

REX STORES CORP
Form 10-Q
June 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2009

OR

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

For the transition period from _____ to _____
Commission File Number 001-09097

REX STORES 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 Number)

2875 Needmore Road, Dayton, Ohio
(Address of principal executive offices)

45414
(Zip Code)

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

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

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

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

Edgar Filing: REX STORES CORP - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

At the close of business on June 8, 2009 the registrant had 9,224,887 shares of Common Stock, par value \$.01 per share, outstanding.

Edgar Filing: REX STORES CORP - Form 10-Q

REX STORES CORPORATION AND SUBSIDIARIES

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets</u>	3
<u>Consolidated Condensed Statements of Operations</u>	4
<u>Consolidated Condensed Statements of Equity</u>	5
<u>Consolidated Condensed Statements of Cash Flows</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	39
<u>Item 6. Exhibits</u>	39

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
Unaudited

	April 30, 2009	January 31, 2009	April 30, 2008
(In Thousands)			
Assets			
Current assets:			
Cash and cash equivalents	\$ 85,854	\$ 91,991	\$ 106,301
Restricted cash	1,021		
Accounts receivable, net	2,333	4,197	3,025
Inventory, net	6,477	24,374	56,800
Refundable income taxes	8,761	7,790	1,400
Prepaid expenses and other	666	1,063	804
Deferred taxes, net	8,752	13,230	10,399
	<u>113,864</u>	<u>142,645</u>	<u>178,729</u>
Total current assets	113,864	142,645	178,729
Property and equipment, net	249,819	235,454	168,359
Other assets	11,294	12,414	14,098
Goodwill			1,322
Deferred taxes, net	23,862	18,697	21,929
Equity method investments	38,566	38,861	39,509
Investments in debt instruments	891	933	
Restricted investments	2,289	2,284	2,491
	<u>440,585</u>	<u>451,288</u>	<u>426,437</u>
Total assets	\$ 440,585	\$ 451,288	\$ 426,437
Liabilities and shareholders' equity:			
Current liabilities:			
Current portion of long-term debt and capital lease obligations, alternative energy	\$ 6,203	\$ 5,898	\$ 3,641
Current portion of long-term debt, other	648	1,576	1,711
Accounts payable, trade	17,178	25,167	39,409
Deferred income	10,489	11,952	13,708
Accrued restructuring charges	4,786	4,171	
Deferred gain on sale and leaseback	599	1,558	1,436
Derivative financial instruments	2,354	1,996	588
Other current liabilities	4,090	5,951	5,928
	<u>46,347</u>	<u>58,269</u>	<u>66,421</u>
Total current liabilities	46,347	58,269	66,421
Long-term liabilities:			
Long-term debt and capital lease obligations, alternative energy	107,825	94,003	32,562
Long-term debt, other	3,371	9,936	12,714
Deferred income	11,886	13,796	16,282
Deferred gain on sale and leaseback	1,760	3,467	4,132
Derivative financial instruments	3,883	4,032	1,541
Other	4,487	4,152	6,485
	<u>133,212</u>	<u>129,386</u>	<u>73,716</u>
Total long-term liabilities	133,212	129,386	73,716
Equity:			
REX shareholders' equity:			

Edgar Filing: REX STORES CORP - Form 10-Q

Common stock	299	299	298
Paid-in capital	142,678	142,486	141,867
Retained earnings	280,601	282,332	287,155
Treasury stock	(186,503)	(186,057)	(170,532)
	<u> </u>	<u> </u>	<u> </u>
Total REX shareholders' equity	237,075	239,060	258,788
Noncontrolling interests	23,951	24,573	27,512
	<u> </u>	<u> </u>	<u> </u>
Total equity	261,026	263,633	286,300
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and equity	\$ 440,585	\$ 451,288	\$ 426,437
	<u> </u>	<u> </u>	<u> </u>

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

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Operations
Unaudited

	Three Months Ended April 30,	
	2009	2008
	(In Thousands, Except Per Share Amounts)	
Net sales and revenue	\$ 29,734	\$ 26,809
Cost of sales (excluding retail segment depreciation)	25,015	18,677
Gross profit	4,719	8,132
Selling, general and administrative expenses	(5,749)	(9,240)
Investment income	188	857
Interest expense	(878)	(113)
Loss on early termination of debt	(73)	
Losses on disposals of real estate, net	(201)	
Equity in (loss) income of unconsolidated ethanol affiliates	(260)	1,048
Income from synthetic fuel investments		670
(Losses) gains on derivative financial instruments, net	(556)	472
(Loss) income from continuing operations before income taxes and discontinued operations	(2,810)	1,826
Benefit (provision) for income taxes	859	(471)
(Loss) income from continuing operations including noncontrolling interest	(1,951)	1,355
Loss from discontinued operations, net of tax	(402)	(46)
Net (loss) income including noncontrolling interest	(2,353)	1,309
Net loss attributable to noncontrolling interest	622	217
Net (loss) income attributable to REX common shareholders	\$ (1,731)	\$ 1,526
Weighted average shares outstanding - basic	9,298	10,729
Basic (loss) income per share from continuing operations attributable to REX common shareholders	\$ (0.14)	\$ 0.14
Basic loss per share from discontinued operations attributable to REX common shareholders	(0.05)	
Basic net (loss) income per share attributable to REX common shareholders	\$ (0.19)	\$ 0.14
Weighted average shares outstanding diluted	9,298	11,620
Diluted (loss) income per share from continuing operations attributable to REX common shareholders	\$ (0.14)	\$ 0.13
Diluted loss per share from discontinued operations attributable to REX common shareholders	(0.05)	
Diluted net (loss) income per share attributable to REX common shareholders	\$ (0.19)	\$ 0.13
Amounts attributable to REX common shareholders:		
(Loss) income from continuing operations, net of tax	\$ (1,329)	\$ 1,572
Loss from discontinued operations, net of tax	(402)	(46)

Edgar Filing: REX STORES CORP - Form 10-Q

Net (loss) income	<u>\$ (1,731)</u>	<u>\$ 1,526</u>
-------------------	-------------------	-----------------

