

REX AMERICAN RESOURCES Corp
Form 10-Q
September 09, 2010

**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, 2010

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)

2875 Needmore Road, Dayton, Ohio
(Address of principal executive offices)

45414
(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.

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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 September 8, 2010 the registrant had 9,555,043 shares of Common Stock, par value \$.01 per share, outstanding.

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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, 2010	January 31, 2010
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 89,616	\$ 100,398
Accounts receivable, net	8,892	9,123
Inventory, net	6,372	8,698
Refundable income taxes	5,793	12,813
Prepaid expenses and other	4,210	2,691
Deferred taxes, net	5,000	6,375
Total current assets	119,883	140,098
Property and equipment, net	237,608	246,874
Other assets	7,734	8,880
Deferred taxes, net	8,500	8,468
Equity method investments	61,095	44,071
Investments in debt instruments		1,014
Restricted investments and deposits	1,600	2,100
Total assets	\$ 436,420	\$ 451,505
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt and capital lease obligations, alternative energy	\$ 13,514	\$ 12,935
Current portion of long-term debt, other	329	371
Accounts payable, trade	6,107	6,976
Deferred income	5,762	7,818
Accrued restructuring charges	475	511
Accrued real estate taxes	1,196	2,968
Derivative financial instruments	2,023	1,829
Other current liabilities	5,584	5,442
Total current liabilities	34,990	38,850
Long-term liabilities:		
Long-term debt and capital lease obligations, alternative energy	106,317	124,093
Long-term debt, other	2,098	2,596
Deferred income	4,030	6,396
Derivative financial instruments	4,196	4,055
Other	4,916	419
Total long-term liabilities	121,557	137,559
Equity:		
REX shareholders' equity:		
Common stock	299	299
Paid-in capital	142,270	141,698

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Retained earnings	296,406	290,984
Treasury stock	(188,852)	(186,407)
Accumulated other comprehensive income, net of tax		49
	<hr/>	<hr/>
Total REX shareholders' equity	250,123	246,623
Noncontrolling interests	29,750	28,473
	<hr/>	<hr/>
Total equity	279,873	275,096
	<hr/>	<hr/>
Total liabilities and equity	\$ 436,420	\$ 451,505
	<hr/>	<hr/>

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 Ended July 31,		Six Months Ended July 31,	
	2010	2009	2010	2009
(In Thousands, Except Per Share Amounts)				
Net sales and revenue	\$ 65,130	\$ 17,134	\$ 136,420	\$ 31,381
Cost of sales	60,470	15,945	123,658	29,852
Gross profit	4,660	1,189	12,762	1,529
Selling, general and administrative expenses	(1,858)	(1,628)	(3,960)	(2,756)
Interest income	124	114	238	259
Interest expense	(1,338)	(811)	(2,710)	(1,604)
Loss on early termination of debt		(28)	(48)	(100)
Equity in income (loss) of unconsolidated ethanol affiliates	1,083	184	3,930	(77)
Losses on derivative financial instruments, net	(1,878)	(108)	(2,045)	(665)
Income (loss) from continuing operations before provision/benefit for income taxes and discontinued operations	793	(1,088)	8,167	(3,414)
(Provision) benefit for income taxes	(483)	208	(2,939)	891
Income (loss) from continuing operations including noncontrolling interests	310	(880)	5,228	(2,523)
Income from discontinued operations, net of tax	765	1,272	1,452	690
Gain on disposal of discontinued operations, net of tax	19	249	19	122
Net income (loss) including noncontrolling interests	1,094	641	6,699	(1,711)
Net loss (income) attributable to noncontrolling interests	140	196	(1,277)	817
Net income (loss) attributable to REX common shareholders	\$ 1,234	\$ 837	\$ 5,422	\$ (894)
Weighted average shares outstanding basic	9,790	9,231	9,815	9,264
Basic income (loss) per share from continuing operations attributable to REX common shareholders	\$ 0.05	\$ (0.07)	\$ 0.40	\$ (0.18)
Basic income per share from discontinued operations attributable to REX common shareholders	0.08	0.14	0.15	0.07
Basic income per share on disposal of discontinued operations attributable to REX common shareholders		0.02		0.01
Basic net income (loss) per share attributable to REX common shareholders	\$ 0.13	\$ 0.09	\$ 0.55	\$ (0.10)
Weighted average shares outstanding diluted	9,976	9,231	10,010	9,264
Diluted income (loss) per share from continuing operations attributable to REX common shareholders	\$ 0.04	\$ (0.07)	\$ 0.39	\$ (0.18)

