

REX AMERICAN RESOURCES Corp
Form 10-Q
June 06, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2012

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.

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

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 June 5, 2012 the registrant had 8,378,280 shares of Common Stock, par value \$.01 per share, outstanding.

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

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> | 24 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 36 |
| <u>Item 4. Controls and Procedures</u> | 37 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 37 |
| <u>Item 1A. Risk Factors</u> | 38 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 38 |
| <u>Item 3. Defaults upon Senior Securities</u> | 38 |
| <u>Item 4. Mine Safety Disclosures</u> | 38 |
| <u>Item 5. Other Information</u> | 39 |
| <u>Item 6. Exhibits</u> | 39 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

Unaudited

| | April 30, 2012 | January 31, 2012 |
|---|-------------------|---------------------|
| | <u> </u> | <u> </u> |
| | (In Thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 72,064 | \$ 75,013 |
| Accounts receivable | 15,025 | 12,784 |
| Inventory, net | 25,625 | 30,349 |
| Refundable income taxes | 1,476 | 1,816 |
| Prepaid expenses and other | 3,862 | 3,987 |
| Deferred taxes, net | 3,083 | 3,090 |
| | <u> </u> | <u> </u> |
| Total current assets | 121,135 | 127,039 |
| Property and equipment, net | 237,421 | 240,084 |
| Other assets | 7,579 | 7,884 |
| Equity method investments | 60,081 | 61,679 |
| Restricted investments and deposits | 1,003 | 1,363 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 427,219</u> | <u>\$ 438,049</u> |
| Liabilities and equity: | | |
| Current liabilities: | | |
| Current portion of long-term debt, alternative energy | \$ 12,369 | \$ 14,972 |
| Current portion of long-term debt, other | 342 | 250 |
| Accounts payable, trade | 5,989 | 6,985 |
| Deferred income | 1,510 | 1,864 |
| Accrued real estate taxes | 2,741 | 2,750 |
| Accrued payroll and related items | 510 | 2,882 |
| Derivative financial instruments | 1,733 | 1,694 |
| Other current liabilities | 4,683 | 5,844 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 29,877 | 37,241 |
| | <u> </u> | <u> </u> |
| Long-term liabilities: | | |
| Long-term debt, alternative energy | 103,557 | 107,706 |
| Long-term debt, other | 668 | 821 |
| Deferred taxes | 4,642 | 4,642 |
| Deferred income | 316 | 552 |
| Derivative financial instruments | 2,166 | 2,541 |
| Other long term liabilities | 2,720 | 2,703 |
| | <u> </u> | <u> </u> |
| Total long-term liabilities | 114,069 | 118,965 |
| | <u> </u> | <u> </u> |
| Equity: | | |
| REX shareholders' equity: | | |
| Common stock | 299 | 299 |
| Paid-in capital | 143,592 | 142,994 |
| Retained earnings | 325,256 | 324,323 |

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

| | | |
|--------------------------------|------------|------------|
| Treasury stock | (215,239) | (215,105) |
| Total REX shareholders' equity | 253,908 | 252,511 |
| Noncontrolling interests | 29,365 | 29,332 |
| Total equity | 283,273 | 281,843 |
| Total liabilities and equity | \$ 427,219 | \$ 438,049 |

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 April 30, | |
|---|---|-----------|
| | 2012 | 2011 |
| | (In Thousands, Except Per Share Amounts) | |
| Net sales and revenue | \$ 151,013 | \$ 81,163 |
| Cost of sales | 145,517 | 76,451 |
| Gross profit | 5,496 | 4,712 |
| Selling, general and administrative expenses | (2,707) | (2,348) |
| Equity in income of unconsolidated ethanol affiliates | 442 | 5,782 |
| Interest income | 49 | 171 |
| Interest expense | (1,281) | (663) |
| (Losses) gains on derivative financial instruments, net | (147) | 68 |
| Income from continuing operations before income taxes | 1,852 | 7,722 |
| Provision for income taxes | (533) | (2,681) |
| Income from continuing operations | 1,319 | 5,041 |
| Income from discontinued operations, net of tax | 183 | 390 |
| (Loss) gain on disposal of discontinued operations, net of tax | (10) | 125 |
| Net income | 1,492 | 5,556 |
| Net income attributable to noncontrolling interests | (559) | (904) |
| Net income attributable to REX common shareholders | \$ 933 | \$ 4,652 |
| Weighted average shares outstanding - basic | 8,360 | 9,432 |
| Basic income per share from continuing operations attributable to REX common shareholders | \$ 0.09 | \$ 0.44 |
| Basic income per share from discontinued operations attributable to REX common shareholders | 0.02 | 0.04 |
| Basic income per share from disposal of discontinued operations attributable to REX common shareholders | | 0.01 |
| Basic net income per share attributable to REX common shareholders | \$ 0.11 | \$ 0.49 |
| Weighted average shares outstanding - diluted | 8,439 | 9,560 |
| Diluted income per share from continuing operations attributable to REX common shareholders | \$ 0.09 | \$ 0.44 |
| Diluted income per share from discontinued operations attributable to REX common shareholders | 0.02 | 0.04 |
| Diluted income per share from disposal of discontinued operations attributable to REX common shareholders | | 0.01 |
| Diluted net income per share attributable to REX common shareholders | \$ 0.11 | \$ 0.49 |

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

Amounts attributable to REX common shareholders:

| | | | | |
|---|----|-------------------|----|-------------------|
| Income from continuing operations, net of tax | \$ | 760 | \$ | 4,137 |
| Income from discontinued operations, net of tax | | 173 | | 515 |
| | | <u> </u> | | <u> </u> |
| Net income | \$ | 933 | \$ | 4,652 |
| | | <u> </u> | | <u> </u> |

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 | Noncontrolling Interests | Total Equity |
| | Shares | Amount | Shares | Amount | | | | |
| Balance at January 31, 2012 | 29,853 | \$ 299 | 21,523 | \$ (215,105) | \$ 142,994 | \$ 324,323 | \$ 29,332 | \$ 281,843 |
| Net income | | | | | | 933 | 559 | 1,492 |
| Treasury stock acquired | | | 33 | (1,071) | | | | (1,071) |
| Noncontrolling interests distribution and other | | | | | | | (526) | (526) |
| Stock options and related tax effects | | | (94) | 937 | 598 | | | 1,535 |
| Balance at April 30, 2012 | 29,853 | \$ 299 | 21,462 | \$ (215,239) | \$ 143,592 | \$ 325,256 | \$ 29,365 | \$ 283,273 |

| | Common Shares Issued | | Treasury | | Paid-in Capital | Retained Earnings | Noncontrolling Interests | Total Equity |
|--|-----------------------------|--------|----------|--------------|--------------------|----------------------|-----------------------------|-----------------|
| | Shares | Amount | Shares | Amount | | | | |
| | Balance at January 31, 2011 | 29,853 | \$ 299 | 20,461 | \$ (193,713) | \$ 142,293 | \$ 296,053 | \$ 25,032 |
| Net income | | | | | | 4,652 | 904 | 5,556 |
| Treasury stock acquired | | | 224 | (3,563) | | | | (3,563) |
| Stock options and related tax effects | | | (417) | 3,882 | 33 | | | 3,915 |
| Balance at April 30, 2011 | 29,853 | \$ 299 | 20,268 | \$ (193,394) | \$ 142,326 | \$ 300,705 | \$ 25,936 | \$ 275,872 |