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

Edgar Filing: REX STORES CORP - Form 10-Q

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Equity
Unaudited

REX Shareholders								
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount				
(In Thousands)								
Balance at January 31, 2009, as reported	29,853	\$ 299	20,471	\$ (186,057)	\$ 142,486	\$ 282,332	\$	\$ 239,060
Effects of adoption of SFAS No. 160							24,573	24,573
Balance at January 31, 2009, as adjusted	29,853	299	20,471	(186,057)	142,486	282,332	24,573	263,633
Net loss						(1,731)	(622)	(2,353)
Stock based compensation					176			176
Treasury stock acquired			155	(1,211)				(1,211)
Stock options exercised and related tax effects			(89)	765	16			781
Balance at April 30, 2009	29,853	\$ 299	20,537	\$ (186,503)	\$ 142,678	\$ 280,601	\$ 23,951	\$ 261,026

REX Shareholders								
	Common Shares Issued		Treasury		Paid-in Interest	Retained Equity	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount				
(In Thousands)								
Balance at January 31, 2008, as reported	29,813	\$ 298	19,094	\$ (170,693)	\$ 141,357	\$ 285,629	\$	\$ 256,591
Effects of adoption of SFAS No. 160							27,729	27,729
Balance at January 31, 2008, as adjusted	29,813	298	19,094	(170,693)	141,357	285,629	27,729	284,320
Net income (loss)						1,526	(217)	1,309
Stock based compensation					348			348
Stock options exercised and related tax effects			(18)	161	162			323

Edgar Filing: REX STORES CORP - Form 10-Q

Balance at April 30, 2008	29,813	\$	298	19,076	\$ (170,532)	\$ 141,867	\$ 287,155	\$	27,512	\$ 286,300
---------------------------	--------	----	-----	--------	--------------	------------	------------	----	--------	------------

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

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Cash Flows
Unaudited

	Three Months Ended April 30,	
	2009	2008
	(In Thousands)	
Cash flows from operating activities:		
Net (loss) income including noncontrolling interest	\$ (2,353)	\$ 1,309
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,201	623
Stock based compensation expense	176	348
Impairment charges	13	
Loss (income) from equity method investments	260	(1,048)
Income from synthetic fuel investments		(670)
Loss (gain) on disposal of real estate and property and equipment	358	(2)
Dividends received from equity method investees		400
Deferred income	(6,039)	(1,991)
Unrealized loss (gain) on derivative financial instruments	209	(472)
Excess tax benefits from stock option exercises		(2)
Unrealized loss on investments	42	
Deferred income tax	(87)	200
Changes in assets and liabilities:		
Accounts receivable	1,864	(1,148)
Merchandise inventory	17,897	(6,867)
Prepaid expenses and other	(436)	288
Other long term assets	1,120	705
Accounts payable, trade	(2,317)	11,567
Other liabilities	(1,511)	(8,455)
Net cash provided by (used in) operating activities	10,397	(5,215)
Cash flows from investing activities:		
Capital expenditures	(21,576)	(28,666)
Proceeds from sale of synthetic fuel investments		1,243
Proceeds from sale of real estate and property and equipment	2	10
Restricted cash and investments	(1,026)	(10)
Net cash used in investing activities	(22,600)	(27,423)
Cash flows from financing activities:		
Payments of long-term debt	(8,707)	(1,038)
Proceeds from long-term debt	15,341	11,936
Stock options exercised	643	323
Treasury stock acquired	(1,211)	
Excess tax benefits from stock option exercises		2
Net cash provided by financing activities	6,066	11,223
Net decrease in cash and cash equivalents	(6,137)	(21,415)
Cash and cash equivalents, beginning of period	91,991	127,716
Cash and cash equivalents, end of period	\$ 85,854	\$ 106,301

Edgar Filing: REX STORES CORP - Form 10-Q

Non cash investing activities	Accrued capital expenditures	\$	4,078	\$	3,508
			<u> </u>		<u> </u>
Non cash investing activities	Assets acquired by capital leases	\$		\$	405
			<u> </u>		<u> </u>

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

April 30, 2009

Note 1. Consolidated Condensed Financial Statements

The consolidated condensed financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Financial information as of January 31, 2009 included in these financial statements has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 31, 2009 (fiscal year 2008). It is suggested that these unaudited consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2009. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

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

Note 2. Accounting Policies

The interim consolidated condensed financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's 2008 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year end. Examples of such estimates include management bonuses, restructuring accruals, reserves for inventory obsolescence and lower of cost or market calculations and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes sales of retail products upon receipt by the customer. The Company will honor returns from retail customers within seven days from the date of sale. The

Edgar Filing: REX STORES CORP - Form 10-Q

Company establishes liabilities for estimated returns at the point of sale. Such liabilities are immaterial for all periods presented. The Company sells 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. Amortization of deferred contract revenues is included in net sales and revenue while amortization of deferred sales commissions is included in selling, general and administrative expenses. The Company retains the obligation to perform warranty service and such costs are charged to operations as incurred.

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

The Company recognizes sales from the production of ethanol and distillers grains when title transfers to customers, generally upon shipment from our plant. Shipping and handling charges to ethanol customers are included in net sales and revenue.

Cost of Sales

Retail cost of sales includes the cost of merchandise (net of vendor allowances), markdowns and inventory shrink, receiving, warehousing and freight charges to deliver merchandise to retail stores, service repair bills as well as cash discounts and rebates. The Company classifies purchasing costs as selling, general and administrative expenses. As a result of this classification, the Company's retail gross margins may not be comparable to those of other retailers that include costs related to their distribution network in selling, general and administrative expense.

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

Vendor Allowances and Advertising Costs

Vendors often fund, up front, certain advertising costs and exposure to general changes in pricing to customers due to technological change. Allowances are deferred as received from vendors and recognized into income as an offset to the cost of merchandise sold when the related product is sold or expense incurred. Advertising costs are expensed as incurred.

Selling, General and Administrative Expenses

The Company includes store expenses from its retail segment (such as payroll and occupancy costs), advertising, purchasing, depreciation, insurance and overhead costs in selling, general and administrative expenses.