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Diluted income per share from discontinued operations attributable to REX common shareholders	0.08	0.14	0.15	0.07
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders		0.02		0.01
Diluted net income (loss) per share attributable to REX common shareholders	\$ 0.12	\$ 0.09	\$ 0.54	\$ (0.10)
Amounts attributable to REX common shareholders:				
Income (loss) from continuing operations, net of tax	\$ 450	\$ (684)	\$ 3,951	\$ (1,706)
Income from discontinued operations, net of tax	784	1,521	1,471	812
Net income (loss)	\$ 1,234	\$ 837	\$ 5,422	\$ (894)

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								
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 31, 2010	29,853	\$ 299	20,045	\$ (186,407)	\$ 141,698	\$ 290,984	\$ 49	\$ 28,473	\$ 275,096
Net income						5,422		1,277	6,699
Treasury stock acquired			187	(3,311)					(3,311)
Reclassification adjustment for net gains included in net income, net of tax							(49)		(49)
Stock options and related tax effects			(91)	866	572				1,438
Balance at July 31, 2010	29,853	\$ 299	20,141	\$ (188,852)	\$ 142,270	\$ 296,406	\$	\$ 29,750	\$ 279,873

	REX Shareholders								
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 31, 2009	29,853	\$ 299	20,471	\$ (186,057)	\$ 142,486	\$ 282,332	\$	\$ 24,573	\$ 263,633
Net loss						(894)		(817)	(1,711)
Treasury stock acquired			281	(2,537)					(2,537)
Stock based compensation					234				234
Unrealized holding gains, net of tax							37		37
Stock options and related tax effects			(106)	962	15				977
Balance at July 31, 2009	29,853	\$ 299	20,646	\$ (187,632)	\$ 142,735	\$ 281,438	\$ 37	\$ 23,756	\$ 260,633

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,	
	2010	2009
	(In Thousands)	
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	\$ 6,699	\$ (1,711)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,646	2,864
(Income) loss from equity method investments	(3,930)	77
Loss (gain) on disposal of real estate and property and equipment	28	(60)
Dividends received from equity method investees	802	
Deferred income	(4,422)	(11,321)
Losses on derivative financial instruments	335	665
Deferred income tax	1,375	(457)
Other	510	247
Changes in assets and liabilities:		
Accounts receivable	231	2,078
Inventory	2,326	16,542
Prepaid expenses and other current assets	5,501	(1,618)
Other long-term assets	1,911	2,211
Accounts payable, trade	(869)	(12,318)
Other liabilities	(2,154)	(1,019)
Net cash provided by (used in) operating activities	15,989	(3,820)
Cash flows from investing activities:		
Capital expenditures	(918)	(31,895)
Purchase of equity method investment	(9,216)	
Principal payments received on investment in debt instruments	933	
Proceeds from sale of real estate and property and equipment	1,540	973
Restricted cash		(1,024)
Restricted investments	500	(6)
Net cash used in investing activities	(7,161)	(31,952)
Cash flows from financing activities:		
Payments of long-term debt and capital lease obligations	(17,737)	(10,789)
Proceeds from long-term debt		41,205
Stock options exercised	1,438	817
Realized losses on derivative financial instruments		(812)
Treasury stock acquired	(3,311)	(2,537)
Net cash (used in) provided by financing activities	(19,610)	27,884
Net decrease in cash and cash equivalents	(10,782)	(7,888)
Cash and cash equivalents, beginning of period	100,398	91,991
Cash and cash equivalents, end of period	\$ 89,616	\$ 84,103
Non cash investing activities Accrued capital expenditures	\$	\$ 2,000

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Non cash investing activities	Contingent consideration for purchase of equity method investment	\$	4,750	\$

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, 2010

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, 2010 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, 2010 (fiscal year 2009). 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, 2010. 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 Levelland Hockley County Ethanol, LLC (Levelland Hockley) and 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. The Company substantially completed the exit of its retail business during the second quarter of fiscal year 2009, although it will continue to recognize revenue and expense associated with administering extended service policies as discontinued operations.

Reclassifications Certain amounts have been reclassified to conform to current year presentation. In addition, during the fourth quarter of fiscal year 2009, the Company identified an error in its classification of certain closed retail stores as continuing operations as of January 31, 2009 and for the interim periods subsequent to January 31, 2009 and for the classification of its extended warranty operations as continuing operations for interim periods subsequent to April 30, 2009. Management evaluated the affects of the error on the consolidated financial statements and concluded the error was not material. Prior period results have been reclassified to correct the presentation of continuing and discontinued operations. The result of the error on the quarter ended April 30, 2009 was to reduce the loss from continuing operations including noncontrolling interests in the amount of \$312,000. The result of the error on the quarter ended July 31, 2009 was to reduce income from continuing operations including noncontrolling interests in the amount of \$1,435,000. The errors had no impact on net income or loss; however it did impact the presentation of income or loss from continuing and discontinued operations.

