements	**32,265**	30,967
Buildings and storage facilities	**104,656**	102,681
Machinery and equipment	**128,276**	126,510
Software	**6,652**	6,211
Construction in progress	**1,183**	1,305
	285,186	279,635
Less accumulated depreciation and amortization	**193,688**	187,125
	$ 91,498	$ 92,510

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Depreciation expense on property, plant and equipment amounted to $11.7 million and $12.2 million in 2005 and 2004 respectively.

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

(in thousands)	December 31 2005	2004
Railcar assets leased to others	**$ 153,058**	$ 115,285
Less accumulated depreciation	**21,961**	13,927
	$ 131,097	$ 101,358

The Company enters into sale-leaseback transactions with financial institutions which are generally structured as operating leases. Certain of the Company s sale-leaseback transactions, however, require accounting as capital leases due to terms of the arrangements. At December 31, 2005, there were assets with a cost of $0.4 million and accumulated amortization of less than $0.1 million included in Rail assets leased to others. At December 31, 2004, assets under capital lease with a cost of $4.2 million and accumulated amortization of $0.7 million were included in Rail assets leased to others. Depreciation expense on railcar assets leased to others amounted to $9.4 million and $7.6 million in 2005 and 2004 respectively.

6. Restructuring

In the third quarter of 2005, the Board of Directors approved a restructuring within the Company s Turf & Specialty Group. The Group s Lawn business unit was re-focused on the professional market and limited product lines in the consumer and industrial markets. The Group s Cob business shut down certain assets in Maumee, Ohio, and transferred operations to a different facility. To date, these restructuring actions have resulted in the write-down of assets and the elimination of certain positions. The restructuring has resulted in pre-tax charges to expense for fixed asset write-downs of $0.5 million and one-time termination benefits of $0.7 million or $0.11 per share on an after-tax basis for the 2005 calendar year. Following are details of the restructuring liability account:

(in thousands)	12/31/2004 Balance	Charged to expense	Cash payments/Asset Write-downs	12/31/2005 Balance
Fixed Asset Write-downs	$	$ 465	$ (465)	$
One-time termination benefits	$	$ 748	$ (706)	$ 42
Total	$	$ 1,213	$ (1,171)	$ 42

7. Short-Term Borrowing Arrangements

The Company maintains a borrowing arrangement with a syndicate of banks. The current arrangement, which was initially entered into in 2002 and renewed in September 2005 provides the Company with $100 million in short-term lines of credit and an additional $100 million in a

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three-year line of credit. In addition, the amended agreements include a flex line allowing the Company to increase the available short-term line by $50 million. Short-term borrowings under this arrangement totaled $12.4 and $12.1 million at December 31, 2005 and 2004, respectively. The borrowing arrangement terminates on September 30, 2006 but allows for indefinite renewals at the Company s option and as long as certain covenants are met. Management expects to renew the arrangement prior to its termination date. Borrowings under the lines of credit bear interest at variable interest rates, which are based on LIBOR, the prime rate or the federal funds rate, plus a spread. The terms of the borrowing agreement provide for annual commitment fees. The following information relates to short-term borrowings:

		December 31	
(in thousands, except percentages)	**2005**	**2004**	**2003**
Maximum amount borrowed	**$ 119,800**	$ 188,500	$ 127,200
Weighted average interest rate	**3.78%**	1.91%	2.07%

8. Long-Term Debt and Interest Rate Contracts

Recourse Debt

Long-term debt consists of the following:

	December 31	
(in thousands, except percentages)	**2005**	**2004**
Note payable, 5.55%, payable $143 monthly, remainder due 2012	**$ 15,351**	$ 16,185
Note payable, 6.95%, payable $317 quarterly, remainder due 2010	**12,343**	13,611
Note payable, 5.55%, payable $291 quarterly, remainder due 2016	**9,342**	9,959
Note payable, 4.64%, payable $74 monthly, due 2009	**4,364**	5,385
Note payable, 4.60%, payable $235 quarter, due 2010	**6,583**	7,202
Industrial development revenue bonds:		
Variable rate (3.55% at December 31, 2005), due 2019	**4,650**	4,650
Variable rate (3.70% at December 31, 2005), due 2025	**3,100**	3,100
Liabilities related to acquisition, discounted at 8.25%, due in variable quarterly installments through 2005		1,414
Debenture bonds, 5.00% to 8.00%, due 2006 through 2014	**32,875**	30,466
Obligations under capital lease	**315**	3,472
Other notes payable and bonds	**316**	364
	89,239	95,808
Less current maturities	**9,910**	6,005
	$ 79,329	$ 89,803

In connection with its short-term borrowing agreement with a syndicate of banks, the Company obtained an unsecured $100.0 million long-term line of

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credit. Borrowings under this line of credit will bear interest based on LIBOR, plus a spread. The long-term line of credit expires on September 30, 2008, but may be renewed by the Company for an additional three years as long as covenants are met. After considering its standby letters of credit totaling $18.3 million at December 31, 2005, the Company had available borrowing capacity under this facility of $81.8 million.

The notes payable due 2010, 2012 and 2016 and the industrial development revenue bonds are collateralized by first mortgages on certain facilities and related equipment with a book value of $29.7 million. The note payable due 2009 is collateralized by railcars with a book value of $2.5 million.

The Company has $5.1 million of five year term debenture bonds bearing interest at 5.0% and $5.4 million of ten year term debenture bonds bearing interest at 6.0% available for sale under an existing registration statement.

The Company s short-term and long-term borrowing agreements include both financial and non-financial covenants that require the Company, among other things, to:

maintain minimum working capital of $55.0 million and net equity (as defined) of $80.0 million;

limit the addition of new long-term recourse debt;

limit its unhedged grain position to 2.0 million bushels; and

restrict the amount of dividends paid.

The Company was in compliance with all covenants at December 31, 2005 and 2004.

The aggregate annual maturities of long-term debt, including capital lease obligations, are as follows: 2006 $9.9 million; 2007 $9.5 million; 2008 $9.5 million; 2009 $23.9 million; 2010 $4.0 million; and $32.4 million thereafter.

Non-Recourse Debt

In 2005, the Company issued $47 million in additional non-recourse debt. In the fourth quarter of 2005, The Andersons Rail Operating I (TARO I), a wholly-owned subsidiary of the Company, issued $41 million in non-recourse long-term debt for the purpose of purchasing 2,293 railcars and related leases from the Company. The Company serves as manager of the railcar assets and servicer of the related leases. TARO I is a bankruptcy remote entity and the debt holders have recourse only to the assets and related leases of TARO I which had a book value of $36.3 million at December 31, 2005.

