REX AMERICAN RESOURCES Corp
Form 10-Q
May 31, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2013

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 incorporation or organization)	**(I.R.S. Employer Identification Number)**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S 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 S 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 S
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

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

At the close of business on May 30, 2013 the registrant had 8,165,338 shares of Common Stock, par value $.01 per share, outstanding.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
Unaudited

	April 30, 2013	January 31, 2013
Assets	(In Thousands)	
Current assets:		
Cash and cash equivalents	$73,771	$69,073
Accounts receivable	17,918	11,567
Inventories	21,185	24,919
Refundable income taxes	1,284	1,347
Prepaid expenses and other	3,998	4,091
Deferred taxes, net	1,843	3,930
Total current assets	119,999	114,927
Property and equipment, net	218,828	223,180
Other assets	5,917	6,761
Equity method investments	61,323	59,959
Restricted investments and deposits	503	503
Total assets	$406,570	$405,330
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt	$15,595	$15,623
Accounts payable, trade	6,919	4,655
Deferred income	353	627
Accrued real estate taxes	2,874	2,651
Accrued payroll and related items	639	302
Derivative financial instruments	1,759	1,859
Other current liabilities	5,198	5,742
Total current liabilities	33,337	31,459
Long-term liabilities:		
Long-term debt	87,133	91,306
Deferred taxes	7,154	7,141
Derivative financial instruments	586	930
Other long-term liabilities	—	211
Total long-term liabilities	94,873	99,588
Equity:		
REX shareholders’ equity:		
Common stock	299	299

Paid-in capital	143,705	143,575
Retained earnings	325,535	322,028
Treasury stock	(219,676)	(219,550)
Total REX shareholders’ equity	249,863	246,352
Noncontrolling interests	28,497	27,931
Total equity	278,360	274,283
Total liabilities and equity	$406,570	$405,330

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

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements Of Operations

Unaudited

	Three Months Ended April 30,	
	2013	2012
	(In Thousands, Except Per Share Amounts)	
Net sales and revenue	$178,747	$151,006
Cost of sales	169,650	145,481
Gross profit	9,097	5,525
Selling, general and administrative expenses	(3,746)	(2,710)
Equity in income of unconsolidated ethanol affiliates	1,599	442
Interest income	25	36
Interest expense	(1,059)	(1,276)
Other income	17	2
Gains (losses) on derivative financial instruments, net	4	(147)
Income from continuing operations before income taxes	5,937	1,872
Provision for income taxes	(2,104)	(541)
Income from continuing operations	3,833	1,331
Income from discontinued operations, net of tax	109	169
Gain (loss) on disposal of discontinued operations, net of tax	131	(8)
Net income	4,073	1,492
Net income attributable to noncontrolling interests	(566)	(559)
Net income attributable to REX common shareholders	$3,507	$933
Weighted average shares outstanding - basic	8,158	8,360
Basic income per share from continuing operations attributable to REX common shareholders	$0.40	$0.09
Basic income per share from discontinued operations attributable to REX common shareholders	0.01	0.02
Basic income per share from disposal of discontinued operations attributable to REX common shareholders	0.02	—
Basic net income per share attributable to REX common shareholders	$0.43	$0.11
Weighted average shares outstanding - diluted	8,200	8,439
Diluted income per share from continuing operations attributable to REX common shareholders	$0.40	$0.09
Diluted income per share from discontinued operations attributable to REX common shareholders	0.01	0.02
Diluted income per share from disposal of discontinued operations attributable to REX common shareholders	0.02	—
Diluted net income per share attributable to REX common shareholders	$0.43	$0.11

Amounts attributable to REX common shareholders:

Income from continuing operations, net of tax	$3,267	$772
Income from discontinued operations, net of tax	240	161
Net income	$3,507	$933

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 Shares	Amount	Treasury Shares	Amount	Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
Balance at January 31, 2013	29,853	$ 299	21,701	$(219,550)	$143,575	$322,028	$ 27,931	$274,283
Net income						3,507	566	4,073
Treasury stock acquired			31	(564)				(564)
Stock options and related tax effects	—	—	(43)	438	130	—	—	568
Balance at April 30, 2013	29,853	$ 299	21,689	$(219,676)	$143,705	$325,535	$ 28,497	$278,360

