

REX AMERICAN RESOURCES Corp  
Form 10-Q  
August 29, 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 July 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 August 28, 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 |
|--|------|
| <u>PART I. FINANCIAL INFORMATION</u>   |      |
| <u>Item 1. Financial Statements</u>  |      |
| <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    |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 23   |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 39   |
| <u>Item 4. Controls and Procedures</u>   | 40   |
| <u>PART II. OTHER INFORMATION</u>  |      |
| <u>Item 1. Legal Proceedings</u>   | 40   |
| <u>Item 1A. Risk Factors</u>   | 41   |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 41   |
| <u>Item 3. Defaults upon Senior Securities</u>   | 41   |
| <u>Item 4. Mine Safety Disclosures</u>   | 41   |
| <u>Item 5. Other Information</u>   | 42   |
| <u>Item 6. Exhibits</u>  | 42   |

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

## REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

**Consolidated Condensed Balance Sheets**

Unaudited

|  | July 31,<br>2014 | January<br>31,<br>2014 |
|--|------------------|------------------------|
|  | (In Thousands)   |                        |
| Assets   |                  |                        |
| Current assets:                                |                  |                        |
| Cash and cash equivalents                      | \$ 152,236       | \$ 105,149             |
| Restricted cash                                | —                | 500                    |
| Accounts receivable                            | 13,992           | 16,486                 |
| Inventory                                      | 17,287           | 19,370                 |
| Refundable income taxes                        | —                | 268                    |
| Prepaid expenses and other                     | 5,413            | 4,891                  |
| Deferred taxes, net                            | —                | 2,146                  |
| Total current assets                           | 188,928          | 148,810                |
| Property and equipment, net                    | 197,235          | 202,258                |
| Other assets                                   | 5,288            | 5,388                  |
| Equity method investments                      | 78,069           | 71,189                 |
| Restricted investments and deposits            | —                | 223                    |
| Total assets                                   | \$469,520        | \$427,868              |
| Liabilities and equity:                        |                  |                        |
| Current liabilities:                           |                  |                        |
| Current portion of long-term debt              | \$24,000         | \$12,226               |
| Accounts payable, trade                        | 6,667            | 6,626                  |
| Deferred taxes                                 | 3,400            | —                      |
| Derivative financial instruments               | 371              | 1,141                  |
| Accrued expenses and other current liabilities | 12,472           | 12,147                 |
| Total current liabilities                      | 46,910           | 32,140                 |
| Long-term liabilities:                         |                  |                        |
| Long-term debt                                 | 38,000           | 63,500                 |
| Deferred taxes                                 | 19,597           | 19,613                 |
| Other long-term liabilities                    | 1,890            | 1,862                  |
| Total long-term liabilities                    | 59,487           | 84,975                 |
| Equity:  |                  |                        |
| REX shareholders' equity:                      |                  |                        |
| Common stock                                   | 299              | 299                    |
| Paid-in capital                                | 144,791          | 144,051                |
| Retained earnings                              | 400,750          | 357,101                |
| Treasury stock                                 | (221,419)        | (222,170)              |

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

|                                |           |           |
|--------------------------------|-----------|-----------|
| Total REX shareholders' equity | 324,421   | 279,281   |
| Noncontrolling interests       | 38,702    | 31,472    |
| Total equity                   | 363,123   | 310,753   |
| Total liabilities and equity   | \$469,520 | \$427,868 |

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

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

Unaudited

|   | Three Months<br>Ended<br>July 31,<br>2014 |           | Six Months<br>Ended<br>July 31,<br>2014 |           |
|---|---|-----------|---|-----------|
|   | 2013                                      | 2013      | 2014                                    | 2013      |
|   | (In Thousands, Except Per Share Amounts)  |           |   |           |
| Net sales and revenue   | \$150,231                                 | \$175,389 | \$306,167                               | \$353,813 |
| Cost of sales   | 111,413                                   | 164,511   | 230,724                                 | 333,937   |
| Gross profit  | 38,818                                    | 10,878    | 75,443                                  | 19,876    |
| Selling, general and administrative expenses  | (4,839 )                                  | (4,194 )  | (11,010 )                               | (7,935 )  |
| Equity in income of unconsolidated affiliates   | 7,245                                     | 4,628     | 15,542                                  | 6,227     |
| Interest and other income   | 88  | 45        | 140                                     | 86        |
| Interest expense  | (591 )                                    | (1,029 )  | (1,283 )                                | (2,084 )  |
| Losses on derivative financial instruments, net   | (1 )                                      | (10 )     | (5 )                                    | (6 )      |
| Income from continuing operations before income taxes   | 40,720                                    | 10,318    | 78,827                                  | 16,164    |
| Provision for income taxes  | (14,009 )                                 | (3,694 )  | (27,925 )                               | (5,763 )  |
| Income from continuing operations   | 26,711                                    | 6,624     | 50,902                                  | 10,401    |
| Income from discontinued operations, net of tax   | 2   | 120       | 11                                      | 285       |
| Gain on disposal of discontinued operations, net of tax   | 5   | 1         | 5                                       | 132       |
| Net income  | 26,718                                    | 6,745     | 50,918                                  | 10,818    |
| Net income attributable to noncontrolling interests   | (4,811 )                                  | (920 )    | (7,269 )                                | (1,486 )  |
| Net income attributable to REX common shareholders  | \$21,907                                  | \$5,825   | \$43,649                                | \$9,332   |
| Weighted average shares outstanding – basic   | 8,182                                     | 8,164     | 8,150                                   | 8,161     |
| Basic income per share from continuing operations attributable to REX common shareholders               | \$2.68                                    | \$0.70    | \$5.36                                  | \$1.09    |
| Basic income per share from discontinued operations attributable to REX common shareholders             | —   | 0.01      | —                                       | 0.03      |
| 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                                    | \$0.71    | \$5.36                                  | \$1.14    |
| Weighted average shares outstanding – diluted   | 8,182                                     | 8,204     | 8,166                                   | 8,204     |
| Diluted income per share from continuing operations attributable to REX common shareholders             | \$2.68                                    | \$0.70    | \$5.35                                  | \$1.09    |
| Diluted income per share from discontinued operations attributable to REX common shareholders           | —   | 0.01      | —                                       | 0.03      |
| 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                                    | \$2.68                                    | \$0.71    | \$5.35                                  | \$1.14    |

Amounts attributable to REX common shareholders:

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

|   |          |         |          |         |
|---|----------|---------|----------|---------|
| Income from continuing operations, net of tax   | \$21,900 | \$5,704 | \$43,633 | \$8,915 |
| Income from discontinued operations, net of tax | 7        | 121     | 16       | 417     |
| Net income                                      | \$21,907 | \$5,825 | \$43,649 | \$9,332 |

