

REX AMERICAN RESOURCES Corp  
Form 10-Q  
June 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2014  
OR

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 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 31-1095548  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

7720 Paragon Road, Dayton, Ohio 45459  
(Address of principal executive offices) (Zip Code)

(937) 276-3931

(Registrant's telephone number, including area code)

**2875 Needmore Road, Dayton, Ohio 45414**  
**(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 S 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S 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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer £

Accelerated filer S

Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller reporting company £

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

At the close of business on June 5, 2014 the registrant had 8,182,031 shares of Common Stock, par value \$.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

INDEX

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Condensed Balance Sheets</u>	3
<u>Consolidated Condensed Statements of Operations</u>	4
<u>Consolidated Condensed Statements of Equity</u>	5
<u>Consolidated Condensed Statements of Cash Flows</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	24
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	38
<b><u>Item 4. Controls and Procedures</u></b>	39
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	39
<b><u>Item 1A. Risk Factors</u></b>	39
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	39
<b><u>Item 3. Defaults upon Senior Securities</u></b>	39
<b><u>Item 4. Mine Safety Disclosures</u></b>	39
<b><u>Item 5. Other Information</u></b>	39
<b><u>Item 6. Exhibits</u></b>	40

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

## REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

**Consolidated Condensed Balance Sheets**

Unaudited

	April 30, 2014	January 31, 2014
(In Thousands)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 125,649	\$ 105,149
Restricted cash	—	500
Accounts receivable, net	16,892	16,486
Inventory	19,193	19,370
Refundable income taxes	1,810	268
Prepaid expenses and other	5,001	4,891
Deferred taxes, net	—	2,146
Total current assets	168,545	148,810
Property and equipment, net	198,418	202,258
Other assets	5,324	5,388
Equity method investments	74,439	71,189
Restricted investments and deposits	223	223
Total assets	\$446,949	\$427,868
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt	\$ 10,125	\$ 12,226
Accounts payable, trade	6,956	6,626
Deferred taxes	3,382	—
Derivative financial instruments	747	1,141
Accrued expenses and other current liabilities	9,813	12,147
Total current liabilities	31,023	32,140
Long-term liabilities:		
Long-term debt	58,125	63,500
Deferred taxes	19,613	19,613
Other long-term liabilities	1,876	1,862
Total long-term liabilities	79,614	84,975
Equity:		
REX shareholders' equity:		
Common stock	299	299

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

Paid-in capital	144,643	144,051
Retained earnings	378,843	357,101
Treasury stock	(221,403)	(222,170)
Total REX shareholders' equity	302,382	279,281
Noncontrolling interests	33,930	31,472
Total equity	336,312	310,753
Total liabilities and equity	\$446,949	\$427,868

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

3

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements Of Operations**

Unaudited

	Three Months Ended April 30,	
	2014	2013
Net sales and revenue	\$ 155,936	\$ 178,424
Cost of sales	119,386	169,432
Gross profit	36,550	8,992
Selling, general and administrative expenses	(6,171 )	(3,747 )
Equity in income of unconsolidated affiliates	8,297	1,599
Interest and other income	52	42
Interest expense	(692 )	(1,053 )
(Losses) gains on derivative financial instruments, net	(4 )	4
Income from continuing operations before income taxes	38,032	5,837
Provision for income taxes	(13,887 )	(2,066 )
Income from continuing operations	24,145	3,771
Income from discontinued operations, net of tax	55	171
Gain on disposal of discontinued operations, net of tax	—	131
Net income	24,200	4,073
Net income attributable to noncontrolling interests	(2,458 )	(566 )
Net income attributable to REX common shareholders	\$ 21,742	\$ 3,507
Weighted average shares outstanding – basic	8,117	8,158
Basic income per share from continuing operations attributable to REX common shareholders	\$ 2.67	\$ 0.39
Basic income per share from discontinued operations attributable to REX common shareholders	0.01	0.02
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	—	0.02
Basic net income per share attributable to REX common shareholders	\$ 2.68	\$ 0.43
Weighted average shares outstanding – diluted	8,149	8,200
Diluted income per share from continuing operations attributable to REX common shareholders	\$ 2.66	\$ 0.39
Diluted income per share from discontinued operations attributable to REX common shareholders	0.01	0.02
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders	—	0.02
Diluted net income per share attributable to REX common shareholders	\$ 2.67	\$ 0.43
Amounts attributable to REX common shareholders:		
Income from continuing operations, net of tax	\$ 21,687	\$ 3,205

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

Income from discontinued operations, net of tax	55	302
Net income	\$21,742	\$3,507

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

4

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements Of Equity****Unaudited**

(In Thousands)

	REX Shareholders							
	Common Shares		Treasury		Paid-in	Retained	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Interests	Equity
Balance at January 31, 2014	29,853	\$ 299	21,753	\$(222,170)	\$ 144,051	\$ 357,101	\$ 31,472	\$ 310,753
Net income						21,742	2,458	24,200
Stock options and related tax effects	—	—	(75 )	767	592	—	—	1,359
Balance at April 30, 2014	29,853	\$ 299	21,678	\$(221,403)	\$ 144,643	\$ 378,843	\$ 33,930	\$ 336,312
	Common Shares							
	Shares	Amount	Shares	Amount	Paid-in	Retained	Noncontrolling	Total
					Capital	Earnings	Interests	Equity
Balance at January 31, 2013	29,853	\$ 299	21,701	\$(219,550)	\$ 143,575	\$ 322,028	\$ 27,931	\$ 274,283
Net income						3,507	566	4,073
Treasury stock acquired			31	(564 )				(564 )
Stock options and related tax effects	—	—	(43 )	438	130	—	—	568
Balance at April 30, 2013	29,853	\$ 299	21,689	\$(219,676)	\$ 143,705	\$ 325,535	\$ 28,497	\$ 278,360

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.



**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements Of Cash Flows****Unaudited**

	Three Months Ended April 30, 2014      2013 (In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	\$24,200	\$4,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, impairment charges and amortization	4,187	4,391
Income from equity method investments	(8,297 )	(1,599 )
Loss (gain) on disposal of real estate and property and equipment	5	(4 )
Dividends received from equity method investees	5,012	200
Deferred income	—	(274 )
Derivative financial instruments	(394 )	(444 )
Deferred income tax	5,339	2,026
Excess tax benefit from stock option exercises	(241 )	—
Changes in assets and liabilities:		
Accounts receivable	(406 )	(6,351 )
Inventories	177	3,734
Other assets	(1,020 )	978
Accounts payable, trade	580	2,264
Other liabilities	(2,320 )	(195 )
Net cash provided by operating activities	26,822	8,799
Cash flows from investing activities:		
Capital expenditures	(547 )	(32 )
Restricted cash	500	—
Proceeds from sale of real estate and property and equipment	30	141
Net cash (used in) provided by investing activities	(17 )	109
Cash flows from financing activities:		
Payments of long-term debt	(7,476 )	(4,201 )
Stock options exercised	930	555
Excess tax benefit from stock option exercises	241	—
Treasury stock acquired	—	(564 )
Net cash used in financing activities	(6,305 )	(4,210 )
Net increase in cash and cash equivalents	20,500	4,698
Cash and cash equivalents, beginning of period	105,149	69,073
Cash and cash equivalents, end of period	\$125,649	\$73,771
Non cash investing activities – Accrued capital expenditures	\$(250 )	\$—

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.



**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**April 30, 2014**

**Note 1. Consolidated Condensed Financial Statements**

The consolidated condensed financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Financial information as of January 31, 2014 included in these financial statements has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 31, 2014 (fiscal year 2013). It is suggested that these unaudited consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2014. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

**Basis of Consolidation** – The consolidated condensed financial statements in this report include the operating results and financial position of REX American Resources Corporation and its wholly and majority owned subsidiaries. The Company includes the results of operations of One Earth Energy, LLC (“One Earth”) in its Consolidated Condensed Statements of Operations on a delayed basis of one month.

