

REX AMERICAN RESOURCES Corp  
Form 10-K  
March 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-K**

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 2015

COMMISSION FILE NO.  
001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

31-1095548

(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

7720 Paragon Road, Dayton, Ohio

45459

(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

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Name of each exchange  
on which registered  
Common Stock, \$.01 par value  New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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 July 31, 2014 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 1,427,140 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was \$569,775,056.

There were 7,899,607 shares of the registrant's Common Stock outstanding as of March 30, 2015.

Documents Incorporated by Reference

Portions of REX American Resources Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 2, 2015 are incorporated by reference into Part III of this Form 10-K.

## Forward-Looking Statements

This Form 10-K contains or may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements can be identified by use of forward-looking terminology such as “may,” “expect,” “believe,” “estimate,” “anticipate” or “continue” or the negative thereof or other variations thereon or comparable terminology. Readers are cautioned that there are risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. These risks and uncertainties include the risk factors set forth from time to time in the Company’s filings with the Securities and Exchange Commission and include among other things: the impact of legislative changes, the price volatility and availability of corn, distillers grains, ethanol, non-food grade corn oil, gasoline, natural gas, ethanol plants operating efficiently and according to forecasts and projections, changes in the national or regional economies, weather, the effects of terrorism or acts of war and changes in real estate market conditions. The Company does not intend to update publicly any forward-looking statements except as required by law. Other factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Item 1A.

## Available Information

REX makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. REX’s Internet website address is [www.rexamerican.com](http://www.rexamerican.com). The contents of the Company’s website are not a part of this report.

## PART I

### Item 1. Business

#### Overview

REX was incorporated in Delaware in 1984 as a holding company to succeed to the entire ownership of three affiliated corporations, Rex Radio and Television, Inc., Stereo Town, Inc. and Kelly & Cohen Appliances, Inc., which were formed in 1980, 1981 and 1983, respectively. Our principal offices are located at 7720 Paragon Road, Dayton, Ohio 45459. Our telephone number is (937) 276-3931. Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006. Recognizing the change in our business, we changed our corporate name from REX Stores Corporation to REX American Resources Corporation in 2010 as we completed the transition out of the retail business into the ethanol business.

We are currently invested in four ethanol production entities, two of which we have a majority ownership interest in. We may make additional investments in the energy industry during fiscal year 2015.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains, non-food grade corn oil 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 (for example, crude and other energy prices can impact ethanol prices), at times ethanol prices may lag movements in corn prices and, in an environment of higher corn

2

prices or lower ethanol prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of denatured ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the “crush spread.” Should the crush spread decline, it is possible that our ethanol plants will generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain 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 fixed price contracts for no more than four months into the future at any given time and we may lock in our corn price without having a corresponding locked in ethanol price for short durations of time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in fiscal year 2014 was subject to significant volatility. For fiscal year 2014, the average Chicago Board of Trade (“CBOT”) near-month corn price ranged from a low of approximately \$3.20 per bushel in September 2014 to a high of approximately \$5.17 per bushel in May 2014. Corn prices in general benefitted throughout the year from strong corn harvests in 2013 and 2014. Ethanol prices, likewise, had significant fluctuations ranging from approximately \$1.31 per gallon in January 2015 to a high of over \$3.00 per gallon in March 2014. Ethanol prices were influenced by many factors throughout the year including rail disruptions, primarily in the early part of fiscal year 2014, falling energy prices late in fiscal year 2014 and over-production of ethanol. The CBOT crush spread during fiscal year 2014 ranged from negative single digits in January 2015 to over \$1.00 in March 2014.

Income from continuing operations, net of tax was approximately \$86.8 million in fiscal year 2014 compared to approximately \$34.0 million in fiscal year 2013. The increase in profitability primarily resulted from higher crush spreads (compared to the prior year) experienced in the ethanol industry for a majority of fiscal year 2014 as the industry benefitted from strong corn harvests in 2013 and 2014. We expect that future operating results, from our consolidated plants, will be based upon combined annual production of between 215 and 240 million gallons of ethanol, which assumes that our consolidated ethanol plants will operate at or above nameplate capacity. However, due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the fiscal year 2014 results.

We plan to seek and evaluate various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such

opportunities.

Through a wholly owned subsidiary REX I.P., LLC, we have entered into a joint venture with Hytken HPGP LLC (“Hytken”) to file and defend patents for eSteam technology relating to heavy oil and oil sands production methods, and to attempt to commercially exploit the technology to generate license fees, royalty income and development opportunities. The patented technology is an enhanced method of heavy oil

3

recovery involving zero emissions downhole steam generation. We own 60% and Hytken owns 40% of the entity named Future Energy, LLC (“Future Energy”), an Ohio limited liability company. Future Energy is managed by a board of three managers, two appointed by us and one by Hytken. The owner of Hytken has been retained as a consultant.

## Fiscal Year

All references in this report to a particular fiscal year are to REX’s fiscal year ended January 31. For example, “fiscal year 2014” means the period February 1, 2014 to January 31, 2015. We refer to our fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

## Alternative Energy Overview

We began investing in the ethanol industry during fiscal year 2006. We seek to identify quality ethanol plant opportunities located near adequate feedstock supply with good transportation capabilities or other economically beneficial attributes, and that utilize leading ethanol production technology.

The form and structure of our investments is tailored to the specific needs and goals of each project and the local farmer group or investor with whom we are partnering. We generally participate in the management of our projects through our membership on the board of managers of the limited liability companies that own the plants.

## Ethanol Investments

We have equity investments in four entities as of January 31, 2015. The following table is a summary of our ethanol investments at January 31, 2015 (gallons in millions):

Entity	Trailing 12 Months Ethanol Gallons Shipped	REX’s Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Shipped
One Earth Energy, LLC	110.6	74	% 81.8
NuGen Energy, LLC	115.9	99	% 114.7



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Patriot Holdings, LLC	126.2	27	% 34.1
Big River Resources W Burlington, LLC	108.0	10	% 10.8
Big River Resources Galva, LLC	119.0	10	% 11.9
Big River United Energy, LLC	124.9	5	% 6.2
Big River Resources Boyceville, LLC	57.8	10	% 5.8
Total	762.4		265.3

***One Earth Energy, LLC***

We own 74% of the outstanding membership units of One Earth Energy, LLC, or One Earth. We consolidate One Earth with our financial results. One Earth commenced operations in the second quarter of fiscal year 2009 of its ethanol production facility in Gibson City, Illinois.

4

***NuGen Energy, LLC***

We own 99% of the outstanding membership units of NuGen Energy, LLC, or NuGen. We consolidate NuGen, which operates an ethanol producing facility in Marion, South Dakota, with our financial results.

***Patriot Holdings, LLC***

We own 27% of the outstanding membership units of Patriot Holdings, LLC, or Patriot. We account for the results of Patriot using the equity method of accounting. Patriot commenced production operations in the second quarter of fiscal year 2008. The plant is located in Annawan, Illinois.

***Big River Resources, LLC***

We own 10% of the outstanding membership units of Big River Resources, LLC, or Big River. Big River is a holding company for several entities including Big River Resources West Burlington, LLC which operates an ethanol plant in West Burlington, Iowa. Big River completed construction in the second quarter of fiscal year 2009 of its second plant which is located in Galva, Illinois. In August 2009, Big River acquired a 50.5% interest in an ethanol production facility which is located in Dyersville, Iowa. Reflecting REX's 10% ownership interest in Big River, we have an effective 5% ownership interest in this entity. In December 2011, Big River acquired a 100% interest in an ethanol production facility which is located in Boyceville, Wisconsin. Big River also operates six agricultural elevators with a storage capacity of 15 million bushels. During fiscal year 2013, Big River invested in a zein protein plant, which is under construction.

**Ethanol Industry**

Ethanol is a renewable fuel source produced by processing corn and other biomass through a fermentation process that creates combustible alcohol that can be used as an additive or replacement to fossil fuel based gasoline. The majority of ethanol produced in the United States is made from corn because of its wide availability and ease of convertibility from large amounts of carbohydrates into glucose, the key ingredient in producing alcohol that is used in the fermentation process. Ethanol production can also use feedstocks such as grain sorghum, switchgrass, wheat, barley, potatoes and sugarcane as carbohydrate sources. Most ethanol plants have been located near large corn production areas, such as Illinois, Indiana, Iowa, Minnesota, Nebraska, Ohio and South Dakota. Railway access and interstate access are vital for ethanol facilities due to the large amount of raw materials and finished goods required to be shipped to and from the ethanol plant facilities.

According to the Renewable Fuels Association, or RFA, the United States ethanol industry produced an estimated 14.3 billion gallons of ethanol in 2014. According to the RFA, as of January 2015, the United States ethanol industry has grown to 213 plants (198 operating) in 29 states with an annual nameplate capacity of approximately 15.1 billion gallons (approximately 14.6 billion gallons at operating plants) of ethanol production.

On December 19, 2007, the Energy Independence and Security Act of 2007 (the “Energy Act of 2007”) was enacted. The Energy Act of 2007 established new levels of renewable fuel mandates, including two different categories of renewable fuels: conventional biofuels and advanced biofuels. Corn-based ethanol is considered conventional biofuels which was subject to a renewable fuel standard (“RFS”) of at least 14.4 billion gallons in 2014 and 15.0 billion gallons thereafter. Advanced biofuels include ethanol derived from cellulose, hemicellulose or other non-corn starch sources; biodiesel; and other fuels derived from non-corn starch sources. Advanced biofuels RFS levels are set to reach at least 21.0 billion gallons per year, resulting in a total RFS from conventional and advanced biofuels of at least 36.0 billion gallons per year by 2022. The Environmental Protection Agency (“EPA”) proposed reducing the mandates for 2014 to approximately 13.0

billion gallons from conventional biofuels and approximately 2.2 billion gallons from advanced biofuels. The EPA has not finalized the 2014 mandates and plans to offer a proposal for RFS levels for 2014, 2015 and 2016 in the spring of 2015.

### ***Ethanol Production***

The plants we have invested in are designed to use the dry milling method of producing ethanol. In the dry milling process, the entire corn kernel is first ground into flour, which is referred to as “meal,” and processed without separating out the various component parts of the grain. The meal is processed with enzymes, ammonia and water, and then placed in a high-temperature cooker. It is then transferred to fermenters where yeast is added and the conversion of sugar to ethanol begins. After fermentation, the resulting liquid is transferred to distillation columns where the ethanol is separated from the remaining “stillage” for fuel uses. The anhydrous ethanol is then blended with denaturant, such as natural gasoline, to render it undrinkable and thus not subject to beverage alcohol tax. With the starch elements of the corn consumed in the above described process, the principal co-product produced by the dry milling process is dry distillers grains with solubles, or DDGS. DDGS is sold as a protein used in animal feed and recovers a portion of the corn cost not absorbed in ethanol production. During fiscal year 2012, we began generating revenues from the sale of non-food grade corn oil at our One Earth and NuGen facilities. Non-food grade corn oil is sold to the animal feed market, as well as biodiesel and other chemical markets.

### ***The Primary Uses of Ethanol***

***Blend component.*** Today, much of the ethanol blending in the U.S. is done to meet the RFS. Currently, ethanol is blended into approximately 97% of the gasoline sold in the United States, the majority as E-10 (a blend of 10% ethanol and 90% gasoline), according to the RFA. Going forward, the industry is attempting to expand the E-85 market, as well as to raise the federal cap on ethanol blend above the current 10% for most vehicles in use. The U.S. Environmental Protection Agency approved the use of 15% ethanol in gasoline for cars, SUV’s and light duty trucks made in 2001 and later. Despite this, it will take time for this measure to be implemented and is still being met with great resistance.

***Clean air additive.*** Ethanol is employed by the refining industry as a fuel oxygenate, which when blended with gasoline, allows engines to combust fuel more completely and reduce emissions from motor vehicles. Ethanol contains 35% oxygen, which results in more complete combustion of the fuel in the engine cylinder. Oxygenated gasoline is used to help meet certain federal and air emission standards.

***Octane enhancer.*** Ethanol increases the octane rating of gasoline with which it is blended. As such, ethanol is used by gasoline suppliers as an octane enhancer both for producing regular grade gasoline from lower octane blending stocks and for upgrading regular gasoline to premium grades.

*Legislation*

The United States ethanol industry is highly dependent upon federal and state legislation. See Item 1A. Risk Factors for a discussion of legislation affecting the U.S. ethanol industry.

Facilities

At January 31, 2015, we own four former retail store properties that are leased to outside, unrelated parties, and three vacant former retail store properties that we are attempting to either lease or sell. We also own the office building (approximately 7,500 square feet) our corporate headquarters is located in. Our consolidated

ethanol entities own a combined 408 acres of land and two facilities with an annual nameplate capacity of 100 million gallons of ethanol each.

## Employees

At January 31, 2015, we had 106 employees at our two consolidated ethanol plants and at our corporate headquarters. None of our employees are represented by a labor union. We expect this employment level to remain relatively stable. We consider our relationship with our employees to be good.

## Service Marks

We have registered the service marks “REX”, and “Farmers Energy”, with the United States Patent and Trademark Office. We are not aware of any adverse claims concerning our service marks.

## Item 1A. Risk Factors

We encourage you to carefully consider the risks described below and other information contained in this report when considering an investment decision in REX common stock. Any of the events discussed in the risk factors below may occur. If one or more of these events do occur, our results of operations, financial condition or cash flows could be materially adversely affected. In this instance, the trading price of REX stock could decline, and investors might lose all or part of their investment.

### **We have concentrations of cash deposits at financial institutions that exceed federal insurance limits.**

We generally have cash deposits that exceed federal insurance limits. Should the financial institutions we deposit our cash at experience insolvency or other financial difficulty, our access to cash deposits could be limited. In extreme cases, we could lose our cash deposits entirely. This would negatively impact our liquidity and results of operations.

### **The current interest rate environment has resulted in lower yields on our excess cash.**

We have experienced lower yields on our excess cash compared to historical yields. Should the present economic conditions result in a sustained period of historically low interest rates, our interest income would be negatively impacted.

#### Risks Related to our Alternative Energy Business

**The ethanol industry is changing rapidly which could result in unexpected developments that could negatively impact our operations.**

According to the RFA, the ethanol industry has grown from approximately 1.5 billion gallons of annual ethanol production in 1999 to approximately 14.3 billion gallons of annual ethanol production in 2014. Thus, there have been significant changes in the supply and demand of ethanol over a relatively short period of time which could lead to difficulty in maintaining profitable operations at our ethanol plants.

**If cash flow from operations of our ethanol plants is not sufficient to service debt, the plants could fail and we could lose our entire investment.**

The ethanol companies we are invested in have or have had varying levels of long term debt. The ability of each company owning the plant to repay borrowings incurred will depend upon the plant's financial and operating performance. The cash flows and capital resources of an ethanol plant may be insufficient to repay

its debt obligations. If a plant cannot service its debt, it may be forced to reduce or delay capital expenditures, sell assets, restructure its indebtedness or seek additional capital. If unable to do so, the value of our investment could decline significantly.

The institutional senior lenders to certain companies which own and operate our ethanol plants hold or have had held liens on the plant's assets. If a company fails to make its debt service payments, the senior lender will have the right to repossess the plant's assets in addition to other remedies, which are superior to our rights as an equity investor. Such action could have a material adverse impact on our investment in the ethanol plant.

**We operate in a capital intensive industry. Limitations to external financing could adversely affect our financial performance.**

We may need to incur additional financing to fund growth of our business or in times of increasing liquidity requirements (such as increases in raw material costs). Any delays in obtaining additional financing, or our inability to do so, could have a material adverse impact on our financial results.

**The financial returns on our ethanol investments are highly dependent on commodity prices, which are subject to significant volatility and uncertainty, and the availability of supplies, so our results could fluctuate substantially.**

The financial returns on our ethanol investments are highly dependent on commodity prices, especially prices for corn or other feedstock, natural gas, ethanol and unleaded gasoline. As a result of the volatility of the prices for these items, the returns may fluctuate substantially and our investments could experience periods of declining prices for their products and increasing costs for their raw materials, which could result in operating losses at our ethanol plants.