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 2009 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 management bonuses, restructuring accruals, the fair value of financial instruments, reserves for lower of cost or market inventory calculations, reserves for bad debts 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 and distillers grains when title transfers to customers, generally upon shipment from the ethanol plant. Shipping and handling charges to ethanol customers are included in net sales and revenue.

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

Prior to exiting the retail business, the Company sold retail product service contracts covering periods beyond the normal manufacturers warranty periods, usually with terms of coverage (including manufacturers' warranty periods) of between 12 to 60 months. Contract revenues and sales commissions are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers' warranty periods. The Company retains the obligation to perform warranty service and such costs are expensed as incurred. All related revenue and expense is classified as discontinued operations.

Cost of Sales

Ethanol 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.

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 certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

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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

No interest was capitalized for the six months ended July 31, 2010. Interest expense of \$1,604,000 for the six months ended July 31, 2009 is net of approximately \$1,651,000 of interest capitalized. Cash paid for interest for the six months ended July 31, 2010 and 2009 was approximately \$2,448,000 and \$1,131,000, respectively.

Financial Instruments

Forward grain purchase and ethanol and distiller grain sale contracts are accounted for under the normal purchases and normal sales scope exemption of ASC 815, *Derivatives and Hedging* (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 and distiller grain quantities expected to be produced by the Company over a reasonable period time in the normal course of business. 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 agreements were not designated for hedge accounting pursuant to ASC 815. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statements of Operations. The Company paid settlements of interest rate swaps of approximately \$1,711,000 and \$811,000 for the six months ended July 31, 2010 and 2009, respectively.

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 no income taxes during the six months ended July 31, 2010 and 2009. The Company received income tax refunds of \$5,539,000 and \$9,000 during the six months ended July 31, 2010 and 2009, respectively.

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As of July 31, 2010, total unrecognized tax benefits were \$2,200,000 and accrued penalties and interest were \$183,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$129,000 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 (FIFO) 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. Reserves are established for estimated net realizable value based primarily upon commodity prices. The components of inventory at July 31, 2010 and January 31, 2010 are as follows (amounts in thousands):

	July 31, 2010	January 31, 2010
Retail merchandise, net	\$ 80	\$ 190
Ethanol and other finished goods, net	2,146	1,784
Work in process, net	1,677	1,577
Grain and other raw materials	2,469	5,147
Total	\$ 6,372	\$ 8,698

Property and Equipment

Property and equipment is recorded at cost. Assets under capital leases are capitalized at the lower of the net present value of minimum lease payments or the fair market value of the leased asset. 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 360-05 *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. Impairment charges were approximately \$0.4 million in the first six months of fiscal year 2010 and related to the Company's real estate segment. Impairment charges were not significant in the first six months of fiscal year 2009. 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, appraisals of specific properties, or pending sales contracts 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. Generally, declining cash flows from an ethanol plant or deterioration in local real

estate market conditions are indicators of possible impairment.

Investments

In accordance with ASC 320-10 *Investments-Debt and Equity Securities*, 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 accompanying Consolidated Condensed Statements of Operations for all or a portion of the unrealized loss and a new cost basis in the investment is established.

Accounting Changes and Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued a new accounting standard that clarified how a company determines whether an entity, that is insufficiently capitalized or not controlled through voting (or similar rights), should be capitalized (ASC Topic 810). This determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This standard requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. This standard also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This standard is effective for fiscal years beginning after November 15, 2009. The Company adopted this standard as of January 31, 2010. This standard did not have any impact on the Company's consolidated financial condition, results of operations or cash flows.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (ASU 2010-06), which adds new disclosure requirements for transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. This ASU also clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. The ASU was effective February 1, except for the requirement to provide the Level 3 activity on a gross basis, which is effective for fiscal years beginning after December 15, 2010 and interim periods within those years. This standard did not have any impact on the Company's consolidated financial condition, results of operations or cash flows.

