REX AMERICAN RESOURCES Corp
Form 10-Q
August 31, 2015

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 31, 2015
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**31-1095548**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) Identification Number)

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

(937) 276-3931
(Registrant's telephone number, including area code)

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 x No o

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 x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

At the close of business on August 30, 2015 the registrant had 6,905,193 shares of Common Stock, par value $.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

Unaudited

	July 31, 2015	January 31, 2015
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$138,107	$137,697
Restricted cash	203	—
Accounts receivable	13,736	8,794
Inventory	23,250	18,062
Refundable income taxes	2,958	3,019
Prepaid expenses and other	5,854	5,810
Deferred taxes, net	2,363	2,363
Total current assets	186,471	175,745
Property and equipment, net	189,056	194,447
Other assets	8,118	6,366
Equity method investments	41,778	80,389
Total assets	$425,423	$456,947
Liabilities and equity:		
Current liabilities:		
Accounts payable, trade	$11,975	$9,210
Accrued expenses and other current liabilities	8,223	10,347
Total current liabilities	20,198	19,557
Long-term liabilities:		
Deferred taxes	34,999	42,768
Other long-term liabilities	797	1,658
Total long-term liabilities	35,796	44,426
Equity:		
REX shareholders’ equity:		
Common stock	299	299
Paid-in capital	144,801	144,791
Retained earnings	464,732	444,438
Treasury stock	(285,745)	(239,557)
Total REX shareholders’ equity	324,087	349,971
Noncontrolling interests	45,342	42,993
Total equity	369,429	392,964

Total liabilities and equity	$425,423	$456,947

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

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REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements Of Operations

Unaudited

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
	(In Thousands, Except Per Share Amounts)			
Net sales and revenue	$113,480	$150,231	$218,677	$306,156
Cost of sales	95,204	111,391	191,274	230,681
Gross profit	18,276	38,840	27,403	75,475
Selling, general and administrative expenses	(6,456)	(4,839)	(10,909)	(11,010)
Gain on sale of investment	10,385	—	10,385	—
Equity in income of unconsolidated affiliates	5,063	7,245	6,543	15,542
Gain on disposal of property and equipment, net	12	—	495	—
Interest and other income	107	87	325	135
Interest expense	—	(591)	—	(1,283)
Income from continuing operations before income taxes	27,387	40,742	34,242	78,859
Provision for income taxes	(8,676)	(14,017)	(11,092)	(27,937)
Income from continuing operations	18,711	26,725	23,150	50,922
Loss from discontinued operations, net of tax	—	(12)	—	(9)
Gain on disposal of discontinued operations, net of tax	—	5	—	5
Net income	18,711	26,718	23,150	50,918
Net income attributable to noncontrolling interests	(2,344)	(4,811)	(2,856)	(7,269)
Net income attributable to REX common shareholders	$16,367	$21,907	$20,294	$43,649
Weighted average shares outstanding – basic	7,580	8,182	7,737	8,150
Basic net income per share attributable to REX common shareholders	$2.16	$2.68	$2.62	$5.36
Weighted average shares outstanding – diluted	7,580	8,182	7,737	8,166
Diluted net income per share attributable to REX common shareholders	$2.16	$2.68	$2.62	$5.35
Amounts attributable to REX common shareholders:				
Income from continuing operations, net of tax	$16,367	$21,914	$20,294	$43,653
Loss from discontinued operations, net of tax	—	(7)	—	(4)
Net income	$16,367	$21,907	$20,294	$43,649

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 July 31,	
	2015	2014
	(In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	$23,150	$50,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, impairment charges and amortization	9,430	8,350
Income from equity method investments	(6,543)	(15,542)
Gain on sale of investment	(10,385)	—
Gain on disposal of real estate and property and equipment, net	(495)	(3)
Dividends received from equity method investees	5,638	8,592
Derivative financial instruments	—	(770)
Deferred income tax	(8,644)	5,323
Stock based compensation expense	10	—
Excess tax benefit from stock option exercises	—	(441)
Changes in assets and liabilities:		
Accounts receivable	(2,754)	2,494
Inventories	(5,188)	2,083
Other assets	192	463
Accounts payable, trade	261	(198)
Other liabilities	(2,110)	353
Net cash provided by operating activities	2,562	61,622
Cash flows from investing activities:		
Capital expenditures	(5,865)	(3,402)
Restricted cash	(203)	500
Restricted investments and deposits	250	273
Proceeds from sale of investment	45,476	—
Proceeds from sale of real estate and property and equipment, net	1,935	487
Other	12	—
Net cash provided by (used in) investing activities	41,605	(2,142)
Cash flows from financing activities:		
Payments of long-term debt	—	(13,726)
Stock options exercised	—	931
Payments to noncontrolling interests holders	(507)	(39)
Excess tax benefit from stock option exercises	—	441
Treasury stock acquired	(43,250)	—
Net cash used in financing activities	(43,757)	(12,393)
Net increase in cash and cash equivalents	410	47,087
Cash and cash equivalents, beginning of period	137,697	105,149
Cash and cash equivalents, end of period	$138,107	$152,236
Non cash investing activities – Accrued capital expenditures	$370	$239
Non cash financing activities – Accrued treasury stock purchases	$2,938	$—

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, 2015

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, 2015 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, 2015 (fiscal year 2014). 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, 2015. 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. All intercompany balances and transactions have been eliminated. 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 one reportable segment, alternative energy, and has equity investments in three ethanol limited liability companies, two of which are majority ownership interests.