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

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

(In Thousands)

|  | REX Shareholders<br>Common Shares<br>Issued |        | Treasury |             | Paid-in<br>Capital | Retained<br>Earnings | Noncontrolling<br>Interests | Total<br>Equity |
|--|---|--------|----------|-------------|--------------------|----------------------|-----------------------------|-----------------|
|  | Shares                                      | Amount | Shares   | Amount      |                    |                      |                             |                 |
| Balance at January 31,<br>2014                     | 29,853                                      | \$ 299 | 21,753   | \$(222,170) | \$ 144,051         | \$ 357,101           | \$ 31,472                   | \$ 310,753      |
| Net income   |   |        |          |             |                    | 43,649               | 7,269                       | 50,918          |
| Treasury stock acquired                            |   |        | 2        | (100 )      |                    |                      |                             | (100 )          |
| Noncontrolling interests<br>distribution and other |   |        |          |             |                    |                      | (39 )                       | (39 )           |
| Stock options and related<br>tax effects           | —   | —      | (84 )    | 851         | 740                | —                    | —                           | 1,591           |
| Balance at July 31, 2014                           | 29,853                                      | \$ 299 | 21,671   | \$(221,419) | \$ 144,791         | \$ 400,750           | \$ 38,702                   | \$ 363,123      |
|  |   |        |          |             |                    |                      |                             |                 |
|  | Common Shares<br>Issued                     |        | Treasury |             | Paid-in<br>Capital | Retained<br>Earnings | Noncontrolling<br>Interests | Total<br>Equity |
|  | Shares                                      | Amount | Shares   | Amount      |                    |                      |                             |                 |
| Balance at January 31,<br>2013                     | 29,853                                      | \$ 299 | 21,701   | \$(219,550) | \$ 143,575         | \$ 322,028           | \$ 27,931                   | \$ 274,283      |
| Net income   |   |        |          |             |                    | 9,332                | 1,486                       | 10,818          |
| Treasury stock acquired                            |   |        | 46       | (856 )      |                    |                      |                             | (856 )          |
| Stock options and related<br>tax effects           | —   | —      | (62 )    | 636         | 213                | —                    | —                           | 849             |
| Balance at July 31, 2013                           | 29,853                                      | \$ 299 | 21,685   | \$(219,770) | \$ 143,788         | \$ 331,360           | \$ 29,417                   | \$ 285,094      |

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**

|   | Six Months Ended<br>July 31, |          |
|---|------------------------------|----------|
|   | 2014                         | 2013     |
|   | (In Thousands)               |          |
| Cash flows from operating activities:   |                              |          |
| Net income including noncontrolling interests                                     | \$50,918                     | \$10,818 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |          |
| Depreciation, impairment charges and amortization                                 | 8,350                        | 8,811    |
| Income from equity method investments   | (15,542 )                    | (6,227 ) |
| Gain on disposal of real estate and property and equipment                        | (3 )                         | (6 )     |
| Dividends received from equity method investees                                   | 8,592                        | 200      |
| Deferred income   | —                            | (484 )   |
| Derivative financial instruments  | (770 )                       | (856 )   |
| Deferred income tax   | 5,323                        | 5,410    |
| Excess tax benefit from stock option exercises                                    | (441 )                       | —        |
| Changes in assets and liabilities:  |                              |          |
| Accounts receivable   | 2,494                        | (5,842 ) |
| Inventories   | 2,083                        | (4,453 ) |
| Other assets  | 463                          | 164      |
| Accounts payable, trade   | (198 )                       | 1,310    |
| Other liabilities   | 353                          | (363 )   |
| Net cash provided by operating activities   | 61,622                       | 8,482    |
| Cash flows from investing activities:   |                              |          |
| Capital expenditures  | (3,402 )                     | (252 )   |
| Restricted cash   | 500                          | (500 )   |
| Restricted investments and deposits   | 273                          | 180      |
| Proceeds from sale of real estate and property and equipment                      | 487                          | 463      |
| Net cash used in investing activities   | (2,142 )                     | (109 )   |
| Cash flows from financing activities:   |                              |          |
| Payments of long-term debt  | (13,726 )                    | (8,629 ) |
| Stock options exercised   | 931                          | 794      |
| Payments to noncontrolling interests holders                                      | (39 )                        | —        |
| Excess tax benefit from stock option exercises                                    | 441                          | —        |
| Treasury stock acquired   | —                            | (856 )   |
| Net cash used in financing activities   | (12,393 )                    | (8,691 ) |
| Net increase (decrease) in cash and cash equivalents                              | 47,087                       | (318 )   |
| Cash and cash equivalents, beginning of period                                    | 105,149                      | 69,073   |
| Cash and cash equivalents, end of period  | \$152,236                    | \$68,755 |
| Non cash investing activities – Accrued capital expenditures                      | \$239                        | \$—      |

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**

**July 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.



## 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 July 31, 2014 and 2013 was approximately \$496,000 and \$941,000, respectively. Interest paid for the six months ended July 31, 2014 and 2013 was approximately \$1,316,000 and \$1,922,000, 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 an interest rate swap of approximately \$376,000 and \$422,000 for the three months ended July 31, 2014 and 2013, respectively. The Company paid settlements of the interest rate swap of approximately \$774,000 and \$862,000 for the six months ended July 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 \$18,521,000 during the six months ended July 31, 2014 and paid no income taxes during the six months ended July 31, 2013.

As of July 31, 2014, total unrecognized tax benefits were approximately \$1,451,000 and accrued penalties and interest were approximately \$439,000. 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 July 31, 2014 and January 31, 2014, respectively. Fluctuations in the write-down of inventory generally

relate to the levels and composition of such

9



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

|                                  | July 31,<br>2014 | January<br>31,<br>2014 |
|----------------------------------|------------------|------------------------|
| Ethanol and other finished goods | \$3,764          | \$3,517                |
| Work in process                  | 2,679            | 3,017                  |
| Grain and other raw materials    | 10,844           | 12,836                 |
| Total                            | \$17,287         | \$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 July 31, 2014, the Company has lease agreements, as landlord, for five 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       | \$ 185          |
| 2016                    | 392             |
| 2017                    | 349             |
| 2018                    | 117             |
| Total                   | \$ 1,043        |

**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

12

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.

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

|   | Level<br>1 | Level<br>2 | Level<br>3 | Fair<br>Value |
|---|------------|------------|------------|---------------|
| Investment in cooperative (1)           | \$         | —\$—       | \$311      | \$ 311        |
| Interest rate swap derivative liability | \$         | —\$371     | \$—        | \$ 371        |

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

|                              | Level<br>1 | Level<br>2 | Level<br>3 | Fair<br>Value |
|------------------------------|------------|------------|------------|---------------|
| Cash equivalents             | \$2        | \$—        | \$—        | \$2           |
| Money market mutual fund (1) | 120        | —          | —          | 120           |

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

|   |        |          |        |          |
|---|--------|----------|--------|----------|
| 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.

13

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

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

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 July 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 \$62.0 million and \$75.1 million at July 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.