*Our returns on ethanol investments are highly sensitive to grain prices.* Corn is the principal raw material our ethanol plants use to produce ethanol and co-products. As a result, changes in the price of corn can significantly affect our businesses. Rising corn prices result in higher costs of ethanol and co-products. Because ethanol competes with non-corn-based fuels, our ethanol plants may not be able to pass along increased grain costs to our customers. At certain levels, grain prices may make ethanol uneconomical to produce.

The price of corn is influenced by weather conditions and other factors affecting crop yields, transportation costs, farmer planting decisions, exports, the value of the U.S. dollar and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm the business of our ethanol plants. Increasing domestic ethanol capacity



could boost the demand for corn and result in increased corn prices. Much of the Midwestern United States experienced drought conditions during 2012 which led to a smaller harvest of corn and increased corn prices. Our ethanol plants may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. Such a shortage could require our ethanol plants to suspend operations which would have a material adverse effect on our consolidated results of operations.

***The spread between ethanol and corn prices can vary significantly.*** The gross margin at our ethanol plants depends principally on the spread between ethanol and corn prices. Fluctuations in the spread are likely to continue to occur. A sustained narrow or negative spread, whether as a result of sustained high or increased

corn prices or sustained low or decreased ethanol prices, would adversely affect the results of operations at our ethanol plants.

***Our risk management strategies may be ineffective and may expose us to decreased profitability and liquidity.*** In an attempt to partially offset the impact of volatility of commodity prices, we enter into forward contracts to sell a portion of our ethanol and distillers grains production and to purchase a portion of our corn and natural gas requirements. The financial impact of these risk management activities is dependent upon, among other items, the prices involved and our ability to receive or deliver the commodities involved. Risk management activities can result in financial loss when positions are purchased in a declining market or when positions are sold in an increasing market. We vary the amount of risk management techniques we utilize, and we may choose not to engage in any risk management activities. Should we fail to properly manage the inherent volatility of commodities prices, our results of operations and financial condition may be adversely affected.

***The market for natural gas is subject to market conditions that create uncertainty in the price and availability of the natural gas that our ethanol plants use in their manufacturing process.*** Our ethanol plants rely upon third parties for their supply of natural gas, which is consumed as fuel in the production of ethanol. The prices for and availability of natural gas are subject to volatile market conditions. These market conditions often are affected by factors beyond the ethanol plants' control, such as weather conditions, overall economic conditions and foreign and domestic governmental regulation and relations. Significant disruptions in the supply of natural gas could impair the ethanol plants' ability to economically manufacture ethanol for their customers. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect results of operations and financial position at our ethanol plants.

***Fluctuations in the selling price of commodities may reduce profit margins at our ethanol plants.*** Ethanol is marketed as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of gasoline with which it is blended and, to a lesser extent, as a gasoline substitute. As a result, ethanol prices are influenced by the supply and demand for gasoline and our ethanol plants' results of operations and financial position may be materially adversely affected if gasoline demand or prices decrease.

Distillers grains compete with other protein based animal feed products. The price of distillers grains may decrease when the prices of competing feed products decrease. The prices of competing animal feed products are based in part on the prices of the commodities from which their products are made. Historically, sales prices for distillers grains have tracked along with the price of corn. However, there have been instances when the price increase for distillers grains has lagged price increases in corn prices.

The production of distillers grains has increased as a result of increases in dry mill ethanol production in the United States. This could lead to price declines in what we can sell our distillers grains for in the future. Such declines could have an adverse material effect on our results of operations.

**Increased ethanol production or decreases in demand for ethanol may result in excess production capacity in the ethanol industry, which may cause the price of ethanol, distillers grains and non-food grade corn oil to decrease.**

According to the RFA, domestic ethanol production nameplate capacity is approximately 15.1 billion gallons per year at January 2015. The RFA estimates that, as of January 2015, approximately 100 million gallons per year of additional production capacity is under construction or expansion. The EPA proposed setting the RFS requirement to be satisfied by corn derived ethanol at 13.0 billion gallons for 2014. Excess capacity in the ethanol industry could have an adverse effect on the results of our ethanol operations. In a manufacturing

industry with excess capacity, producers have an incentive to manufacture additional products for so long as the price exceeds the marginal cost of production (i.e., the cost of producing only the next unit, without regard for interest, overhead or fixed costs). This incentive could result in the reduction of the market price of ethanol to a level that is inadequate to generate sufficient cash flow to cover costs.

Excess capacity may also result from decreases in the demand for ethanol, which could result from a number of factors, including, but not limited to, regulatory developments and reduced U.S. gasoline consumption. Reduced gasoline consumption could occur as a result of increased prices for gasoline or crude oil, which could cause businesses and consumers to reduce driving or acquire vehicles with more favorable gasoline mileage or acquire hybrid vehicles.

In addition, because ethanol production produces distillers grains and non-food grade corn oil as co-products, increased ethanol production will also lead to increased supplies of distillers grains and non-food grade corn oil. An increase in the supply of distillers grains and non-food grade corn oil, without corresponding increases in demand, could lead to lower prices or an inability to sell our ethanol plants' distillers grains and non-food grade corn oil production. A decline in the price of distillers grains or non-food grade corn oil could have a material adverse effect on the results of our ethanol operations.

**Trade restrictions on ethanol exports could reduce the demand for ethanol.**

The European Union began imposing a tariff, on ethanol imported from the United States, of \$83.03 per metric ton effective February 23, 2013. If producers and exporters of ethanol are subject to trade restrictions, or additional duties are imposed on exports, it may make it uneconomical to export ethanol. This could result in an oversupply of ethanol in the United States which could have a material adverse effect on the results of our ethanol operations.

**We depend on our partners to operate certain of our ethanol investments.**

Our investments currently represent both majority and minority equity positions. Day-to-day operating control of minority owned plants generally remains with the local farmers' cooperative or investor group that has promoted the plant. We may not have the ability to directly modify the operations of these plants in response to changes in the business environment or in response to any deficiencies in local operations of the plants. In addition, local plant operators, who also represent the primary suppliers of corn and other crops to the plants, may have interests, such as the price and sourcing of corn and other crops, that may differ from our interest, which is based solely on the operating profit of the plant. The limitations on our ability to control day-to-day plant operations could adversely affect plant results of operations.

**We may not successfully acquire or develop additional ethanol investments.**

The growth of our ethanol business depends on our ability to identify and develop new ethanol investments. Our ethanol development strategy depends on referrals, and introductions, to new investment opportunities from industry participants, such as ethanol plant builders, financial institutions, marketing agents and others. We must continue to maintain favorable relationships with these industry participants, and a material disruption in these sources of referrals would adversely affect our ability to expand our ethanol investments.

Any expansion strategy will depend on prevailing market conditions for the price of ethanol and the costs of corn and natural gas and the expectations of future market conditions. There is increasing competition for suitable sites for ethanol plants. Even if suitable sites or opportunities are identified, we may not be able to secure the services and products from contractors, engineering firms, construction firms and equipment suppliers necessary to build or expand ethanol plants on a timely basis or on acceptable economic terms.

Construction costs associated with expansion may increase to levels that would make a new plant too expensive to complete or unprofitable to operate. Additional financing may also be necessary to implement any expansion strategy, which may not be accessible or available on acceptable terms. New and more stringent environmental regulations could increase the operating costs of new plants, which, in turn could discourage us from further expansion.

**Our ethanol plants may be adversely affected by technological advances and efforts to anticipate and employ such technological advances may prove unsuccessful.**

The development and implementation of new technologies may result in a significant reduction in the costs of ethanol production. For instance, any technological advances in the efficiency or cost to produce ethanol from inexpensive, cellulosic sources such as wheat, oat or barley straw could have an adverse effect on our ethanol plants, because those facilities are designed to produce ethanol from corn, which is, by comparison, a raw material with other high value uses. We cannot predict when new technologies may become available, the rate of acceptance of new technologies by competitors or the costs associated with new technologies. In addition, advances in the development of alternatives to ethanol could significantly reduce demand for or eliminate the need for ethanol.

Any advances in technology which require significant unanticipated capital expenditures to remain competitive or which reduce demand or prices for ethanol would have a material adverse effect on the results of our ethanol operations.

In addition, alternative fuels, additives and oxygenates are continually under development. Alternative fuel additives that can replace ethanol may be developed, which may decrease the demand for ethanol. It is also possible that technological advances in engine and exhaust system design and performance could reduce the use of oxygenates, which would lower the demand for ethanol, and the results of our ethanol operations may be materially adversely affected.

**The U.S. ethanol industry is highly dependent upon a myriad of federal and state legislation and regulation and any changes in legislation or regulation could materially and adversely affect our results of operations and financial position.**

The Energy Independence and Security Act of 2007 (EISA) established RFS II, which modified the renewable fuel standard from prior legislation. EISA increased the amount of renewable fuel required to be blended into gasoline and required a minimum usage of corn derived renewable fuels of 12.0 billion gallons in 2010, increasing annually by 600 million gallons to 15.0 billion gallons in 2015. The EPA has the authority to assign the mandated amounts of renewable fuels to be blended into transportation fuel to individual fuel blenders. RFS II has been a primary factor in the growth of ethanol usage. On April 10, 2013, the Renewable Fuel Standard Elimination Act was introduced as H.R. 1461 to target the repeal of RFS II. Also introduced on April 10, 2013 was the RFS Reform Bill, H.R. 1462, which would prohibit more than ten percent ethanol in gasoline and reduce the RFS II required volume of renewable fuel. On May 14, 2013, the Domestic Alternatives Fuels Act of 2013 was introduced in the United States House of

Representatives as H.R. 1959 to permit ethanol produced from natural gas to be used to meet the RFS II mandate. These bills failed to make it out of congressional committees and were not finalized into law. H.R. 21 was introduced on January 6, 2015 to provide for a comprehensive assessment of the scientific and technical research on the implication of the use of mid-level ethanol blends. This bill seeks to eliminate the waiver granted by the EPA to allow E15 fuel in 2001 and newer model cars and trucks. H.R. 434 was introduced on January 21, 2015 which seeks to modify the Clean Air Act by limiting or removing the authority of the EPA to grant waivers for higher blends of ethanol in domestic gasoline supply. This bill also repeals existing waivers already granted by the EPA regarding E15 fuel. H.R. 704 was introduced February 4, 2015 and it is similar

to H.R. 21 as it proposes limiting ethanol blends higher than 10% in domestic fuel supply and seeks to repeal the RFS.

Under EISA, the EPA has the authority to waive or modify the mandated RFS II requirements in whole or in part. In order to grant a waiver, the EPA administrator must determine in consultation with the Secretaries of Agriculture and Energy, that one of the following two conditions has been met: i) there is inadequate domestic renewable fuel supply or ii) implementation of the requirement would severely harm the economy or environment of a state, region or the country. During fiscal year 2012, several waiver requests were submitted to the EPA based on drought conditions, which were subsequently denied by the EPA.

The RFS II mandate increased to 14.4 billion gallons of corn derived renewable fuel for 2014 and increases to 15.0 billion gallons in 2015. In November of 2013, the EPA released a proposal that included several approaches for establishing the 2014 standards. The proposal was for approximately 15.2 billion gallons, including approximately 13.0 billion gallons of corn derived renewable fuel. The proposal addresses two constraints of RFS II: i) limitations in the volume of ethanol that can be consumed in gasoline given the practical constraints on the supply of higher ethanol blends to the vehicles that can use them and ii) limitations in the ability of the industry to produce sufficient volumes of qualifying renewable fuel. The EPA has never finalized the RFS for 2014 creating uncertainty for the industry. The EPA plans to offer a proposal for RFS II for 2014, 2015 and 2016 in the spring of 2015. If the EPA reduces the mandate levels for conventional biofuels or grants a waiver in the future, our ethanol business could be adversely affected.

To document compliance with RFS II, renewable identification numbers (“RINs”), are generated and attached to renewable fuels, and detached when the renewable fuel is blended into the transportation fuel supply. Detached RINs may be retired by obligated parties to demonstrate compliance with RFS II or may be separately traded in the market. The market price of detached RINs may affect the price of ethanol in certain U.S. markets as obligated parties may factor these costs into their purchasing decisions. Moreover, at certain price levels for various types of RINs, it becomes more economical to import foreign sugar cane ethanol. If changes to RFS II result in significant changes in the price of various types of RINs, it could negatively affect the price of ethanol and our ethanol business.

***Changes in corporate average fuel economy standards could adversely impact ethanol prices.*** Flexible fuel vehicles receive preferential treatment in meeting federally mandated corporate average fuel economy (“CAFE”) standards for automobiles manufactured by car makers. High blend ethanol fuels such as E-85 result in lower fuel efficiencies. Absent the CAFE preferences, car makers would not likely build flexible-fuel vehicles. Any change in CAFE preferences could reduce the growth of E-85 markets and result in lower ethanol prices.

**Various studies have criticized the efficiency of ethanol, in general, and corn-based ethanol in particular, which could lead to the reduction or repeal of incentives and tariffs that promote the use and domestic production of ethanol or otherwise negatively impact public perception and acceptance of ethanol as an alternative fuel.**



Although many trade groups, academics and governmental agencies have supported ethanol as a fuel additive that promotes a cleaner environment, others have criticized ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and as potentially depleting water resources. Other studies have suggested that corn-based ethanol is less efficient than ethanol produced from switchgrass or wheat grain and that it negatively impacts consumers by causing prices for dairy, meat and other foodstuffs from livestock that consume corn to increase. If these views gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol

12

could decline, leading to reduction or repeal of these measures. These views could also negatively impact public perception of the ethanol industry and acceptance of ethanol as an alternative fuel.

**Federal support of cellulosic ethanol may result in reduced incentives to corn-derived ethanol producers.**

The American Recovery and Reinvestment Act of 2009 and EISA provide funding opportunities in support of cellulosic ethanol obtained from biomass sources such as switchgrass and poplar trees. The amended RFS mandates an increasing level of production of non-corn derived biofuels. These federal policies may suggest a long-term political preference for cellulosic processes using alternative feedstocks such as switchgrass, silage or wood chips. Cellulosic ethanol has a smaller carbon footprint and is unlikely to divert foodstuff from the market. Several cellulosic ethanol plants are under development and there is a risk that cellulosic ethanol could displace corn ethanol. Our plants are designed as single-feedstock facilities, located in corn production areas with limited alternative feedstock nearby, and would require significant additional investment to convert to the production of cellulosic ethanol. The adoption of cellulosic ethanol as the preferred form of ethanol could have a significant adverse effect on our ethanol business.

**Our ethanol business is affected by environmental and other regulations which could impede or prohibit our ability to successfully operate our plants.**

Our ethanol production facilities are subject to extensive air, water and other environmental regulations. We have had to obtain numerous permits to construct and operate our plants. Regulatory agencies could impose conditions or other restrictions in the permits that are detrimental or which increase our costs. More stringent federal or state environmental regulations could be adopted which could significantly increase our operating costs or require us to expend considerable resources.

Our ethanol plants emit various airborne pollutants as by-products of the ethanol production process, including carbon dioxide. In 2007, the U.S. Supreme Court classified carbon dioxide as an air pollutant under the Clean Air Act in a case seeking to require the EPA to regulate carbon dioxide in vehicle emissions. In February 2010, the EPA released its final regulations on the Renewable Fuel Standard program. We believe our plants are grandfathered at their current operating capacity, but plant expansion will need to meet a 20% threshold reduction in greenhouse gas (GHG) emissions from a 2005 baseline measurement to produce ethanol eligible for the RFS II mandate. To expand our plant capacity, we may be required to obtain additional permits, install advanced technology equipment, or reduce drying of certain amounts of distillers grains. We may also be required to install carbon dioxide mitigation equipment or take other steps in order to comply with future laws or regulations. Compliance with future laws or regulations of carbon dioxide, or if we choose to expand capacity at certain of our plants, compliance with then-current regulations of carbon dioxide, could be costly and may prevent us from operating our plants as profitably, which may have a negative impact on our financial performance.