Edgar Filing: REX STORES CORP - Form 10-Q

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

Interest Cost

Interest expense of \$878,000 for the quarter ended April 30, 2009 is net of approximately \$883,000 of interest capitalized. Interest expense of \$113,000 for the quarter ended April 30, 2008 is net of approximately \$875,000 of interest capitalized. Cash paid for interest for the quarter ended April 30, 2009 and 2008 was approximately \$607,000 and \$301,000, respectively.

Financial Instruments

Forward grain purchase and ethanol and distiller grain sale contracts are accounted for under the normal purchases and normal sales scope exemption of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) because these arrangements are for purchases of grain that will be delivered in quantities expected to be used by the Company and sales of ethanol and distiller grain quantities expected to be produced by the Company over a reasonable period time in the normal course of business. The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreements were not designated for hedge accounting pursuant to SFAS 133. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statements of Operations.

Income Taxes

The Company applies an effective tax rate to interim periods that is consistent with the Company's estimated annual tax rate. The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company paid income taxes of approximately \$0 and \$634,000 for the quarters ended April 30, 2009 and 2008, respectively.

As of April 30, 2009, total unrecognized tax benefits were \$4,335,000 and accrued penalties and interest were \$152,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$178,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. On a quarterly and annual basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest.

Restricted Cash

The Company deposited approximately \$1.0 million into a restricted bank account as collateral for a letter of credit on behalf of Levelland Hockley to secure grain purchasing. The cash is carried at cost plus accrued interest.

Inventories

Inventories are carried at the lower of cost or market on a first-in, first-out (FIFO) basis. Retail segment inventory includes certain costs associated with purchasing, warehousing and transporting merchandise. Alternative energy segment inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related by-products. Reserves are established for estimated technological obsolescence and net realizable value based upon commodity prices. The market value of inventory is often dependent upon changes in technology resulting in significant changes in customer demand and changes in commodity prices. The components of inventory at April 30, 2009, January 31, 2009 and April 30, 2008 are as follows (amounts in thousands):

	<u>April 30, 2009</u>	<u>January 31, 2009</u>	<u>April 30, 2008</u>
Retail merchandise, net	\$ 4,011	\$ 22,318	\$ 51,541
Ethanol and other finished goods, net	777	487	2,286
Work in process, net	487	341	2,181
Grain and other raw materials	1,202	1,228	792
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 6,477</u>	<u>\$ 24,374</u>	<u>\$ 56,800</u>

Property and Equipment

Property and equipment is recorded at cost. Assets under capital leases are capitalized at the lower of the net present value of minimum lease payments or the fair market value of the leased asset. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment. Leasehold improvements are depreciated over the initial lease term and one renewal term when exercise of the renewal term is reasonably assured, or the life of the improvement, whichever is shorter.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset.

Investments

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in

addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company determines that a decline in market value is other than temporary, then a charge to earnings is recorded in the accompanying Consolidated Condensed Statements of Operations for all or a portion of the unrealized loss and a new cost basis in the investment is established.

Accounting Changes and Recently Issued Accounting Standards

Accounting Changes

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141 (revised 2007), *Business Combinations* (SFAS 141 R). SFAS 141 R had no impact on the Company's condensed consolidated balance sheet, statements of operations or cash flows. SFAS 141 R provides guidance related to recognition of assets acquired and liabilities assumed in business combinations. SFAS 141 R also established expanded disclosure requirements for business combinations. The standard is effective for fiscal years beginning after December 15, 2008. SFAS 141 R will be applied prospectively to business combinations that occur subsequent to February 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 established accounting and reporting standards for the noncontrolling interest in a subsidiary. It also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Upon adoption of SFAS 160 on February 1, 2009, the Company reports its noncontrolling interests (previously reported as minority interest liability) as a separate component of shareholders' equity. The Company also reports net income attributable to the noncontrolling interests and net income attributable to the shareholders of the Company separately in the condensed consolidated statements of operations. SFAS 160 requires retrospective adoption of the presentation and disclosure requirements for existing noncontrolling interests. All other requirements of SFAS 160 are to be applied prospectively. See the Consolidated Condensed Statements of Equity for the impact of adopting this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS 161 on February 1, 2009. See Note 8 for a further discussion of financial instruments.

On February 1, 2009, the Company adopted FASB Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157* which had no impact on the Company's condensed consolidated balance sheet, statements of operations or cash flows. This standard partially delayed the effective date of SFAS No. 157 *Fair Value Measurements* for non financial assets

Edgar Filing: REX STORES CORP - Form 10-Q

and non financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption of this standard had no impact on the Company's condensed consolidated balance sheet, statements of operations or cash flows.

Recently Issued Accounting Standards

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1/APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* , (FSP 107-1). This pronouncement amended SFAS No 107, *Disclosures about Fair Value of Financial Instruments* , to require disclosure of the carrying amount and the fair value of all financial instruments for interim reporting periods and annual financial statements of publicly traded companies (even if the financial instrument is not recognized in the balance sheet), including the methods and significant assumptions used to estimate the fair values and any changes in such methods and assumptions. FSP 107-1 also amended APB Opinion No. 28, *Interim Financial Reporting* , to require disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company has not determined the impact on its consolidated financial statements of adopting this standard.

Note 3. Sale and Leaseback Transaction and Other Leases

On July 28, 2006, the Company completed a transaction for the sale and leaseback of one store under an initial three-year lease term. A pre-tax gain, classified as continuing operations, of approximately \$1.7 million (net of expenses) resulted from this sale. The Company has also deferred approximately \$0.4 million of the gain at April 30, 2009, based upon the present value of the minimum lease payments and will amortize this deferred gain as a reduction to lease expense over the lease term. The lease has been accounted for as an operating lease.

On September 16, 2008, the Company completed a transaction for the sale and partial leaseback of its Cheyenne, Wyoming distribution center under a three year lease term. A pre-tax gain, classified as continuing operations, of approximately \$1.6 million (net of expenses) resulted from this sale. The Company has also deferred approximately \$0.6 million of the gain at April 30, 2009, based upon the present value of the minimum lease payments and will amortize this deferred gain as a reduction to lease expense over the lease term. The lease has been accounted for as an operating lease.

