

REX AMERICAN RESOURCES Corp  
Form 10-K  
April 09, 2014

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, 2014 COMMISSION FILE NO. 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

31-1095548  
(I.R.S. Employer Identification No.)

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

45459  
(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	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange

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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, 2013 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 2,602,773 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was \$202,530,910.

There were 8,120,561 shares of the registrant's Common Stock outstanding as of April 8, 2014.

Documents Incorporated by Reference

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Portions of REX American Resources Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 3, 2014 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 diversification out of the retail business into the ethanol business.

At January 31, 2014, we had lease agreements, as landlord, for four owned former retail stores and had seven vacant former retail properties. We are marketing these vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with terms of five to twenty years.

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 2014.

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 lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

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 grain 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 2013 was subject to significant volatility. For calendar year 2013, the average Chicago Board of Trade (“CBOT”) near-month corn price was approximately \$5.45 per bushel, ranging from a low of approximately \$4.12 per bushel in November 2013 to a high of approximately \$7.36 per bushel in February 2013. Corn prices were high at the beginning of 2013 as a result of the drought condition experienced in the Midwest in 2012 and decreased later in 2013 as a result of the much improved corn harvest in 2013. Ethanol prices had significant fluctuations ranging from approximately \$1.61 per gallon in November 2013 to approximately \$2.74 per gallon in May 2013. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2013, the CBOT crush spread (excludes any impact from variations in local corn and ethanol prices due to basis paid or charged) ranged from a low of approximately negative \$0.16 per gallon in February 2013 to a high of approximately \$0.70 per gallon in August 2013. The actual crush spreads we realized varied from the published CBOT crush spreads as we paid larger than normal basis for corn for much of 2013 resulting from the 2012 drought and risk management practices.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$63.2 million in fiscal year 2013 compared to a segment loss of approximately \$1.0 million in fiscal year 2012. 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 2013 and lower corn prices in the second half of fiscal year 2013 resulting from the improved corn harvest in the current year. We expect that future operating results, from our consolidated plants, will be based upon combined annual production of between 200 and 230 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 2013 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 to file and defend patents for eSteam technology relating to heavy oil and oil sands production methods, and 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 HPGP 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 HPGP. The owner of Hytken HPGP has been retained as a consultant.

We have 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 HPGP. 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 \$1.0 million for our ownership interest, patent and other expenses. Results of the formation and year to date operations of Future Energy were immaterial to the Consolidated Financial Statements.

Additional information regarding our business segments is presented below and in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in this Form 10-K. See Note 18 of the Notes to the Consolidated Financial Statements for information regarding the net sales and revenues and operating results for each of our business segments for the fiscal years ended January 31, 2014, 2013 and 2012.

## **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 2013” means the period February 1, 2013 to January 31, 2014. We refer to our fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

## **Alternative Energy Overview**

As part of our efforts to diversify and increase our earnings, 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.



We follow a flexible model for our investments in ethanol plants, taking both minority and majority ownership positions. 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 invested in four entities as of January 31, 2014, utilizing equity investments. The following table is

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a summary of our ethanol investments at January 31, 2014 (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	113.2	74	% 83.8
NuGen Energy, LLC	114.0	99	% 112.9
Patriot Holdings, LLC	120.6	27	% 32.6
Big River Resources W Burlington, LLC	104.1	10	% 10.4
Big River Resources Galva, LLC	112.5	10	% 11.3
Big River United Energy, LLC	116.8	5	% 5.8
Big River Resources Boyceville, LLC	55.5	10	% 5.6
Total	736.7		262.4

***One Earth Energy, LLC***

On October 30, 2007, we acquired 74% of the outstanding membership units of One Earth Energy, LLC, or One Earth, for \$50.8 million. We consolidate One Earth with our financial results and include them in our alternative energy segment. One Earth completed construction and commenced operations in the second quarter of fiscal year 2009 of its ethanol production facility in Gibson City, Illinois.

***NuGen Energy, LLC***

Effective July 1, 2010, we acquired a 48% equity interest in NuGen Energy, LLC, or NuGen, which operates an ethanol producing facility in Marion, South Dakota. We consolidate NuGen with our financial results and include them in our alternative energy segment. Our investment included \$2,410,000 paid at closing to the then sole shareholder of NuGen and \$6,805,000 contributed directly to NuGen. An additional \$6,451,000 was due based upon cash distributions from NuGen ("Contingent Consideration"). On November 1, 2011, we acquired an additional 50% equity interest in NuGen. Following the purchase, we owned all of the outstanding Class A membership interest units in NuGen, representing a 100% voting interest and a 98% equity interest in NuGen. The purchase price, which included settlement of our remaining Contingent Consideration liability, was \$12,678,000. We also contributed an additional \$7,000,000 to NuGen at closing. During fiscal year 2012, NuGen repurchased units from certain members, which has resulted in REX owning a 99% equity interest in NuGen.

***Patriot Holdings, LLC***

We have invested approximately \$18.0 million in Patriot Holdings, LLC, or Patriot, for a 27% ownership interest. Patriot commenced production operations in the second quarter of fiscal year 2008. The plant is located in Annawan, Illinois.

***Big River Resources, LLC***

We have invested \$20 million in Big River Resources, LLC, or Big River, for a 10% ownership interest. 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 five agricultural elevators with a storage capacity of 10 million bushels. During fiscal year 2013, Big River invested in a zein protein plant.

## 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 13.3 billion gallons of ethanol in 2013. According to the RFA, as of January 2014, the United States ethanol industry has grown to 210 plants (192 operating) in 28 states with an annual nameplate capacity of approximately 14.9 billion gallons (approximately 14.0 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 13.8 billion gallons per year in 2013. The RFS was scheduled to increase to 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 has proposed to reduce the mandates for 2014 to approximately 13.0 billion gallons from conventional biofuels and approximately 2.2 billion gallons from advanced biofuels. The reduced mandates for 2014 were subject to a public comment period which ended in January 2014 and final regulations are expected to be established later in 2014. Presently, there have been no changes proposed for years beyond 2014.

## *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 significant portion of the corn cost not absorbed in ethanol production. During fiscal year 2012, we began generating revenues from 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 for the purpose of extending the volume of fuel sold at the gas pump and to meet the RFS. Blending ethanol allows refiners to produce more fuel from a given barrel of oil. Currently, ethanol is blended into approximately 96% 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.

### **Synthetic Fuel Partnerships**

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and

content of solid synthetic fuel produced and sold to unrelated parties. We received a final payment of approximately \$2.9 million in fiscal year 2011 related to the sale of one of the partnerships. The Section 29/45K tax credit program expired on December 31, 2007. As such, we will not receive additional income from these investments.

### **Real Estate Operations**

At January 31, 2014, we had lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet), that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell.

A typical lease agreement has an initial term of five to twenty years with renewal options. Most of our lessees are responsible for a portion of maintenance, taxes and other executory costs. We require our lessees to maintain adequate levels of insurance. We recognized lease revenue of approximately \$466,000 and \$472,000 during fiscal years 2013 and 2012, respectively.

## **Retail**

When we operated retail stores, we offered extended service contracts to our customers which typically provided, inclusive of manufacturers' warranties, one to five years of warranty coverage. All such service contracts have expired as of January 31, 2014. We recognized the associated deferred income and expenses, including the cost to repair or replace covered products, over the remaining life of the contracts. We have classified as discontinued operations all retail related activities, including those activities associated with extended service plans, in the Consolidated Statements of Operations for all periods presented.

## **Facilities**

At January 31, 2014, we own four former retail store properties that are leased to outside, unrelated parties, and seven 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 are 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, 2014, we had 105 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 Income Tax Benefits**

### **We may not be able to generate sufficient taxable income to realize our deferred tax assets.**

We have approximately \$19.8 million of alternative minimum tax (“AMT”) credit carryforwards recorded as deferred tax assets on our consolidated financial statements. Should future results of operations or other factors cause us to determine that it is not more likely than not that we will generate sufficient taxable income to fully utilize our deferred tax assets, we would then be required to establish a valuation allowance against such deferred tax assets. We would increase our income tax expense by the amount of the tax benefit we do not expect to realize. This would negatively impact our net income (loss) and could have a material adverse effect on our results of operations and our financial position.

