PACKAGING CORP OF AMERICA
Form 10-Q
November 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

Or

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

For the transition period from to

Commission file number 1-15399

PACKAGING CORPORATION OF AMERICA

(Exact Name of Registrant as Specified in its Charter)

Delaware	**36-4277050**
(State or other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
1900 West Field Court **Lake Forest, Illinois**	**60045**
(Address of Principal Executive Offices)	(Zip Code)

(847) 482-3000

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

As of November 5, 2007, the Registrant had outstanding 105,610,556 shares of common stock, par value $0.01 per share.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Packaging Corporation of America

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 194,146	$ 161,837
Accounts receivable, net of allowance for doubtful accounts and customer deductions of $5,786 and $6,463 as of September 30, 2007 and December 31, 2006, respectively	300,371	263,159
Inventories	202,668	195,946
Prepaid expenses and other current assets	10,784	6,473
Deferred income taxes	18,947	19,303
Total current assets	726,916	646,718
Property, plant and equipment, net	1,208,564	1,252,291
Goodwill	37,163	37,200
Other intangible assets, net of accumulated amortization of $5,703 and $4,872 as of September 30, 2007 and December 31, 2006, respectively	14,030	14,711
Other long-term assets	34,681	36,056
Total assets	$ 2,021,354	$ 1,986,976
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 278,710	$ 119,147
Accounts payable	135,413	119,397
Dividends payable	26,337	26,154
Accrued interest	5,487	12,870
Accrued federal and state income taxes	2,697	10,340
Accrued liabilities	101,838	100,430
Total current liabilities	550,482	388,338
Long-term liabilities:		
Long-term debt	398,457	567,770
Deferred income taxes	240,980	260,968
Pension and postretirement benefit plans	51,679	65,914
Other long-term liabilities	22,041	12,215
Total long-term liabilities	713,157	906,867
Stockholders' equity:		
Common stock, par value $.01 per share, 300,000,000 shares authorized, 105,365,767 shares and 104,611,181 shares issued as of September 30, 2007 and December 31, 2006, respectively	1,054	1,046
Additional paid in capital	444,117	429,508
Retained earnings	321,597	269,296

	September 30, 2007		December 31, 2006	
Accumulated other comprehensive income (loss):				
Unrealized gain on treasury lock, net		13,928		16,259
Unfunded employee benefit obligations, net		(22,978)		(24,335)
Cumulative foreign currency translation adjustment		(3)		(3)
Total accumulated other comprehensive income (loss)		(9,053)		(8,079)
Total stockholders' equity		757,715		691,771
Total liabilities and stockholders' equity	$	2,021,354	$	1,986,976

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Income

(unaudited)

(In thousands, except per share amounts)	**Three Months Ended September 30, 2007**	**Three Months Ended September 30, 2006 (Restated- See Note 2)**
Net sales	$ 591,041	$ 575,041
Cost of sales	(451,483)	(440,558)
Gross profit	139,558	134,483
Selling and administrative expenses	(42,027)	(40,944)
Corporate overhead	(13,964)	(14,031)
Other expense, net	(2,077)	(2,922)
Income from operations	81,490	76,586
Interest expense, net	(5,747)	(7,845)
Income before taxes	75,743	68,741
Provision for income taxes	(27,087)	(25,125)
Net income	$ 48,656	$ 43,616
Weighted average common shares outstanding:		
Basic	104,648	103,672
Diluted	105,604	104,583
Net income per common share:		
Basic	$ 0.46	$ 0.42
Diluted	$ 0.46	$ 0.42
Dividends declared per common share	$ 0.25	$ 0.25

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Income

(unaudited)

(In thousands, except per share amounts)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (Restated- See Note 2)
Net sales	$ 1,735,828	$ 1,633,992
Cost of sales	(1,343,173)	(1,311,015)
Gross profit	392,655	322,977
Selling and administrative expenses	(126,804)	(118,161)
Corporate overhead	(41,603)	(37,577)
Other expense, net	(5,838)	(7,586)
Income from operations	218,410	159,653
Interest expense, net	(19,807)	(24,105)
Income before taxes	198,603	135,548
Provision for income taxes	(72,529)	(48,916)
Net income	$ 126,074	$ 86,632
Weighted average common shares outstanding:		
Basic	104,462	103,484
Diluted	105,433	104,366
Net income per common share:		
Basic	$ 1.21	$ 0.84
Diluted	$ 1.20	$ 0.83
Dividends declared per common share	$ 0.75	$ 0.75

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (Restated- See Note 2)
Cash Flows from Operating Activities:		
Net income	$ 126,074	$ 86,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	111,418	116,002
Amortization of financing costs	515	515
Amortization of gain on treasury lock	(2,331)	(2,331)
Share-based compensation expense	6,514	4,576
Deferred income tax provision	(8,305)	(9,415)
Loss on disposals of property, plant and equipment	2,986	3,639
Excess tax benefits from share-based awards	386	235
Changes in operating assets and liabilities:		
Increase in assets		
Accounts and notes receivable	(37,174)	(62,570)
Inventories	(6,806)	(8,217)
Prepaid expenses and other current assets	(4,374)	(4,916)
Increase (decrease) in liabilities		
Accounts payable	16,016	(1,117)
Accrued liabilities	(12,823)	22,466
Other, net	(9,284)	1,292
Net cash provided by operating activities	182,812	146,791
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(68,833)	(55,363)
Acquistion of business.		(4,225)
Additions to other long term assets	(1,600)	(3,709)
Proceeds from disposals of property, plant and equipment	1,078	1,932
Net cash used for investing activities	(69,355)	(61,365)
Cash Flows from Financing Activities:		
Payments on long-term debt	(10,110)	(9,060)
Common stock dividends paid	(78,711)	(78,945)
Repurchases of common stock	(7,788)	
Proceeds from exercise of stock options	12,863	5,611
Excess tax benefits from share-based awards	2,598	2,530
Net cash used for financing activities	(81,148)	(79,864)
Net increase in cash and cash equivalents	32,309	5,562
Cash and cash equivalents, beginning of period	161,837	112,669

	Nine Months Ended September 30,	
Cash and cash equivalents, end of period	$ 194,146	$ 118,231

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Notes to Condensed Consolidated Financial Statements

(unaudited)

September 30, 2007

1. Basis of Presentation

The condensed consolidated financial statements as of September 30, 2007 and 2006 of Packaging Corporation of America ("PCA" or the "Company") and for the three- and nine-month periods then ended are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete audited financial statements. Operating results for the period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These condensed consolidated financial statements should be read in conjunction with PCA's Annual Report on Form 10-K for the year ended December 31, 2006. The condensed consolidated financial statements for the three- and nine-month periods ended September 30, 2006 have been restated for the adoption of FASB Staff Position ("FSP") No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." The Company adopted this FSP on January 1, 2007, which required prior year financial statements to be restated to account for the impact of this FSP as if it had been adopted on January 1, 2006. See Note 2, Summary of Accounting Policies Recent Accounting Pronouncements for additional information.

2. Summary of Accounting Policies

Basis of Consolidation

The accompanying condensed consolidated financial statements of PCA include all majority-owned subsidiaries. All intercompany transactions have been eliminated. The Company has one joint venture that is accounted for under the equity method.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue as title to the products is transferred to customers. Shipping and handling billings to a customer are included in net sales. Shipping and handling costs are included in cost of sales. In addition, the Company offers volume rebates to certain of its customers. The total cost of these programs is estimated and accrued as a reduction to net sales at the time of the respective sale.

Segment Information

PCA is engaged in one line of business: the integrated manufacture and sale of packaging materials, boxes and containers for industrial and consumer markets. No single customer accounts for more than 10% of total net sales.

Comprehensive Income

Comprehensive income is as follows:

(In thousands)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Net income	$ 48,656	$ 43,616
Other comprehensive income, net of tax:		
Amortization of unfunded employee benefit obligations	453	
Amortization of gain on treasury lock	(777)	(777)
Comprehensive income	$ 48,332	$ 42,839

(In thousands)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net income	$ 126,074	$ 86,632
Other comprehensive income, net of tax:		
Amortization of unfunded employee benefit obligations	1,357	
Amortization of gain on treasury lock	(2,331)	(2,331)
Comprehensive income	$ 125,100	$ 84,301

Reclassifications

Prior year's financial statements have been reclassified where appropriate to conform with the current year presentation.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendments to SFAS No. 115, "Accounting for Certain Investments In Debt and Equity Securities," apply to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that an entity also elects to apply the provisions of SFAS No. 157, "Fair Value Measurements." Currently, the Company does not plan to adopt the fair value option for any of its financial instruments.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year end statement of financial position, and provide additional disclosures. These requirements were effective for fiscal years ending after December 15, 2006, with the exception of the requirement to measure plan assets and benefit obligations as of the plan sponsor's fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The Company is assessing the remaining provision of SFAS No. 158 to determine the impact that the adoption of those provisions may have on its results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. This statement is effective for fiscal years beginning after November 15, 2007. The Company is assessing SFAS No. 157 and has not yet determined the impact that the adoption of SFAS No. 157 will have on its results of operations.

In September 2006, the FASB issued FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods and is effective for fiscal years beginning after December 15, 2006. Prior to the adoption of this FSP, the Company determined its planned maintenance costs for the year and amortized these costs ratably throughout the year. On January 1, 2007, the Company began accounting for its planned major maintenance activities in accordance with FSP No. AUG AIR-1 using the deferral method. The implementation of FSP No. AUG AIR-1 will not have any impact on the Company's year end financial position or full year results of operations and cash flows as all maintenance costs incurred have been and continue to be expensed in the fiscal year in which the maintenance activity occurs. In accordance with FSP No. AUG AIR-1, the Company's financial position, results of operations and cash flows for each quarter of 2006

were adjusted to apply the FSP retrospectively. The following financial statement line items as of and for the three- and nine-month period ended September 30, 2006 were adjusted as follows:

Statement of Income Three Months Ended 9/30/06	**As Originally Reported**	**As Adjusted**	**Effect of Change**
(In thousands, except per share amounts)			
Cost of sales	$ (440,353)	$ (440,558)	$ (205)
Gross profit	134,688	134,483	(205)
Income from operations	76,791	76,586	(205)
Income before taxes	68,946	68,741	(205)
Provision for income taxes	(25,198)	(25,125)	73
Net income	43,748	43,616	(132)
Net income per common share:			
Basic	$ 0.42	$ 0.42	$
Diluted	$ 0.42	$ 0.42	$

Statement of Income Nine Months Ended 9/30/06	**As Originally Reported**	**As Adjusted**	**Effect of Change**
(In thousands, except per share amounts)			
Cost of sales	$ (1,313,588)	$ (1,311,015)	$ 2,573
Gross profit	320,404	322,977	2,573
Income from operations	157,080	159,653	2,573
Income before taxes	132,975	135,548	2,573
Provision for income taxes	(47,995)	(48,916)	(921)
Net income	84,980	86,632	1,652
Net income per common share:			
Basic	$ 0.82	$ 0.84	$ 0.02
Diluted	$ 0.81	$ 0.83	$ 0.02

Balance Sheet 9/30/06	**As Originally Reported**	**As Adjusted**	**Effect of Change**
(In thousands)			
Prepaid expenses and other current assets	$ 10,005	$ 11,752	$ 1,747
Total current assets	631,147	632,894	1,747
Total assets	1,992,392	1,994,139	1,747
Accounts payable	126,883	126,057	(826)
Accrued federal and state income taxes	24,871	25,792	921
Total current liabilities	396,109	396,204	95
Retained earnings	255,390	257,042	1,652
Total stockholders' equity	698,758	700,410	1,652
Total liabilities and stockholders' equity	1,992,392	1,994,139	1,747

Statement of Cash Flows Nine Months Ended 9/30/06	As Originally Reported	As Adjusted	Effect of Change
(In thousands)			
Net income	$ 84,980	$ 86,632	$ 1,652
Prepaid expenses and other current assets	(3,169)	(4,916)	(1,747)
Accounts payable	(291)	(1,117)	(826)
Accrued liabilities	21,545	22,466	921

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109, "Accounting for Income Taxes," to create a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007.

As a result of the implementation of FIN No. 48, PCA recognized a $5.1 million decrease to reserves for uncertain tax positions and an increase to the beginning balance of retained earnings on the condensed consolidated balance sheet as of January 1, 2007. After adoption on January 1, 2007, the Company had $9.1 million total gross unrecognized tax benefits. Of this total, $7.1 million (net of the federal benefit on state issues and interest) would impact its effective tax rate if recognized.

During the third quarter of 2007, the statute of limitations for the tax year 2001 expired. Also, the federal examination of the tax year 2004 was concluded. As of result of these events, the reserve for uncertain tax positions was decreased by $0.8 million. At September 30, 2007, PCA had $7.5 million of unrecognized tax benefits.

PCA's continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense. After adoption of FIN No. 48 on January 1, 2007, the Company had $0.6 million accrued for interest and no reserve for penalties. During the nine-month period ended September 30, 2007, PCA recorded $0.3 million for interest in its statement of operations, increasing the accrual for interest to $0.9 million at September 30, 2007.

PCA and its subsidiaries are subject to U.S. federal income taxes, as well as income taxes of multiple state and city jurisdictions. A federal examination of the tax years 2002 and 2004 has been concluded. The tax years 2003, 2005 and 2006 remain open to federal examination. In major state jurisdictions, tax years 2002-2006 remain open for examination.

3. Earnings Per Share

The following table sets forth the computation of basic and diluted income per common share for the periods presented. Basic and diluted income per common share for the nine-month period ended September 30, 2006 both increased $0.02 due to the restatement of the Company's results of operations as a result of the adoption of FSP No. AUG AIR-1. Basic and diluted income per common share for the three-month period ended September 30, 2006 did not change as a result of the adoption of this

FSP. See Note 2, Summary of Accounting Policies Recent Accounting Pronouncements for additional information.