On April 30, 2007, the Company completed a transaction for the sale of 86 of its current and former store locations to KLAC REX, LLC (Klac) for \$74.5 million in cash, before selling expenses. The Company also entered into leases to leaseback 40 of the properties from Klac for initial lease terms expiring January 31, 2010, with renewal options for up to 15 additional years. The leases on 28 of the properties have been terminated as of April 30, 2009. The Company also entered into license agreements with Klac for 15 of the properties that allowed the Company to occupy the properties for up to 90 days rent free. Upon the expiration of the license period, the Company vacated the properties.

This transaction resulted in a gain (realized and deferred) of \$14.8 million. Of this gain, \$2.6 million and \$0.3 million was recognized in the first quarter of fiscal years 2009 and 2008,

Edgar Filing: REX STORES CORP - Form 10-Q

respectively. The Company had a deferred gain of \$1.4 million and \$5.1 million at April 30, 2009 and 2008, respectively, based upon the present value of the remaining minimum lease payments. The deferred gain will be amortized as a reduction to lease expense over the lease periods or recognized as gain on disposal at the end of the lease period. As a result of the wind down of the Company's retail business, the term the deferred gain was being amortized over has been shortened to January 31, 2010 for all remaining properties leased from Klac. See Note 12 for a discussion of restructuring related charges. The leases have been accounted for as operating leases. The following table summarizes the pre-tax gains and losses recognized during the first quarters of fiscal years 2009 and 2008 (amounts in thousands):

<u>Classification of Gain</u>	<u>Three Months Ended April 30, 2009</u>	<u>Three Months Ended April 30, 2008</u>
Continuing Operations	\$ 58	\$ 58
Discontinued Operations	2,516	278
Total Pre-Tax Gain	\$ 2,574	\$ 336

The following table summarizes the components of the sale and leaseback transaction as of April 30, 2009 (dollar amounts in thousands):

<u>Property Category</u>	<u>Number of Properties</u>	<u>Deferred Gain</u>	<u>Recognized Gain</u>
Vacated	74	\$	\$ 10,790
Leased until January 31, 2010	12	\$ 1,360	2,655
Total	86	\$ 1,360	\$ 13,445

The Company expects the remaining balance of the deferred gain to be amortized in fiscal year 2009.

In addition to the leaseback transactions described above, the Company is committed under operating leases for certain retail store locations. The lease agreements are for varying terms through fiscal year 2011 and contain renewal options for additional periods. Real estate taxes, insurance and maintenance costs are generally paid by the Company. Contingent rentals based on sales volume are not significant. Certain leases contain scheduled rent increases and rent expense is recognized on a straight-line basis over the term of the leases.

Edgar Filing: REX STORES CORP - Form 10-Q

The following table is a summary of rental activity under operating leases (amounts in thousands):

Years Ended January 31	Minimum Rentals	Gain Amortization	Sublease Income	Total
Remainder of January 31, 2010	\$ 1,263	\$ (2,359)	\$ (145)	\$ (1,241)
2011	673		(110)	563
2012 (a)	257		(46)	211
2013 (a)	60		(40)	20
2014 (a)	60		(40)	20
Thereafter (a)	65		(43)	22
Total	\$ 2,378	\$ (2,359)	\$ (424)	\$ (405)

(a) Amounts include minimum rentals related to lease renewal options assumed to be exercised in the amounts of \$55,000 for the fiscal year ended January 31, 2011, \$60,000 for the fiscal years ended 2012, 2013 and 2014 and \$65,000 for the thereafter category.

The amounts in the table above do not include minimum rental charges of \$1,033,000 that have been accrued as early lease termination expense at April 30, 2009. These charges will be paid in fiscal years 2010 and 2011.

At April 30, 2009, the Company has lease agreements or commitments, as landlord, for all or portions of 45 properties, including 40 stores leased to subsidiaries of Appliance Direct, Inc. (Appliance Direct), a third party appliance retail chain. The Company owns 41 of these properties and is the tenant/sub landlord for four of the properties. At April 30, 2009, Appliance Direct leased and occupied six of the owned properties and three of the sub leased properties. Pursuant to the amended agreement with Appliance Direct, the Company expects the leases for the remaining 31 owned stores will commence no later than July 31, 2009.

All of the leases are accounted for as operating leases. The following table is a summary of future minimum rentals on such leases (amounts in thousands):

Years Ended January 31	Minimum Rentals
Remainder of January 31, 2010	\$ 2,011
2011	3,136
2012	3,069
2013	3,073
2014	3,044
Thereafter	5,135
Total	\$ 19,468

Edgar Filing: REX STORES CORP - Form 10-Q

Levelland Hockley leases certain real estate and equipment for its ethanol plant. These leases have been classified as capital leases. The following is a summary, at April 30, 2009, of the aggregate minimum future annual rental commitments for all capital leases (amounts in thousands):

Years Ended January 31	Minimum Rentals
Remainder of January 31, 2010	\$ 388
2011	569
2012	569
2013	524
2014	432
	2,482
Total minimum lease payments	2,482
Less amount representing interest	268
	2,214
Present value of minimum capital lease payments	2,214
Less current maturities of capital lease obligations	450
	\$ 1,764

Note 4. Fair Value

Effective February 1, 2008, the Company determined the fair market values of its financial instruments based on the fair value hierarchy established in SFAS No. 157 *Fair Value Measurements* (SFAS 157) which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values which are provided below. The Company carries cash equivalents and derivative assets and liabilities at fair value.