## **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 13.3 billion gallons of annual ethanol production in 2013. 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 have invested in have 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 the companies which own and operate our ethanol plants hold 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 to obtain 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 their 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 their 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 decreases.

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 14.9 billion gallons per year at January 2014. The RFA estimates that, as of January 2014, approximately 167 million gallons per year of additional production capacity is under construction or expansion. Current ethanol production capacity exceeds the proposed 2014 RFS requirement which can be satisfied by corn based ethanol (13.0 billion gallons). 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.**

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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.

**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.

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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. All of these bills were assigned to congressional committees, which will consider them before sending any legislation to Congress.

Under EISA, the EPA has the authority to waive 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 2013, 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 includes several approaches for establishing the 2014 standards. The proposal seeks comment on a range of total renewable fuel volumes for 2014 and proposes a level within that range of 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. If the EPA reduces the 2014 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 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

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a 20% threshold reduction in greenhouse gas (GHG) emissions from a 2005 baseline measurement to produce ethanol eligible for the RFSII 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 significant 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.

**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.

Larger firms offer efficiencies and economies of scale, resulting in lower costs of production. In addition, 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.

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

Our subsidiaries that operate ethanol plants (“ethanol subsidiaries”) have 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 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, all of our 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.

**Risks Related to the Exit of our Retail business and Risks Related to our Real Estate Segment.**

**We have vacant retail space after the completion of the wind down of our retail business.**

At January 31, 2014, we own seven former retail store properties comprising approximately 86,000 square feet of vacant real estate. We are currently marketing these facilities for lease or sale. In addition, we have four former retail store locations with leases in place to tenants. We may not be able to successfully lease or sell these properties which could result in lost opportunities for revenue or future impairment charges related to the carrying value of the associated assets. We also have costs related to the vacant properties such as property taxes and utilities that we would have to bear without any revenue from such properties.

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

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**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. We spent approximately \$1.0 million on this technology during fiscal year 2013. eSteam is a 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.

**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.

Name	Age	Position
Stuart Rose	59	Chairman of the Board and Chief Executive Officer*
Douglas Bruggeman	53	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	64	Secretary*
Zafar Rizvi	64	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

## **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, 2012	\$33.95	\$24.61
July 31, 2012	28.05	16.22
October 31, 2012	19.59	17.12



January 31, 2013	21.98	14.43
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

As of April 8, 2014, there were 106 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 currently have no restrictions on the payment of dividends. Our ethanol subsidiaries have certain restrictions on their ability to pay dividends to members (including REX). One Earth paid dividends to REX of approximately \$4.4 million, \$4.1 million and \$5.1 million during fiscal years 2013, 2012 and 2011, respectively. NuGen paid dividends to REX of

approximately \$5.0 million and \$1.3 million during fiscal years 2013 and 2011, respectively. NuGen paid no dividends to REX in fiscal year 2012.

#### Issuer Purchases of Equity Securities

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
November 1-30, 2013	14,135	\$ 28.80	14,135	280,006
December 1-31, 2013	—	\$ —	—	280,006
January 1-31, 2014	—	\$ —	—	280,006
<b>Total</b>	<b>14,135</b>	<b>\$ 28.80</b>	<b>14,135</b>	<b>280,006</b>

(1) On August 2, 2012, our Board of Directors increased our share repurchase authorization by an additional 500,000 shares. At January 31, 2014, a total of 280,006 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, 2009 and ended January 31, 2014. The graph assumes an investment of \$100 in our Common Stock and each index on January 31, 2009 and reinvestment of all dividends.

\* The peer group is comprised of Pacific Ethanol, Inc. and Green Plains Renewable Energy, Inc. In prior years, the peer group included BioFuel Energy Corporation; which has ceased ethanol operations, and has been removed from the peer group.

## 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.

### Five Year Financial Summary

(In Thousands, Except Per Share Amounts)

Years Ended January 31,	2014	2013	2012	2011	2010
Net sales and revenue (a)	\$666,091	\$656,639	\$409,879	\$234,737	\$98,423
Net income attributable to noncontrolling interests	\$(5,156 )	\$(707 )	\$(5,428 )	\$(3,673 )	\$(3,900 )
Income (loss) from continuing operations attributable to REX common shareholders, net of tax (a)	\$33,919	\$(2,902 )	\$27,129	\$18,477	\$4,472
Net income (loss) attributable to REX common shareholders (b)	\$35,073	\$(2,295 )	\$28,270	\$5,069	\$8,652
Basic income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$4.17	\$(0.35 )	\$2.97	\$1.91	\$0.48
Diluted income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$4.15	\$(0.35 )	\$2.95	\$1.88	\$0.47
Basic net income (loss) per share attributable to REX common shareholders (b)	\$4.31	\$(0.28 )	\$3.10	\$0.53	\$0.93
Diluted net income (loss) per share attributable to REX common shareholders (b)	\$4.29	\$(0.28 )	\$3.08	\$0.52	\$0.91
Total assets	\$427,868	\$405,330	\$438,049	\$375,722	\$451,505
Long-term debt and capital lease obligations, net of current maturities	\$63,500	\$91,306	\$108,527	\$70,973	\$126,689

Amounts differ from those previously reported as the results of our former retail segment and certain alternative a)energy and real estate operations have been reclassified into discontinued operations. See Note 16 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.

In fiscal year 2007, we began to evaluate strategic alternatives for our retail segment with a focus on closing unprofitable or marginally profitable retail stores and monetizing our retail-related real estate assets. We did not believe that we were generating an adequate return from our retail business due to the competitive nature of the consumer electronics and appliance industry and the overall economic conditions in the United States. 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, 2014, we had lease agreements for all or parts of four former retail properties and had seven vacant former retail properties. We are marketing the vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with a term of five to twenty 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 investments in the alternative energy segment during fiscal year 2014.

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 lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

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 2013 was subject to significant volatility. For calendar year 2013, the average CBOT near-month corn price was approximately \$5.45 per bushel, ranging from a low of approximately \$4.12 per bushel in November 2013 to a high of approximately \$7.36 per bushel in February 2013. Corn prices were high at the beginning of 2013 as a result of the drought condition experienced in the Midwest in 2012 and decreased later in 2013 as a result of the much improved corn harvest in 2013. Ethanol prices had significant fluctuations ranging from approximately \$1.61 per gallon in November 2013 to approximately \$2.74 per gallon in May 2013. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2013, the CBOT crush spread (excludes any impact from variations in local corn and ethanol prices due to basis paid or charged) ranged from a low of approximately negative \$0.16 per gallon in February 2013 to a high of approximately \$0.70 per gallon in August 2013. The actual crush spreads we realized varied from the published CBOT crush spreads as we paid higher than normal basis for corn for much of 2013 resulting from the 2012 drought and our risk management practices.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$63.2 million in fiscal year 2013 compared to a segment loss of approximately \$1.0 million in fiscal year 2012. 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 2013 and lower corn prices in the second half of fiscal year 2013 are a result of the improved 2013 corn harvest. We expect that future operating results, from our consolidated plants, will be based upon combined annual production of between 200 and 230 million gallons of ethanol, which assumes that our consolidated ethanol plants will operate at or near 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 2013 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 to file and defend patents for technology relating to heavy oil and oil sands production methods, and 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 HPGP 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 HPGP. The owner of Hytken HPGP has been retained as a consultant.

We have 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 HPGP. 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 \$1.0 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 currently invested in four entities as of January 31, 2014, utilizing equity investments.