(In thousands, except per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Numerator:		
Net income	$ 48,656	$ 43,616
Denominator:		
Basic common shares outstanding	104,648	103,672
Effect of dilutive securities:		
Stock options	599	718
Unvested restricted stock	357	193
Dilutive common shares outstanding	105,604	104,583
Basic income per common share	$ 0.46	$ 0.42
Diluted income per common share	$ 0.46	$ 0.42

(In thousands, except per share data)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:		
Net income	$ 126,074	$ 86,632
Denominator:		
Basic common shares outstanding	104,462	103,484
Effect of dilutive securities:		
Stock options	660	722
Unvested restricted stock	311	160
Dilutive common shares outstanding	105,433	104,366
Basic income per common share	$ 1.21	$ 0.84
Diluted income per common share	$ 1.20	$ 0.83

4. Stock-Based Compensation

In October 1999, the Company adopted a long-term equity incentive plan which provides for grants of stock options, stock appreciation rights, restricted stock and performance awards to directors, officers and employees of PCA, as well as others who engage in services for PCA. Option awards granted to officers, employees and directors have contractual lives of seven or ten years. Options granted to officers and employees vest ratably over a three- or four-year period, whereas options granted to directors vest immediately. The plan, which will terminate on October 19, 2009, provides for the issuance of up to 6,550,000 shares of common stock. As of September 30, 2007, options or

restricted stock for 5,822,522 shares have been granted, net of forfeitures. Forfeitures are added back to the pool of shares of common stock available to be granted at a future date.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment," using the modified-prospective-transition method. Under that transition method, stock compensation cost recognized subsequent to January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation expense for both stock options and restricted stock recognized in the condensed consolidated statements of income for the three- and nine- month periods ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
(In thousands)				
Stock options	$ (529)	$ (694)	$ (1,937)	$ (2,585)
Restricted stock	(1,403)	(829)	(4,577)	(1,991)
Impact on income before income taxes	(1,932)	(1,523)	(6,514)	(4,576)
Income tax benefit	753	595	2,539	1,788
Impact on net income	$ (1,179)	$ (928)	$ (3,975)	$ (2,788)

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of each option grant as of the date of grant. Expected volatilities are based on historical volatility of the Company's common stock. The expected life of the option is estimated using historical data pertaining to option exercises and employee terminations. Separate groups of employees that have similar historical exercise behavior are considered separately for estimating the expected life. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant. The estimated weighted-average fair values of and related assumptions for options granted were as follows:

	Nine Months Ended September 30,	
	2007	**2006**
Weighted-average fair value of options granted	$ 4.90	$ 3.82
Assumptions:		
Dividend yield	3.80%	4.77%
Expected volatility	22.75%	25.49%
Risk-free interest rate	4.96%	5.14%
Expected life of option (years)	5.33	5.00

A summary of the Company's stock option activity and related information follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
				(In thousands)
Outstanding at December 31, 2006	3,451,077	$ 17.96		
Granted	221,267	25.82		
Exercised	(818,406)	(15.68)		
Forfeited	(13,907)	(22.23)		
Outstanding at September 30, 2007	2,840,031	$ 19.20	5.1	$ 28,044
Outstanding vested or expected to vest at September 30, 2007	2,813,853	$ 19.15	5.1	$ 27,904
Exercisable at September 30, 2007	2,155,242	$ 17.92	4.8	$ 24,035

The total intrinsic value of options exercised during the three months ended September 30, 2007 and 2006 was $1,532,000 and $5,218,000, respectively, and during the nine months ended September 30, 2007 and 2006 was $8,022,000 and $6,506,000, respectively. As of September 30, 2007, there was $2,531,000 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's equity incentive plan. The Company expects to recognize the cost of these stock option awards over a weighted-average period of 1.4 years.

During 2003, the Company began granting shares of restricted stock to certain of its employees and directors. Restricted stock awards granted to employees vest at the end of a three- or four-year period, whereas restricted stock awards granted to directors vest at the end of a six-month period. The fair value of restricted stock is determined based on the closing price of the Company's common stock on the grant date. The Company generally recognizes compensation expense associated with restricted stock awards ratably over their vesting periods. As PCA's Board of Directors has the ability to accelerate vesting of restricted stock upon an employee's retirement, the Company accelerates the

recognition of compensation expense for certain employees approaching normal retirement age. A summary of the Company's restricted stock activity follows:

	2007		2006	
(Dollars in thousands)	Shares	Fair Market Value at Date of Grant	Shares	Fair Market Value at Date of Grant
Restricted stock at January 1	610,380	$ 12,964	387,030	$ 8,256
Granted	240,920	6,210	251,550	5,301
Vested	(74,205)	(1,407)	(19,300)	(405)
Cancellations	(4,740)	(103)	(3,860)	(82)
Restricted stock at September 30	772,355	$ 17,664	615,420	$ 13,070

As of September 30, 2007, there was $9,860,000 of total unrecognized compensation costs related to the above restricted stock awards. The Company expects to recognize the cost of these stock awards over a weighted-average period of 2.6 years.

5. Inventories

The components of inventories are as follows:

(In thousands)	September 30, 2007 (unaudited)	December 31, 2006
Raw materials	$ 86,425	$ 87,243
Work in process	6,695	5,021
Finished goods	66,113	63,633
Supplies	86,140	83,431
Inventories at FIFO or average cost	245,373	239,328
Excess of FIFO or average over LIFO cost	(42,705)	(43,382)
Inventories, net	$ 202,668	$ 195,946

An actual valuation of inventory under the LIFO method is made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

6. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill for the period ended September 30, 2007 are as follows:

(In thousands)	
Balance at December 31, 2006	$ 37,200
Other	(37)
Balance at September 30, 2007	$ 37,163

Other Intangible Assets

The components of other intangible assets are as follows:

		As of September 30, 2007		As of December 31, 2006	
	Weighted Average Remaining Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)		(unaudited)			
Customer lists and relations	31.3 years	$ 17,441	$ 3,817	$ 17,441	$ 3,205
Covenants not to compete	1.5 years	2,292	1,886	2,142	1,667
Total other intangible assets		$ 19,733	$ 5,703	$ 19,583	$ 4,872

7. Employee Benefit Plans and Other Postretirement Benefits

For the three and nine months ended September 30, 2007 and 2006, net pension costs were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2007	2006	2007	2006
Components of Net Pension Costs				
Service cost for benefits earned during the year	$ 4,493	$ 4,573	$ 13,479	$ 13,719
Interest cost on accumulated benefit obligation	1,563	1,118	4,689	3,354
Expected return on assets	(1,190)	(692)	(3,570)	(2,076)
Net amortization of unrecognized amounts	808	700	2,424	2,100
Net pension costs	$ 5,674	$ 5,699	$ 17,022	$ 17,097

The Company makes pension plan contributions that are sufficient to fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). However, from time to time the Company may make discretionary contributions in excess of the required minimum amounts. During the first nine months of 2007, the Company made required contributions of $18.4 million, including $8.5 million in the third quarter of

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2007. In addition to the required contributions, the Company made a discretionary contribution of $10.5 million in the third quarter. This discretionary contribution was made in anticipation of the new 2008 funding requirements of the Pension Protection Act. The Company expects to make a required contribution of $5.3 million in the fourth quarter, for a total of $34.2 million of contributions to the pension plans in 2007.

For the three and nine months ended September 30, 2007 and 2006, net postretirement costs were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2007	2006	2007	2006
Components of Net Postretirement Costs				
Service cost for benefits earned during the year	$ 248	$ 236	$ 744	$ 708
Interest cost on accumulated benefit obligation	160	147	480	441
Net amortization of unrecognized amounts	(63)	(52)	(189)	(156)
Net postretirement costs	$ 345	$ 331	$ 1,035	$ 993

8. Restructuring Charges

In August 2005, the Company informed impacted employees that it would close a corrugated products plant by December 31, 2005. The charges related to this plant closing were recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. In connection with the shutdown of the corrugated products plant, the Company recorded pre-tax restructuring charges of $1.7 million during 2005 and $325,000 during 2006. On November 3, 2006, PCA sold the building for cash proceeds of $378,000 and recorded a pre-tax gain of $378,000.

In August 2006, the Company informed impacted employees that it would close a corrugated products plant by September 30, 2006. In connection with the closing of this plant, the Company sold the equipment and the building for cash proceeds of $1.6 million and recorded a pre-tax loss of $319,000. The Company also recorded severance of $454,000 and wrote off $174,000 of assets, primarily intangible assets during the third quarter of 2006.

In July 2007, the Company closed a corrugated products plant. In connection with the shutdown of this plant, the Company recorded pre-tax restructuring charges, including severance, of $905,000 million during the third quarter of 2007. Restructuring costs are included in other expense, net in the statement of operations.

The following table presents an analysis of the 2007 activity related to the restructurings:

(In thousands)	Reserve for Restructuring Costs
Balance at January 1, 2007	$ 205
Restructuring charges	905
Non-cash asset impairments included above	(378)
Cash payments	(649)
Balance at September 30, 2007	$ 83

9. Stock Repurchase Program

On May 16, 2001, the Company announced a $100 million common stock repurchase program permitting PCA to repurchase shares from time to time. Through September 30, 2007, the Company repurchased 5,495,600 shares of common stock for approximately $96.6 million. Of the 5,495,600 shares repurchased, 300,000 shares were repurchased during the third quarter of 2007, for approximately $7.8 million. All shares repurchased have been retired.

10. Subsequent Events

On October 5, 2007, Packaging Receivables Company, LLC ("PRC") and Packaging Credit Company, LLC ("PCC"), both Delaware limited liability companies and wholly owned subsidiaries of PCA, amended the Credit and Security Agreement between PRC, PCC, Variable Funding Capital Company LLC and Wachovia Bank National Association. The amendment extended the scheduled termination date of the Credit and Security Agreement from October 5, 2007 to October 3, 2008.

On October 17, 2007, PCA announced that it intends to increase the cash dividend on its common stock from an annual payout of $1.00 per share to $1.20 per share. The first quarterly dividend of $0.30 per share will be paid on January 15, 2008 to shareholders of record as of December 14, 2007. PCA also announced that its Board of Directors had authorized the repurchase of up to $150 million of its common stock. This authorization is in addition to the $100 million share repurchase program announced in 2001. The Company intends to repurchase these shares over the next 18 months.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity. Approximately 80% of the containerboard tons produced at our mills are consumed in our corrugated products manufacturing plants. The remaining 20% is sold to domestic customers or the export market. Besides containerboard, we produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging such as wax-coated boxes for the agriculture industry. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer our customers more attractive packaging. Our operating facilities and customers are located primarily in the United States.

In analyzing the operating performance of the company, we focus on the following factors that affect our business and are important to consider when reviewing our financial and operating results:

- corrugated products demand;
- corrugated products and containerboard pricing;
- containerboard inventories; and
- cost trends and volatility for our major costs, including wood and recycled fiber, purchased energy, labor and fringe benefits, and transportation costs.

The market for containerboard is generally subject to changes in the U.S. economy. Historically, supply and demand, as well as industry-wide inventory levels, has influenced prices of containerboard. In addition to U.S. shipments, approximately 10% of domestically produced containerboard has been exported for use in other countries.

Reported industry shipments of corrugated products increased 0.1% for the three months ended September 30, 2007 compared to the same period in 2006 and industry containerboard inventory levels remained at historically low levels. Industry inventories of containerboard at the end of the third quarter were at the lowest September ending level in the past 30 years on a weeks of supply basis. As reported by industry publications, linerboard prices increased $40 per ton in August 2007 and, with that increase, ended September $40 per ton higher than September of last year. The pass-through of the containerboard price increase to higher box prices began in September, and it is expected that most of this increase will be realized in the fourth quarter.

The cost to manufacture containerboard is dependent, in large part, on the costs of wood fiber, recycled fiber, purchased fuels, electricity and labor and fringe benefits. While energy and other costs are significant in the manufacture of corrugated products, labor and fringe benefits make up the largest component of corrugated products' manufactured costs, excluding the cost of containerboard.

Industry publications reported that recycled fiber prices increased significantly during the first half of 2007 compared to 2006 and then continued to increase more moderately during the third quarter. Average prices, for September were more than 50% higher than the same month in the prior year. Wood costs increased slightly from second quarter levels but remained well below first quarter levels. Purchased fuel costs were comparable to levels both in the third quarter of 2006 and the second quarter of 2007. Transportation and purchased electricity costs were slightly higher in the third quarter of 2007 compared to the third quarter of 2006.

For the quarter ended September 30, 2007, PCA reported higher earnings than the prior year. This was primarily driven by increased product pricing and volume for both containerboard and corrugated products, reflecting the full realization of 2006 price increases. Outside containerboard sales to third parties increased 12,000 tons, or 9.4% and corrugated product sales volume increased 1.3%, compared

to last year's third quarter. Partially offsetting the earnings improvement were higher recycled fiber costs as discussed earlier and labor and fringe benefit costs.

We expect our earnings from operations for the fourth quarter to benefit from the realization of the majority of the box price increase described above. This benefit is expected to be partially offset by seasonally lower corrugated products volume and planned mill maintenance work resulting in lower production and higher costs. We also typically incur higher energy costs in the fourth quarter due to the onset of colder weather in addition to higher fiber costs.

In addition, our Counce, Tennessee linerboard mill incurred a major, unplanned outage beginning on October 24, 2007. The entire mill was down for 2 1/2 days and experienced operational difficulties through the end of the month. This outage resulted in about 11,000 tons of lost production as well as significant additional operating costs, which will adversely impact fourth quarter net income by approximately $4.0 million.

This outage was the result of a total mill power failure related, in part, to an extended period of heavy rain and the subsequent failure of a valve, which led to the contamination of the mill's steam and boiler water systems. There was no major equipment damage, and the mill was up and running at full capacity by November 1, 2007.

Results of Operations

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

The historical results of operations of PCA for the three months ended September 30, 2007 and 2006 are set forth below:

	Three Months Ended September 30,		
(In thousands)	**2007**	**2006**	**Change**
Net sales	$ 591,041	$ 575,041	$ 16,000
Income from operations	$ 81,490	$ 76,586	$ 4,904
Interest expense, net	(5,747)	(7,845)	2,098
Income before taxes	75,743	68,741	7,002
Provision for income taxes	(27,087)	(25,125)	(1,962)
Net income	$ 48,656	$ 43,616	$ 5,040

Net Sales

Net sales increased by $16.0 million, or 2.8%, for the three months ended September 30, 2007 from the comparable period in 2006, primarily as a result of increased sales prices and volume of corrugated products and containerboard to third parties.

Corrugated products volume sold for the three months ended September 30, 2007 increased 1.3% to 7.9 billion square feet ("bsf") compared to 7.8 bsf in the third quarter of 2006. Containerboard volume sold to external domestic and export customers was 5.2% and 16.3% higher, respectively, for the three months ended September 30, 2007 from the three months ended September 30, 2006. Containerboard mill production for the three months ended September 30, 2007 was 632,000 tons compared to 621,000 tons in the same period in 2006.

Income From Operations

Income from operations increased by $4.9 million, or 6.4%, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006, primarily attributable to

increased sales prices and sales volume ($13.1 million), partially offset by increased recycled fiber costs ($3.6 million), labor and fringe benefit costs including medical, pension and incentive compensation costs ($3.4 million) and energy costs ($1.8 million).

Gross profit increased $5.1 million, or 3.8%, for the three months ended September 30, 2007 from the comparable period in 2006. Gross profit as a percentage of net sales increased from 23.4% of net sales in the three months ended September 30, 2006 to 23.6% of net sales in the current quarter due primarily to the improved sales prices and volume described previously.