**Nature of Operations** – The Company operates in two reportable segments, alternative energy and real estate.

**Note 2. Accounting Policies**

The interim consolidated condensed financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's fiscal year 2013 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year-end. Examples of such estimates include accrued liabilities, such as management bonuses, and the provision for income taxes. Any adjustments pursuant to such estimates during

the quarter were of a normal recurring nature. Actual results could differ from those estimates.

7

## Revenue Recognition

The Company recognizes sales from the production of ethanol, distillers grains and non-food grade corn oil when title transfers to customers, upon shipment from its plant. Shipping and handling charges billed to customers are included in net sales and revenue.

The Company includes income from real estate leasing activities in net sales and revenue. The Company accounts for these leases as operating leases. Accordingly, minimum rental revenue is recognized on a straight-line basis over the term of the lease.

Prior to its exit of the retail business, the Company sold extended service policies covering periods beyond the normal manufacturers' warranty periods, usually with terms of coverage (including manufacturers' warranty periods) of between 12 to 60 months. Contract revenues and sales commissions were deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers' warranty periods. The Company retained the obligation to perform warranty service and such costs were charged to operations as incurred. All related revenue and expense is classified as discontinued operations. All of the extended service policy contracts have expired as of January 31, 2014.

## Cost of Sales

Alternative energy cost of sales includes depreciation, costs of raw materials, inbound freight charges, purchasing and receiving costs, inspection costs, shipping costs, other distribution expenses, warehousing costs, plant management, certain compensation costs, and general facility overhead charges.

Real estate cost of sales includes depreciation, real estate taxes, insurance, repairs and maintenance and other costs directly associated with operating the Company's portfolio of real property.

## Selling, General and Administrative Expenses

The Company includes non-production related costs from its alternative energy segment such as professional fees, selling charges and certain payroll in selling, general and administrative expenses.

The Company includes costs not directly related to operating its portfolio of real property from its real estate segment such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

The Company includes costs associated with its corporate headquarters such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

## Interest Cost

Interest paid for the three months ended April 30, 2014 and 2013 was approximately \$820,000 and \$981,000, respectively.

## Financial Instruments

The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreement was not designated for hedge accounting pursuant to Accounting Standards Codification (“ASC”) 815, *Derivatives and Hedging* (“ASC 815”). The interest rate swap is recorded at its fair value and the changes in fair value are recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statements of Operations. The Company paid settlements of interest rate swaps of approximately \$398,000 and \$440,000 for the three months ended April 30, 2014 and 2013, respectively.

Forward grain purchase and ethanol, distillers grains and non-food grade corn oil sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of ASC 815 because these arrangements are for purchases of grain that will be delivered in quantities expected to be used by the Company and sales of ethanol, distillers grains and non-food grade corn oil quantities expected to be produced by the Company over a reasonable period of time in the normal course of business.

## Income Taxes

The Company applies an effective tax rate to interim periods that is consistent with the Company’s estimated annual tax rate. The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company paid income taxes of \$10,050,000 during the three months ended April 30, 2014 and paid no income taxes during the three months ended April 30, 2013.

As of April 30, 2014, total unrecognized tax benefits were approximately \$1,451,000 and accrued penalties and interest were approximately \$425,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$24,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. On a quarterly and annual basis, the Company accrues for the effects of open

uncertain tax positions and the related potential penalties and interest.

9



**Inventories**

Inventories are carried at the lower of cost or market on a first-in, first-out basis. Alternative energy segment inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related by-products. Inventory is permanently written down for instances when cost exceeds estimated net realizable value; such write-downs are based primarily upon commodity prices as the market value of inventory is often dependent upon changes in commodity prices. There was no permanent write-down of inventory at April 30, 2014 and January 31, 2014, respectively. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time. The components of inventory at April 30, 2014 and January 31, 2014 are as follows (amounts in thousands):

	April 30, 2014	January 31, 2014
Ethanol and other finished goods	\$2,385	\$3,517
Work in process	3,115	3,017
Grain and other raw materials	13,693	12,836
Total	\$19,193	\$19,370

**Property and Equipment**

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment.

In accordance with ASC 360-10 "*Impairment or Disposal of Long-Lived Assets*", the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. There were approximately \$68,000 of impairment charges in the first quarter of fiscal year 2014, which are included in cost of sales in the Consolidated Condensed Statements of Operations. These impairment charges relate to individual properties in the Company's real estate segment. There were no impairment charges in the first quarter of fiscal year 2013. Impairment charges result from the Company's management performing cash flow analysis and represent management's estimate of the excess of net book value over fair value. Fair value is estimated using expected future cash flows on a discounted basis or appraisals of specific properties as appropriate. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Given the nature of the Company's business, events and changes in circumstances include, but are not limited to, a significant decline in estimated future cash flows, a sustained decline in market prices for similar assets, or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for asset groups in the real estate reportable segment) or a change in the spread between ethanol and grain prices that

would result in greater than six consecutive months of estimated or actual significant negative cash flows (for asset groups in the alternative energy reportable segment).

The Company tests for recoverability of an asset group by comparing its carrying amount to its estimated undiscounted future cash flows. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, the Company recognizes an impairment charge for the amount by which the asset group's carrying amount exceeds its fair value, if any. The Company generally determines the fair value of the asset group using a discounted cash flow model based on market participant assumptions (for income producing asset groups) or by obtaining appraisals based on the market approach and comparable market transactions (for non-income producing asset groups).

In the real estate reportable segment, each individual real estate property represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual real estate properties for recoverability. The real estate reportable segment includes both income producing and non-income producing asset groups.

In the alternative energy reportable segment, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, the Company also considers the following events as indicators: (i) the decision to suspend operations at a plant for at least a six month period and/or (ii) an expected or actual failure to maintain compliance with debt covenants. The alternative energy reportable segment includes only income producing asset groups.

## **Investments**

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month. The Company accounts for investments in limited liability companies in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323, "*Investments-Equity Method and Joint Ventures*" are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method. The Company accounts for its investments in Big River Resources, LLC ("Big River") and Patriot Holdings, LLC ("Patriot") using the equity method of accounting and includes the results of these entities on a delayed basis of one month.



The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company determines that a decline in market value is other than temporary, then a charge to earnings is recorded in the Consolidated Condensed Statements of Operations and a new cost basis in the investment is established.

### **Comprehensive Income**

The company has no components of other comprehensive income, and therefore, comprehensive income equals net income.

### **Accounting Changes and Recently Issued Accounting Standards**

Effective February 1, 2014, the Company was required to adopt Accounting Standard Update (“ASU”) No. 2013-11 (“ASU 2013-11”), “*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*”. The update requires, unless certain conditions exists, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. ASU 2013-11 was effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. Retrospective application is permitted. The adoption of ASU 2013-11 did not impact the Company’s financial statements.

In April 2014, the FASB issued ASU 2014-08 (“ASU 2014-08”), “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*” that changes the criteria for reporting a discontinued operation. Under this new guidance, only disposals of a component that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results is a discontinued operation. Expanded disclosures about discontinued operations and disposals of a significant part of an entity that does not qualify for discontinued operations reporting are also required. ASU 2014-08 is effective beginning February 1, 2015 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. Management has not determined the impact of adopting ASU 2014-08 on the Company’s consolidated financial statements.

### **Note 3. Leases**

At April 30, 2014, the Company has lease agreements, as landlord, for four owned former retail stores. All of the leases are accounted for as operating leases. The following table is a



summary of future minimum rentals on such leases (amounts in thousands):

Years Ended January 31,	Minimum Rentals
Remainder of 2015	\$ 246
2016	328
2017	285
2018	74
Total	\$ 933

#### **Note 4. Fair Value**

The Company applies ASC 820, *Fair Value Measurements and Disclosures*, (“ASC 820”) which provides a framework for measuring fair value under GAAP. This accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determines the fair market values of its financial instruments based on the fair value hierarchy established by ASC 820. ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values which are provided below. The Company carries cash equivalents, investment in cooperative, certain restricted investments and derivative liabilities at fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally or corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methods, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Unobservable inputs shall be

developed based on the best information available, which may include the Company's own data.