The following table is a summary of our ethanol investments at January 31, 2014 (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	113.2	74	% 83.8
NuGen Energy, LLC	114.0	99	% 112.9
Patriot Holdings, LLC	120.6	27	% 32.6
Big River Resources W Burlington, LLC	104.1	10	% 10.4
Big River Resources Galva, LLC	112.5	10	% 11.3
Big River United Energy, LLC	116.8	5	% 5.8
Big River Resources Boyceville, LLC	55.5	10	% 5.6
Total	736.7		262.4

## Investment in Synthetic Fuel Partnerships

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. The Section 29/45K tax credit program expired on December 31, 2007. During fiscal year 2005, we sold our membership interest in a limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. In addition to certain other payments, the Company was eligible to receive \$1.50 per ton of "qualified production" produced by the facility and sold through December 2007. The plant was subsequently sold and during fiscal year 2006, the Company modified its agreement with the owners and operators of the synthetic fuel facility. During fiscal year 2011, a final payment of \$2.9 million was received with respect to the "qualified production". Income related to this payment was recognized during fiscal year 2011, as collectability of the amount became assured. We will not receive additional payments, or recognize additional income, from this investment.

## Real Estate Operations

At January 31, 2014, we have lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet) that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell. During fiscal year 2013, we sold our single largest property for approximately \$5.5 million, which was a former distribution center (when we operated our retail segment) and was partially leased, partially vacant and partially occupied by our corporate office personnel.

## **Results of Operations**

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

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

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2013 were approximately \$666.1 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. This increase was primarily caused by higher sales in our alternative energy segment of approximately \$9.5 million. Net sales and revenue from our real estate segment were consistent with the prior year. The following table reflects the approximate percent of net sales and revenue for each product and service group for the periods presented:

Product or Service Category	Fiscal Year		
	2013	2012	2011
Ethanol	75 %	75 %	82 %
Dried distillers grains	19	18	17
Modified distillers grains	3	4	1
Other	3	3	—
Total	100 %	100 %	100 %

**Gross Profit** – Gross profit was approximately \$64.2 million in fiscal year 2013, or 9.6% of net sales and revenue, versus approximately \$13.6 million in fiscal year 2012 or 2.1% of net sales and revenue. This represents an increase of approximately \$50.5 million. Gross profit for fiscal year 2013 increased by approximately \$50.4 million from the prior year as a result of operations in the alternative energy segment. Gross loss for fiscal year 2013 decreased by approximately \$0.1 million compared to the prior year from our real estate segment.

**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. Compared to the prior year, these expenses increased approximately \$4.5 million and \$0.8 million in the alternative energy segment and corporate and other category, respectively.

**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. Big River has an effective ownership of ethanol gallons shipped in the trailing twelve months ended January 31, 2014 of approximately 331 million gallons. Patriot has one plant which shipped approximately 121 million gallons of ethanol in the trailing 12 months ended January 31, 2014.

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 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 2013 results.

**Interest Income** – Interest income of approximately \$0.1 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 attributable to the alternative energy segment as scheduled and accelerated principal repayments have reduced our debt levels. Based on current interest rates and debt levels, we expect interest expense to be in the range of \$2.2 million to \$2.9 million in fiscal year 2014.

**Other Income** – Other income of approximately \$0.1 million for fiscal year 2013 was consistent with the fiscal year 2012 amount. We do not expect other income to be significant in future periods.

**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 in our alternative energy segment.

**Loss on Derivative Financial Instruments** – We recognized losses of approximately \$39,000 and approximately \$370,000 during fiscal years 2013 and 2012, respectively, related to a forward interest rate swap that One Earth entered into during fiscal year 2007. As the swap expires in July 2014, we do not expect any future gains or losses to be significant. 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 42.6% 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 \$39.1 million for fiscal year 2013 versus a loss of approximately \$2.2 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 \$0.4 million in fiscal year 2013 compared to approximately \$0.5 million in fiscal year 2012. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Gain on sale, net of taxes, of approximately \$0.7 million was recognized

for eight properties classified as discontinued operations during fiscal year 2013. Six properties were sold and classified as discontinued operations in fiscal year 2012, resulting in a gain, net of taxes of approximately \$0.1 million. We expect income from discontinued operations to decline in future periods as our extended service plan activities ended in fiscal year 2013.

***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 and NuGen. 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.

## Business Segment Results

We have two segments: alternative energy and real estate. The real estate segment was formerly included in the retail segment. For closed former retail stores and warehouses where we have a retained interest in the related real estate, operations are presented in the real estate segment. Historical results from retail store operations have been reclassified as discontinued operations for all periods presented.

The following sections discuss the results of operations for each of our business segments and corporate and other. As discussed in Note 18, our chief operating decision maker (as defined by Accounting Standards Codification (“ASC”) 280 “*Segment Reporting*”) evaluates the operating performance of our business segments using a measure we call segment profit. Segment profit excludes income taxes, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America. Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

Items excluded from segment profit generally result from decisions made by corporate executives. Financing, divestiture and tax structure decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables us to evaluate business segment operating performance based upon current economic conditions. Amounts in the corporate category below include business activities that are not separately reportable (amounts in thousands):

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenues:			
Alternative energy	\$665,625	\$656,167	\$408,635
Real estate	466	472	244
Total net sales and revenues	\$666,091	\$656,639	\$408,879
Segment gross profit (loss):			
Alternative energy	\$64,261	\$13,830	\$35,179
Real estate	(110 )	(228 )	(348 )

Total gross profit	\$64,151	\$13,602	\$34,831
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Segment profit (loss):			
Alternative energy segment	\$63,228	\$(1,027)	\$48,580
Real estate	(358 )	(497 )	(603 )
Corporate expenses, net	(3,100 )	(2,298)	(2,048 )
Income from synthetic fuel investments	—	—	2,883
Income (loss) from continuing operations before income taxes	\$59,770	\$(3,822)	\$48,812

**Alternative Energy**

The alternative energy segment includes the consolidated financial results of One Earth and NuGen, our other investments in ethanol facilities, the income or loss related to those investments and certain administrative expenses. One Earth began limited production operations late in the second quarter of fiscal year 2009 and became fully operational during the third quarter of fiscal year 2009. Effective November 1, 2011, we obtained a controlling financial interest in NuGen. Thus, we began consolidating the results of NuGen prospectively as of the acquisition date. Prior to November 1, 2011, we used the equity method of accounting to account for the results of NuGen.

The following table summarizes sales from One Earth and NuGen, by product group (amounts in thousands):

	Years Ended January 31,	
	2014	2013
Ethanol	\$ 500,203	\$ 495,249
Dried distillers grains	125,575	114,732
Modified distillers grains	18,998	27,463
Other	20,849	18,723
Total	\$ 665,625	\$ 656,167

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

	Years Ended January 31,	
	2014	2013
Average selling price per gallon of ethanol	\$ 2.20	\$ 2.23
Average selling price per ton of dried distillers grains	\$ 233.27	\$ 235.56
Average selling price per ton of modified distillers grains	\$ 114.91	\$ 117.89
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 for the current year increased approximately \$9.5 million over the prior year to approximately \$665.6 million. Ethanol sales increased from approximately \$495.2 million in the prior year to approximately \$500.2 million in the current year. The average selling price per gallon of ethanol decreased from \$2.23 in the prior year to \$2.20 in the current year. Our ethanol sales were based upon



approximately 227.2 million gallons in the current year compared to approximately 222.0 million gallons in the prior year. Our dried distillers grains sales increased from approximately \$114.7 million in the prior year to approximately \$125.6 million in the current year. The average selling price per ton of dried distillers grains decreased from \$235.56 in the prior year to \$233.27 in the current year. Our dried distillers grains sales were based upon approximately 538,000 tons in the current year compared to approximately 487,000 tons in the prior year. Our modified distillers grains sales decreased from approximately \$27.5 million in the prior year to approximately \$19.0 million in the current year. The average selling price per ton of modified distillers grains decreased from \$117.89 in the prior year to \$114.91 in the current year. Our modified distillers grains sales were based upon approximately 165,000 tons in the current year compared to approximately 233,000 tons in the prior year. Non-food grade corn oil sales increased from approximately \$16.0 million in the prior year to approximately \$18.8 million in the current year.