The California Air Resources Board (“CARB”) has adopted a Low Carbon Fuel Standard (“LCFS”) requiring a 10% reduction in GHG emissions from transportation fuels by 2020. An Indirect Land Use Charge is included in this

lifecycle GHG emission calculation. After a series of rulings that temporarily prevented CARB from enforcing these regulations, the State of California Office of Administrative Law approved the LCFS on November 26, 2012 and revised LCFS regulations took effect in January 2013. This standard could have an adverse impact on the market for corn-based ethanol in California if corn-based ethanol fails to achieve lifecycle GHG emission reductions. This could have a negative impact on our financial performance.

**Our ethanol business may become subject to various environmental and health and safety and property damage claims and liabilities.**

Operations of our ethanol business will expose the business to the risk of environmental and health and safety claims and property damage claims, such as failure to comply with environmental regulations. These types of claims could also be made against our ethanol business based upon the acts or omissions of other persons. Serious claims could have a material negative impact on our results of operations, financial position and future cash flows.

**Our business is not significantly diversified.**

Our financial results depend heavily on our ability to operate our ethanol plants profitably. We do not have other lines of business or other sources of revenue to depend upon if we are unable to operate our ethanol plants profitably. Such lack of significant diversification could have a material negative impact on our results of operations, financial position and future cash flows should our ethanol plants operate unprofitably.

**Our revenue from the sale of distillers grains depends upon its continued market acceptance as an animal feed.**

Distillers grains is a co-product from the fermentation of corn to produce ethanol. Antibiotics may be used during the fermentation process to control bacterial contamination; therefore antibiotics may be present in small quantities in distillers grains marketed as animal feed. The U. S. Food and Drug Administration's, or FDA's, Center for Veterinary Medicine has expressed concern about potential animal and human health hazards from the use of distillers grains as an animal feed due to the possibility of antibiotic residues. If the public became concerned about the impact of distillers grains in the food supply or as an acceptable animal feed, the market for distillers grains could be negatively impacted, which would have a negative impact on our results of operations.

Exports of distillers grains produced in the United States have been increasing in recent years. The price of distillers grains has benefitted from the increased exports of the product, with China being the largest importer. In 2013, China rejected certain shipments of distillers grains due to the presence of unapproved genetically modified organisms. If shipments to China or other countries are rejected or delayed, the market price for distillers grains would be negatively impacted, which would have a negative impact on our ethanol results of operations.

At certain of our plants, we extract and sell non-food grade corn oil immediately prior to the production of distillers grains. Several studies are trying to determine how non-food grade corn oil extraction may impact the nutritional value of the resulting distillers grains. If it is determined that non-food grade corn oil extraction adversely impacts the energy content of distillers grains, the value of the distillers grains we sell may be negatively impacted, which would have a negative impact on our results of operations.

**The price of distillers grains may decline as a result of restrictions or duties on distillers grains exports from the United States.**

Exports of distiller grains produced in the United States have been increasing in recent years. However, the export market may be jeopardized if foreign governments impose trade barriers or other measures to protect the foreign local markets. If producers and exporters of distillers grains are subjected to trade barriers when selling distillers grains to foreign customers, there may be a reduction in the price of distillers grains in the United States. Declines in the price we receive for our distillers grains could lead to decreased revenues and may result in our inability to operate our ethanol plants profitably.

14

**We face significant competition in the ethanol industry.**

We face significant competition for new ethanol investment opportunities. There are varied enterprises seeking to participate in the ethanol industry. Some enterprises provide financial and management support similar to our business model. Other enterprises seek to acquire or develop plants which they will directly own and operate. Many of our competitors are larger and have greater financial resources and name recognition than we do. We must compete for investment opportunities based on our strategy of supporting and enhancing local development of ethanol plant opportunities. We may not be successful in competing for investment opportunities based on our strategy.

The ethanol industry is primarily comprised of smaller entities that engage exclusively in ethanol production and large integrated grain companies that produce ethanol along with their base grain business. Several large oil companies have entered the ethanol production market. If these companies increase their ethanol plant ownership or other oil companies seek to engage in direct ethanol production, there would be less of a need to purchase ethanol from independent producers like our ethanol plants.

Plants sold as part of a bankruptcy proceeding may have significantly lower fixed costs than our ethanol plants. Absent significant growth and diversification, our ethanol plants may not be able to operate profitably in a more competitive environment. No assurance can be given that our ethanol plants will be able to compete successfully or that competition from larger companies with greater financial resources will not have a materially adverse impact on the results of our ethanol operations.

**We may face competition from foreign companies.**

There is a risk of foreign competition in the ethanol industry. Brazil is presently the second largest producer of ethanol in the world. Brazil's ethanol production is sugarcane based, and, depending on feedstock prices, may be cheaper to produce. Under the RFS, certain parties were obligated to meet an advanced biofuel standard. In recent years, sugarcane based ethanol imported from Brazil has been one of the most economical means for obligated parties to comply with this standard.

If significant additional foreign ethanol production capacity is created, such facilities could create excess supplies of ethanol, which may result in lower prices of ethanol. In addition, foreign ethanol producers may be able to produce ethanol at costs lower than ours. These risks could have significant adverse effects on our financial performance.

In addition, the tariff that protected the U.S. ethanol industry expired at the end of 2011. The expiration of the tariff could lead to increases in the import of ethanol produced outside of the U.S.

**We are exposed to credit risk from our sales of ethanol and distillers grains to customers.**

The inability of a customer to make payments to us for our accounts receivable may cause us to experience losses and may adversely impact our liquidity and our ability to make our payments when due.

**We may not be able to hire and retain qualified personnel to operate our ethanol plants.**

Our ability to attract and retain competent personnel has a significant impact on operating efficiencies and plant profitability. Competition for key plant employees in the ethanol industry can be intense, and we may not be able to attract and retain qualified employees. Failure to do so could have a negative impact on our financial results at individual plants.

**Our plants depend on an uninterrupted supply of energy and water to operate. Unforeseen plant shutdowns could harm our business.**

Our plants require a significant and uninterrupted supply of natural gas, electricity and water to operate. We generally rely on third parties to provide these resources. If there is an interruption in the supply of energy or water for any reason, such as supply, delivery or mechanical problems and we are unable to secure an adequate alternative supply to sustain plant operations, we may be required to stop production. A production halt for an extended period of time could result in material losses.

Potential business disruption from factors outside our control, including natural disasters, severe weather conditions, accidents, strikes, unexpected equipment failures and unforeseen plant shutdowns, could adversely affect our cash flow and operating results.

**Certain of the debt agreements for the ethanol plants contain restrictive financial and performance covenants.**

Our subsidiaries that operate ethanol plants (“ethanol subsidiaries”) have or have had debt agreements that contain covenants with several financial and performance restrictions. A breach of any of these covenants could result in a default under the applicable agreement. If a default were to occur, the ethanol subsidiary would likely seek a waiver of that default, attempt to reset the covenant, or refinance the instrument and accompanying obligations. If the ethanol subsidiary was unable to obtain this relief, the default could result in the acceleration of the total due related to that debt obligation. If a default were to occur, the ethanol subsidiary may not be able to pay its debts or borrow sufficient funds to refinance them. In addition, certain lease agreements could also be in default if a default of the debt agreement occurs.

In the past, we have received waivers from our lenders for failure to meet certain financial covenants and have amended our subsidiary loan agreements to change these covenants. No assurance can be given that, if we are unable to comply with these covenants in the future, we will be able to obtain the necessary waivers or amend our subsidiary loan agreements to prevent a default.

Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

**The debt agreements for certain of the ethanol plants limit, or otherwise restrict the amount of dividends and other payments the ethanol subsidiaries can transfer to their members.**



We are dependent on dividends from our ethanol subsidiaries to generate cash flow. Presently our unconsolidated ethanol subsidiaries have debt agreements that limit payments to members. Therefore, these companies cannot distribute all of the cash they generate to their members. Furthermore, we may not be able to use the excess cash flow from one subsidiary to fund corporate needs or needs of another operating ethanol subsidiary.

**We rely on information technology in our operations and financial reporting and any material failure, inadequacy, interruption or security breach of that technology could harm our ability to efficiently operate our business and report our financial results accurately and timely.**

We rely heavily on information technology systems across our operations, including for management of inventory, purchase orders, production, invoices, shipping, accounting and various other processes and transactions. Our ability to effectively manage our business, coordinate the production, distribution and sale of our products and ensure the timely and accurate recording and disclosure of financial information depends significantly on the reliability and capacity of these systems. The failure of these systems to operate

effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems through a cyber-attack or otherwise could cause delays in product sales, reduced efficiency of our operations and delays in reporting our financial results. Significant capital investments could be required to remediate any such problem. Security breaches of employee information or other confidential or proprietary data could also adversely impact our reputation, and could result in litigation against us or the imposition of penalties.

**We are exposed to potential business disruption from factors outside our control, including natural disasters, severe weather conditions, accidents, and unforeseen operational failures any of which could negatively affect our transportation operations and could adversely affect our cash flows and operating results.**

Potential business disruption in available transportation due to natural disasters, significant track damage resulting from a train derailment, strikes or other interruptions by our transportation providers could result in delays in procuring and supplying raw materials to our ethanol facilities, or transporting ethanol and distillers grains to our customers. Such business disruptions may result in our inability to meet customer demand or contract delivery requirements, as well as the potential loss of customers.

**Rail cars used to transport ethanol may need to be modified or replaced to meet proposed rail safety regulations.**

The leased rail cars we use to transport ethanol to market may need to be retrofitted or replaced if proposed regulations are adopted. The proposed regulations call for a phase out within four years of the use of legacy tank cars for transporting ethanol. Adoption of the proposed regulations, which could result in upgrades or replacements of our leased rail cars, would likely have an adverse effect on our operations as rail car lease costs would likely increase. Furthermore, existing rail cars could be out of service for extended periods of time as upgrades are made, which could cause transportation delays of ethanol.

**Risks Related to our eSteam investments and operations.**

**eSteam may not be commercially viable technology.**

During fiscal year 2013, we invested in eSteam, a new technology utilizing steam to extract deep heavy oil. Cumulatively, we have spent approximately \$1.4 million on this patented but unproven technology. If we cannot demonstrate that the technology is commercially feasible, we may incur additional losses.

**Our eSteam technology may be subject to patent challenges.**

We could be required to spend considerable time and resources defending our technology from patent challenges.

**Operations utilizing our eSteam technology may be subject to stringent environmental regulations.**

These operations will require significant amounts of water and energy. If we are unable to obtain the proper permits and sources of water and energy, then we may not be able to operate the new technologies, and thus, generate any revenue.

**Operations utilizing our eSteam technology may cause environmental damage.**

When operating the eSteam technology, we may cause environmental damage, as we would be injecting water into the ground in order to extract oil. We could be subject to significant penalties and fines if we were to cause environmental damage.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The information required by this Item 2 is set forth in Item 1 of this report under “Ethanol Investments”, “Real Estate Operations” and “Facilities” and is incorporated herein by reference.

**Item 3. Legal Proceedings**

We are involved in various legal proceedings incidental to the conduct of our business. We believe that these proceedings will not have a material adverse effect on our financial condition or results of operations.

**Executive Officers of the Company**

Set forth below is certain information about each of our executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Stuart Rose	60	Chairman of the Board and Chief Executive Officer*
Douglas Bruggeman	54	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	65	Secretary*
Zafar Rizvi	65	President and Chief Operating Officer

\*Also serves as a director.

*Stuart Rose* has been our Chairman of the Board and Chief Executive Officer since our incorporation in 1984 as a holding company to succeed to the ownership of Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc. and Stereo Town, Inc. Prior to 1984, Mr. Rose was Chairman of the Board and Chief Executive Officer of Rex Radio and Television, Inc., which he founded in 1980 to acquire the stock of a corporation which operated four retail stores.

*Douglas Bruggeman* has been our Vice President–Finance and Treasurer since 1989 and was elected Chief Financial Officer in 2003. From 1987 to 1989, Mr. Bruggeman was our Manager of Corporate Accounting. Mr. Bruggeman was employed with the accounting firm of Ernst & Young prior to joining us in 1986.

*Edward Kress* has been our Secretary since 1984 and a director since 1985. Mr. Kress has been a partner of the law firm of Dinsmore & Shohl LLP (formerly Chernesky, Heyman & Kress P.L.L.), our legal counsel, since 1988. Mr. Kress has practiced law in Dayton, Ohio since 1974.

*Zafar Rizvi* was elected President and Chief Operating Officer in 2010. Previously, he had been our Vice President, and has been President of Farmers Energy Incorporated, our alternative energy investment subsidiary, since 2006. From 1991 to 2006, Mr. Rizvi was our Vice President – Loss Prevention. From 1986 to 1991, Mr. Rizvi was employed in the video retailing industry in a variety of management positions.

**Item 4. Mine Safety Disclosures**

Not Applicable

18

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

## SHAREHOLDER INFORMATION

Common Share Information and Quarterly Share Prices

Our common stock is traded on the New York Stock Exchange under the symbol REX.

Fiscal Quarter Ended	High	Low
April 30, 2013	\$25.38	\$17.12
July 31, 2013	41.00	18.45
October 31, 2013	37.20	26.70
January 31, 2014	49.93	28.22
April 30, 2014	\$68.41	\$37.33
July 31, 2014	90.69	56.59
October 31, 2014	110.65	55.46
January 31, 2015	76.29	51.63

As of March 30, 2015, there were 89 holders of record of our common stock, including shares held in nominee or street name by brokers.

Dividend Policy

We did not pay dividends in the current or prior years. We (including our consolidated subsidiaries) currently have no restrictions on the payment of dividends. Certain of our ethanol subsidiaries have restrictions on their ability to pay dividends to members (including REX). One Earth paid dividends to REX of approximately \$13.2 million, \$4.4 million and \$4.1 million during fiscal years 2014, 2013 and 2012, respectively. NuGen paid dividends to REX of approximately \$34.8 million and \$5.0 million during fiscal years 2014 and 2013, respectively. NuGen paid no dividends to REX in fiscal year 2012.

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
November 1-30, 2014	57,610	\$ 68.19	57,610	101,196
December 1-31, 2014	60,389	\$ 59.09	60,389	540,807
January 1-31, 2015	43,225	\$ 53.87	43,225	497,582
Total	161,224	\$ 60.94	161,224	497,582

On December 2, 2014, our Board of Directors increased our share repurchase authorization by an additional (1)500,000 shares. At January 31, 2015, a total of 497,582 shares remained available to purchase under this authorization.

## **Performance Graph**

The following graph compares the yearly percentage change in the cumulative total shareholder return on our Common Stock against the cumulative total return of the S&P 500 Stock Index and a peer group comprised of selected publicly traded ethanol producers (\*) for the period commencing January 31, 2010 and ended January 31, 2015. The graph assumes an investment of \$100 in our Common Stock and each index on January 31, 2010 and reinvestment of all dividends.

\* The peer group is comprised of Pacific Ethanol, Inc. and Green Plains, Inc.

## **Item 6. Selected Financial Data**

The following statements of operations and balance sheet data have been derived from our consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related Notes. Prior period amounts applicable to the statement of operations have been adjusted to recognize the reclassification of the results of our former retail segment, certain real estate assets and the financial information associated with Levelland Hockley to discontinued operations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of net sales and revenue and gross profit, income from ethanol investments, derivative financial instruments, and long-term debt. These items have fluctuated significantly in recent years and may affect comparability of years.