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

The fair values of interest rate swaps are determined by using quantitative models that discount future cash flows using the LIBOR forward interest rate curve. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case interest rate, price or index scenarios are extrapolated in order to determine the fair value. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, the Company's own credit standing and other specific factors, where appropriate.

The fair values of property and equipment, as applicable, are determined by using various models that discount future expected cash flows. Estimation risk is greater for vacant properties as the probability of expected cash flows from the use of vacant properties is difficult to predict.

To ensure the prudent application of estimates and management judgment in determining the fair values of derivative assets and liabilities and property and equipment, various processes and controls have been adopted, which include: model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; periodic review and substantiation of profit and loss reporting for all derivative instruments and property and equipment items.

Financial assets and liabilities measured at fair value on a recurring basis at April 30, 2014 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
Money market mutual fund (1)	\$ 120	—	—	120
Investment in cooperative (1)	—	—	299	299
Total assets	\$ 120	\$—	\$299	\$ 419
Interest rate swap derivative liability	\$—	\$747	\$—	\$ 747

Financial assets and liabilities measured at fair value on a recurring basis at January 31, 2014 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$2	\$—	\$—	\$2
Money market mutual fund (1)	120	—	—	120
Investment in cooperative (1)	—	—	289	289
Total assets	\$ 122	\$—	\$289	\$411
Interest rate swap derivative liability	\$—	\$1,141	\$—	\$1,141



(1) The money market mutual fund and the investment in cooperative are included in “Other assets” on the accompanying Consolidated Condensed Balance Sheets.

14

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

The following table provides a reconciliation of the activity related to assets (investment in cooperative) measured at fair value on a recurring basis using Level 3 inputs (amounts in thousands):

Balance, January 31, 2014	\$ 289
Current period activity	10
Balance, April 30, 2014	\$ 299
Balance, January 31, 2013	\$ 252
Current period activity	—
Balance, April 30, 2013	\$ 252

The Company determined the fair value of the investment in cooperative by using a discounted cash flow analysis on the expected cash flows. Inputs used in the analysis include the face value of the allocated equity amount, the projected term for repayment based upon a historical trend, and a risk adjusted discount rate based on the expected compensation participants would demand because of the uncertainty of the future cash flows. The inherent risk and uncertainty associated with unobservable inputs could have a significant effect on the actual fair value of the investment.

Assets measured at fair value on a non-recurring basis as of April 30, 2014 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Losses (1)
Property and equipment, net	\$ —	\$ —	\$ 450	\$ 68

Assets measured at fair value on a non-recurring basis as of January 31, 2014 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Losses (1)
Property and equipment, net	\$ —	\$ —	\$ 521	\$ 55

(1) Total losses include impairment charges and loss on disposal.

The fair value of the Company's debt is approximately \$67.3 million and \$75.1 million at April 30, 2014 and January 31, 2014, respectively. The fair value was estimated with Level 2 inputs using a discounted cash flow analysis and the Company's estimate of market rates of interest for similar loan agreements with companies that have a similar credit risk.

**Note 5. Property and Equipment**

The components of property and equipment at April 30, 2014 and January 31, 2014 are as follows (amounts in thousands):

	April 30, 2014	January 31, 2014
Land and improvements	\$21,606	\$21,543
Buildings and improvements	28,733	28,297
Machinery, equipment and fixtures	223,752	223,544
Construction in progress	197	693
	274,288	274,077
Less: accumulated depreciation	(75,870 )	(71,819 )
	\$198,418	\$202,258

**Note 6. Other Assets**

The components of other assets at April 30, 2014 and January 31, 2014 are as follows (amounts in thousands):

	April 30, 2014	January 31, 2014
Deferred financing costs, net	\$351	\$402
Deposits	964	1,014
Real estate taxes refundable	3,644	3,644
Other	365	328
Total	\$5,324	\$5,388

**Note 7. Accrued Expenses and Other Current Liabilities**

The components of accrued expenses and other current liabilities at April 30, 2014 and January 31, 2014 are as follows (amounts in thousands):

	April 30, 2014	January 31, 2014
Accrued utility charges	\$2,242	\$3,745
Accrued payroll and related items	2,975	3,122
Accrued real estate taxes	2,593	2,471
Other	2,003	2,809
Total	\$9,813	\$12,147

**Note 8. Long Term Debt and Interest Rate Swaps**

**One Earth Energy Subsidiary Level Debt**

During the third quarter of fiscal year 2009, pursuant to the terms of the loan agreement, One Earth converted its construction loan into a term loan. On September 3, 2013, One Earth entered into an amendment of its loan agreement with First National Bank of Omaha (“the Bank”).

The amendment included a refinance amount of approximately \$44,101,000 (the remaining balance of the original loan) which bears interest at a variable interest rate of LIBOR plus 300 basis points (3.2% at April 30, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending October 8, 2018. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year or \$18 million in the aggregate. This amendment did not change requirements regarding financial covenants.

Borrowings are secured by all of the assets of One Earth. This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2014 and January 31, 2014, approximately \$35.0 million and \$39.1 million, respectively, was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including debt service coverage ratio requirements and working capital requirements.

One Earth has a \$10.0 million revolving loan facility that matures July 31, 2014. Borrowings under this facility bear interest at LIBOR plus 265 basis points. One Earth had no outstanding borrowings on the revolving loan as of April 30, 2014 or January 31, 2014.

One Earth has paid approximately \$1.4 million in financing costs. These costs are recorded as deferred financing costs and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted net assets related to One Earth was approximately \$92.9 million and \$86.9 million at April 30, 2014 and January 31, 2014, respectively. Restricted net assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with the Bank.

One Earth entered into a forward interest rate swap in the notional amount of \$50.0 million with the Bank. The swap settlements commenced as of July 31, 2009 and terminate on July 8, 2014. The swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9%. At April 30, 2014 and January 31, 2014, the Company recorded a liability of approximately \$0.7 million and \$1.1 million, respectively, related to the fair value of the swap. The change in fair value is recorded in the Consolidated Condensed Statements of Operations.

### **NuGen Energy Subsidiary Level Debt**

In November 2011, NuGen entered into a \$65,000,000 financing agreement consisting of a term loan for \$55,000,000 and a \$10,000,000 annually renewable revolving loan with the Bank. The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor (4% at April 30, 2014). Beginning with the first quarterly payment on February 1, 2012, payments are due in 19 quarterly payments of principal plus accrued interest with the

principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (October 31, 2016) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 40% of annual excess cash flows are also due. Such payments cannot exceed \$5 million in a year.

Borrowings are secured by all of the assets of NuGen. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2014 and January 31, 2014, approximately \$33.3 million and \$36.6 million, respectively, was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement, including debt service coverage ratio requirements and working capital requirements.

NuGen has paid approximately \$0.6 million in financing costs. These costs are recorded as deferred financing costs and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted net assets related to NuGen was approximately \$63.0 million and \$66.1 million at April 30, 2014 and January 31, 2014, respectively. Restricted net assets may not be paid in the form of dividends or advances to the parent company or other members of NuGen per the terms of the loan agreement with the Bank.

NuGen has no outstanding borrowings on the \$10,000,000 revolving loan as of April 30, 2014 which expires on May 31, 2014.

**Note 9. Financial Instruments**

The Company uses an interest rate swap, which expires July 8, 2014, to manage its interest rate exposure at One Earth by fixing the interest rate on a portion of the entity's variable rate debt. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. The notional amount and fair value of the derivative, which is not designated as a cash flow hedge at April 30, 2014, are summarized in the table below (amounts in thousands):

	Notional Amount	Fair Value Liability
Interest rate swap	\$ 32,300	\$ 747

As the interest rate swap is not designated as a cash flow hedge, the unrealized gain and loss on the derivative is reported in current earnings. The Company reported a loss of \$4,000 for the first quarter of fiscal year 2014 and a gain of \$4,000 for the first quarter of fiscal year 2013.

