Andersons, Inc.
Form 10-Q
August 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-20557

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

OHIO	34-1562374
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
1947 Briarfield Boulevard, Maumee, Ohio	43537
(Address of principal executive offices)	(Zip Code)

(419) 893-5050
(Telephone Number)
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated Filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

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

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

The registrant had approximately 28.3 million common shares outstanding, no par value, at July 27, 2018.

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Part I. Financial Information

Item 1. Financial Statements

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

	June 30, 2018	December 31, 2017	June 30, 2017
Assets			
Current assets:			
Cash and cash equivalents	$58,611	$ 34,919	$18,934
Restricted cash	—	—	1,033
Accounts receivable, net	218,476	183,238	186,331
Inventories (Note 2)	495,611	648,703	463,205
Commodity derivative assets – current (Note 5)	54,259	30,702	11,619
Other current assets	42,648	63,790	59,873
Assets held for sale	9,816	37,859	10,028
Total current assets	879,421	999,211	751,023
Other assets:			
Commodity derivative assets – noncurrent (Note 5)	1,008	310	1,191
Goodwill	6,024	6,024	23,105
Other intangible assets, net	105,289	112,893	113,492
Other assets, net	26,888	12,557	8,686
Equity method investments	232,159	223,239	215,794
	371,368	355,023	362,268
Rail Group assets leased to others, net (Note 3)	458,424	423,443	375,092
Property, plant and equipment, net (Note 3)	408,575	384,677	423,042
Total assets	$2,117,788	$ 2,162,354	$1,911,425

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

	June 30, 2018	December 31, 2017	June 30, 2017
Liabilities and equity			
Current liabilities:			
Short-term debt (Note 4)	$185,000	$22,000	$124,000
Trade and other payables	282,221	503,571	267,194
Customer prepayments and deferred revenue	16,103	59,710	15,113
Commodity derivative liabilities – current (Note 5)	85,160	29,651	18,104
Accrued expenses and other current liabilities	74,512	69,579	69,256
Current maturities of long-term debt (Note 4)	13,700	54,205	62,482
Total current liabilities	656,696	738,716	556,149
Other long-term liabilities	30,325	33,129	34,441
Commodity derivative liabilities – noncurrent (Note 5)	3,202	825	334
Employee benefit plan obligations	26,131	26,716	36,837
Long-term debt, less current maturities (Note 4)	435,580	418,339	354,066
Deferred income taxes	118,864	121,730	181,806
Total liabilities	1,270,798	1,339,455	1,163,633
Commitments and contingencies (Note 14)			
Shareholders' equity:			
Common shares, without par value (63,000 shares authorized; 29,430 shares issued at 6/30/2018, 12/31/17 and 6/30/2017)	96	96	96
Preferred shares, without par value (1,000 shares authorized; none issued)	—	—	—
Additional paid-in-capital	223,259	224,622	222,261
Treasury shares, at cost (943, 1,063 and 1,080 shares at 6/30/2018, 12/31/17 and 6/30/2017, respectively)	(35,561)	(40,312)	(40,945)
Accumulated other comprehensive loss	(5,347)	(2,700)	(11,993)
Retained earnings	635,438	633,496	570,406
Total shareholders' equity of The Andersons, Inc.	817,885	815,202	739,825
Noncontrolling interests	29,105	7,697	7,967
Total equity	846,990	822,899	747,792
Total liabilities and equity	$2,117,788	$2,162,354	$1,911,425

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales and merchandising revenues	$911,402	$993,662	$1,547,141	$1,845,678
Cost of sales and merchandising revenues	820,928	905,828	1,392,962	1,681,386
Gross profit	90,474	87,834	154,179	164,292
Operating, administrative and general expenses	59,853	69,544	124,110	151,089
Asset impairment	6,272	—	6,272	—
Goodwill impairment	—	42,000	—	42,000
Interest expense	7,825	5,988	14,824	12,088
Other income:				
Equity in earnings (loss) of affiliates, net	9,803	6,385	13,376	4,507
Other income, net	2,828	4,248	4,514	11,743
Income (loss) before income taxes	29,155	(19,065)	26,863	(24,635)
Income tax provision (benefit)	7,742	7,652	7,432	5,117
Net income (loss)	21,413	(26,717)	19,431	(29,752)
Net income (loss) attributable to the noncontrolling interests	(116)	(64)	(398)	(10)
Net income (loss) attributable to The Andersons, Inc.	$21,529	$(26,653)	$19,829	$(29,742)
Per common share:				
Basic earnings (loss) attributable to The Andersons, Inc. common shareholders	$0.76	$(0.94)	$0.70	$(1.05)
Diluted earnings (loss) attributable to The Andersons, Inc. common shareholders	$0.76	$(0.94)	$0.70	$(1.05)
Dividends declared	$0.165	$0.160	$0.330	$0.320