**Note 5. Property and Equipment**

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

|                                   | July 31,<br>2014 | January<br>31,<br>2014 |
|-----------------------------------|------------------|------------------------|
| Land and improvements             | \$21,424         | \$21,543               |
| Buildings and improvements        | 28,304           | 28,297                 |
| Machinery, equipment and fixtures | 224,124          | 223,544                |
| Construction in progress          | 3,093            | 693                    |
|                                   | 276,945          | 274,077                |
| Less: accumulated depreciation    | (79,710)         | (71,819)               |
|                                   | \$197,235        | \$202,258              |

**Note 6. Other Assets**

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

|                               | July<br>31,<br>2014 | January<br>31,<br>2014 |
|-------------------------------|---------------------|------------------------|
| Deferred financing costs, net | \$301               | \$402                  |
| Deposits                      | 964                 | 1,014                  |
| Real estate taxes refundable  | 3,658               | 3,644                  |
| Other                         | 365                 | 328                    |
| Total                         | \$5,288             | \$5,388                |

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

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

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

|                                   | July 31,<br>2014 | January<br>31,<br>2014 |
|-----------------------------------|------------------|------------------------|
| Accrued utility charges           | \$1,655          | \$3,745                |
| Accrued income taxes              | 3,656            | —                      |
| Accrued payroll and related items | 3,453            | 3,122                  |
| Accrued real estate taxes         | 1,939            | 2,471                  |
| Other                             | 1,769            | 2,809                  |
| Total                             | \$12,472         | \$12,147               |

15

**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 July 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending July 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 significantly change requirements regarding financial covenants. The Company expects that One Earth will make a principal payment of \$6 million within the next twelve months as a result of the calculation of excess cash flows for fiscal year 2014, and has included that amount in current portion of long term debt in the Consolidated Condensed Balance Sheets.

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 July 31, 2014 and January 31, 2014, approximately \$32.0 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, 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 July 31, 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 \$100.7 million and \$86.9 million at July 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 July 31, 2014 and January 31, 2014, the Company recorded a liability of approximately \$0.4 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. The swap will mature during the third quarter of fiscal year 2014 and will require a final settlement payment of approximately \$0.4 million resulting in a gain or loss of less than \$5,000.

### **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 July 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. The Company expects that NuGen will make a principal payment of \$6 million within the next twelve months as a result of the calculation of excess cash flows for fiscal year 2014, and has included that amount in current portion of long term debt in the Consolidated Condensed Balance Sheets.

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 July 31, 2014 and January 31, 2014, approximately \$30.0 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.

NuGen has a \$10.0 million revolving loan facility that matures 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 July 31, 2014 or January 31, 2014.

The Company's proportionate share of restricted net assets related to NuGen was approximately \$96.3 million and \$66.1 million at July 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.

See Note 18 for a discussion of loan repayments paid by One Earth and NuGen occurring subsequent to July 31, 2014.

#### **Note 9. Financial Instruments**

The Company uses an interest rate swap, which will expire 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. The notional amount and fair value of the

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

derivative, which is not designated as a cash flow hedge at July 31, 2014, are summarized in the table below (amounts in thousands):

|                    | Notional<br>Amount | Fair<br>Value<br>Liability |
|--------------------|--------------------|----------------------------|
| Interest rate swap | \$ 31,118          | \$ 371                     |

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 losses of \$1,000 and \$10,000 in the second quarter of fiscal years 2014 and 2013, respectively. The Company reported losses of \$5,000 and \$6,000 in the first six 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 July 31, 2014.

The total intrinsic value of options exercised during the six months ended July 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 six months ended July 31, 2014:

|  | Shares   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in<br>thousands) |
|--|----------|--|---|--|
| Outstanding at January 31, 2014              | 83,330   | \$ 12.37                                 |   |  |
| Exercised                                    | (83,330) | \$ 12.37                                 |   |  |
| Outstanding and exercisable at July 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<br>July 31, 2014 |        |              | Three Months Ended<br>July 31, 2013 |        |              |
|---|-------------------------------------|--------|--------------|-------------------------------------|--------|--------------|
|   | Income                              | Shares | Per<br>Share | Income                              | Shares | Per<br>Share |
| Basic income per share from continuing operations attributable to REX common shareholders   | \$21,900                            | 8,182  | \$ 2.68      | \$5,704                             | 8,164  | \$ 0.70      |
| Effect of stock options   | —                                   | —      |              | —                                   | 40     |              |
| Diluted income per share from continuing operations attributable to REX common shareholders | \$21,900                            | 8,182  | \$ 2.68      | \$5,704                             | 8,204  | \$ 0.70      |



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

|   | Six Months Ended<br>July 31, 2014 |        |              | Six Months Ended<br>July 31, 2013 |        |              |
|---|-----------------------------------|--------|--------------|-----------------------------------|--------|--------------|
|   | Income                            | Shares | Per<br>Share | Income                            | Shares | Per<br>Share |
| Basic income per share from continuing operations attributable to REX common shareholders   | \$43,633                          | 8,150  | \$ 5.36      | \$8,915                           | 8,161  | \$ 1.09      |
| Effect of stock options   | —                                 | 16     |              | —                                 | 43     |              |
| Diluted income per share from continuing operations attributable to REX common shareholders | \$43,633                          | 8,166  | \$ 5.35      | \$8,915                           | 8,204  | \$ 1.09      |

For the three months and six months ended July 31, 2014 and 2013, all shares subject to outstanding options were dilutive.

**Note 12. Investments**

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

| Entity                          | Ownership Percentage | Carrying Amount |                  |
|---------------------------------|----------------------|-----------------|------------------|
|                                 |                      | July 31, 2014   | January 31, 2014 |
| Big River                       | 10                   | % \$42,804      | \$40,042         |
| Patriot                         | 27                   | % 35,265        | 31,147           |
| Total Equity Method Investments |                      | \$78,069        | \$71,189         |

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

|           | Three Months<br>Ended July 31, |         | Six Months<br>Ended July 31, |         |
|-----------|--------------------------------|---------|------------------------------|---------|
|           | 2014                           | 2013    | 2014                         | 2013    |
| Big River | \$4,720                        | \$2,092 | \$9,779                      | \$2,736 |
| Patriot   | 2,525                          | 2,536   | 5,763                        | 3,491   |
| Total     | \$7,245                        | \$4,628 | \$15,542                     | \$6,227 |

Undistributed earnings of Big River and Patriot totaled approximately \$39.5 million and \$32.6 million at July 31, 2014 and January 31, 2014, respectively. During the first six months of fiscal years 2014 and 2013, the Company

received dividends from equity method investees of approximately \$8.6 million and \$0.2 million, respectively.

Summarized financial information for each of the Company's equity method investees is

19

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

presented in the following table for the three and six months ended July 31, 2014 and 2013 (amounts in thousands):

|                                   | Three Months Ended<br>July 31, 2014 |           | Three Months Ended<br>July 31, 2013 |           |
|-----------------------------------|-------------------------------------|-----------|-------------------------------------|-----------|
|                                   | Patriot                             | Big River | Patriot                             | Big River |
| Net sales and revenue             | \$79,127                            | \$312,843 | \$102,416                           | \$335,961 |
| Gross profit                      | \$11,244                            | \$40,476  | \$11,046                            | \$30,063  |
| Income from continuing operations | \$9,511                             | \$48,618  | \$9,552                             | \$21,549  |
| Net income                        | \$9,511                             | \$48,618  | \$9,552                             | \$21,549  |

  

|                                   | Six Months Ended<br>July 31, 2014 |           | Six Months Ended<br>July 31, 2013 |           |
|-----------------------------------|-----------------------------------|-----------|-----------------------------------|-----------|
|                                   | Patriot                           | Big River | Patriot                           | Big River |
| Net sales and revenue             | \$159,536                         | \$593,267 | \$196,474                         | \$630,589 |
| Gross profit                      | \$25,029                          | \$124,310 | \$16,189                          | \$45,683  |
| Income from continuing operations | \$21,705                          | \$100,739 | \$13,150                          | \$28,180  |
| Net income                        | \$21,705                          | \$100,739 | \$13,150                          | \$28,180  |

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 July 31, 2014 and January 31, 2014 are approximately \$368.0 million and \$366.2 million, respectively.