**Note 10. Stock Option Plans**



The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant. No options have been granted since fiscal year 2004.

18

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

The total intrinsic value of options exercised during the three months ended April 30, 2014 and 2013 was approximately \$3.6 million and \$0.3 million, respectively, resulting in tax deductions of approximately \$0.6 million and \$0.1 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2014	83,330	\$ 12.37		
Exercised	(75,120)	\$ 12.39		
Outstanding and exercisable at April 30, 2014	8,210	\$ 12.18	0.1	\$ 437

At April 30, 2014, there was no unrecognized compensation cost related to nonvested stock options.

**Note 11. Income Per Share from Continuing Operations Attributable to REX Common Shareholders**

The following table reconciles the computation of basic and diluted net income per share from continuing operations for the periods presented (in thousands, except per share amounts):

	Three Months Ended April 30, 2014			Three Months Ended April 30, 2013		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	\$21,687	8,117	\$ 2.67	\$3,205	8,158	\$ 0.39
Effect of stock options	—	32		—	42	
Diluted income per share from continuing operations attributable to REX common shareholders	\$21,687	8,149	\$ 2.66	\$3,205	8,200	\$ 0.39

For the three months ended April 30, 2014 and 2013, all shares subject to outstanding options were dilutive.

**Note 12. Investments**

The following table summarizes equity method investments at April 30, 2014 and January 31, 2014 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount April 30, 2014	Carrying Amount January 31, 2014
Big River	10	% \$40,090	\$40,042
Patriot	27	% 34,349	31,147
Total Equity Method Investments		\$74,439	\$71,189

The following table summarizes income recognized from equity method investments for the periods presented (amounts in thousands):

	Three Months Ended April 30, 2014		2013
Big River	\$5,059	\$644	
Patriot	3,238	955	
Total	\$8,297	\$1,599	

Undistributed earnings of Big River and Patriot totaled approximately \$35.9 million and \$32.6 million at April 30, 2014 and January 31, 2014, respectively. During the first quarters of fiscal years 2014 and 2013, the Company received dividends from equity method investees of approximately \$5.0 million and \$0.2 million, respectively.

Summarized financial information for each of the Company's equity method investees is presented in the following table for the three months ended April 30, 2014 and 2013 (amounts in thousands):

	Three Months Ended April 30, 2014	
	Patriot	Big River
Net sales and revenue	\$80,409	\$280,423

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

Gross profit	13,785	83,833
Income from continuing operations	12,195	52,121
Net income	12,195	52,121

20

Three Months  
Ended  
April 30, 2013

	Patriot	Big River
Net sales and revenue	\$94,093	\$294,628
Gross profit	\$5,142	\$15,619
Income from continuing operations	\$3,599	\$6,632
Net income	\$3,599	\$6,632

Patriot and Big River have debt agreements that limit and restrict amounts the companies can pay in the form of dividends or advances to owners. The restricted net assets of Patriot and Big River combined at April 30, 2014 and January 31, 2014 are approximately \$366.5 million and \$366.2 million, respectively.

### **Note 13. *Income Taxes***

The effective tax rate on consolidated pre-tax income from continuing operations was 36.5% for the three months ended April 30, 2014, and 35.4% for the three months ended April 30, 2013. The fluctuations in the effective tax rate primarily relate to the presentation of noncontrolling interests in the income of consolidated subsidiaries as noncontrolling interests are presented in the Consolidated Condensed Statements of Operations after the income tax provision or benefit. Net income attributable to noncontrolling interests was a higher percentage of income from continuing operations before income taxes in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2014.

The Company files a U.S. federal income tax return and income tax returns in various states. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years ended January 31, 2010 and prior. A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, is as follows (amounts in thousands):

Unrecognized tax benefits, January 31, 2014	\$1,862
Changes for prior years' tax positions	14
Changes for current year tax positions	—
Unrecognized tax benefits, April 30, 2014	\$1,876

### **Note 14. *Discontinued Operations***

During fiscal year 2009, the Company completed the exit of its retail business. Accordingly, all operations of the Company's former retail segment and certain sold properties have been classified as discontinued operations for all

periods presented. Once real estate property has been sold, and no continuing involvement is expected, the Company classifies the results of the operations as discontinued operations. The results of operations were previously reported in the Company's real estate segment. Below is a table reflecting certain items of the Consolidated

21

Condensed Statements of Operations that were reclassified as discontinued operations for the periods indicated (amounts in thousands):

	Three Months Ended April 30,	
	2014	2013
Net sales and revenue	\$—	\$581
Cost of sales	(91 )	227
Income before income taxes	91	280
Provision for income taxes	(36 )	(109 )
Income from discontinued operations, net of tax	\$55	\$171
Gain on disposal	\$—	\$215
Provision for income taxes	—	(84 )
Gain on disposal of discontinued operations, net of tax	\$—	\$131

#### **Note 15. Commitments and Contingencies**

The Company is involved in various legal actions arising in the normal course of business. After taking into consideration legal counsels' evaluations of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated condensed financial statements.

One Earth and NuGen have combined forward purchase contracts for approximately 10.4 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of the grain through July 2014.

One Earth and NuGen have combined sales commitments for approximately 36.6 million gallons of ethanol, approximately 121,000 tons of distillers grains and approximately 4.2 million pounds of non-food grade corn oil. They expect to deliver the ethanol, distillers grains and non-food grade corn oil through July 2014.

#### **Note 16. Segment Reporting**

The Company has two segments: alternative energy and real estate. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, indirect interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with GAAP. Segment profit includes realized and unrealized gains and losses on derivative financial





Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

instruments. The following table summarizes segment and other results and assets (amounts in thousands):

	Three Months Ended April 30,	
	2014	2013
Net sales and revenue:		
Alternative energy	\$ 155,827	\$ 178,324
Real estate	109	100
Total net sales and revenues	\$ 155,936	\$ 178,424
Segment gross profit (loss):		
Alternative energy	\$ 36,614	\$ 9,026
Real estate	(64	) (34
Total gross profit	\$ 36,550	\$ 8,992
	Three Months Ended April 30,	
	2014	2013
Segment profit (loss):		
Alternative energy	\$ 38,876	\$ 6,626
Real estate	(91	) (97
Corporate expense, net	(753	) (692
Income from continuing operations before income taxes and noncontrolling interests	\$ 38,032	\$ 5,837
	April 30, 2014	January 31, 2014
Assets:		
Alternative energy	\$ 384,034	\$ 356,589
Real estate	4,635	4,722
Corporate and other	58,280	66,557
Total assets	\$ 446,949	\$ 427,868

	Three Months Ended April 30,	
	2014	2013
Sales of products alternative energy segment:		
Ethanol	76 %	74 %
Dried distillers grains	20 %	17 %
Modified distillers grains	1 %	6 %
Other	3 %	3 %
Total	100 %	100 %
Sales of services real estate segment:		
Lease revenue	100 %	100 %

Certain corporate costs and expenses, including information technology, employee benefits and other shared services are allocated to the business segments. The allocations are generally amounts agreed upon by management and are based on a reasonable and systematic approach, which may differ from amounts that would be incurred if such services were purchased separately by the business segment. Corporate assets are primarily cash.

Cash, except for cash held by One Earth and NuGen, is considered to be fungible and available for both corporate and segment use depending on liquidity requirements. Cash of approximately \$70.1 million held by One Earth and NuGen will be used by the subsidiaries primarily to fund liquidity requirements and maintain adequate working capital levels.

**Note 17. Related-Party Transactions**

During the first quarters of fiscal year 2014 and 2013, One Earth purchased approximately \$44.8 million and \$71.7 million of corn, respectively, from the Alliance Grain Elevator, an equity investor in One Earth.

