

REX AMERICAN RESOURCES Corp
Form 10-Q
June 01, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

31-1095548

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

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

(937) 276-3931

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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 May 31, 2017 the registrant had 6,558,679 shares of Common Stock, par value \$.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets</u>	3
<u>Consolidated Condensed Statements of Operations</u>	4
<u>Consolidated Condensed Statements of Equity</u>	5
<u>Consolidated Condensed Statements of Cash Flows</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	26
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 1A. Risk Factors</u>	26
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 3. Defaults upon Senior Securities</u>	27
<u>Item 4. Mine Safety Disclosures</u>	27
<u>Item 5. Other Information</u>	27
<u>Item 6. Exhibits</u>	27

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

Unaudited

	April 30, 2017	January 31, 2017
(In Thousands)		
Assets		
Current assets:		
Cash and cash equivalents	\$191,493	\$188,576
Restricted cash	130	130
Accounts receivable	9,196	11,901
Inventory	20,427	17,057
Refundable income taxes	1,063	1,070
Prepaid expenses and other	7,075	6,959
Deferred taxes, net	—	824
Total current assets	229,384	226,517
Property and equipment, net	184,674	182,761
Other assets	6,777	6,913
Equity method investments	38,533	37,833
Total assets	\$459,368	\$454,024
Liabilities and equity:		
Current liabilities:		
Accounts payable, trade	\$8,636	\$9,171
Accrued expenses and other current liabilities	14,261	13,348
Total current liabilities	22,897	22,519
Long-term liabilities:		
Deferred taxes	40,314	41,135
Other long-term liabilities	2,242	2,096
Total long-term liabilities	42,556	43,231
Equity:		
REX shareholders' equity:		
Common stock	299	299
Paid-in capital	145,790	145,767
Retained earnings	512,751	508,207
Treasury stock	(313,832)	(313,838)
Total REX shareholders' equity	345,008	340,435
Noncontrolling interests	48,907	47,839

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

Total equity	393,915	388,274
Total liabilities and equity	\$459,368	\$454,024

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

3

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES**Consolidated Condensed Statements Of Operations**

Unaudited

	Three Months Ended April 30, 2017 2016	
	(In Thousands, Except Per Share Amounts)	
Net sales and revenue	\$113,143	\$100,222
Cost of sales	100,654	91,800
Gross profit	12,489	8,422
Selling, general and administrative expenses	(5,402)	(4,027)
Equity in income of unconsolidated affiliates	700	233
Gain on sale of investment	—	192
Interest and other income	215	160
Income before income taxes	8,002	4,980
Provision for income taxes	(2,390)	(1,514)
Net income	5,612	3,466
Net income attributable to noncontrolling interests	(1,068)	(628)
Net income attributable to REX common shareholders	\$4,544	\$2,838
Weighted average shares outstanding – basic	6,593	6,573
Basic net income per share attributable to REX common shareholders	\$0.69	\$0.43
Weighted average shares outstanding – diluted	6,593	6,594
Diluted net income per share attributable to REX common shareholders	\$0.69	\$0.43

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES**Consolidated Condensed Statements Of Equity****Unaudited**

(In Thousands)

	REX Shareholders							
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount				
Balance at January 31, 2017	29,853	\$ 299	23,292	\$(313,838)	\$ 145,767	\$ 508,207	\$ 47,839	\$ 388,274
Net income						4,544	1,068	5,612
Stock based compensation expense	—	—	—	6	23	—	—	29
Balance at April 30, 2017	29,853	\$ 299	23,292	\$(313,832)	\$ 145,790	\$ 512,751	\$ 48,907	\$ 393,915
Balance at January 31, 2016	29,853	\$ 299	23,204	\$(309,754)	\$ 144,844	\$ 475,874	\$ 44,496	\$ 355,759
Net income						2,838	628	3,466
Treasury stock acquired			88	(4,353)				(4,353)
Stock based compensation expense				3	12			15
Noncontrolling interests distribution and other	—	—	—	—	—	—	(268)	(268)
Balance at April 30, 2016	29,853	\$ 299	23,292	\$(314,104)	\$ 144,856	\$ 478,712	\$ 44,856	\$ 354,619