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

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

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

Edgar Filing: REX STORES CORP - Form 10-Q

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate pricing and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case interest rate, price or index scenarios are extrapolated in order to determine the fair value. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, the Company's own credit standing and other specific factors, where appropriate. To ensure the prudent application of estimates and management judgment in determining the fair value of derivative assets and liabilities, various processes and controls have been adopted, which include: model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; periodic review and substantiation of profit and loss reporting for all derivative instruments. There was no impact on the beginning balance of retained earnings as a result of adopting SFAS 157 because the Company held no financial instruments in which a gain or loss at inception was deferred. Financial assets and liabilities measured at fair value on a recurring basis are summarized below (amounts in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Cash equivalents	\$ 84,950	\$	\$	\$ 84,950
Investments in debt securities		891		891
Restricted investments	1,356			1,356
Total assets	\$ 86,306	\$ 891	\$	\$ 87,197
Derivative liabilities	\$	\$ 6,237	\$	\$ 6,237

Note 5. Property and Equipment

The components of property and equipment at April 30, 2009, January 31, 2009 and April 30, 2008 are as follows (amounts in thousands):

	<u>April 30, 2009</u>	<u>January 31, 2009</u>	<u>April 30, 2008</u>
Land and improvements	\$ 22,250	\$ 24,073	\$ 23,066
Buildings and improvements	51,728	40,987	56,657
Machinery, equipment and fixtures	68,804	70,408	61,148
Leasehold improvements	1,967	3,396	5,235
Construction in progress	127,948	121,333	46,666
	<u>272,697</u>	<u>260,197</u>	<u>192,772</u>
Less: accumulated depreciation	(22,878)	(24,743)	(24,413)
	<u>\$ 249,819</u>	<u>\$ 235,454</u>	<u>\$ 168,359</u>

Note 6. Other Assets

The components of other assets at April 30, 2009, January 31, 2009 and April 30, 2008 are as follows (amounts in thousands):

	April 30, 2009	January 31, 2009	April 30, 2008
Prepaid loan fees	\$ 4,214	\$ 4,515	\$ 5,088
Prepaid commissions	6,795	7,563	8,813
Other	285	336	197
Total	\$ 11,294	\$ 12,414	\$ 14,098

Note 7. Long Term Debt and Interest Rate Swaps

During the first quarter of fiscal year 2009, the Company completed the payoff of twelve mortgage loans resulting in approximately \$7.3 million of fixed rate debt being paid off prior to the scheduled maturities of the loans. The Company recognized approximately \$0.1 million of early debt termination costs in connection with the early payoff of these loans.

Levelland Hockley Subsidiary Level Debt

During the second quarter of fiscal year 2008, pursuant to the terms of the construction loan agreement, Levelland Hockley converted the construction loan into a permanent term loan. Beginning with the first monthly payment on June 30, 2008, payments are due in 59 equal monthly 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 (June 30, 2013) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at a floating rate of 400 basis points above LIBOR (4.6%) at April 30, 2009, adjusted monthly through the maturity date. Borrowings are secured by all of the assets of Levelland Hockley. This debt is recourse only to Levelland Hockley and not to REX Stores Corporation or any of its wholly owned subsidiaries. As of April 30, 2009, approximately \$40.4 million was outstanding on the term loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDAR, debt service coverage ratio requirements, net worth requirements and other common covenants. Levelland Hockley was not in compliance with its debt covenants at April 30, 2009. On April 13, 2009, Levelland Hockley entered into a forbearance agreement with GE. This agreement includes:

- (1) An acknowledgement by Levelland Hockley that it anticipates it has failed to meet the EBITDAR Coverage Ratio, as defined, for the period ended March 31, 2009 as required by the loan agreement (the Specified Default) and
- (2) An agreement that GE will forbear from exercising its rights and remedies with respect to the Specified Default and also with respect to any failure to meet the EBITDAR Coverage Ratio at any future date through the end of the forbearance period, August 30, 2009, as long as no other defaults of the loan agreement occur and

- (3) An agreement that Levelland Hockley will not make any payments of principal or interest to Farmers Energy, Inc. (a subsidiary of REX) during the forbearance period.

Management believes the EBITDAR Coverage Ratio covenant violation will be cured on or before the end of the forbearance period. Also, based on forecasts which are primarily based on estimates of plant production, prices of ethanol, sorghum, distillers grains and natural gas as well as other assumptions management believes to be reasonable, the Company believes that Levelland Hockley will be able to maintain compliance with the covenants subsequent to the Forbearance Period as noted above for the next 12 months. Management believes that cash flow from operating activities together with working capital will be sufficient to meet Levelland Hockley's liquidity needs. However, if a material adverse change in the financial position or operations of Levelland Hockley should occur, or if actual sales or expenses are substantially different than forecasted, Levelland Hockley's liquidity and ability to fund future operating and capital requirements and compliance with debt covenants could be negatively impacted.

Levelland Hockley entered into a forward interest rate swap with an initial notional amount of \$43.7 million with Merrill Lynch Capital during fiscal year 2007. The swap effectively fixed the variable interest rate of the term loan subsequent to the plant completion date at 7.89%. The swap settlements commenced on May 31, 2008 and terminate on April 30, 2010. At April 30, 2009, the Company has recorded a liability of \$1.3 million related to the fair value of the swap. The change in fair value not resulting from settlements was recorded in the Consolidated Condensed Statements of Operations.

One Earth Energy Subsidiary Level Debt

In September 2007, One Earth entered into a \$111,000,000 financing agreement consisting of a construction loan agreement for \$100,000,000 together with a \$10,000,000 revolving loan and a \$1,000,000 letter of credit with First National Bank of Omaha. During the construction period, One Earth will be required to make interest payments quarterly on the outstanding principal amount at a variable interest rate equal to LIBOR plus 310 basis points (4.4%) at April 30, 2009. The construction loan will be converted into a term loan upon completion of plant construction. The term loan will bear interest at rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points and is payable over five years.

Borrowings are secured by all property of One Earth. This debt is recourse only to One Earth and not to REX Stores Corporation or any of its wholly owned subsidiaries. During the first quarter of fiscal year 2009, One Earth borrowed \$15.4 million on this loan. As of April 30, 2009, approximately \$71.4 million had been drawn on the construction loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth was in compliance with all covenants at April 30, 2009. One Earth has paid approximately \$1.4 million in financing costs. These costs are recorded as prepaid loan fees and will be amortized ratably over the loan.