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

<u>Product</u>	<u>Annual Sales Quantity</u>
Ethanol	200 million to 230 million gallons
Dried distillers grains	600,000 to 650,000 tons
Modified distillers grains	80,000 to 130,000 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 from alternative energy segment sales was approximately \$64.3 million during the current year compared to approximately \$13.8 million during the prior year. The crush spread for fiscal year 2013 was approximately \$(0.04) per gallon of ethanol sold compared to fiscal year 2012 which was approximately \$(0.32) per gallon of ethanol sold. 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. 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. Approximately 10% of our forecasted ethanol, approximately 26% of our forecasted distillers grains and approximately 11% 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 2014 of approximately \$46.6 million. Similarly, approximately 8% 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 2014 of approximately \$32.3 million.

Selling, general and administrative expenses were approximately \$14.5 million in fiscal year 2013, a \$4.6 million increase from approximately \$9.9 million in fiscal year 2012. The increase is primarily a result of increases in incentive compensation related to the higher segment profitability in fiscal year 2013 and an increase in the rates for rail car leases. We expect selling, general and administrative expenses to remain consistent with fiscal year 2013 results in future periods, assuming overall corporate profitability remains relatively consistent.

Income from equity method investments in Big River and Patriot increased from approximately \$0.6 million in the prior year to approximately \$17.2 million in the current year.

We recognized approximately \$8.8 million of income from Big River in fiscal year 2013 which is approximately \$8.5 million higher than the prior year amount of approximately \$0.3 million. Big River's results in the current year were positively impacted from the increased crush spread experienced in the ethanol industry.

We recognized approximately \$8.4 million of income from Patriot in fiscal year 2013, which is approximately \$8.0 million higher than the prior year amount of approximately \$0.4 million. Patriot's results in the current year were positively impacted from the increased crush spread experienced in the ethanol industry.

Given the inherent volatility in the factors that affect the crush spread, we cannot predict the likelihood that the trend with respect to income from equity method investments will continue in future periods.

Interest expense decreased approximately \$0.9 million from the prior year to approximately \$3.9 million in the current year. This decrease was primarily a result of reduced debt levels from scheduled and accelerated principal repayments. Based on current interest rates and debt levels, we expect interest expense to be in the range of \$2.2 million to \$2.9 million in fiscal year 2014.

Other income of approximately \$0.1 million in fiscal year 2013 was consistent compared to the prior year. We do not expect other income to be significant in future periods.

Losses on derivative financial instruments held by One Earth were approximately \$39,000 in the current year compared to approximately \$0.4 million in the prior year. As the swap expires in July 2014, we do not expect any future gains or losses to be significant.

As a result of the factors discussed above, segment results increased to a profit of approximately \$63.2 million in the current year from a loss of approximately \$1.0 million in the prior year.

## **Real Estate**

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

At January 31, 2014, we have lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet) that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell.

Net sales and revenue of approximately \$0.5 million for the current year were consistent with the prior year amount. We expect lease revenue for future periods to be consistent with the fiscal year 2013 amount based upon leases currently executed. Gross loss from this segment was approximately \$0.1 million during the

current year compared to approximately \$0.2 million during the prior year. We expect gross profit or loss for fiscal year 2013 to be insignificant based upon leases currently executed.

Selling, general and administrative expenses were approximately \$0.2 million in fiscal year 2013, consistent with the approximately \$0.3 million in fiscal year 2012. We expect selling, general and administrative expenses in future periods to remain consistent with comparable historical periods.

As a result of the factors discussed above, segment loss was approximately \$0.4 million in the current year compared to approximately \$0.5 million in the prior year. Excluding any property sales that may occur in fiscal year 2014, we expect to generate another segment loss in fiscal year 2014 based upon the current number of vacant properties.

### **Corporate and Other**

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

Selling, general and administrative expenses were approximately \$3.1 million in the current year, an increase of approximately \$0.8 million over the approximately \$2.3 million of expenses in the prior year. A majority of the increase is a result of the research and development activities of Future Energy. We expect selling, general and administrative expenses in future periods to be consistent with current year levels.

### **Comparison of Fiscal Years Ended January 31, 2013 and 2012**

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2012 were approximately \$656.6 million, a 60.6% increase from approximately \$408.9 million in fiscal year 2011. Net sales and revenue do not include sales from operations classified as discontinued operations. This increase was primarily caused by higher sales in our alternative energy segment of approximately \$247.5 million. The increase in alternative energy segment sales was primarily a result of consolidating NuGen for the full year in fiscal year 2012. We accounted for the results of NuGen using the equity method of accounting until the fourth quarter of fiscal year 2011, at which time we obtained a controlling financial interest in NuGen, and thus, began consolidating the results. Net sales and revenue from our real estate segment increased \$0.2 million over the prior year to approximately \$0.5 million.

**Gross Profit** – Gross profit was approximately \$13.6 million in fiscal year 2012, or 2.1% of net sales and revenue, versus approximately \$34.8 million in fiscal year 2011 or 8.5% of net sales and revenue. This represents a decrease of

approximately \$21.2 million. Gross profit for fiscal year 2012 decreased by approximately \$21.3 million from the prior year as a result of operations in the alternative energy segment. Gross loss for fiscal year 2012 decreased by approximately \$0.1 million compared to the prior year from our real estate segment.

***Selling, General and Administrative Expenses***— Selling, general and administrative expenses for fiscal year 2012 were approximately \$12.5 million (1.9% of net sales and revenue), an increase of approximately \$2.1 million or 20.9% from approximately \$10.4 million (2.5% of net sales and revenue) for fiscal year 2011. Compared to the prior year, these expenses increased approximately \$2.1 million in the alternative energy segment.

***Equity in Income of Unconsolidated Ethanol Affiliates*** – During fiscal years 2012 and 2011, we recognized income of approximately \$0.6 million and \$21.5 million, respectively, from our equity investments in Big River, Patriot and NuGen. Effective November 1, 2011, we acquired an additional 50% equity interest in



NuGen. As of November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating their results prospectively.

Income from Big River and Patriot in fiscal year 2012 was significantly lower than fiscal year 2011 levels. Income from Big River was approximately \$0.3 million and \$6.9 million in fiscal years 2012 and 2011, respectively. Income from Patriot was approximately \$0.4 million and \$5.3 million in fiscal years 2012 and 2011, respectively. Big River's and Patriot's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry. Income from NuGen was approximately \$9.3 million in fiscal year 2011.

***Bargain purchase gain, net*** – On November 1, 2011, we acquired 50% of the outstanding membership units of NuGen, which resulted in us owning approximately 98% of the outstanding membership units in NuGen. We applied acquisition accounting for this business combination achieved in stages, and recognized a loss of approximately \$5.4 million by remeasuring the fair value of our equity method investment at the acquisition date and a bargain purchase gain of approximately \$8.9 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets. This resulted in a bargain purchase gain, net, of approximately \$3.5 million.

***Income from Synthetic Fuel Investments***– During fiscal year 2011 we received approximately \$2.9 million as final payment related to the sale of our membership interest in a limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We will not receive nor recognize any additional income from the sale of our membership interest.

***Interest Income*** – Interest income of approximately \$0.1 million for fiscal year 2012 was approximately \$0.3 million lower than interest income for fiscal year 2011. Interest income declined primarily as a result of lower levels of excess cash invested and yields earned on such excess cash.

***Interest Expense*** – Interest expense increased to approximately \$4.8 million for fiscal year 2012 from approximately \$3.4 million for fiscal year 2011. This increase is primarily a result of consolidating NuGen beginning November 1, 2011 versus using the equity method of accounting for NuGen prior to November 1, 2011.

***Loss on Early Termination of Debt*** – During fiscal year 2011, we completed the early payoff of mortgage debt prior to maturity. As a result, we expensed certain unamortized financing costs and prepayment penalties of approximately \$1,000 during fiscal year 2011, as loss on early termination of debt.