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Note 3. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (amounts in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2010	July 31, 2009	July 31, 2010	July 31, 2009
Net income (loss) attributable to REX common shareholders	\$ 1,234	\$ 837	\$ 5,422	\$ (894)
Unrealized holding gains on available for sale securities, net of tax		37		37
Reclassification adjustment for net gains included in net income, net of tax	(27)		(49)	
Total comprehensive income (loss)	\$ 1,207	\$ 874	\$ 5,373	\$ (857)

Note 4. Sale and Leaseback Transaction and Other Leases

On April 30, 2007, the Company completed a transaction for the sale of 86 of its former store locations to KLAC REX, LLC (Klac) for \$74.5 million in cash, before selling expenses. The Company also entered into leases to leaseback 40 of the properties from Klac for initial lease terms expiring January 31, 2010. All of the leases with Klac had been terminated as of January 31, 2010.

This transaction resulted in a gain (realized and deferred) of \$14.8 million. Of this gain, \$3.9 million was recognized in the first six months of fiscal year 2009. No gain was recognized in the first six months of fiscal year 2010. As a result of the wind down of the Company's retail business, the term over which the deferred gain was being amortized was shortened and is based upon the Company abandoning, or otherwise ceasing use of, the leased property. See Note 13 for a discussion of restructuring related charges.

At July 31, 2010, the Company has lease or sub-lease agreements, as landlord, for all or portions of 13 properties. The Company owns 12 of these properties and is the tenant/sub landlord for one of the properties. All of the leases are accounted for as operating leases.

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The following table is a summary of future minimum rentals on such leases (amounts in thousands):

Years Ended January 31,	Minimum Rentals
Remainder of 2011	\$ 680
2012	1,140
2013	1,096
2014	996
2015	947
Thereafter	2,425
Total	\$ 7,284

The Company leases certain real estate and equipment for its ethanol plants. The leases have been classified as capital leases. The following is a summary, at July 31, 2010, of the aggregate future minimum annual rental commitments for all capital leases (amounts in thousands):

Years Ended January 31,	Minimum Rentals
Remainder of 2011	\$ 297
2012	593
2013	529
2014	393
Total minimum lease payments	1,812
Less amount representing interest	127
Present value of minimum capital lease payments	1,685
Less current maturities of capital lease obligations	515
Long term capital lease obligations	\$ 1,170

Note 5. Fair Value

Effective February 1, 2008, the Company adopted 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. ASC 820 also eliminated the deferral of gains and losses at inception of certain derivative contracts whose fair value was not evidenced by market observable data. ASC 820 requires that the impact of this change in accounting for derivative contracts be recorded as an adjustment to beginning retained earnings in the period of adoption. There was no impact on the beginning balance of retained earnings as a result of adopting ASC 820 because the Company held no financial instruments in which a gain or loss at inception was deferred.

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Effective February 1, 2008, the Company determined 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, investments in debt securities, restricted investments, derivative liabilities and contingent consideration liabilities at fair value.

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methods, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Unobservable inputs shall be developed based on the best information available, which may include the Company's own data.

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate pricing and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. 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. To ensure the prudent application of estimates and management judgment in determining the fair value of derivative assets and liabilities, 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.

The fair values of contingent consideration liabilities are determined using quantitative models that require the use of multiple market inputs including interest rates. In addition, inputs such as the Company's cost of capital and the timing of certain cash flows are estimated using management's assumptions and projections.

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Financial assets and liabilities measured at fair value on a recurring basis at July 31, 2010 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash equivalents	\$ 2	\$	\$	\$ 2
Restricted investments	857			857
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 859	\$	\$	\$ 859
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Derivative liabilities	\$	\$ 6,219	\$	\$ 6,219
Contingent consideration			4,750	4,750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$	\$ 6,219	\$ 4,750	\$ 10,969
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Financial assets and liabilities measured at fair value on a non-recurring basis at July 31, 2010 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Losses
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Property and equipment, net	\$	\$	\$ 1,150	\$ 440

Financial assets and liabilities measured at fair value on a recurring basis at January 31, 2010 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash equivalents	\$ 81,625	\$	\$	\$ 81,625
Investments in debt securities		1,014		1,014
Restricted investments	1,357			1,357
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 82,982	\$ 1,014	\$	\$ 83,996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Derivative liabilities	\$	\$ 5,884	\$	\$ 5,884
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$	\$ 5,884	\$	\$ 5,884
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Financial assets and liabilities measured at fair value on a non-recurring basis at January 31, 2010 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Losses
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Property and equipment, net	\$	\$	\$ 6,161	\$ 1,533

The fair value of the Company's debt is approximately \$121.8 million and \$138.4 million at July 31, 2010 and January 31, 2010, respectively.