**Note 13. Income Taxes**

The effective tax rate on consolidated pre-tax income from continuing operations was 34.4% for the three months ended July 31, 2014, and 35.8% for the three months ended July 31, 2013. The effective tax rate on consolidated pre-tax income from continuing operations was 35.4% for the six months ended July 31, 2014, and 35.7% for the six months ended July 31, 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 fiscal year 2014 compared to fiscal year 2013.

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      | 28      |
| Changes for current year tax positions      | —       |
| Unrecognized tax benefits, July 31, 2014    | \$1,890 |

#### **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<br>Months<br>Ended<br>July 31,<br>2014 2013 |       | Six Months<br>Ended<br>July 31,<br>2014 2013 |         |
|---|---|-------|--|---------|
| Net sales and revenue                                   | \$—   | \$500 | \$—  | \$1,082 |
| Cost of sales   | (3)   | 214   | (18)   | 451     |
| Income before income taxes                              | 3   | 197   | 18   | 468     |
| Provision for income taxes                              | (1)   | (77)  | (7)  | (183)   |
| Income from discontinued operations, net of tax         | \$2   | \$120 | \$11   | \$285   |
| Gain on disposal  | \$8   | \$2   | \$8  | \$217   |
| Provision for income taxes                              | (3)   | (1)   | (3)  | (85)    |
| Gain on disposal of discontinued operations, net of tax | \$5   | \$1   | \$5  | \$132   |

#### **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 7.3 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of a majority of the grain through October 2014.

21

One Earth and NuGen have combined sales commitments for approximately 36.5 million gallons of ethanol, approximately 101,000 tons of distillers grains and approximately 7.1 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 October 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 instruments. The following table summarizes segment and other results and assets (amounts in thousands):

|  | Three Months Ended<br>July 31, |           | Six Months Ended<br>July 31, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2014                           | 2013      | 2014                         | 2013      |
| Net sales and revenue:   |                                |           |                              |           |
| Alternative energy   | \$150,133                      | \$175,290 | \$305,960                    | \$353,614 |
| Real estate  | 98                             | 99        | 207                          | 199       |
| Total net sales and revenues   | \$150,231                      | \$175,389 | \$306,167                    | \$353,813 |
| Segment gross profit (loss):   |                                |           |                              |           |
| Alternative energy   | \$38,820                       | \$10,890  | \$75,434                     | \$19,916  |
| Real estate  | (2 )                           | (12 )     | 9                            | (40 )     |
| Total gross profit   | \$38,818                       | \$10,878  | \$75,443                     | \$19,876  |
| Segment profit (loss):   |                                |           |                              |           |
| Alternative energy   | \$41,509                       | \$11,114  | \$80,385                     | \$17,740  |
| Real estate  | (28 )                          | (74 )     | (44 )                        | (163 )    |
| Corporate expense, net   | (761 )                         | (722 )    | (1,514 )                     | (1,413 )  |
| Income from continuing operations before income taxes and noncontrolling interests | \$40,720                       | \$10,318  | \$78,827                     | \$16,164  |

|                    | July<br>31, 2014 | January<br>31, 2014 |
|--------------------|------------------|---------------------|
| Assets:            |                  |                     |
| Alternative energy | \$413,883        | \$356,589           |
| Real estate        | 4,141            | 4,722               |
| Corporate          | 51,496           | 66,557              |
| Total assets       | \$469,520        | \$427,868           |

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 \$101.8 million held by One Earth and NuGen will be used by the subsidiaries primarily to fund liquidity requirements, maintain adequate working capital levels and pay dividends.

**Note 17. *Related-Party Transactions***

During the second quarters of fiscal year 2014 and 2013, One Earth purchased approximately \$40.4 million and approximately \$78.7 million, respectively, of corn from the Alliance Grain Elevator, an equity investor in One Earth. Such purchases totaled approximately \$85.2 million and approximately \$150.4 million for the six months ended July 31, 2014 and 2013, respectively.

**Note 18. *Subsequent Events***

In August 2014, One Earth and NuGen made accelerated principal payments totaling \$17 million that were expected to be due in the next twelve months.

**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 ten former retail stores.

At July 31, 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

23

of ethanol gallons shipped at our plants:

| Entity                                | Trailing<br>12<br>Months<br>Ethanol<br>Gallons<br>Shipped | REX's<br>Current<br>Ownership<br>Interest | Current<br>Effective<br>Ownership<br>of<br>Trailing 12<br>Months<br>Ethanol<br>Gallons<br>Shipped |
|---------------------------------------|---|---|---|
| One Earth Energy, LLC                 | 110.1 M   | 74  | % 81.5 M  |
| NuGen Energy, LLC                     | 114.9 M   | 99  | % 113.8 M   |
| Patriot Holdings, LLC                 | 119.7 M   | 27  | % 32.3 M  |
| Big River Resources W Burlington, LLC | 108.2 M   | 10  | % 10.8 M  |
| Big River Resources Galva, LLC        | 119.5 M   | 10  | % 12.0 M  |
| Big River United Energy, LLC          | 123.6 M   | 5   | % 6.2 M   |
| Big River Resources Boyceville, LLC   | 56.2 M  | 10  | % 5.6 M   |
| Total                                 | 752.2 M   |   | 262.2 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 \$1,269,000 cumulatively, including \$221,000 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 July 31, 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 and Six Months Ended July 31, 2014 and 2013**

Net sales and revenue in the quarter ended July 31, 2014 were approximately \$150.2 million compared to approximately \$175.4 million in the prior year's second quarter, representing a decrease of approximately \$25.2 million. Net sales and revenue do not include sales from real estate operations classified as discontinued operations. The decrease was caused by lower sales in our alternative energy segment of approximately \$25.2 million as prices for ethanol and dried distillers grains were lower during the current year primarily related to the decline in corn prices.

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

Net sales and revenue for the first six months of fiscal year 2014 were approximately \$306.2 million compared to approximately \$353.8 million for the first six months of fiscal year 2013. This represents a decrease of approximately \$47.6 million. The decrease was primarily caused by lower sales in our alternative energy segment of approximately \$47.7 million. Net sales and revenue from our real estate segment were approximately \$0.2 million in both of the first six months of fiscal year 2014 and fiscal year 2013.