***Other Income*** – Other income was approximately \$0.1 million and \$0.6 million in fiscal years 2012 and 2011, respectively. Non recurring income recognized by NuGen related to dividends paid by a co-operative during the fiscal year 2011 is the primary reason for the decrease.

***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 in our alternative energy segment.

***Losses on Derivative Financial Instruments*** – We recognized losses of approximately \$0.4 million and \$1.1 million during fiscal years 2012 and 2011, 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 2012 and 2011, we incurred losses on the interest rate swap.

**Income Taxes**— Our effective tax rate was 42.6% and 33.3% for fiscal years 2012 and 2011, 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 3% during fiscal year 2011 as a result of domestic production activities deductions resulting from operations at certain of our ethanol plants.

**Loss or Income from Continuing Operations** — As a result of the foregoing, loss from continuing operations was approximately \$2.2 million for fiscal year 2012 versus income of approximately \$32.6 million for fiscal year 2011.

**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 \$0.5 million in fiscal year 2012 compared to approximately \$0.7 million in fiscal year 2011. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Six properties classified as discontinued operations were sold during fiscal year 2012, resulting in a gain, net of taxes, of approximately \$0.1 million. We sold or disposed of eight former retail store locations classified as discontinued operations in fiscal year 2011; as a result, we had a gain from disposal of discontinued operations, net of taxes, of approximately \$0.4 million in fiscal year 2011.

**Noncontrolling Interests** — (Income) or loss related to noncontrolling interests was approximately \$(0.7) million and \$(5.4) million during fiscal years 2012 and 2011, respectively, and represents the owners' (other than us) share of the income or loss of One Earth (full year of fiscal year 2012 and 2011) and NuGen (full year of fiscal year 2012 and fourth quarter of fiscal year 2011). Noncontrolling interests of One Earth and NuGen were approximately \$(0.7) million and \$25,000, respectively, during fiscal year 2012. Noncontrolling interests of One Earth and NuGen were approximately \$(5.2) million and \$(0.2) million, respectively, during fiscal year 2011.

**Net Loss or Income Attributable to REX Common Shareholders**— As a result of the foregoing, net loss attributable to REX common shareholders was approximately \$2.3 million for fiscal year 2012 compared to net income of \$28.3 million for fiscal year 2011.

In addition to the information discussed above, the following sections discuss the results of operations for each of our business segments and corporate and other.

## **Alternative Energy**

The alternative energy segment includes the consolidated financial statements of One Earth and NuGen, our other investments in ethanol facilities, the income related to those investments and certain administrative expenses.



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The following table summarizes sales from One Earth and NuGen by product group (amounts in thousands):

	Years Ended January 31,	
	2013	2012
Ethanol	\$ 495,249	\$ 333,599
Dried distillers grains	114,732	71,663
Modified distillers grains	27,463	2,276
Other	18,723	1,097
Total	\$ 656,167	\$ 408,635

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

	Years Ended January 31,	
	2013	2012
Average selling price per gallon of ethanol	\$ 2.23	\$ 2.49
Average selling price per ton of dried distillers grains	\$ 235.56	\$ 196.46
Average selling price per ton of modified distillers grains	\$ 117.89	\$ 93.42
Average cost per bushel of grain	\$ 7.14	\$ 6.66
Average cost of natural gas (per mmbtu)	\$ 3.75	\$ 4.88

Net sales and revenue for fiscal year 2012 increased approximately \$247.5 million over the prior year to approximately \$656.2 million, primarily a result of consolidating NuGen for the full year in fiscal year 2012. We accounted for the results of NuGen using the equity method of accounting until the fourth quarter of fiscal year 2011, at which time we obtained a controlling financial interest in NuGen, and thus, began consolidating the results. Ethanol sales increased from approximately \$333.6 million in the prior year to approximately \$495.2 million in fiscal year 2012. The average selling price per gallon of ethanol decreased from \$2.49 in the prior year to \$2.23 in fiscal year 2012. Our ethanol sales were based upon approximately 222.0 million gallons in fiscal year 2012 compared to approximately 134.0 million gallons in the prior year. Our dried distillers grains sales increased from approximately \$71.7 million in the prior year to approximately \$114.7 million in fiscal year 2012. The average selling price per ton of dried distillers grains increased from \$196.46 in the prior year to \$235.56 in fiscal year 2012. Our dried distillers grains sales were based upon approximately 487,000 tons in fiscal year 2012 compared to approximately 327,000 tons in the prior year. The average selling price per ton of modified distillers grains increased from \$93.42 in the prior year to \$117.89 in fiscal year 2012. Our modified distillers grains sales were based upon approximately 233,000 tons in fiscal year 2012 compared to approximately 24,000 tons in the prior year. Non-food grade corn oil sales were approximately \$16.0 million in fiscal year 2012. Fiscal year 2012 was the first year that our consolidated plants produced and sold non-food grade corn oil. The increase in gallons of ethanol sold, tons of dried distillers grains sold and tons of modified distillers grains sold resulted primarily from including the results of NuGen for the full year in fiscal year 2012 but only the fourth quarter in the prior year.

Gross profit from alternative energy segment sales was approximately \$13.8 million during fiscal year 2012 compared to approximately \$35.2 million during fiscal year 2011. The crush spread for fiscal year 2012 was approximately (\$0.32) per gallon of ethanol sold compared to approximately \$0.11 per gallon of ethanol sold during fiscal year 2011.

Grain accounted for approximately 87% (\$558.4 million) of our cost of sales during fiscal year 2012 compared to approximately 85% (\$316.0 million) during fiscal year 2011. Natural gas

accounted for approximately 4% (\$23.5 million) of our cost of sales during fiscal year 2012 compared to approximately 5% (\$18.6 million) during fiscal year 2011.

Selling, general and administrative expenses were approximately \$9.9 million in fiscal year 2012, a \$2.1 million increase from approximately \$7.8 million in fiscal year 2011. The increase is primarily a result of including the results of NuGen for the full year in fiscal year 2012 but only the fourth quarter in fiscal year 2011, which resulted in approximately \$4.7 million of increased expenses in fiscal year 2012 compared to fiscal year 2011. This increase was partially offset by a decrease in incentive compensation of approximately \$2.5 million, a result of decreased segment profitability.

Income from equity method investments in Big River, Patriot and NuGen decreased from approximately \$21.5 million in fiscal year 2011 to approximately \$0.6 million in the fiscal year 2012.

We recognized approximately \$0.3 million of income from Big River in fiscal year 2012 which is approximately \$6.6 million lower than the fiscal year 2011 amount of approximately \$6.9 million. Big River's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry.

We recognized approximately \$0.4 million of income from Patriot in fiscal year 2012, which is approximately \$4.9 million lower than the fiscal year 2011 amount of approximately \$5.3 million. Patriot's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry.

We recognized approximately \$9.3 million of income pursuant to the equity method of accounting from NuGen in fiscal year 2011. Effective November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating the results of NuGen.

On November 1, 2011, we acquired 50% of the outstanding membership units of NuGen, which resulted in us owning approximately 98% of the outstanding membership units in NuGen. We applied acquisition accounting for this business combination achieved in stages, and recognized a loss of approximately \$5.4 million by remeasuring the fair value of our equity method investment at the acquisition date and a bargain purchase gain of approximately \$8.9 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets. This resulted in a bargain purchase gain, net, of approximately \$3.5 million.

Interest expense increased approximately \$1.4 million in fiscal year 2012 compared to fiscal year 2011 to approximately \$4.8 million. This increase is primarily a result of consolidating NuGen beginning November 1, 2011, versus using the equity method of accounting for NuGen prior to November 1, 2011.

Other income decreased to approximately \$0.1 million in fiscal year 2012 compared to approximately \$0.6 million in fiscal year 2011. Non recurring income recognized by NuGen related to dividends paid by a co-operative during the prior year is the primary reason for the decrease.