Selling and administrative expenses increased $1.1 million, or 2.6%, for the three months ended September 30, 2007 compared to the same period in 2006, primarily as a result of higher expenses related to salaries including merit increases, incentive compensation, new hires, and share-based compensation expense ($0.3 million), related fringe benefits ($0.5 million) and warehousing costs ($0.3 million).

Corporate overhead decreased $0.1 million, or 0.5%, for the three months ended September 30, 2007 compared to the same period in 2006.

Other expense for the three months ended September 30, 2007 decreased $0.8 million, or 28.9%, compared to the three months ended September 30, 2006, primarily related to a $0.8 million gain on sale of land.

Interest Expense, Net and Income Taxes

Net interest expense decreased $2.1 million, or 26.7%, for the three months ended September 30, 2007 from the three months ended September 30, 2006, primarily as a result of increased income earned on PCA's cash equivalents due to higher cash balances.

PCA's effective tax rate was 35.8% for the three months ended September 30, 2007 and 36.6% for the comparable period in 2006. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes offset by the domestic manufacturers' deduction.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

The historical results of operations of PCA for the nine months ended September 30, 2007 and 2006, are set forth below:

	For the Nine Months Ended September 30,		
(In thousands)	**2007**	**2006**	**Change**
Net sales	$ 1,735,828	$ 1,633,992	$ 101,836
Income from operations	$ 218,410	$ 159,653	$ 58,757
Interest expense, net	(19,807)	(24,105)	4,298
Income before taxes	198,603	135,548	63,055
Provision for income taxes	(72,529)	(48,916)	(23,613)
Net income	$ 126,074	$ 86,632	$ 39,442

Net Sales

Net sales increased by $101.8 million, or 6.2%, for the nine months ended September 30, 2007 from the comparable period in 2006, primarily as a result of increased sales prices of corrugated products and containerboard and increased sales volume of containerboard to outside third parties.

Total corrugated products volume sold for the nine months ended September 30, 2007 decreased 0.6% to 23.6 bsf compared to 23.7 bsf in the first nine months of 2006. Containerboard volume to external domestic and export customers increased 7.8% and 41.1%, respectively, for the nine months ended September 30, 2007 from the nine months ended September 30, 2006. Containerboard mill production for the nine months ended September 30, 2007 was 1.83 million tons compared to 1.79 million tons in the same period in 2006.

Income From Operations

Income from operations increased by $58.8 million, or 36.8%, for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily attributable to higher sales prices, sales volume and improved product mix ($88.0 million) which was partially offset by increased costs for recycled fiber ($11.9 million), salary expenses which includes share-based compensation ($8.0 million), fringe benefits, which include medical and pension costs and incentive compensation accruals ($5.0 million) and transportation ($4.7 million).

Gross profit increased $69.7 million, or 21.6%, for the nine months ended September 30, 2007 from the comparable period in 2006. Gross profit as a percentage of net sales increased from 19.8% of net sales in the first nine months of 2006 to 22.6% of net sales in the first nine months of 2007 due primarily to the increased prices and improved mix described previously.

Selling and administrative expenses increased $8.6 million, or 7.3%, for the nine months ended September 30, 2007 compared to the same period in 2006, primarily as a result of expenses related to salaries including merit increases, incentive compensation, new hires, and share-based compensation expense ($4.9 million), related fringe benefits ($1.5 million), travel, meeting and entertainment expenses ($1.3 million) and warehousing costs ($0.8 million) due to increased customer requirements.

Corporate overhead increased $4.0 million, or 10.7%, for the nine months ended September 30, 2007 compared to the same period in 2006, primarily due to increases in salary and related fringe benefit costs which include expenses recorded for merit increases, share-based compensation and incentive compensation ($2.3 million) and information technology costs ($1.7 million).

Other expense for the nine months ended September 30, 2007 decreased $1.7 million, or 23.0%, compared to the nine months ended September 30, 2006, primarily related to a $0.8 million gain on sale of land in the third quarter and other items which were individually insignificant.

Interest Expense, Net and Income Taxes

Net interest expense decreased $4.3 million, or 17.8%, for the nine months ended September 30, 2007 from the nine months ended September 30, 2006, primarily as a result of increased income earned on PCA's cash equivalents due to higher cash balances.

PCA's effective tax rate was 36.5% for the nine months ended September 30, 2007 and 36.1% for the comparable period in 2006. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes offset by the domestic manufacturers' deduction.

Liquidity and Capital Resources

The following table presents a summary of our cash flows for the periods presented:

(In thousands)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Change
Net cash provided by (used for):			
Operating activities	$ 182,812	$ 146,791	$ 36,021
Investing activities	(69,355)	(61,365)	(7,990)
Financing activities	(81,148)	(79,864)	(1,284)
Net increase in cash and cash equivalents	$ 32,309	$ 5,562	$ 26,747

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2007 was $182.8 million, an increase of $36.0 million, or 24.5%, from the comparable period in 2006. The increase in net cash provided by operating activities was primarily the result of higher net income in 2007 as previously described. Requirements for operating assets and liabilities was slightly higher by $1.4 million for the nine months ended September 30, 2007 compared to the same period in 2006, primarily driven by unfavorable year over year changes in accrued federal and state income taxes ($30.9 million), accrued liabilities ($4.4 million) and higher 2007 pension contributions ($11.4 million), partially offset by favorable year over year changes in accounts receivable ($25.4 million), accounts payable ($17.1 million) and inventories ($1.4 million).

Investing Activities

Net cash used for investing activities for the nine months ended September 30, 2007 increased $8.0 million, or 13.0%, to $69.4 million, compared to the nine months ended September 30, 2006, primarily related to higher additions to property, plant and equipment of $13.5 million during the nine months ended September 30, 2007 compared to the same period in 2006, partially offset by the cost of acquisitions in 2006 of $4.2 million and lower additions to other long term assets of $2.1 million.

Financing Activities

Net cash used for financing activities totaled $81.1 million for the nine months ended September 30, 2007, a increase of $1.3 million, or 1.6%, from the comparable period in 2006, primarily attributable to $7.8 million in repurchases of PCA common stock during the third quarter of 2007 and an additional $1.1 million of payments on long-term debt, partially offset by additional proceeds from the issuance of common stock upon exercise of stock options and an increase in excess tax benefits related to the stock option exercises of $7.3 million during the nine months ended September 30, 2007 compared to the same period in 2006.

PCA's primary sources of liquidity are net cash provided by operating activities, borrowings under PCA's revolving credit facility, and additional borrowings under PCA's receivables credit facility. As of September 30, 2007, PCA had $121.6 million in unused borrowing capacity under its existing credit agreements, net of the impact on this borrowing capacity of $19.4 million of outstanding letters of credit. Currently, PCA's primary uses of cash are for capital expenditures, debt service and declared common stock dividends, which it expects to be able to fund from these sources.

The following table provides the outstanding balances and the weighted average interest rates as of September 30, 2007 for PCA's outstanding term loan, the revolving credit facility, the receivables credit facility, and the five- and ten-year senior notes:

Borrowing Arrangement	Principal Balance at September 30, 2007	Weighted Average Interest Rate	Projected Annual Cash Interest Payments
(In thousands)			
Senior Credit Facility:			
Term loan	$ 20,000	6.50%	$ 1,300
Revolving credit facilty		N/A	N/A
Receivables Credit Facility	109,000	5.96	6,494
$4^3/_8$% Five-Year Notes (due August 1, 2008)	150,000	4.38	6,570
$5^3/_4$% Ten-Year Notes (due August 1, 2013)	400,000	5.75	23,000
Total	$ 679,000	5.50%	$ 37,364

The above table excludes unamortized debt discount of $2.1 million at September 30, 2007. It also excludes from the projected annual cash interest payments, the non-cash income from the annual amortization of the $27.0 million received in July 2003 from the settlement of the treasury locks related to the five- and ten-year notes. The amortization is being recognized over the term of the five- and ten-year notes and is included in interest expense, net.

The revolving credit facility is available to fund PCA's working capital requirements, capital expenditures and other general corporate purposes. The term loan must be repaid in July 2008. The revolving credit facility will terminate in July 2008. The receivables credit facility, which was scheduled to terminate on October 5, 2007, was extended for a one-year term on October 5, 2007, and is now scheduled to terminate on October 3, 2008.

The instruments governing PCA's indebtedness contain financial and other covenants that limit, among other things, the ability of PCA and its subsidiaries to:

- enter into sale and leaseback transactions,
- incur liens,
- enter into certain transactions with affiliates, or
- merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of the assets of PCA.

These limitations could limit our corporate and operating activities.

In addition, we must maintain minimum net worth, maximum leverage and minimum coverage ratios under the senior credit facility. A failure to comply with the restrictions contained in our senior credit facility could lead to an event of default, which could result in an acceleration of such indebtedness. Such an acceleration would also constitute an event of default under the notes indentures and the receivables credit facility. As of September 30, 2007, PCA was in compliance with these covenants.

PCA currently expects to incur capital expenditures of $110.0 million to $120.0 million in 2007. These expenditures will be used primarily for maintenance capital, cost reduction, business growth and environmental compliance. As of September 30, 2007, PCA spent $68.8 million for capital expenditures and had committed to spend an additional $70.0 million in the remainder of 2007 and beyond.

PCA believes that its net cash generated from operating activities, available cash reserves and, as required, borrowings under its committed credit facilities and available capital through access to capital

markets will be adequate to meet its current and future liquidity and capital requirements, including payments of any declared common stock dividends. As its debt or credit facilities become due, PCA will need to repay, extend or replace such facilities, which will be subject to future economic conditions and financial, business and other factors, many of which are beyond PCA's control.

Market Risk and Risk Management Policies

PCA is exposed to the impact of interest rate changes and changes in the market value of its financial instruments. PCA periodically enters into derivatives in order to minimize these risks, but not for trading purposes. As of September 30, 2007, PCA was not a party to any derivative instruments.

As the interest rates on approximately 81% of PCA's debt are fixed, a one percent increase in interest rates related to variable rate debt would have resulted in an increase in interest expense and a corresponding decrease in income before taxes of $1.3 million annually. In the event of a change in interest rates, management could take actions to mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in PCA's financial structure.

Environmental Matters

We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. The most significant of these laws affecting us are:

- Resource Conservation and Recovery Act (RCRA);
- Clean Water Act (CWA);
- Clean Air Act (CAA);
- The Emergency Planning and Community Right-to-Know-Act (EPCRA);
- Toxic Substance Control Act (TSCA); and
- Safe Drinking Water Act (SDWA).

We believe that we are currently in material compliance with these and all applicable environmental rules and regulations. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with these and other environmental laws. In particular, the United States Environmental Protection Agency Cluster Rules which govern pulp and paper mill operations, including those at the Counce, Filer City, Valdosta and Tomahawk mills will affect our allowable discharges of air and water pollutants. We completed all of our projects related to the Cluster Rules at our four mills during 2006.

Impact of Inflation

PCA does not believe that inflation has had a material impact on its financial position or results of operations during the three-and nine-month periods ending September 30, 2007 and 2006.

Off-Balance Sheet Arrangements

PCA does not have any off-balance sheet arrangements as of September 30, 2007 that would require disclosure under SEC FR-67, "Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangement and Aggregate Contractual Obligations."

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, pensions and other postretirement benefits, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

PCA has included in its Annual Report on Form 10-K for the year ended December 31, 2006, a discussion of its critical accounting policies which we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. PCA adopted FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007.

Income Taxes

PCA's annual tax rate is determined based on income, statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Tax law requires some items to be included in the tax return at different times than the items reflected in the financial statements. As a result, the annual tax rate in the financial statements is different than the rate reported on PCA's tax return. Some of these differences are permanent, such as expenses that are not deductible in the tax return, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities.

Inherent in determining the annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes. Significant management judgments are required for the following items:

- Management reviews PCA's deferred tax assets for realizability. Valuation allowances are established when management believes that it is more likely than not that some portion of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision.

- PCA establishes accruals for uncertain tax contingencies when, despite the belief that PCA's tax return positions are fully supported, PCA believes that an uncertain tax position does not meet the recognition threshold of FIN No. 48. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, the expiration of the statute of limitations for the relevant taxing authority to examine a tax return, case law and emerging legislation. While it is difficult to predict the final outcome or timing of resolution for any particular tax matter, PCA believes that the accruals reflect the likely outcome of known tax contingencies in accordance with FIN No. 48.

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q, and in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words "will," "should," "anticipate," "believe," "expect," "intend," "estimate," "hope," or similar expressions. These statements

reflect management's current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include the following:

- the impact of general economic conditions;
- containerboard and corrugated products general industry conditions, including competition, product demand and product pricing;
- fluctuations in wood fiber and recycled fiber costs;
- fluctuations in purchased energy costs; and
- legislative or regulatory requirements, particularly concerning environmental matters.

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We have no obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors, risks and uncertainties that may affect our business, see Item 1A. Risk Factors included in Annual Report on Form 10-K for the year ended December 31, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of market risks related to PCA, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk and Risk Management Policies" in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures.

PCA maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in PCA's filings under the Securities Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to PCA's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Prior to filing this report, PCA completed an evaluation under the supervision and with the participation of PCA's management, including PCA's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of PCA's disclosure controls and procedures as of September 30, 2007. The evaluation of PCA's disclosure controls and procedures included a review of the controls' objectives and design, PCA's implementation of the controls and the effect of the controls on the information generated for use in this report. Based on this evaluation, PCA's Chief Executive Officer and Chief Financial Officer concluded that PCA's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2007.

During the quarter ended September 30, 2007, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, PCA's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

PCA is a party to various legal actions arising in the ordinary course of our business. These legal actions cover a broad variety of claims spanning our entire business. As of the date of this filing, we believe it is not reasonably possible that the resolution of these legal actions will, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes the Company's stock repurchases in the third quarter of 2007 under the 2001 plan:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program(1)
July 1, 2007 to July 31, 2007	300,000	$ 25.96	300,000	$ 3,380,000
August 1, 2007 to August 31, 2007				3,380,000
September 1, 2007 to September 30, 2007				3,380,000
Total	300,000	$ 25.96	300,000	$ 3,380,000

(1) On May 16, 2001, the Company announced a $100 million common stock repurchase program. All repurchased shares are retired. There is no expiration date for this common stock repurchase program.

Newly Authorized Plan

Subsequent to the end of the third quarter, PCA announced that its Board of Directors had authorized the repurchase of up to an additional $150 million of its common stock. There is no expiration date for this common stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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.