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

| Product Category           | Three Months |       | Six Months |       |
|----------------------------|--------------|-------|------------|-------|
|                            | Ended        |       | Ended      |       |
|                            | July 31,     |       | July 31,   |       |
|                            | 2014         | 2013  | 2014       | 2013  |
| Ethanol                    | 79 %         | 76 %  | 78 %       | 75 %  |
| Dried distillers grains    | 17 %         | 19 %  | 19 %       | 18 %  |
| Modified distillers grains | 1 %          | 2 %   | 1 %        | 4 %   |
| Other                      | 3 %          | 3 %   | 2 %        | 3 %   |
| Total                      | 100 %        | 100 % | 100 %      | 100 % |

Gross profit for the second quarter of fiscal year 2014 was approximately \$38.8 million (25.8% of net sales and revenue) which was approximately \$27.9 million higher compared to approximately \$10.9 million of gross profit (6.2% of net sales and revenue) for the second quarter of fiscal year 2013. Gross profit for the second quarter of fiscal year 2014 increased by approximately \$27.9 million compared to the second 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 second quarter of fiscal year 2014 was approximately \$2,000 compared to approximately \$12,000 for the second quarter of fiscal year 2013 from our real estate segment.

Gross profit for the first six months of fiscal year 2014 was approximately \$75.4 million (24.6% of net sales and revenue) which was approximately \$55.6 million higher compared to approximately \$19.9 million of gross profit (5.6% of net sales and revenue) for the first six months of fiscal year 2013. Gross profit for the first six months of fiscal year 2014 increased by approximately \$55.5 million compared to the first six months of fiscal year 2013 from our alternative energy segment. Gross profit for the first six months of fiscal year 2014 was approximately \$9,000 compared to gross loss of approximately \$40,000 for the first six months of fiscal year 2013 from our real estate segment.

Selling, general and administrative expenses for the second quarter of fiscal year 2014 were approximately \$4.8 million, an increase of approximately \$0.6 million from approximately \$4.2 million for the second quarter of fiscal

year 2013. The increase was primarily caused by higher expenses in our alternative energy segment of approximately \$0.5 million.



Selling, general and administrative expenses for the first six months of fiscal year 2014 were approximately \$11.0 million, an increase of approximately \$3.1 million from approximately \$7.9 million for the first six months of fiscal year 2013. The increase was primarily caused by higher expenses in our alternative energy segment of approximately \$3.0 million.

During the second quarters of fiscal years 2014 and 2013, we recognized income of approximately \$7.2 million and \$4.6 million, respectively, from our equity investments in Big River and Patriot. During the first six months of fiscal years 2014 and 2013, we recognized income of approximately \$15.5 million and \$6.2 million, respectively, from these investments. Big River has interests in four ethanol production plants and has an effective ownership of ethanol gallons shipped in the trailing twelve months ended July 31, 2014 of approximately 346 million gallons. Patriot has one ethanol production plant which shipped approximately 120 million gallons of ethanol in the trailing 12 months ended July 31, 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 \$88,000 and approximately \$45,000 for the second quarters of fiscal years 2014 and 2013, respectively. Interest and other income was approximately \$140,000 and approximately \$86,000 for the first six months 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 \$0.6 million for the second quarter of fiscal year 2014 compared to approximately \$1.0 million for the second quarter of fiscal year 2013, a decrease of approximately \$0.4 million. Interest expense was approximately \$1.3 million for the first six months of fiscal year 2014 compared to approximately \$2.1 million for the first six months of fiscal year 2013, a decrease of approximately \$0.8 million. The decreases were 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 \$1,000 during the second quarter of fiscal year 2014 compared to a loss of approximately \$10,000 during the second quarter of fiscal year 2013 related to a forward interest rate swap that One Earth entered into during fiscal year 2007. We recognized a loss related to the swap of approximately \$5,000 during the first six months of fiscal year 2014 compared to approximately \$6,000 during the first six months of fiscal year 2013. We expect gain or losses related to the interest rate swap to be less than \$5,000 for the remainder of fiscal year 2014 as the interest rate swap matures during the third quarter of fiscal year 2014.

As a result of the foregoing, income from continuing operations before income taxes was approximately \$40.7 million for the second quarter of fiscal year 2014 versus approximately \$10.3 million for the second quarter of fiscal year 2013. Income from continuing operations before income taxes was approximately \$78.8 million for the first six months of fiscal year 2014 versus approximately \$16.2 million for the first six months of fiscal year 2013.

Our effective tax rate was 34.4% and 35.8% for the second quarters of fiscal years 2014 and 2013, respectively. Our effective tax rate for the first six months of fiscal year 2014 was 35.4% compared to 35.7% for the first six months of fiscal year 2013. 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 were a higher proportion of consolidated pre-tax income in fiscal year 2014 compared to fiscal year 2013.

As a result of the foregoing, income from continuing operations was approximately \$26.7 million for the second quarter of fiscal year 2014 versus approximately \$6.6 million for the second quarter of fiscal year 2013. Income from continuing operations was approximately \$50.9 million for the first six months of fiscal year 2014 versus approximately \$10.4 million for the first six months 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 \$2,000 in the second quarter of fiscal year 2014 compared to approximately \$120,000 in the second quarter of fiscal year 2013. We had income from discontinued operations, net of tax, of approximately \$11,000 for the first six months of fiscal year 2014 compared to approximately \$285,000 for the first six months of fiscal year 2013. Gain on sale, net of taxes, of approximately \$5,000 was recognized for one property classified as discontinued operations during the second quarter of fiscal year 2014, compared to approximately \$1,000 during the second quarter of fiscal year 2013. Gain on sale, net of taxes, of approximately \$5,000 was recognized for one property classified as discontinued operations during the first six months of fiscal year 2014, compared to approximately \$132,000 during the first six months of fiscal year 2013.

Income related to noncontrolling interests was approximately \$4.8 million and approximately \$0.9 million during the second quarters of fiscal years 2014 and 2013, respectively, and approximately \$7.3 million and approximately \$1.5 million for the six months ended July 31, 2014 and 2013, respectively, and represents the owners' (other than us) share of the income or loss of NuGen, One Earth and Future Energy.