Losses on derivative financial instruments held by One Earth were approximately \$0.4 million in fiscal year 2012 compared to approximately \$1.1 million in fiscal year 2011. The losses in both fiscal year 2012 and 2011, were primarily a function of the movement in interest rates in those respective years.

As a result of the factors discussed above, segment profit decreased to a loss of approximately \$1.0 million in fiscal year 2012 from segment profit of approximately \$48.6 million in fiscal year 2011.



## **Real Estate**

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

At January 31, 2013, we had lease agreements, as landlord, for six owned former retail stores (77,000 square feet). We had 11 owned former retail stores (139,000 square feet) that were vacant at January 31, 2013. In addition, one former distribution center was partially leased (356,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (111,000 square feet).

Net sales and revenue for fiscal year 2012 increased approximately \$0.2 million over the fiscal year 2011 amount to approximately \$0.5 million. The increase in revenue is primarily a result of leases for two properties that were leased during fiscal year 2011.

Gross loss from this segment was approximately \$0.2 million during fiscal year 2012 consistent with approximately \$0.3 million during fiscal year 2011.

Selling, general and administrative expenses were approximately \$0.3 million in fiscal year 2012, consistent with the amount in fiscal year 2011.

As a result of the factors discussed above, segment loss was approximately \$0.5 million in fiscal year 2012 compared to approximately \$0.6 million in fiscal year 2011.

## **Corporate and Other**

Selling, general and administrative expenses were approximately \$2.3 million in fiscal year 2012 consistent with expenses in fiscal year 2011.

Interest expense of approximately \$44,000 in fiscal year 2012 was consistent with fiscal year 2011.

Interest income of approximately \$0.1 million in fiscal year 2012 is approximately \$0.2 million lower than the fiscal year 2011 income. Interest income declined primarily as a result of lower levels of excess cash invested and yields earned on such excess cash.

### **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 \$105.1 million includes approximately \$41.8 million held by One Earth and NuGen. Pursuant to their debt agreements, One Earth and NuGen are limited with respect to paying dividends. Thus, we expect that One Earth and NuGen will use a majority of their cash for working capital and debt service needs. All of our ethanol investments have long term debt 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. Debt service payments in excess of scheduled amounts related to ethanol debt is the result of excess cash sweeps that are required pursuant to the respective ethanol plant's debt agreement and are based upon percentages of profitability. In addition, principal payments in excess of scheduled payments have been made based on the permission of the lending institution and our desire to reduce the debt balances.

We continue to investigate investment opportunities in various companies and industries. 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 ethanol industry has experienced favorable crush spreads to date during fiscal year 2014. This is a result of continued lower corn prices that occurred during the latter half of fiscal year 2013 and strong pricing for ethanol. These positive factors have been partially offset by higher natural gas costs resulting from demand spikes as regions of the United States experienced unusually cold temperatures this past winter. We expect corn pricing to remain favorable during the first half of fiscal year 2014.

We do not have combined significant commitments for capital expenditures at January 31, 2014. We expect capital expenditures to be in the range of approximately \$4 million to \$8 million in fiscal year 2014 and expect to fund such capital expenditures with available cash at our ethanol plant subsidiaries.

**Operating Activities** – Net cash provided by operating activities was approximately \$64.4 million for fiscal year 2013 compared to approximately \$17.0 million in fiscal year 2012. 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 current year. Prepaid expenses and other assets increased approximately \$2.6 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.

Net cash provided by operating activities was approximately \$17.0 million for fiscal year 2012. During fiscal year 2012, operating cash flow was used by net loss of approximately \$1.6 million including real estate impairment charges of approximately \$0.6 million and other adjustments to net income of approximately \$14.4 million, which consist of depreciation and amortization, income from equity method ethanol investments, derivative financial instruments, loss on disposal of real estate and property and equipment, deferred income and the deferred income tax provision. Big River paid dividends to REX of approximately \$2.2 million during fiscal year 2012. Additionally, cash was provided by a refund on income taxes of approximately \$0.7 million resulting from tax overpayments in prior years. Accounts receivable decreased approximately \$1.2 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen. Inventory decreased approximately \$5.4 million, primarily a result of focused inventory management in the crush spread environment occurring during fiscal year 2012. Other liabilities decreased approximately \$4.9 million, primarily a result of decreased accrued incentive compensation expenses

associated with the decrease in profitability in fiscal year 2012. Accounts payable decreased approximately \$1.5 million, primarily a result of inventory receipts and timing of vendor payments.

**Investing Activities** – Net cash provided by investing activities was approximately \$6.8 million during fiscal year 2013 compared to approximately \$25,000 during fiscal year 2012. Capital expenditures in fiscal year 2013 totaled approximately \$3.5 million, the majority of which was for improvements at the NuGen 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.

Net cash provided by investing activities was approximately \$25,000 during fiscal year 2012. Capital expenditures in fiscal year 2012 totaled approximately \$3.7 million, the majority of which was for improvements at the One Earth ethanol plant. Cash of approximately \$2.9 million was provided by proceeds from the sale of real estate and property and equipment. Cash of approximately \$0.9 million was provided as we received payments for a portion of the balance of our restricted investments which was a result of our outstanding extended service contracts declining.

**Financing Activities** – Net cash used in financing activities was approximately \$35.2 million during fiscal year 2013 compared to approximately \$23.0 million for fiscal year 2012. 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. We do not expect such payments to noncontrolling members of One Earth and NuGen to increase significantly in fiscal year 2014. During fiscal year 2013, we purchased approximately 137,000 shares of our common stock for approximately \$3.5 million in open market transactions.

Net cash used in financing activities was approximately \$23.0 million during fiscal year 2012. During fiscal year 2012, repayments of debt were approximately \$16.8 million. The decrease in repayments of debt resulted primarily from the refinancing of NuGen's debt in fiscal year 2011 which required significant payments on the existing debt of approximately \$22.0 million. Stock option exercises in fiscal year 2012 generated cash of approximately \$0.3 million. We used cash of approximately \$2.1 million to purchase shares from and pay dividends to noncontrolling members of One Earth and NuGen. During fiscal year 2012, we purchased approximately 245,000 shares of our common stock for approximately \$4.4 million in open market transactions. At January 31, 2014, we had a remaining authorization from our Board of Directors to purchase approximately 280,000 shares of our common stock. We plan to hold all acquired shares in treasury for possible future use.

At January 31, 2014, we had approximately \$75.7 million of debt outstanding at a weighted average interest rate of approximately 3.6%, with maturities from October 2016 to October 2018. During fiscal year 2013, we made principal payments of approximately \$31.2 million on long-term debt from scheduled repayments, accelerated repayments and excess cash flow payments as defined in One Earth's and NuGen's loan agreements. During fiscal year 2012, we made principal payments of approximately \$16.8 million on long-term debt from scheduled repayments and early payoffs.

**One Earth 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. On September 3, 2013, One Earth entered into an amendment

of its loan agreement with the Bank. The amendment included a refinance amount of approximately \$44,101,000 (the remaining balance of the original loan) which bears interest at LIBOR plus 300 basis points (3.2% at January 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending October 8, 2018. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year or \$18 million in the aggregate. This amendment did not change requirements regarding financial covenants.

The loan is secured by all property of One Earth and is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of January 31, 2014, approximately \$39.1 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts at January 31, 2014 are as follows:

· Maintain a fixed charge coverage ratio, measured on an annual basis, of at least 1.10 to 1.0.

This ratio is computed by dividing adjusted EBITDA (EBITDA less taxes, capital expenditures and distributions paid to members) by scheduled principal and interest payments. For the fiscal year ended January 31, 2014, the fixed charge coverage ratio was 1.8 to 1.00.

· Maintain working capital of at least \$10 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with One Earth) less total current liabilities. At January 31, 2014, working capital was approximately \$26.4 million.

· Capital expenditures are limited to \$3.0 million annually.