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Five Year Financial Summary

(In Thousands, Except Per Share Amounts)

Years Ended January 31,	2015	2014	2013	2012	2011
Net sales and revenue (a)	\$572,230	\$666,045	\$656,589	\$408,856	\$234,715
Net income attributable to noncontrolling interests	\$(16,377)	\$(5,156)	\$(707)	\$(5,428)	\$(3,673)
Income (loss) from continuing operations attributable to REX common shareholders, net of tax (a)	\$86,776	\$34,007	\$(2,760)	\$27,238	\$18,643
Net income (loss) attributable to REX common shareholders (b)	\$87,337	\$35,073	\$(2,295)	\$28,270	\$5,069
Basic income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$10.70	\$4.18	\$(0.33)	\$2.99	\$1.93
Diluted income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$10.69	\$4.16	\$(0.33)	\$2.96	\$1.90
Basic net income (loss) per share attributable to REX common shareholders (b)	\$10.77	\$4.31	\$(0.28)	\$3.10	\$0.53
Diluted net income (loss) per share attributable to REX common shareholders (b)	\$10.76	\$4.29	\$(0.28)	\$3.08	\$0.52
Total assets	\$456,947	\$427,868	\$405,330	\$438,049	\$375,722
Long-term debt, net of current maturities	\$—	\$63,500	\$91,306	\$108,527	\$70,973

Amounts differ from those previously reported as the results of our retail operations and certain of our alternative a) energy and real estate operations have been reclassified into discontinued operations. See Note 14 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations.

b) The results for the year ended January 31, 2011 include a significant expense for loss on deconsolidation of Levelland Hockley and related impairment charges.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006. We completed our exit of the retail business as of July 31, 2009. Subsequent to that date, our only retail related activities consisted of the administration of extended service plans we previously sold and the payment of related claims. As of January 31, 2014, all of these extended service plans have expired. All activities related to extended service plans are classified as discontinued operations.

At January 31, 2015, we had lease agreements for all or parts of four former retail properties and had three vacant former retail properties. We are marketing the vacant properties to lease or sell. Should our

21

marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with a term of five to ten years.

We currently have equity investments in four ethanol production entities, two of which we have a majority ownership interest in. We may make additional alternative energy investments during fiscal year 2015.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains, non-food grade corn oil 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 not follow movements in corn prices and, in an environment of higher corn prices or lower ethanol prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of denatured ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the “crush spread.” Should the crush spread decline, our ethanol plants are likely to generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain 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 fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in fiscal year 2014 was subject to significant volatility. For fiscal year 2014, the average Chicago Board of Trade (“CBOT”) near-month corn price ranged from a low of approximately \$3.20 per bushel in September 2014 to a high of approximately \$5.17 per bushel in May 2014. Corn prices in general benefitted throughout the year from strong corn harvests in 2013 and 2014. Ethanol prices, likewise, had significant fluctuations ranging from approximately \$1.31 per gallon in January 2015 to a high of over \$3.00 per gallon in March 2014. Ethanol prices were influenced by many factors throughout the year including rail disruptions, primarily in the early part of fiscal year 2014, falling energy prices late in fiscal year 2014 and over-production of ethanol. The CBOT crush spread during fiscal year 2014 ranged from negative single digits in January 2015 to over \$1.00 in March 2014.

Income from continuing operations, net of tax was approximately \$86.8 million in fiscal year 2014 compared to approximately \$34.0 million in fiscal year 2013. The increase in profitability primarily resulted from higher crush spreads (compared to the prior year) experienced in the ethanol industry for a majority of fiscal year 2014 as the industry benefitted from strong corn harvests in 2013 and 2014. We expect that future operating results from our consolidated plants will be based upon combined annual production of between 215 and 240 million gallons of ethanol, which assumes that our consolidated ethanol plants will operate at or above nameplate capacity. However, due to

22

the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the fiscal year 2014 results.

We plan to seek and evaluate various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

Through a wholly owned subsidiary REX I.P., LLC, we have entered into a joint venture with Hytken to file and defend patents for technology relating to heavy oil and oil sands production methods, and to attempt to commercially exploit the technology to generate license fees, royalty income and development opportunities. The patented technology is an enhanced method of heavy oil recovery involving zero emissions downhole steam generation. We own 60% and Hytken owns 40% of the entity named Future Energy, LLC, an Ohio limited liability company. Future Energy is managed by a board of three managers, two appointed by us and one by Hytken. The owner of Hytken has been retained as a consultant.

During fiscal year 2013, we agreed to fund direct patent expenses relating to patent applications and defense, annual annuity fees and maintenance on a country by country basis, with the right to terminate funding and transfer related patent rights to Hytken. We may also fund, through loans, all costs relating to new intellectual property, consultants, and future research and development, pilot field tests and equipment purchases for commercialization stage of the patents. To date, we have paid approximately \$1.4 million for our ownership interest, patent and other expenses. Results of the formation and year to date operations of Future Energy, LLC were immaterial to the Consolidated Financial Statements.

#### Ethanol Investments

In fiscal year 2006, we entered the alternative energy industry by investing in several entities organized to construct and, subsequently operate, ethanol producing plants. We are invested in four entities as of January 31, 2015, utilizing equity investments.

The following table is a summary of our ethanol investments at January 31, 2015 (gallons in millions):

Entity	Trailing 12 Months Ethanol Gallons Shipped	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months
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				Ethanol Gallons Shipped
One Earth Energy, LLC	110.6	74	%	81.8
NuGen Energy, LLC	115.9	99	%	114.7
Patriot Holdings, LLC	126.2	27	%	34.1
Big River Resources W Burlington, LLC	108.0	10	%	10.8
Big River Resources Galva, LLC	119.0	10	%	11.9
Big River United Energy, LLC	124.9	5	%	6.2
Big River Resources Boyceville, LLC	57.8	10	%	5.8
Total	762.4			265.3

23

**Results of Operations****Comparison of Fiscal Years Ended January 31, 2015 and 2014**

The following table summarizes selected data from operations at One Earth and NuGen:

	Years Ended January	
	31, 2015	2014
Average selling price per gallon of ethanol	\$2.00	\$2.20
Gallons of ethanol sold (in millions)	226.4	227.2
Average selling price per ton of dried distillers grains	\$166.00	\$233.27
Tons of dried distillers grains sold	580,304	538,337
Average selling price per pound of non-food grade corn oil	\$0.32	\$0.38
Pounds of non-food grade corn oil sold (in thousands)	53,930	49,904
Average selling price per ton of modified distillers grains	\$63.47	\$114.91
Tons of modified distillers grains sold	75,842	165,329
Average cost per bushel of grain	\$3.99	\$6.27
Average cost of natural gas (per mmbtu)	\$6.10	\$4.54

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2014 were approximately \$572.2 million, a 14.1% decrease from approximately \$666.0 million in fiscal year 2013. Net sales and revenue do not include sales from operations classified as discontinued operations. The following table summarizes sales of our consolidated operations for each product and service group for the periods presented (amounts in thousands):

Product or Service Category	Fiscal Year		
	2014	2013	2012
Ethanol	\$452,831	\$500,203	\$495,249
Dried distillers grains	96,328	125,575	114,732
Non-food grade corn oil	16,985	18,788	16,037
Modified distillers grains	4,814	18,998	27,463
Other	1,272	2,481	3,108
Total	\$572,230	\$666,045	\$656,589

Ethanol sales decreased from approximately \$500.2 million in the prior year to approximately \$452.8 million in the current year. The average selling price per gallon of ethanol decreased from \$2.20 in the prior year to \$2.00 in the current year. Our ethanol sales were based upon approximately 226.4 million gallons in the current year compared to approximately 227.2 million gallons in the prior year. Our dried distillers grains sales decreased from approximately \$125.6 million in the prior year to approximately \$96.3 million in the current year. The average selling price per ton of

dried distillers grains decreased from \$233.27 in the prior year to \$166.00 in the current year. Our dried distillers grains sales were based upon approximately 580,000 tons in the current year compared to approximately 538,000 tons in the prior year. Our non-food grade corn oil sales decreased from approximately \$18.8 million in the prior year to approximately \$17.0 million in the current year. The average selling price per pound of non-food grade corn oil decreased from \$0.38 in the prior year to \$0.32 in the current year. Our non-food grade corn oil sales were based upon approximately

24



49.9 million pounds in the prior year compared to 53.9 million pounds in the current year. Our modified distillers grains sales decreased from approximately \$19.0 million in the prior year to approximately \$4.8 million in the current year. The average selling price per ton of modified distillers grains decreased from \$114.91 in the prior year to \$63.47 in the current year. Our modified distillers grains sales were based upon approximately 76,000 tons in the current year compared to approximately 165,000 tons in the prior year.

We expect that sales of One Earth and NuGen in future periods will be based upon the following:

Product	Annual Sales Quantity
Ethanol	215 million to 240 million gallons
Dried distillers grains	550,000 to 625,000 tons
Modified distillers grains	60,000 to 90,000 tons
Non-food grade corn oil	40 million to 60 million pounds

This expectation assumes that One Earth and NuGen will continue to operate at or above capacity, which is dependent upon the crush spread realized.

**Gross Profit** – Gross profit was approximately \$141.9 million in fiscal year 2014, or 24.8% of net sales and revenue, versus approximately \$64.3 million in fiscal year 2013 or 9.7% of net sales and revenue. This represents an increase of approximately \$77.6 million. The crush spread for fiscal year 2014 was approximately \$0.59 per gallon of ethanol sold compared to fiscal year 2013 which was approximately \$(0.02) per gallon of ethanol sold. Grain accounted for approximately 74% (\$320.0 million) of our cost of sales during fiscal year 2014 compared to approximately 84% (\$504.1 million) during fiscal year 2013. Natural gas accounted for approximately 9% (\$37.9 million) of our cost of sales during fiscal year 2014 compared to approximately 5% (\$28.1 million) during fiscal year 2013. Given the inherent volatility in ethanol, distillers grains, non-food grade corn oil, grain and natural gas prices, we cannot predict the likelihood that the spread between ethanol, distillers grains, non-food grade corn oil and grain prices in future periods will be consistent compared to historical periods.

We attempt to match quantities of ethanol, distillers grains and non-food grade corn oil sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months. None of our forecasted ethanol, approximately 18% of our forecasted distillers grains and approximately 13% of our forecasted non-food grade corn oil production during the next 12 months have been sold under fixed-price contracts. The effect of a 10% adverse change in the price of ethanol, distillers grains and non-food grade corn oil from the current pricing would result in a decrease in annual revenues in fiscal year 2015 of approximately \$42.8 million. Similarly, approximately 1% 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 annual cost of goods sold in fiscal year 2015 of approximately \$31.2 million.

***Selling, General and Administrative Expenses*** – Selling, general and administrative expenses for fiscal year 2014 were approximately \$19.4 million (3.4% of net sales and revenue), an increase of approximately \$1.6 million or 9.0% from approximately \$17.8 million (2.7% of net sales and revenue) for fiscal year 2013. A majority of the increase results from increases in incentive compensation associated with the higher levels of profitability in fiscal year 2014 compared to fiscal year 2013.

**Equity in Income of Unconsolidated Ethanol Affiliates** – During fiscal years 2014 and 2013, we recognized income of approximately \$32.2 million and \$17.2 million, respectively, from our equity investments in Big River and Patriot. Big River has an effective ownership of ethanol gallons shipped in the trailing twelve months ended January 31, 2015 of approximately 348 million gallons. Patriot has one plant which shipped approximately 126 million gallons of ethanol in the trailing 12 months ended January 31, 2015.

Income from Big River was approximately \$18.2 million and \$8.8 million in fiscal years 2014 and 2013, respectively. Income from Patriot was approximately \$14.0 million and \$8.4 million in fiscal years 2014 and 2013, respectively. Big River's and Patriot's results in the current year were favorably impacted from the increased crush spread experienced in the ethanol industry.

Overall, we expect the trends in crush spread margins described in the "Overview" section to be generally consistent with the operating experience of Big River and Patriot as their results are dependent on the same key drivers (ethanol, corn and natural gas pricing).

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 the fiscal year 2014 results.

**Interest and Other Income** – Interest and other income of approximately \$0.4 million for fiscal year 2014 was consistent with the fiscal year 2013 amount.

**Interest Expense** – Interest expense decreased to approximately \$2.1 million for fiscal year 2014 from approximately \$3.9 million for fiscal year 2013. This decrease was primarily attributable to scheduled and accelerated principal repayments that have reduced our debt levels. As we paid off our long term debt in fiscal year 2014, we do not expect to incur interest expense in fiscal year 2015.

**Loss on Disposal of Real Estate and Property and Equipment, net** – We recognized losses of approximately \$0.2 million in fiscal year 2014, which was primarily the result of certain equipment being disposed of at our consolidated ethanol plants.

**Loss on Derivative Financial Instruments** – The gain or loss from derivative financial instruments was immaterial in fiscal years 2014 and 2013. As the swap expired in July 2014, we do not expect to incur any future gains or losses.

**Income Taxes** – Our effective tax rate was 32.5% and 34.6% for fiscal years 2014 and 2013, respectively. Our effective rate is impacted by the noncontrolling interests of the companies we consolidate, as we recognize 100% of their

income or loss in continuing operations before income taxes and noncontrolling interests. However, we only provide an income tax provision or benefit for our portion of the subsidiaries' income or loss with a noncontrolling interest. In addition, our effective rate was favorably impacted as state and local taxes decreased from 4.5% to 3.6% primarily as a result of higher deductions for state taxes paid.

***Income or Loss from Continuing Operations*** – As a result of the foregoing, income from continuing operations was approximately \$103.2 million for fiscal year 2014 versus approximately \$39.2 million for fiscal year 2013.

***Discontinued Operations*** – During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result, we had income from discontinued operations, net of taxes, of approximately \$0.2 million in fiscal year 2014 compared to approximately \$0.3 million in fiscal year 2013. Gain on sale, net of taxes, of approximately \$0.3 million was recognized for four properties classified as discontinued operations during fiscal year 2014. Eight properties were sold and classified as discontinued operations in fiscal year 2013, resulting in a gain, net of taxes of

approximately \$0.7 million. We expect income from discontinued operations to be insignificant in future periods.

**Noncontrolling Interests**— (Income) or loss related to noncontrolling interests was approximately \$(16.4) million and \$(5.2) million during fiscal years 2014 and 2013, respectively, and represents the owners' (other than us) share of the (income) or loss of One Earth, NuGen and Future Energy. Noncontrolling interests of One Earth and NuGen were approximately \$(16.2) million and \$(0.4) million, respectively, during fiscal year 2014. Noncontrolling interests of One Earth and NuGen were approximately \$(5.4) million and \$(0.2) million, respectively, during fiscal year 2013. The loss related to noncontrolling interests of Future Energy was approximately \$0.2 million and \$0.4 million during fiscal years 2014 and 2013, respectively.

**Net Income Attributable to REX Common Shareholders** – As a result of the foregoing, net income attributable to REX common shareholders was approximately \$87.3 million for fiscal year 2014 compared to \$35.1 million for fiscal year 2013.