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

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,	
	2013	2012
	(In Thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	$4,073	$1,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,391	4,021
Income from equity method investments	(1,599)	(442)
(Gain) loss on disposal of real estate and property and equipment	(4)	16
Dividends received from equity method investees	200	2,005
Deferred income	(274)	(590)
Derivative financial instruments	(444)	(336)
Deferred income tax	2,026	—
Changes in assets and liabilities:		
Accounts receivable	(6,351)	(2,241)
Inventory	3,734	4,724
Refundable income taxes	150	552
Other assets	828	296
Accounts payable, trade	2,264	(996)
Other liabilities	(195)	(3,525)
Net cash provided by operating activities	8,799	4,976
Cash flows from investing activities:		
Capital expenditures	(32)	(1,683)
Restricted investments	—	360
Proceeds from sale of real estate and property and equipment	141	478
Net cash provided by (used in) investing activities	109	(845)
Cash flows from financing activities:		
Payments of long-term debt	(4,201)	(6,813)
Stock options exercised	555	259
Noncontrolling interests distribution and other	—	(526)
Treasury stock acquired	(564)	—
Net cash used in financing activities	(4,210)	(7,080)
Net increase (decrease) in cash and cash equivalents	4,698	(2,949)
Cash and cash equivalents, beginning of period	69,073	75,013
Cash and cash equivalents, end of period	$73,771	$72,064
Non cash financing activities - Cashless exercise of stock options	$—	$1,071

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, 2013

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, 2013 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, 2013 (fiscal year 2012). 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, 2013. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

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

Nature of Operations – The Company operates in two reportable segments, alternative energy and real estate. The Company substantially completed the exit of its retail business during the second quarter of fiscal year 2009, although it continues to recognize revenue and expense associated with administering extended service policies as discontinued operations.

Note 2. ***Accounting Policies***

The interim consolidated condensed financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company’s fiscal year 2012 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year-end. Examples of such estimates include accrued liabilities, such as management bonuses, and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes sales from the production of ethanol, distillers grains and non-food grade corn oil when title transfers to customers, upon shipment from its plant. Shipping and handling charges billed to customers are included in net sales and revenue.

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

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

Cost of Sales

Alternative energy cost of sales includes depreciation, costs of raw materials, inbound freight charges, purchasing and receiving costs, inspection costs, shipping costs, other distribution expenses, warehousing costs, plant management, certain compensation costs, and general facility overhead charges.

Real estate cost of sales includes depreciation, real estate taxes, insurance, repairs and maintenance and other costs directly associated with operating the Company's portfolio of real property.

Selling, General and Administrative Expenses

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

The Company includes costs not directly related to operating its portfolio of real property from its real estate segment such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

The Company includes costs associated with its corporate headquarters such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

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Interest Cost

No interest was capitalized for the three months ended April 30, 2013 and 2012. Cash paid for interest for the three months ended April 30, 2013 and 2012 was approximately $981,000 and $1,582,000, respectively.

Financial Instruments

The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreement was not designated for hedge accounting pursuant to Accounting Standards Codification (“ASC”) 815, *Derivatives and Hedging* (“ASC 815”). The interest rate swap is recorded at its fair value and the changes in fair value are recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statements of Operations. The Company paid settlements of the interest rate swap of approximately $440,000 and $483,000 for the three months ended April 30, 2013 and 2012, respectively.

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 ASC 815 because these arrangements are for purchases of grain that will be delivered in quantities expected to be used by the Company and sales of ethanol, 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.

Income Taxes

The Company applies an effective tax rate to interim periods that is consistent with the Company’s estimated annual tax rate. The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company paid no income taxes during the three months ended April 30, 2013 or April 30, 2012. The Company received no income tax refunds during the three months ended April 30, 2013 or 2012.

As of April 30, 2013, total unrecognized tax benefits were approximately $1,768,000 and accrued penalties and interest were approximately $405,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately $82,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. On a quarterly and annual basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest.

Inventories

Inventories are carried at the lower of cost or market on a first-in, first-out basis. Alternative energy segment inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related by-products. Inventory is permanently written down for instances when cost exceeds estimated net realizable value; such write-downs are based primarily upon commodity prices as the market value of inventory is often dependent upon changes in commodity prices. The write-down of inventory was approximately $1,000 and $466,000 at April 30, 2013 and January 31, 2013, respectively. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time. The components of inventory at April 30, 2013 and January 31, 2013 are as follows (amounts in thousands):

	April 30, 2013	January 31, 2013
Ethanol and other finished goods	$7,468	$7,306
Work in process	4,744	4,414
Grain and other raw materials	8,973	13,199
Total	$21,185	$24,919

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment.