For the fiscal year ended January 31, 2014, capital expenditures were approximately \$637,000.

One Earth was in compliance with all covenants, as applicable, at January 31, 2014. On March 13, 2013, One Earth entered into an amendment of its loan agreement with the First National Bank of Omaha. 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 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 One Earth will be able to maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha 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. However, if a material adverse change in the financial position of One Earth should occur, or if actual sales or expenses are substantially different than what has been forecasted, One Earth's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

One Earth paid approximately \$1.4 million in costs related to obtaining its financing arrangement. These costs are recorded as prepaid loan fees and are being amortized over the loan term. At January 31, 2014, our



proportionate share of restricted net assets related to One Earth was approximately \$86.9 million. Such 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 First National Bank of Omaha.

One Earth had no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2014 and 2013.

### **NuGen Subsidiary Level Debt**

In November 2011, NuGen entered into a \$65,000,000 financing agreement consisting of a term loan agreement for \$55,000,000 and a \$10,000,000 revolving loan with First National Bank of Omaha. The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor. 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. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries.

Borrowings are secured by all property of NuGen. As of January 31, 2014, approximately \$36.6 million was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts are as follows:

- Maintain a fixed charge coverage ratio, measured on an annual basis of at least 1.10 to 1.0.

This ratio is computed by dividing adjusted EBITDA (EBITDA less taxes, capital expenditures and distributions paid to members) by scheduled principal and interest payments. For the fiscal year ended January 31, 2014, the fixed charge coverage ratio was 4.0 to 1.00.

- Maintain working capital of at least \$10 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with NuGen) less total current liabilities. At January 31, 2014, working capital was approximately \$28.8 million.

Capital expenditures are limited to \$2.5 million annually except that for the fiscal year ending January 31, 2015, capital expenditures are limited to \$8.5 million.

For the fiscal year ended January 31, 2014, capital expenditures were approximately \$1.4 million.

NuGen was in compliance with all covenants, as applicable, at January 31, 2014. On March 13, 2013, NuGen entered into an amendment of its loan agreement with the First National Bank of Omaha. This amendment includes:

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

a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that  
2) 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

a modification of the covenant regarding maintenance of working capital levels to a requirement that NuGen  
3) maintain minimum working capital of not less than \$7.5 million

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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 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 NuGen will be able to maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha 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. However, if a material adverse change in the financial position of NuGen should occur, or if actual sales or expenses are substantially different than what has been forecasted, NuGen's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

NuGen paid approximately \$0.6 million in costs related to obtaining its financing arrangement. These costs are recorded as prepaid loan fees and are being amortized over the loan term. At January 31, 2014, our proportionate share of restricted net assets related to NuGen was approximately \$66.1 million. Such 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 First National Bank of Omaha.

NuGen had no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2014 and 2013. NuGen has issued letters of credit totaling \$500,000 at January 31, 2014. There were no issued letters of credit outstanding at January 31, 2013.

On a consolidated basis, approximately 73.3% of our net assets (including equity method investees) are restricted pursuant to the terms of various loan agreements as of January 31, 2014. Including only our consolidated subsidiaries, approximately 54.8% of our net assets are restricted as of January 31, 2014.

#### 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, long term debt and interest rate management.

The following table summarizes by category expected future cash outflows associated with contractual

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obligations in effect as of January 31, 2014 (amounts in thousands):

Contractual Obligations	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$75,726	\$12,226	\$48,500	\$15,000	\$—
Interest on variable rate debt (a)	6,591	2,679	3,386	526	—
Other (b)	39,354	7,381	12,299	10,089	9,585
Total (c)	\$121,671	\$22,286	\$64,185	\$25,615	\$9,585

(a) The interest rates effective as of January 31, 2014 for variable rate loans were used to calculate future payments of interest on variable rate debt.

(b) 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 \$1.8 million of uncertain tax positions and related interest and penalties have been excluded from the table above.

(c) 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

We experienced seasonality in our ethanol business during fiscal year 2011 as we had higher sales, gross margins and operating profits during the fourth quarter of fiscal year 2011. This trend was not experienced in fiscal years 2013 or 2012 and we believe this trend is unlikely to continue into future years with the expiration of the Volumetric Ethanol Excise Tax Credit as of December 31, 2011. We believe the expiration of the tax credit created an increase in ethanol demand during the fourth quarter of fiscal year 2011.

#### 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, upon shipment from our plant. Shipping and handling charges billed to ethanol, distillers grains and non-food grade corn oil customers are included in net sales and revenue.

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

We sold, prior to our exit of the retail business, retail product service contracts 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. We retain the obligation to perform warranty service and such costs are charged to operations as incurred. All related revenue and expense is classified in discontinued operations.

**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 write down of inventory at January 31, 2014. The write down of inventory was \$466,000 at January 31, 2013. 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 use derivative financial instruments to manage our balance of fixed and variable rate debt. We do 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. Our swap agreement was not designated for hedge accounting pursuant to ASC 815. The interest rate swap is recorded at fair value and the change in fair value is recorded as gain or loss on derivative financial instruments in the accompanying Consolidated Statements of Operations. The most significant factor that impacts the fair value calculation is the estimate of future interest rates over the remaining life of the swap agreement. Changes to the estimate could impact the fair value calculation materially.

**Accounting for Business Combinations** – In accounting for business combinations, we apply the accounting requirements of ASC 805, “*Business Combinations*,” (“ASC 805”), which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, we analyze a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates and assumptions for certain future commodity prices. Such a valuation requires management to make significant estimates and assumptions, especially with respect to the future commodity prices.

In determining the fair value of the Company’s assets associated with the purchase of NuGen on November 1, 2011, we utilized two valuation methods:

- Market approach: This method estimates fair value based on market prices in actual transactions and on asking prices for assets currently available for sale. This valuation process is essentially that of comparison and correlation between other similar assets and those of NuGen.
- Income approach: This method estimates fair value based upon the present value of cash flows we expect to generate from NuGen’s operations over NuGen’s remaining useful life. We used the discounted cash flow method.

See Note 3 of the Notes to the Consolidated Financial Statements for a further discussion of the acquisition of NuGen.

**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 and real estate assets will generate future taxable income. We are projecting that the future operations of One Earth and

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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 2009, 2010 and 2012 we realized a taxable loss, we generated taxable income in fiscal years 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 \$17.5 million recorded at January 31, 2014. In addition, we have significant financial resources to deploy in future income producing activities.

A valuation allowance of approximately \$2.0 million and approximately \$1.9 million was recorded at January 31, 2014 and January 31, 2013, 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, 2014, total unrecognized tax benefits were approximately \$1.5 million, and accrued penalties and interest were approximately \$0.4 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 asset groups in our real estate reportable segment) 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 asset groups in our alternative energy reportable segment).

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

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obtaining appraisals based on the market approach and comparable market transactions (for non-income producing asset groups).

In our 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, we separately test individual real estate properties for recoverability. Our real estate reportable segment includes both income producing and non-income producing asset groups.

In our 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, 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 reportable segment includes only income producing asset groups.

#### **New Accounting Pronouncements**

Effective February 1, 2013, we adopted the amended guidance in ASC Topic 210, Balance Sheet. The amended guidance addresses disclosure of offsetting financial assets and liabilities. It requires entities to add disclosures showing both gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated disclosures were implemented retrospectively and did not impact our financial position, results of operations or cash flows.

There were no other new accounting standards issued during fiscal year 2013 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 interest rates and commodity prices as discussed below.

#### **Interest Rate Risk**

We are exposed to market risk from changes in interest rates. Exposure to interest rate risk results primarily from holding term and revolving loans that bear variable interest rates. Specifically, we have approximately \$75.7 million in variable-rate debt as of January 31, 2014. Of this amount, approximately \$33.4 million is fixed by an interest rate swap, which matures on July 8, 2014. Interest rates on our variable-rate debt are determined based upon the market interest rate of LIBOR plus 300 – 325 basis points. A 10% adverse change (for example from 3.0% to 3.3%) in market interest rates would increase our interest cost on such debt by approximately \$0.3 million over the term of the debt. However, this change would be greater should LIBOR rates plus 325 basis points exceed 4.0%, which is the floor interest rate of the NuGen subsidiary level long term debt.