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 2014 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, generally upon shipment from the ethanol plant or upon loading

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of the rail car used to transport the products. Shipping and handling charges billed to customers are included in net sales and revenue.

Cost of Sales

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

Selling, General and Administrative Expenses

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

Interest Expense

No interest was paid for the three months and six months ended July 31, 2015. Interest paid for the three months and six months ended July 31, 2014 was approximately $496,000 and $1,316,000, respectively.

Financial Instruments

The Company used derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreement was not designated for hedge accounting pursuant to Accounting Standards Codification ("ASC") 815, "*Derivatives and Hedging*" ("ASC 815"). The interest rate swap, which terminated on July 8, 2014, was recorded at its fair value and the changes in fair value were recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statement of Operations. The Company paid no settlements of interest rate swaps during the three months or six months ended July 31, 2015. The Company paid settlements of interest rate swaps of approximately $376,000 and $774,000 during the three months and six months ended July 31, 2014, respectively.

A majority of the 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. There were no settlements of forward contracts that are recorded at fair value. At July 31, 2015, the Company recorded a liability of approximately $0.5 million associated with these contracts.

The Company uses derivative financial instruments (exchange-traded futures contracts) to manage a portion of the risk associated with changes in commodity prices, primarily related to corn, ethanol and distillers grains. The Company monitors and manages this exposure as part of its overall risk management policy. As such, the Company seeks to reduce the potentially adverse effects that the volatility of these

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markets may have on its operating results. The Company may take hedging positions in these commodities as one way to mitigate risk. While the Company attempts to link its hedging activities to purchase and sales activities, there are situations in which these hedging activities can themselves result in losses.

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 approximately $19,680,000 and $18,521,000 during the six months ended July 31, 2015 and 2014, respectively. The Company received refunds of state income taxes of approximately $100,000 during the six months ended July 31, 2015. The Company received no refunds of income taxes during the six months ended July 31, 2014.

As of July 31, 2015, total unrecognized tax benefits were approximately $317,000 and accrued penalties and interest were approximately $480,000. 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. 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 were no permanent write-downs of inventory at July 31, 2015 and January 31, 2015. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time. The components of inventory are as follows as of the dates presented (amounts in thousands):

	July 31, 2015	January 31, 2015
Ethanol and other finished goods	$4,268	$ 3,039
Work in process	2,609	2,609

Grain and other raw materials	16,373	12,414
Total	$23,250	$ 18,062

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Property and Equipment

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

In accordance with ASC 360-10 "*Impairment or Disposal of Long-Lived Assets*", the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. There were approximately $125,000 and $68,000 of impairment charges in the first six months of fiscal years 2015 and 2014, respectively. Fiscal year 2015 impairment charges are included in cost of sales while fiscal year 2014 impairment charges are included in discontinued operations in the Consolidated Condensed Statements of Operations. These impairment charges are related to unfavorable changes in real estate conditions in local markets. Impairment charges result from the Company's management performing cash flow analysis and represent management's estimate of the excess of net book value over fair value. Fair value is estimated using expected future cash flows on a discounted basis or appraisals of specific properties as appropriate. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Given the nature of the Company's business, events and changes in circumstances include, but are not limited to, a significant decline in estimated future cash flows, a sustained decline in market prices for similar assets, or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for real estate asset groups) or a change in the spread between ethanol and grain prices that would result in greater than six consecutive months of estimated or actual significant negative cash flows (for alternative energy asset groups).

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

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

For alternative energy reportable assets, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, the Company also considers the decision to suspend operations at a plant for at least a six month period an indicator. Alternative energy assets include only income producing asset groups.

Investments

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month lag as One Earth has a fiscal year end of December 31. NuGen has the same fiscal year as the parent, and therefore, there is no lag in reporting the results of NuGen. 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. The Company accounts for its investments in Big River Resources, LLC ("Big River") and Patriot Holdings, LLC ("Patriot") (through May 31, 2015) using the equity method of accounting and includes the results of these entities on a delayed basis of one month as they have a fiscal year end of December 31.

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include 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

The Company will be required to adopt the amended guidance in Accounting Standards Codification Topic 606, "*Revenue from Contracts with Customers*", which 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 Financial Accounting Standards Board has deferred the required adoption of the amended guidance by one year, from February 1, 2017 to February 1, 2018. Early application beginning February 1, 2017 would be permitted. The Company has not yet selected a transition method nor has it determined the effect of the updated standard on its consolidated financial statements and related disclosures.

Effective February 1, 2015, the Company was required to adopt Accounting Standard Update (“ASU”) No. 2014-08 (“ASU 2014-08”), “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*”. Under this new guidance, only disposals of a component that

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represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results are to be classified as a discontinued operation. The adoption of ASU 2014-08 resulted in the Company classifying sales of individual real estate properties as continuing operations instead of discontinued operations as the sale of individual properties does not represent a strategic shift for the Company.

Effective February 1, 2017, the Company will be required to adopt the amended guidance in Accounting Standards Codification Topic 330, "*Inventory: Simplifying the Measurement of Inventory*". This amended guidance requires inventory to be measured at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amended guidance will be applied prospectively. The Company has not yet determined the effect of this amended guidance on its consolidated financial statements and related disclosures.

Note 3. *Leases*

At July 31, 2015, the Company has lease agreements, as lessee, for rail cars and a natural gas pipeline. 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 2016	$ 3,694
2017	7,340
2018	6,575
2019	5,845
2020	4,341
Thereafter	6,947
Total	