PACKAGING CORPORATION OF AMERICA
(Registrant)

By: /s/ PAUL T. STECKO

Chairman and Chief Executive Officer

By: /s/ RICHARD B. WEST

Senior Vice President and Chief Financial Officer

Date: November 7, 2007

QuickLinks

PART I FINANCIAL INFORMATION
Packaging Corporation of America Condensed Consolidated Balance Sheets
Packaging Corporation of America Condensed Consolidated Statements of Income (unaudited)
Packaging Corporation of America Condensed Consolidated Statements of Income (unaudited)
Packaging Corporation of America Condensed Consolidated Statements of Cash Flows (unaudited)
Packaging Corporation of America Notes to Condensed Consolidated Financial Statements (unaudited) September 30, 2007
PART II OTHER INFORMATION
SIGNATURES

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(71,855
)
Increase (decrease) in cash and cash equivalents
(74,046
)

17,861

Cash and cash equivalents at beginning of period
114,704

309,085

Cash and cash equivalents at end of period
$
40,658

$
326,946

See Notes to Condensed Consolidated Financial Statements

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

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2013	$96	$184,380	$(10,222)	$ (21,181)	$548,401	$ 22,947	$724,421
Net income					83,834	10,844	94,678
Other comprehensive loss				(6,790)			(6,790)
Cash distributions to noncontrolling interest						(8,916)	(8,916)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of $1,542 (220 shares)		6,161	1,460				7,621
Payment of cash in lieu for stock split (187 shares)		(58)					(58)
Dividends declared ($0.33 per common share)					(9,379)		(9,379)
Performance share unit dividend equivalents		134			(134)		—
Balance at September 30, 2014	$96	$190,617	$(8,762)	$ (27,971)	$622,722	$ 24,875	$801,577
Balance at December 31, 2014	$96	$222,789	$(9,743)	$ (54,595)	$644,556	$ 20,946	$824,049
Net income					33,961	1,433	35,394
Other comprehensive loss				(2,864)			(2,864)
Cash distributions to noncontrolling interest						(2,453)	(2,453)

Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of $819 (163 shares)		(2,635)	4,861				2,226
Purchase of treasury shares (1,193 shares)			(49,089)				(49,089)
Dividends declared ($0.42 per common share)					(11,872)		(11,872)
Shares issued for acquisitions (77 shares)		4,303					4,303
Performance share unit dividend equivalents		138			(138)		—
Balance at September 30, 2015	$96	$224,595	$(53,971)	$ (57,459)	$666,507	$ 19,926	$799,694

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation and Consolidation
These Condensed Consolidated Financial Statements include the accounts of The Andersons, Inc. and its wholly owned and controlled subsidiaries (the “Company”). All intercompany accounts and transactions are eliminated in consolidation.
Investments in unconsolidated entities in which the Company has significant influence, but not control, are accounted for using the equity method of accounting.
In the opinion of management, all adjustments consisting of normal and recurring items, considered necessary for the fair presentation of the results of operations, financial position, and cash flows for the periods indicated, have been made. The results in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015.
The Condensed Consolidated Balance Sheet data at December 31, 2014 was derived from the audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. An unaudited Condensed Consolidated Balance Sheet as of September 30, 2014 has been included as the Company operates in several seasonal industries.
The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in The Andersons, Inc. Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”).
New Accounting Standards
In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. This standard amends the recognition requirements for adjustments to provisional amounts in business combinations so that changes are recognized in the period in which they are identified. The Company has elected to early adopt this standard for business combination reporting as of the current period. The Company does not expect this standard will have a material impact on its Consolidated Financial Statements and disclosures.
In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory. This standard requires entities to measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. The standard is effective for annual and interim periods beginning after December 15, 2016. The Company does not expect this standard will have a material impact on its Consolidated Financial Statements and disclosures.
In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for annual and interim periods beginning after December 15, 2015 and will not have a material impact on the Company's Consolidated Financial Statements and disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. This standard provides amendments to the manner in which companies assess the characteristics of variable interest entities. The standard is effective for annual periods beginning after December 15, 2015. The Company is currently assessing the impact this standard will have on its Consolidated Financial Statements and disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue From Contracts With Customers. The core principle of the new revenue model is that an entity recognizes revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. The standard is currently effective for annual and interim periods beginning after December 15, 2016, however, the FASB has extended the effective date for one year. The Company is currently assessing the method of adoption and the impact this standard will have on its Consolidated Financial Statements and disclosures.

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2. Inventories

Major classes of inventories are as follows:

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Grain	$325,536	$570,916	$227,014
Ethanol and by-products	8,365	13,154	9,696
Plant nutrients and cob products	161,562	181,136	128,573
Retail merchandise	26,079	23,810	25,647
Railcar repair parts	6,057	6,431	5,336
Other	190	208	198
	$527,789	$795,655	$396,464

Inventories on the Condensed Consolidated Balance Sheets at September 30, 2015, December 31, 2014 and September 30, 2014 do not include 3.2 million, 3.1 million and 2.0 million bushels of grain, respectively, held in storage for others. The Company does not have title to the grain and is only liable for any deficiencies in grade or shortage of quantity that may arise during the storage period. Management has not experienced historical losses on any deficiencies and does not anticipate material losses in the future.

3. Property, Plant and Equipment

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

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Land	$30,285	$23,380	$22,415
Land improvements and leasehold improvements	76,414	71,817	68,976
Buildings and storage facilities	301,125	275,059	238,664
Machinery and equipment	368,338	333,559	320,648
Software	70,781	55,436	55,791
Construction in progress	21,044	29,620	28,260
	867,987	788,871	734,754
Less: accumulated depreciation and amortization	372,942	335,264	332,954
	$495,045	$453,607	$401,800

Depreciation and amortization expense on property, plant and equipment amounted to $39.0 million and $31.6 million for the nine months ended September 30, 2015 and 2014, respectively. Depreciation and amortization expense on property, plant and equipment were $13.6 million and $11.2 million for the three months ended September 30, 2015 and 2014, respectively.

Rail Group Assets

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

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Rail Group assets leased to others	$441,267	$384,958	$330,318
Less: accumulated depreciation	94,167	87,211	84,469
	$347,100	$297,747	$245,849

Depreciation expense on Rail Group assets leased to others amounted to $12.9 million and $10.5 million for the nine months ended September 30, 2015 and 2014, respectively. Depreciation expense on Rail Group assets leased to others amounted to $4.6 million and $3.6 million for the three months ended September 30, 2015 and 2014, respectively. Amortization expense on intangibles was $2.6 million and $5.5 million for the three and nine months ended September 30, 2015, and $1.1 million and $2.2 million for the three and nine months ended September 30, 2014.

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4. Debt

The Company is party to borrowing arrangements with a syndicate of banks. See Note 10 in the Company's 2014 Form 10-K for a description of these arrangements. Total borrowing capacity for the Company under all lines of credit is currently at $875.0 million, including $25.0 million of debt of The Andersons Denison Ethanol LLC ("TADE"), which is non-recourse to the Company. At September 30, 2015, the Company had a total of $657.9 million available for borrowing under its lines of credit. Our borrowing capacity is reduced by a combination of outstanding borrowings and letters of credit. The Company was in compliance with all financial covenants as of September 30, 2015.

The Company's short-term and long-term debt at September 30, 2015, December 31, 2014 and September 30, 2014 consisted of the following:

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Short-term debt – recourse	$82,801	$2,166	$451
Total short-term debt	82,801	2,166	451
Current maturities of long-term debt – non-recourse	—	—	—
Current maturities of long-term debt – recourse	26,989	76,415	76,757
Total current maturities of long-term debt	26,989	76,415	76,757
Long-term debt, less current maturities – non-recourse	—	—	—
Long-term debt, less current maturities – recourse	413,561	298,638	289,448
Total long-term debt, less current maturities	$413,561	$298,638	$289,448

5. Derivatives

The Company's operating results are affected by changes to commodity prices. The Grain and Ethanol businesses have established "unhedged" position limits (the amount of a commodity, either owned or contracted for, that does not have an offsetting derivative contract to lock in the price). To reduce the exposure to market price risk on commodities owned and forward grain and ethanol purchase and sale contracts, the Company enters into exchange traded commodity futures and options contracts and over the counter forward and option contracts with various counterparties. The exchange traded contracts are primarily via the regulated Chicago Mercantile Exchange ("CME"). The Company's forward purchase and sales contracts are for physical delivery of the commodity in a future period. Contracts to purchase commodities from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of commodities to processors or other commercial consumers generally do not extend beyond one year.

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

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

Generally accepted accounting principles permit a party to a master netting arrangement to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or obligation to return cash collateral under the same master netting arrangement. The Company has master netting arrangements for its exchange traded futures and options contracts and certain over-the-counter contracts. When the Company enters into a future, option or an over-the-counter

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contract, an initial margin deposit may be required by the counterparty. The amount of the margin deposit varies by commodity. If the market price of a future, option or an over-the-counter contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required. The margin deposit assets and liabilities are included in short-term commodity derivative assets or liabilities, as appropriate, in the Condensed Consolidated Balance Sheets.

The following table presents at September 30, 2015, December 31, 2014 and September 30, 2014, a summary of the estimated fair value of the Company's commodity derivative instruments that require cash collateral and the associated cash posted/received as collateral. The net asset or liability positions of these derivatives (net of their cash collateral) are determined on a counterparty-by-counterparty basis and are included within current or noncurrent commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

	September 30, 2015		December 31, 2014		September 30, 2014	
(in thousands)	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position	Net derivative asset position	Net derivative liability position
Collateral paid (received)	$28,585	$—	$79,646	$—	$(79,711)	$—
Fair value of derivatives	5,733	—	(10,981)	—	147,983	—
Balance at end of period	$34,318	$—	$68,665	$—	$68,272	$—

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

	September 30, 2015				
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	Total
Commodity derivative assets	$43,892	$1,591	$2,306	$32	$47,821
Commodity derivative liabilities	(11,512)	(7)	(52,217)	(2,944)	(66,680)
Cash collateral	28,585	—	—	—	28,585
Balance sheet line item totals	$60,965	$1,584	$(49,911)	$(2,912)	$9,726

	December 31, 2014				
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	Total
Commodity derivative assets	$49,847	$545	$6,123	$118	$56,633
Commodity derivative liabilities	(36,722)	(38)	(70,198)	(3,436)	(110,394)
Cash collateral	79,646	—	—	—	79,646
Balance sheet line item totals	$92,771	$507	$(64,075)	$(3,318)	$25,885

	September 30, 2014				
(in thousands)	Commodity derivative assets - current	Commodity derivative assets - noncurrent	Commodity derivative liabilities - current	Commodity derivative liabilities - noncurrent	Total
Commodity derivative assets	$212,760	$2,383	$2,897	$196	$218,236
Commodity derivative liabilities	(6,653)	—	(232,162)	(26,399)	(265,214)
Cash collateral	(79,711)	—	—	—	(79,711)
Balance sheet line item totals	$126,396	$2,383	$(229,265)	$(26,203)	$(126,689)

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The gains included in the Company’s Condensed Consolidated Statements of Income and the line items in which they are located for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Gains (losses) on commodity derivatives included in sales and merchandising revenues	$44,290	$86,558	$105,651	$106,389

The Company had the following volume of commodity derivative contracts outstanding (on a gross basis) at September 30, 2015, December 31, 2014 and September 30, 2014:

	September 30, 2015			
Commodity	Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	331,740	—	—	—
Soybeans	47,208	—	—	—
Wheat	12,631	—	—	—
Oats	19,449	—	—	—
Ethanol	—	131,789	—	—
Corn oil	—	—	10,063	—
Other	572	—	—	123
Subtotal	411,600	131,789	10,063	123
Exchange traded:				
Corn	129,810	—	—	—
Soybeans	24,860	—	—	—
Wheat	28,360	—	—	—
Oats	3,285	—	—	—
Ethanol	—	3,192	—	—
Bean Oil	—	—	—	—
Other	—	—	—	—
Subtotal	186,315	3,192	—	—
Total	597,915	134,981	10,063	123

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Commodity	December 31, 2014 Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	265,574	—	—	—
Soybeans	23,820	—	—	—
Wheat	14,967	—	—	—
Oats	23,440	—	—	—
Ethanol	—	233,637	—	—
Corn oil	—	—	18,076	—
Other	28	—	—	139
Subtotal	327,829	233,637	18,076	139
Exchange traded:				
Corn	159,575	—	—	—
Soybeans	31,265	—	—	—
Wheat	30,360	—	—	—
Oats	7,545	—	—	—
Ethanol	—	41,832	—	—
Bean oil	—	—	2,700	—
Other	—	—	—	5
Subtotal	228,745	41,832	2,700	5
Total	556,574	275,469	20,776	144

Commodity	September 30, 2014 Number of bushels (in thousands)	Number of gallons (in thousands)	Number of pounds (in thousands)	Number of tons (in thousands)
Non-exchange traded:				
Corn	293,592	—	—	—
Soybeans	68,486	—	—	—
Wheat	11,370	—	—	—
Oats	26,687	—	—	—
Ethanol	—	209,264	—	—
Corn oil	—	—	68,799	—
Other	140	—	—	115
Subtotal	400,275	209,264	68,799	115
Exchange traded:				
Corn	117,175	—	—	—
Soybeans	34,760	—	—	—
Wheat	35,635	—	—	—
Oats	9,195	—	—	—
Ethanol	—	104,286	—	—
Other	—	—	5,400	11
Subtotal	196,765	104,286	5,400	11
Total	597,040	313,550	74,199	126

6. Employee Benefit Plans

In the fourth quarter of 2014, we began the process of terminating the funded defined benefit plan (the "Plan"), which will include settling the Plan liabilities by offering lump sum distributions to plan participants or purchasing annuity contracts for

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those who do not elect lump sums. As part of the planned termination, in 2014 we adjusted our asset portfolio to a target asset allocation of 100% fixed income investments (up from 49%), which will provide a better matching of Plan assets to the characteristics of the liabilities. In the fourth quarter of 2014, we provided notice to plan participants of our intent to terminate the Plan and we applied for a determination with the Internal Revenue Service with regards to the termination. We will take further actions to minimize the volatility of the value of our pension assets relative to pension liabilities and to settle remaining Plan liabilities, including making such contributions to the Plan as may be necessary to make the Plan sufficient to settle all Plan liabilities.