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

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

| | Three Months Ended April 30, | |
|---|---------------------------------|------------------|
| | 2012 | 2011 |
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Net income including noncontrolling interests | \$ 1,492 | \$ 5,556 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,021 | 2,733 |
| Income from equity method investments | (442) | (5,782) |
| Loss (gain) on disposal of real estate and property and equipment | 16 | (204) |
| Dividends received from equity method investees | 2,005 | 2,316 |
| Deferred income | (590) | (1,273) |
| Derivative financial instruments | (336) | (732) |
| Deferred income tax | | 1,419 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,241) | (798) |
| Inventory | 4,724 | (4,861) |
| Refundable income taxes | 552 | 8,503 |
| Other assets | 296 | 961 |
| Accounts payable, trade | (996) | 1,124 |
| Other liabilities | (3,525) | 160 |
| Net cash provided by operating activities | <u>4,976</u> | <u>9,122</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,683) | (555) |
| Restricted investments | 360 | |
| Proceeds from sale of real estate and property and equipment | 478 | 424 |
| Net cash used in investing activities | <u>(845)</u> | <u>(131)</u> |
| Cash flows from financing activities: | | |
| Payments of long-term debt | (6,813) | (2,840) |
| Stock options exercised | 259 | 258 |
| Noncontrolling interests distribution and other | (526) | |
| Treasury stock acquired | | (477) |
| Net cash used in financing activities | <u>(7,080)</u> | <u>(3,059)</u> |
| Net (decrease)increase in cash and cash equivalents | (2,949) | 5,932 |
| Cash and cash equivalents, beginning of period | 75,013 | 91,019 |
| Cash and cash equivalents, end of period | <u>\$ 72,064</u> | <u>\$ 96,951</u> |
| Non cash financing activities - Cashless exercise of stock options | <u>\$ 1,071</u> | <u>\$</u> |

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL
STATEMENTS**

April 30, 2012

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, 2012 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, 2012 (fiscal year 2011). 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, 2012. 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. Effective November 1, 2011, the Company acquired a majority ownership interest in NuGen Energy, LLC (NuGen), and included the results of operations in its Consolidated Condensed Statements of Operations on a prospective basis.

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 continues to recognize revenue and expense associated with administering extended service policies as 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 fiscal year 2011 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

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

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 corn oil when title transfers to customers, upon shipment from its plant. Shipping and handling charges 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.

The Company sold, prior to its exit of the retail business, extended service policies covering periods beyond the normal manufacturers warranty periods, usually with terms of coverage (including manufacturers warranty periods) of between 12 to 60 months. Contract revenues and sales commissions 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 charged to operations as incurred. All related revenue and expense is classified as discontinued operations.

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

No interest was capitalized for the three months ended April 30, 2012 and 2011. Cash paid for interest for the three months ended April 30, 2012 and 2011 was approximately \$1,582,000 and \$617,000, 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 agreements were not designated for hedge accounting pursuant to ASC 815, *Derivatives and Hedging* (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 \$483,000 and \$664,000 for the three months ended April 30, 2012 and 2011, respectively.

Forward grain purchase and ethanol and distillers grains 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 and distillers grains 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 no income taxes during the three months ended April 30, 2012 and 2011. During the three months ended April 30 2011, the Company received tax refunds of \$7,217,000. The Company received no refunds during the three months ended April 30, 2012.

As of April 30, 2012, total unrecognized tax benefits were approximately \$2,157,000 and accrued penalties and interest were \$342,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$82,000 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. The write-down of inventory was approximately \$98,000 and \$153,000 at April 30, 2012 and January 31, 2012, respectively. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time. The components of inventory at April 30, 2012 and January 31, 2012 are as follows (amounts in thousands):

| | April 30, 2012 | January 31, 2012 |
|---------------------------------------|-------------------|------------------------|
| | <u> </u> | <u> </u> |
| Ethanol and other finished goods, net | \$ 6,673 | \$ 5,318 |
| Work in process | 3,962 | 3,819 |
| Grain and other raw materials, net | 14,990 | 21,212 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 25,625</u> | <u>\$ 30,349</u> |

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 360-05 *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 insignificant in the first quarters of fiscal years 2012 and 2011. 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. Generally, declining cash flows from an ethanol plant or deterioration in local real estate market conditions are indicators of possible impairment.

Investments and Deposits

Restricted investments, which are principally money market mutual funds and cash deposits, are stated at cost plus accrued interest, which approximates market. Restricted investments at April 30, 2012 and January 31, 2012 are required by two states to cover possible future claims under extended service policies over the remaining lives of the service policy contracts. In accordance with ASC 320, *Investments-Debt and Equity Securities* the Company has classified these investments as held-to-maturity. The investments had maturity dates of less than one year at April 30, 2012 and January 31, 2012. The Company has the intent and ability to hold these securities to maturity.

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.

Accounting Changes and Recently Issued Accounting Standards

Effective February 1, 2012, the Company was required to adopt the third phase of amended guidance in ASC 820 *Fair Value Measurements and Disclosures* . The amendment established common fair value measurement and disclosure requirements by improving comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and those prepared in conformity with International Financial Reporting Standards. The amended guidance clarified the application of existing requirements and requires

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

additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The adoption of this amended guidance did not impact the Company's financial statements.

Effective February 1, 2012, the Company was required to adopt the amended guidance in ASC 220 *Comprehensive Income*. This amendment increased the prominence of other comprehensive income in the financial statement by eliminating the option to present other comprehensive income in the statement of stockholders' equity, and rather requiring comprehensive income to be reported in either a single continuous statement or in two separate but consecutive statements reporting net income and other comprehensive income. The adoption of this amended guidance did not impact the Company's financial statements.

Note 3. Leases

At April 30, 2012, the Company has lease agreements, as landlord, for all or portions of seven properties. 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 2013 | \$ 907 |
| 2014 | 1,252 |
| 2015 | 1,060 |
| 2016 | 502 |
| 2017 | 437 |
| Thereafter | 1,452 |
| Total | \$ 5,610 |

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, 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

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

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 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.