One Earth entered into two forward interest rate swaps in the notional amounts of \$50.0 million and \$25.0 million with the Bank. The swap settlements commence as of July 31, 2009; the \$50.0 million swap terminates on July 8, 2014 and the \$25.0 million swap terminates on July 31, 2011. The \$50.0 million swap fixed a portion of the variable interest rate of the term loan

Edgar Filing: REX STORES CORP - Form 10-Q

subsequent to the plant completion date at 7.9% while the \$25.0 million swap fixed the rate at 5.49%. At April 30, 2009, the Company recorded a liability of \$4.9 million related to the fair value of the swaps. The change in fair value was recorded in the Consolidated Condensed Statements of Operations.

Note 8. Financial Instruments

The Company uses interest rate swaps to manage its interest rate exposure at Levelland Hockley and One Earth by fixing the interest rate on a portion of the variable rate debt these entities have. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. As of April 30, 2009, the notional value of the Levelland Hockley and One Earth interest rate swaps were \$39.7 million and \$75.0 million, respectively. At April 30, 2009, the Company has recorded a liability of \$6.2 million related to the fair value of the swaps. The change in fair value not resulting from settlements was recorded in the Consolidated Condensed Statements of Operations.

The notional amounts and fair values of derivatives, all of which are not designated as cash flow hedges at April 30, 2009 are summarized in the table below (amounts in thousands):

	<u>Notional Amount</u>	<u>Fair Value Liability</u>
Interest rate swaps	\$ 114,339	\$ 6,237

As the interest rate swaps are not designated as cash flow hedges, the unrealized gain and loss on the derivatives is reported in current earnings. The Company reported losses of \$556,000 in the first quarter of fiscal year 2009 and gains of \$472,000 in the first quarter of fiscal year 2008.

In the normal course of its ethanol business, the Company enters into forward pricing agreements for the purchase of grain and for the sale of ethanol and distillers grains for delivery in future periods. The Company accounts for these forward pricing arrangements under the normal purchases and normal sales scope exemption of SFAS No. 133. Levelland Hockley has forward purchase contracts for 436,000 bushels of sorghum, the principal raw material for its ethanol plant. Levelland Hockley expects to take delivery of the sorghum through May 2009. The unrealized gain of such contracts was approx \$262,000 at March 31, 2009.

One Earth has forward purchase contracts for 690,000 bushels of corn, the principal raw material for its ethanol plant. One Earth expects to take delivery of the corn through July 2009. The unrealized gain of such contracts was approximately \$46,000 at March 31, 2009.

Levelland Hockley has sales commitments for 0.9 million gallons of ethanol and 18,500 tons of distiller grains. Levelland Hockley expects to deliver the ethanol and distiller grains through May 2009. The unrealized loss of such contracts was approximately \$0.1 million at March 31, 2009.

Note 9. Stock Option Plans

The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant.

No options have been granted since fiscal 2004. The fair values of options granted were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions used for grants in the fiscal year ended January 31, 2005: risk-free interest rate of 4.7%, expected volatility of 65.4% and a weighted average stock option life of nine years for all option grants.

The total intrinsic value of options exercised during the quarters ended April 30, 2009 and 2008 was approximately \$0.4 million and \$0.2 million, respectively, resulting in tax deductions to realize benefits of approximately \$0.1 million and \$0.1 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2009	2,715,001	\$ 9.63		
Exercised	(89,608)	\$ 7.67		
Forfeited	(3,600)	\$ 12.45		
Outstanding at April 30, 2009	2,621,793	\$ 9.69	2.5	\$ 6,849
Exercisable at April 30, 2009	2,571,425	\$ 9.64	2.4	\$ 6,849

At April 30, 2009, there was approximately \$0.1 million (pre-tax) of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted average period of 0.1 years.

Note 10. Income Per Share from Continuing Operations

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

	Three Months Ended April 30, 2008		
	Income	Shares	Per Share
Basic income per share from continuing operations attributable to REX common shareholders	\$ 1,572	10,729	\$ 0.14
Effect of stock options		891	
Diluted income per share from continuing operations attributable to REX common shareholders	\$ 1,572	11,620	\$ 0.13

As there was a loss from continuing operations for the first quarter of fiscal year 2009, basic loss per share from continuing operations equals diluted loss per share from continuing operations. For the three months ended April 30, 2009 and 2008, a total of 2,622,000 shares and 143,400 shares, respectively, subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive.

Note 11. Investments

The following tables summarize investments at April 30, 2009, January 31, 2009 and April 30, 2008 (amounts in thousands):

Debt Securities April 30, 2009

<u>Investment</u>	<u>Coupon Rate</u>	<u>Maturity</u>	<u>Classification</u>	<u>Fair Market Value</u>	<u>Carrying Amount</u>
Patriot Renewable Fuels, LLC Convertible Note	16.00%	11/25/2011	Available for Sale	\$ 891	\$ 891

Debt Securities January 31, 2009

<u>Investment</u>	<u>Coupon Rate</u>	<u>Maturity</u>	<u>Classification</u>	<u>Fair Market Value</u>	<u>Carrying Amount</u>
Patriot Renewable Fuels, LLC Convertible Note	16.00%	11/25/2011	Available for Sale	\$ 933	\$ 933

Edgar Filing: REX STORES CORP - Form 10-Q

Debt Securities April 30, 2008

<u>Investment</u>	<u>Coupon Rate</u>	<u>Maturity</u>	<u>Classification</u>	<u>Fair Market Value</u>	<u>Carrying Amount</u>
United States Treasury Bill	1.76%	5/29/2008	Held to Maturity	\$ 1,558	\$ 1,558

There were no material realized or unrealized holding gains or losses at April 30, 2009 or 2008.

The Company has approximately \$933,000 at April 30, 2009, January 31, 2009 and April 30, 2008, respectively, on deposit with the Florida Department of Financial Services to secure its obligation to fulfill future obligations related to extended warranty contracts sold in the state of Florida. The deposits earned 2.5%, 2.3% and 5.9% at April 30, 2009, January 31, 2009 and April 30, 2008, respectively.

In addition to the deposit with the Florida Department of Financial Services, the Company has \$1,356,000 at April 30, 2009 invested in a money market mutual fund to satisfy Florida Department of Financial Services regulations. This investment earned 0.4% at April 30, 2009 and 1.3% at January 31, 2009.