### Comparison of Fiscal Years Ended January 31, 2014 and 2013

The following table summarizes selected operating data from One Earth and NuGen during periods of consolidation:

	Years Ended January	
	2014	2013
Average selling price per gallon of ethanol	\$2.20	\$2.23
Gallons of ethanol sold (in millions)	227.2	222.0
Average selling price per ton of dried distillers grains	\$233.27	\$235.56
Tons of dried distillers grains sold	538,337	487,070
Average selling price per pound of non-food grade corn oil	\$0.38	\$0.39
Pounds of non-food grade corn oil sold (in thousands)	49,904	40,896
Average selling price per ton of modified distillers grains	\$114.91	\$117.89
Tons of modified distillers grains sold	165,329	232,945
Average cost per bushel of grain	\$6.27	\$7.14
Average cost of natural gas (per mmbtu)	\$4.54	\$3.75

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2013 were approximately \$666.0 million, a 1.4% increase from approximately \$656.6 million in fiscal year 2012. Net sales and revenue do not include sales from operations classified as discontinued operations. Ethanol sales increased from approximately \$495.2 million in fiscal year 2012 to approximately \$500.2 million in fiscal year 2013. The average selling price per gallon of ethanol decreased from \$2.23 in fiscal year 2012 to \$2.20 in fiscal year 2013. Our ethanol sales were based upon approximately 227.2 million gallons in fiscal year 2013 compared to approximately 222.0 million gallons in fiscal year 2012. Our dried distillers grains sales increased from approximately \$114.7 million in fiscal year 2012 to approximately \$125.6 million in fiscal year 2013. The average selling price per ton of dried distillers grains decreased

from \$235.56 in fiscal year 2012 to \$233.27 in fiscal year 2013. Our dried distillers grains sales were based upon approximately 538,000 tons in fiscal year 2013 compared to approximately 487,000 tons in fiscal year 2012. Our non-food grade corn oil sales increased from approximately \$16.0 million in fiscal year 2012 to approximately \$18.8 million in fiscal year 2013. The average selling price per pound of non-food grade corn oil decreased from \$0.39 in fiscal year 2012 to \$0.38 in fiscal year 2013. Our non-food grade corn oil sales were based upon approximately 40.9

million pounds in fiscal year 2012 compared to approximately 49.9 million pounds in fiscal year 2013. Our modified distillers grains sales decreased from approximately \$27.5 million in fiscal year 2012 to approximately \$19.0 million in fiscal year 2013. The average selling price per ton of modified distillers grains decreased from \$117.89 in fiscal year 2012 to \$114.91 in fiscal year 2013. Our modified distillers grains sales were based upon approximately 165,000 tons in fiscal year 2013 compared to approximately 233,000 tons in fiscal year 2012.

**Gross Profit** – Gross profit was approximately \$64.3 million in fiscal year 2013, or 9.7% of net sales and revenue, versus approximately \$13.8 million in fiscal year 2012 or 2.1% of net sales and revenue. This represents an increase of approximately \$50.5 million. The crush spread for fiscal year 2013 was approximately \$(0.02) per gallon of ethanol sold compared to approximately \$(0.27) per gallon of ethanol sold during fiscal year 2012. Grain accounted for approximately 84% (\$504.1 million) of our cost of sales during fiscal year 2013 compared to approximately 86% (\$554.8 million) during fiscal year 2012. Natural gas accounted for approximately 5% (\$28.1 million) of our cost of sales during fiscal year 2013 compared to approximately 4% (\$23.5 million) during fiscal year 2012.

**Selling, General and Administrative Expenses**– Selling, general and administrative expenses for fiscal year 2013 were approximately \$17.8 million (2.7% of net sales and revenue), an increase of approximately \$5.3 million or 42.2% from approximately \$12.5 million (1.9% of net sales and revenue) for fiscal year 2012. The increase is primarily a result of increases in incentive compensation related to the higher profitability in fiscal year 2013 and an increase in the rates for rail car leases.

**Equity in Income of Unconsolidated Ethanol Affiliates** – During fiscal years 2013 and 2012, we recognized income of approximately \$17.2 million and \$0.6 million, respectively, from our equity investments in Big River and Patriot. Income from Big River was approximately \$8.8 million and \$0.3 million in fiscal years 2013 and 2012, respectively. Income from Patriot was approximately \$8.4 million and \$0.4 million in fiscal years 2013 and 2012, respectively. Big River's and Patriot's results in fiscal year 2013 were favorably impacted from the increased crush spread experienced in the ethanol industry.

**Interest and Other Income** –Interest and other income of approximately \$0.2 million for fiscal year 2013 was consistent with the fiscal year 2012 amount.

**Interest Expense** – Interest expense decreased to approximately \$3.9 million for fiscal year 2013 from approximately \$4.8 million for fiscal year 2012. This decrease was primarily a result of scheduled and accelerated principal repayments that have reduced our debt levels.

**Loss on Disposal of Real Estate and Property and Equipment, net** – We recognized losses of approximately \$0.5 million in fiscal year 2012, which was primarily the result of certain equipment being disposed of at one of our ethanol plants.

**Losses on Derivative Financial Instruments** – We recognized losses of approximately \$39,000 and approximately \$370,000 during fiscal years 2013 and 2012, respectively, related to forward interest rate swaps that One Earth entered into during fiscal year 2007. In general, declining interest rates have a negative effect on our interest rate swaps as our swaps fixed the interest rate of variable rate debt. As interest rates declined during fiscal years 2013 and 2012, we incurred losses on the interest rate swap.

**Income Taxes**– Our effective tax rate was 34.6% and 43.0% for fiscal years 2013 and 2012, respectively. Our effective rate is impacted by the noncontrolling interests of the companies we consolidate, as we recognize 100% of their income or loss in continuing operations before income taxes and noncontrolling interests. However, we only provide an income tax provision or benefit for our portion of the subsidiaries' income or loss with a noncontrolling interest. In addition, our effective rate was favorably impacted by



approximately 1.5% during fiscal year 2013 as a result of domestic production activities deductions resulting from operations at certain of our ethanol plants.

***Income or Loss from Continuing Operations*** – As a result of the foregoing, income from continuing operations was approximately \$39.2 million for fiscal year 2013 versus a loss of approximately \$2.1 million for fiscal year 2012.

***Discontinued Operations*** – During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result, we had income from discontinued operations, net of taxes, of approximately \$0.3 million in fiscal years 2013 and 2012. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Eight properties classified as discontinued operations were sold during fiscal year 2013, resulting in a gain, net of taxes, of approximately \$0.7 million. We sold or disposed of six properties classified as discontinued operations in fiscal year 2012; as a result, we had a gain from disposal of discontinued operations, net of taxes, of approximately \$0.1 million in fiscal year 2012.

***Noncontrolling Interests*** – (Income) or loss related to noncontrolling interests was approximately \$(5.2) million and \$(0.7) million during fiscal years 2013 and 2012, respectively, and represents the owners' (other than us) share of the income or loss of One Earth, NuGen and Future Energy. Noncontrolling interests of One Earth and NuGen were approximately \$(5.4) million and \$(0.2) million, respectively, during fiscal year 2013. Noncontrolling interests of One Earth and NuGen were approximately \$(0.7) million and \$25,000, respectively, during fiscal year 2012. The loss related to noncontrolling interests of Future Energy was approximately \$0.4 million during fiscal year 2013. As Future Energy was formed during fiscal year 2013, there was no related noncontrolling interests for prior years.

***Net Income or Loss Attributable to REX Common Shareholders***– As a result of the foregoing, net income attributable to REX common shareholders was approximately \$35.1 million for fiscal year 2013 compared to a loss of \$2.3 million for fiscal year 2012.

## **Liquidity and Capital Resources**

Our primary sources of cash have been income from operations, dividends from ethanol investments and sales of real estate. Our primary uses of cash have been capital expenditures at our ethanol plants, long term debt repayments and stock repurchases.

***Outlook*** – Our cash balance of approximately \$137.7 million includes approximately \$54.8 million held by One Earth and NuGen. During fiscal year 2014, One Earth and NuGen paid off and terminated their debt agreements, and are no longer limited with respect to paying dividends. However, we expect that One Earth and NuGen will use a majority of their cash for working capital needs and general corporate purposes. Our equity method ethanol investments have long

term debt or credit agreements and we expect these organizations to limit the payment of dividends based upon working capital needs, debt service requirements and the requirements of their respective loan agreements.

We are currently evaluating the cost and regulatory requirements to build a new ethanol plant. Another possible use of our excess cash is to repurchase our common stock. We typically repurchase our common stock when our stock price is trading at prices we deem to be a discount to the underlying value of our net assets. Historically, we have not incurred additional borrowings to fund repurchases of our common stock. We also plan to seek and evaluate other various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

The CBOT average crush spread for the first quarter of calendar year 2015 has been approximately \$0.06 compared to approximately \$0.55 for calendar year 2014. Based upon this, we expect earnings for the first quarter of fiscal year 2015 to be lower than earnings for the first quarter of fiscal year 2014.

We do not have significant commitments for capital expenditures at January 31, 2015. We expect capital expenditures to be in the range of approximately \$3 million to \$6 million in fiscal year 2015 and expect to fund such capital expenditures with available cash at our ethanol plant subsidiaries. This could change substantially should we proceed with building a new ethanol plant.

**Operating Activities** – Net cash provided by operating activities was approximately \$137.2 million for fiscal year 2014 compared to approximately \$64.4 million in fiscal year 2013. During fiscal year 2014, operating cash flow was provided by net income of approximately \$103.7 million including adjustments to net income of approximately \$5.6 million, which consist of depreciation and amortization, income from equity method investments, derivative financial instruments, gain on disposal of real estate and property and equipment and the deferred income tax provision. Big River and Patriot paid dividends to REX of approximately \$22.9 million during fiscal year 2014 as a result of their financial performance during the current year. Accounts receivable decreased approximately \$7.7 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen and the impact of lower commodity prices during fiscal year 2014. Inventory decreased approximately \$1.3 million, primarily a result of the decline in corn costs during fiscal year 2014. Accounts payable increased approximately \$2.0 million, primarily a result of the timing of vendor payments. Prepaid expenses and other assets increased approximately \$1.9 million, primarily a result of increased payment for refundable real estate taxes. Refundable income taxes increased approximately \$2.0 million resulting from tax overpayments in prior years being used to pay the current year liability. Accrued expenses and other liabilities decreased approximately \$1.7 million, primarily a result of lower accruals for interest and taxes at January 31, 2015.

Net cash provided by operating activities was approximately \$64.4 million for fiscal year 2013. During fiscal year 2013, operating cash flow was provided by net income of approximately \$40.2 million including adjustments to net income of approximately \$13.4 million, which consist of depreciation and amortization, income from equity method investments, derivative financial instruments, gain on disposal of real estate and property and equipment and the deferred income tax provision. Big River and Patriot paid dividends to REX of approximately \$5.8 million during fiscal year 2013. Additionally, refundable income taxes decreased approximately \$1.5 million resulting from tax overpayments in prior years being used to pay the current year liability. Accounts receivable increased approximately \$4.9 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen. Inventory decreased approximately \$5.5 million, primarily a result of the decline in corn costs during fiscal year 2013. Other liabilities increased approximately \$2.6 million, primarily a result of increased accrued incentive compensation expenses associated with the increase in profitability in the fiscal year 2013. Prepaid expenses and other assets increased approximately \$1.5 million, primarily a result of increased payment for refundable real estate taxes. Accounts payable increased approximately \$1.7 million, primarily a result of inventory receipts and timing of vendor payments.

**Investing Activities** – Net cash used in investing activities was approximately \$7.3 million during fiscal year 2014 compared to cash provided of approximately \$6.8 million during fiscal year 2013. Capital expenditures in fiscal year 2014 totaled approximately \$9.9 million, the majority of which was for grain and ethanol storage expansion at

NuGen's ethanol plant. Cash of approximately \$1.8 million was provided by proceeds from the sale of real estate and property and equipment. We received payments of approximately \$0.8 million as refunds or reductions of restricted investments and deposits from governmental agencies.

Net cash provided by investing activities was approximately \$6.8 million during fiscal year 2013. Capital expenditures in fiscal year 2013 totaled approximately \$3.5 million, the majority of which was for corn oil

extraction equipment and other improvements at NuGen's ethanol plant. Cash of approximately \$8.9 million was provided by proceeds from the sale of real estate and property and equipment. We received payments of approximately \$0.7 million during fiscal year 2013, to pay off a loan we had in connection with the sale of real estate. We received payments of approximately \$1.3 million as refunds or reductions of restricted investments and deposits from governmental agencies.

**Financing Activities** – Net cash used in financing activities was approximately \$97.3 million during fiscal year 2014 compared to approximately \$35.2 million for fiscal year 2013. During fiscal year 2014, repayments of debt were approximately \$75.7 million. The increase in repayments of debt resulted from accelerated payments on NuGen's and One Earth's loans. As the debt had been paid off prior to January 31, 2015, we do not expect to make debt repayments in fiscal year 2015. Stock option exercises in fiscal year 2014 generated cash of approximately \$0.9 million. We used cash of approximately \$4.9 million to purchase shares from and pay dividends to noncontrolling members of One Earth and NuGen. We do not expect such payments to noncontrolling members of One Earth and NuGen to increase significantly in fiscal year 2015. During fiscal year 2014, we purchased approximately 282,000 shares of our common stock for approximately \$18.1 million in open market transactions.

Net cash used in financing activities was approximately \$35.2 million during fiscal year 2013. During fiscal year 2013, repayments of debt were approximately \$31.2 million. The increase in repayments of debt resulted primarily from payments of \$11.0 million based on NuGen's and One Earth's excess cash flows as required by their loan agreements. In addition, the refinancing of One Earth's debt in fiscal year 2013 required principal payments on the existing debt of approximately \$2.8 million. Stock option exercises in fiscal year 2013 generated cash of approximately \$1.1 million. We used cash of approximately \$1.6 million to purchase shares from and pay dividends to noncontrolling members of One Earth and NuGen. During fiscal year 2013, we purchased approximately 137,000 shares of our common stock for approximately \$3.5 million in open market transactions.

At January 31, 2015, we had no debt outstanding as we paid off our debt during fiscal year 2014 and terminated the related agreements.

Based on our forecasts, which are primarily based on estimates of plant production, prices of ethanol, corn, distillers grains, non-food grade corn oil and natural gas as well as other assumptions management believes to be reasonable, management believes that cash flow from operating activities together with working capital will be sufficient to meet One Earth's and NuGen's respective liquidity needs. However, if a material adverse change in the financial position of One Earth or NuGen should occur, or if actual sales or expenses are substantially different than what has been forecasted, One Earth's and NuGen's liquidity, and ability to fund future operating and capital requirements could be negatively impacted.

Including equity method investees, approximately 16.5% of our net assets (including equity method investees) are restricted pursuant to the terms of various loan agreements as of January 31, 2015. Excluding equity method investees, none of our net assets are restricted as of January 31, 2015.

Off Balance Sheet Arrangements

None.

Tabular Disclosure of Contractual Obligations

In the ordinary course of business, we enter into agreements under which we are obligated to make legally enforceable future cash payments. These agreements include obligations related to purchasing inventory and leasing rail cars. The following table summarizes by category expected future cash outflows associated with

31

contractual obligations in effect, at January 31, 2015 (amounts in thousands):

Contractual Obligations	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Other (a)	\$40,447	\$9,452	\$13,880	\$10,186	\$6,929

Amounts represent primarily payments due for rail car usage and grain contracts at One Earth and NuGen. We are not able to determine the likely settlement period for uncertain tax positions, accordingly, approximately \$1.7 (a) million of uncertain tax positions and related interest and penalties have been excluded from the table above. We are not able to determine the likely settlement for forward basis corn purchase contracts which do not contain a determinable fixed price; accordingly, payments for such contracts have been excluded from the table above.

### Seasonality and Quarterly Fluctuations

The impact of seasonal and quarterly fluctuations has not been material to our results of operations for the past three fiscal years.

### Impact of Inflation

The impact of inflation has not been material to our results of operations for the past three fiscal years.

### Critical Accounting Policies

We believe the application of the following accounting policies, which are important to our financial position and results of operations, require significant assumptions, judgments and estimates on the part of management. We base our assumptions, judgments, and estimates on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented in accordance with generally accepted accounting principles (GAAP). However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Further, if different assumptions, judgments and estimates had been used, the results could have been different and such differences could be material. For a summary of all of our accounting policies, including the accounting policies discussed below, see Note 1 of the Notes to the Consolidated Financial

Statements. Management believes that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

**Revenue Recognition** – We recognize sales from ethanol, distillers grains and non-food grade corn oil when title transfers to customers, generally upon shipment from our plant or upon loading of the rail car used to transport the products. Shipping and handling charges billed to ethanol, distillers grains and non-food grade corn oil customers are included in net sales and revenue.

**Investments** –The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any



variable interests in which we are the primary beneficiary. The evaluation of consolidation under ASC 810 “*Consolidation*” is complex and requires judgments to be made. We consolidate 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.