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Note 6. Property and Equipment

The components of property and equipment at July 31, 2010 and January 31, 2010 are as follows (amounts in thousands):

	July 31, 2010	January 31, 2010
Land and improvements	\$ 25,692	\$ 26,405
Buildings and improvements	57,341	59,024
Machinery, equipment and fixtures	186,873	187,526
Leasehold improvements	569	569
Construction in progress	78	127
	<u>270,553</u>	<u>273,651</u>
Less: accumulated depreciation	<u>(32,945)</u>	<u>(26,777)</u>
	<u>\$ 237,608</u>	<u>\$ 246,874</u>

Note 7. Other Assets

The components of other assets at July 31, 2010 and January 31, 2010 are as follows (amounts in thousands):

	July 31, 2010	January 31, 2010
Prepaid loan fees, net	\$ 3,160	\$ 3,633
Prepaid commissions, net	2,962	4,320
Other	1,612	927
	<u>7,734</u>	<u>8,880</u>
Total	<u>\$ 7,734</u>	<u>\$ 8,880</u>

Note 8. Long Term Debt and Interest Rate Swaps

Levelland Hockley Subsidiary Level Debt

During the second quarter of fiscal year 2008, pursuant to the terms of the construction loan agreement with GE Capital (the Bank), Levelland Hockley converted its construction loan into a permanent term loan. Beginning with the first monthly payment on June 30, 2008, payments are due in 59 equal monthly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (June 30, 2013) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at a floating rate of 400 basis points above LIBOR (4.4% at July 31, 2010), adjusted monthly through the maturity date. Borrowings are secured by all of the assets of Levelland Hockley. This debt is recourse only to Levelland Hockley and not to REX American Resources Corporation or any of its wholly owned subsidiaries. As of July 31, 2010, approximately \$35.0 million was

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outstanding on the term loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDAR, debt service coverage ratio requirements, net worth requirements and other common covenants. On September 1, 2010, Levelland Hockley amended its loan agreement with the Bank to adjust certain covenants and to waive defaults occurring prior to July 1, 2010. As a condition of the modification of the loan agreement, REX agreed to increase its line of credit facility to Levelland Hockley from \$3.0 million to \$4.0 million (inclusive of a \$1.0 million letter of credit) through January 31, 2011. In exchange for REX increasing the line of credit facility, REX received a warrant which entitles REX to subscribe for and purchase from Levelland Hockley 324,675 membership units at an exercise price of \$3.08 per membership unit.

Management believes, based on forecasts which are primarily based on estimates of plant production, prices of ethanol, milo, distillers grains and natural gas as well as other assumptions management believes to be reasonable, that Levelland Hockley will be able to maintain compliance with the covenants for at least the next 12 months. Management believes that cash flow from operating activities together with working capital will be sufficient to meet Levelland Hockley's liquidity needs. However, if a material adverse change in the financial position or operations of Levelland Hockley should occur, or if actual sales, the availability of milo or if expenses are substantially different than forecasted, Levelland Hockley's liquidity and ability to fund future operating and capital requirements and compliance with debt covenants could be negatively impacted.

Levelland Hockley paid approximately \$3.5 million in financing costs related to the term loan. These costs are recorded as prepaid loan fees and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted assets related to Levelland Hockley was \$10.8 million and \$13.2 million at July 31, 2010 and January 31, 2010, respectively. Levelland Hockley's restricted assets total approximately \$19.2 million and \$23.6 million at July 31, 2010 and January 31, 2010, respectively. Such assets may not be paid in the form of dividends or advances to the parent company or other members of Levelland Hockley per the terms of the loan agreement with the Bank.

One Earth Energy Subsidiary Level Debt

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 as all of the requirements, for such conversion, of the construction and term loan agreement were fulfilled. The term loan bears interest at variable interest rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points (3.4% -3.5% at July 31, 2010). Beginning with the first quarterly payment on October 8, 2009, payments are due in 20 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (July 31, 2014) for the remaining unpaid principal balance with accrued interest.