The following table summarizes equity method investments at April 30, 2009, January 31, 2009 and April 30, 2008 (amounts in thousands):

Equity Method Investments April 30, 2009

<u>Entity</u>	<u>Ownership Percentage</u>	<u>Carrying Amount</u>	<u>Initial Investment</u>
Big River Resources, LLC	10%	\$ 23,941	\$ 20,000
Patriot Renewable Fuels, LLC	23%	14,625	16,000
Total Equity Method Investments		\$ 38,566	\$ 36,000

Equity Method Investments January 31, 2009

<u>Entity</u>	<u>Ownership Percentage</u>	<u>Carrying Amount</u>	<u>Initial Investment</u>
Big River Resources, LLC	10%	\$ 23,850	\$ 20,000
Patriot Renewable Fuels, LLC	23%	15,011	16,000
Total Equity Method Investments		\$ 38,861	\$ 36,000

Edgar Filing: REX STORES CORP - Form 10-Q

Equity Method Investments April 30, 2008

<u>Entity</u>	<u>Ownership Percentage</u>	<u>Carrying Amount</u>	<u>Initial Investment</u>
Big River Resources, LLC	10%	\$ 22,960	\$ 20,000
Patriot Renewable Fuels, LLC	23%	16,549	16,000
Total Equity Method Investments		\$ 39,509	\$ 36,000

During the first quarter of fiscal years 2009 and 2008, the Company recorded income of \$92,000 and \$1,007,000, respectively as its share of earnings from Big River Resources, LLC (Big River).

During the first quarter of fiscal years 2009 and 2008, the Company recorded a loss of \$352,000 and income of \$41,000, respectively as its share of earnings from Patriot Renewable Fuels, LLC (Patriot).

Undistributed earnings of equity method investees totaled approximately \$3.9 million and \$2.2 million at April 30, 2009 and 2008, respectively.

Note 12. Restructuring and Other

During the fourth quarter of fiscal year 2008, the Company entered into an agreement with Appliance Direct, Inc. (Appliance Direct) pursuant to which (i) the Company agreed to sell certain appliance inventory, furniture, fixtures and equipment at the store locations to be taken over by Appliance Direct and (ii) subsidiaries of Appliance Direct leased 37 retail store locations owned by the Company. The Company plans to exit the retail business during fiscal year 2009. The Company agreed to pay Appliance Direct, as of the implementation date defined in the agreement, an amount equal to the adjusted book value liability of the Company's customer extended service plans for certain appliance inventory previously sold at locations that Appliance Direct takes over from the Company (the ESP Credit).

During the fourth quarter of fiscal year 2008, the Company recorded a restructuring charge of approximately \$4.2 million related to (i) a workforce reduction of a majority of employees located at its corporate headquarters, retail stores and distribution facilities and (ii) certain costs associated with the transition of the Company's retail business to Appliance Direct. During the first quarter of fiscal year 2009, the Company recorded additional restructuring

Edgar Filing: REX STORES CORP - Form 10-Q

charges of approximately \$1.5 million related to lease termination costs. The following is a summary of restructuring charges and payments (in thousands):

	<u>Employee Severance and Bonus Costs</u>	<u>Lease Termination Costs</u>	<u>Investment Banker Fees</u>	<u>ESP Credit</u>	<u>Total Restructuring Accrual</u>
Balance, January 31, 2009	\$ 2,839	\$	\$ 834	\$ 498	\$ 4,171
Restructuring charges		1,460			1,460
Payment of restructuring liabilities	436	409			845
Balance, April 30, 2009	<u>\$ 2,403</u>	<u>\$ 1,051</u>	<u>\$ 834</u>	<u>\$ 498</u>	<u>\$ 4,786</u>

Note 13. Income Taxes

The effective tax rate on consolidated pre-tax loss or income from continuing operations was 30.6% for the quarter ended April 30, 2009, 30.5% for the year ended January 31, 2009 and 25.8% for the quarter ended April 30, 2008. An adjustment for recognizing the benefit of certain statutes of limitations expiring relating to uncertain tax positions of (14.1)% is reflected in the effective rate for the quarter ended April 30, 2008. In addition, a benefit of (6.8)% was recognized in the first quarter of fiscal year 2008 for a federal tax credit which is earned by Levelland Hockley as a small ethanol producer. The Company does not expect to be eligible to utilize the ethanol small producer federal tax credit for years beyond fiscal year 2008. The provision for state taxes is approximately 5% and 6% for the quarters ended April 30, 2009 and 2008, respectively. The provision for state taxes was approximately 3% for the year ended January 31, 2009. The effective tax rate was decreased by approximately 9% in the first quarter of fiscal year 2009 from the loss of pass-through entities (Levelland Hockley and One Earth) that is allocated to non-controlling interests.

The Company files a U.S. federal income tax return and income tax returns in various states. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years ended January 31, 2006 and prior. A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, is as follows (amounts in thousands):

Unrecognized tax benefits, February 1, 2009	\$ 4,160
Changes for prior years tax positions	327
Changes for current year tax positions	
Unrecognized tax benefits, April 30, 2009	<u>\$ 4,487</u>

Note 14. Discontinued Operations

During the first three months of fiscal year 2009 the Company closed 37 stores in which the Company vacated the market or will not have a further continuing involvement with the

Edgar Filing: REX STORES CORP - Form 10-Q

related property. These stores, and certain other stores closed in previous periods, were classified as discontinued operations for all periods presented.

Below is a table reflecting certain items of the Consolidated Condensed Statements of Operations that were reclassified as discontinued operations for the period indicated.

	Three Months Ended April 30,	
	2009	2008
Net sales and revenue	\$ 8,368	\$ 20,866
Cost of sales	7,721	15,567
Loss from continuing operations before income taxes	(654)	(73)
Benefit for income taxes	252	27
Loss from continuing operations including noncontrolling interest	\$ (402)	\$ (46)

Note 15. Commitments

In May 2007, One Earth entered into an agreement with a designer/builder for the construction of One Earth's ethanol plant. The designer/builder is responsible for all engineering, labor, materials and equipment to design, construct, startup and achieve guaranteed performance criteria of the plant. The contract price is approximately \$120 million, subject to adjustments as provided by the general conditions of the agreement, of which approximately \$109 million has been spent through April 30, 2009.