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$21,413	$(26,717)	$19,431	$(29,752)
Other comprehensive income (loss), net of tax:				
Change in fair value of convertible preferred securities (net of income tax of $0, $0, $(87) and $0)	—	—	(87)	—
Change in unrecognized actuarial loss and prior service cost (net of income tax of $(86), $(628), $(101) and $(635))	(287)	(988)	(338)	(998)
Cash flow hedge activity (net of income tax of $17, $0, $17 and $0)	51	—	51	—
Foreign currency translation adjustments (net of income tax of $0, $0, $0 and $0)	(1,123)	959	(2,273)	1,473
Other comprehensive income (loss)	(1,359)	(29)	(2,647)	475
Comprehensive income (loss)	20,054	(26,746)	16,784	(29,277)
Comprehensive income (loss) attributable to the noncontrolling interests	(116)	(64)	(398)	(10)
Comprehensive income (loss) attributable to The Andersons, Inc.	$20,170	$(26,682)	$17,182	$(29,267)

See Notes to Condensed Consolidated Financial Statements

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

	Six months ended June 30,	
	2018	2017
Operating Activities		
Net income (loss)	$19,431	$(29,752)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	45,232	42,878
Bad debt expense (recovery)	(837)	839
Equity in (earnings) losses of affiliates, net of dividends	(11,192)	(3,793)
Gains on sale of Rail Group assets and related leases	(3,989)	(4,984)
(Gain) loss on sale of assets	(342)	(5,888)
Stock-based compensation expense	3,006	2,935
Goodwill impairment	—	42,000
Asset impairment	6,272	—
Other	(138)	(1,780)
Changes in operating assets and liabilities:		
Accounts receivable	(33,859)	13,086
Inventories	151,095	213,064
Commodity derivatives	34,850	27,670
Other assets	17,552	10,629
Payables and other accrued expenses	(271,010)	(352,133)
Net cash provided by (used in) operating activities	(43,929)	(45,229)
Investing Activities		
Acquisition of business, net of cash acquired	—	(3,507)
Purchases of Rail Group assets	(68,087)	(66,506)
Proceeds from sale of Rail Group assets	40,967	9,390
Purchases of property, plant and equipment and capitalized software	(54,300)	(15,976)
Proceeds from sale of assets	34,981	14,434
Purchase of investments	—	(2,429)
Other	—	437
Net cash provided by (used in) investing activities	(46,439)	(64,157)
Financing Activities		
Net change in short-term borrowings	163,000	93,941
Proceeds from issuance of long-term debt	50,000	15,175
Proceeds from long-term financing arrangement	—	10,396
Payments of long-term debt	(110,150)	(42,849)
Proceeds from noncontrolling interest owner	21,806	—
Payments of debt issuance costs	(787)	(2,024)
Dividends paid	(9,312)	(8,984)
Other	(497)	35
Net cash provided by (used in) financing activities	114,060	65,690
Decrease in cash and cash equivalents	23,692	(43,696)
Cash and cash equivalents at beginning of period	34,919	62,630
Cash and cash equivalents at end of period	$58,611	$18,934

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 Income (Loss)	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2016	$ 96	$222,910	$(45,383)	$ (12,468)	$609,206	$ 16,336	$790,697
Net income (loss)					(29,742)	(10)	(29,752)
Other comprehensive income (loss)				475			475
Other change in noncontrolling interest						(8,359)	(8,359)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of $(323) (122 shares)		(654)	4,386				3,732
Dividends declared ($0.32 per common share)					(9,001)		(9,001)
Restricted share award dividend equivalents		5	52		(57)		—
Balance at June 30, 2017	$ 96	$222,261	$(40,945)	$ (11,993)	$570,406	$ 7,967	$747,792
Balance at December 31, 2017	$ 96	$224,622	$(40,312)	$ (2,700)	$633,496	$ 7,697	$822,899
Net income (loss)					19,829	(398)	19,431
Other comprehensive income (loss)				(2,647)			(2,647)
Cash received from noncontrolling interest						21,806	21,806
Adoption of accounting standard, net of income tax of $2,869					(8,441)		(8,441)
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of $(0) (120 shares)		(1,363)	4,631				3,268
Dividends declared ($0.33 per common share)					(9,326)		(9,326)
Restricted share award dividend equivalents			120		(120)		—
Balance at June 30, 2018	$ 96	$223,259	$(35,561)	$ (5,347)	$635,438	$ 29,105	$846,990

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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, 2018. An unaudited Condensed Consolidated Balance Sheet as of June 30, 2017 has been included as the Company operates in several seasonal industries.

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

New Accounting Standards

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12 Targeted Improvements to Accounting for Hedging Activities. This standard simplifies the recognition and presentation of changes in the fair value of hedging instruments and, among other things, eliminates the requirement to separately measure and record hedge ineffectiveness. The ASU is effective for annual periods beginning December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 during the second quarter of 2018 noting the effects of this standard on our condensed consolidated financial statements were not material. There was no transition impact.

Revenue Recognition

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

Leasing

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842). ASC 842 supersedes the current accounting for leases. The new standard, while retaining two distinct types of leases, finance and operating, (i) requires lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (ii) eliminates current real estate specific lease provisions, (iii) modifies the lease classification criteria and (iv) aligns many of the underlying lessor model principles with those in the new revenue standard. ASC 842 is effective for fiscal years beginning after December 15, 2018, and interim periods within. Early adoption is permitted, however the Company does not plan to early adopt. The new standard is effective for the Company beginning January 1, 2019 and must be adopted using either the modified retrospective approach, which requires application of the new guidance at the beginning of the earliest comparative period presented or the optional alternative approach, which requires application of the new guidance at the beginning of the standard's effective date.

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

Other applicable standards

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

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

In March 2017, the FASB issued ASU 2017-07 Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard requires that the service cost component be reported in the same line item as other compensation costs arising from services rendered by the employees during the period. The other components of net benefit costs should be presented in the income statement separately from the service cost component and outside of income from operations if that subtotal is presented. The Company has adopted this standard in the first quarter using the retrospective approach and prior periods have been recast to reflect this change, noting the amounts are immaterial.

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

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

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

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2. Inventories

Major classes of inventories are as follows:

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Grain	$385,118	$ 505,217	$373,863
Ethanol and co-products	22,828	11,003	14,041
Plant nutrients and cob products	82,230	126,962	69,365
Retail merchandise	—	—	906
Railcar repair parts	5,435	5,521	5,030
	$495,611	$ 648,703	$463,205

Inventories on the Condensed Consolidated Balance Sheets at June 30, 2018, December 31, 2017 and June 30, 2017 do not include 0.1 million, 1.0 million and 0.8 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, net are as follows:

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Land	$29,579	$ 22,388	$23,566
Land improvements and leasehold improvements	68,384	69,127	71,236
Buildings and storage facilities	280,226	284,820	298,077
Machinery and equipment	377,202	373,127	382,321
Construction in progress	37,456	7,502	7,372
	792,847	756,964	782,572
Less: accumulated depreciation	384,272	372,287	359,530
	$408,575	$ 384,677	$423,042

Depreciation expense on property, plant and equipment was $23.2 million and $24.1 million for the six months ended June 30, 2018 and 2017, respectively. Additionally, depreciation expense on property, plant and equipment was $11.5 million and $12.0 million for the three months ended June 30, 2018 and 2017, respectively.

In June 2018, the Company recorded charges totaling $1.6 million for impairment of property, plant and equipment in the Grain segment related to assets that have been reclassified as assets held for sale at June 30, 2018. In December 2017, the Company recorded charges totaling $10.9 million for impairment of property, plant and equipment in the Grain segment, of which $5.6 million relates to assets that are deemed held and used and $5.3 million related to assets that have been reclassified as assets held for sale at December 31, 2017. The Company wrote down the value of these assets to the extent their carrying amounts exceeded fair value. The Company classified the significant assumptions used to determine the fair value of the impaired assets as Level 3 inputs in the fair value hierarchy.

Rail Group Assets

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

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Rail Group assets leased to others	$564,555	$ 531,391	$482,524
Less: accumulated depreciation	106,131	107,948	107,432
	$458,424	$ 423,443	$375,092

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Depreciation expense on Rail Group assets leased to others amounted to $12.2 million and $9.7 million for the six months ended June 30, 2018 and 2017, respectively. Additionally, depreciation expense on Rail Group assets leased to others amounted to $6.0 million and $5.0 million for the three months ended June 30, 2018 and 2017, respectively. In June 2018, the Company recorded charges totaling $4.7 million related to Rail Group assets leased to others that have been reclassified as assets held for sale at June 30, 2018. The Company classified the significant assumptions used to determine the fair value of the impaired assets as Level 3 inputs in the fair value hierarchy.

4. Debt

The Company has a line of credit agreement with a syndicate of banks. The agreement provides for a credit facility of $800 million. Total borrowing capacity for the Company under all lines of credit is currently at $950.0 million, including subsidiary debt that is non-recourse to the Company of $15.0 million for The Andersons Denison Ethanol LLC ("TADE"), $70.0 million for ELEMENT LLC and $65.0 million for The Andersons Railcar Leasing Company LLC. At June 30, 2018, the Company had a total of $642.1 million available for borrowing under its lines of credit. The Company's borrowing capacity is reduced by a combination of outstanding borrowings and letters of credit. The Company was in compliance with all financial covenants as of June 30, 2018.

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

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Short-term Debt – Non-Recourse	$—	$ —	$—
Short-term Debt – Recourse	185,000	22,000	124,000
Total Short-term Debt	$185,000	$ 22,000	$124,000
Current Maturities of Long-term Debt – Non-Recourse	$2,922	$ —	$—
Current Maturities of Long-term Debt – Recourse	10,778	54,205	62,482
Total Current Maturities of Long-term Debt	$13,700	$ 54,205	$62,482
Long-term Debt, Less: Current Maturities – Non-Recourse	$72,290	$ —	$—
Long-term Debt, Less: Current Maturities – Recourse	363,290	418,339	354,066
Total Long-term Debt, Less: Current Maturities	$435,580	$ 418,339	$354,066

5. Derivatives

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

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

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classifies these contracts as current or noncurrent assets or liabilities, as appropriate, based on the Company's expectations as to when such contracts will be settled.

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

Generally accepted accounting principles permit a party to a master netting arrangement to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or obligation to return cash collateral under the same master netting arrangement. The Company has master netting arrangements for its exchange traded futures and options contracts and certain over-the-counter contracts. When the Company enters into a future, option or an over-the-counter contract, an initial margin deposit may be required by the counterparty. The amount of the margin deposit varies by commodity. If the market price of a future, option or an over-the-counter contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required. The margin deposit assets and liabilities are included in short-term commodity derivative assets or liabilities, as appropriate, in the Condensed Consolidated Balance Sheets.
The following table presents at June 30, 2018, December 31, 2017 and June 30, 2017, a summary of the estimated fair value of the Company's commodity derivative instruments that require cash collateral and the associated cash posted/received as collateral. The net asset or liability positions of these derivatives (net of their cash collateral) are determined on a counterparty-by-counterparty basis and are included within current or noncurrent commodity derivative assets (or liabilities) on the Condensed Consolidated Balance Sheets:

	June 30, 2018		December 31, 2017		June 30, 2017	
(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)	$(52,888)	$ —	$ 1,351	$ —	$15,452	$ —
Fair value of derivatives	68,244	—	17,252	—	(12,835)	—
Balance at end of period	$15,356	$ —	$ 18,603	$ —	$2,617	$ —

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

	June 30, 2018				
(in thousands)	Commodity Derivative Assets - Current	Commodity Derivative Assets - Noncurrent	Commodity Derivative Liabilities - Current	Commodity Derivative Liabilities - Noncurrent	Total
Commodity derivative assets	$123,917	$ 1,022	$ 626	$ 36	$125,601