As of December 31, 2014, we have valued the projected benefit obligations of the Plan based on the present value of estimated costs to settle the liabilities through a combination of lump sum payments to participants and purchasing annuities from an insurance company. This reflects an estimate of how many participants we expect will accept a lump sum offering, and an estimate of lump sum payouts for those participants based on the current lump sum rates approved by the IRS. Liabilities expected to be settled through annuity contracts have been estimated based on future benefit payments, discounted based on current interest rates that correspond to the liability payouts, adjusted to reflect a premium that would be assessed by the insurer. As the liabilities are settled, unamortized losses in accumulated other comprehensive income will be recognized based on the projected benefit obligations and assets measured as of the dates the settlements occur. Based on rates as of September 30, 2015, the amount of unamortized losses in other comprehensive income that would result in a one-time noncash pre-tax charge was estimated at $54.4 million. Prior to settling the liabilities, we will contribute such additional amounts (estimated to be approximately $6.9 million as of September 30, 2015) as may be necessary to fully fund the Plan. Such contributions are expected to be made concurrent with settling the liabilities but may be made earlier at our discretion. The impact of termination is subject to rate changes at the time of settlement. This planned termination does not yet constitute a settlement of liability under applicable accounting guidance for pension plans. The Company anticipates the conversion to individual annuity policies along with the liability discharge to occur in the fourth quarter. The defined benefit plan is included in the accompanying table for all periods presented.

The following are components of the net periodic benefit cost for the pension and postretirement benefit plans maintained by the Company for the three and nine months ended September 30, 2015 and 2014:

	Pension Benefits			
(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost	$59	$45	$177	$135
Interest cost	45	1,193	136	3,580
Expected return on plan assets	—	(1,903)	—	(5,711)
Recognized net actuarial loss	379	234	1,137	701
Benefit cost (income)	$483	$(431)	$1,450	$(1,295)

	Postretirement Benefits			
(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost	$225	$173	$675	$516
Interest cost	396	377	1,188	1,133
Amortization of prior service cost	(136)	(136)	(408)	(408)
Recognized net actuarial loss	379	203	1,138	609
Benefit cost	$864	$617	$2,593	$1,850

7. Income Taxes

On a quarterly basis, the Company estimates the effective tax rate expected to be applicable for the full year and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecast based on actual historical information and forward-looking estimates and is used to provide for income taxes in interim reporting periods. The Company also recognizes the tax impact of certain unusual or infrequently occurring items, such as the effects of changes in tax laws or rates and impacts from settlements with tax authorities, discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily due to the impact of state and local income taxes and income or losses attributable to non-controlling interests that do not impact the Company's income tax provision.

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For the three months ended September 30, 2015, an income tax benefit of $1.5 million was provided at 61.3%, which varied from the U.S. Federal tax rate of 35%. The higher effective tax rate this quarter is primarily due to the cumulative impact of revised full year earnings expectations, driven by the inclusion of a one-time charge expected in the fourth quarter related to the termination of the Company's pension plan, and relatively low third quarter earnings. For the three months ended September 30, 2014, the Company recorded income tax expense of $10.3 million at an effective tax rate of 34.7%.

For the nine months ended September 30, 2015, income tax expense of $17.6 million was provided at 33.2%, which differs from the statutory U.S. Federal tax rate of 35% primarily due to lower earnings expectations and the relative benefit of the domestic production activity deduction and accounting for the investment in a foreign affiliate, partially offset by tax charges related to other permanent book to taxable income items. For the nine months ended September 30, 2014, income tax expense of $49.8 million was provided at a rate of 34.5%.

We have made income tax payments, net of refunds, of $4.5 million through the first nine months of 2015, and we expect to make payments totaling approximately $21.0 million for the remainder of 2015.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2014. The Company's consolidated Federal income tax returns for 2011 and 2012 are currently being audited by the IRS, and it is anticipated that the IRS will substantially complete its examination in 2015. The Company does not expect that the resolution of the examination will have a material effect on its effective tax rate.

8. Accumulated Other Comprehensive Loss

The following tables summarize the after-tax components of accumulated other comprehensive income (loss) attributable to the Company for the three and nine months ended September 30, 2015 and 2014:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)									
	For the three months ended September 30, 2015					For the nine months ended September 30, 2015				
(in thousands)	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustments	Investment in Debt Securities	Defined Benefit Plan Items	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustments	Investment in Debt Securities	Defined Benefit Plan Items	Total
Beginning Balance	$(242)	$(7,913)	$126	$(47,130)	$(55,159)	$(364)	$(4,709)	$126	$(49,648)	$(54,595)
Other comprehensive income (loss) before reclassifications	62	(2,750)	—	473	(2,215)	184	(5,954)	—	3,161	(2,609)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(85)	(85)	—	—	—	(255)	(255)
	62	(2,750)	—	388	(2,300)	184	(5,954)	—	2,906	(2,864)

Net current-period other comprehensive income (loss)										
Ending balance	$(180)	$(10,663)	$126	$(46,742)	$(57,459)	$(180)	$(10,663)	$126	$(46,742)	$(57,459)

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Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)

(in thousands)	For the three months ended September 30, 2014					For the nine months ended September 30, 2014				
	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustments	Investment in Debt Securities	Defined Benefit Plan Items	Total	Losses on Cash Flow Hedges	Foreign Currency Translation Adjustments	Investment in Debt Securities	Defined Benefit Plan Items	Total
Beginning Balance	$(506)	$—	$2,399	$(28,916)	$(27,023)	$(637)	$—	$7,861	$(28,405)	$(21,181)
Other comprehensive income (loss) before reclassifications	79	—	(1,214)	272	(863)	210	—	(6,676)	(69)	(6,535)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	(85)	(85)	—	—	—	(255)	(255)
Net current-period other comprehensive income (loss)	79	—	(1,214)	187	(948)	210	—	(6,676)	(324)	(6,790)
Ending balance	$(427)	$—	$1,185	$(28,729)	$(27,971)	$(427)	$—	$1,185	$(28,729)	$(27,971)

(a) All amounts are net of tax. Amounts in parentheses indicate debits

The following tables show the reclassification adjustments from accumulated other comprehensive loss to net income (loss) for the three and nine months ended September 30, 2015 and 2014:

(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)			
	For the three months ended September 30, 2015		For the nine months ended September 30, 2015	
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income Is Presented	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income Is Presented
Defined Benefit Plan Items				
Amortization of prior-service cost	$(136)	(b)	$(408)	(b)
	(136)	Total before tax	(408)	Total before tax
	51	Income tax provision	153	Income tax provision
	$(85)	Net of tax	$(255)	Net of tax
Total reclassifications for the period	$(85)	Net of tax	$(255)	Net of tax

(in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (a)

Details about Accumulated Other Comprehensive Income (Loss) Components	For the three months ended September 30, 2014 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income Is Presented	For the nine months ended September 30, 2014 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income Is Presented
Defined Benefit Plan Items						
Amortization of prior-service cost	$(136	)	(b)	$(408	)	(b)
	(136	)	Total before tax	(408	)	Total before tax
	51		Income tax provision	153		Income tax provision
	$(85	)	Net of tax	$(255	)	Net of tax
Total reclassifications for the period	$(85	)	Net of tax	$(255	)	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss

(b) This accumulated other comprehensive loss component is included in the computation of net periodic benefit cost (see Note 6).

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9. Earnings Per Share

Unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. The Company's nonvested restricted stock that was granted prior to March 2015 is considered a participating security since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest.

(in thousands, except per common share data)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss) attributable to The Andersons, Inc.	$(1,227)	$16,825	$33,961	$83,834
Less: Distributed and undistributed earnings allocated to nonvested restricted stock	(2)	93	61	443
Earnings available to common shareholders	$(1,225)	$16,732	$33,900	$83,391
Earnings per share – basic:				
Weighted average shares outstanding – basic	28,071	28,260	28,394	28,222
Earnings per common share – basic	$(0.04)	$0.59	$1.19	$2.95
Earnings per share – diluted:				
Weighted average shares outstanding – basic	28,071	28,260	28,394	28,222
Effect of dilutive awards	—	40	60	46
Weighted average shares outstanding – diluted	28,071	28,300	28,454	28,268
Earnings per common share – diluted	$(0.04)	$0.59	$1.19	$2.95

There were no antidilutive stock-based awards outstanding at September 30, 2015 or 2014.

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10. Fair Value Measurements

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2015, December 31, 2014 and September 30, 2014:

(in thousands)	September 30, 2015			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	$16,121	$—	$—	$16,121
Restricted cash	181	—	—	181
Commodity derivatives, net (a)	34,337	(24,611)	—	9,726
Convertible preferred securities (b)	—	—	12,800	12,800
Other assets and liabilities (c)	10,814	(4,010)	350	7,154
Total	$61,453	$(28,621)	$13,150	$45,982
(in thousands)	December 31, 2014			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	$269	$—	$—	$269
Restricted cash	429	—	—	429
Commodity derivatives, net (a)	72,868	(46,983)	—	25,885
Convertible preferred securities (b)	—	—	13,300	13,300
Other assets and liabilities (c)	10,869	(2,666)	—	8,203
Total	$84,435	$(49,649)	$13,300	$48,086
(in thousands)	September 30, 2014			
Assets (liabilities)	Level 1	Level 2	Level 3	Total
Cash equivalents	$85,663	$—	$—	$85,663
Restricted cash	173	—	—	173
Commodity derivatives, net (a)	32,606	(159,295)	—	(126,689)
Convertible preferred securities (b)	—	—	15,000	15,000
Other assets and liabilities (c)	10,671	(1,636)	—	9,035
Total	$129,113	$(160,931)	$15,000	$(16,818)

(a) Includes associated cash posted/received as collateral

(b) Recorded in "Other noncurrent assets" on the Company's Condensed Consolidated Balance Sheets

(c) Included in other assets and liabilities are deferred compensation assets (Level 1), interest rate derivatives (Level 2), and contingent consideration to the former owners of Kay Flo Industries, Inc (Level 3).

Level 1 commodity derivatives reflect the fair value of the exchange-traded futures and options contracts that the Company holds, net of the cash collateral that the Company has in its margin account.

The majority of the Company's assets and liabilities measured at fair value are based on the market approach valuation technique. With the market approach, fair value is derived using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company's net commodity derivatives primarily consist of futures or options contracts via regulated exchanges and contracts with producers or customers under which the future settlement date and bushels (or gallons in the case of ethanol contracts) of commodities to be delivered (primarily wheat, corn, soybeans and ethanol) are fixed and under which the price may or may not be fixed. Depending on the specifics of the individual contracts, the fair value is derived from the futures or options prices on the CME or the New York Mercantile Exchange for similar commodities and delivery dates as well as observable quotes for local basis adjustments (the difference, which is attributable to local market conditions, between the quoted futures price and the local cash price). Because basis for a particular commodity and location typically has multiple quoted prices from other agribusinesses in the same geographical

vicinity and is used as a common pricing mechanism in the Agribusiness industry, we have concluded that basis is a Level 2 fair value input for purposes of the fair value disclosure requirements related to our commodity derivatives. Although nonperformance risk, both of the Company and the counterparty, is present in each of these commodity contracts and is a component of the estimated fair values, based on the Company's

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historical experience with its producers and customers and the Company's knowledge of their businesses, the Company does not view nonperformance risk to be a material input to fair value for these commodity contracts.

The Company's convertible preferred securities are measured at fair value using a combination of the income and market approaches on a quarterly basis. Specifically, the income approach incorporates the use of the Discounted Cash Flow method, whereas the Market Approach incorporates the use of the Guideline Public Company method. Application of the Discounted Cash Flow method requires estimating the annual cash flows that the business enterprise is expected to generate in the future. The assumptions input into this method are estimated annual cash flows for a specified estimation period, the discount rate, and the terminal value at the end of the estimation period. In the Guideline Public Company method, valuation multiples, including total invested capital, are calculated based on financial statements and stock price data from selected guideline publicly traded companies. A comparative analysis is then performed for factors including, but not limited to size, profitability and growth to determine fair value.
A reconciliation of beginning and ending balances for the Company's fair value measurements using Level 3 inputs is as follows:

(in thousands)	2015 Contingent Consideration	2014 Contingent Consideration	2015 Convertible Preferred Securities	2014 Convertible Preferred Securities
Asset at January 1,	$—	$—	$13,300	$25,720
Unrealized gains (losses) included in other comprehensive income	—	—	—	(5,190)
Asset at March 31,	$—	$—	$13,300	$20,530
Unrealized gains (losses) included in other comprehensive income	—	—	—	(3,580)
New agreements	$350	$—	$—	$—
Asset at June 30,	$350	$—	$13,300	$16,950
Unrealized gains (losses) included in other comprehensive income	—	—	—	(1,950)
Sales proceeds	—	—	(992)	—
Realized gains (losses) included in earnings	—	—	492	—
Asset at September 30,	$350	$—	$12,800	$15,000

The following tables summarize quantitative information about the Company's Level 3 fair value measurements as of September 30, 2015, December 31, 2014 and September 30, 2014:
Quantitative Information about Level 3 Fair Value Measurements

(in thousands)	Fair Value as of September 30, 2015	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	$12,800	Market Approach	EBITDA Multiples	5.535
		Income Approach	Discount Rate	14.5 %

(in thousands)	Fair Value as of December 31, 2014	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	$13,300	Market Approach	EBITDA Multiples	7.00
		Income Approach	Discount Rate	14.5 %

(in thousands)	Fair Value as of September 30, 2014	Valuation Method	Unobservable Input	Weighted Average
Convertible Preferred Securities	$15,000	Market Approach	EBITDA Multiples	8.35
		Income Approach	Discount Rate	14.5 %

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Fair Value of Financial Instruments

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. As such, the Company has concluded that the fair value of long-term debt is considered Level 2 in the fair value hierarchy.

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Fair value of long-term debt, including current maturities	$448,590	$382,139	$369,000
Fair value in excess of carrying value	8,040	7,086	2,795

The fair value of the Company's cash equivalents, accounts receivable and accounts payable approximate their carrying value as they are close to maturity.

11. Related Party Transactions

Equity Method Investments

The Company, directly or indirectly, holds investments in 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 or loss, less any distributions it has received.

On January 22, 2014, the Company entered into an agreement with Lansing Trade Group, LLC ("LTG") for a partial redemption of the Company's investment in LTG for $60 million. At the time of redemption, the Company's interest in LTG reduced from approximately 47.5 percent to approximately 39.2 percent on a fully diluted basis. A portion of the proceeds ($28.5 million) was considered a distribution of earnings and reduced the Company's cost basis in LTG. The difference between the remaining proceeds of $31.5 million and the new cost basis of the shares sold, net of deal costs, resulted in a book gain of $17.1 million ($10.7 million after tax). This gain was recorded in Other income.