In 2004, as discussed in Note 3, the Company formed three bankruptcy-remote entities that are wholly-owned by TOP CAT Holding Company LLC, which is a wholly-owned subsidiary of the Company. These bankruptcy-remote entities issued $86.4 million of debt. The debt holders have recourse only to the assets including any related leases of those bankruptcy remote entities. These entities are also governed by an indenture agreement. Wells Fargo Bank, N.A. serves as Indenture Trustee. The Company serves as manager of the railcar assets and servicer of the leases for the bankruptcy-remote entities. The Indenture Trustee ensures that the bankruptcy remote entities are managed in accordance with the Indenture and all payees (both service

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providers and creditors) of the bankruptcy-remote entities are paid in accordance to the payment priority specified within the Indenture.

The Class A debt is insured by Municipal Bond Insurance Association. Financing costs of $4.7 million were incurred to issue the debt. These costs are being amortized over the expected debt repayment period, as described below. The book value of the railcar rolling stock at December 31, 2005 was $67.4 million. All of the debt issued has a final stated maturity date of 2019, however, it is anticipated that repayment will occur between 2012 and 2016 based on debt amortization requirements of the Indenture. The Company also has the ability to redeem the debt, at its option, beginning in 2011. This financing structure places a limited life on the created entities, limits the amount of assets that can be sold by the manager, requires variable debt repayment on asset sales and does not allow for new asset purchases within the existing bankruptcy remote entities.

The Company s non-recourse long-term debt consists of the following:

(in thousands, except percentages)	December 31 2005	2004
Class A-1 Railcar Notes due 2019, 2.79%, payable $600 monthly	**$ 17,000**	$ 24,200
Class A-2 Railcar Notes due 2019, 4.57%, payable $600 monthly beginning after Class A-1 notes have been retired	**21,000**	21,000
Class A-3 Railcar Notes due 2019, 5.13%, payable $183 monthly	**20,075**	24,456
Class B Railcar Notes due 2019, 14.00% payable $50 beginning August 2004	**4,150**	4,750
Note Payable due 2013, 5.91%, payable $438 monthly	**40,950**	
Note Payable due 2014, 6.37%, payable $28 monthly	**2,696**	
Notes Payable due 2007-2011, 5.89%-7.27%, payable $60 monthly	**2,484**	
	108,355	74,406
Less current maturities	**19,641**	10,063
	$ 88,714	$ 64,343

The Company s non-recourse debt carries separate financial covenants relating solely to the collateralized assets. Triggering one or more of these covenants for a specified period of time, could require a faster amortization of the outstanding debt. These covenants include, but are not limited to, the following:

Monthly average lease rate greater than or equal to $200

Monthly utilization rate greater than or equal to 80%

Coverage ratio greater than or equal to 1.15

Class A notes balance less than or equal to 90% of the stated value (as assigned in the debt documents) of railcars.

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The Company was in compliance with these covenants at December 31, 2005.

The aggregate annual maturities of non-recourse, long-term debt are as follows: 2006 $19.6 million; 2007 $13.2 million; 2008 $13.0 million; 2009 $12.9 million; 2010 $13.3 million; and $36.4 million thereafter. The 2006 maturities include an accelerated paydown of $6.2 million that was paid in January 2006 related to railcars that were sold by the Company at the end of December 2005.

Interest Paid and Interest Rate Derivatives

Interest paid (including interest on short-term lines of credit) amounted to $11.8 million, $10.1 million and $7.8 million in 2005, 2004 and 2003, respectively.

The Company has entered into derivative interest rate contracts to manage interest rate risk on short-term borrowings. The contracts convert variable interest rates to short-term fixed rates, consistent with projected borrowing needs. The Company had one open interest rate swap with a notional amount of $10.0 million at December 31, 2005. This swap fixes interest at 3% through March 2006 with an option to extend to October 2006. The Company also had an interest rate cap with a notional amount of $10.0 million which caps interest rates at 3% through March 2006. In addition, at December 31, 2005, the Company has entered into two forward starting collars with notional amounts of $10.0 million each beginning October 2006 which sets the cap and floor interest rates at 4% and 3% respectively through April 2007. Although these instruments are intended to hedge interest rate risk on short-term borrowings, the Company has elected not to account for them as hedges. Changes in their fair value are included in interest expense in the statement of income.

The Company has also entered into various derivative financial instruments to hedge the interest rate component of long-term debt and lease obligations. The following table displays the contracts open at December 31, 2005.

Interest Rate Hedging Instrument	Year Entered	Year of Maturity	Initial Notional Amount (in millions)	Hedged Item	Interest Rate
Swap	2005	2016	$ 4.0	Interest rate component of an operating lease not accounted for as a hedge	5.23%
Corridor	2002	2006	$ 4.8	Interest rate component of a railcar debt financing not accounted for as a hedge	4.25% - 7.00%
Corridor	2002	2007	$ 4.3	Interest rate component of a railcar sale-leaseback transaction	4.25% - 7.00%
Cap	2003	2008	$ 1.4	Interest rate component of an operating lease not accounted for as a hedge	3.95%

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The initial notional amounts on the above instruments amortize monthly in the same manner as the underlying hedged item. Changes in the fair value of the cap are included in interest expense in the statements of income, as they are not accounted for as cash flow hedges. The interest rate corridor expiring 2006 is no longer considered a hedge due to a repurchase of the underlying lease transaction. The interest rate corridor expiring in 2007 is designated as a cash flow hedge with changes in its fair value included as a component of other comprehensive income or loss. Also included in accumulated other comprehensive income are closed treasury rate locks entered into to hedge the interest rate component of railcar lease transactions prior to their closing. The reclassification of these amounts from other comprehensive income into interest or cost of railcar sales occurs over the term of the hedged debt or lease, as applicable.

The fair values of all derivative instruments are included in prepaid expenses, other assets and notes receivable, other accounts payable or other long-term liabilities. The net fair value amount was $0.2 million in 2005 and $0.1 million for each of 2004 and 2003. The mark-to-market effect of long-term and short-term interest rate contracts on interest expense was a $0.1 million interest credit in both 2005 and 2004 and a $0.1 million additional interest expense for 2003. If there are no additional changes in fair value, the Company expects to reclassify $0.1 million from other comprehensive income into interest expense or cost of railcar sales in 2006. Counterparties to the short and long-term derivatives are large international financial institutions.