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

Financial assets and liabilities measured at fair value on a recurring basis at April 30, 2012 are summarized below (amounts in thousands):

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
|---|----------------|----------------|----------------|-------------------|
| Cash equivalents | \$ 2 | \$ | \$ | \$ 2 |
| Money market mutual fund (1) | 620 | | | 620 |
| Investment in cooperative (1) | | | 219 | 219 |
| Total assets | \$ 622 | \$ | \$ 219 | \$ 841 |
| Interest rate swap derivative liabilities | \$ | \$ 3,899 | \$ | \$ 3,899 |

Financial assets and liabilities measured at fair value on a recurring basis at January 31, 2012 are summarized below (amounts in thousands):

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
|---|----------------|----------------|----------------|-------------------|
| Cash equivalents | \$ 2 | \$ | \$ | \$ 2 |
| Money market mutual fund (1) | 620 | | | 620 |
| Investment in cooperative (1) | | | 219 | 219 |
| Total assets | \$ 622 | \$ | \$ 219 | \$ 841 |
| Interest rate swap derivative liabilities | \$ | \$ 4,235 | \$ | \$ 4,235 |

(1) The money market mutual fund is included in Restricted investments and deposits and the investment in cooperative is included in Other assets on the accompanying Consolidated Condensed Balance Sheets.

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, 2012 | \$ 219 |
| Current period activity | |
| Balance, April 30, 2012 | \$ 219 |

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 subsequent to January 31, 2012.

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

Assets measured at fair value on a non-recurring basis over various dates through January 31, 2012 are summarized below (amounts in thousands):

| | Level 1 | Level 2 | Level 3 | Total Losses |
|-----------------------------|---------|---------|----------|-----------------|
| Property and equipment, net | \$ | \$ | \$ 8,803 | \$ 1,227 |

The fair value of the Company's debt is approximately \$116.9 million and \$123.8 million at April 30, 2012 and January 31, 2012, respectively. The fair value was estimated using a discounted cash flow analysis and the Company's estimate of market rates of interest for similar loan agreements with companies that have a similar credit risk.

Note 5. Property and Equipment

The components of property and equipment at April 30, 2012 and January 31, 2012 are as follows (amounts in thousands):

| | April 30, 2012 | January 31, 2012 |
|-----------------------------------|-------------------|---------------------|
| Land and improvements | \$ 24,949 | \$ 25,094 |
| Buildings and improvements | 40,554 | 40,710 |
| Machinery, equipment and fixtures | 217,797 | 212,797 |
| Leasehold improvements | | 366 |
| Construction in progress | 3,760 | 7,194 |
| | 287,060 | 286,161 |
| Less: accumulated depreciation | (49,639) | (46,077) |
| | \$ 237,421 | \$ 240,084 |

Note 6. Other Assets

The components of other assets at April 30, 2012 and January 31, 2012 are as follows (amounts in thousands):

| | April 30, 2012 | January 31, 2012 |
|-------------------------------|-------------------|---------------------|
| Deferred financing costs, net | \$ 1,172 | \$ 1,306 |
| Prepaid commissions | 551 | 729 |
| Deposits | 2,564 | 2,564 |
| Real estate taxes refundable | 1,969 | 1,969 |
| Other | 1,323 | 1,316 |
| | \$ 7,579 | \$ 7,884 |
| Total | \$ 7,579 | \$ 7,884 |

Note 7. Long Term Debt and Interest Rate Swaps

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 280 basis points to LIBOR plus 300 basis points (3.4% -3.6% at April 30, 2012). Beginning with the first quarterly payment on October 8, 2009, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (July 31, 2014) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year.

Borrowings are secured by all of the assets of One Earth. This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2012, approximately \$63.7 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 and net worth requirements. One Earth was in compliance with these covenants, as applicable, at April 30, 2012. 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 \$19.4 million and \$14.5 million at April 30, 2012 and January 31, 2012, 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.

As of April 30, 2012, One Earth has no outstanding borrowings on the \$10,000,000 revolving loan, which expires May 29, 2013.

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 terminated 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 April 30, 2012 and January 31, 2012, the Company recorded a liability of approximately \$3.9 million and \$4.2 million, respectively, related to the fair value of the swaps. The change in fair value is recorded in the Consolidated Condensed Statements of Operations.

NuGen Energy Subsidiary Level Debt

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

Borrowings are secured by all of the assets of NuGen. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2012, approximately \$52.3 million was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements and working capital requirements. NuGen was in compliance with these covenants, as applicable, at April 30, 2012. NuGen has paid approximately \$0.6 million in financing costs. These costs are recorded as deferred financing costs and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted net assets related to NuGen was approximately \$3.7 million and approximately \$3.6 million at April 30, 2012 and January 31, 2012, respectively. Restricted net assets may not be paid in the form of dividends or advances to the parent company or other members of NuGen per the terms of the loan agreement with the Bank.

NuGen has no outstanding borrowings on the \$10,000,000 revolving loan as of April 30, 2012.

Note 8. 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. The notional amounts and fair values of derivatives, all of which are not designated as cash flow hedges at April 30, 2012 are summarized in the table below (amounts in thousands):

| | Notional Amount | Fair Value Liability |
|--------------------|--------------------|-------------------------|
| Interest rate swap | \$ 40,856 | \$ 3,899 |

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

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 \$147,000 in the first quarter of fiscal year 2012 and gains of \$68,000 in the first quarter of fiscal year 2011.

Note 9. 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.

The total intrinsic value of options exercised during the three months ended April 30, 2012 and 2011 was approximately \$1.7 million and \$3.0 million, respectively, resulting in tax deductions to realize benefits of approximately \$0.2 million and \$0.6 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2012:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|----------|--|---|---|
| Outstanding at January 31, 2012 | 268,723 | \$ 13.15 | | |
| Exercised | (93,734) | \$ 14.18 | | |
| Outstanding and exercisable at April 30, 2012 | 174,989 | \$ 12.59 | 1.7 | \$ 2,651 |

During the first three months of fiscal year 2012, certain officers and directors of the Company tendered 32,935 shares of the Company's common stock as payment of the exercise price of stock options exercised pursuant to the Company's Stock-for-Stock and Cashless Option Exercise Rules and Procedures, adopted on June 4, 2001. The purchase price was \$32.53 per share.

At April 30, 2012, there was no unrecognized compensation cost related to nonvested stock options. No options have been granted since fiscal year 2004.

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

Note 10. Income Per Share from Continuing Operations Attributable to REX Common Shareholders

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

| | Three Months Ended April 30, 2012 | | | Three Months Ended April 30, 2011 | | |
|---|--------------------------------------|--------|--------------|--------------------------------------|--------|--------------|
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Basic income per share from continuing operations attributable to REX common shareholders | \$ 760 | 8,360 | \$ 0.09 | \$ 4,137 | 9,432 | \$ 0.44 |
| Effect of stock options | | 79 | | | 128 | |
| Diluted income per share from continuing operations attributable to REX common shareholders | \$ 760 | 8,439 | \$ 0.09 | \$ 4,137 | 9,560 | \$ 0.44 |

For the three months ended April 30, 2012, there were no shares subject to outstanding options that were excluded in the common equivalents shares outstanding calculation. For the three months ended April 30, 2011 a total of 12,468 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive.

Note 11. Investments and Restricted Deposits

The Company has approximately \$383,000 and \$743,000 at April 30, 2012 and January 31, 2012, respectively, 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.

In addition to the deposit with the Florida Department of Financial Services, the Company has \$620,000 at April 30, 2012 and January 31, 2012 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.