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

Historically, we were a specialty retailer in the consumer electronics/appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006.

When we operated retail stores, we offered extended service contracts to our customers which typically provided, inclusive of manufacturers' warranties, one to five years of warranty coverage. All such service contracts have expired as of January 31, 2014. We recognized the associated deferred income and expenses, including the cost to repair or replace covered products, over the remaining life of the contracts. We have classified as discontinued operations all retail related activities, including those activities associated with extended service plans, in the Consolidated Condensed Statements of Operations for all periods presented. We completed our exit of the retail business as of July 31, 2009. We have owned real estate remaining from our former retail store operations. The real estate segment consists of eleven former retail stores.

At April 30, 2014, we had equity investments in four ethanol limited liability companies, two of which we have a majority ownership interest in. We may consider making additional investments in the alternative energy segment in future periods. The following table is a summary

of ethanol gallons shipped at our plants:

Entity	Trailing 12 Months Ethanol Gallons Shipped	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Shipped
One Earth Energy, LLC	112.0 M	74	% 82.9 M
NuGen Energy, LLC	114.2 M	99	% 113.1 M
Patriot Holdings, LLC	120.7 M	27	% 32.6 M
Big River Resources W Burlington, LLC	107.4 M	10	% 10.7 M
Big River Resources Galva, LLC	118.4 M	10	% 11.8 M
Big River United Energy, LLC	121.7 M	5	% 6.1 M
Big River Resources Boyceville, LLC	55.8 M	10	% 5.6 M
Total	750.2 M		262.8 M

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains and natural gas. As a result of price volatility for these commodities, our operating results can fluctuate substantially. The price and availability of corn is subject to significant fluctuations depending upon a number of factors that affect commodity prices in general, including crop conditions, weather, federal policy and foreign trade. Because the market price of ethanol is not always directly related to corn prices, at times ethanol prices may lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of denatured ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the "crush spread". Should the crush spread decline, it is possible that our ethanol plants will generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants.

We attempt to manage the risk related to the volatility of commodity prices by utilizing forward grain purchase and forward ethanol, distillers grains and corn oil sale contracts. We attempt to match quantities of these sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than four months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

## **Future Energy**

During fiscal year 2013, we entered into a joint venture with Hytken HPGP LLC to file and defend patents for technology relating to heavy oil and oil sands production methods, and to commercially exploit the technology to generate license fees, royalty income and development opportunities. The patented technology is an enhanced method of heavy oil recovery involving zero emissions downhole steam generation. We own 60%, and Hytken HPGP owns 40% of the entity named Future Energy, LLC, an Ohio limited liability company. Future Energy is managed by a board of three managers, two appointed by us and one by Hytken HPGP. The owner of Hytken HPGP has been retained as a consultant.

We have agreed to fund direct patent expenses relating to patent applications and defense, annual annuity fees and maintenance on a country by country basis, with the right to terminate funding and transfer related patent rights to Hytken HPGP. We may also fund, through loans, all costs relating to new intellectual property, consultants, and future research and development, pilot field tests and equipment purchases for commercialization stage of the patents. We have paid approximately \$1,222,000 cumulatively, including \$174,000 in fiscal year 2014 for our ownership interest, patent and other expenses. Results of the formation and year to date operations of Future Energy, LLC were immaterial to the Consolidated Condensed Financial Statements.

## **Critical Accounting Policies and Estimates**

During the three months ended April 30, 2014, we did not change any of our critical accounting policies as disclosed in our 2013 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 9, 2014. All other accounting policies used in preparing our interim fiscal year 2014 Consolidated Condensed Financial Statements are the same as those described in our Form 10-K.

## **Fiscal Year**

All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal year 2014" means the period February 1, 2014 to January 31, 2015.

## **Results of Operations**

For a detailed analysis of period to period changes, see the segment discussion that follows this section as this is how management views and monitors our business.

**Comparison of Three Months Ended April 30, 2014 and 2013**

Net sales and revenue in the quarter ended April 30, 2014 were approximately \$155.9 million compared to approximately \$178.4 million in the prior year's first quarter, representing a decrease of approximately \$22.5 million. Net sales and revenue do not include sales from real estate operations classified as discontinued operations. The decrease was primarily caused by lower sales in our alternative energy segment of approximately \$22.5 million as prices for ethanol and dried distillers grains were lower during the current year related to the decline in corn prices.

Net

26

sales and revenue from our real estate segment were approximately \$0.1 million in both of the first quarters of fiscal year 2014 and fiscal year 2013.

The following table reflects the approximate percent of net sales for each major product and service group for the following periods:

	Three Months Ended April 30,			
Product Category	2014		2013	
Ethanol	76	%	74	%
Dried distillers grains	20	%	17	%
Modified distillers grains	1	%	6	%
Other	3	%	3	%
Total	100	%	100	%

Gross profit for the first quarter of fiscal year 2014 was approximately \$36.6 million (23.4% of net sales and revenue) which was approximately \$27.6 million higher compared to approximately \$9.0 million of gross profit (5.0% of net sales and revenue) for the first quarter of fiscal year 2013. Gross profit for the first quarter of fiscal year 2014 increased by approximately \$27.6 million compared to the first quarter of fiscal year 2013 from our alternative energy segment as the crush spread was favorably impacted by lower corn costs during the current year. Gross loss for the first quarter of fiscal year 2014 was approximately \$64,000 compared to approximately \$34,000 for the first quarter of fiscal year 2013 from our real estate segment.

Selling, general and administrative expenses for the first quarter of fiscal year 2014 were approximately \$6.2 million, an increase of approximately \$2.5 million from approximately \$3.7 million for the first quarter of fiscal year 2013. The increase was primarily caused by higher expenses in our alternative energy segment of approximately \$2.4 million.

During the first quarters of fiscal years 2014 and 2013, we recognized income of approximately \$8.3 million and \$1.6 million, respectively, from our equity investments in Big River and Patriot. Big River has interests in four ethanol production plants and has an effective ownership of ethanol gallons shipped in the trailing twelve months ended April 30, 2014 of approximately 343 million gallons. Patriot has one ethanol production plant which shipped approximately 121 million gallons of ethanol in the trailing 12 months ended April 30, 2014. Due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results from Big River and Patriot being similar to historical results.

Interest and other income was approximately \$52,000 and approximately \$42,000 for the first quarters of fiscal years 2014 and 2013, respectively. We expect interest and other income to remain consistent with fiscal year 2013 levels for the remainder of fiscal year 2014.

Interest expense was approximately \$0.7 million for the first quarter of fiscal year 2014 compared to approximately \$1.1 million for the first quarter of fiscal year 2013, a decrease of approximately \$0.4 million. The decrease was primarily attributable to the alternative energy

segment as scheduled and accelerated principal repayments have reduced our debt levels. The accelerated principal repayments include payments made at our discretion and payments related to excess cash flows required by the loan agreements.

We recognized a loss of approximately \$4,000 during the first quarter of fiscal year 2014 compared to a gain of approximately \$4,000 during the first quarter of fiscal year 2013 related to a forward interest rate swap that One Earth entered into during fiscal year 2007. We expect gain or losses related to the interest rate swap to be insignificant for the remainder of fiscal year 2014 as the interest rate swap matures July 8, 2014.

As a result of the foregoing, income from continuing operations before income taxes was approximately \$38.0 million for the first quarter of fiscal year 2014 versus approximately \$5.8 million for the first quarter of fiscal year 2013.

Our effective tax rate was 36.5% and 35.4% for the first quarters of fiscal years 2014 and 2013, respectively. The fluctuations in the effective tax rate primarily relate to the presentation of noncontrolling interests in the income of consolidated subsidiaries. We do not provide an income tax provision or benefit for noncontrolling interests. The noncontrolling interests in the income of One Earth and NuGen was a higher proportion of consolidated pre-tax income in fiscal year 2013 compared to fiscal year 2014.