9. Income Taxes

The income tax provision applicable to continuing operations consists of the following:

	Year ended December 31		
(in thousands)	**2005**	**2004**	**2003**
Current:			
Federal	**$ 8,513**	$ 4,994	$ 5,124
State and local	**1,549**	1,561	758
Foreign	**1,198**	1,220	
	11,260	7,775	5,882
Deferred:			
Federal	**1,850**	2,473	206
State and local	**(639)**	570	176
Foreign	**754**	141	
	1,965	3,184	382
Total:			
Federal	**10,363**	7,467	5,330
State and local	**910**	2,131	934
Foreign	**1,952**	1,361	
	$ 13,225	$ 10,959	$ 6,264

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Income before income taxes from continuing operations consists of the following:

(in thousands)	Year ended December 31 2005	2004	2003
U.S. income	**$ 31,759**	$ 27,070	$ 17,965
Foreign	**7,553**	3,033	
	$ 39,312	$ 30,103	$ 17,965

A reconciliation from the statutory U.S. federal tax rate to the effective tax rate follows:

	Year ended December 31 2005	2004	2003
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in rate resulting from:			
Effect of extraterritorial income exclusion	**(1.4)**	(3.1)	(3.6)
State and local income taxes, net of related federal taxes	**1.0**	4.6	3.4
Other, net	**(1.0)**	(0.1)	0.1
Effective tax rate	**33.6%**	36.4%	34.9%

Income taxes paid in 2005, 2004 and 2003 were $6.9 million, $7.1 million and $5.2 million, respectively.
Significant components of the Company s deferred tax liabilities and assets are as follows:

(in thousands)	December 31 2005	2004
Deferred tax liabilities:		
Property, plant and equipment and railcar assets leased to others	**$ (20,811)**	$ (19,132)
Prepaid employee benefits	**(5,542)**	(4,295)
Deferred income	**(373)**	(566)
Other	**(699)**	(422)
	(27,425)	(24,415)
Deferred tax assets:		
Employee benefits	**8,479**	8,290
Accounts and notes receivable	**778**	888
Inventory	**2,784**	3,228
Investments	**727**	190
Net operating loss carryforwards	**1,043**	945
Deferred foreign taxes	**780**	
Other	**489**	352
Total deferred tax assets	**15,080**	13,893

Valuation allowance	**(1,043)**	(945)
	14,037	12,948
Net deferred tax liability	**$ (13,388)**	$ (11,467)

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In 2004, the Company had recorded a deferred tax asset of $0.1 million, related to the accounting for derivatives under Statement 133. In 2005, minor adjustments were made resulting in a year end deferred tax asset balance of $0.1 million. The net amount of the 2005 adjustments is included in other comprehensive income in the statement of shareholders equity.

On June 20, 2005, the State of Ohio enacted legislation that repealed the Ohio franchise tax, phasing out the tax over five years. As a result, the deferred tax liabilities associated with the State of Ohio were decreased by $0.6 million to reflect the change in tax law.

On December 31, 2005, the Company had $16.0 million in state net operating loss carryforwards that expire from 2015 to 2021. A deferred tax asset of $1.0 million has been recorded with respect to the net operating loss carryforwards. A valuation allowance of $1.0 million has been established against the deferred tax asset because it is unlikely that the Company will realize the benefit of these carryforwards. On December 31, 2004 the Company had recorded a $0.9 million deferred tax asset and a $0.9 million valuation allowance with respect to state net operating loss carryforwards.

We have recorded reserves for tax exposures based on our best estimate of probable and reasonably estimable tax matters. We do not believe that a material additional loss is reasonably possible for tax matters.

10. Stock Compensation Plans

The Company s 2005 Long-Term Performance Compensation Plan dated May 6, 2005 (the LT Plan) authorizes the Board of Directors to grant options performance shares and share awards to employees and outside directors for up to 200 thousand of the Company s common shares. Additionally, options and share awards (totaling 210 thousand common shares) that remained available under The Andersons, Inc. Amended and Restated Long-Term Performance Plan (the Prior Plan) upon that plans termination on May 7, 2005 have been transferred to the LT Plan. Options granted under the LT Plan and Prior Plan have a maximum term of 10 years. Options granted to outside directors have a fixed term of five years and vest after one year. Options granted to management personnel under the LT Plan have a five-year term and vest 40% immediately, an additional 30% after one year and the remaining 30% after two years. Options granted under the LT Plan are structured as fixed grants with exercise price equal to the market value of the underlying stock on the date of the grant; accordingly, no compensation expense is recognized for these grants.

The LT Plan and Prior Plan permit awards of restricted stock. The Company issued 15 thousand, 15 thousand and 24 thousand restricted shares during 2005, 2004 and 2003, respectively; 20 thousand restricted shares remain outstanding at December 31, 2005. These shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting. Restricted shares vest 50% after one year and the remaining 50% after two years. Restricted shares issued under the LT Plan are recorded at their fair value on the grant date with a corresponding charge to shareholders equity representing the unearned portion of the award. The unearned portion is amortized as compensation expense on a straight-line basis over the related vesting period.

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Compensation expense related to restricted stock issued under the LT Plan amounted to $0.3 million in 2005 and $0.2 million in each of 2004 and 2003.

The LT Plan also permits the awards of Performance Share Units (PSUs). Each PSU gives the participant the right to receive one common share dependent on achievement of specified performance results over a performance period. In 2005, there were 18 thousand PSUs granted with a performance period ending December 31, 2007. There were no PSUs granted prior to 2005. At December 31, 2005, there were 17 thousand PSUs outstanding. Based on the current market price and forecast that the entire 2005 PSU grant will be awarded after the end of the performance period, the company recognized $0.2 million in compensation expense in 2005.

Certain Company executives and outside directors have elected to receive a portion of their cash compensation in common shares or options issued under the LT Plan. These options and restricted stock vest immediately. The options have a ten-year term. There were 2 thousand, 4 thousand and 4 thousand restricted shares issued in lieu of cash compensation in 2005, 2004 and 2003 respectively.

The Company s 2004 Employee Share Purchase Plan (the ESP Plan) allows employees to purchase common shares through payroll withholdings. The Company has registered 272 thousand common shares remaining available for issuance to and purchase by employees under this plan. The ESP Plan also contains an option component. The purchase price per share under the ESP Plan is the lower of the market price at the beginning or end of the year. Employees purchased 19 thousand, 25 thousand and 23 thousand shares under the ESP Plan in 2005, 2004 and 2003, respectively. The Company records a liability for withholdings not yet applied towards the purchase of common stock. No compensation expense is currently recognized for stock purchases or options under the ESP Plan.

Pro forma information regarding net income and earnings per share required by SFAS No. 123, is included in Note 2 to the consolidated financial statements and is determined as if the Company accounted for its employee stock compensation under the fair value method. The fair value of each option grant is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions by year.

	2005	**2004**	**2003**
Long Term Performance Compensation Plan			
Risk free interest rate	**4.18%**	3.25%	2.78%
Dividend yield	**1.10%**	1.88%	2.20%
Volatility factor of the expected market price of the Company s common shares	**.228**	.308	.298
Expected life for the options (in years)	**5.00**	5.00	5.00
Employee Share Purchase Plan			
Risk free interest rate	**2.75%**	1.29%	1.32%
Dividend yield	**1.10%**	1.88%	2.20%
Volatility factor of the expected market price of the Company s common shares	**.228**	.308	.298
Expected life for the options (in years)	**1.00**	1.00	1.00

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For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period.

A summary of the Company s stock option activity and related information for the years ended December 31 follows:

	Long-Term Performance Compensation Plan					
(common shares in thousands)	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**754**	**$ 11.81**	785	$ 9.94	808	$ 9.37
Granted	**192**	**31.05**	192	15.97	205	12.70
Exercised	**(246)**	**9.68**	(216)	8.76	(205)	10.54
Expired/forfeited	**(3)**	**31.00**	(7)	10.27	(23)	9.23
Outstanding at end of year	**697**	**17.76**	754	11.81	785	9.94

	2005	2004	2003
Weighted average fair value of options granted during year	**$ 7.77**	$ 4.26	$ 3.07
Options exercisable at end of year	**523**	576	611
Weighted average exercise price of options exercisable at end of year	**$ 14.83**	$ 10.84	$ 9.34

Options available for grant at December 31, 2005	**410**
Price range of options at December 31, 2005	**$8.875 to $39.86**
Weighted average remaining Contractual life (in years)	**2.78**

The following table provides additional information about outstanding options categorized by exercise price.

(options in thousands)

Range of Exercise Price	Outstanding Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life	Vested Options	Weighted Average Exercise Price of Vested Options
$8.875 $9.125	59	$ 8.90	1.90	59	$ 8.90
$10.00 $10.375	102	$ 10.01	1.52	102	$ 10.01
$12.70	170	$ 12.70	2.00	170	$ 12.70

$15.967		178	$	15.97	3.01	126	$	15.97
$31.00	$39.86	188	$	31.05	4.25	66	$	31.00
		697				523		

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In December 2004, the FASB issued Statement No. 123R (Revised 2004), Share-Based Payment. This standard requires expensing of stock options and other share-based payments and supersedes FASB Statement No. 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. The standard is effective for the Company as of January 1, 2006 and will apply to all awards granted, modified, cancelled or repurchased after that date as well as the unvested portion of prior awards.

11. Other Commitments and Contingencies

Railcar leasing activities:

The Company is a lessor of railcars. The majority of railcars are leased to customers under operating leases that may be either net leases or full service leases under which the Company provides maintenance and fleet management services. The Company also provides such services to financial intermediaries to whom it has sold railcars and locomotives in non-recourse lease transactions. Fleet management services generally include maintenance, escrow, tax filings and car tracking services.

Many of the Company s leases provide for renewals. The Company also generally holds purchase options for railcars it has sold and leased-back from a financial intermediary, and railcars sold in non-recourse lease transactions.

Lease income from operating leases to customers (including month to month and per diem leases) and rental expense for railcar leases were as follows:

	Year ended December 31		
(in thousands)	**2005**	**2004**	**2003**
Rental and service income operating leases	**$ 62,351**	$ 43,306	$ 12,653
Rental expense	**$ 15,709**	$ 12,150	$ 5,108

Future minimum rentals and service income for all noncancelable railcar operating leases greater than one year are as follows:

(in thousands)	**Future Rental and Service Income Operating Leases**	**Future Minimum Rental Expense**
Year ended December 31		
2006	$ 50,501	$ 15,793
2007	39,475	15,888
2008	29,112	13,368
2009	19,274	11,933
2010	10,541	10,049
Future years	20,063	10,638
	$ 168,966	$ 77,669

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Other Leasing Activities:

The Company, as a lessee, leases real property, vehicles and other equipment under operating leases. Certain of these agreements contain lease renewal and purchase options. The Company also leases excess property to third parties. Net rental expense under these agreements was $3.8 million, $4.2 million and $4.9 million in 2005, 2004 and 2003, respectively. Future minimum lease payments (net of sublease income commitments) under agreements in effect at December 31, 2005 are as follows: 2006 $2.1 million; 2007 $2.0 million; 2008 $1.6 million; 2009 $1.6 million; 2010 $1.7 million; and $6.2 million thereafter.

In the third quarter of 2005, the Company entered into a direct financing lease with an ethanol entity in which the Company is a minority investor. The Company will lease its Albion, Michigan grain facility (land, buildings and equipment) to the entity for a term of 50 years with a base rent of $650,000 in year one plus an inflation adjustment for subsequent years. The lease will commence upon completion of an ethanol plant being constructed by the entity adjacent to the Company s grain facility.

Other Commitments:

The Company has agreed to fund a research and development effort at a rate of $0.2 million per year for five years, ending June 30, 2007. The commitment may be satisfied, in part, by qualifying internal costs or expenditures to third parties.

The Company has from time to time entered into agreements which resulted in indemnifying third parties against certain potential liabilities. Management believes that judgments, if any, related to such agreements would not have a material effect on the Company s financial condition, results of operations or cash flow.

12. Employee Benefit Plan Obligations

The Company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The Company s expense for its defined contribution plans amounted to $1.5 million in 2005 and $1.4 million in each of 2004 and 2003. The Company also provides certain health insurance benefits to employees, including retirees.

Defined Benefit Plans:

The Company has both funded and unfunded noncontributory defined benefit pension plans that cover substantially all of its employees. The plans provide defined benefits based on years of service and average monthly compensation for the highest five consecutive years of employment within the final ten years of employment (final average pay formula).

Subsequent to December 31, 2005, the Company amended its defined benefit pension plans effective January 1, 2007. These amendments include the following provisions:

Benefits for the retail line of business employees will be frozen at December 31, 2006.

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Benefits for the non-retail line of business employees will be modified at December 31, 2006 with the benefit beginning January 1, 2007 to be calculated using a new career average formula.

In the case of all employees, compensation for the years 2007-2012 will be includable in the final average pay formula calculating the final benefit earned for years prior to December 31, 2006.

Consistent with these amendments, the Company expects to enhance its contributions to defined contribution plans beginning in 2007.

The Company also has postretirement health care benefit plans covering substantially all of its full time employees hired prior to January 1, 2003. These plans are generally contributory and include a limit on the Company s share for most retirees.

The measurement date for all plans is December 31.

Obligation and Funded Status

Following are the details of the liability and funding status of the pension and postretirement benefit plans:

(in thousands)	Pension Benefits		Postretirement Benefits	
	2005	**2004**	**2005**	**2004**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 49,539**	$ 41,288	**$ 23,636**	$ 21,428
Correction of prior errors	**2,236**		**(937)**	
Service cost	**3,611**	3,124	**458**	623
Interest cost	**2,947**	2,488	**1,117**	1,296
Actuarial (gains)/losses	**8,091**	3,645	**(1,879)**	1,827
Plan amendment				(712)
Participant contributions			**210**	187
Benefits paid	**(2,838)**	(1,006)	**(1,570)**	(1,013)
Benefit obligation at end of year	**63,586**	49,539	**21,035**	23,636
Change in plan assets				
Fair value of plan assets at beginning of year	**38,374**	32,520		
Actual gains on plan assets	**3,136**	3,432		
Company contributions	**9,538**	3,428	**1,360**	826
Participant contributions			**210**	187
Benefits paid	**(2,838)**	(1,006)	**(1,570)**	(1,013)
Fair value of plan assets at end of year	**48,210**	38,374		
Underfunded status of plans at end of year	**(15,376)**	(11,165)	**(21,035)**	(23,636)
Unrecognized net actuarial loss	**24,675**	16,706	**13,175**	16,985
Unrecognized prior service cost	**72**	37	**(5,080)**	(6,238)
Prepaid (accrued) benefit cost	**$ 9,371**	$ 5,578	**$ (12,940)**	$ (12,889)

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The correction of prior errors results from the discovery in the first quarter of 2005 of errors in the actuarial valuations used to determine pension and postretirement benefit obligations and expense which resulted in the understatement of operating, administrative and general expenses during the years 2001 through 2004. These errors resulted from the miscalculation of the value of certain benefits provided under the Company s pension plans and incorrect assumptions with respect to rates of retirement used in the pension plans and the postretirement plan. The entire correction was recorded in the first quarter of 2005 on the basis that it was not material to the current or prior periods. This additional expense represents the cumulative impact of the errors and, through adjustment in the first quarter of 2005, correctly states assets and liabilities with respect to the pension and postretirement benefit plans.

Amounts recognized in the consolidated balance sheets at December 31 consist of:

(in thousands)	Pension Benefits		Postretirement Benefits	
	2005	**2004**	**2005**	**2004**
Accrued expenses	**$**	$ (549)	**$**	$
Pension asset	**10,130**	6,127		
Accumulated OCI	**167**			
Employee benefit plan obligations	**(926)**		**(12,940)**	(12,889)
Net amount recognized	**$ 9,371**	$ 5,578	**$ (12,940)**	$ (12,889)

Obligations and assets at December 31 for all Company defined benefit plans are as follows:

(in thousands)	**2005**	**2004**
Projected benefit obligation	**$ 63,586**	$ 49,539
Accumulated benefit obligation	**$ 46,899**	$ 34,585
Fair value of plan assets	**$ 48,210**	$ 38,374

Amounts applicable to an unfunded Company defined benefit plan with accumulated benefit obligations in excess of plan assets are as follows:

(in thousands)	**2005**	**2004**
Projected benefit obligation	**$ 1,034**	$ 1,098
Accumulated benefit obligation	**$ 926**	$ 704

A change in the additional minimum pension liability of $0.2 million ($0.1 million net of tax) was recorded in other comprehensive income in 2005.

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The combined benefits expected to be paid for all Company defined benefit plans over the next ten years (in thousands) are as follows:

Year	Expected Pension Benefit Payout	Expected Postretirement Benefit Payout
2006	$ 4,770	$ 1,007
2007	5,837	1,071
2008	5,364	1,127
2009	5,660	1,187
2010	5,905	1,251
2011-2015	37,205	6,985

Following are components of the net periodic benefit cost for each year:

	Pension Benefits			Postretirement Benefits		
(in thousands)	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Service cost	**$ 3,611**	$ 3,124	$ 2,684	**$ 458**	$ 623	$ 532
Interest cost	**2,947**	2,488	2,148	**1,117**	1,296	1,266
Expected return on plan assets	**(3,286)**	(2,902)	(2,182)			
Amortization of prior service cost	**11**	26	26	**(473)**	(489)	(489)
Recognized net actuarial loss	**1,386**	999	1,014	**737**	903	852
Current period impact of prior errors	**1,076**			**(429)**		
Benefit cost	**$ 5,745**	$ 3,735	$ 3,690	**$1,410**	$2,333	$2,161

Assumptions

	Pension Benefits			Postretirement Benefits		
Weighted Average Assumptions	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Used to Determine Benefit Obligations at Measurement Date						
Discount rate	**5.50%**	6.00%	6.25%	**5.50%**	6.00%	6.25%
Rate of compensation increases	**4.50%**	4.00%	4.00%			
Used to Determine Net Periodic Benefit Cost for Years ended December 31						
Discount rate	**6.00%**	6.25%	6.75%	**6.00%**	6.25%	6.75%
Expected long-term return on plan assets	**8.75%**	9.00%	9.00%			
Rate of compensation increases	**4.00%**	4.00%	4.00%			

The discount rate for measuring the 2005 benefit obligations was calculated based on projecting future cash flows and aligning each year s cash flows to the Citigroup Pension Discount Curve and then calculating a weighted average discount rate for each plan. The Company has elected to then use the nearest tenth of a percent from this calculated rate.

The expected long-term return on plan assets was determined based on the current asset allocation and historical results from plan inception. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the

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highest rate of return while maintaining risk at acceptable levels and is disclosed in the Plan Assets section of this Note. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio.

Assumed Health Care Cost Trend Rates at Beginning of Year

	2005	**2004**
Health care cost trend rate assumed for next year	**10.5%**	11.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2017**	2017

The assumed health care cost trend rate has a significant effect on the amounts reported for postretirement benefits. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in thousands)	**One-Percentage-Point Increase**	**Decrease**
Effect on total service and interest cost components in 2005	$ (30)	$ 28
Effect on postretirement benefit obligation as of December 31, 2005	(227)	197

To partially fund self-insured health care and other employee benefits, the Company makes payments to a trust. Assets of the trust amounted to $4.9 million and $4.4 million at December 31, 2005 and 2004, respectively, and are included in prepaid expenses and other current assets.

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 this FSP, the Company 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 2005, the Company s actuaries completed their final determination of actuarial equivalency of the Company s postretirement health plan in accordance with these regulations and determined that the Company s 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 this resulted in a reduction of 2005 expense by $0.7 million. The amount recognized as a reduction in 2004 for Medicare Part D actuarially equivalency was less than $0.1 million.

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Plan Assets

The Company s pension plan weighted average asset allocations at December 31 by asset category, are as follows:

Asset Category	2005	2004
Equity securities	**75%**	74%
Debt securities	**23%**	23%
Cash and equivalents	**2%**	3%
	100%	100%

The investment policy and strategy for the assets of the Company s funded defined benefit plan includes the following objectives:

ensure superior long-term capital growth and capital preservation

reduce the level of the unfunded accrued liability in the plan, and

offset the impact of inflation

Risks of investing are managed through asset allocation and diversification and are monitored by the Company s pension committee on a semi-annual basis. Available investment options include U.S. Government and agency bonds and instruments, equity and debt securities of public corporations listed on U.S. stock exchanges, exchange listed U.S. mutual funds investing in equity and debt securities of publicly traded domestic or international companies and cash or money market securities. In order to minimize risk, the Company has placed the following portfolio market value limits on its investments, to which the investments must be rebalanced after each quarterly cash contribution. Note that the single security restriction does not apply to mutual funds.

	Percentage of Total Portfolio Market Value		
	Minimum	Maximum	Single Security
Equity based	60%	80%	<10%
Fixed income based	20%	35%	<5%
Cash and equivalents	1%	5%	<5%

There is no equity or debt of the Company included in the assets of the defined benefit plan.

Cash Flows

The Company expects to make a minimum contribution to the funded defined benefit pension plan of approximately $5.0 million in 2006. The Company reserves the right to contribute more or less than this amount.

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13. Fair Values of Financial Instruments

The fair values of the Company s cash equivalents, margin deposits, short-term borrowings and certain long-term borrowings approximate their carrying values since the instruments are close to maturity and/or carry variable interest rates based on market indices. The Company accounts for investments in affiliates on the equity method. The estimated fair values of these investments have no quoted market price.

Certain long-term notes payable and the Company s debenture bonds bear fixed rates of interest and terms of up to 12 years. Based upon current interest rates offered by the Company on similar bonds and rates currently available to the Company for long-term borrowings with similar terms and remaining maturities, the Company estimates the fair values of its long-term debt instruments outstanding at December 2005 and 2004, as follows:

(in thousands)	**Carrying Amount**	**Fair Value**
2005:		
Long-term notes payable	**$ 47,983**	**$ 46,843**
Long-term notes payable non-recourse	**108,355**	**104,788**
Debenture bonds	**32,875**	**33,012**
	$189,213	**$184,643**
2004:		
Long-term notes payable	$ 53,756	$ 53,781
Long-term notes payable non-recourse	74,406	72,213
Debenture bonds	30,466	31,191
	$158,628	$157,185

14. Business Segments

The Company s operations include four reportable business segments that are distinguished primarily on the basis of products and services offered. The Agriculture Group includes grain merchandising, the operation of terminal grain elevator facilities, the investment in and management of ethanol production facilities and the manufacture and distribution of agricultural inputs, primarily fertilizer, to dealers and farmers. The Rail Group includes the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Turf & Specialty Group includes the production and distribution of turf care and corncob-based products. The Retail Group includes the operation of six large retail stores, a distribution center and a lawn and garden equipment sales and service shop.

Included in Other are the corporate level amounts not attributable to an operating Group and the marketing of the Company s excess real estate.

The segment information below (in thousands) includes the allocation of expenses shared by one or more Groups. Although management believes such allocations are reasonable, the operating information does not necessarily reflect how such data might appear if the segments were operated as separate businesses. Inter-segment sales are made at prices comparable to normal, unaffiliated customer sales. Operating income (loss) for each Group is based on net sales and merchandising revenues plus identifiable other income less all identifiable operating expenses,

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including interest expense for carrying working capital and long-term assets. Capital expenditures include additions to property, plant and equipment, software and intangible assets.

2005	Agriculture	Rail	Turf & Specialty	Retail	Other	Total
Revenues from external customers	**$899,329**	**$ 92,009**	**$122,561**	**$182,753**	**$**	**$1,296,652**
Inter-segment sales	**9,148**	**479**	**1,184**			**10,811**
Other income (net)	**1,962**	**642**	**589**	**646**	**844**	**4,683**
Equity in net income of investees equity method	**2,321**					**2,321**
Interest expense (income) (a)	**5,773**	**4,847**	**1,637**	**1,133**	**(1,311)**	**12,079**
Operating income (loss)	**22,974**	**22,822**	**(3,044)**	**2,921**	**(6,361)**	**39,312**
Identifiable assets	**311,909**	**175,516**	**61,058**	**50,830**	**34,831**	**634,144**
Capital expenditures	**8,754**	**786**	**387**	**1,161**	**839**	**11,927**
Railcar expenditures		**98,880**				**98,880**
Investment in affiliate	**16,005**					**16,005**
Depreciation and amortization	**6,142**	**11,119**	**2,230**	**2,133**	**1,264**	**22,888**

2004	Agriculture	Rail	Turf & Specialty	Retail	Other	Total
Revenues from external customers	$901,139	$ 59,283	$127,814	$178,696	$	$1,266,932
Inter-segment sales	9,504	495	1,363			11,362
Other income (net)	2,073	962	596	756	586	4,973
Equity in net income of investees equity method	1,471					1,471
Interest expense (income) (a)	4,518	4,436	1,651	1,098	(1,158)	10,545
Operating income (loss)	21,302	10,986	(144)	2,108	(4,149)	30,103
Identifiable assets	277,535	133,691	76,716	52,752	32,904	573,598
Capital expenditures	9,305	207	1,409	608	1,672	13,201
Railcar expenditures		45,550				45,550
Acquisition of business		85,078				85,078
Investment in affiliate	675					675
Depreciation and amortization	6,244	9,115	2,282	2,398	1,396	21,435

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2003	Agriculture	Rail	Turf & Specialty	Retail	Other	Total
Revenues from external customers	$891,215	$35,200	$134,017	$178,573	$	$1,239,005
Inter-segment sales	12,280	914	1,146			14,340
Other income (net)	2,128	90	1,007	835	641	4,701
Equity in net income of investees equity method	390		(43)			347
Interest expense (income) (a)	5,134	925	1,906	1,320	(1,237)	8,048
Operating income (loss)	13,868	4,062	1,022	3,413	(4,400)	17,965
Identifiable assets	272,229	50,263	83,577	55,526	31,697	493,292
Capital expenditures	7,507	558	1,262	1,397	1,025	11,749
Railcar expenditures		20,498				20,498
Investment in affiliate	1,182					1,182
Depreciation and amortization	5,986	3,064	2,272	2,470	1,347	15,139

(a) The interest income reported in the Other segment includes net interest income at the corporate level. These amounts result from a rate differential between the interest rate on which interest is allocated to the operating segments and the actual rate at which borrowings are made.

Grain sales for export to foreign markets amounted to approximately $113 million, $213 million and $181 million in 2005, 2004 and 2003, respectively. Revenues from leased railcars in Canada totaled $19.0 million and $8.4 million in 2005 and 2004, respectively. The net book value of the leased railcars at December 31, 2005 and 2004 was $30 million and $28.8 million respectively. Lease revenue on railcars in Mexico totaled $0.5 million in each of 2005 and 2004. The net book value of the leased railcars at December 31, 2005 and 2004 was $1.2 million and $1.4 million respectively.

Grain sales of $132 million, $144 million and $197 million in 2005, 2004, and 2003, respectively, were made to Cargill, Inc.

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15. Quarterly Consolidated Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for 2005 and 2004.