As a result of the foregoing, net income attributable to REX common shareholders for the second quarter of fiscal year 2014 was approximately \$21.9 million, an increase of approximately \$16.1 million from approximately \$5.8 million for the second quarter of fiscal year 2013. Net income attributable to REX common shareholders for the first six months of fiscal year 2014 was approximately \$43.6 million, an increase of approximately \$34.3 million from approximately \$9.3 million for the first six months 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. 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, gross profit and segment profit by segment (amounts in thousands):

|   | Three Months Ended<br>July 31, |           | Six Months Ended<br>July 31, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2014                           | 2013      | 2014                         | 2013      |
| Net sales and revenue:                                |                                |           |                              |           |
| Alternative energy                                    | \$150,133                      | \$175,290 | \$305,960                    | \$353,614 |
| Real estate   | 98                             | 99        | 207                          | 199       |
| Total net sales and revenues                          | \$150,231                      | \$175,389 | \$306,167                    | \$353,813 |
| Segment gross profit (loss):                          |                                |           |                              |           |
| Alternative energy                                    | \$38,820                       | \$10,890  | \$75,434                     | \$19,916  |
| Real estate   | (2 )                           | (12 )     | 9                            | (40 )     |
| Total gross profit                                    | \$38,818                       | \$10,878  | \$75,443                     | \$19,876  |
| Segment profit (loss):                                |                                |           |                              |           |
| Alternative energy                                    | \$41,509                       | \$11,114  | \$80,385                     | \$17,740  |
| Real estate   | (28 )                          | (74 )     | (44 )                        | (163 )    |
| Corporate expense, net                                | (761 )                         | (722 )    | (1,514 )                     | (1,413 )  |
| Income from continuing operations before income taxes | \$40,720                       | \$10,318  | \$78,827                     | \$16,164  |

### 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. The following table summarizes sales by product

group at our consolidated ethanol facilities (amounts in thousands):

|                            | Three Months Ended |           | Six Months Ended |           |
|----------------------------|--------------------|-----------|------------------|-----------|
|                            | July 31,<br>2014   | 2013      | July 31,<br>2014 | 2013      |
| Ethanol                    | \$118,613          | \$132,700 | \$237,719        | \$264,729 |
| Dried distillers grains    | 25,809             | 32,835    | 56,838           | 63,919    |
| Modified distillers grains | 791                | 4,418     | 2,281            | 14,186    |
| Other                      | 4,920              | 5,337     | 9,122            | 10,780    |
| Total                      | \$150,133          | \$175,290 | \$305,960        | \$353,614 |

The following table summarizes certain operating data at our consolidated ethanol facilities:

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | July 31,<br>2014   | 2013     | July 31,<br>2014 | 2013     |
| Average selling price per gallon of ethanol                 | \$2.18             | \$2.38   | \$2.16           | \$2.36   |
| Gallons of ethanol sold (in millions)                       | 54.5               | 55.7     | 110.2            | 112.4    |
| Average selling price per ton of dried distillers grains    | \$192.77           | \$243.49 | \$201.57         | \$253.32 |
| Tons of dried distillers grains sold                        | 133,885            | 134,851  | 281,977          | 252,327  |
| Average selling price per ton of modified distillers grains | \$68.49            | \$108.66 | \$81.88          | \$123.51 |
| Tons of modified distillers grains sold                     | 11,553             | 40,661   | 27,858           | 114,855  |
| Average cost per bushel of grain                            | \$4.47             | \$7.15   | \$4.41           | \$7.29   |
| Average cost of natural gas (per mmbtu)                     | \$5.14             | \$4.42   | \$7.27           | \$4.35   |

### Segment Results – Second Quarter Fiscal Year 2014 Compared to Second Quarter Fiscal Year 2013

Net sales and revenue decreased approximately \$25.2 million from the second quarter of fiscal year 2013 to approximately \$150.1 million in the second quarter of fiscal year 2014, primarily a result of lower selling prices for our products in fiscal year 2014 which primarily related to the significant decline in corn prices in fiscal year 2014. Ethanol sales decreased from approximately \$132.7 million in the second quarter of fiscal year 2013 to approximately \$118.6 million in the second quarter of fiscal year 2014. The average selling price per gallon of ethanol decreased from \$2.38 in the second quarter of fiscal year 2013 to \$2.18 in the second quarter of fiscal year 2014. Our ethanol sales were based upon approximately 54.5 million gallons in the second quarter of fiscal year 2014 compared to approximately 55.7 million gallons in the second quarter of fiscal year 2013. Dried distillers grains sales decreased from approximately \$32.8 million in the second quarter of fiscal year 2013 to approximately \$25.8 million in the second quarter of fiscal year 2014. The average selling price per ton of dried distillers grains decreased from \$243.49 in the second quarter of fiscal year 2013 to \$192.77 in the second quarter of fiscal

year 2014. Our dried distillers grains sales were based upon approximately 134,000 tons in the second quarter of fiscal year 2014 compared to approximately 135,000 tons in the second quarter of fiscal year 2013. We expect pricing for dried distillers grains to be negatively affected by the recent Chinese ban of imports. Modified distillers grains sales decreased from approximately \$4.4 million in the second quarter of fiscal year 2013 to approximately \$0.8 million in the second quarter of fiscal year 2014. The average selling price per ton of modified distillers grains decreased from \$108.66 in the second quarter of fiscal year 2013 to \$68.49 in the second quarter of fiscal year 2014. Our modified distillers grains sales were based upon approximately 12,000 tons in the second quarter of fiscal year 2014 compared to approximately 41,000 tons in the second quarter of fiscal year 2013. Non-food grade corn oil sales of approximately \$4.7 million in the second quarter of fiscal year 2014 were consistent with sales in the second quarter of fiscal year 2013. 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 | 40,000 to 70,000 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 \$38.8 million during the second quarter of fiscal year 2014 compared to approximately \$10.9 million during the second quarter of fiscal year 2013. The crush spread for the second quarter of fiscal year 2014 was approximately \$0.58 per gallon of ethanol sold compared to the second quarter of fiscal year 2013 which was approximately \$(0.17) 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 37% in the price of modified distillers grains. Grain costs decreased approximately \$55.0 million (39.2%) during the second quarter of fiscal year 2014 compared to the second quarter of fiscal year 2013. Grain costs accounted for approximately 76.5% (\$85.1 million) of our cost of sales during the second quarter of fiscal year 2014 compared to approximately 85.3% (\$140.1 million) during the second quarter of fiscal year 2013. Natural gas accounted for approximately 7.0% (\$7.8 million) of our cost of sales during the second quarter of fiscal year 2014 compared to approximately 4.0% (\$6.6 million) during the second 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 1% of our forecasted ethanol, approximately 16% of our forecasted distillers grains and approximately 15% 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 \$54.8 million for the remaining forecasted sales. Similarly, approximately 3% 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 \$31.6 million for the remaining forecasted grain purchases.

Selling, general and administrative expenses were approximately \$4.0 million in the second quarter of fiscal year 2014, a \$0.5 million increase from approximately \$3.5 million in the second 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 and higher costs for rail car leases. 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 second quarter of fiscal year 2014 from the second quarter of fiscal year 2013 to approximately \$0.6 million. This decrease was primarily a result of reduced debt levels from scheduled and accelerated principal repayments. The accelerated principal repayments include payments made at our discretion and payments related to excess cash flows required by the loan agreements.

We recognized income from equity method investments of approximately \$7.2 million in the second quarter of fiscal year 2014 compared to approximately \$4.6 million in the second quarter of fiscal year 2013. We recognized approximately \$4.7 million of income from Big River in the second quarter of fiscal year 2014 compared to approximately \$2.1 million in the second quarter of fiscal year 2013. We recognized approximately \$2.5 million of income from Patriot in both of the second quarters of fiscal year 2014 and 2013. In general, Big River benefitted from improved crush spreads in fiscal year 2014 compared to fiscal year 2013 while Patriot employed more conservative risk management practices. 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 \$1,000 in the second quarter of fiscal year 2014 compared to approximately \$10,000 in the second quarter of fiscal year 2013. We expect that any future gains or losses on these derivative financial instruments will be less than \$5,000.