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 wholly owned subsidiaries. As of July 31, 2010, approximately \$83.2 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth

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was in compliance with all covenants at July 31, 2010. One Earth paid approximately \$1.4 million in financing costs. These costs are recorded as prepaid loan fees and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted assets related to One Earth was \$56.1 million and \$47.9 million at July 31, 2010 and January 31, 2010, respectively. One Earth's restricted assets, which are less than 100% of total net assets, total approximately \$76.1 million and \$65.0 million at July 31, 2010 and January 31, 2010, respectively. Such 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 two forward interest rate swaps in the notional amounts of \$50.0 million and \$25.0 million with the Bank. The swap settlements commenced as of July 31, 2009; the \$50.0 million swap terminates on July 8, 2014 and the \$25.0 million swap terminates on July 31, 2011. The \$50.0 million swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9% while the \$25.0 million swap fixed the rate at 5.49%. At July 31, 2010, the Company recorded a liability of \$6.2 million related to the fair value of the swaps. The change in fair value is recorded in the Consolidated Condensed Statements of Operations.

Note 9. Financial Instruments

The Company uses interest rate swaps to manage its interest rate exposure at One Earth by fixing the interest rate on a portion of the entity's variable rate debt. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. As of July 31, 2010, the notional value of the One Earth interest rate swaps was \$69.5 million. At July 31, 2010, the Company has recorded a liability of \$6.2 million related to the fair value of the swaps.

The notional amounts and fair values of derivatives, all of which are not designated as cash flow hedges at July 31, 2010, are summarized in the table below (amounts in thousands):

	Notional Amount	Fair Value Liability
Interest rate swaps	\$ 69,508	\$ 6,219

As the interest rate swaps are not designated as cash flow hedges, the unrealized gain and loss on the derivatives is reported in current earnings. The Company reported losses of \$1,878,000 and \$108,000 in the second quarter of fiscal years 2010 and 2009, respectively. The Company reported losses of \$2,045,000 and \$665,000 in the first six months of fiscal years 2010 and 2009, respectively.

In the normal course of its ethanol business, the Company enters into forward pricing agreements for the purchase of grain and for the sale of ethanol and distillers grains for delivery in future periods. The Company accounts for these forward pricing arrangements under the normal purchases and normal sales scope exemption of ASC 815, *Derivatives and Hedging*.

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Levelland Hockley and One Earth have combined forward purchase contracts for 4,388,000 bushels of sorghum and corn, the principal raw materials for their ethanol plants. Levelland Hockley and One Earth expect to take delivery of the grain through August 2010. The unrealized gain of such contracts was approximately \$555,000 at June 30, 2010.

Levelland Hockley and One Earth have combined sales commitments for 10.4 million gallons of ethanol and 105,000 tons of distiller grains. Levelland Hockley and One Earth expect to deliver the ethanol and distiller grains through December 2010. The unrealized gain of such contracts was approximately \$576,000 at June 30, 2010.

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.

The fair values of options granted were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions used for grants in the fiscal year ended January 31, 2005: risk-free interest rate of 4.7%, expected volatility of 65.4% and a weighted average stock option life of nine years for all option grants.

The total intrinsic value of options exercised during the six months ended July 31, 2010 and 2009 was approximately \$0.5 million and \$0.1 million, respectively, resulting in tax deductions to realize benefits of approximately \$0.2 million and \$0.1 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the six months ended July 31, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2010	824,421	\$ 10.14		
Exercised	(92,518)	\$ 9.78		
Outstanding and exercisable at July 31, 2010	731,903	\$ 10.19	1.6	\$ 4,288

At July 31, 2010, there was no unrecognized compensation cost related to nonvested stock options.

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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 July 31, 2010			Six Months Ended July 31, 2010		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	\$ 450	9,790	\$ 0.05	\$ 3,951	9,815	\$ 0.40
Effect of stock options		186			195	
Diluted income per share from continuing operations attributable to REX common shareholders	\$ 450	9,976	\$ 0.04	\$ 3,951	10,010	\$ 0.39

As there was a loss from continuing operations for the second quarter and first six months of fiscal year 2009, basic loss per share from continuing operations equals diluted loss per share from continuing operations. For the three and six months ended July 31, 2009, a total of 2,571,521 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive.

Note 12. Investments and Restricted Deposits

The following table summarizes investments in debt securities at January 31, 2010 (amounts in thousands):

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Initial Investment
Patriot Renewable Fuels, LLC Convertible Note	16.00%	11/25/2011	Available for Sale	\$ 1,014	\$ 933

Unrealized holding gains were \$81,000 (\$49,000 net of income taxes) at January 31, 2010. During fiscal year 2010, Patriot Renewable Fuels, LLC (Patriot) repaid the Company the outstanding principal balance and accrued interest on the note.

The Company has approximately \$743,000 at July 31, 2010, and January 31, 2010 on deposit with the Florida Department of Financial Services to secure its obligation to fulfill future obligations related to extended warranty contracts sold in the state of Florida. As such, this deposit is restricted from use for general corporate purposes. The deposits earned 2.5% and 2.7% at July 31, 2010 and January 31, 2010, respectively.