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

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

	Three Months Ended April 30,	
	2017	2016
	(In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	\$5,612	\$3,466
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,934	4,812
Income from equity method investments	(700)	(233)
Gain on sale of investment	—	(192)
Deferred income tax	3	—
Stock based compensation expense	196	15
Changes in assets and liabilities:		
Accounts receivable	2,705	(1,833)
Inventories	(3,370)	(8,554)
Other assets	(30)	1,589
Accounts payable, trade	(1,308)	(2,284)
Other liabilities	723	(2,465)
Net cash provided by (used in) operating activities	8,765	(5,679)
Cash flows from investing activities:		
Capital expenditures	(5,905)	(4,474)
Restricted cash	—	(466)
Restricted investments and deposits	51	—
Proceeds from sale of investment	—	2,275
Other	6	6
Net cash used in investing activities	(5,848)	(2,659)
Cash flows from financing activities:		
Purchase of stock from noncontrolling interests holders	—	(268)
Treasury stock acquired	—	(4,709)
Net cash used in financing activities	—	(4,977)
Net increase (decrease) in cash and cash equivalents	2,917	(13,315)
Cash and cash equivalents, beginning of period	188,576	135,765
Cash and cash equivalents, end of period	\$191,493	\$122,450
Non cash investing activities – Accrued capital expenditures	\$1,284	\$634
Non cash financing activities – Equity awards accrued	\$167	\$—

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

April 30, 2017

Note 1. Consolidated Condensed Financial Statements

The consolidated condensed financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Financial information as of January 31, 2017 included in these financial statements has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 31, 2017 (fiscal year 2016). It is suggested that these unaudited consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2017. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

Basis of Consolidation – The consolidated condensed financial statements in this report include the operating results and financial position of REX American Resources Corporation and its wholly and majority owned subsidiaries. All intercompany balances and transactions have been eliminated. The Company includes the results of operations of One Earth Energy, LLC (“One Earth”) in its Consolidated Condensed Statements of Operations on a delayed basis of one month.

Nature of Operations – The Company operates in one reportable segment, alternative energy, and has equity investments in three ethanol limited liability companies, two of which are majority ownership interests.

Note 2. Accounting Policies

The interim consolidated condensed financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's fiscal year 2016 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist

or calculations that will be accomplished at fiscal year-end. Examples of such estimates include accrued liabilities, such as management bonuses, and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature. Actual results could differ from those estimates.

7

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.

Cost of Sales

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

Selling, General and Administrative Expenses

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

Financial Instruments

Certain of the forward grain purchase and ethanol, distillers grains and non-food grade corn oil sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of Accounting Standards Codification (“ASC”) 815, “*Derivatives and Hedging*” because these arrangements are for purchases of grain that will be delivered in quantities expected to be used by the Company and sales of ethanol, distillers grains and non-food grade corn oil quantities expected to be produced by the Company over a reasonable period of time in the normal course of business. During fiscal year 2015, the Company began to carry a portion of its forward grain purchase contracts at fair value.

The Company uses derivative financial instruments (exchange-traded futures contracts) to manage a portion of the risk associated with changes in commodity prices, primarily related to corn. The Company monitors and manages this exposure as part of its overall risk management policy. As such, the Company seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. The Company may take hedging positions in these commodities as one way to mitigate risk. While the Company attempts to link its hedging activities to purchase and sales activities, there are situations in which these hedging activities can themselves result in losses. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The changes in fair value of these derivative financial instruments are recognized in current period earnings as the Company does not use hedge accounting.

Income Taxes

The Company applies an effective tax rate to interim periods that is consistent with the Company's estimated annual tax rate as adjusted for discrete items impacting the interim periods. The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company paid no income taxes during the three months ended April 30, 2017 and 2016. The Company received no refunds of income taxes during the three months ended April 30, 2017 and 2016.

As of April 30, 2017 and January 31, 2017, total unrecognized tax benefits were approximately \$2,004,000 and \$1,875,000, respectively. Accrued penalties and interest were approximately \$238,000 and \$221,000 at April 30, 2017 and January 31, 2017, respectively. If the Company were to prevail on all unrecognized tax benefits recorded, the provision for income taxes would be reduced by approximately \$2,004,000. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. On a quarterly basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest.

Inventories

Inventories are carried at the lower of cost or market on a first-in, first-out basis. Inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related 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 were no significant permanent write-downs of inventory at April 30, 2017 and January 31, 2017. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time. The components of inventory are as follows as of the dates presented (amounts in thousands):

	April 30, 2017	January 31, 2017
Ethanol and other finished goods	\$3,159	\$5,262
Work in process	2,487	2,359
Grain and other raw materials	14,781	9,436
Total	\$20,427	\$17,057

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 2 to 20 years for fixtures and equipment.

In accordance with ASC 360-10 "*Impairment or Disposal of Long-Lived Assets*", the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. There were no impairment charges in the first three months of fiscal years 2017 or 2016. Impairment charges have historically resulted from the Company's management performing cash flow analysis and have represented management's estimate of the excess of net book value over fair value.

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).

Investments

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