### **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, 2014, One Earth and NuGen combined have purchase commitments for approximately 9.7 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn by March 2014.

One Earth and NuGen have combined sales commitments for approximately 51.6 million gallons of ethanol, 164,000 tons of distillers grains and 5.4 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 June 2014. Approximately 10% 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 26% 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 \$10.5 million for the remaining forecasted distillers grains sales. Approximately 11% 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 8% 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 \$32.3 million for the remaining forecasted corn usage. Approximately 3% 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 \$4.0 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)**

	January 31,	
	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$105,149	\$69,073
Restricted cash	500	—
Accounts receivable - net	16,486	11,567
Inventory	19,370	24,919
Refundable income taxes	268	1,347
Prepaid expenses and other	4,891	4,091
Deferred taxes - net	2,146	3,930
Total current assets	148,810	114,927
Property and equipment - net	202,258	223,180
Other assets	5,388	6,761
Equity method investments	71,189	59,959
Restricted investments and deposits	223	503
<b>TOTAL ASSETS</b>	<b>\$427,868</b>	<b>\$405,330</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long term debt	\$12,226	\$15,623
Accounts payable – trade	6,626	4,655
Derivative financial instruments	1,141	1,859
Accrued expenses and other current liabilities	12,147	9,322
Total current liabilities	32,140	31,459
<b>LONG TERM LIABILITIES:</b>		
Long term debt	63,500	91,306
Deferred taxes	19,613	7,141
Derivative financial instruments	—	930
Other long term liabilities	1,862	211
Total long term liabilities	84,975	99,588
<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	144,051	143,575
Retained earnings	357,101	322,028
Treasury stock, 21,753 and 21,701 shares, respectively	(222,170)	(219,550)
Total REX shareholders' equity	279,281	246,352
Noncontrolling interests	31,472	27,931
Total equity	310,753	274,283



TOTAL LIABILITIES AND EQUITY	\$427,868	\$405,330
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See notes to consolidated financial statements.

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

(Amounts in Thousands, Except Per Share Amounts)

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenue	\$666,091	\$656,639	\$408,879
Cost of sales	601,940	643,037	374,048
Gross profit	64,151	13,602	34,831
Selling, general and administrative expenses	(17,846 )	(12,546 )	(10,376 )
Equity in income of unconsolidated ethanol affiliates	17,175	627	21,532
Bargain purchase gain, net	—	—	3,541
Income from synthetic fuel investments	—	—	2,883
Interest income	136	124	367
Interest expense	(3,902 )	(4,849 )	(3,433 )
Loss on early termination of debt	(5 )	—	(1 )
Other income	100	80	616
Loss on disposal of real estate and property and equipment, net	—	(490 )	—
Loss on derivative financial instruments	(39 )	(370 )	(1,148 )
Income (loss) from continuing operations before income taxes	59,770	(3,822 )	48,812
(Provision) benefit for income taxes	(20,695 )	1,627	(16,255 )
Income (loss) from continuing operations	39,075	(2,195 )	32,557
Income from discontinued operations, net of tax	413	471	700
Gain on disposal of discontinued operations, net of tax	741	136	441
Net income (loss)	40,229	(1,588 )	33,698
Net income attributable to noncontrolling interests	(5,156 )	(707 )	(5,428 )
Net income (loss) attributable to REX common shareholders	\$35,073	\$(2,295 )	\$28,270
Weighted average shares outstanding – basic	8,137	8,272	9,117
Basic income (loss) per share from continuing operations attributable to REX common shareholders	\$4.17	\$(0.35 )	\$2.97
Basic income per share from discontinued operations attributable to REX common shareholders	0.05	0.06	0.08
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	0.09	0.01	0.05
Basic net income (loss) per share attributable to REX common shareholders	\$4.31	\$(0.28 )	\$3.10
Weighted average shares outstanding – diluted	8,180	8,272	9,187
Diluted income (loss) per share from continuing operations attributable to REX common shareholders	\$4.15	\$(0.35 )	\$2.95
Diluted income per share from discontinued operations attributable to REX common shareholders	0.05	0.06	0.08
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders	0.09	0.01	0.05
Diluted net income (loss) per share attributable to REX common shareholders	\$4.29	\$(0.28 )	\$3.08
Amounts attributable to REX common shareholders:			

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Income (loss) from continuing operations, net of tax	\$33,919	\$(2,902 )	\$27,129
Income from discontinued operations, net of tax	1,154	607	1,141
Net income (loss)	\$35,073	\$(2,295 )	\$28,270

See notes to consolidated financial statements.

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**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED JANUARY 31, 2014, 2013 AND 2012****(Amounts in Thousands)**

	REX Shareholders							
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at January 31, 2011	29,853	299	20,461	(193,713)	142,293	296,053	25,032	269,964
Net income						28,270	5,428	33,698
Treasury stock acquired			1,519	(25,662)				(25,662)
Acquisition of business							956	956
Noncontrolling interests distribution and other							(2,084)	(2,084)
Stock options and related tax effects	—	—	(457)	4,270	701	—	—	4,971
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

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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

See notes to consolidated financial statements.

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

	Years Ended January 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$40,229	\$(1,588 )	\$33,698
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,284	16,602	12,086
Impairment charges on real estate	55	562	1,227
Income from equity method investments	(17,175 )	(627 )	(21,532)
Dividends received from equity method investments	5,804	2,206	4,918
Bargain purchase gain, net	—	—	(3,541 )
Income from synthetic fuel investments	—	—	(2,883 )
Derivative financial instruments	(1,648 )	(1,446 )	(1,288 )
(Gain) loss on disposal of real estate and property and equipment	(1,015 )	357	(683 )
Deferred income tax	15,987	(504 )	14,667
Excess tax benefit from stock option exercises	(64 )	—	—
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(4,919 )	1,217	4,216
Inventory	5,549	5,430	(14,039)
Prepaid expenses and other assets	(1,490 )	498	1,059
Income taxes refundable	1,480	719	7,852
Accounts payable-trade	1,721	(1,448 )	1,191
Accrued expenses and other liabilities	2,637	(4,930 )	(2,052 )
Net cash provided by operating activities	64,435	17,048	34,896
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(3,518 )	(3,684 )	(7,342 )
Proceeds from synthetic fuel investments	—	—	2,883
Purchase of investments	—	—	(1,947 )
Acquisition of business, net of cash acquired	—	—	12,293
Repayment of note receivable	681	—	—
Proceeds from sale of real estate and property and equipment	8,876	2,849	4,445
Restricted cash	(500 )	—	—
Restricted investments and deposits	1,293	860	237
Net cash provided by investing activities	6,832	25	10,569
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of long term debt	(31,203 )	(16,820)	(35,653)
Stock options exercised	1,072	265	362
Payments for loan fees	—	—	(627 )
Payments to noncontrolling interests holders	(1,638 )	(2,085 )	(2,084 )
Excess tax benefit from stock option exercises	64	—	—
Repayments of contingent consideration liability	—	—	(1,251 )
Treasury stock acquired	(3,486 )	(4,373 )	(22,218)
Net cash used in financing activities	(35,191 )	(23,013)	(61,471)

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,076	(5,940 )	(16,006)
CASH AND CASH EQUIVALENTS-Beginning of year	69,073	75,013	91,019
CASH AND CASH EQUIVALENTS-End of year	\$105,149	\$69,073	\$75,013
Non cash financing activities-Cashless exercises of stock options	\$—	\$1,071	\$3,444
Non cash investing activities-Accrued capital expenditures	\$250	\$—	\$882
Non cash financing activities-Accrued noncontrolling interest holders payments	\$—	\$23	\$—

See notes to consolidated financial statements.

**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