We periodically evaluate our 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 we determine that a decline in market value is other than temporary, then a charge to earnings is recorded in the accompanying Consolidated Statements of Operations for all or a portion of the unrealized loss and a new cost basis in the investment is established.

***Inventory*** – Inventory is recorded at the lower of cost or market. The market value of inventory is often dependent upon fluctuating commodity prices. If these estimates are inaccurate, we may be exposed to market conditions that require an additional reduction in the value of certain inventories affected. We provide for a permanent write down of inventory, for inventory items that have a cost greater than net realizable value. There was no significant write down of inventory at January 31, 2015 or 2014. Fluctuations in the write down of inventory generally relate to the levels and composition of such inventory at a given point in time. The assumptions we currently use include our estimates of the selling prices of ethanol, distillers grains and non-food grade corn oil.

***Financial Instruments*** – Forward grain purchase and ethanol and distillers grains sales contracts are accounted for under the “normal purchases and normal sales” scope exemption of ASC 815, “*Derivatives and Hedging*” (“ASC 815”) because these arrangements are for purchases of grain and sales of ethanol and distillers grains that will be delivered in quantities expected to be used by us over a reasonable period of time in the normal course of business. We do not hold or issue derivative financial instruments for trading or speculative purposes.

***Income Taxes*** – Income taxes are recorded based on the current year amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how those events are treated for tax purposes, net of valuation allowances. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and other expectations about future outcomes. Changes in existing regulatory tax laws and rates and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. We have established valuation allowances for certain state net operating loss carryforwards and other deferred tax assets. We determined that it is more likely than not that we will be able to generate sufficient taxable income in future years to allow for the full utilization of the federal AMT credit carryforward and other deferred tax assets other than those reserved. In determining the need for a valuation allowance, we have assumed that our ethanol

plants will generate future taxable income. We are projecting that the future operations of One Earth and NuGen will be profitable. We are assuming that we will be relatively successful in our real estate marketing efforts. In addition, we have considered the fact that our AMT credit carryforward has an indefinite life. In general, we have used approximately \$35.0 million as the assumed average of future years' pre-tax income. We believe our

assumed target level of earnings is reasonable based upon historical experience and expectations of real estate rental income and ethanol plant operating income. In addition, we considered other factors in our assessment. Although during fiscal years 2012, 2010 and 2009 we realized a taxable loss, we generated taxable income in fiscal years 2014, 2013 and 2011 through our ethanol and real estate operations. Furthermore, the taxable loss is attributable, in large part, to accelerated depreciation deductions for income tax purposes. Such deductions are not expected to continue at levels we have seen in the last three years as evidenced by the net deferred tax liability of approximately \$39.1 million recorded at January 31, 2015. In addition, we have significant financial resources to deploy in future income producing activities.

A valuation allowance of approximately \$1.8 million and approximately \$2.0 million was recorded at January 31, 2015 and January 31, 2014, respectively which is primarily for capital loss carryforwards, certain state net operating loss carryforwards and other deferred tax assets. Should estimates of future income differ significantly from our prior estimates, we could be required to make a material change to our deferred tax valuation allowance. The primary assumption used to estimate the valuation allowance has been estimates of future state taxable income. Such estimates can have material variations from year to year based upon expected levels of income from our ethanol plants, leasing income and gains on real estate sales. Factors that could negatively affect future taxable income include adverse changes in the commercial real estate market and the ethanol crush spread. Our accounting for deferred tax consequences represents management's best estimate of future events that can be appropriately reflected in the accounting estimates.

As of January 31, 2015, total unrecognized tax benefits were approximately \$1.2 million, and accrued penalties and interest were approximately \$0.5 million. If we were to prevail on all unrecognized tax benefits recorded, the impact of penalties and interest would benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a material effect on results of operations or financial position. On a quarterly and annual basis, we accrue for the effects of open uncertain tax positions and the related potential penalties and interest. Should future estimates of open uncertain tax positions differ from our current estimates, we could be required to make a material change to our accrual for uncertain tax positions. In addition, new income tax audit findings could also require us to make a material change to our accrual for uncertain tax positions.

***Recoverability of Long-Lived Assets*** – Given the nature of our business, events and changes in circumstances include, but are not limited to, a significant decline in our estimated future cash flows, a sustained decline in market prices for similar assets, or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in our estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for real estate assets) or a change in the spread between ethanol and grain prices that would indicate or result in greater than six consecutive months of estimated or actual negative cash flows (for alternative energy assets).

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

For real estate assets, each individual real estate property represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. As such, we separately

test individual real estate properties for recoverability. Our real estate assets are both income producing and non-income producing asset groups.

For alternative energy assets, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, we separately test individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, we also consider the following events as indicators: the decision to suspend operations at a plant for at least a six month period, or an expected or actual failure to maintain compliance with debt covenants at our ethanol plants. Our alternative energy assets are only income producing asset groups.

### **New Accounting Pronouncements**

Effective February 1, 2014, we were required to adopt Accounting Standard Update (“ASU”) No. 2013-11 (“ASU 2013-11”), “*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*”. The update requires, unless certain conditions exist, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. ASU 2013-11 was effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. Retrospective application is permitted. The adoption of ASU 2013-11 did not impact our financial statements.

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08 (“ASU 2014-08”), “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*” that changes the criteria for reporting a discontinued operation. Under this new guidance, only disposals of a component that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results is a discontinued operation. Expanded disclosures about discontinued operations and disposals of a significant part of an entity that does not qualify for discontinued operations reporting are also required. ASU 2014-08 is effective beginning February 1, 2015 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. We have not determined the impact of adopting ASU 2014-08 on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 (“ASU 2014-09”), “*Revenue From Contracts With Customers*”. The update requires revenue recognition to reflect the transfer of promised goods or services to customers and replaces existing revenue recognition guidance. The updated standard permits the use of either the retrospective or cumulative effect transition method. We will be required to adopt ASU 2014-09 effective February 1, 2017. We have not determined the impact of adopting ASU 2014-09 on our consolidated financial statements.

There were no other new accounting standards issued during fiscal year 2014 that had or are expected to have a material impact on our financial position, results of operations, or cash flows.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to the impact of market fluctuations associated with commodity prices as discussed below.

**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 January 31, 2015, One Earth and NuGen combined have purchase commitments for approximately 10.0 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn by July 2015.

One Earth and NuGen have combined sales commitments for approximately 50.2 million gallons of ethanol, 126,000 tons of distillers grains and 6.8 million pounds of non-food grade corn oil. One Earth and NuGen expect to deliver the ethanol, distillers grains and non-food grade corn oil by April 2015. None 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 \$34.8 million for the remaining forecasted ethanol sales. Approximately 18% 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 \$6.7 million for the remaining forecasted distillers grains sales. Approximately 13% of our forecasted non-food grade corn oil sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of non-food grade corn oil from the current pricing would result in a decrease in annual revenues of approximately \$1.4 million for the remaining forecasted non-food grade corn oil sales. Similarly, approximately 1% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn from current pricing would result in an increase in annual cost of goods sold of approximately \$31.2 million for the remaining forecasted corn usage. Approximately 26% of our estimated natural gas usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of natural gas from current pricing would result in an increase in annual cost of goods sold of approximately \$2.3 million for the remaining forecasted natural gas usage.

**Item 8. Financial Statements and Supplementary Data****REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Amounts in Thousands)**

	<b>January 31,</b>	
	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$137,697	\$105,149
Restricted cash	—	500
Accounts receivable	8,794	16,486
Inventory	18,062	19,370
Refundable income taxes	3,019	268
Prepaid expenses and other	5,810	4,891
Deferred taxes - net	2,363	2,146
Total current assets	175,745	148,810
Property and equipment - net	194,447	202,258
Other assets	6,366	5,388
Equity method investments	80,389	71,189
Restricted investments and deposits	—	223
<b>TOTAL ASSETS</b>	<b>\$456,947</b>	<b>\$427,868</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long term debt	\$—	\$12,226
Accounts payable – trade	9,210	6,626
Derivative financial instruments	—	1,141
Accrued expenses and other current liabilities	10,347	12,147
Total current liabilities	19,557	32,140
<b>LONG TERM LIABILITIES:</b>		
Long term debt	—	63,500
Deferred taxes	42,768	19,613
Other long term liabilities	1,658	1,862
Total long term liabilities	44,426	84,975
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY:</b>		
<b>REX shareholders' equity:</b>		
Common stock, 45,000 shares authorized, 29,853 shares issued at par	299	299
Paid in capital	144,791	144,051
Retained earnings	444,438	357,101
Treasury stock, 21,954 and 21,753 shares, respectively	(239,557)	(222,170)
Total REX shareholders' equity	349,971	279,281
Noncontrolling interests	42,993	31,472
Total equity	392,964	310,753
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$456,947</b>	<b>\$427,868</b>



See notes to consolidated financial statements.

37

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in Thousands, Except Per Share Amounts)

	<b>Years Ended January 31,</b>		
	2015	2014	2013
Net sales and revenue	\$572,230	\$666,045	\$656,589
Cost of sales	430,291	601,757	642,787
Gross profit	141,939	64,288	13,802
Selling, general and administrative expenses	(19,422 )	(17,846 )	(12,546 )
Equity in income of unconsolidated ethanol affiliates	32,229	17,175	627
Interest and other income	369	234	204
Interest expense	(2,074 )	(3,898 )	(4,828 )
Loss on disposal of real estate and property and equipment, net	(238 )	—	(490 )
Loss on derivative financial instruments	(1 )	(39 )	(370 )
Income (loss) from continuing operations before income taxes	152,802	59,914	(3,601 )
(Provision) benefit for income taxes	(49,649 )	(20,751 )	1,548
Income (loss) from continuing operations	103,153	39,163	(2,053 )
Income from discontinued operations, net of tax	234	325	329
Gain on disposal of discontinued operations, net of tax	327	741	136
Net income (loss)	103,714	40,229	(1,588 )
Net income attributable to noncontrolling interests	(16,377 )	(5,156 )	(707 )
Net income (loss) attributable to REX common shareholders	\$87,337	\$35,073	\$(2,295 )
Weighted average shares outstanding – basic	8,109	8,137	8,272
Basic income (loss) per share from continuing operations attributable to REX common shareholders	\$10.70	\$4.18	\$(0.33 )
Basic income per share from discontinued operations attributable to REX common shareholders	0.03	0.04	0.04
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	0.04	0.09	0.01
Basic net income (loss) per share attributable to REX common shareholders	\$10.77	\$4.31	\$(0.28 )
Weighted average shares outstanding – diluted	8,118	8,180	8,272
Diluted income (loss) per share from continuing operations attributable to REX common shareholders	\$10.69	\$4.16	\$(0.33 )
Diluted income per share from discontinued operations attributable to REX common shareholders	0.03	0.04	0.04
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders	0.04	0.09	0.01
Diluted net income (loss) per share attributable to REX common shareholders	\$10.76	\$4.29	\$(0.28 )
Amounts attributable to REX common shareholders:			
Income (loss) from continuing operations, net of tax	\$86,776	\$34,007	\$(2,760 )
Income from discontinued operations, net of tax	561	1,066	465

Net income (loss)	\$87,337	\$35,073	\$(2,295 )
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See notes to consolidated financial statements.

38

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED JANUARY 31, 2015, 2014 AND 2013****(Amounts in Thousands)**

	REX Shareholders							
	Common Shares		Treasury		Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total Equity
	Issued 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 (loss) income						(2,295 )	707	(1,588 )
Treasury stock acquired			278	(5,445 )				(5,445 )
Noncontrolling interests distribution and other							(2,108 )	(2,108 )
Stock options and related tax effects	—	—	(100 )	1,000	581	—	—	1,581
Balance at January 31, 2013	29,853	299	21,701	(219,550)	143,575	322,028	27,931	274,283
Net income						35,073	5,156	40,229
Treasury stock acquired			137	(3,486 )				(3,486 )
Noncontrolling interests distribution and other							(1,615 )	(1,615 )
Stock options and related tax effects	—	—	(85 )	866	476	—	—	1,342
Balance at January 31, 2014	29,853	299	21,753	(222,170)	144,051	357,101	31,472	310,753
Net income						87,337	16,377	103,714
Treasury stock acquired			284	(18,238 )				(18,238 )
Noncontrolling interests distribution and other							(4,856 )	(4,856 )

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Stock options and related tax effects	—	—	(83 )	851	740	—	—	1,591
Balance at January 31, 2015	29,853	\$ 299	21,954	\$(239,557)	\$144,791	\$444,438	\$ 42,993	\$392,964

See notes to consolidated financial statements.

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in Thousands)**

	<b>Years Ended January 31,</b>		
	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$103,714	\$40,229	\$(1,588 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	16,787	17,284	16,602
Impairment charges on real estate	68	55	562
Income from equity method investments	(32,229 )	(17,175 )	(627 )
Dividends received from equity method investments	22,889	5,804	2,206
Derivative financial instruments	(1,141 )	(1,648 )	(1,446 )
(Gain) loss on disposal of real estate and property and equipment	(275 )	(1,015 )	357
Deferred income tax	22,473	15,987	(504 )
Excess tax benefit from stock option exercises	(441 )	(64 )	—
Changes in assets and liabilities:			
Accounts receivable	7,692	(4,919 )	1,217
Inventory	1,308	5,549	5,430
Prepaid expenses and other assets	(1,929 )	(1,490 )	498
Income taxes refundable	(1,985 )	1,480	719
Accounts payable-trade	2,030	1,721	(1,448 )
Accrued expenses and other liabilities	(1,745 )	2,637	(4,930 )
Net cash provided by operating activities	137,216	64,435	17,048
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(9,927 )	(3,518 )	(3,684 )
Repayment of note receivable	6	681	—
Proceeds from sale of real estate and property and equipment	1,778	8,876	2,849
Restricted cash	500	(500 )	—
Restricted investments and deposits	323	1,293	860
Net cash (used in) provided by investing activities	(7,320 )	6,832	25
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of long term debt	(75,726 )	(31,203 )	(16,820)
Stock options exercised	931	1,072	265
Payments to noncontrolling interests holders	(4,856 )	(1,638 )	(2,085 )
Excess tax benefit from stock option exercises	441	64	—
Treasury stock acquired	(18,138 )	(3,486 )	(4,373 )
Net cash used in financing activities	(97,348 )	(35,191 )	(23,013)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>32,548</b>	<b>36,076</b>	<b>(5,940 )</b>
<b>CASH AND CASH EQUIVALENTS-Beginning of year</b>	<b>105,149</b>	<b>69,073</b>	<b>75,013</b>
<b>CASH AND CASH EQUIVALENTS-End of year</b>	<b>\$137,697</b>	<b>\$105,149</b>	<b>\$69,073</b>
Non cash financing activities-Cashless exercises of stock options	\$100	\$—	\$1,071
Non cash investing activities-Accrued capital expenditures	\$804	\$250	\$—
Non cash financing activities-Accrued noncontrolling interest holders payments	\$—	\$—	\$23
	<b>\$475</b>	<b>\$—</b>	<b>\$—</b>

Non cash investing activities- Loan receivable granted in connection with sale of real estate

See notes to consolidated financial statements.

40

## REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** – The accompanying financial statements consolidate the operating results and financial position of Rex American Resources Corporation and its wholly-owned and majority owned subsidiaries (the “Company” or “REX”). All intercompany balances and transactions have been eliminated. As of January 31, 2015, the Company owns interests in four ethanol entities – two are consolidated and two are accounted for using the equity method of accounting. The Company operates in one reportable segment, alternative energy. The Company completed the exit of its retail business during fiscal year 2009 and recognized, in discontinued operations, revenue and expense associated with administering extended service policies.