In accordance with ASC 360-10 "*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 quarters of fiscal years 2013 and 2012. Impairment charges result from the Company's management performing cash flow analysis and represent management's estimate of the excess of net book value over fair value. Fair value is estimated using expected future cash flows on a discounted basis or appraisals of specific properties as appropriate. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. 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 asset groups in the real estate reportable segment) 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 asset groups in the alternative energy reportable segment).

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).

In the real estate reportable segment, 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. The real estate reportable segment includes both income producing and non-income producing asset groups.

In the alternative energy reportable segment, 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: 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. The alternative energy reportable segment includes only income producing asset groups.

Investments and Deposits

Restricted investments, which are principally money market mutual funds and cash deposits, are stated at cost plus accrued interest, which approximates fair value. Restricted investments at April 30, 2013 and January 31, 2013 are required by two states to cover possible future claims under extended service policies over the remaining lives of the service policy contracts. In accordance with ASC 320, "*Investments-Debt and Equity Securities*" the Company has classified these investments as available for sale.

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month. The Company accounts for investments in limited liability companies in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323, "*Investments-Equity Method and Joint Ventures*" are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method. Investments in which the

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Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method. The Company accounts for its investments in Big River Resources, LLC (“Big River”) and Patriot Holdings, LLC (“Patriot”) using the equity method of accounting and includes the results of these entities on a delayed basis of one month.

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company determines that a decline in market value is other than temporary, then a charge to earnings is recorded in the Consolidated Condensed Statements of Operations and a new cost basis in the investment is established.

Accounting Changes and Recently Issued Accounting Standards

Effective February 1, 2013, the Company was required to adopt the amended guidance in ASC 220 “*Comprehensive* Income”. This amendment requires disclosure of additional information regarding reclassification adjustments out of accumulated other comprehensive income including presentation of the amounts and individual income statement line items affected. This amendment is in addition to ASC 220 guidance adopted on February 1, 2012, which increased the prominence of other comprehensive income in the financial statements by eliminating the option to present other comprehensive income in the statement of stockholders’ equity, and rather requiring comprehensive income to be reported in either a single continuous statement or in two separate but consecutive statements reporting net income and other comprehensive income. The adoption of this amended guidance did not impact the Company’s consolidated condensed financial statements.

Effective February 1, 2013, the Company was required to adopt the third phase of amended guidance in ASC 820 “*Fair Value* Measurements *and Disclosures*”. The amendment established common fair value measurement and disclosure requirements by improving comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and those prepared in conformity with International Financial Reporting Standards. The amended guidance clarified the application of existing requirements and requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The adoption of this amended guidance did expand disclosure related to fair value but, otherwise, did not impact the Company’s consolidated condensed financial statements.

Note 3. ***Leases***

At April 30, 2013, the Company has lease agreements, as landlord, for all or portions of six owned former retail stores and one owned former distribution center. All of the leases are accounted for as operating leases. The following table is a summary of future minimum rentals on such leases (amounts in thousands):

Years Ended January 31,	Minimum Rentals
Remainder of 2014	$ 1,061
2015	1,070
2016	511
2017	443
2018	232
Thereafter	1,220
Total	$ 4,537

Note 4. *Fair Value*

The Company applies ASC 820, *Fair Value Measurements and Disclosures*, ("ASC 820") which provides a framework for measuring fair value under GAAP. This accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determines the fair market values of its financial instruments based on the fair value hierarchy established by ASC 820. ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values which are provided below. The Company carries cash equivalents, investment in cooperative, restricted investments and derivative liabilities at fair value.

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

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

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

The fair values of interest rate swaps are determined by using quantitative models that discount future cash flows using the LIBOR forward interest rate curve. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case interest rate, price or index scenarios are extrapolated in order to determine the fair value. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, the Company’s own credit standing and other specific factors, where appropriate.

The fair values of property and equipment, as applicable, are determined by using various models that discount future expected cash flows. Estimation risk is greater for vacant properties as the probability of expected cash flows from the use of vacant properties is difficult to predict.

To ensure the prudent application of estimates and management judgment in determining the fair values of derivative assets and liabilities and property and equipment, various processes and controls have been adopted, which include: model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; periodic review and substantiation of profit and loss reporting for all derivative instruments and property and equipment items.