As a result of the factors discussed above, segment profit increased to approximately \$41.5 million in the second quarter of fiscal year 2014 compared to approximately \$11.1 million in the second quarter of fiscal year 2013.

**Segment Results – Six Months Ended July 31, 2014 Compared to Six Months Ended July 31, 2013**

Net sales and revenue decreased approximately \$47.7 million from the first six months of fiscal year 2013 to approximately \$306.0 million in the first six months of fiscal year 2014, primarily a result of lower selling prices for our products in fiscal year 2014 which primarily related to the significant decline in corn prices in fiscal year 2014. Ethanol sales decreased from approximately \$264.7 million in the first six months of fiscal year 2013 to approximately \$237.7 million in the first six months of fiscal year 2014. The average selling price per gallon of ethanol decreased from \$2.36 in the first six months of fiscal year 2013 to \$2.16 in the first six months of fiscal year 2014. Our ethanol sales were based upon approximately 110.2 million gallons in the first six months of fiscal year 2014 compared to 112.4 million gallons in the first six months of fiscal year 2013. Dried distillers grains sales decreased from approximately \$63.9 million in the first six months of fiscal year 2013 to approximately \$56.8 million in the first six months of fiscal year 2014. The average selling price per ton of dried distillers grains decreased from \$253.32 in the first six months of fiscal year 2013 to \$201.57 in the first six months of fiscal year 2014. Our dried distillers grains sales were based upon approximately 282,000 tons in the first six months of fiscal year 2014 compared to approximately 252,000 tons in the first six months of fiscal year 2013. Modified distillers grains sales decreased from approximately \$14.2 million in the first six months of fiscal year 2013 to approximately \$2.3 million in the first six months of fiscal year 2014. The average selling price per ton of modified distillers grains decreased from approximately \$123.51 in the first six months of fiscal year 2013 to approximately \$81.88 in the first six months of fiscal year 2014. Our modified distillers grains sales were based upon approximately 28,000 tons in the first six months of fiscal year 2014 compared to approximately 115,000 tons in the first six months of fiscal year 2013. Non-food grade corn oil sales of approximately \$8.7 million in the first six months of fiscal year 2014 were consistent with sales in the first six months of fiscal year 2013.

Gross profit from these sales was approximately \$75.4 million during the first six months of fiscal year 2014 compared to approximately \$19.9 million during the first six months of fiscal year 2013. The crush spread for the first six months of fiscal year 2014 was approximately \$0.59 per gallon of ethanol sold compared to the first six months of fiscal year 2013 which was approximately \$(0.24) per gallon of ethanol sold. The improved crush spread was partially offset by a decrease of approximately 20% in the price of dried distillers grains and a decrease of approximately 34% in the price of modified distillers grains. Grain costs decreased approximately \$115.6 million (40.2%) during the first six months of fiscal year 2014 compared to the first six months of fiscal year 2013. Grain costs accounted for approximately 74.6% (\$172.0 million) of our cost of sales during the first six months of fiscal year 2014 compared to approximately 86.2% (\$287.6 million) during the first six months of fiscal year 2013. Natural gas accounted for approximately 9.7% (\$22.4 million) of our cost of sales during the first six months of fiscal year 2014 compared to approximately 4.0% (\$13.3 million) during the first six months of fiscal year 2013.

Selling, general and administrative expenses were approximately \$9.4 million in the first six months of fiscal year 2014, a \$3.0 million increase from approximately \$6.4 million in the first six months 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 \$0.8 million in the first six months of fiscal year 2014 from the first six months of fiscal year 2013 to approximately \$1.3 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 \$15.5 million in the first six months of fiscal year 2014 compared to approximately \$6.2 million in the first six months of fiscal year 2013. We recognized approximately \$9.8 million of income from Big River in the first six months of fiscal year 2014 compared to approximately \$2.7 million in the first six months of fiscal year 2013. We recognized approximately \$5.8 million of income from Patriot in the first six months of fiscal year 2014 compared to approximately \$3.5 million in the first six months of fiscal year 2013.

Losses on derivative financial instruments held by One Earth were approximately \$5,000 in the first six months of fiscal year 2014 compared to approximately \$6,000 in the first six months of fiscal year 2013. We expect that any future gains or losses on these derivative financial instruments will be less than \$5,000.

As a result of the factors discussed above, segment profit increased to approximately \$80.4 million in the first six months of fiscal year 2014 compared to approximately \$17.7 million in the first six months 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 July 31, 2014, we have lease agreements, as landlord, for five owned former retail stores (58,000 square feet leased). We have five owned former retail stores (66,000 square feet) that are vacant at July 31, 2014. We are marketing these vacant properties for lease or sale.

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

Net sales and revenue of \$98,000 were consistent with the prior year amount of \$99,000. We expect lease revenue to remain consistent with fiscal year 2013 amounts in future periods.

Gross loss in the second quarter of fiscal year 2014 was \$2,000, which was consistent with the prior year amount of \$12,000. 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 \$28,000 in the second quarter of fiscal year 2014, which was consistent with the segment loss in the second quarter of fiscal year 2013.

**Segment Results – Six Months Ended July 31, 2014 Compared to Six Months Ended July 31, 2013**

Net sales and revenue of \$207,000 were consistent with the prior year amount of \$199,000.

Gross profit in the first six months of fiscal year 2014 was \$9,000, which was consistent with the prior year loss of \$40,000.

As a result of the factors discussed above, segment loss was \$44,000 in the first six months of fiscal year 2014, which was consistent with the segment loss in the first six months 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 –Second Quarter Fiscal Year 2014 Compared to Second Quarter Fiscal Year 2013**

Selling, general and administrative expenses were approximately \$0.8 million in the second quarter of fiscal year 2014 consistent with the second 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.

**Corporate and Other Results –Six Months Ended July 31, 2014 Compared to Six Months Ended July 31, 2013**

Selling, general and administrative expenses were approximately \$1.5 million in the first six months of fiscal year 2014 consistent with the first six months of fiscal year 2013.

**Liquidity and Capital Resources**

Net cash provided by operating activities was approximately \$61.6 million for the first six months of fiscal year 2014, compared to approximately \$8.5 million for the first six months of fiscal year 2013. For the first six months of fiscal year 2014, cash was provided by net income of approximately \$50.9 million, adjusted for non-cash items of approximately \$(1.9) million, which consisted of depreciation, impairment charges and amortization, income from equity method investments, gain on disposal of real estate and property and equipment and the deferred income tax provision. Dividends received from our equity method investees were approximately \$8.6 million in the first six months of fiscal year 2014. Settlements on an interest rate swap used cash of approximately \$0.8 million. A decrease in the balance of accounts receivable provided cash of approximately \$2.5 million, which was primarily a result of the timing of customer shipments and payments. A decrease in the balance of inventories provided cash of approximately \$2.1 million, which was primarily a result of the timing of customer shipments and normal variations in

production output.

