

REX AMERICAN RESOURCES Corp
Form 10-Q
December 05, 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
xACT OF 1934**

For the quarterly period ended October 31, 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
(State or other jurisdiction of
incorporation or organization)**

**31-1095548
(I.R.S. Employer
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)

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 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 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
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

At the close of business on December 4, 2014 the registrant had 8,003,221 shares of Common Stock, par value \$.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

Unaudited

	October 31, 2014	January 31, 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 164,267	\$ 105,149
Restricted cash	—	500
Accounts receivable	10,586	16,486
Inventory	11,496	19,370
Refundable income taxes	—	268
Prepaid expenses and other	5,029	4,891
Deferred taxes, net	—	2,146
Total current assets	191,378	148,810
Property and equipment, net	197,645	202,258
Other assets	5,831	5,388
Equity method investments	75,524	71,189
Restricted investments and deposits	—	223
Total assets	\$470,378	\$427,868
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt	\$ 19,000	\$ 12,226
Accounts payable, trade	9,066	6,626
Deferred taxes	3,400	—
Derivative financial instruments	—	1,141
Accrued expenses and other current liabilities	19,511	12,147
Total current liabilities	50,977	32,140
Long-term liabilities:		
Long-term debt	14,500	63,500
Deferred taxes	19,597	19,613
Other long-term liabilities	1,904	1,862
Total long-term liabilities	36,001	84,975
Equity:		
REX shareholders' equity:		

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Common stock	299	299
Paid-in capital	144,791	144,051
Retained earnings	424,090	357,101
Treasury stock	(229,731)	(222,170)
Total REX shareholders' equity	339,449	279,281
Noncontrolling interests	43,951	31,472
Total equity	383,400	310,753
Total liabilities and equity	\$470,378	\$427,868

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

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

	Three Months Ended October 31, 2014		Nine Months Ended October 31, 2014	
	2013	2014	2013	2014
	(In Thousands, Except Per Share Amounts)			
Net sales and revenue	\$138,454	\$166,188	\$444,622	\$520,001
Cost of sales	101,957	148,160	332,665	482,077
Gross profit	36,497	18,028	111,957	37,924
Selling, general and administrative expenses	(4,353)	(4,589)	(15,369)	(12,530)
Equity in income of unconsolidated affiliates	8,780	3,331	24,322	9,558
Interest and other income	103	69	243	158
Interest expense	(454)	(964)	(1,737)	(3,039)
Gains (losses) on derivative financial instruments, net	4	(23)	(1)	(29)
Income from continuing operations before income taxes	40,577	15,852	119,415	32,042
Provision for income taxes	(12,126)	(5,261)	(40,049)	(11,034)
Income from continuing operations	28,451	10,591	79,366	21,008
Income from discontinued operations, net of tax	—	287	5	556
Gain on disposal of discontinued operations, net of tax	138	600	136	732
Net income	28,589	11,478	79,507	22,296
Net income attributable to noncontrolling interests	(5,249)	(1,611)	(12,518)	(3,097)
Net income attributable to REX common shareholders	\$23,340	\$9,867	\$66,989	\$19,199
Weighted average shares outstanding – basic	8,170	8,140	8,157	8,154
Basic income per share from continuing operations attributable to REX common shareholders	\$2.84	\$1.10	\$8.19	\$2.19
Basic income per share from discontinued operations attributable to REX common shareholders	—	0.04	—	0.07
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	0.02	0.07	0.02	0.09
Basic net income per share attributable to REX common shareholders	\$2.86	\$1.21	\$8.21	\$2.35
Weighted average shares outstanding – diluted	8,170	8,179	8,168	8,197
Diluted income per share from continuing operations attributable to REX common shareholders	\$2.84	\$1.10	\$8.18	\$2.18
Diluted income per share from discontinued operations attributable to REX common shareholders	—	0.04	—	0.07
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders	0.02	0.07	0.02	0.09
Diluted net income per share attributable to REX common shareholders	\$2.86	\$1.21	\$8.20	\$2.34

Amounts attributable to REX common shareholders:

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Income from continuing operations, net of tax	\$23,202	\$8,980	\$66,848	\$17,911
Income from discontinued operations, net of tax	138	887	141	1,288
Net income	\$23,340	\$9,867	\$66,989	\$19,199