Financial assets and liabilities measured at fair value on a recurring basis at April 30, 2013 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$2	$—	$—	$2
Money market mutual fund (1)	300	—	—	300
Investment in cooperative (1)	—	—	252	252
Total assets	$302	$—	$252	$554
Interest rate swap derivative liability	$—	$2,345	$—	$2,345

Financial assets and liabilities measured at fair value on a recurring basis at January 31, 2013 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$2	$—	$—	$2

Money market mutual fund (1)	300	—	—	300
Investment in cooperative (1)	—	—	252	252
Total assets	$302	$—	$252	$554
Interest rate swap derivative liability	$—	$2,789	$—	$2,789

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

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

Balance, January 31, 2013	$252
Current period activity	—
Balance, April 30, 2013	$252

The Company determined the fair value of the investment in cooperative by using a discounted cash flow analysis on the expected cash flows. Inputs used in the analysis include the face value of the allocated equity amount, the projected term for repayment based upon a historical trend, and a risk adjusted discount rate based on the expected compensation participants would demand because of the uncertainty of the future cash flows. The inherent risk and uncertainty associated with unobservable inputs could have a significant effect on the actual fair value of the investment.

There were no assets measured at fair value on a non-recurring basis subsequent to January 31, 2013.

Assets measured at fair value on a non-recurring basis as of January 31, 2013 are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Losses (1)
Property and equipment, net	$ —	$ —	$2,096	$ 419

(1) Total losses include impairment charges and loss on disposal.

The fair value of the Company's debt is approximately $102.8 million and $107.0 million at April 30, 2013 and January 31, 2013, respectively. The fair value was estimated with Level 2 inputs using a discounted cash flow analysis and the Company's estimate of market rates of interest for similar loan agreements with companies that have a similar credit risk.

Note 5. ***Property and Equipment***

The components of property and equipment at April 30, 2013 and January 31, 2013 are

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as follows (amounts in thousands):

	April 30, 2013	January 31, 2013
Land and improvements	$23,893	$23,980
Buildings and improvements	37,993	38,056
Machinery, equipment and fixtures	221,666	221,638
Construction in progress	43	39
	283,595	283,713
Less: accumulated depreciation	(64,767)	(60,533)
	$218,828	$223,180

Note 6. ***Other Assets***

The components of other assets at April 30, 2013 and January 31, 2013 are as follows (amounts in thousands):

	April 30, 2013	January 31, 2013
Deferred financing costs, net	$672	$781
Prepaid commissions	94	164
Deposits	2,064	2,064
Real estate taxes refundable	2,614	2,614
Other	473	1,138
Total	$5,917	$6,761

Note 7. ***Long Term Debt and Interest Rate Swaps***

One Earth Energy Subsidiary Level Debt

In September 2007, One Earth entered into a $111,000,000 financing agreement consisting of a construction loan agreement for $100,000,000 together with a $10,000,000 annually renewable revolving loan and a $1,000,000 letter of credit with First National Bank of Omaha (“the Bank”). The construction loan was converted into a term loan on July 31, 2009. The term loan bears interest at variable interest rates ranging from LIBOR plus 280 basis points to LIBOR plus 300 basis points (3.1% -3.3% at April 30, 2013). Beginning with the first quarterly payment on October 8, 2009, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (July 31, 2014) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed $6 million in a year.

Borrowings are secured by all of the assets of One Earth. This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2013, approximately $55.4 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including debt service coverage ratio requirements and working capital requirements. One Earth was in compliance with these covenants, as applicable, at April 30, 2013. On March 13, 2013, One Earth entered into an amendment of its loan agreement with the Bank. This amendment included:

1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at December 31, 2012 and

2) a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that One Earth maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning December 31, 2013.

Based on the Company's 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 One Earth will be able to maintain compliance with the covenants pursuant to its loan agreement with the Bank for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet One Earth's liquidity needs.

One Earth has paid approximately $1.4 million in financing costs. These costs are recorded as deferred financing costs and are amortized ratably over the term of the loan.

The Company's proportionate share of restricted net assets related to One Earth was approximately $78.9 million and $77.9 million at April 30, 2013 and January 31, 2013, respectively. Restricted net assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with the Bank.

As of the end of its first quarter, One Earth has no outstanding borrowings on the $10,000,000 revolving loan, which expires on May 31, 2014, nor any outstanding letters of credit.

One Earth entered into a forward interest rate swap in the notional amount of $50.0 million with the Bank. The swap settlements commenced as of July 31, 2009 and terminate on July 8, 2014. The swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9%. At April 30, 2013 and January 31, 2013, the Company recorded a liability of approximately $2.3 million and $2.8 million, respectively, related to the fair value of the swap. The change in fair value is recorded in the Consolidated Condensed Statements of Operations.