**Fiscal Year** – All references in these consolidated financial statements to a particular fiscal year are to the Company’s fiscal year ended January 31. For example, “fiscal year 2014” means the period February 1, 2014 to January 31, 2015. The Company refers to its fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

**Segments** – Beginning in the fourth quarter of fiscal year 2014, the Company has realigned its reportable business segments to be consistent with its management reporting and changes to the nature of ongoing operations. The Company now has one reportable segment, alternative energy. As the Company continues to dispose of assets that were historically reported in its former real estate segment, results of those operations have become insignificant. Prior year amounts have been reclassified to conform to the current year segment reporting. In applying the criteria set forth in ASC 280 “*Segment Reporting*”, the Company determined that based on the nature of the products and production process and the expected financial results, the Company’s operations at its ethanol plants are aggregated into one reporting segment.

**Use of Estimates** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents** – Cash equivalents are principally short-term investments with original maturities of less than three months. The carrying amount of cash equivalents approximates fair value.

**Concentrations of Risk** – The Company maintains cash and cash equivalents in accounts with financial institutions which exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company does not believe there is significant credit risk related to its cash and cash equivalents. Four customers accounted for approximately 74%, 82% and 81% of the Company’s net sales and revenue during fiscal years 2014, 2013 and 2012, respectively. At January 31, 2015 and 2014, these customers represented approximately 76% and 91%, respectively, of the Company’s accounts receivable balance. These customers (in fiscal year 2014) were Archer Daniels Midland Company, Biourja Trading, LLC, CHS, Inc. and United Bio Energy, LLC.

**Inventory** – Inventories are carried at the lower of cost or market on a first-in, first-out basis. Inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and





utilities related to producing ethanol and related co-products. Inventory is permanently written down for instances when cost exceeds estimated net realizable value; such write-downs are based primarily upon commodity prices as the market value of inventory is often dependent upon changes in commodity prices. There was no significant write-down of inventory at January 31, 2015 or 2014. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time and commodity prices. The components of inventory at January 31, 2015, and January 31, 2014 are as follows (amounts in thousands):

	2015	2014
Ethanol and other finished goods	\$3,039	\$3,517
Work in process	2,609	3,017
Grain and other raw materials	12,414	12,836
Total	\$18,062	\$19,370

**Property and Equipment** – Property and equipment is recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment. The components of property and equipment at January 31, 2015 and 2014 are as follows (amounts in thousands):

	2015	2014
Land and improvements	\$20,844	\$21,543
Buildings and improvements	27,069	28,297
Machinery, equipment and fixtures	231,422	223,544
Construction in progress	1,290	693
	280,625	274,077
Less: accumulated depreciation	(86,178)	(71,819)
	\$194,447	\$202,258

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. The Company recorded impairment charges of \$68,000 and \$55,000 in fiscal years 2014 and 2013, respectively, all of which is included in discontinued operations in the Consolidated Statements of Operations. The Company recorded an impairment charge of \$562,000 in fiscal year 2012, of which \$13,000 is included in cost of sales and \$549,000 is classified as discontinued operations in the Consolidated Statements of Operations. These impairment charges are primarily related to unfavorable changes in real estate conditions in local markets. Impairment charges result from the Company’s management performing cash flow analysis and represent management’s estimate of the excess of net book value over fair value. Given the nature of the Company’s business, events and changes in circumstances include, but are not limited to, a significant decline in estimated future cash flows, a sustained decline in market prices for similar assets or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for real estate asset groups) or a change in the spread between ethanol and grain



prices that would result in greater than six consecutive months of estimated or actual significant negative cash flows (for alternative energy asset groups).

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

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

For alternative energy assets, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, the Company also considers the following events as indicators: (i) the decision to suspend operations at a plant for at least a six month period; or (ii) an expected or actual failure to maintain compliance with debt covenants at our ethanol plants. Alternative energy assets include only income producing asset groups.

Depreciation expense was approximately \$16,387,000, \$16,915,000 and \$16,081,000 in fiscal years 2014, 2013 and 2012, respectively.

***Investments and Deposits*** – The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month lag as One Earth has a fiscal year end of December 31. NuGen has the same fiscal year as the parent, and therefore, there is no lag in reporting the results of NuGen. The Company accounts for investments in limited liability companies in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323 “*Investments-Equity Method and Joint Ventures*” are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method.

The Company 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 Statements of Operations and a new cost basis in the investment is established.

**Revenue Recognition** – The Company recognizes sales from the production of ethanol, distillers grains and non-food grade corn oil when title transfers to customers, generally upon shipment from the ethanol plant or upon loading of the rail car used to transport the products. Shipping and handling charges billed to customers are included in net sales and revenue.

**Costs of Sales** – 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.

**Selling, General and Administrative Expenses** –The Company includes non-production related costs such as professional fees and certain payroll in selling, general and administrative expenses.

**Interest Expense** – Cash paid for interest in fiscal years 2014, 2013 and 2012 was approximately \$2,136,000, \$3,492,000 and \$4,449,000, respectively.

**Financial Instruments** – The Company used derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreements were not designated for hedge accounting pursuant to ASC 815. The interest rate swaps were recorded at their fair values and the changes in fair values were recorded as gain or loss on derivative financial instruments in the Consolidated Statements of Operations. The Company paid settlements of interest rate swaps of approximately \$1,142,000, \$1,687,000 and \$1,816,000 in fiscal years 2014, 2013 and 2012, 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 and sales of ethanol in quantities expected to be produced over a reasonable period of time in the normal course of business.

**Stock Compensation** – The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant. No options were granted in the fiscal years ended January 31, 2015, January 31, 2014 or January 31, 2013. The following table summarizes options granted, exercised and canceled or expired during the fiscal year ended January 31, 2015:

	<b>Shares (000's)</b>	<b>Weighted Average Exercise Price</b>
Outstanding—Beginning of year	84	\$ 12.37
Granted	—	—
Exercised	(84 )	12.37
Canceled or expired	—	—
Outstanding and exercisable—End of year	—	\$ —

The total intrinsic value of options exercised in the fiscal years ended January 31, 2015, 2014 and 2013, was approximately \$4.0 million, \$1.1 million and \$1.8 million, respectively, resulting in tax deductions to realize benefits of approximately \$0.8 million, \$0.4 million and \$0.2 million, respectively. At January 31, 2015: (i) there were no outstanding stock options; and (ii) there was no unrecognized compensation cost related to nonvested stock options. See Note 11 for a further discussion of stock options.

**Income Taxes** – 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 bases 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.

**Discontinued Operations** – The Company classifies sold real estate assets in discontinued operations when the operations and cash flows of the real estate assets have been (or will be) eliminated from ongoing operations and when the Company will not have any significant continuing involvement in the operation of the real estate after disposal. To determine if cash flows had been or would be eliminated from ongoing operations, the Company evaluates a number of qualitative and quantitative factors. For purposes of reporting the operations of real estate assets meeting the criteria for discontinued operations, the Company reports net sales and revenue, gross profit and related selling, general and administrative expenses that are specifically identifiable to those assets as discontinued operations. Certain corporate level charges, such as general office expense, certain interest expense, and other “fixed” expenses are not allocated to discontinued operations because the Company believes that these expenses were not specific to components’ operations.

**Comprehensive Income** – The Company has no components of other comprehensive income, and therefore, comprehensive income equals net income.

**New Accounting Pronouncements** – Effective February 1, 2014, the Company adopted ASU 2013-11 (“ASU 2013-11”), “*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*”. The update requires, unless certain conditions exist, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. ASU 2013-11 was effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. Retrospective application is permitted. The adoption of ASU 2013-11 did not impact the Company’s financial statements.

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08 (“ASU 2014-08”), “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*” that changes the criteria for reporting a discontinued operation. Under this new guidance, only disposals of a component that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results is a discontinued operation. Expanded disclosures about discontinued operations and disposals of a significant part of an entity that does not qualify for discontinued operations reporting are also required. ASU 2014-08 is effective beginning February 1, 2015 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. The Company has not determined the impact of adopting ASU 2014-08 on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 (“ASU 2014-09”), “*Revenue From Contracts With Customers*”. The update requires revenue recognition to reflect the transfer of promised goods or

services to customers and replaces existing revenue recognition guidance. The updated standard permits the use of either the retrospective or cumulative effect transition method. The Company will be required to adopt ASU 2014-09 effective February 1, 2017. The Company has not determined the impact of adopting ASU 2014-09 on its consolidated financial statements.

## 2. INVESTMENTS AND DEPOSITS

The Company's equity investments are accounted for under ASC 323 "*Investments-Equity Method and Joint Ventures*". The following table summarizes equity method investments at January 31, 2015 and 2014 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount January 31, 2015	Carrying Amount January 31, 2014
Big River Resources, LLC	10	% \$ 40,188	\$ 40,042
Patriot Holdings, LLC	27	% 40,201	31,147
Total Equity Method Investments		\$ 80,389	\$ 71,189

The Company invested \$20.0 million in Big River, a holding company for several entities, for a 10% ownership interest. Big River Resources West Burlington, LLC, a wholly owned subsidiary of Big River, operates an ethanol manufacturing plant in West Burlington, Iowa. During fiscal year 2014, the plant shipped 108 million gallons of ethanol. The plant has been in operation since 2004. Big River Resources Galva, LLC, a wholly owned subsidiary of Big River, operates an ethanol manufacturing plant in Galva, Illinois. During fiscal year 2014, the plant shipped 119 million gallons of ethanol. The plant has been in operation since 2009. Big River Resources United Energy, LLC, a 50.5% owned subsidiary of Big River, operates an ethanol manufacturing plant in Dyersville, Iowa. During fiscal year 2014, the plant shipped 125 million gallons of ethanol. Big River acquired its interest in this plant in 2009. Big River Resources Boyceville, LLC, a wholly owned subsidiary of Big River operates an ethanol manufacturing plant in Boyceville, Wisconsin. During fiscal year 2014, the plant shipped 58 million gallons of ethanol. Big River acquired its interest in this plant in 2011. The Company recorded income of approximately \$18.2 million, \$8.8 million and \$0.3 million as its share of earnings from Big River during fiscal years 2014, 2013 and 2012, respectively. The Company received dividends of approximately \$18.0 million, \$1.2 million and \$2.2 million from Big River during fiscal years 2014, 2013 and 2012, respectively. At January 31, 2015, the carrying value of the investment in Big River is approximately \$40.2 million; the amount of underlying equity in the net assets of Big River is approximately \$40.7 million.

The Company invested \$17.9 million in Patriot for a 27% ownership interest. Patriot operates an ethanol manufacturing plant in Annawan, Illinois. During fiscal year 2014, the plant shipped 126 million gallons of ethanol. The plant has been in operation since 2008. The Company recorded income of approximately \$14.0 million, \$8.4 million and \$0.4 million as its share of earnings from Patriot during fiscal years 2014, 2013 and 2012, respectively. The Company received dividends of approximately \$4.9 million and \$4.6 million from Patriot during fiscal years 2014 and 2013, respectively. The Company received no dividends from Patriot during fiscal year 2012. At January 31, 2015, the carrying value of the investment in Patriot is approximately \$40.2 million; the amount of underlying equity in the net assets of Patriot is approximately \$38.9 million. The excess of the carrying value of the investment over the underlying equity in the net assets is accounted for as goodwill and

capitalized interest and is recorded within equity method investments on the accompanying Consolidated Balance Sheets. Capitalized interest is amortized as a basis difference over the life of the asset.

Undistributed earnings of equity method investees totaled approximately \$41.9 million and \$32.6 million at January 31, 2015 and 2014, respectively.

Summarized financial information for each of the Company's equity method investees, as of their fiscal year end is presented in the following table (amounts in thousands):

As of December 31, 2014

	Patriot	Big River
Current assets	\$56,272	\$180,186
Non current assets	158,828	343,182
Total assets	\$215,100	\$523,368
Current liabilities	\$19,205	\$57,130
Long-term liabilities	49,542	—
Total liabilities	\$68,747	\$57,130
Noncontrolling interests	\$—	\$46,913

As of December 31, 2013

	Patriot	Big River
Current assets	\$26,540	\$164,278
Non current assets	159,081	348,884
Total assets	\$185,621	\$513,162
Current liabilities	\$16,034	\$68,769
Long-term liabilities	57,847	12,503
Total liabilities	\$73,881	\$81,272
Noncontrolling interests	\$—	\$45,045

Summarized financial information for each of the Company's equity method investees is presented in the following table for the years ended December 31, 2014, 2013 and 2012 (amounts in thousands):



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Year Ended December 31, 2014

	Patriot	Big River
Net sales and revenue	\$331,260	\$1,184,505
Gross profit	\$59,980	\$241,963
Income from continuing operations	\$52,875	\$187,388
Net income	\$52,875	\$187,388

Year Ended December 31, 2013

	Patriot	Big River
Net sales and revenue	\$377,532	\$1,292,120
Gross profit	\$37,411	\$124,327
Income from continuing operations	\$31,518	\$90,729
Net income	\$31,518	\$90,729

Year Ended December 31, 2012

	Patriot	Big River
Net sales and revenue	\$365,302	\$1,135,956
Gross profit	\$7,685	\$20,651
Income from continuing operations	\$1,320	\$2,799
Net income	\$1,320	\$2,799

Patriot and Big River have debt agreements that limit and restrict amounts the entities can pay in the form of dividends or advances to owners. The restricted net assets of Patriot and Big River combined at January 31, 2015 are approximately \$421.9 million. At January 31, 2015, the Company's proportionate share of restricted net assets of Patriot and Big River combined is approximately \$57.7 million.

### 3. FAIR VALUE

The Company applies ASC 820, which 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, which 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 certain cash equivalents, investments and derivative liabilities at fair value.

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

48

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 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 value of derivative assets and liabilities and property and equipment, various processes and controls have been adopted, which include: (i) model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; and (ii) periodic review and substantiation of profit and loss reporting for all derivative instruments. Financial assets and liabilities measured at fair value at January 31, 2015 on a recurring basis are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	<b>Total Fair Value</b>
Investment in Cooperative Asset (1)	\$ —	\$ —	\$ 333	\$ 333

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

	Level 1	Level 2	Level 3	<b>Total Fair Value</b>
Cash Equivalents	\$2	\$—	\$—	\$2
Money Market Mutual Fund (1)	120	—	—	120
Investment in Cooperative (1)	—	—	289	289
Total Assets	\$122	\$—	\$289	\$411
Interest Rate Swap Derivative Liabilities	\$—	\$1,141	\$—	\$1,141

(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 Balance Sheets.

The following table provides a reconciliation of the activity related to assets measured at fair value on a recurring basis using Level 3 inputs (amounts in thousands):

	<b>Investment in Cooperative</b>
Balance, January 31, 2013	\$ 252
Fair value adjustment	37
Balance, January 31, 2014	289
Fair value adjustment	44
Balance, January 31, 2015	\$ 333

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.

No other financial instruments were elected to be measured at fair value in accordance with ASC 470-20-25-21.

The Company reviews its long-lived assets for impairment on at least an annual basis based on the carrying value of these assets. As a result of vacancies at owned real estate locations, the Company tested certain long-lived assets for impairment using a fair value measurement approach. The fair value measurement approach utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and the implied fair value of these assets using recent sales data of comparable properties, and other subjective assumptions. Upon completion of its impairment analysis, which was performed at various times throughout fiscal year 2014, the Company determined that the carrying value of certain long-lived assets exceeded the fair value of these assets. Accordingly, in fiscal year 2014, the Company recorded long-lived asset impairment charges of approximately \$68,000. There were no assets measured at fair value at January 31, 2015 on a non-recurring basis.

Assets measured at fair value at January 31, 2014 on a non-recurring basis are summarized below (amounts in thousands):

	<b>Year Ended January 31, 2014</b>	Level 1	Level 2	Level 3	<b>Total Losses</b>
Property and equipment, net	\$ 521	\$ —	\$ —	\$ 521	\$ 55

50

## 4. OTHER ASSETS

The components of other noncurrent assets at January 31, 2015 and 2014 are as follows (amounts in thousands):

	January 31,	
	2015	2014
Deferred financing costs, net	\$—	\$402
Deposits	914	1,014
Real estate taxes refundable	4,395	3,644
Other	1,057	328
Total	\$6,366	\$5,388

Real estate taxes refundable represent amounts due One Earth associated with refunds of previously paid taxes in connection with a tax increment financing arrangement with local taxing authorities. Deposits are with vendors and governmental authorities involved in the ethanol industry.