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In addition to the deposit with the Florida Department of Financial Services, the Company has \$857,000 and \$1,357,000 at July 31, 2010 and January 31, 2010, respectively, invested in a money market mutual fund to satisfy Florida Department of Financial Services regulations. As such, this investment is restricted from use for general corporate purposes. This investment earned 0.1% at July 31, 2010 and January 31, 2010.

The following table summarizes equity method investments at July 31, 2010 and January 31, 2010 (amounts in thousands):

Equity Method Investments July 31, 2010

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	10%	\$ 26,819	\$ 20,025
Patriot Renewable Fuels, LLC	23%	20,310	16,000
NuGen Energy, LLC	48%	13,966	13,966
		<hr/>	<hr/>
Total Equity Method Investments		\$ 61,095	\$ 49,991
		<hr/>	<hr/>

Equity Method Investments January 31, 2010

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	10%	\$ 25,660	\$ 20,025
Patriot Renewable Fuels, LLC	23%	18,411	16,000
		<hr/>	<hr/>
Total Equity Method Investments		\$ 44,071	\$ 36,025
		<hr/>	<hr/>

During the second quarter of fiscal years 2010 and 2009, the Company recorded income of \$627,000 and \$83,000, respectively as its share of earnings from Big River. During the first six months of fiscal years 2010 and 2009, the Company recorded income of \$1,961,000 and \$174,000 respectively as its share of earnings from Big River.

During the second quarter of fiscal years 2010 and 2009, the Company recorded income of \$456,000 and \$101,000, respectively as its share of earnings from Patriot. During the first six months of fiscal years 2010 and 2009, the Company recorded income of \$1,969,000 and a loss of \$251,000, respectively as its share of earnings or loss from Patriot. Undistributed earnings of equity method investees totaled approximately \$10.0 million at July 31, 2010, and \$6.8 million at January 31, 2010.

Effective June 30, 2010, the Company purchased a 48% equity interest in NuGen Energy, LLC (NuGen) which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons. The Company's investment included \$2,410,361 paid at closing to the then sole shareholder of NuGen and \$6,805,055 contributed directly to Nugen. An additional \$6,451,300 is due based upon cash distributions from NuGen that the Company is entitled to

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until such balance is paid (Contingent Consideration). At July 31, 2010, the Company determined that the fair value of the Contingent Consideration was \$4,750,000, of which \$374,000 is included in other current liabilities and \$4,376,000 is included in other long-term liabilities on the Consolidated Condensed Balance Sheet. The results of NuGen are recognized by the Company on a delayed basis of one month. Consequently, no income or expense from Nugen s operations has been recorded under the equity method of accounting for the quarter and six months ended July 31, 2010.

The Company has an option to purchase for a purchase price of \$1,138,389, (which is payable in cash, partially based upon cash distributions from NuGen that the Company is entitled to) additional ownership units from NuGen s majority shareholder, which, if exercised, would result in the Company owning 51% of the total outstanding voting and economic interests of NuGen on a fully diluted basis.

Summarized balance sheet information for NuGen is presented in the following table as of July 31, 2010 (amounts in thousands):

Current assets	\$ 25,098
Long-term assets	86,526
	<hr/>
Total assets	\$ 111,624
	<hr/>
Current liabilities	\$ 3,663
Long-term liabilities	93,241
	<hr/>
Total liabilities	\$ 96,904
	<hr/>

Summarized income statement information for Patriot and Big River is presented in the following table for the three and six month periods ended July 31, 2010 and July 31, 2009 (amounts in thousands):

	Three Months Ended July 31, 2010		Six Months Ended July 31, 2010	
	Patriot	Big River	Patriot	Big River
	<hr/>	<hr/>	<hr/>	<hr/>
Net sales and revenue	\$ 50,665	\$ 157,620	\$ 107,609	\$ 314,537
Gross profit	\$ 5,354	\$ 12,275	\$ 14,998	\$ 26,595
Income from continuing operations	\$ 1,957	\$ 6,453	\$ 8,442	\$ 20,167
Net income	\$ 1,957	\$ 6,453	\$ 8,442	\$ 20,167

	Three Months Ended July 31, 2009		Six Months Ended July 31, 2009	
	Patriot	Big River	Patriot	Big River
Net sales and revenue	\$ 51,187	\$ 64,628	\$ 98,681	\$ 132,280
Gross profit	\$ 4,946	\$ 26	\$ 8,302	\$ 2,994
Income (loss) from continuing operations	\$ 433	\$ 847	\$ (1,077)	\$ 1,787
Net income (loss)	\$ 433	\$ 847	\$ (1,077)	\$ 1,787