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**

	Nine Months Ended October 31,	
	2014	2013
	(In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	\$79,507	\$22,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, impairment charges and amortization	12,480	13,178
Income from equity method investments	(24,322)	(9,558)
Gain on disposal of real estate and property and equipment	(209)	(989)
Dividends received from equity method investees	19,881	200
Deferred income	—	(590)
Derivative financial instruments	(1,141)	(1,249)
Deferred income tax	5,323	8,241
Excess tax benefit from stock option exercises	(441)	—
Changes in assets and liabilities:		
Accounts receivable	5,900	293
Inventories	7,874	8,613
Other assets	728	1,933
Accounts payable, trade	2,075	2,589
Other liabilities	7,406	(1,529)
Net cash provided by operating activities	115,061	43,428
Cash flows from investing activities:		
Capital expenditures	(8,107)	(2,159)
Restricted cash	500	(500)
Repayment of loan receivable	—	681
Restricted investments and deposits	273	280
Proceeds from sale of real estate and property and equipment	596	3,406
Net cash (used in) provided by investing activities	(6,738)	1,708
Cash flows from financing activities:		
Payments of long-term debt	(42,226)	(18,520)
Stock options exercised	931	794
Payments to noncontrolling interests holders	(39)	(5)
Excess tax benefit from stock option exercises	441	—
Treasury stock acquired	(8,312)	(3,079)
Net cash used in financing activities	(49,205)	(20,810)
Net increase in cash and cash equivalents	59,118	24,326
Cash and cash equivalents, beginning of period	105,149	69,073
Cash and cash equivalents, end of period	\$164,267	\$93,399
Non cash investing activities – Accrued capital expenditures	\$615	\$198
Non cash investing activities – Loan receivable granted in connection with sale of real estate	\$475	\$—

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

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REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

October 31, 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.

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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.

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 October 31, 2014 and 2013 was approximately \$518,000 and \$900,000, respectively. Interest paid for the nine months ended October 31, 2014 and 2013 was approximately \$1,834,000 and \$2,822,000, respectively.

Financial Instruments

The Company used 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, which matured during the third quarter of fiscal year 2014, 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 an interest rate swap of approximately \$367,000 and \$416,000 for the three months ended October 31, 2014 and 2013, respectively. The Company paid settlements of the interest rate swap of approximately \$1,142,000 and \$1,278,000 for the nine months ended October 31, 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 \$22,829,000 and \$2,150,000 during the nine months ended October 31, 2014 and 2013, respectively.

As of October 31, 2014, total unrecognized tax benefits were approximately \$1,451,000 and accrued penalties and interest were approximately \$453,000. 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.

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 material permanent write-down of

inventory at October 31, 2014 and January 31, 2014, respectively. Fluctuations in the write-down of inventory generally relate to the levels and composition of such

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inventory at a given point in time. The components of inventory at October 31, 2014 and January 31, 2014 are as follows (amounts in thousands):

	October 31, 2014	January 31, 2014
Ethanol and other finished goods	\$2,059	\$3,517
Work in process	2,475	3,017
Grain and other raw materials	6,962	12,836
Total	\$11,496	\$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.

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 exist, 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 Financial Accounting Standards Board (“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.

In May 2014, the FASB issued ASU 2014-09 (“ASU 2014-09”), “*Revenue From Contracts With Customers*”. The update requires revenue recognition to reflect the transfer of promised goods or services to customers and replaces existing revenue recognition guidance. The updated standard permits the use of either the retrospective or cumulative effect transition method. The Company will be required to adopt ASU 2014-09 effective February 1, 2017. The Company has not determined the impact of adopting ASU 2014-09 on the Company’s consolidated financial statements.

Note 3. Leases

At October 31, 2014, the Company has lease agreements, as landlord, for four owned former retail stores. All of the leases are accounted for as operating leases. We also have a seasonal (temporary) lease agreement, as landlord, for one owned property. 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	\$ 80
2016	296
2017	253
2018	84
Total	\$ 713

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.

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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 October 31, 2014 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
Investment in cooperative (1)	\$ —	\$ —	\$323	\$ 323

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.

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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
Current period activity	12
Balance, July 31, 2014	311
Current period activity	12
Balance, October 31, 2014	\$323

Balance, January 31, 2013	\$252
Current period activity	—
Balance, April 30, 2013	252
Current period activity	10
Balance, July 31, 2013	262
Current period activity	10
Balance, October 31, 2013	\$272

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.

There were no assets measured at fair value on a non-recurring basis as of October 31, 2014.

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 \$33.5 million and \$75.1 million at October 31, 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.