The following table summarizes equity method investments at April 30, 2012 and January 31, 2012 (amounts in thousands):

| Entity | Ownership Percentage | Carrying Amount April 30, 2012 | Carrying Amount January 31, 2012 |
|---------------------------------|-------------------------|-----------------------------------|-------------------------------------|
| Big River | 10% | \$ 32,922 | \$ 34,370 |
| Patriot | 26% | 27,159 | 27,309 |
| Total Equity Method Investments | | \$ 60,081 | \$ 61,679 |

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

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

| | Three Months Ended April 30, | |
|-----------|---------------------------------|-------------------|
| | 2012 | 2011 |
| | <u> </u> | <u> </u> |
| Big River | \$ 557 | \$ 1,271 |
| Patriot | (115) | 904 |
| NuGen | | 3,607 |
| | <u> </u> | <u> </u> |
| Total | \$ 442 | \$ 5,782 |
| | <u> </u> | <u> </u> |

Effective July 1, 2010, the Company purchased a 48% equity interest in NuGen which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons. The Company accounted for this investment using the equity method of accounting. On November 1, 2011, the Company acquired an additional 50% equity interest in NuGen. Following the purchase, the Company owned all of the outstanding Class A membership interest units in NuGen, representing a 100% voting interest and a 98% equity interest in NuGen. Effective November 1, 2011, the Company ceased using the equity method of accounting and began consolidating the results of NuGen. Prior to consolidation, the Company recorded the results of NuGen on a one month lag. During fiscal year 2011, NuGen adopted the same fiscal year as the Company. As a result, the Company no longer records the results of NuGen on a one month lag. NuGen repurchased shares from noncontrolling interests holders during fiscal year 2012. This increased the Company's equity interest in NuGen to 99%.

Undistributed earnings of equity method investees totaled approximately \$21.2 million and \$22.8 million at April 30, 2012 and January 31, 2012, respectively. During the first three months of fiscal years 2012 and 2011, the Company received dividends from equity method investees of approximately \$2.0 million and \$2.3 million, respectively.

Summarized financial information for each of the Company's equity method investees is presented in the following table for the three months ended April 30, 2012 and 2011, on a delayed basis of one month (amounts in thousands):

| | Three Months Ended April 30, 2012 | |
|---|---|-------------------|
| | Patriot | Big River |
| | <u> </u> | <u> </u> |
| Net sales and revenue | \$ 89,812 | \$ 291,003 |
| Gross profit | \$ 1,777 | \$ 14,008 |
| (Loss) income from continuing operations | \$ (436) | \$ 5,718 |
| Net (loss) income | \$ (436) | \$ 5,718 |

| | Three Months Ended | | |
|-----------------------------------|--------------------|------------|-----------|
| | April 30, 2011 | | |
| | Patriot | Big River | NuGen |
| Net sales and revenue | \$ 88,316 | \$ 242,245 | \$ 81,138 |
| Gross profit | \$ 5,462 | \$ 23,089 | \$ 8,889 |
| Income from continuing operations | \$ 3,876 | \$ 13,029 | \$ 7,850 |
| Net income | \$ 3,876 | \$ 13,029 | \$ 7,850 |

Patriot and Big River have debt agreements that limit and restrict amounts the companies can pay in the form of dividends or advances to owners. The restricted net assets of Patriot and Big River combined at April 30, 2012 and January 31, 2012 are approximately \$409.5 million and \$326.2 million, respectively. The Company's proportionate share of restricted net assets of Patriot and Big River combined at April 30, 2012 and January 31, 2012 are approximately \$54.5 million and \$44.2 million, respectively.

On January 31, 2011, the Company sold 814,000 of its membership units in Levelland Hockley County Ethanol, LLC (Levelland Hockley) for \$1, reducing the ownership interest in Levelland Hockley from 56% to 49%. As a result, the Company no longer had a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, the Company deconsolidated Levelland Hockley and began using the equity method of accounting. In connection with the deconsolidation, the Company recorded its remaining non controlling equity interest and debt investments at fair value. The Company's estimate of fair value for all of its investments in Levelland Hockley was \$0 at April 30, 2012 and January 31, 2012. On April 27, 2011, Levelland Hockley voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Northern District of Texas. As a result, the Company no longer can exercise significant influence over Levelland Hockley and began using the cost method of accounting. There was no change in the carrying value of the Company's investments in Levelland Hockley as a result of the change to the cost method of accounting.

Note 12. Income Taxes

The effective tax rate on consolidated pre-tax income from continuing operations was 28.8% for the three months ended April 30, 2012, and 34.7% for the three months ended April 30, 2011. The fluctuations in the effective tax rate primarily relate to the presentation of noncontrolling interests in the income of consolidated subsidiaries as noncontrolling interests are presented in the Consolidated Condensed Statements of Operations after the income tax provision or benefit.

The Company files a U.S. federal income tax return and income tax returns in various states. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years ended January 31, 2008 and prior. A reconciliation of

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

the beginning and ending amount of unrecognized tax benefits, including interest and penalties, is as follows (amounts in thousands):

| | |
|---|----------|
| Unrecognized tax benefits, February 1, 2012 | \$ 2,484 |
| Changes for prior years tax positions | 15 |
| Changes for current year tax positions | _____ |
| Unrecognized tax benefits, April 30, 2012 | \$ 2,499 |

Note 13. 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 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 periods indicated (amounts in thousands):

| | Three Months Ended April 30, | |
|--|---------------------------------|----------|
| | 2012 | 2011 |
| Net sales and revenue | \$ 590 | \$ 1,341 |
| Cost of sales | 78 | 258 |
| Income before income taxes | 304 | 637 |
| Provision for income taxes | (121) | (247) |
| | _____ | _____ |
| Income from discontinued operations, net of tax | \$ 183 | \$ 390 |
| | _____ | _____ |
| (Loss) gain on disposal | \$ (16) | \$ 204 |
| Benefit (provision) for income taxes | 6 | (79) |
| | _____ | _____ |
| (Loss) gain on disposal of discontinued operations, net of tax | \$ (10) | \$ 125 |
| | _____ | _____ |

Note 14. 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 9.8 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of the grain through July 2012.

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

One Earth and NuGen have combined sales commitments for 28.3 million gallons of ethanol, 37,000 tons of distillers grains and 1.5 million pounds of corn oil. They expect to deliver the ethanol, distillers grains and corn oil through July 2012.

Note 15. 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 on derivative financial instruments. The following table summarizes segment and other results and assets (amounts in thousands):

| | Three Months Ended April 30, | |
|-------------------------------------|---------------------------------|------------------|
| | 2012 | 2011 |
| Net sales and revenue: | | |
| Alternative energy | \$ 150,664 | \$ 80,882 |
| Real estate | 349 | 281 |
| | \$ 151,013 | \$ 81,163 |
| Segment gross profit (loss): | | |
| Alternative energy | \$ 5,510 | \$ 4,778 |
| Real estate | (14) | (66) |
| | \$ 5,496 | \$ 4,712 |

| | Three Months Ended April 30, | |
|-------------------------------|---------------------------------|-----------------|
| | 2012 | 2011 |
| Segment profit (loss): | | |
| Alternative energy | \$ 2,469 | \$ 8,409 |
| Real estate | (75) | (121) |
| Corporate expense | (548) | (673) |
| Interest expense | (23) | (34) |
| Interest income | 29 | 141 |
| | \$ 1,852 | \$ 7,722 |

| | April 30, 2012 | January 31, 2012 |
|--------------------|-------------------|---------------------|
| | <u> </u> | <u> </u> |
| Assets: | | |
| Alternative energy | \$ 358,158 | \$ 367,029 |
| Real estate | 16,758 | 17,458 |
| Corporate | 52,303 | 53,562 |
| | <u> </u> | <u> </u> |
| Total assets | \$ 427,219 | \$ 438,049 |
| | <u> </u> | <u> </u> |

| | Three Months Ended April 30, | |
|---|---------------------------------|-------------------|
| | 2012 | 2011 |
| | <u> </u> | <u> </u> |
| Sales of products alternative energy segment: | | |
| Ethanol | 78% | 82% |
| Distillers grains | 20% | 18% |
| Other | 2% | |
| | <u> </u> | <u> </u> |
| Total | 100% | 100% |
| | <u> </u> | <u> </u> |

| | | |
|--|-------------------|-------------------|
| Sales of services real estate segment: | | |
| Lease revenue | 100% | 100% |
| | <u> </u> | <u> </u> |

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 and deferred income tax benefits.

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 \$26.3 million held by One Earth and NuGen will be used primarily to fund working capital needs for the subsidiaries.

Note 16. Related-Party Transactions

During the first quarters of fiscal year 2012 and 2011, One Earth purchased approximately \$56.5 million and \$69.4 million, respectively, of corn from the Alliance Grain Elevator, an equity investor in One Earth.

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

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

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

ethanol production facilities beginning in 2006.

We completed our exit of the retail business as of July 31, 2009. Going forward, we expect that our only retail related activities will consist of the administration of previously sold extended service plans and the payment of related claims. All activities related to extended service plans are classified as discontinued operations.

In addition, we have owned real estate remaining from our former retail store operations. The real estate consists of 21 former retail stores and one distribution center which we include in our real estate segment.

At April 30, 2012, we had equity investments in five 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 during fiscal year 2012. The following table is a summary of ethanol gallons sold at our operating plants at April 30, 2012:

| Entity | Trailing 12 Months Ethanol Gallons Sold | REX's Current Ownership Interest | Current Effective Ownership of Trailing 12 Months Ethanol Gallons Sold |
|---|--|---|--|
| One Earth Energy, LLC | 103.0M | 74% | 76.2M |
| NuGen Energy, LLC | 114.4M | 99% | 113.3M |
| Patriot Holdings, LLC | 116.8M | 26% | 30.4M |
| Big River Resources W Burlington, LLC | 104.9M | 10% | 10.5M |
| Big River Resources Galva, LLC | 106.9M | 10% | 10.7M |
| Big River United Energy, LLC | 115.5M | 5% | 5.8M |
| Big River Resources Boyceville, LLC (1) | 19.7M | 10% | 2.0M |
| Total (2) | 681.2M | | 248.9M |

(1) Our current effective annual gallons sold represents four months of ownership of Big River Resources Boyceville, LLC.

(2) The table excludes Levelland Hockley, which ceased production in January 2011.

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.

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

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 expect these decisions to be made on an individual plant basis, as there are different market conditions at each of our ethanol plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grains sale contracts. We attempt to match quantities of ethanol and distillers grains 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 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 contracts for no more than three 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 three months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

Critical Accounting Policies and Estimates

During the three months ended April 30, 2012, we did not change any of our critical accounting policies as disclosed in our 2011 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 9, 2012. All other accounting policies used in preparing our interim fiscal year 2012 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 2012 means the period February 1, 2012 to January 31, 2013.

Results of Operations

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

Comparison of Three Months Ended April 30, 2012 and 2011

Net sales and revenue in the quarter ended April 30, 2012 were approximately \$151.0 million compared to approximately \$81.2 million in the prior year's first quarter, representing an increase of approximately \$69.8 million. Net sales and revenue do not include sales from real estate operations classified as discontinued operations. The increase was primarily caused by higher sales in our alternative energy segment of approximately \$69.8 million as the results of

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

NuGen have been consolidated since November 1, 2011. Net sales and revenue from our real estate segment were approximately \$0.3 million in the first quarters of fiscal years 2012 and 2011.

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

| Product Category | Three Months Ended April 30, | |
|-------------------|---------------------------------|-------------|
| | 2012 | 2011 |
| Ethanol | 78% | 81% |
| Distillers grains | 20% | 18% |
| Other | 2% | 1% |
| Total | 100% | 100% |

Gross profit of approximately \$5.5 million (3.6% of net sales and revenue) in the first quarter of fiscal year 2012 was approximately \$0.8 million higher than the approximately \$4.7 million of gross profit (5.8% of net sales and revenue) recorded in the first quarter of fiscal year 2011. Alternative energy segment gross profit for the first quarter of fiscal year 2012 increased by approximately \$0.7 million compared to the prior year. Real estate segment gross loss for the first quarter of fiscal year 2012 was consistent with the prior year first quarter.

Selling, general and administrative expenses for the first quarter of fiscal year 2012 were approximately \$2.7 million (1.8% of net sales and revenue), an increase of approximately \$0.4 million from approximately \$2.3 million (2.9% of net sales and revenue) for the first quarter of fiscal year 2011. The increase was primarily caused by higher expenses in our alternative energy segment of approximately \$0.5 million.

During the first quarters of fiscal years 2012 and 2011, we recognized income of approximately \$0.4 million and \$5.8 million, respectively, from our equity investments in Big River, Patriot and NuGen. Big River has a plant with an annual nameplate capacity of 92 million gallons which has been in operation since 2004. Big River opened an additional plant with an annual nameplate capacity of 100 million gallons during the second quarter of fiscal year 2009, acquired a 50.5% ownership interest in a plant with an annual nameplate capacity of 100 million gallons in August 2009 and acquired a 100% ownership interest in a plant with an annual nameplate capacity of 55 million gallons in December 2011. Patriot has an ethanol facility with an annual nameplate capacity of 100 million gallons which has been in operation since the second quarter of fiscal year 2008. Effective November 1, 2011, we acquired an additional 50% equity interest in NuGen, which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons. This acquisition increased our ownership in NuGen to 98%. As of November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating their results prospectively. We acquired our initial 48% ownership interest in NuGen on July 1, 2010.

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.

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

Interest income of \$49,000 for the first quarter of fiscal year 2012 was \$122,000 lower than the \$171,000 of income for the first quarter of fiscal year 2011. The decline is primarily related to lower levels of excess cash invested during fiscal year 2012 compared to the prior year.

Interest expense was approximately \$1.3 million for the first quarter of fiscal year 2012 compared to approximately \$0.7 million for the first quarter of fiscal year 2011, an increase of approximately \$0.6 million. This increase were primarily attributable to the alternative energy segment as we consolidated NuGen in fiscal year 2012 which had approximately \$0.6 million of interest expense in the first quarter of fiscal year 2012.

We recognized losses of approximately \$147,000 during the first quarter of fiscal year 2012 compared to gains of approximately \$68,000 during the first quarter of fiscal year 2011 related to forward starting interest rate swap agreements that One Earth entered into during fiscal year 2007. In general, declining interest rates have a negative effect on our interest rate swaps and vice versa, as our swaps fixed the interest rate of variable rate debt. Should interest rates decline, we would expect to experience losses on the interest rate swaps. We would expect to incur gains on the interest rate swaps should interest rates increase. We cannot predict the future movements in interest rates; thus, we are unable to predict the likelihood or amounts of future gains or losses related to interest rate swaps.

As a result of the foregoing, income from continuing operations before income taxes was approximately \$1.9 million for the first quarter of fiscal year 2012 versus approximately \$7.7 million for the first quarter of fiscal year 2011.

Our effective tax rate was 28.8% and 34.7% for the first quarters of fiscal years 2012 and 2011, respectively. The fluctuations in the effective tax rate primarily relate to the presentation of noncontrolling interests in the income or loss of consolidated subsidiaries as noncontrolling interests are presented in the Consolidated Condensed Statements of Operations after the income tax provision or benefit.

As a result of the foregoing, income from continuing operations was approximately \$1.3 million for the first quarter of fiscal year 2012 versus approximately \$5.0 million for the first quarter of fiscal year 2011.

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 of these closings and certain other retail store and real estate property closings, we had income from discontinued operations, net of tax, of approximately \$0.2 million in the first quarter of fiscal year 2012 compared to approximately \$0.4 million in the first quarter of fiscal year 2011. One property classified as discontinued operations was sold during the first quarter of fiscal year 2012, resulting in a loss, net of taxes, of \$10,000 compared to a gain of \$125,000 during the first quarter of fiscal year 2011.

Income related to noncontrolling interests was approximately \$0.6 million and approximately \$0.9 million during the first quarters of fiscal years 2012 and 2011, respectively,

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

and represents the owners (other than us) share of the income or loss of NuGen (fiscal year 2012) and One Earth (fiscal years 2012 and 2011).

As a result of the foregoing, net income attributable to REX common shareholders for the first quarter of fiscal year 2012 was approximately \$0.9 million, a decrease of \$3.8 million from approximately \$4.7 million for the first quarter of fiscal year 2011.

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

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

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

| | Three Months Ended April 30, | |
|------------------------------|---------------------------------|-----------|
| | 2012 | 2011 |
| Net sales and revenue: | | |
| Alternative energy | \$ 150,664 | \$ 80,882 |
| Real estate | 349 | 281 |
| | \$ 151,013 | \$ 81,163 |
| Segment gross profit (loss): | | |
| Alternative energy | \$ 5,510 | \$ 4,778 |
| Real estate | (14) | (66) |
| | \$ 5,496 | \$ 4,712 |

| | | |
|---|-------------------|-------------------|
| Segment profit (loss): | | |
| Alternative energy | \$ 2,469 | \$ 8,409 |
| Real estate | (75) | (121) |
| Corporate expense | (548) | (673) |
| Interest expense | (23) | (34) |
| Investment income | 29 | 141 |
| | <u> </u> | <u> </u> |
| Income from continuing operations before income taxes | \$ 1,852 | \$ 7,722 |
| | <u> </u> | <u> </u> |

Alternative Energy

The alternative energy segment includes the consolidated financial results of NuGen (fiscal year 2012) and One Earth (fiscal years 2012 and 2011), our equity method and cost method investments in ethanol facilities, the income related to those investments and certain administrative expenses. One Earth became fully operational during the third quarter of fiscal year 2009. Effective November 1, 2011, we obtained a controlling financial interest in NuGen. Thus, we began consolidating the results of NuGen prospectively as of the acquisition date. Prior to November 1, 2011, we used the equity method of accounting to account for the results of NuGen. The following table summarizes sales by product group (amounts in thousands):

| | Three Months Ended April 30, | |
|-------------------|---------------------------------|-------------------|
| | 2012 | 2011 |
| | <u> </u> | <u> </u> |
| Ethanol | \$ 117,315 | \$ 66,058 |
| Distillers grains | 30,079 | 14,528 |
| Corn oil | 2,865 | |
| Other | 405 | 296 |
| | <u> </u> | <u> </u> |
| Total | \$ 150,664 | \$ 80,882 |
| | <u> </u> | <u> </u> |

The following table summarizes certain operating data:

| | Three Months Ended April 30, | |
|--|---------------------------------|-------------------|
| | 2012 | 2011 |
| | <u> </u> | <u> </u> |
| Average selling price per gallon of ethanol | \$ 2.14 | \$ 2.35 |
| Average selling price per ton of dried distillers grains | \$ 197.82 | \$ 183.22 |
| Average cost per bushel of grain | \$ 6.42 | \$ 6.56 |
| Average cost of natural gas (per mmbtu) | \$ 4.10 | \$ 4.37 |

Segment Results First Quarter Fiscal Year 2012 Compared to First Quarter Fiscal Year 2011

Net sales and revenue increased \$69.8 million to approximately \$150.7 million, primarily a result of consolidating NuGen in fiscal year 2012. We accounted for the results of NuGen using the equity method of accounting until the fourth quarter of fiscal year 2011, at which time, we obtained a controlling financial interest in NuGen, and thus, began consolidating the results of NuGen. Ethanol sales increased from approximately \$66.1 million in the first quarter of fiscal year 2011 to approximately \$117.3 million in the first quarter of fiscal year 2012. The average selling price per gallon of ethanol decreased from \$2.35 in the first quarter of fiscal year 2011 to \$2.14 in the first quarter of fiscal year 2012. Our ethanol sales were based upon approximately 54.8 million gallons in the first quarter of fiscal year 2012 compared to 28.2 million gallons in the first quarter of fiscal year 2011. The increase in gallons of ethanol sold resulted primarily from including the results of NuGen in the current year but not in the prior year before consolidation. Distillers grains sales increased from approximately \$14.5 million in the first quarter of fiscal year 2011 to approximately \$30.1 million in the first quarter of fiscal year 2012. The average selling price per ton of dried distillers grains increased from \$183.22 in the first quarter of fiscal year 2011 to \$197.82 in the first quarter of fiscal year 2012. Our dried distillers grains sales were based upon approximately 130,000 tons in the first quarter of fiscal year 2012 compared to approximately 81,000 tons in the first quarter of fiscal year 2011. The increase in tons of dried distillers grains sold resulted primarily from including the results of NuGen in the current year but not in the prior year before consolidation. Corn oil sales were approximately \$2.9 million in the first quarter of fiscal year 2012. The first quarter of fiscal year 2012 was the first period that our plants produced and sold corn oil. The average selling price per pound of corn oil was \$0.42. Our corn oil sales were based upon approximately 6,846,000 pounds. We expect that net sales and revenue in future periods will be based upon production of 200 million to 230 million gallons of ethanol, 580,000 to 620,000 tons of dried distillers grains and 35 million to 45 million pounds of corn oil per year. This expectation assumes that One Earth and NuGen will operate at or near nameplate capacity, which is dependent upon the crush spread realized and operational factors.

Gross profit from these sales was approximately \$5.5 million during the first quarter of fiscal year 2012 compared to approximately \$4.8 million during the first quarter of fiscal year 2011. The crush spread for the first quarter of fiscal year 2012 was approximately (\$0.15) per gallon of ethanol sold compared to the first quarter of fiscal year 2011 which was approximately \$0.01 per gallon of ethanol sold. This trend was partially offset by the sales of distillers grains and corn oil in the first quarter of fiscal year 2012. In addition, gross profit increased, in part as a result of including the results of NuGen in the current year but not in the prior year before consolidation. Grain accounted for approximately 86.5% (\$125.5 million) of our cost of sales during the first quarter of fiscal year 2012 compared to approximately 86.7% (\$66.0 million) during the first quarter of fiscal year 2011. Natural gas accounted for approximately 4.1% (\$5.9 million) of our cost of sales during the first quarter of fiscal year 2012 compared to approximately 4.8% (\$3.6 million) during the first quarter of fiscal year 2011. Given the

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

inherent volatility in ethanol, distillers grains, corn oil and grain prices, we cannot predict the likelihood that the spread between ethanol, distillers grains, corn oil and grain prices in future periods will be favorable or consistent compared to historical periods.

We attempt to match quantities of ethanol and distillers grains 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 contracts for no more than three 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 three months. Approximately 0.3% of our forecasted ethanol and 6% of our forecasted distillers grains 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 and distillers grains from the current pricing would result in a decrease in revenues in fiscal year 2012 of approximately \$55.1 million. Similarly, approximately 2% 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 current pricing would result in an increase in cost of goods sold in fiscal year 2012 of approximately \$45.2 million.

Selling, general and administrative expenses were approximately \$2.1 million in the first quarter of fiscal year 2012, a \$0.5 million increase from approximately \$1.6 million in the first quarter of fiscal year 2011. The increase is primarily a result of including the results of NuGen in the current year. NuGen incurred approximately \$1.3 million of expenses in the first quarter of fiscal year 2012. This increase was partially offset by a decrease of approximately \$0.4 million in the first quarter of fiscal year 2012 related to incentive compensation which was lower in connection with lower segment profit. We expect selling, general and administrative expenses to remain consistent with the first quarter of fiscal year 2012 results in future periods.

Interest expense increased approximately \$0.6 million in the first quarter of fiscal year 2012 from the first quarter of fiscal year 2011 to approximately \$1.3 million. This increase is primarily a result of consolidating NuGen beginning November 1, 2011 versus using the equity method of accounting for NuGen prior to November 1, 2011. Based on current interest rates, we expect interest expense in future quarters to be consistent with the first three months of fiscal year 2012 levels based on current debt levels.

Income from equity method investments in Big River, Patriot and NuGen decreased from approximately \$5.8 million in the first quarter of fiscal year 2011 to approximately \$0.4 million in the first quarter of fiscal year 2012. We recognized approximately \$0.6 million of income from Big River in the first quarter of fiscal year 2012 compared to approximately \$1.3 million in the first quarter of fiscal year 2011. We recognized approximately \$0.1 million of loss from Patriot in the first quarter of fiscal year 2012 compared to approximately \$0.9 million of income in the first quarter of fiscal year 2011. We recognized approximately \$3.6 million of income from NuGen in the first quarter of fiscal year 2011. There was no income recognized pursuant to the equity

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

method for NuGen in the current year, as we began consolidating the results of NuGen effective November 1, 2011. In general, both Big River and Patriot experienced lower crush spreads in the first quarter of fiscal year 2012 relative to the first quarter of fiscal year 2011, which is consistent with industry trends. 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 \$0.1 million in the first quarter of fiscal year 2012 compared to gains of approximately \$0.1 million in the first quarter of fiscal year 2011. Since the gains or losses on these derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with current year results.

As a result of the factors discussed above, segment profit decreased to approximately \$2.5 million in the first quarter of fiscal year 2012 compared to approximately \$8.4 million in the first quarter of fiscal year 2011.

Real Estate

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

At April 30, 2012, we have lease agreements, as landlord, for six owned former retail stores (77,000 square feet leased). We have 15 owned former retail stores (194,000 square feet) that are vacant at April 30, 2012. We are marketing these vacant properties for lease or sale. In addition, one former distribution center is partially leased (221,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (246,000 square feet).

Segment Results First Quarter Fiscal Year 2012 Compared to First Quarter Fiscal Year 2011

Net sales and revenue of \$349,000 were consistent with the prior year amount of \$281,000. We expect lease revenue for the remainder of fiscal year 2012 to be consistent with the first quarter of fiscal year 2012 based upon leases currently executed.

Gross loss in the first quarter of fiscal year 2012 was \$14,000 compared to \$66,000 in the first quarter of fiscal year 2011. The decrease in gross loss compared to the prior year is primarily a result of having fewer vacant properties in the current year compared to the prior year. We expect gross loss for the remainder of fiscal year 2012 to be consistent with the current year first quarter results based upon leases currently executed.

As a result of the factors discussed above, segment loss decreased to \$75,000 in the first quarter of fiscal year 2012 from \$121,000 in the first quarter of fiscal year 2011.

Corporate and Other

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

Corporate and Other Results First Quarter Fiscal Year 2012 Compared to First Quarter Fiscal Year 2011

Selling, general and administrative expenses were approximately \$0.5 million in the first quarter of fiscal year 2012 compared to approximately \$0.7 million in the first quarter of fiscal year 2011. The decrease is primarily a result of lower professional service expense in the first quarter of fiscal year 2012. We expect selling, general and administrative expenses for the remainder of fiscal year 2012 to be consistent with the current year first quarter results.

Interest income was \$29,000 in the first quarter of fiscal year 2012 compared to \$141,000 in the first quarter of fiscal year 2011. The decrease is primarily a result of lower levels of excess cash invested and lower yields earned in the current year. We expect interest income for the remainder of fiscal year 2012 to be consistent with the current year first quarter results.

Interest expense was consistent with the prior year amount.

Liquidity and Capital Resources

Net cash provided by operating activities was approximately \$5.0 million for the first quarter of fiscal year 2012, compared to approximately \$9.1 million for the first quarter of fiscal year 2011. For the first quarter of fiscal year 2012, cash was provided by net income of approximately \$1.5 million, adjusted for non-cash items of approximately \$3.0 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 \$2.0 million in the first quarter of fiscal year 2012. Accounts receivable used cash of approximately \$2.2 million, primarily a result of normal variations in production and sales levels. Other liabilities used cash of approximately \$3.5 million, primarily a result of the payment of incentive compensation that was accrued at year end. A decrease in accounts payable used cash of approximately \$1.0 million, which is primarily a result of the timing of vendor shipments of inventory and vendor payments. A decrease in inventory provided cash of approximately \$4.7 million, which is primarily a result of normal fluctuations in inventory levels at One Earth.

Net cash provided by operating activities was approximately \$9.1 million for the first quarter of fiscal year 2011. For the first quarter of fiscal year 2011, cash was provided by net income of approximately \$5.6 million, adjusted for non-cash items of approximately \$2.9 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 \$2.3 million in the first quarter of fiscal year 2011. In addition, refundable income taxes provided cash of approximately \$8.5 million, primarily a result of federal tax refunds received. Accounts receivable and inventory used cash

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

of approximately \$0.8 million and approximately \$4.9 million, respectively, a result of higher commodity prices and normal variations in production and sales levels. An increase in accounts payable provided cash of approximately \$1.1 million which is a result of higher commodity prices and the timing of vendor payments and inventory receipts.

At April 30, 2012, working capital was approximately \$91.3 million compared to approximately \$89.8 million at January 31, 2012. This increase is primarily a result of operating cash flows. The ratio of current assets to current liabilities was 4.1 to 1 at April 30, 2012 and 3.4 to 1 at January 31, 2012.

Cash of approximately \$0.8 million was used in investing activities for the first quarter of fiscal year 2012, compared to approximately \$0.1 million of cash used during the first quarter of fiscal year 2011. During the first quarter of fiscal year 2012, we had capital expenditures of approximately \$1.7 million, primarily related to improvements at the One Earth ethanol plant. One Earth and NuGen expect to spend a combined range of approximately \$2.0 million to \$2.5 million during the remainder of fiscal year 2012 on various projects at their plants. We received approximately \$0.5 million as proceeds from the sale of one real estate property during the first quarter of fiscal year 2012. We also received approximately \$0.4 million as we were able to reduce the amount of our restricted investments on deposit with the state of Florida to secure our extended service plan obligations.

Cash of approximately \$0.1 million was used in investing activities for the first quarter of fiscal year 2011. During the first quarter of fiscal year 2011, we had capital expenditures of approximately \$0.6 million, primarily related to improvements at the One Earth ethanol plant. We received approximately \$0.4 million as proceeds from the sale of one real estate property.

Cash used in financing activities totaled approximately \$7.1 million for the first quarter of fiscal year 2012 compared to approximately \$3.1 million for the first quarter of fiscal year 2011. Cash was used by debt payments of approximately \$6.8 million, primarily on One Earth's and NuGen's term loans. We used cash of approximately \$0.5 million to purchase shares from and pay dividends to noncontrolling members of NuGen. We do not expect such payments to noncontrolling members of NuGen to increase significantly in fiscal year 2012. Stock option activity generated cash of approximately \$0.3 million.

Cash used in financing activities totaled approximately \$3.1 million for the first quarter of fiscal year 2011. Cash was used by debt payments of approximately \$2.8 million, primarily on One Earth's term loans. Stock option activity generated cash of approximately \$0.3 million. We used approximately \$0.5 million to repurchase our common stock during the first quarter of fiscal year 2011.

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.

We plan to seek and evaluate various investment opportunities. We can make no assurances that we will be successful in our efforts to find such opportunities.

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 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, 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, 2012 (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 \$115.9 million outstanding in debt as of April 30, 2012, that is variable-rate. Of this amount, \$57.9 million is fixed by an interest rate swap. Interest rates on our variable-rate debt are determined based upon the market interest rate of LIBOR plus 280 to 325 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 \$479,000 over the term of the debt. However, this change would be greater should LIBOR rates exceed 0.75%, as the floor interest rate of NuGen's debt is the greater of 4% or LIBOR plus 325 basis points.

One Earth entered into a forward interest rate swap in the notional amount of \$50.0 million with the First National Bank of Omaha during fiscal year 2007. The swap fixed the variable interest rate of a portion of One Earth's term loan at 7.9%. The swap settlements commenced on July 31, 2009; and terminate on July 8, 2014. A hypothetical 10% change (for example, from 4.0% to 3.6%) in market interest rates at quarter end would change the fair value of the interest rate swap by approximately \$0.4 million.

Commodity Price Risk

We manage a portion of our risk with respect to the volatility of commodity prices inherent in

the ethanol industry by using forward purchase and sale contracts. At April 30, 2012, One Earth and NuGen combined have purchase commitments for approximately 9.8 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn through October 2012. One Earth and NuGen have combined sales commitments for approximately 28.3 million gallons of ethanol, 37,000 tons of distillers grains and 1.5 million pounds of corn oil. One Earth and NuGen expect to deliver the ethanol, distillers grains and corn oil through July 2012. Less than 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 \$43.2 million for the remaining forecasted ethanol sales. Approximately 6% of our forecasted distillers grains sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of distillers grains from the current pricing would result in a decrease in annual revenues of approximately \$11.9 million for the remaining forecasted distillers grains sales. Approximately 4% of our forecasted 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 corn oil from the current pricing would result in a decrease in annual revenues of approximately \$1.7 million for the remaining forecasted corn oil sales. Similarly, approximately 2% of our estimated corn usage for the next 12 month was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn for current pricing would result in an increase in annual cost of goods sold of approximately \$45.2 million for the remaining forecasted corn usage.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

During the quarter ended April 30, 2012, 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, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of ProceedsDividend 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 quarter of fiscal year 2012, NuGen paid dividends to noncontrolling interests unit holders of \$80,473.

Issuer Purchases of Equity Securities

| <u>Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u> | <u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)</u> |
|---------------------|---|-------------------------------------|---|---|
| February 1-29, 2012 | | \$ | | 162,455 |
| March 1-31, 2012 | 29,615 | 32.80 | | 162,455 |
| April 1-30, 2012 | 3,320 | 30.11 | | 162,455 |
| Total | 32,935 | \$ 32.53 | | 162,455 |

(1) A total of 32,935 shares of common stock were purchased by us other than through a publicly announced plan or program. These shares were acquired on March 16, 2012 and April 12, 2012 in payment of the exercise price of stock options exercised by Zafar Rizvi, our President and Chief Operating Officer and Edward Kress, our Secretary and a board member. These shares were acquired pursuant to the Company's Stock-for-Stock and Cashless Option Exercise Rules and Procedures, adopted on June 4, 2001. The purchase price averaged \$32.53 per share during the quarter ended April 30, 2012.

(2) On October 20, 2011, our Board of Directors increased our share repurchase authorization by an additional 500,000 shares. At April 30, 2012, a total of 162,455 shares remained available to purchase under this authorization.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits.

The following exhibits are filed with this report:

- 31 Rule 13a-14(a)/15d-14(a) Certifications
- 32 Section 1350 Certifications
- 101 The following information from REX American Resources Corporation Quarterly Report on Form 10-Q for the quarter ended April 30, 2012, 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.

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|--------------|
| <u>/s/ Stuart A. Rose</u> (Stuart A. Rose) | Chairman of the Board (Chief Executive Officer) | June 6, 2012 |
| <u>/s/ Douglas L. Bruggeman</u> (Douglas L. Bruggeman) | Vice President, Finance and Treasurer (Chief Financial Officer) | June 6, 2012 |