As a result of the foregoing, income from continuing operations was approximately \$24.1 million for the first quarter of fiscal year 2014 versus approximately \$3.8 million for the first quarter of fiscal year 2013.

During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result, we had income from discontinued operations, net of tax, of approximately \$55,000 in the first quarter of fiscal year 2014 compared to approximately \$171,000 in the first quarter of fiscal year 2013. There was no gain on sale of discontinued operations during the first quarter of fiscal year 2014, compared to approximately \$131,000 during the first quarter of fiscal year 2013.

Income related to noncontrolling interests was approximately \$2.5 million and approximately \$0.6 million during the first quarters of fiscal years 2014 and 2013, respectively, and represents the owners' (other than us) share of the income of NuGen, One Earth and Future Energy.

As a result of the foregoing, net income attributable to REX common shareholders for the first quarter of fiscal year 2014 was approximately \$21.7 million, an increase of approximately \$18.2 million from approximately \$3.5 million for the first quarter of fiscal year 2013.



## **Business Segment Results**

We have two segments: alternative energy and real estate. The following sections discuss the results of operations for each of our business segments and corporate and other. As discussed in Note 16, our chief operating decision maker (as defined by ASC 280, “*Segment Reporting*”) evaluates the operating performance of our business segments using a measure we call segment

28

profit. Segment profit includes gains and losses on derivative financial instruments. Segment profit excludes income taxes, indirect interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with GAAP. Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

Items excluded from segment profit generally result from decisions made by corporate executives. Financing, divestiture and tax structure decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables us to evaluate business segment operating performance based upon current economic conditions.

The following table sets forth, for the periods indicated, sales and gross profit by segment (amounts in thousands):

	Three Months Ended April 30,	
	2014	2013
Net sales and revenue:		
Alternative energy	\$155,827	\$178,324
Real estate	109	100
Total net sales and revenues	\$155,936	\$178,424
Segment gross profit (loss):		
Alternative energy	\$36,614	\$9,026
Real estate	(64 )	(34 )
Total gross profit	\$36,550	\$8,992
Segment profit (loss):		
Alternative energy	\$38,876	\$6,626
Real estate	(91 )	(97 )
Corporate expense, net	(753 )	(692 )
Income from continuing operations before income taxes	\$38,032	\$5,837

### Alternative Energy

The alternative energy segment includes the consolidated financial results of NuGen and One Earth, our equity method investments in ethanol facilities, the income related to those investments and certain administrative expenses. One Earth became fully operational during the third quarter of fiscal year 2009. Effective November 1, 2011, we obtained a controlling financial interest in NuGen. Thus, we began consolidating the results of NuGen prospectively as of the acquisition date. Prior to November 1, 2011, we used the equity method of accounting to account

Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

for the results of NuGen. The following table summarizes sales by product group (amounts in thousands):

	Three Months Ended	
	April 30,	
	2014	2013
Ethanol	\$119,106	\$132,029
Dried distillers grains	31,029	31,084
Modified distillers grains	1,490	9,767
Other	4,202	5,444
Total	\$155,827	\$178,324

The following table summarizes certain operating data:

	Three Months	
	Ended	
	April 30,	
	2014	2013
Average selling price per gallon of ethanol	\$2.14	\$2.33
Average selling price per ton of dried distillers grains	\$209.53	\$264.59
Average selling price per ton of modified distillers grains	\$91.38	\$131.65
Average cost per bushel of grain	\$4.36	\$7.44
Average cost of natural gas (per mmbtu)	\$9.33	\$4.29

**Segment Results – First Quarter Fiscal Year 2014 Compared to First Quarter Fiscal Year 2013**

Net sales and revenue decreased approximately \$22.5 million from the first quarter of fiscal year 2013 to approximately \$155.8 million in the first quarter of fiscal year 2014, primarily a result of lower selling prices for our products in fiscal year 2014 which related to the significant decline in corn prices in fiscal year 2014. Ethanol sales decreased from approximately \$132.0 million in the first quarter of fiscal year 2013 to approximately \$119.1 million in the first quarter of fiscal year 2014. The average selling price per gallon of ethanol decreased from \$2.33 in the first quarter of fiscal year 2013 to \$2.14 in the first quarter of fiscal year 2014. Our ethanol sales were based upon approximately 55.6 million gallons in the first quarter of fiscal year 2014 compared to approximately 56.7 million gallons in the first quarter of fiscal year 2013. Dried distillers grains sales of approximately \$31.0 million in the first quarter of fiscal year 2014 were consistent with levels in the first quarter of fiscal year 2013. The average selling price per ton of dried distillers grains decreased from \$264.59 in the first quarter of fiscal year 2013 to \$209.53 in the first quarter of fiscal year 2014. Our dried distillers grains sales were based upon approximately 148,000 tons in the first quarter of fiscal year 2014 compared to approximately 117,000 tons in the first quarter of fiscal year 2013. Modified distillers grains sales decreased from approximately \$9.8 million in the first quarter of fiscal year 2013 to approximately \$1.5 million in the first quarter of fiscal year 2014. The average selling price per ton of modified distillers grains decreased from approximately



\$131.65 in the first quarter of fiscal year 2013 to approximately \$91.38 in the first quarter of fiscal year 2014. Our modified distillers grains sales were based upon approximately 16,000 tons in the first quarter of fiscal year 2014 compared to approximately 74,000 tons in the first quarter of fiscal year 2013. Non-food grade corn oil sales decreased from approximately \$4.5 million in the first quarter of fiscal year 2013 to approximately \$3.9 million in the first quarter of fiscal year 2014. We expect that sales in future periods will be based upon the following (One Earth and NuGen only):

Product	Annual Sales Quantity
Ethanol	200 million to 230 million gallons
Dried distillers grains	585,000 to 635,000 tons
Modified distillers grains	70,000 to 90,000 tons
Non-food grade corn oil	40 million to 50 million pounds

This expectation assumes that One Earth and NuGen will continue to operate at or above nameplate capacity, which is dependent upon the crush spread realized. We may vary the amounts of dried and modified distillers grains production, and resulting sales, based upon market conditions.

Gross profit from these sales was approximately \$36.6 million during the first quarter of fiscal year 2014 compared to approximately \$9.0 million during the first quarter of fiscal year 2013. The crush spread for the first quarter of fiscal year 2014 was approximately \$0.58 per gallon of ethanol sold compared to the first quarter of fiscal year 2013 which was approximately \$(0.32) per gallon of ethanol sold. The improved crush spread was partially offset by a decrease of approximately 21% in the price of dried distillers grains and a decrease of approximately 31% in the price of modified distillers grains. Grain costs decreased approximately \$60.8 million (41.2%) during the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. Grain costs accounted for approximately 72.8% (\$86.8 million) of our cost of sales during the first quarter of fiscal year 2014 compared to approximately 87.2% (\$147.7 million) during the first quarter of fiscal year 2013. Natural gas accounted for approximately 12.3% (\$14.6 million) of our cost of sales during the first quarter of fiscal year 2014 compared to approximately 3.9% (\$6.6 million) during the first quarter of fiscal year 2013. Given the inherent volatility in ethanol, distillers grains, non-food grade corn oil, grain and natural gas prices, we cannot predict the likelihood that the spread between ethanol, distillers grains, non-food grade corn oil and grain prices in future periods will be favorable or consistent compared to historical periods.

We attempt to match quantities of ethanol, distillers grains and non-food grade corn oil sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread. Approximately 4% of our forecasted ethanol, approximately 17% of our forecasted distillers grains and approximately 9% of our forecasted non-food grade corn oil production during the next 12 months have been sold under fixed-price contracts. The effect of a 10% adverse change in the price of ethanol, distillers grains

and non-food grade corn oil from the current pricing would result in a decrease in annual revenues of approximately \$65.2 million for the remaining forecasted sales. Similarly, approximately 4% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. The effect of a 10% adverse change in the price of corn from the current pricing would result in an increase in annual cost of goods sold of approximately \$40.0 million for the remaining forecasted grain purchases.

Selling, general and administrative expenses were approximately \$5.4 million in the first quarter of fiscal year 2014, a \$2.4 million increase from approximately \$3.0 million in the first quarter of fiscal year 2013. The increase is primarily a result of increases in incentive compensation related to the higher segment profitability in fiscal year 2014. We expect selling, general and administrative expenses to remain consistent with fiscal year 2013 results in future periods, assuming overall corporate profitability remains relatively consistent.

Interest expense decreased approximately \$0.4 million in the first quarter of fiscal year 2014 from the first quarter of fiscal year 2013 to approximately \$0.7 million. This decrease was primarily a result of reduced debt levels from scheduled and accelerated principal repayments.

We recognized income from equity method investments of approximately \$8.3 million in the first quarter of fiscal year 2014 compared to approximately \$1.6 million in the first quarter of fiscal year 2013. We recognized approximately \$5.1 million of income from Big River in the first quarter of fiscal year 2014 compared to approximately \$0.6 million in the first quarter of fiscal year 2013. We recognized approximately \$3.2 million of income from Patriot in the first quarter of fiscal year 2014 compared to approximately \$1.0 million in the first quarter of fiscal year 2013. In general, Big River and Patriot benefitted from improved crush spreads in fiscal year 2014 compared to fiscal year 2013. Given the inherent volatility in the factors that affect the crush spread, we cannot predict the likelihood that the trend with respect to income from equity method investments will be comparable in future periods.

Losses on derivative financial instruments held by One Earth were approximately \$4,000 in the first quarter of fiscal year 2014 compared to gains of approximately \$4,000 in the first quarter of fiscal year 2013. We expect that any future gains or losses on these derivative financial instruments will be insignificant.

As a result of the factors discussed above, segment profit increased to approximately \$38.9 million in the first quarter of fiscal year 2014 compared to approximately \$6.6 million in the first quarter of fiscal year 2013.

#### Real Estate

The real estate segment includes all owned real estate including those previously used as retail store operations, our real estate leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At April 30, 2014, we have lease agreements, as landlord, for four owned former retail stores (51,000 square feet leased). We have seven owned former retail stores (86,000 square feet) that are vacant at April 30, 2014. We are marketing these vacant properties for lease or sale.

32

## **Segment Results – First Quarter Fiscal Year 2014 Compared to First Quarter Fiscal Year 2013**

Net sales and revenue of \$109,000 were consistent with the prior year amount of \$100,000. We expect lease revenue to remain consistent with fiscal year 2013 amounts in future periods.

Gross loss in the first quarter of fiscal year 2014 was \$64,000 consistent with the prior year amount of \$34,000. We expect gross profit or loss for the remainder of fiscal year 2014 to be consistent with fiscal year 2013 amounts.

As a result of the factors discussed above, segment loss was \$91,000 in the first quarter of fiscal year 2014 consistent with the segment loss in the first quarter of fiscal year 2013.

### **Corporate and Other**

Corporate and other includes certain administrative expenses of the corporate headquarters, the results of Future Energy operations and interest income not directly allocated to the alternative energy or real estate segments.

## **Corporate and Other Results –First Quarter Fiscal Year 2014 Compared to First Quarter Fiscal Year 2013**

Selling, general and administrative expenses were approximately \$0.8 million in the first quarter of fiscal year 2014 consistent with the first quarter of fiscal year 2013. We expect selling, general and administrative expenses for the remainder of fiscal year 2014 to be consistent with the current year levels.

## **Liquidity and Capital Resources**

Net cash provided by operating activities was approximately \$26.8 million for the first quarter of fiscal year 2014, compared to approximately \$8.8 million for the first quarter of fiscal year 2013. For the first quarter of fiscal year 2014, cash was provided by net income of approximately \$24.2 million, adjusted for non-cash items of approximately \$1.2 million, which consisted of depreciation, impairment charges and amortization, income from equity method investments, loss on disposal of real estate and property and equipment and the deferred income tax provision. Dividends received from our equity method investees were approximately \$5.0 million in the first quarter of fiscal year 2014. Settlements on an interest rate swap used cash of approximately \$0.4 million. An increase in the balance of accounts receivable used cash of approximately \$0.4 million, which was primarily a result of the timing of customer shipments and payments. An increase in the balance of other assets used cash of approximately \$1.0 million, primarily



a result of income tax payments made during the first quarter of fiscal year 2014, related to the increased profitability during that period. An increase in accounts payable provided cash of approximately \$0.6 million, which is primarily a result of the timing of vendor shipments of inventory and vendor payments. A decrease in other liabilities used cash of approximately \$2.3

million, primarily a result of lower accruals for utilities, reflecting the high cost of natural gas earlier in 2014 and from the payment of accrued incentive compensation during the first quarter of fiscal year 2014.

Net cash provided by operating activities was approximately \$8.8 million for the first quarter of fiscal year 2013. For the first quarter of fiscal year 2013, cash was provided by net income of approximately \$4.1 million, adjusted for non-cash items of approximately \$4.5 million, which consisted of depreciation and amortization, income from equity method investments, deferred income and the deferred income tax provision. Dividends received from our equity method investees were approximately \$0.2 million in the first quarter of fiscal year 2013. Accounts receivable used cash of approximately \$6.4 million, primarily a result of the timing of customer shipments and payments. An increase in accounts payable provided cash of approximately \$2.3 million, which is primarily a result of the timing of vendor shipments of inventory and vendor payments. A decrease in inventory provided cash of approximately \$3.7 million, which is primarily a result of normal fluctuations in inventory levels at One Earth.

At April 30, 2014, working capital was approximately \$137.5 million compared to approximately \$116.7 million at January 31, 2014. The increase is primarily a result of cash provided by operating activities exceeding our cash used by financing activities (debt service). The ratio of current assets to current liabilities was 5.4 to 1 at April 30, 2014 and 4.6 to 1 at January 31, 2014.

Cash of approximately \$17,000 was used in investing activities for the first quarter of fiscal year 2014, compared to cash provided of approximately \$109,000 during the first quarter of fiscal year 2013. During the first quarter of fiscal year 2014, we had capital expenditures of approximately \$0.5 million, primarily related to improvements at the NuGen ethanol plant. We expect to spend between \$6.0 million and \$12.0 million during the remainder of fiscal year 2014 on various capital projects. During the first quarter of fiscal year 2014, we reduced our restricted cash balance which provided cash of approximately \$0.5 million.

Cash of approximately \$0.1 million was provided by investing activities for the first quarter of fiscal year 2013. We received approximately \$0.1 million as proceeds from the sale of one real estate property during the first quarter of fiscal year 2013.

Cash used in financing activities totaled approximately \$6.3 million for the first quarter of fiscal year 2014 compared to approximately \$4.2 million for the first quarter of fiscal year 2013. Cash was used by debt payments of approximately \$7.5 million, primarily on One Earth's and NuGen's term loans. Stock option activity generated cash of approximately \$0.9 million.

Cash used in financing activities totaled approximately \$4.2 million for the first quarter of fiscal year 2013. Cash was used by debt payments of approximately \$4.2 million, primarily on One Earth's and NuGen's term loans. We used cash of approximately \$0.6 million to purchase approximately 31,000 shares of our common stock in open market transactions. Stock option activity generated cash of approximately \$0.6 million.



## Edgar Filing: REX AMERICAN RESOURCES Corp - Form 10-Q

In September 2007, One Earth entered into a \$111,000,000 financing agreement consisting of a construction loan agreement for \$100,000,000 together with a \$10,000,000 revolving loan and a \$1,000,000 letter of credit with First National Bank of Omaha. The construction loan was converted into a term loan on July 31, 2009. On September 3, 2013, One Earth entered into an amendment of its loan agreement with the Bank. This amendment included a refinance amount of approximately \$44,101,000 (the remaining balance of the original loan) which bears interest at LIBOR plus 300 basis points (3.2% at April 30, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending October 8, 2018. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year or \$18 million in the aggregate. This amendment did not change requirements regarding financial covenants.