Patriot, Big River and NuGen 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, 2010 and January 31, 2010 are approximately \$313,783,000 and \$298,076,000, respectively. The Company's proportionate share of restricted net assets of Patriot and Big River combined at July 31, 2010 and January 31, 2010 are approximately \$41,046,000 and \$38,926,000, respectively. The restricted net assets of NuGen at July 31, 2010 are approximately \$14,720,000. The Company's proportionate share of restricted net assets of NuGen at July 31, 2010 is approximately \$7,066,000.

Note 13. Restructuring and Other

During the fourth quarter of fiscal year 2008, the Company entered into an agreement with Appliance Direct, Inc. pursuant to which (i) the Company agreed to sell certain appliance inventory, furniture, fixtures and equipment at the store locations to be taken over by Appliance Direct and (ii) subsidiaries of Appliance Direct leased 37 retail store locations owned by the Company.

During the fourth quarter of fiscal year 2008, the Company recorded a restructuring charge of approximately \$4.2 million related to (i) a workforce reduction of a majority of employees located at its corporate headquarters, retail stores and distribution facilities and (ii) certain costs associated with the transition of the Company's retail business to Appliance Direct.

On September 30, 2009, the Company entered into a letter agreement with Appliance Direct pursuant to which (i) Appliance Direct agreed to vacate all properties leased from the Company and turn over possession of the leased premises to the Company and (ii) the Company and Appliance Direct agreed to release and discharge each other from all claims or causes of action whatsoever.

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The Company substantially completed its exit of the retail business as of July 31, 2009. The following is a summary of restructuring charges and payments for the six months ended July 31, 2010 (in thousands):

	Employee Severance and Bonus Costs	Lease Termination Costs	Total Restructuring Accrual
	<u> </u>	<u> </u>	<u> </u>
Balance, January 31, 2010	\$ 219	\$ 439	\$ 658
Restructuring charges			
Payment of restructuring liabilities	(7)	(75)	(82)
	<u> </u>	<u> </u>	<u> </u>
Balance, April 30, 2010	212	364	576
Restructuring charges			
Payment of restructuring liabilities	(30)	(71)	(101)
	<u> </u>	<u> </u>	<u> </u>
Balance, July 31, 2010	\$ 182	\$ 293	\$ 475
	<u> </u>	<u> </u>	<u> </u>

All of the total accrual balance of \$475,000 is classified within current liabilities. The restructuring charges are all classified as discontinued operations in the accompanying Consolidated Condensed Statements of Operations. The accrued balances at July 31, 2010 are management's best estimate of the amounts to be incurred for the related categories.

The following is a summary of restructuring charges and payments for the six months ended July 31, 2009 (in thousands):

	Employee Severance and Bonus Costs	Lease Termination Costs	Investment Banker Fees	ESP Credit	Total Restructuring Accrual
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, January 31, 2009	\$ 2,839	\$	\$ 834	\$ 498	\$ 4,171
Restructuring charges		1,460			1,460
Payment of restructuring liabilities	(436)	(409)			(845)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, April 30, 2009	2,403	1,051	834	498	4,786
Restructuring charges	28	1,492			1,520
Restructuring benefits	(706)		(325)	(287)	(1,318)
Payment of restructuring liabilities	(838)	(975)		(211)	(2,024)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, July 31, 2009	\$ 887	\$ 1,568	\$ 509	\$ 0	\$ 2,964
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note 14. Income Taxes

The effective tax rate on consolidated pre-tax income or loss from continuing operations was 36.0% for the six months ended July 31, 2010, 33.5% for the year ended January 31, 2010 and 26.1% for the six months ended July 31, 2009. The provision for state taxes is approximately 5% for the six months ended July 31, 2010 and 2009. The provision for state taxes was approximately 4% for the year ended January 31, 2010.

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, 2007 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, February 1, 2010	\$ 2,338
Changes for prior years' tax positions	45
Changes for current year tax positions	
	<hr/>
Unrecognized tax benefits, July 31, 2010	\$ 2,383
	<hr/>

Note 15. Discontinued Operations and Assets Held for Sale

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 retail or real estate segment, depending on when the store ceased operations. Below is a table reflecting certain items of the Consolidated Condensed Statements of Operations that were reclassified as discontinued operations for the period indicated: