REX AMERICAN RESOURCES Corp
Form 10-Q
September 05, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2012

OR

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

For the transition period from _________ to _________

Commission File Number 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**31-1095548**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2875 Needmore Road, Dayton, Ohio	**45414**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

At the close of business on September 4, 2012 the registrant had 8,238,886 shares of Common Stock, par value $.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
Unaudited

	July 31, 2012	January 31, 2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 63,962	$ 75,013
Accounts receivable	14,879	12,784
Inventories	29,354	30,349
Refundable income taxes	1,513	1,816
Prepaid expenses and other	4,576	3,987
Deferred taxes, net	2,530	3,090
Total current assets	116,814	127,039
Property and equipment, net	232,245	240,084
Other assets	7,215	7,884
Equity method investments	59,564	61,679
Restricted investments and deposits	683	1,363
Total assets	$ 416,521	$ 438,049
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt, alternative energy	$ 12,454	$ 14,972
Current portion of long-term debt, other	261	250
Accounts payable, trade	3,204	6,985
Deferred income	1,315	1,864
Accrued real estate taxes	2,100	2,750
Accrued payroll and related items	660	2,882
Derivative financial instruments	1,766	1,694
Other current liabilities	4,658	5,844
Total current liabilities	26,418	37,241
Long-term liabilities:		
Long-term debt, alternative energy	99,362	107,706
Long-term debt, other	687	821
Deferred taxes	4,642	4,642
Deferred income	143	552
Derivative financial instruments	1,766	2,541
Other long-term liabilities	2,731	2,703
Total long-term liabilities	109,331	118,965
Equity:		
REX shareholders equity:		
Common stock	299	299
Paid-in capital	143,667	142,994
Retained earnings	326,062	324,323

Treasury stock	(217,647)	(215,105)
Total REX shareholders equity	252,381	252,511
Noncontrolling interests	28,391	29,332
Total equity	280,772	281,843
Total liabilities and equity	$ 416,521	$ 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 July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
	(In Thousands, Except Per Share Amounts)			
Net sales and revenue	$ 153,164	$ 73,796	$ 304,178	$ 154,959
Cost of sales	146,370	74,015	291,918	150,448
Gross profit (loss)	6,794	(219)	12,260	4,511
Selling, general and administrative expenses	(3,584)	(1,974)	(6,171)	(4,285)
Equity in (loss) income of unconsolidated affiliates	(481)	3,761	(39)	9,543
Income from synthetic fuel investments		2,883		2,883
Interest income	41	101	90	271
Interest expense	(1,173)	(638)	(2,527)	(1,301)
Losses on derivative financial instruments, net	(79)	(757)	(226)	(689)
Income from continuing operations before income taxes	1,518	3,157	3,387	10,933
Provision for income taxes	(460)	(1,499)	(1,003)	(4,232)
Income from continuing operations	1,058	1,658	2,384	6,701
Income from discontinued operations, net of tax	175	335	348	714
Gain on disposal of discontinued operations, net of tax	56	40	49	174
Net income	1,289	2,033	2,781	7,589
Net (income) loss attributable to noncontrolling interests	(483)	314	(1,042)	(590)
Net income attributable to REX common shareholders	$ 806	$ 2,347	$ 1,739	$ 6,999
Weighted average shares outstanding basic	8,347	9,513	8,354	9,473
Basic income per share from continuing operations attributable to REX common shareholders	$ 0.07	$ 0.21	$ 0.16	$ 0.64
Basic income per share from discontinued operations attributable to REX common shareholders	0.02	0.03	0.04	0.08
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	0.01	0.01	0.01	0.02
Basic net income per share attributable to REX common shareholders	$ 0.10	$ 0.25	$ 0.21	$ 0.74
Weighted average shares outstanding diluted	8,385	9,550	8,414	9,557
Diluted income per share from continuing operations attributable to REX common shareholders	$ 0.07	$ 0.21	$ 0.16	$ 0.64
Diluted income per share from discontinued operations attributable to REX common shareholders	0.02	0.03	0.04	0.07

Diluted income per share on disposal of discontinued operations attributable to REX common shareholders		0.01		0.01		0.01		0.02
Diluted net income per share attributable to REX common shareholders	$	0.10	$	0.25	$	0.21	$	0.73
Amounts attributable to REX common shareholders:								
Income from continuing operations, net of tax	$	575	$	1,972	$	1,342	$	6,111
Income from discontinued operations, net of tax		231		375		397		888
Net income	$	806	$	2,347	$	1,739	$	6,999

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					
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
Balance at January 31, 2012	29,853	$ 299	21,523	$ (215,105)	$ 142,994	$ 324,323	$ 29,332	$ 281,843
Net income						1,739	1,042	2,781
Treasury stock acquired			170	(3,541)				(3,541)
Noncontrolling interests distribution and other							(1,983)	(1,983)
Stock options and related tax effects			(99)	999	673			1,672
Balance at July 31, 2012	29,853	$ 299	21,594	$ (217,647)	$ 143,667	$ 326,062	$ 28,391	$ 280,772

	Common Shares Issued		Treasury					
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
Balance at January 31, 2011	29,853	$ 299	20,461	$ (193,713)	$ 142,293	$ 296,053	$ 25,032	$ 269,964
Net income						6,999	590	7,589
Noncontrolling interests distribution							(1,796)	(1,796)
Other							(192)	(192)
Treasury stock acquired			393	(6,353)				(6,353)
Stock options and related tax effects			(436)	4,066	86			4,152
Balance at July 31, 2011	29,853	$ 299	20,418	$ (196,000)	$ 142,379	$ 303,052	$ 23,634	$ 273,364

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

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

	Six Months Ended July 31,	
	2012	2011
	(In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	$ 2,781	$ 7,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,241	5,519
Impairment charges and other	143	1,153
Loss (income) from equity method investments	39	(9,543)
Income from synthetic fuel investments		(2,883)
Gain on disposal of real estate and property and equipment	(83)	(271)
Dividends received from equity method investees	2,005	2,316
Deferred income	(958)	(2,367)
Derivative financial instruments	(703)	(608)
Deferred income tax	553	2,859
Changes in assets and liabilities:		
Accounts receivable	(2,095)	1,738
Inventories	995	(2,551)
Other assets	367	9,890
Accounts payable, trade	(3,781)	(1,652)
Other liabilities	(4,030)	1,665
Net cash provided by operating activities	3,474	12,854
Cash flows from investing activities:		
Capital expenditures	(2,320)	(637)
Proceeds from sale of synthetic fuel investment		2,883
Restricted investments	680	
Proceeds from sale of real estate and property and equipment	2,195	1,603
Net cash provided by investing activities	555	3,849
Cash flows from financing activities:		
Payments of long-term debt	(10,985)	(5,136)
Repayments of contingent consideration		(1,313)
Stock options exercised	358	312
Noncontrolling interests distribution and other	(1,983)	(1,988)
Treasury stock acquired	(2,470)	(3,162)
Net cash used in financing activities	(15,080)	(11,287)
Net (decrease) increase in cash and cash equivalents	(11,051)	5,416
Cash and cash equivalents, beginning of period	75,013	91,019
Cash and cash equivalents, end of period	$ 63,962	$ 96,435
Non cash financing activities - Cashless exercise of stock options	$ 1,071	$
Non cash investing activities - Accrued capital expenditures	$	$ 440

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
July 31, 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 have 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 taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes sales from the production of ethanol, distillers grains and non-food grade corn oil when title transfers to customers, upon shipment from its plant. Shipping and handling charges 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 six months ended July 31, 2012 and 2011. Cash paid for interest for the three months ended July 31, 2012 and 2011 was approximately $1,152,000 and $658,000, respectively. Cash paid for interest for the six months ended July 31, 2012 and 2011 was approximately $2,735,000 and $1,353,000, 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 $929,000 and $1,297,000 for the six months ended July 31, 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 income taxes of approximately $51,000 during the six months ended July 31, 2012. The Company paid no income taxes during the six months ended July 31, 2011. During the six months ended July 31, 2011, the Company received tax refunds of $7,247,000. The Company received no refunds during the six months ended July 31, 2012.

As of July 31, 2012, total unrecognized tax benefits were approximately $2,157,000 and accrued penalties and interest were $358,000. 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 $122,000 and $153,000 at July 31, 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 July 31, 2012 and January 31, 2012 are as follows (amounts in thousands):

	July 31, 2012	January 31, 2012
Ethanol and other finished goods	$ 5,447	$ 5,318
Work in process, net	4,454	3,819
Grain and other raw materials	19,453	21,212
Total	$ 29,354	$ 30,349

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 approximately $0.1 million and $1.2 million in the first six months of fiscal years 2012 and 2011, respectively. These charges relate to the Company s real estate segment. 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 July 31, 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 July 31, 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 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 expand disclosure related to fair value but, otherwise, 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 July 31, 2012, the Company has lease agreements, as landlord, for all or portions of six owned former retail stores and one owned former distribution center. The Company also has seasonal (temporary) lease agreements, as landlord for four owned 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	$	693
2014		1,261
2015		1,070
2016		511
2017		443
Thereafter		1,453
Total	$	