The following table presents the Company's investment balance in each of its equity method investees by entity:

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
The Andersons Albion Ethanol LLC	$31,409	$27,824	$33,465
The Andersons Clymers Ethanol LLC	31,151	37,624	51,692
The Andersons Marathon Ethanol LLC	30,066	31,537	42,416
Lansing Trade Group, LLC	84,081	78,696	72,560
Thompsons Limited (a)	43,803	48,455	53,125
Other	2,697	2,721	3,908
Total	$223,207	$226,857	$257,166

(a) Thompsons Limited and related U.S. operating company held by joint ventures

The Company holds a majority interest (66%) in The Andersons Ethanol Investment LLC ("TAEI"). This consolidated entity holds a 50% interest in The Andersons Marathon Ethanol LLC ("TAME"). The noncontrolling interest in TAEI is attributed 34% of the gains and losses of TAME recorded by the Company in its equity in earnings of affiliates.

The following table summarizes income earned from the Company's equity method investments by entity:

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(in thousands)	% ownership at September 30, 2015	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
The Andersons Albion Ethanol LLC	53%	$665	$4,566	$4,080	$16,165
The Andersons Clymers Ethanol LLC	38%	1,454	4,564	4,922	16,819
The Andersons Marathon Ethanol LLC	50%	385	4,596	3,530	23,106
Lansing Trade Group, LLC	40% (a)	1,382	10,016	9,290	17,130
Thompsons Limited (b)	50%	17	68	1,385	3,154
Other	5%-34%	(58)	107	88	257
Total		$3,845	$23,917	$23,295	$76,631

(a) This does not consider restricted management units which once vested will reduce the ownership percentage by approximately 1.4%
(b) Thompsons Limited and related U.S. operating company held by joint ventures

Total distributions received from unconsolidated affiliates were $1.6 million and $20.8 million for the three and nine months ended September 30, 2015 and $31.0 million and $96.9 million for the three and nine months ended September 30, 2014.

Investment in Debt Securities

The Company owns 100% of the cumulative convertible preferred shares of Iowa Northern Railway Corporation ("IANR"), which operates a short-line railroad in Iowa. As a result of this investment, the Company has a 49.9% voting interest in IANR, with the remaining 50.1% voting interest held by the common shareholders. The preferred shares have certain rights associated with them, including voting, dividends, liquidation preference, redemption and conversion rights.

IANR has indicated its desire to redeem our investment of preferred shares. On May 25, 2015, the Company and IANR agreed to reduce the preferred rate of the investment to 9% for the period of May to December, 2015 in exchange for certain other accommodations, as IANR attempts to complete its financing arrangements.

This investment is accounted for as "available-for-sale" debt securities in accordance with ASC 320 and is carried at estimated fair value in "Other noncurrent assets" on the Company's Condensed Consolidated Balance Sheet. The estimated fair value of the Company's investment in IANR as of September 30, 2015 was $12.8 million. See Footnote 10 for additional discussion on the change in the investment value.

The Company's current maximum exposure to loss related to IANR is $22.2 million, which represents the Company's investment at fair value plus unpaid accrued dividends of $9.4 million as of September 30, 2015. The Company does not have any obligations or commitments to provide additional financial support to IANR.

Related Party Transactions

In the ordinary course of business, the Company will enter into related party transactions with each of the investments described above, along with other related parties. The following table sets forth the related party transactions entered into for the time periods presented:

(in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Sales revenues	$230,409	$247,451	$577,133	$766,553
Service fee revenues (a)	3,610	5,732	14,865	17,573
Purchases of product	123,051	140,843	339,159	465,459
Lease income (b)	1,542	1,426	4,787	4,686
Labor and benefits reimbursement (c)	2,950	2,804	8,761	8,603
Other expenses (d)	269	301	827	1,025

(a) Service fee revenues include management fees, corn origination fees, ethanol and DDG marketing fees, and other commissions.

(b) Lease income includes the lease of the Company's Albion, Michigan and Clymers, Indiana grain facilities as well as certain railcars to the various ethanol LLCs and IANR.

(c) The Company provides all operational labor to the unconsolidated ethanol LLCs and charges them an amount equal to the Company's costs of the related services.

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(d) Other expenses include payments to IANR for repair facility rent and use of their railroad reporting mark, payment to LTG for the lease of railcars and other various expenses.

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Accounts receivable (e)	$19,799	$25,049	$21,407
Accounts payable (f)	15,929	17,687	21,911

(e) Accounts receivable represents amounts due from related parties for sales of corn, leasing revenue and service fees.
(f) Accounts payable represents amounts due to related parties for purchases of ethanol and other various items.

For the three months ended September 30, 2015 and 2014, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were $105.1 million and $131.7 million, respectively. For the three months ended September 30, 2015 and 2014, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were $119.4 million and $93.0 million, respectively.

For the nine months ended September 30, 2015 and 2014, revenues recognized for the sale of ethanol that the Company purchased from the unconsolidated ethanol LLCs were $315.9 million and $444.2 million, respectively. For the nine months ended September 30, 2015 and 2014, revenues recognized for the sale of corn to the unconsolidated ethanol LLCs under these agreements were $323.7 million and $368.3 million, respectively.

From time to time, the Company enters into derivative contracts with certain of its related parties for the purchase and sale of corn and ethanol, for similar price risk mitigation purposes and on similar terms as the purchase and sale of derivative contracts it enters into with unrelated parties. The fair value of derivative contract assets with related parties as of September 30, 2015, December 31, 2014 and September 30, 2014 was $3.4 million, $1.4 million and $24.6 million, respectively. The fair value of derivative contract liabilities with related parties as of September 30, 2015, December 31, 2014 and September 30, 2014 was $0.3 million, $3.8 million and $18.9 million, respectively.

12. Segment Information

The Company’s operations include five reportable business segments that are distinguished primarily on the basis of products and services offered. The Grain business includes grain merchandising, the operation of terminal grain elevator facilities and the investments in LTG and Thompsons Limited. The Ethanol business purchases and sells ethanol and also manages the ethanol production facilities organized as limited liability companies, one is consolidated and three are investments accounted for under the equity method. There are various service contracts for these investments. Rail operations include the leasing, marketing and fleet management of railcars and other assets, railcar repair and metal fabrication. The Plant Nutrient business manufactures and distributes agricultural inputs, primarily fertilizer, to dealers and farmers, along with turf care and corncob-based products. The Retail business operates large retail stores, a specialty food market, a distribution center and a lawn and garden equipment sales and service facility. Included in “Other” are the corporate level amounts not attributed to an operating segment.

In the first quarter of 2015, the Plant Nutrient Group merged with the Turf & Specialty Group, as announced in the fourth quarter of 2014. Management has adjusted its internal reporting structure to reflect this organizational change and the result of this merger is one reportable business segment, referred to as the Plant Nutrient Group. All prior periods have been recast to reflect this change.

The segment information below includes the allocation of expenses shared by one or more operating segments. 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. The Company does not have any customers who represent 10 percent or more of total revenues.

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(in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Revenues from external customers				
Grain	$570,626	$575,354	$1,781,104	$1,814,517
Ethanol	139,140	179,405	416,752	594,613
Plant Nutrient	149,303	133,440	660,440	639,603
Rail	44,758	32,022	134,497	117,733
Retail	31,947	32,706	101,562	101,837
Total	$935,774	$952,927	$3,094,355	$3,268,303

(in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Inter-segment sales				
Grain	$404	$894	$2,534	$4,256
Plant Nutrient	53	42	517	520
Rail	388	109	813	327
Total	$845	$1,045	$3,864	$5,103

(in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Income (loss) before income taxes				
Grain	$131	$12,449	$4,024	$34,110
Ethanol	5,888	21,253	20,833	74,981
Plant Nutrient	(11,114)	(3,014)	8,183	23,952
Rail	11,913	4,160	43,915	25,889
Retail	(769)	(968)	(1,483)	(1,666)
Other	(8,781)	(6,804)	(23,955)	(23,595)
Noncontrolling interests	277	2,454	1,433	10,844
Total	$(2,455)	$29,530	$52,950	$144,515

(in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Identifiable assets			
Grain	$852,388	$1,137,437	$713,352
Ethanol	186,250	197,888	257,194
Plant Nutrient	546,673	433,013	336,887
Rail	413,955	365,531	316,851
Retail	45,403	44,536	46,108
Other	147,025	186,287	412,600
Total	$2,191,694	$2,364,692	$2,082,992

13. Commitments and Contingencies

The Company is party to litigation, or threats thereof, both as defendant and plaintiff with some regularity, although individual cases that are material in size occur infrequently. As a defendant, the Company establishes reserves for claimed amounts that are considered probable, and capable of estimation. If those cases are resolved for lesser amounts, the excess reserves are taken into income and, conversely, if those cases are resolved for larger than the amount the Company has accrued, the Company records additional expense. The Company believes it is unlikely that the results of its current legal proceedings for which it is the defendant, even if unfavorable, will be material. As a plaintiff, amounts that are collected can also result in sudden, non-recurring income. Litigation results depend upon a variety of factors, including the availability of evidence, the credibility of witnesses, the performance of counsel, the

state of the law, and the impressions of judges and jurors, any of which can be

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critical in importance, yet difficult, if not impossible, to predict. Consequently, cases currently pending, or future matters, may result in unexpected, and non-recurring losses, or income, from time to time. Finally, litigation results are often subject to judicial reconsideration, appeal and further negotiation by the parties, and as a result, the final impact of a particular judicial decision may be unknown for some time, or may result in continued reserves to account for the potential of such post-verdict actions.

The estimated range of loss for all outstanding claims that are considered reasonably possible of occurring is not material. The Company has received and is cooperating fully with a request for information from the United States Environmental Protection Agency ("U.S. EPA") regarding the history of the grain and fertilizer facility along the Maumee River in Toledo, Ohio. The U.S. EPA is investigating the possible introduction into the Maumee River of hazardous materials potentially leaching from rouge piles deposited along the riverfront by glass manufacturing operations that existed in the area prior to the initial acquisition of the land in 1960. The Company has on several prior occasions cooperated with local, state and federal regulators to install or improve drainage systems to contain storm water runoff and sewer discharges along the riverfront property to minimize the potential for such leaching. Other area land owners and the successor to the original glass making operations have also been contacted by the U.S. EPA for information. No claim or finding has been asserted thus far.

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14. Supplemental Cash Flow Information

Certain supplemental cash flow information, including noncash investing and financing activities for the nine months ended September 30, 2015 and 2014 are as follows:

(in thousands)	Nine months ended September 30, 2015	2014
Noncash investing and financing activity		
Capital projects incurred but not yet paid	$10,708	$5,502
Purchase of a productive asset through seller-financing	1,010	5,055
Shares issued for acquisition of business	4,303	—
Dividends declared not yet paid	3,967	3,127

15. Business Acquisitions

On May 18, 2015, the Company purchased Kay Flo Industries, Inc. and certain subsidiaries. The Company acquired 100% of the outstanding shares of Kay Flo Industries, Inc. In connection with the acquisition, the Company agreed to pay contingent consideration based on the achievement of specified objectives, including reaching targeted gross profit thresholds. The range of undiscounted amounts the Company could be required to pay under the contingent consideration arrangement is between $0 and $24 million.

The total fair value of consideration for the acquisitions is $125.5 million, including working capital. Included is $0.4 million in estimated fair value of the contingent consideration arrangement. The Company has funded this transaction with long-term debt, short-term debt, and cash on hand. The debt has been drawn from the Company's existing line of credit.

The purchase price allocation has been adjusted from the prior period for additional working capital payments to the sellers of $0.3 million. The purchase price allocation is preliminary and is subject to final working capital adjustments with the sellers in the fourth quarter. The allocation is summarized below:

(in thousands)	
Cash	$880
Accounts receivable	14,699
Inventory	25,094
Other assets	6,155
Intangibles	53,091
Goodwill	45,706
Property, plant, and equipment	27,478
Accounts payable	(17,075)
Other current liabilities	(4,521)
Other non-current liabilities	(26,035)
Total purchase price	$125,472

The goodwill recognized as a result of the Kay Flo Industries, Inc. acquisition is $45.7 million and is allocated to the Plant Nutrient segment. The goodwill is not deductible for tax purposes. The goodwill recognized is primarily attributable to expansion of the segment's geographic range and the ability to realize synergies from the combination of product lines and marketing efforts.
Details of the intangible assets acquired are as follows:

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(in thousands)	Fair Value	Useful Life
Unpatented technology	$13,400	10 years
Customer relationships	22,800	10 years
Trade names	15,500	7 to 10 years
Noncompete agreement	1,342	5 years
Favorable leasehold interest	49	5 years
Total identifiable intangible assets	$53,091	10 years *

*weighted average number of years

The Company performed an analysis of all acquisitions and has determined that no pro forma financial information is needed due to such information not being material.

Prior Years Business Acquisitions

On October 7, 2014, the Company purchased Auburn Bean and Grain, which included six grain and four agronomy assets. The Company acquired 100% of the outstanding shares of Auburn Bean and Grain, in related transactions valued at an aggregate purchase price of $60.9 million. The purchase occurred in two transactions. For the shares of Auburn Bean and Grain, the Company paid $5.0 million in cash and approximately 637 thousand unregistered shares of the Company's common stock, valued at $35.5 million. Included in these amounts are approximately 80 thousand shares, valued at $4.5 million for an adjustment to working capital paid in 2015. The Company also paid $20.4 million in cash for certain facilities previously leased by Auburn Bean and Grain. The purchase provides combined grain storage capacity of approximately: 18.1 million bushels, 16.0 thousand tons of dry and 3.7 million gallons of liquid nutrient capacity. The purchase price allocation was finalized in the first quarter of 2015 with no changes noted from December 31, 2014.

The Company also completed various individually insignificant acquisitions in 2014 for a combined purchase price of $7.2 million. The purchase price allocations were finalized in the first quarter of 2015 with no changes noted from December 31, 2014.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contains forward-looking statements which relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. You are urged to carefully consider these risks and others, including those risk factors listed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”). In some cases, you can identify forward-looking statements by terminology such as “may,” “anticipates,” “believes,” “estimates,” “predicts,” or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. These forward-looking statements relate only to events as of the date on which the statements are made and the Company undertakes no obligation, other than any imposed by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Critical Accounting Policies and Estimates

Our critical accounting policies and critical accounting estimates, as described in our 2014 Form 10-K, have not materially changed through the third quarter of 2015.

Executive Overview

Our agricultural commodity-based business is one in which changes in selling prices generally move in relationship to changes in purchase prices. Therefore, increases or decreases in prices of the agricultural commodities that the business deals in will have a relatively equal impact on sales and cost of sales and a much less significant impact on gross profit. As a result, changes in sales for the period may not necessarily be indicative of the overall performance of the business and more focus should be placed on changes to gross profit.

In the first quarter of 2015, the Plant Nutrient Group merged with the Turf & Specialty Group, as announced in the fourth quarter of 2014. Management has adjusted its internal reporting structure to reflect this organizational change and the result of this merger is one reportable business segment, referred to as the Plant Nutrient Group. All prior periods have been recast to reflect this change. We believe this merger will allow the groups to operate under a common strategy to better service our customers, boost growth opportunities and improve profitability.

Grain Group

The Grain Group's performance in the third quarter reflects reduced performance in its core grain assets, as well as significantly lower returns from affiliates. The decline in results is attributable to reductions in margin per bushel, which was partly offset by increases in space income related to soybeans, wheat, and oats. Heavy rain in the eastern corn belt is expected to reduce corn yields and may put pressure on basis and space income in the fourth quarter. The wheat harvest was dramatically impacted by summer rainfall, with quality well below average. This may provide opportunities for higher income from blending in forward months.

Grain inventories on hand at September 30, 2015 were 67.3 million bushels, of which 3.2 million bushels were stored for others. This compares to 53.8 million bushels on hand at September 30, 2014, of which 2.0 million bushels were stored for others. With the acquisition of Auburn Bean and Grain in the fourth quarter of 2014, total grain storage capacity was approximately 163 million bushels at September 30, 2015 compared to 142 million bushels at September 30, 2014.

The outlook for the Grain Group remains cautious as the industry builds back from lower storage utilization rates which we have seen in the past few years. While no triggering event has occurred in the grain reporting unit, the assessment performed for goodwill is subject to changes in key assumptions that affect the calculated fair value of the reporting unit at the annual October 1 assessment date. The goodwill fair value is highly sensitive to changes in those assumptions. If recent weakness in our grain business affects our forecast for future years, this may result in a goodwill impairment charge. Total goodwill in the grain reporting unit is $46.4 million.

Ethanol Group

As expected, the Ethanol Group's third quarter results reflect lower margins, which is driven by lower ethanol prices, partly offset by a decrease in corn prices. Third quarter margins on sales of ethanol were higher than the first quarter but lower than the second quarter. Additionally, margins remain significantly lower than the record levels experienced in 2014. Despite an

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increase in driving demand, pressure from unleaded prices as well as high levels of production kept margins relatively weak for the quarter. In addition to lower prices on the finished product side, regional weather challenges adversely impacted the corn crop leading to an increase in average feedstock costs at several of our facilities. This lead to further weakness in margins compared to the prior quarter. Due to efficiency gains, total ethanol production hit record levels for the third quarter.

Ethanol volumes shipped for the three and nine months ended September 30, 2015 and 2014 were as follows:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Ethanol (gallons shipped)	72,839	69,202	221,535	216,968
E-85 (gallons shipped)	10,294	8,113	25,433	20,913
Corn Oil (pounds shipped) *	4,244	20,686	11,601	64,034
DDG (tons shipped) ^	42	41	124	123

* Starting in 2015, the Company is only selling corn oil for consolidated operations. Equity affiliates have modified their sales arrangements to sell the product directly to customers instead of using the Company as an intermediary.

^ DDG tons shipped converts wet tons to a dry ton equivalent amount

The above table shows only shipped volumes that flow through the Company's sales revenues. Total ethanol and DDG production by the unconsolidated LLCs are higher, however, the portion of this volume that is sold directly to their customers is excluded here.

Plant Nutrient Group

The Plant Nutrient Group's results reflect lower volumes in our legacy business due to adverse weather conditions throughout the year, particularly in the eastern corn belt. While margins have remained close to the prior year, it is not expected that the volume lost due to weather will be fully recovered in the current year.

Storage capacity at our wholesale nutrient and farm center facilities, including leased storage, was approximately 508 thousand tons for dry nutrients and approximately 546 thousand tons for liquid nutrients at September 30, 2015 and approximately 495 thousand tons for dry nutrients and approximately 440 thousand tons for liquid nutrients at September 30, 2014. The increase in our storage capacity is a result of the four additional agronomy locations acquired with the purchase of Auburn Bean and Grain in the fourth quarter of 2014 and the three additional liquid fertilizer facilities acquired as part of Kay Flo Industries, Inc in the second quarter of 2015.

Fertilizer tons shipped (including sales and service tons) for the three and nine months ended September 30, 2015 and 2014 were as follows:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Sales tons	345	307	1,485	1,461
Service tons	34	45	156	199
Total tons	379	352	1,641	1,660

Rail Group

The Rail Group delivered improved results from its leasing business in the third quarter of 2015. Strong utilization rates and improved average lease rates are driving these results. Railcars, locomotives, and barges under management (owned, leased or managed for financial institutions in non-recourse arrangements) at September 30, 2015 were 23,301 compared to 22,139 at September 30, 2014. The average utilization rate (railcars and locomotives under management that are in lease services, exclusive of railcars managed for third party investors) has increased to 91.6% from 89.9% for the three months ended September 30, 2015 and 2014, respectively.

On May 1, 2015, the U.S. Department of Transportation announced its final rules for safe transportation of flammable liquids by rail, which affects a portion of our tank cars. We have a fleet of approximately 23,000 railcars in North America, including approximately 2,100 tank cars currently used to transport flammable liquids that are affected by

the new rules, of which approximately 1,500 are moving crude oil and ethanol. Approximately 91% of the affected tank cars have a compliance deadline of 2023 or later. We have not yet determined the number of these cars that will be modified, repurposed or retired.

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Retail Group

The retail industry is highly competitive. Our stores compete with a variety of retail merchandisers, including home centers, department and hardware stores, as well as local and national grocers.

Other

Our "Other" represents corporate functions that provide support and services to the operating segments. The results contained within this segment include expenses and benefits not allocated back to the operating segments, including a portion of our ERP project.

Operating Results

The following discussion focuses on the operating results as shown in the Condensed Consolidated Statements of Income with a separate discussion by segment. Additional segment information is included in the Notes to the Condensed Consolidated Financial Statements herein in Note 12. Segment Information.

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Sales and merchandising revenues	$935,774	$952,927	$3,094,355	$3,268,303
Cost of sales and merchandising revenues	850,584	868,009	2,817,681	2,985,115
Gross profit	85,190	84,918	276,674	283,188
Operating, administrative and general expenses	88,698	76,737	251,044	223,997
Interest expense	6,147	4,253	16,210	16,401
Equity in earnings of affiliates, net	3,845	23,917	23,295	76,631
Other income, net	3,355	1,685	20,235	25,094
Income before income taxes	(2,455)	29,530	52,950	144,515
Income attributable to noncontrolling interests	277	2,454	1,433	10,844
Income before income taxes attributable to The Andersons, Inc.	$(2,732)	$27,076	$51,517	$133,671

Comparison of the three months ended September 30, 2015 with the three months ended September 30, 2014:

Grain Group

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$570,626	$575,354
Cost of sales and merchandising revenues	540,700	542,606
Gross profit	29,926	32,748
Operating, administrative and general expenses	31,087	26,414
Interest expense	668	1,723
Equity in earnings of affiliates, net	1,340	10,190
Other income, net	618	(2,354)
Income before income taxes	129	12,447
Loss attributable to noncontrolling interest	(2)	(2)
Income before income taxes attributable to The Andersons, Inc.	$131	$12,449

Operating results for the Grain Group have decreased $12.3 million compared to the results of the same period last year. Sales and merchandising revenues and cost of sales and merchandising revenues were relatively flat compared to the same period in the prior year. Gross profit decreased $2.8 million over the prior year due to the negative financial impact on risk management positions resulting from weather-induced market volatility and lower merchandising fees, partially offset by higher income from blending opportunities related to the quality of the wheat harvest.

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Operating, administrative and general expenses increased $4.7 million compared to the same period in 2014. The increase was driven by a $1.1 million increase in labor and benefit costs, including additional headcount from recent acquisitions, as well as a $1.4 million increase from on-going support costs for the ERP project since most of the cost in the prior year was capital in nature. Depreciation and amortization expense also increased $1.1 million due to capital growth, primarily from acquisitions.

Equity in earnings of affiliates decreased $8.9 million compared to the same period in 2014. This was primarily driven by a $5.8 million decrease in operating results caused by a difficult merchandising environment due to US dollar strength and low oil prices. It also includes our share ($2.8 million) of a correction of a prior period accounting error at Lansing Trade Group.

Ethanol Group

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising and service fee revenues	$139,140	$179,405
Cost of sales and merchandising revenues	132,875	166,635
Gross profit	6,265	12,770
Operating, administrative and general expenses	2,625	2,782
Interest expense	14	77
Equity in earnings of affiliates, net	2,505	13,727
Other income (expense), net	36	71
Income before income taxes	6,167	23,709
(Loss) Income attributable to noncontrolling interests	279	2,456
Income before income taxes attributable to The Andersons, Inc.	$5,888	$21,253

Operating results for the Ethanol Group decreased $15.4 million over the results of the same period last year. Sales and merchandising and service fee revenues decreased $40.3 million, almost entirely related to ethanol sales. While ethanol gallons sold increased 5%, the average price of ethanol decreased 26%. The $33.8 million decrease in cost of sales is due to lower corn and ethanol prices.

Equity in earnings of affiliates decreased $11.2 million due to significantly lower earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was unfavorably impacted by significantly lower ethanol margins.

Plant Nutrient Group

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$149,303	$133,440
Cost of sales and merchandising revenues	126,983	114,200
Gross profit	22,320	19,240
Operating, administrative and general expenses	32,593	23,760
Interest expense	1,788	1,355
Other income, net	947	2,861
Income (loss) before income taxes	$(11,114)	$(3,014)

Operating results for the Plant Nutrient Group decreased $8.1 million from the same period last year. Sales and merchandising revenues increased $15.9 million due to $18.0 million in sales related to the acquisition of Kay Flo Industries, Inc. which was partly offset by marginal declines in price per ton. The increase in cost of sales and merchandising revenues follows that of revenues, which is a result of acquisition activity. Gross profit increased by

$3.1 million, all of which was attributable to the Kay Flo Industries acquisition.

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Operating, administrative, and general expenses increased $8.8 million. $7.0 million of this was direct expenses at the acquired Kay Flo Industries facilities. A triggering event occurred and after completion of an impairment analysis, expense of $2.0 million was recognized to fully impair goodwill held by the cob reporting unit.

Rail Group

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$44,758	$32,022
Cost of sales and merchandising revenues	27,267	21,181
Gross profit	17,491	10,841
Operating, administrative and general expenses	6,165	5,652
Interest expense	1,506	1,821
Other income, net	2,093	792
Income before income taxes	$11,913	$4,160

Operating results for the Rail Group increased $7.8 million from the same period last year. Sales and merchandising revenues increased $12.7 million. Revenue from car sales increased $7.1 million, leasing revenues increased $4.1 million, and repair and other revenues increased $1.5 million. Cost of sales and merchandising revenues increased $6.1 million compared to the same period last year primarily as a result of a higher volume of car sales. Gross profit increased by $6.7 million compared to last year. The gross profit on car sales increased by $1.8 million as the number of cars sold increased, and base leasing gross profit increased $2.1 million.

Retail Group

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$31,947	$32,706
Cost of sales and merchandising revenues	22,759	23,387
Gross profit	9,188	9,319
Operating, administrative and general expenses	9,999	10,523
Interest expense	50	182
Other income, net	92	418
Loss before income taxes	$(769)	$(968)

Operating results for the Retail Group improved slightly from the same period last year, with a 4% decrease in customer count and flat margins during the quarter offset by effective cost controls.

Other

	Three months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$—	$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	6,229	7,606
Interest expense (income)	2,121	(905)
Other income (expense), net	(431)	(103)
Loss before income taxes	$(8,781)	$(6,804)

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The other operating loss not allocated to business segments increased $2.0 million compared to the same period in the prior year. The majority of the change was a $2.9 million increase in interest expense due to mark-to-market adjustments on interest rate derivative contracts. This was offset by a $1.1 million decrease in incentive compensation for corporate employees.

Income Taxes
An income tax benefit of $1.5 million was provided at 61.3%. In the third quarter of 2014, income tax expense of $10.3 million was provided at a rate of 34.7%. The higher 2015 effective tax rate is primarily due to the cumulative impact of revised full year earnings expectations, driven by the inclusion of a one-time charge expected in the fourth quarter related to the termination of the Company's pension plan, and relatively low third quarter earnings.

The Company anticipates that its 2015 effective annual rate will be 33.0%. The Company's actual 2014 effective tax rate was 33.4%. The lower effective rate for 2015 is primarily due to benefits related to accounting for the investment in a foreign affiliate.

Comparison of the nine months ended September 30, 2015 with the nine months ended September 30, 2014:
Grain Group

	Nine months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$1,781,104	$1,814,517
Cost of sales and merchandising revenues	1,696,448	1,736,852
Gross profit	84,656	77,665
Operating, administrative and general expenses	89,020	73,868
Interest expense	5,066	7,203
Equity in earnings of affiliates, net	10,764	20,541
Other income, net	2,682	16,967
Income before income taxes	4,016	34,102
Loss attributable to noncontrolling interest	(8)	(8)
Income before income taxes attributable to The Andersons, Inc.	$4,024	$34,110

Operating results for the Grain Group have decreased $30.1 million compared to the results of the same period last year. Sales and merchandising revenues decreased $33.4 million, primarily due to a 16% decrease in the average sales price per bushel and the impact of mark to market adjustments on grain inventory and commodity derivative assets which impact revenues, partly offset by a 17% increase in bushels sold. Cost of sales and merchandising revenues decreased $40.4 million compared to the prior year, following the decrease in grain sales discussed above. Gross profit increased $7.0 million with most of the increase resulting from a $6.0 million increase in gross profit from blending operations, $5.0 million in space income, and $2.6 million in higher margins on contracted sales. This is partially offset by an $8.7 million decrease due to the negative financial impact on risk management positions resulting from weather-induced market volatility and lower merchandising fees.

Operating, administrative and general expenses increased $15.2 million compared to the same period in 2014. The increase was driven by a $5.3 million increase in labor and benefit costs, including additional headcount from recent acquisitions, as well as a $4.1 million increase from on-going support costs for the ERP project since most of the cost in the prior year was capital in nature. Depreciation and amortization expense also increased $3.1 million due to capital growth, primarily from acquisitions. Other income decreased $14.3 million due to the $17.1 million gain from the partial share redemption of our investment in LTG in the first quarter of 2014.

Equity in earnings of affiliates decreased $9.8 million compared to the same period in 2014. This was primarily driven by a $5.0 million decrease in operating results caused by a difficult merchandising environment due to US dollar strength and low oil prices. It also includes our share ($2.8 million) of a correction of a prior period accounting error at Lansing Trade Group. Our share of earnings in Thompsons Limited also declined by $1.8 million due to lower operating results and depreciation in the Canadian dollar relative to our reporting currency.