## 5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The components of accrued expenses and other current liabilities at January 31, 2015 and 2014 are as follows (amounts in thousands):

	January 31,	
	2015	2014
Accrued utility charges	\$3,085	\$3,745
Accrued income taxes	—	615
Accrued payroll and related items	3,798	3,122
Accrued real estate taxes	2,507	2,471
Other	957	2,194
Total	\$10,347	\$12,147

## 6. NET INCOME PER SHARE FROM CONTINUING OPERATIONS

The Company reports net income per share in accordance with ASC 260, “*Earnings per Share*”. Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and dilutive common share equivalents during the year. Common share equivalents for each year include the number of shares issuable upon the exercise of outstanding options, less the shares that could be purchased under the treasury stock method. For fiscal years 2014 and 2013, all shares subject to outstanding options were dilutive.

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As there was a loss from continuing operations in fiscal year 2012, basic loss per share from continuing operations equals diluted loss per share from continuing operations. For fiscal year 2012, a total of 168,755 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares was antidilutive. The following table reconciles the basic and diluted net income per share amounts from continuing operations computations for each year presented for fiscal years 2014 and 2013 (amounts in thousands, except per-share amounts):

	2014		
	Income	Shares	Per Share
Basic net income per share from continuing operations attributable to REX common shareholders	\$86,776	8,109	\$10.70
Effect of stock options		9	
Diluted net income per share from continuing operations attributable to REX common shareholders	\$86,776	8,118	\$10.69
	2013		
	Income	Shares	Per Share
Basic net income per share from continuing operations attributable to REX common shareholders	\$34,007	8,137	\$4.18
Effect of stock options		43	
Diluted net income per share from continuing operations attributable to REX common shareholders	\$34,007	8,180	\$4.16

## 7. LEASES

At January 31, 2015, the Company has lease agreements, as landlord, for four owned properties. All of the leases are accounted for as operating leases. The Company recognized lease revenue of approximately \$341,000, \$420,000 and \$422,000 in fiscal years 2014, 2013 and 2012, respectively. As

of January 31, 2015, future minimum annual rentals on such leases are as follows (amounts in thousands):

Years Ended January 31,	Minimum Rentals
2016	\$ 296
2017	253
2018	115
2019	72
2020	72
Thereafter	329
	\$ 1,137

## 8.COMMON STOCK

During fiscal years 2014, 2013 and 2012, the Company purchased 283,979 shares, 137,015 shares and 278,369 shares, respectively, of its common stock for approximately \$18,238,000, \$3,486,000 and \$5,445,000, respectively. Included in these amounts are shares the Company received totaling 1,555 and 32,935 for the years ended January 31, 2015, and 2013 respectively, as tenders of the exercise price of stock options exercised by certain officers and directors of the Company. The cost of these shares, determined as the fair market value on the date they were tendered, was approximately \$100,000 and \$1,071,000 for the years ended January 31, 2015 and, 2013, respectively. At January 31, 2015, the Company had prior authorization by its Board of Directors to purchase, in open market transactions, an additional 497,582 shares of its common stock. Information regarding the Company's common stock is as follows (amounts in thousands):

	January 31, 2015	January 31, 2014
Authorized shares	45,000	45,000
Issued shares	29,853	29,853
Outstanding shares	7,900	8,100

## 9.LONG-TERM DEBT AND INTEREST RATE SWAPS

Long-term debt consisted of notes payable secured by certain land, buildings and equipment. Interest rates ranged from 3.15% to 4.00% in fiscal years 2014 and 2013. During fiscal year 2014, the Company made principal payments of approximately \$75.7 million which paid off all amounts due related to long-term debt. During fiscal year 2014, the Company also terminated One Earth's and

NuGen's long-term debt and revolving debt agreements. The following provides information on rates segregated as fixed or variable and by term:

<b>January 31, 2014</b>		
Interest Rates	Maturity	Balance (in thousands)
3.24% - 4.00%	Variable Within five years	\$ 75,726

The fair value of the Company's long-term debt at January 31, 2014 was approximately \$75.1 million. The fair value was estimated using a Level 2 discounted cash flow analysis and the Company's estimate of market rates of interest for similar loan agreements.

One Earth entered into two forward interest rate swaps in the notional amounts of \$50.0 million and \$25.0 million with the First National Bank of Omaha. The swap settlements commenced as of July 31, 2009; the \$50.0 million swap terminated 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 January 31, 2014, One Earth recorded a liability of approximately \$1.1 million related to the fair value of the remaining swap. The change in fair value is recorded in the Consolidated Statements of Operations.

## 10. FINANCIAL INSTRUMENTS

The Company used an interest rate swap to manage its interest rate exposure at One Earth by fixing the interest rate on a portion of the variable rate debt. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. As the interest rate swap terminated on July 8, 2014, there is no related notional or fair value at January 31, 2015. As of January 31, 2014, the notional value of the interest rate swap was approximately \$33.4 million. At January 31, 2014, the Company has recorded a liability of approximately \$1.1 million related to the fair value of the interest rate swap. The change in fair value was recorded in the Consolidated Statements of Operations. The notional amount and fair value of the derivative, which is not designated as a cash flow hedge at January 31, 2014 is summarized in the table below (amounts in thousands):

	<b>Notional Amount</b>	<b>Fair Value Liability</b>
Interest rate swap	\$ 33,444	\$ 1,141

As the interest rate swap was not designated as a cash flow hedge, the realized and unrealized gains and losses on the derivative instruments is reported in current earnings. The Company reported losses of approximately \$1,000, \$39,000 and \$370,000, in fiscal years 2014, 2013 and 2012, respectively.



Swap settlement payments to the counterparty totaled approximately \$1,142,000, \$1,687,000 and \$1,816,000 in fiscal years 2014, 2013 and 2012, respectively.

54

## 11. EMPLOYEE BENEFITS

**Stock Option Plans** – The Company maintains the REX American Resources Corporation 1995 Omnibus Stock Incentive Plan and the REX American Resources Corporation 1999 Omnibus Stock Incentive Plan (the “Omnibus Plans”). Under the Omnibus Plans, the Company may grant to officers and key employees awards in the form of non-qualified stock options, stock appreciation rights, restricted stock, other stock-based awards and cash incentive awards. The Omnibus Plans also provide for yearly grants of non-qualified stock options to directors who are not employees of the Company. The exercise price of each option must be at least 100% of the fair market value of the Company’s common stock on the date of grant. A maximum of 4,500,000 shares of common stock are authorized for issuance under each of the Omnibus Plans. On January 31, 2015, 108,011 and 2,302,425 shares remain available for issuance under the 1995 and 1999 Plans, respectively. No awards under the Omnibus Plans have been awarded since fiscal year 2004 and there are no outstanding awards at January 31, 2015. The following summarizes stock option activity for fiscal years 2014, 2013 and 2012 (amounts in thousands, except per-share amounts):

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(000's)		(000's)		(000's)	
Outstanding—Beginning of year	84	\$ 12.37	169	\$ 12.46	269	\$ 13.15
Exercised	(84)	12.37	(85)	12.55	(100)	14.30
Canceled or expired	—	—	—	—	—	—
Outstanding—End of year	—		84	\$ 12.37	169	\$ 12.46
Exercisable—End of year	—		84	\$ 12.37	169	\$ 12.46

## 12. COMMITMENTS

One Earth and NuGen have combined forward purchase contracts for approximately 10.0 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of the corn through July 2015.

One Earth and NuGen have combined sales commitments for approximately 50.2 million gallons of ethanol, 126,000 tons of distillers grains and 6.8 million pounds of non-food grade corn oil. They expect to deliver the ethanol, distillers grains and corn oil through April 2015.

Forward grain purchase, ethanol, distillers grains and non-food grade corn oil sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of the accounting standards because these arrangements are for purchases of grain and sales of ethanol, distillers grains and corn oil that will be delivered in quantities expected to be used by One Earth and NuGen over a reasonable period of time in the normal course of business.

One Earth has entered into an agreement with an unrelated party for the use of a portion of the party’s natural gas pipeline. The term of the agreement is 10 years, and the amount is \$4,380,000, which is paid over 120 equal monthly installments of \$36,500. Payments began in February 2009. One Earth paid approximately \$438,000 pursuant to the lease in each of fiscal years 2014, 2013 and 2012.



One Earth has entered into agreements with unrelated parties for the lease of railcars that will be used to ship ethanol. These leases expire on various dates through May 31, 2022. One Earth pays a monthly lease amount per railcar. One Earth paid approximately \$2,572,000, \$2,055,000 and \$1,723,000 pursuant to the lease in fiscal years 2014, 2013 and 2012, respectively.

One Earth has a contract with an unrelated party (“Distillers Grains Marketer”) for distillers grains marketing services. Under the terms of the contract, the Distillers Grains Marketer will purchase all of One Earth’s distillers grains production during the term of the contract. The contract called for One Earth to pay a fee per ton of distillers grains for the Distillers Grains Marketer’s services. The term of the agreement expires July 1, 2015 and shall renew automatically for additional one year terms, unless either party sends notice to the other party of its intent to terminate the agreement at least 90 days prior to the expiration of the then current term of the agreement. One Earth incurred fees of approximately \$613,000, \$640,000 and \$627,000 in fiscal years 2014, 2013 2012, respectively, for these marketing services.

One Earth has a grain origination agreement with Alliance Grain, a minority equity owner, under which it purchased 100% of its grain during fiscal years 2014, 2013 and 2012. One Earth pays to Alliance Grain a certain amount per bushel for procurement fees. The term of the agreement expires October 31, 2015, and shall renew automatically for additional one year terms, unless either party sends notice to the other party of its intent to terminate the agreement at least 180 days prior to the expiration of the then current term of the agreement.

NuGen has entered into agreements with unrelated parties for the lease of railcars that will be used to ship ethanol and distillers grains. These leases expire on various dates through September 30, 2022. NuGen pays a monthly lease amount per railcar. NuGen paid approximately \$4,452,000, \$4,350,000 and \$2,714,000 pursuant to the leases in fiscal years 2014, 2013 and 2012, respectively.

NuGen has a contract with an unrelated party (“Distillers Grains Marketer”) for distillers grains marketing services. Under the terms of the contract, the Distillers Grains Marketer will purchase all of NuGen’s distillers grains production during the term of the contract. The contract requires NuGen to pay the marketer an agreed upon fee as defined in the agreement with a minimum cost per ton. NuGen incurred fees of approximately \$577,000 \$838,000 and \$833,000 in fiscal years 2014, 2013 and 2012, respectively. The termination date of the contract is July 31, 2015.

**13. INCOME TAXES**

The provision (benefit) for income taxes from continuing operations for fiscal years 2014, 2013 and 2012 consists of the following (amounts in thousands):

	2014	2013	2012
Federal:			
Current	\$23,452	\$2,974	\$—
Deferred	20,717	15,402	(1,518)
	44,169	18,376	(1,518)
State and Local:			
Current	3,536	2,154	—
Deferred	1,944	221	(30 )
	5,480	2,375	(30 )
Provision (benefit) for income taxes	\$49,649	\$20,751	\$(1,548)

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of January 31, 2015 and 2014 (amounts in thousands):

	January 31,	
	2015	2014
Assets:		
Accrued liabilities	\$664	\$331
Stock based compensation	—	185
AMT credit carryforward	4,015	19,751
Alcohol fuels tax credit	—	546
State net operating loss carryforward	1,343	2,833
Other items	624	396
Valuation allowance	(1,752 )	(2,017 )
Total	4,894	22,025
Liabilities:		
Basis in pass through entities, including depreciation	(44,783)	(39,195)
Other	(516 )	(297 )
Total	(45,299)	(39,492)
Net deferred tax liability	\$(40,405)	\$(17,467)

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The Company has approximately \$4.0 million and \$19.8 million of AMT credit carryforwards as of January 31, 2015 and 2014, respectively. The AMT credit carryforwards can be used to offset future regular income tax liabilities subject to certain limitations. The AMT credit carryforwards have no expiration date. The Company must generate approximately \$27 million in future taxable income to fully utilize the AMT credit carryforward.

The Company has state net operating loss carryforwards of approximately \$18.0 million, net of the federal benefit, which will begin to expire in fiscal year 2019.

The Company has a valuation allowance of approximately \$1,752,000 at January 31, 2015. The Company decreased the valuation allowance by \$265,000 in fiscal year 2014 and increased the valuation allowance by \$126,000 and \$215,000 in fiscal years 2013, and 2012, respectively. These adjustments to the valuation allowance are a result of estimates of realizing certain future state tax benefits and federal capital loss carryforwards.

The Company paid income taxes of approximately \$30,142,000, \$3,450,000 and \$51,000 in fiscal years 2014, 2013 and 2012, respectively. The Company received refunds of income taxes of approximately \$53,000, \$38,000 and \$1,005,000 in fiscal years 2014, 2013 and 2012, respectively.

The effective income tax rate on consolidated pre-tax income or loss differs from the federal income tax statutory rate for fiscal years 2014, 2013 and 2012 as follows:

	2014	2013	2012
Federal income tax at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	3.6	4.5	5.6
Net change in valuation allowance	(0.2)	0.2	(5.0)
Domestic production activities deduction	(1.1)	(1.5)	—
Uncertain tax positions	—	(0.1)	(1.5)
Noncontrolling interest	(4.0)	(3.4)	6.7
Other	(0.8)	(0.1)	1.8
Total	32.5%	34.6%	42.6%

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 fiscal years ended January 31, 2011 and prior.

The Company applies the provisions of ASC 740-10-25-5 for uncertain tax positions. As of January 31, 2015, total unrecognized tax benefits were \$1,191,000, and accrued penalties and interest were \$467,000. If the Company were to prevail on all unrecognized tax benefits recorded, the impact of penalties and interest would 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. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, the Company does not expect the change to have a material effect

on results of operations or financial position. A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, is as follows (dollars in thousands):

	Years Ended	
	January 31,	
	2015	2014
Unrecognized tax benefits, beginning of year	\$1,862	\$2,157
Changes for tax positions for prior years	(204 )	(295 )
Changes for tax positions for current year	—	—
Unrecognized tax benefits, end of year	\$1,658	\$1,862

14. DISCONTINUED OPERATIONS

During fiscal year 2009, the Company completed the exit of its retail business. Accordingly, all operations of the Company's former retail segment, including extended warranty revenues and costs, 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. Below is a table reflecting certain items of the Consolidated Statements of Operations that were reclassified as discontinued operations for fiscal years 2014, 2013 and 2012 (amounts in thousands):

	2014	2013	2012
Net sales and revenue	\$47	\$1,512	\$3,047
Cost of sales	\$(321)	\$732	\$1,871
Income before income taxes	\$368	\$538	\$512
Provision for income taxes	(134)	(213 )	(183 )
Income from discontinued operations, net of tax	\$234	\$325	\$329
Gain on disposal before provision for income taxes	\$513	\$1,226	\$211
Provision for income taxes	(186)	(485 )	(75 )
Gain on disposal of discontinued operations, net of tax	\$327	\$741	\$136

15. CONTINGENCIES

The Company is involved in various legal actions arising in the normal course of business. After taking into consideration legal counsels' evaluation of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated financial statements. There were no liabilities recorded at January 31, 2015 or 2014 as the Company did not believe that there was a probable and reasonably estimable loss associated with any legal contingencies.





16.

## NET SALES AND REVENUE

The following table summarizes sales at the Company's consolidated ethanol plants for each product and service group for the periods presented (amounts in thousands):

Product or Service Category	Fiscal Year		
	2014	2013	2012
Ethanol	\$452,831	\$500,203	\$495,249
Dried distillers grains			