This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. Borrowings are secured by all assets of One Earth. As of April 30, 2014, approximately \$35.0 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts at April 30, 2014 are as follows:

- Maintain working capital of at least \$10 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with One Earth) less total current liabilities. At April 30, 2014, working capital was approximately \$36.3 million.

- Capital expenditures are limited to \$3.0 million annually.

For the three months ended April 30, 2014, capital expenditures were approximately \$51,000.

One Earth was in compliance with all covenants, as applicable, at April 30, 2014. On March 13, 2013, One Earth entered into an amendment of its loan agreement with the First National Bank of Omaha. This amendment included:

- 1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at December 31, 2012 and  
a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that One
- 2) Earth maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning December 31, 2013.

The fixed charge coverage ratio is computed by dividing adjusted EBITDA (EBITDA less taxes, capital expenditures and distributions paid to members) by scheduled principal and interest payments.

Based on our forecasts, which are primarily based on estimates of plant production, prices of ethanol, corn, distillers grains, non-food grade corn oil and natural gas as well as other assumptions management believes to be reasonable, management believes that One Earth will be able to

35

maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet One Earth's liquidity needs. However, if a material adverse change in the financial position of One Earth should occur, or if actual sales or expenses are substantially different than what has been forecasted, One Earth's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

In November 2011, NuGen entered into a \$65,000,000 financing agreement consisting of a term loan agreement for \$55,000,000 and a \$10,000,000 revolving loan with First National Bank of Omaha. The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor (4% at April 30, 2014). Beginning with the first quarterly payment on February 1, 2012, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (October 31, 2016) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 40% of annual excess cash flows are also due. Such payments cannot exceed \$5 million in a year.

This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries. Borrowings are secured by all assets of NuGen. As of April 30, 2014, approximately \$33.3 million was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts at April 30, 2014 are as follows:

Maintain working capital of at least \$10.0 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with NuGen) less total current liabilities. At April 30, 2014, working capital was approximately \$50.6 million.

Capital expenditures are limited to \$8.5 million in fiscal year 2014 and \$2.5 million annually thereafter.

For the three months ended April 30, 2014, capital expenditures were approximately \$0.3 million.

NuGen was in compliance with all covenants, as applicable, at April 30, 2014. On March 13, 2013, NuGen entered into an amendment of its loan agreement with the First National Bank of Omaha. This amendment included:

- 1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at January 31, 2013 and

- a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that
- 2) NuGen maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning January 31, 2014 and

- a modification of the covenant regarding maintenance of working capital levels to a requirement that NuGen maintain minimum working capital of not less than \$7.5 million measured at its quarters ending April 30, 2013,
- 3) July 31, 2013 and October 31, 2013. As of January 31, 2014 and thereafter, NuGen shall maintain minimum working capital of not less than \$10.0 million.

Based on our forecasts, which are primarily based on estimates of plant production, prices of ethanol, corn, distillers grains, non-food grade corn oil and natural gas as well as other assumptions management believes to be reasonable, management believes that NuGen will be able to maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet NuGen's liquidity needs. However, if a material adverse change in the financial position of NuGen should occur, or if actual sales or expenses are substantially different than what has been forecasted, NuGen's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

We believe we have sufficient working capital and credit availability to fund our commitments and to maintain our operations at their current levels for the next twelve months and foreseeable future.

### **Forward-Looking Statements**

This Form 10-Q contains or may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements can be identified by use of forward-looking terminology such as "may," "expect," "believe," "estimate," "anticipate" or "continue" or the negative thereof or other variations thereon or comparable terminology. Readers are cautioned that there are risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. These risks and uncertainties include the risk factors set forth from time to time in the Company's filings with the Securities and Exchange Commission and include among other things: the impact of legislative changes, the price volatility and availability of corn, distillers grains, ethanol, non-food grade corn oil, gasoline, natural gas, ethanol plants operating efficiently and according to forecasts and projections, changes in the national or regional economies, weather, the effects of terrorism or acts of war and changes in real estate market conditions. The Company does not intend to update publicly any forward-looking statements except as required by law. Other factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2014 (File No. 001-09097).

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to the impact of market fluctuations associated with interest rates and commodity prices as discussed below.

#### **Interest Rate Risk**

We are exposed to market risk from changes in interest rates. Interest rate risk related to interest income is immaterial. Exposure to interest rate risk results primarily from holding term and revolving loans that bear variable interest rates. Specifically, we have approximately \$68.3 million outstanding in debt as of April 30, 2014, that is variable-rate. Of this amount, approximately \$32.3 million is fixed by an interest rate swap, which matures on July 8, 2014. Interest rates on our variable-rate debt are determined based upon the market interest rate of LIBOR plus 300 basis points. A 10% adverse change (for example from 3.0% to 3.3%) in market interest rates would increase our interest cost on such debt by approximately \$266,000 over the term of the debt. However, this change would be greater should LIBOR rates exceed 0.75%, as the floor interest rate of NuGen's debt is the greater of 4% or LIBOR plus 325 basis points.

#### **Commodity Price Risk**

We manage a portion of our risk with respect to the volatility of commodity prices inherent in the ethanol industry by using forward purchase and sale contracts. At April 30, 2014, One Earth and NuGen combined have purchase commitments for approximately 10.4 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn through July 2014. At April 30, 2014, One Earth and NuGen have combined sales commitments for approximately 36.6 million gallons of ethanol, approximately 121,000 tons of distillers grains and approximately 4.2 million pounds of non-food grade corn oil. One Earth and NuGen expect to deliver the ethanol, distillers grains and non-food grade corn oil through July 2014. Approximately 4% of our forecasted ethanol sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of ethanol from the current pricing would result in a decrease in annual revenues of approximately \$51.6 million for the remaining forecasted ethanol sales. Approximately 17% of our forecasted distillers grains sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of distillers grains from the current pricing would result in a decrease in annual revenues of approximately \$11.9 million for the remaining forecasted distillers grains sales. Approximately 9% of our forecasted non-food grade corn oil sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of non-food grade corn oil from the current pricing would result in a decrease in annual revenues of approximately \$1.6 million for the remaining forecasted non-food grade corn oil sales. Similarly, approximately 4% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn from the current pricing would result in an increase in annual cost of goods sold of approximately \$40.0 million for the remaining forecasted corn usage.



**Item 4. Controls and Procedures**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not party to any legal proceedings that we believe would, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 1A. Risk Factors**

During the quarter ended April 30, 2014, there have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended January 31, 2014.

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

Dividend Policy

REX did not pay dividends in the current or prior years. We currently have no restrictions on the payment of dividends. Our consolidated and unconsolidated ethanol subsidiaries have certain restrictions on their ability to pay dividends to us. During the first three months of fiscal year 2014, neither One Earth nor NuGen paid dividends.

**Item 3. *Defaults upon Senior Securities***

None

**Item 4. *Mine Safety Disclosures***

None

**Item 5. *Other Information***

None

39

**Item 6. Exhibits.**

The following exhibits are filed with this report:

31 Rule 13a-14(a)/15d-14(a) Certifications

32 Section 1350 Certifications

101 The following information from REX American Resources Corporation Quarterly Report on Form 10-Q for the quarter ended April 30, 2014, formatted in XBRL: (i) Consolidated Condensed Balance Sheets, (ii) Consolidated Condensed Statements of Operations, (iii) Consolidated Condensed Statements of Equity, (iv) Consolidated Condensed Statements of Cash Flows and (v) Notes to Consolidated Condensed Financial Statements.

40

**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.

REX American Resources Corporation

Registrant

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Stuart A. Rose (Stuart A. Rose)	Chairman of the Board (Chief Executive Officer)	June 6, 2014
/s/ Douglas L. Bruggeman (Douglas L. Bruggeman)	Vice President, Finance and Treasurer (Chief Financial Officer)	June 6, 2014

41