Net cash provided by operating activities was approximately \$8.5 million for the first six months of fiscal year 2013. For the first six months of fiscal year 2013, cash was provided by net income of approximately \$10.8 million, adjusted for non-cash items of approximately \$7.5 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 six months of fiscal year 2013. An increase in accounts receivable used cash of approximately \$5.8 million, primarily a result of normal variations in timing of payments received, production and sales levels. An increase in inventories used cash of approximately \$4.5 million, primarily a result of normal variations in timing of grain received, production and sales levels. A decrease in the balance of derivative financial instruments used cash of approximately \$0.9 million, primarily a result of settlements on an interest rate swap. An increase in accounts payable which provided cash of approximately \$1.3 million was primarily a result of the timing of vendor shipments of inventory and vendor payments.

At July 31, 2014, working capital was approximately \$142.0 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 4.0 to 1 at July 31, 2014 and 4.6 to 1 at January 31, 2014.

Cash of approximately \$2.1 million was used in investing activities for the first six months of fiscal year 2014, compared to cash used of approximately \$109,000 during the first six months of fiscal year 2013. During the first six months of fiscal year 2014, we had capital expenditures of approximately \$3.4 million, primarily related to improvements at the NuGen and One Earth ethanol plants. We expect to spend between \$4.0 million and \$7.0 million during the remainder of fiscal year 2014 on various capital projects. During the first six months of fiscal year 2014, we reduced our restricted cash balance which provided cash of approximately \$0.5 million. We received approximately \$0.5 million as proceeds from the sale of one real estate property during the first six months of fiscal year 2014.

Cash of approximately \$109,000 was used in investing activities for the first six months of fiscal year 2013. During the first six months of fiscal year 2013, we had capital expenditures of approximately \$0.3 million, primarily related to improvements at the NuGen ethanol plant. During the first six months of fiscal year 2013, we used cash of approximately \$0.5 million to secure a letter of credit at NuGen. We received approximately \$0.5 million as proceeds from the sale of two real estate properties during the first six months of fiscal year 2013.

Cash used in financing activities totaled approximately \$12.4 million for the first six months of fiscal year 2014 compared to approximately \$8.7 million for the first six months of fiscal year 2013. Cash was used by debt payments of approximately \$13.8 million, primarily on One Earth's and NuGen's term loans. Stock option activity generated cash of approximately \$1.4 million.

Cash used in financing activities totaled approximately \$8.7 million for the first six months of fiscal year 2013. Cash was used by debt payments of approximately \$8.6 million, primarily on

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

One Earth's and NuGen's term loans. We used cash of approximately \$0.9 million to purchase approximately 46,000 shares of our common stock in open market transactions. Stock option activity generated cash of approximately \$0.8 million.

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 Bank"). 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 July 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending July 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 significantly change requirements regarding financial covenants. We expect that One Earth will make a principal payment of \$6 million within the next twelve months as a result of the calculation of excess cash flows for fiscal year 2014, and have included that amount in current portion of long term debt in the Consolidated Condensed Balance Sheets.

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 July 31, 2014, approximately \$32.0 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 July 31, 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 July 31, 2014, working capital was approximately \$47.2 million.

Capital expenditures are limited to \$5.0 million annually.

For the six months ended July 31, 2014, capital expenditures were approximately \$0.8 million.

Maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually each December 31.

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.

One Earth was in compliance with all covenants, as applicable, at July 31, 2014.

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 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

37



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 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 July 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. We expect that NuGen will make a principal payment of \$6 million within the next twelve months as a result of the calculation of excess cash flows for fiscal year 2014, and have included that amount in current portion of long term debt in the Consolidated Condensed Balance Sheets.

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 July 31, 2014, approximately \$30.0 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 July 31, 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 July 31, 2014, working capital was approximately \$55.2 million.

· Capital expenditures are limited to \$11.0 million in fiscal year 2014 and \$5.0 million annually thereafter.

For the six months ended July 31, 2014, capital expenditures were approximately \$2.4 million.

· Maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually each January 31.

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. Pursuant to the loan agreement, the scheduled quarterly principal payments on the loan shall be deemed to be \$1,375,000, resulting in an annual scheduled principal payment on the loan of \$5,500,000.

NuGen was in compliance with all covenants, as applicable, at July 31, 2014.

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

38

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.

In August 2014, One Earth and NuGen made accelerated principal payments totaling \$17 million that were expected to be due in the next twelve months.

### **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 \$62.0 million outstanding in debt as of July 31, 2014, that is variable-rate. 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 \$386,000 over the term of the debt.

## **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 July 31, 2014, One Earth and NuGen combined have purchase commitments for approximately 7.3 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of a majority of the corn through October 2014. At July 31, 2014, One Earth and NuGen have combined sales commitments for approximately 36.5 million gallons of ethanol, approximately 101,000 tons of distillers grains and approximately 7.1 million pounds of non-food grade corn oil. One Earth and NuGen expect to deliver a majority of the ethanol, distillers grains and non-food grade corn oil through October 2014. Approximately 1% 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 \$44.8 million for the remaining forecasted ethanol sales. Approximately 16% 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 \$8.4 million for the remaining forecasted distillers grains sales. Approximately 15% 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 \$1.5 million for the remaining forecasted non-food grade corn oil sales. Similarly, approximately 3% 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 \$31.6 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***

40

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 July 31, 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 except as follows:

*Distillers Grains Exports to China*

China has historically been the largest export market for U.S. dried distillers grains. The Chinese government recently announced its intent to regulate the quality of food imports into China. The China AQSIQ (General Administration of Quality Supervision, Inspection and Quarantine) agency indicated that it will require U.S. food producers to register and comply with Chinese food preparation guidelines, and the U.S. government to monitor the production of food products in the U.S. that are exported to China.

In June 2014, quarantine authorities in China stopped issuing permits for the import of dried distillers grains from the United States due to the presence in some shipments of a genetically-modified organism that has been approved in the United States and a number of other countries but not in China.

The ethanol industry and U.S. government are examining these actions to determine appropriate responses. We cannot estimate the effect any actions will have on the overall distillers grains market. They could have the effect of reducing exports to China if U.S. producers are unable to comply with the regulations, which, in turn, could reduce prices we receive for the sale of distillers grains.

**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 six 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

41



**Item 5. Other Information**

None

**Item 6. Exhibits.**

The following exhibits are filed with this report:

Tenth Amendment of Construction Loan Agreement dated July 31, 2014 among One Earth Energy, LLC, First 4(a) National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and collateral Agent, and the other Banks party thereto

Fifth Amendment of Loan Agreement dated May 31, 2014 among NuGen Energy, LLC, First National Bank of 4(b) Omaha, as Agent and a Bank, and the other Banks party thereto

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

32 Section 1350 Certifications

The following information from REX American Resources Corporation Quarterly Report on Form 10-Q for the 101 quarter ended July 31, 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.

42

**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<br>(Stuart A. Rose)             | Chairman of the Board<br>(Chief Executive Officer)                 | August 29,<br>2014 |
| /s/ Douglas L. Bruggeman<br>(Douglas L. Bruggeman) | Vice President, Finance and Treasurer<br>(Chief Financial Officer) | August 29,<br>2014 |