NuGen Energy Subsidiary Level Debt

In November 2011, NuGen entered into a $65,000,000 financing agreement consisting of a term loan for $55,000,000 and a $10,000,000 annually renewable revolving loan with First National Bank of Omaha (“the Bank”). The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor (4% at April 30, 2013). Beginning with the first quarterly payment on February 1, 2012, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (October 31, 2016) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 40% of annual excess cash flows are also due. Such payments cannot exceed $5 million in a year.

Borrowings are secured by all of the assets of NuGen. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries. As of April 30, 2013, approximately $46.8 million was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement, including debt service coverage ratio requirements and working capital requirements. NuGen was in compliance with these covenants, as applicable, at April 30, 2013. On March 13, 2013, NuGen entered into an amendment of its loan agreement with the Bank. This amendment included:

1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at January 31, 2013 and

2) a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that NuGen maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning January 31, 2014 and

3) a modification of the covenant regarding maintenance of working capital levels to a requirement that NuGen maintain minimum working capital of not less than $7.5 million measured at its quarters ending April 30, 2013, July 31, 2013, and October 31, 2013. As of January 31, 2014 and thereafter, NuGen shall maintain minimum working capital of not less than $10.0 million.

Based on the Company’s 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 NuGen will be able to maintain compliance with the covenants pursuant to its loan agreement with the Bank for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet NuGen’s liquidity needs.

NuGen has paid approximately $0.6 million in financing costs. These costs are recorded as deferred financing costs and are amortized ratably over the term of the loan.

The Company’s proportionate share of restricted net assets related to NuGen was approximately $51.3 million and approximately $49.5 million at April 30, 2013 and January 31, 2013, respectively. Restricted net assets may not be paid in the form of dividends or advances to the parent company or other members of NuGen per the terms of the loan agreement with the Bank.

NuGen has no outstanding borrowings on the $10,000,000 revolving loan as of April 30, 2013 which expires on May 31, 2014.

Note 8. ***Financial Instruments***

The Company uses an interest rate swap to manage its interest rate exposure at One Earth by fixing the interest rate on a portion of the entity's variable rate debt. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. The notional amount and fair value of the derivative, which is not designated as a cash flow hedge at April 30, 2013, are summarized in the table below (amounts in thousands):

	Notional Amount	Fair Value Liability
Interest rate swap	$36,759	$ 2,345

As the interest rate swap is not designated as a cash flow hedge, the unrealized gain and loss on the derivative is reported in current earnings. The Company reported gains of $4,000 in the first quarter of fiscal year 2013 and losses of $147,000 in the first quarter of fiscal year 2012.

Note 9*.* ***Stock Option Plans***

The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant. No options have been granted since fiscal year 2004.

The total intrinsic value of options exercised during the three months ended April 30, 2013 and 2012 was approximately $0.3 million and $1.7 million, respectively, resulting in tax deductions of approximately $0.1 million and $0.2 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2013	168,755	$ 12.46		
Exercised	(43,305)	$ 12.82		
Outstanding and exercisable at April 30, 2013	125,450	$ 12.34	0.9	$ 797

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

At April 30, 2013, there was no unrecognized compensation cost related to nonvested stock options.

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

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

	Three Months Ended April 30, 2013			Three Months Ended April 30, 2012		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	$3,267	8,158	$0.40	$772	8,360	$0.09
Effect of stock options	—	42		—	79	
Diluted income per share from continuing operations attributable to REX common shareholders	$3,267	8,200	$0.40	$772	8,439	$0.09

For the three months ended April 30, 2013 and 2012, all shares subject to outstanding options were dilutive.

Note 11. ***Investments and Restricted Deposits***

The Company has approximately $203,000 at April 30, 2013 and January 31, 2013 on deposit with the Florida Department of Financial Services to secure its obligation to fulfill future obligations related to extended warranty contracts sold in the state of Florida. As such, this deposit is restricted from use for general corporate purposes.

In addition to the deposit with the Florida Department of Financial Services, the Company has $300,000 at April 30, 2013 and January 31, 2013 invested in a money market mutual fund to satisfy Florida Department of Financial Services regulations. As such, this investment is restricted from use for general corporate purposes.

The following table summarizes equity method investments at April 30, 2013 and January 31, 2013 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount	Carrying Amount

			April 30, 2013	January 31, 2013
Big River	10	%	$32,882	$32,438
Patriot	27	%	28,441	27,521
Total Equity Method Investments			$61,323	$59,959

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

	Three Months Ended April 30,	
	2013	2012
Big River	$644	$557
Patriot	955	(115)
Total		