(in thousands, except for per common share data)

Quarter Ended	Net Sales	Gross Profit	Net Income (Loss) Amount	Net Income (Loss) Per Share-Basic
2005				
March 31	**$ 258,657**	**$ 39,959**	**$ 1,034**	**$ 0.14**
June 30	**365,116**	**53,018**	**10,353**	**1.40**
September 30	**288,708**	**36,546**	**(636)**	**(0.09)**
December 31	**384,171**	**68,623**	**15,336**	**2.05**
Year	**$1,296,652**	**$198,146**	**$26,087**	**3.52**
2004				
March 31	$ 274,336	$ 36,062	$ (246)	$(0.03)
June 30	374,510	56,068	10,062	1.39
September 30	248,124	40,740	1,048	0.14
December 31	369,962	56,229	8,280	1.14
Year	$1,266,932	$189,099	$19,144	2.64

Net income per share is computed independently for each of the quarters presented. As such, the summation of the quarterly amounts may not equal the total net income per share reported for the year.

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Certifying Officers to allow timely decisions regarding required financial disclosures. The Company is not organized with one Chief Financial Officer. Our Vice President, Controller and CIO is responsible for all accounting and information technology decisions while our Vice President, Finance and Treasurer is responsible for all treasury functions and financing decisions. Each of them, along with the President and Chief Executive Officer (Certifying Officers), are responsible for evaluating our disclosure controls and procedures. As of December 31, 2005, the Company s management, under the supervision and

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with the participation of the Certifying Officers, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Certifying Officers concluded that our disclosure controls and procedures were effective as of December 31, 2005.

Management s Report on Internal Control Over Financial Reporting

Management s Report on Internal Control Over Financial Reporting is included in Item 8 on page 49. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 on page 50.

Changes in Internal Control Over Financial Reporting

As reported in the Company s 10Q/A for the quarter ended September 30, 2005, subsequent to filing the Quarterly Report on Form 10Q, management discovered an error in the cash flow statement relating to a single class of debt financing transactions in which proceeds were incorrectly classified as proceeds on the sale of railcars. The gain on sale of railcars and related leases was also overstated by the same amount. As a result of the discovery of these errors, the Company s financial statements for the quarter ended September 30, 2005 were restated. In connection with this restatement, management concluded that as of the quarterly reporting period ended September 30, 2005, the Company did not maintain effective controls over the preparation, review, presentation, and disclosure of the Company s condensed consolidated statement of cash flows. In addition, this control deficiency could have resulted in a misstatement of cash flows that could result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constituted a material weakness.

In the fourth quarter of 2005, the Company implemented new controls and processes to remediate the material weakness identified above. The newly implemented controls and processes include:

The accumulation of data used in the preparation of the quarterly consolidated statement of cash flows is now being done on a monthly basis to allow for a more timely review as well as to allow for more time for issues and/or reconciling items to be investigated and/or corrected before financial data is published.

The existing control of requiring a second detailed and documented review within the Rail Group is now being done monthly.

The financial data provided by the Rail Group that is used directly in the financial statements is also being reviewed and analyzed independently outside of the Rail Group on a monthly basis. As part of this review, the information is validated and formally documented.

We completed our testing of the newly implemented controls and concluded that they were operating effectively and, therefore, conclude that this material weakness has been remediated. Other than these newly implemented controls and processes, there has been no change in the

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Company s internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

For information with respect to the executive officers of the registrant, see Executive Officers of the Registrant included in Part I, Item 4a of this report. For information with respect to the Directors of the registrant, see Election of Directors in the Proxy Statement for the Annual Meeting of the Shareholders to be held on May 12, 2006 (the Proxy Statement), which is incorporated herein by reference; for information concerning 1934 Securities and Exchange Act Section 16(a) Compliance, see such section in the Proxy Statement, incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the caption Executive Compensation in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption Share Ownership and Executive Compensation Equity Compensation Plan Information in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Principal Accountant Fees and Services

The information set forth under Appointment of Independent Registered Public Accounting Firm in the Proxy Statement is incorporated herein by reference.

PART IV

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

(a) (1) The consolidated financial statements of the Company are set forth under Item 8 of this report on Form 10-K.

(2) The following consolidated financial statement schedule is included in Item 15(d):

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II. Consolidated Valuation and Qualifying Accounts years ended December 31, 2005, 2004 and 2003 95

All other schedules for which provisions are made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable, and therefore have been omitted.

(3) Exhibits:

2.1 Agreement and Plan of Merger, dated April 28, 1995 and amended as of September 26, 1995, by and between The Andersons Management Corp. and The Andersons. (Incorporated by reference to Exhibit 2.1 to Registration Statement No. 33-58963).

3.1 Articles of Incorporation. (Incorporated by reference to Exhibit 3(d) to Registration Statement No. 33-16936).

3.4 Code of Regulations of The Andersons, Inc. (Incorporated by reference to Exhibit 3.4 to Registration Statement No. 33-58963).

4.3 Specimen Common Share Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement No. 33-58963).

4.4 The Seventeenth Supplemental Indenture dated as of August 14, 1997, between The Andersons, Inc. and The Fifth Third Bank, successor Trustee to an Indenture between The Andersons and Ohio Citizens Bank, dated as of October 1, 1985. (Incorporated by reference to Exhibit 4.4 to The Andersons, Inc. the 1998 Annual Report on Form 10-K).

4.5 Loan Agreement dated October 30, 2002 and amendments through the sixth amendment dated September 27, 2004 between The Andersons, Inc., the banks listed therein and U.S. Bank National Association as Administrative Agent. (Incorporated by reference from Form 10K for the year ended December 31, 2004).

10.1 Management Performance Program. * (Incorporated by reference to Exhibit 10(a) to the Predecessor Partnership s Form 10-K dated December 31, 1990, File No. 2-55070).

10.2 The Andersons, Inc. Amended and Restated Long-Term Performance Compensation Plan * (Incorporated by reference to Appendix A to the Proxy Statement for the April 25, 2002 Annual Meeting).

10.3 The Andersons, Inc. 2004 Employee Share Purchase Plan * (Incorporated by reference to Appendix B to the Proxy Statement for the May 13, 2004 Annual Meeting).

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10.4 Marketing Agreement between The Andersons, Inc. and Cargill, Incorporated dated June 1, 1998 (Incorporated by reference from Form 10-Q for the quarter ended June 30, 2003).

10.5 Lease and Sublease between Cargill, Incorporated and The Andersons, Inc. dated June 1, 1998 (Incorporated by reference from Form 10-Q for the quarter ended June 30, 2003).

10.6 Amended and Restated Marketing Agreement between The Andersons, Inc.; The Andersons Agriculture Group LP; and Cargill, Incorporated dated June 1, 2003 (Incorporated by reference from Form 10-Q for the quarter ended June 30, 2003).