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Ethanol Group

	Nine months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising and service fee revenues	$416,752	$594,613
Cost of sales and merchandising revenues	398,358	555,840
Gross profit	18,394	38,773
Operating, administrative and general expenses	8,684	8,978
Interest expense	50	253
Equity in earnings of affiliates, net	12,531	56,090
Other income (expense), net	83	201
Income before income taxes	22,274	85,833
(Loss) Income attributable to noncontrolling interests	1,441	10,852
Income before income taxes attributable to The Andersons, Inc.	$20,833	$74,981

Operating results for the Ethanol Group decreased $54.1 million over the results of the same period last year. Sales and merchandising and service fee revenues decreased $177.9 million, almost entirely related to ethanol price. While ethanol gallons sold increased 2%, the average price of ethanol decreased 31%. The $157.5 million decrease in cost of sales is due to lower corn and ethanol prices.

Equity in earnings of affiliates decreased $43.6 million due to significantly lower earnings from the unconsolidated ethanol LLCs. The ethanol plants' performance was unfavorably impacted by significantly lower ethanol margins.

Plant Nutrient Group

	Nine months ended September 30,	
(in thousands)	2015	2014
Sales and merchandising revenues	$660,440	$639,603
Cost of sales and merchandising revenues	569,456	549,275
Gross profit	90,984	90,328
Operating, administrative and general expenses	80,136	66,661
Interest expense	5,106	3,926
Other income, net	2,441	4,211
Income (loss) before income taxes	$8,183	$23,952

Operating results for the Plant Nutrient Group decreased $15.8 million from the same period last year. Sales and merchandising revenues increased $20.8 million due to $25.0 million in revenues related to the Kay Flo Industries acquisition offset by lower volumes in our legacy business. The increase in cost of sales and merchandising revenues follows that of revenues. Gross profit increased $0.6 million, with $3.8 million attributable to the Kay Flo acquisition and the remainder caused by a reduction in tons sold in our legacy business.

Operating, administrative, and general expenses increased $13.5 million due to $9.6 million in costs at the facilities acquired from Kay Flo Industries as well as lower volumes decreasing the amount of overhead absorbed into cost of sales during the period. A triggering event occurred and after completion of an impairment analysis, expense of $2.0 million was recognized to fully impair goodwill held by the cob reporting unit.

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Rail Group

(in thousands)	Nine months ended September 30, 2015	2014
Sales and merchandising revenues	$134,497	$117,733
Cost of sales and merchandising revenues	81,435	71,164
Gross profit	53,062	46,569
Operating, administrative and general expenses	18,984	17,588
Interest expense	4,929	5,381
Other income, net	14,766	2,289
Income before income taxes	$43,915	$25,889

Operating results for the Rail Group increased $18.0 million from the same period last year. Sales and merchandising revenues increased $16.8 million. Revenue from car sales increased $1.6 million compared to the prior year and leasing revenues increased $11.1 million. Repair and other revenues increased $4.1 million. Cost of sales and merchandising revenues increased $10.3 million compared to the same period last year primarily as a result of a higher volume of leased cars entering service. Gross profit was up $6.5 million due to a 3.1% increase in average railcar utilization compared to the prior year.

Other income increased significantly due to $10.6 million in higher than normal lease settlement activity in the second quarter.

Retail Group

(in thousands)	Nine months ended September 30, 2015	2014
Sales and merchandising revenues	$101,562	$101,837
Cost of sales and merchandising revenues	71,984	71,984
Gross profit	29,578	29,853
Operating, administrative and general expenses	31,037	31,723
Interest expense	308	516
Other income, net	284	720
Loss before income taxes	$(1,483)	$(1,666)

Operating results for the Retail Group improved slightly from the same period last year, with a 1.5% decrease in customer count and flat margins compared to the same period last year offset by effective cost controls.

Other

(in thousands)	Nine months ended September 30, 2015	2014
Sales and merchandising revenues	$—	$—
Cost of sales and merchandising revenues	—	—
Gross profit	—	—
Operating, administrative and general expenses	23,183	25,179
Interest expense (income)	751	(878)
Other income (expense), net	(21)	706
Loss before income taxes	$(23,955)	$(23,595)

The other operating loss not allocated to business segments increased $0.4 million compared to the same period in the prior year. Operating expenses decreased $4.8 million due to lower incentive compensation, which was offset by $5.4

million in additional ERP project expenses, as the project was not fully implemented in the third quarter of 2014 and most of the prior

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year spend was capital in nature. Unallocated benefit costs decreased by $0.9 million and interest expense increased $1.4 million.

Income Taxes

Income tax expense of $17.6 million was provided at 33.2%. In 2014, income tax expense of $49.8 million was provided at a rate of 34.5%. The lower 2015 effective tax rate was due primarily to increased benefits attributable to the domestic production activity deduction and accounting for the investment in foreign affiliate, partially offset by tax charges related to other permanent book to taxable income items.

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Liquidity and Capital Resources

Working Capital

At September 30, 2015, we had working capital of $183.1 million. The following table presents changes in the components of current assets and current liabilities:

(in thousands)	September 30, 2015	September 30, 2014	Variance
Current Assets:			
Cash and cash equivalents	$40,658	$326,946	$(286,288)
Restricted cash	181	173	8
Accounts receivable, net	201,664	162,270	39,394
Inventories	527,789	396,464	131,325
Commodity derivative assets – current	60,965	126,396	(65,431)
Deferred income taxes	6,735	148	6,587
Other current assets	66,411	36,518	29,893
Total current assets	904,403	1,048,915	(144,512)
Current Liabilities:			
Short-term debt	82,801	451	82,350
Trade and other payables	466,428	387,311	79,117
Customer prepayments and deferred revenue	23,581	27,246	(3,665)
Commodity derivative liabilities – current	49,911	229,265	(179,354)
Accrued expenses and other current liabilities	71,593	70,598	995
Current maturities of long-term debt	26,989	76,757	(49,768)
Total current liabilities	721,303	791,628	(70,325)
Working Capital	$183,100	$257,287	$(74,187)

In comparison to September 30, 2014, current assets decreased due to changes in cash and cash equivalents and commodity derivative assets. This decrease is partly offset by increases in accounts receivable and inventories. The increase in inventory is due to the integration of the assets from the acquisitions of Auburn Bean and Grain and Kay Flo Industries, Inc. as well as an earlier harvest in certain key markets. The increase in accounts receivable is due to the same acquisition activity. The decrease in cash was due to the increase in inventory as well as the purchase of long term assets. Commodity derivative assets and liabilities decreased which reflects the customers' net asset or liability based on the value of forward contracts as compared to market prices at the end of the period.

Current liabilities decreased primarily due to decreases in commodity derivative liabilities and current maturities of long-term debt. This was partially offset by increases in short-term debt and trade and other payables. Included in trade and other payables was an increase in accounts payable for grain from $222.2 million in the prior year to $274.2 million as of September 30, 2015. This increase was primarily due to the integration of the fourth quarter 2014 grain acquisition and an earlier harvest compared to the prior year. Short-term debt increased due to the general working capital needs of the business. Current maturities of long-term debt decreased due to the pay down of $61.5 million in private placement bonds that matured in March 2015.

Sources and Uses of Cash

Operating Activities

Our operating activities provided cash of $57.8 million and $102.3 million in the first nine months of 2015 and 2014, respectively. The cash provided year to date is primarily a result of net income and non-cash expenses offset by decreases in net working capital. We also note that the prior year activity included significant cash distributions from the unconsolidated ethanol LLCs that occurred to a much smaller extent in the current year.

We have made income tax payments, net of refunds, of $4.5 million through the first nine months of 2015, and we expect to make payments totaling approximately $21.0 million for the remainder of 2015.

Investing Activities

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Investing activities used cash of $212.4 million through the first nine months of 2015, compared to $12.6 million of cash used in the prior year. The significant increase in cash used is due primarily to the $124.6 million net cash outflow for the purchase of Kay Flo Industries, Inc. in the second quarter. Additionally, there was an increase of $73.1 million of Rail Group asset purchases partly offset by a $34.1 million increase of Rail Group asset sales. The variability is driven by timing of opportunities in the Rail Group asset market. In 2015, we expect to spend a total of $129.2 million for the purchase of railcars, barges and related leases and capitalized modifications of railcars. We also expect to offset this amount by proceeds from the sales and dispositions of approximately $89.7 million during the year. Through September 30, 2015, we invested $112.3 million in the purchase of additional railcars, which is partially offset by proceeds from sales of railcars of $65.0 million. Through September 30, 2014, we invested $39.3 million in the purchase of additional railcars, which was largely offset by proceeds from sales of $30.9 million. Additionally, total capital spending for 2015 on property, plant and equipment in our base business, inclusive of information technology spending and the beginning of construction on a new corporate headquarters building is expected to be approximately $98.2 million. The prior year also included $31.5 million of proceeds received from LTG as part of the partial share redemption as proceeds from sale of investments.

Financing Activities

Financing activities provided cash of $80.6 million and used cash of $71.9 million for the nine months ended September 30, 2015 and 2014, respectively. Most of the increase is from additional borrowings on the short-term line of credit, which increased due to the working capital needs of the business and from the increase in long-term debt for the purchase of Kay Flo Industries, Inc. We are party to borrowing arrangements with a syndicate of banks that provides a total of $875 million in borrowings, which includes $25 million of debt of The Andersons Denison Ethanol LLC which is non-recourse to the Company. Of that total, we had $657.9 million remaining available for borrowing at September 30, 2015. Peak short-term borrowings to date were $308.5 million on March 31, 2015. Typically, our highest borrowing occurs in the Spring due to seasonal inventory requirements in our fertilizer and grain businesses. In addition to increased short-term borrowings, proceeds from long-term debt of $152.8 million were received, which was partially offset by $87.0 million of long-term debt reductions.

In the first nine months of 2015, we also made payments of $49.0 million to repurchase approximately 1.2 million shares, which exceeds the number of shares issued as part of the acquisition of Auburn Bean and Grain. We have completed our full authorization for share buy backs under the current repurchase program.

We paid $12.0 million in dividends in the first nine months of 2015 compared to $9.4 million in the prior year. We paid $0.14 per common share for the dividends paid in January, April, and July 2015, and $0.11 per common share for the dividends paid in January, April, July and October 2014. On August 28, 2015, we declared a cash dividend of $0.14 per common share payable on October 22, 2015 to shareholders of record on October 1, 2015.

Certain of our long-term borrowings include covenants that, among other things, impose minimum levels of equity and limitations on additional debt. We are in compliance with all such covenants as of September 30, 2015. In addition, certain of our long-term borrowings are collateralized by first mortgages on various facilities or are collateralized by railcar assets. Our non-recourse long-term debt is collateralized by ethanol plant assets.

Because we are 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 our profitability. In addition, periods of high grain prices and/or unfavorable market conditions could require us to make additional margin deposits on our exchange traded futures contracts. Conversely, in periods of declining prices, we receive a return of cash.

We believe our sources of liquidity will be adequate to fund our operations, capital expenditures and payments of dividends in the foreseeable future.

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Off-Balance Sheet Transactions

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

The following table describes our Rail Group asset positions at September 30, 2015:

Method of Control	Financial Statement	Units
Owned-railcars available for sale	On balance sheet – current	20
Owned-railcar assets leased to others	On balance sheet – non-current	16,608
Railcars leased from financial intermediaries	Off balance sheet	3,689
Railcars – non-recourse arrangements	Off balance sheet	2,899
Total Railcars		23,216
Locomotive assets leased to others	On balance sheet – non-current	29
Locomotives leased from financial intermediaries	Off balance sheet	16
Total Locomotives		45
Barge assets leased to others	On balance sheet – non-current	—
Barge assets leased from financial intermediaries	Off balance sheet	40
Total Barges		40

In addition, we manage 410 railcars for third-party customers or owners for which we receive a fee.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2014. There were no material changes in market risk, specifically commodity and interest rate risk during the quarter ended September 30, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer ("Certifying Officers"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on the results of this evaluation, management concluded that, as of September 30, 2015, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Management concluded that the Company’s system of internal control over financial reporting was effective as of December 31, 2014. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company’s internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting. The Company is undertaking the phased implementation of an ERP software system. The phased implementation continued with several new Grain locations during the first and third quarters of 2015. The Company believes it is maintaining and monitoring appropriate internal controls during the implementation period and further believes that its internal control environment will be enhanced as a result of this implementation. There have been no other changes in the Company’s internal controls over financial reporting during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings
We have received, and are cooperating fully with, a request for information from the United States Environmental Protection Agency ("U.S. EPA") regarding the history of our grain and fertilizer facility along the Maumee River in Toledo, Ohio. The U.S. EPA is investigating the possible introduction into the Maumee River of hazardous materials potentially leaching from rouge piles deposited along the riverfront by glass manufacturing operations that existed in the area prior to our initial acquisition of the land in 1960. We have on several prior occasions cooperated with local, state and federal regulators to install or improve drainage systems to contain storm water runoff and sewer discharges along our riverfront property to minimize the potential for such leaching. Other area land owners and the successor to the original glass making operations have also been contacted by the U.S. EPA for information. No claim or finding has been asserted thus far.
We are also currently subject to various claims and suits arising in the ordinary course of business, which include environmental issues, employment claims, contractual disputes, and defensive counter claims. We accrue liabilities where litigation losses are deemed probable and estimable. We believe it is unlikely that the results of our current legal proceedings, even if unfavorable, will be materially different from what we currently have accrued. There can be no assurance, however, that any claims or suits arising in the future, whether taken individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

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-Q 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 most significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in our 2014 Form 10-K (Item 1A).

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In October 2014, the Company's Board of Directors approved a resolution authorizing the repurchase of shares at a value not to exceed $50.0 million, expiring on October 31, 2016. The following table gives information regarding the repurchases for the period ended September 30, 2015:

(in thousands, except per share data)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the program
July 1 through July 31	323	$36.59	323	$3,118
August 1 through August 31	84	36.92	84	10
September 1 through September 30	—	—	—	10
Total	407	$36.68	407	$10

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Item 6. Exhibits
(a) Exhibits

No.	Description
10	Employment Agreement between The Andersons, Inc. and Patrick E. Bowe
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of the Chief Executive Officer under Rule 13(a)-14(a)/15d-14(a)
31.2	Certification of the Chief Financial Officer under Rule 13(a)-14(a)/15d-14(a)
32.1	Certifications Pursuant to 18 U.S.C. Section 1350
101	Financial Statements from the interim report on Form 10-Q of The Andersons, Inc. for the period ended September 30, 2015, formatted in XBRL: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statement of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

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Signatures

Pursuant to the requirements 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)
Date: November 5, 2015	By /s/ Patrick E. Bowe Patrick E. Bowe Chief Executive Officer (Principal Executive Officer)
Date: November 5, 2015	By /s/ John Granato John Granato Chief Financial Officer (Principal Financial Officer)

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Exhibit Index
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