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Note 5. Property and Equipment

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

	October 31, 2014	January 31, 2014
Land and improvements	\$ 21,234	\$ 21,543
Buildings and improvements	27,868	28,297
Machinery, equipment and fixtures	224,182	223,544
Construction in progress	7,778	693
	281,062	274,077
Less: accumulated depreciation	(83,417)	(71,819)
	\$ 197,645	\$ 202,258

Note 6. Other Assets

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

	October 31, 2014	January 31, 2014
Deferred financing costs, net	\$ 251	\$ 402
Deposits	964	1,014
Real estate taxes refundable	3,658	3,644
Other	958	328
Total	\$ 5,831	\$ 5,388

Note 7. Accrued Expenses and Other Current Liabilities

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

	October 31, 2014	January 31, 2014
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Accrued utility charges	\$ 1,517	\$ 3,745
Accrued income taxes	11,491	—
Accrued payroll and related items	3,758	3,122
Accrued real estate taxes	1,051	2,471
Other	1,694	2,809
Total	\$ 19,511	\$ 12,147

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Note 8. Long Term Debt and Interest Rate Swap

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 October 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending July 8, 2016. 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 significantly change requirements regarding financial covenants. Subsequent to September 30, 2014 (the end of One Earth’s third quarter), One Earth made a discretionary accelerated principal payment of \$10.0 million; this amount is included in current portion of long term debt in the Consolidated Condensed Balance Sheets. Subsequent to October 31, 2014, One Earth paid off the remaining \$14.0 million of outstanding long-term debt and terminated its debt agreement with the Bank.

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 October 31, 2014 and January 31, 2014, approximately \$24.0 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 had a \$10.0 million revolving loan facility that was to mature July 31, 2015. Borrowings under this facility bear interest at LIBOR plus 265 basis points. One Earth had no outstanding borrowings on the revolving loan as of October 31, 2014 or January 31, 2014. This facility was cancelled in connection with the termination of the debt agreement with the Bank.

The Company’s proportionate share of restricted net assets related to One Earth was approximately \$109.4 million and \$86.9 million at October 31, 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 fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9%. At January 31, 2014, the Company recorded a liability of approximately \$1.1 million related to the fair value of the swap. The change in fair value is recorded in the Consolidated Condensed Statements of Operations. The swap matured during the third quarter of fiscal year 2014.

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. Effective May 31, 2014, NuGen entered into an amendment of its loan agreement with the Bank. The amendment included a refinance amount of \$30,000,000 (the remaining balance of the original loan) which bears interest at a variable interest rate of LIBOR plus 300 basis points (3.2% at October 31, 2014). Beginning with the first quarterly payment on August 1, 2014, payments are due in 20 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 60 month amortization schedule. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year. This amendment did not significantly change requirements regarding financial covenants. Subsequent to October 31, 2014, NuGen paid off the remaining \$9.5 million of outstanding long-term debt and terminated its debt agreement with the Bank.

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 October 31, 2014 and January 31, 2014, approximately \$9.5 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 had a \$10.0 million revolving loan facility that was to mature May 31, 2015. Borrowings under this facility bear interest at LIBOR plus 275 basis points. NuGen had no outstanding borrowings on the revolving loan as of October 31, 2014 or January 31, 2014. This facility was cancelled in connection with the termination of the debt agreement with the Bank.

The Company's proportionate share of restricted net assets related to NuGen was approximately \$103.4 million and \$66.1 million at October 31, 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.

Note 9. Financial Instruments

The Company used an interest rate swap, which expired during the third quarter of fiscal year 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.

As the interest rate swap was not designated as a cash flow hedge, the unrealized gain and loss on the derivative is reported in current earnings. The Company reported a gain of \$4,000 in the third quarter of fiscal year 2014 and a loss of \$23,000 in the third quarter of fiscal year 2013. The Company reported losses of \$1,000 and \$29,000 in the first nine months of fiscal years 2014 and 2013, respectively.

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 and there are no outstanding options at October 31, 2014.

The total intrinsic value of options exercised during the nine months ended October 31, 2014 and 2013 was approximately \$4.0 million and \$0.5 million, respectively, resulting in tax deductions of approximately \$0.8 million and \$0.2 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the nine months ended October 31, 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	(83,330)	\$ 12.37		
Outstanding and exercisable at October 31, 2014	—	\$ —	—	\$ —

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 October 31, 2014			Three Months Ended October 31, 2013		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	\$23,202	8,170	\$ 2.84	\$8,980	8,140	\$ 1.10
Effect of stock options	—	—		—	39	
Diluted income per share from continuing operations attributable to REX common shareholders	\$23,202	8,170	\$ 2.84	\$8,980	8,179	\$ 1.10

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	Nine Months Ended October 31, 2014			Nine Months Ended October 31, 2013		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	\$66,848	8,157	\$8.19	\$17,911	8,154	\$2.19
Effect of stock options	—	11		—	43	
Diluted income per share from continuing operations attributable to REX common shareholders	\$66,848	8,168	\$8.18	\$17,911	8,197	\$2.18

For the nine months ended October 31, 2014 and 2013, and for the three months ended October 31, 2013, all shares subject to outstanding options were dilutive.

Note 12. Investments

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

Entity	Ownership Percentage	Carrying Amount October 31, 2014	Carrying Amount January 31, 2014
Big River	10	% \$39,358	\$40,042
Patriot	27	% 36,166	31,147
Total Equity Method Investments		\$75,524	\$71,189

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

	Three Months Ended October 31, 2014		Nine Months Ended October 31, 2013	
	2014	2013	2014	2013
Big River	\$4,574	\$1,576	\$14,353	\$4,312
Patriot	4,206	1,755	9,969	5,246
Total	\$8,780	\$3,331	\$24,322	\$9,558

Undistributed earnings of Big River and Patriot totaled approximately \$37.0 million and \$32.6 million at October 31, 2014 and January 31, 2014, respectively. During the first nine months of fiscal years 2014 and 2013, the Company received dividends from equity method investees of approximately \$19.9 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 and nine months ended October 31, 2014 and 2013 (amounts in thousands):

	Three Months Ended		Three Months Ended	
	October 31, 2014		October 31, 2013	
	Patriot	Big River	Patriot	Big River
Net sales and revenue	\$93,056	\$260,908	\$98,776	\$339,720
Gross profit	17,597	59,426	8,312	30,957
Income from continuing operations	15,843	47,114	6,610	16,235
Net income	15,843	47,114	6,610	16,235

	Nine Months Ended		Nine Months Ended	
	October 31, 2014		October 31, 2013	
	Patriot	Big River	Patriot	Big River
Net sales and revenue	\$252,592	\$854,174	\$295,250	\$970,309
Gross profit	42,626	183,736	24,500	76,639
Income from continuing operations	37,549	147,853	19,761	44,415
Net income	37,549	147,853	19,761	44,415

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 October 31, 2014 and January 31, 2014 are approximately \$448.7 million and \$366.2 million, respectively.

Note 13. Income Taxes

The effective tax rate on consolidated pre-tax income from continuing operations was 29.9% and 33.2% for the three months ended October 31, 2014 and 2013, respectively. The effective tax rate on consolidated pre-tax income from continuing operations was 33.5% and 34.4% for the nine months ended October 31, 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 as noncontrolling interests are presented in the Consolidated Condensed Statements of Operations after the income tax provision or benefit.

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	42
Changes for current year tax positions	—
Unrecognized tax benefits, October 31, 2014	\$1,904

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

	Three Months Ended October 31, 2014		Nine Months Ended October 31, 2014	
	2014	2013	2014	2013
Net sales and revenue	\$—	\$392	\$—	\$1,473
Cost of sales	—	146	(8)	341
Income before income taxes	—	471	8	912
Provision for income taxes	—	(184)	(3)	(356)
Income from discontinued operations, net of tax	\$—	\$287	\$5	\$556
Gain on disposal	\$210	\$983	\$217	\$1,200
Provision for income taxes	(72)	(383)	(81)	(468)
Gain on disposal of discontinued operations, net of tax	\$138	\$600	\$136	\$732

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 8.4 million bushels of corn, the principal raw material for their ethanol plants. Approximately 13% of these contracts provide for a fixed purchase price, the purchase price of the remaining 87% of such contracts will be determined subsequent to the end of the third quarter. They expect to take delivery of a majority of the grain through February 2015.

One Earth and NuGen have combined sales commitments for approximately 42.5 million gallons of ethanol, approximately 122,000 tons of distillers grains and approximately 10.2 million pounds of non-food grade corn oil. They expect to deliver a majority of the ethanol, distillers grains and non-food grade corn oil through March 2015. Approximately 7% of the ethanol contracts and 100% of the distillers grains and non-food grade corn oil contracts provide for a fixed selling price. The selling price of the remaining quantities will be determined subsequent to the end of the third quarter.

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, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with GAAP. The following table summarizes segment and other results and assets (amounts in thousands):

Three	Nine
Months	Months
Ended	Ended
October	October
31,	31,
2014	