10.7 Amendment to Lease and Sublease between Cargill, Incorporated; The Andersons Agriculture Group LP; and The Andersons, Inc. dated July 10, 2003 (Incorporated by reference from Form 10-Q for the quarter ended June 30, 2003).

10.8 Amended and Restated Asset Purchase agreement by and among Progress Rail Services and related entities and Cap Acquire LLC, Cap Acquire Canada ULC and Cap Acquire Mexico S. de R.L. de C.V. (Incorporated by reference from Form 8-K filed February 27, 2004).

10.9 Indenture between NARCAT LLC, CARCAT ULC, and NARCAT Mexico S. de R.L. de C.V. (Issuers) and Wells Fargo Bank, National Association (Indenture Trustee) dated February 12, 2004. (Incorporated by reference from Form 10K for the year ended December 31, 2003).

10.10 Management Agreement between NARCAT LLC, CARCAT ULC, and NARCAT Mexico S. de R.L. de C.V. (the Companies), The Andersons, Inc. (the Manager) and Wells Fargo Bank, National Association (Indenture Trustee and Backup Manager) dated February 12, 2004. (Incorporated by reference from Form 10K for the year ended December 31, 2003).

10.11 Servicing Agreement between NARCAT LLC, CARCAT ULC, and NARCAT Mexico S. de R.L. de C.V. (the Companies), The Andersons, Inc. (the Servicer) and Wells Fargo Bank, National Association (Indenture Trustee and Backup Servicer) dated February 12, 2004. (Incorporated by reference from form 10K for the year ended December 31, 2003).

10.12 Form of Stock Option Agreement (Incorporated by reference from Form 10-Q filed August 9, 2005).

10.13 Form of Performance Share Award Agreement (Incorporated by reference from Form 10-Q filed -August 9, 2005).

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10.14 Security Agreement, dated as of December 29, 2005, made by The Andersons Rail Operating I, LLC in favor of Siemens Financial Services, Inc. as Agent (Incorporated by reference from Form 8-K filed January 5, 2006).

10.15 Management Agreement, dated as of December 29, 2005, made by The Andersons Rail Operating I, LLC and The Andersons, Inc., as Manager (Incorporated by reference from Form 8-K filed January 5, 2006).

10.16 Servicing Agreement, dated as of December 29, 2005, made by The Andersons Rail Operating I, LLC and The Andersons, Inc., as Servicer (Incorporated by reference from Form 8-K filed January 5, 2006).

10.17 Term Loan Agreement, dated as of December 29, 2005, made by The Andersons Rail Operating I, LLC, as borrower, the lenders named therein, and Siemens Financial Services, Inc., as Agent and Lender (Incorporated by reference from Form 8-K filed January 5, 2006).

10.18 The Andersons, Inc. Long-Term Performance Compensation Plan dated May 6, 2005* (Incorporated by reference to Appendix A to the Proxy Statement for the May 6, 2005 Annual Meeting.

21 Consolidated Subsidiaries of The Andersons, Inc.

23 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of President and Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a).

31.2 Certification of Vice President, Controller & CIO under Rule 13(a)-14(a)/15d-14(a).

31.3 Certification of Vice President, Finance and Treasurer under Rule 13(a)-14(a)/15d-14(a).

32.1 Certifications Pursuant to 18 U.S.C. Section 1350.

* Management contract or compensatory plan.

The Company agrees to furnish to the Securities and Exchange Commission a copy of any long-term debt instrument or loan agreement that it may request.

(b) Reports on Form 8-K:

A report on Form 8-K was filed on November 2, 2005 which contained the Company s third quarter press release. This form was amended on the same day to revise an incorrect reference to the second quarter.

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A report on Form 8-K was filed on November 18, 2005 which informed readers that a restatement of the third quarter cash flow statement was needed to correct an error and which disclosed a material weakness in reporting controls around this same error. The Form 10-Q/A was refiled with the correction on February 21, 2006.

(c) Exhibits:

The exhibits listed in Item 15(a)(3) of this report, and not incorporated by reference, follow Financial Statement Schedule referred to in (d) below.

(d) Financial Statement Schedule

The financial statement schedule listed in 15(a)(2) follows Signatures.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ANDERSONS, INC. (Registrant)

By /s/ Michael J. Anderson

Michael J. Anderson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date	Signature	Title	Date
/s/ Michael J. Anderson	President and	3/14/06	/s/ Paul M. Kraus	Director	3/14/06
Michael J. Anderson	Chief Executive Officer (Principal Executive Officer)		Paul M. Kraus		
/s/ Richard R. George	Vice President, Controller & CIO	3/14/06	/s/ Donald L. Mennel	Director	3/14/06
Richard R. George	(Principal Accounting Officer)		Donald L. Mennel		
/s/ Gary L. Smith	Vice President, Finance & Treasurer	3/14/06	/s/ David L. Nichols	Director	3/14/06
Gary L. Smith	(Principal Financial Officer)		David L. Nichols		
/s/ Richard P. Anderson	Chairman of the Board	3/14/06	/s/ Sidney A. Ribeau	Director	3/14/06
Richard P. Anderson	Director		Sidney A. Ribeau		
/s/ Thomas H. Anderson	Director	3/14/06	/s/ Charles A. Sullivan	Director	3/14/06
Thomas H. Anderson			Charles A. Sullivan		
/s/ John F. Barrett	Director	3/14/06	/s/ Jacqueline F. Woods	Director	3/14/06
John F. Barrett			Jacqueline F. Woods		
/s/ Robert J. King	Director	3/14/06			

Robert J. King

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THE ANDERSONS, INC.
SCHEDULE II CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

(in thousands)		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	(1) Deductions	Balance at End of Period
Allowance for Doubtful Accounts Receivable	**Year ended December 31**				
2005	$ 2,136	$ 585	$	$ 615	$ 2,106
2004	2,274	240		378	2,136
2003	3,014	319		1,059	2,274
Allowance for Doubtful Notes Receivable	**Year ended December 31**				
2005	$ 173	$ (31)	$	$ 110	$ 32
2004	259	(39)		47	173
2003	222	37			259
Valuation Allowance for Deferred Tax Assets	**Year ended December 31**				
2005	$ 945	$ 98	$	$	$ 1,043
2004	771	174			945
2003	636	135			771

(1) Uncollectible accounts written off, net of recoveries and adjustments to estimates for the allowance accounts.

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THE ANDERSONS, INC.
EXHIBIT INDEX

Exhibit Number	
21	Consolidated Subsidiaries of The Andersons, Inc.
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of President and Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a)
31.2	Certification of Vice President, Controller & CIO under Rule 13(a)-14(a)/15d-14(a)
31.3	Certification of Vice President, Finance and Treasurer under Rule 13(a)-14(a)/15d-14(a)
32.1	Certifications Pursuant to 18 U.S.C. Section 1350