One Earth has also entered other construction and facility related contracts. Some of these contracts have been completed and all required funds have been expended as of April 30, 2009. The total of other incomplete construction and facility related contracts is approximately \$10 million, of which approximately \$9 million has been spent through April 30, 2009.

Note 16. Segment Reporting

The Company has two reportable segments, consumer electronics and appliance retailing (retail) and alternative energy. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, indirect interest expense, discontinued operations, indirect investment 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. Segment profit includes realized and unrealized gains on

Edgar Filing: REX STORES CORP - Form 10-Q

derivative financial instruments. The following table summarizes segment and other results and assets (amounts in thousands):

	Three Months Ended April 30,	
	2009	2008
Net sales and revenue:		
Retail	\$ 15,616	\$ 25,642
Alternative energy	14,118	1,167
Total net sales and revenues	\$ 29,734	\$ 26,809
Segment gross profit:		
Retail	\$ 4,486	\$ 8,076
Alternative energy	233	56
Total gross profit	\$ 4,719	\$ 8,132
Segment profit (loss):		
Retail segment (loss) profit	\$ (453)	\$ 713
Alternative energy segment (loss) profit	(2,003)	428
Corporate expense	(383)	(537)
Interest expense	(201)	(112)
Investment income	230	664
Income from synthetic fuel investments		670
(Loss) income from continuing operations before income taxes	\$ (2,810)	\$ 1,826

	April 30,	January 31,	April 30,
	2009	2009	2008
Assets:			
Retail	\$ 52,135	\$ 80,437	\$ 112,449
Alternative energy	263,204	249,422	192,323
Corporate	125,246	121,429	121,665
Total assets	\$ 440,585	\$ 451,288	\$ 426,437

	Three Months Ended April	
	2009	2008
Sales of products retail segment:		
Televisions	41%	52%
Appliances	33%	28%
Audio	3%	4%
Video	1%	2%
Other	3%	1%
Total	81%	87%
Sales of services retail segment:		
Extended service contracts	19%	13%
Total retail segment sales	100%	100%
Sales of products alternative energy segment:		
Ethanol and related by-products	100%	100%

Certain corporate costs and expenses, including information technology, employee benefits and other shared services are allocated to the business segments. The allocations are generally amounts agreed upon by management, which may differ from amounts that would be incurred if such services were purchased separately by the business segment. Corporate assets are primarily cash, synthetic fuel accounts receivable and deferred income tax benefits.

Cash, except for cash held by Levelland Hockley and One Earth, is considered to be fungible and available for both corporate and segment use dependent on liquidity requirements. Cash of approximately \$1.3 million held by Levelland Hockley will be used to provide working capital.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Historically, we were a specialty retailer in the consumer electronics/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. Reflecting this focus, we commenced an evaluation of a broad range of alternatives intended to derive value from the remaining retail operations and our real estate portfolio. Following a comprehensive analysis, late in fiscal year 2008 we leased 37 owned store locations to a third party. We also provided the lessee an option to purchase all of the properties being leased from REX during the first two years of the lease term. The lessee also reached an

Edgar Filing: REX STORES CORP - Form 10-Q

agreement to lease or sub lease two of our leased locations. We anticipate closing, in fiscal year 2009, the remainder of the retail locations the lessee does not take over from REX.

We currently have invested approximately \$113 million in ethanol production entities and have interests in four ethanol entities, two of which we have majority ownership. We have no definitive plans, but will continue to consider additional investments in the alternative energy segment.

We plan to seek and evaluate various investment opportunities including energy related, agricultural and real estate. We can make no assurances that we will be successful in our efforts to find such opportunities.

As of April 30, 2009, we operated 19 stores in 10 states, predominantly in small to medium-sized markets under the trade name REX. We expect to be substantially completed with the wind down of our retail business by July 31, 2009.

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 2009 means the period February 1, 2009 to January 31, 2010.

Results of Operations

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to net sales and revenue:

	Three Months Ended April 30,	
	2009	2008
Net sales and revenue	100.0%	100.0%
Cost of sales	84.1	69.7
Gross profit	15.9	30.3
Selling, general and administrative expenses	(19.3)	(34.5)
Investment income	0.6	3.2
Interest expense	(3.0)	(0.4)
Loss on early termination of debt	(0.2)	
Losses on disposals of real estate, net	(0.7)	
Equity in (loss) income of unconsolidated ethanol affiliates	(0.9)	3.9
Income from synthetic fuel investments		2.5
(Losses) gains on derivative financial instruments, net	(1.8)	1.8
(Loss) income from continuing operations before income taxes and discontinued operations	(9.4)	6.8
Benefit (provision) for income taxes	2.9	(1.7)
(Loss) income from continuing operations including noncontrolling interest	(6.5)	5.1
Loss from discontinued operations, net of tax	(1.4)	(0.2)
Net (loss) income including noncontrolling interest	(7.9)	4.9
Net loss attributable to noncontrolling interest	2.1	0.8
Net loss attributable to RSC common shareholders	(5.8) %	5.7%

Business Segment Results

As discussed in Note 16, our chief operating decision maker (as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*) evaluates the operating performance of our business segments using a measure we call segment profit. Segment profit includes realized and unrealized gains on derivative financial instruments. Segment profit excludes income taxes, indirect interest expense, 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

Edgar Filing: REX STORES CORP - Form 10-Q

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.

The following table sets forth, for the periods indicated, sales and profits by segment (amounts in thousands):

	Three Months Ended April 30,	
	2009	2008
Net sales and revenue:		
Retail	\$ 15,616	\$ 25,642
Alternative energy	14,118	1,167
Total net sales and revenues	\$ 29,734	\$ 26,809
Segment gross profit:		
Retail	\$ 4,486	\$ 8,076
Alternative energy	233	56
Total gross profit	\$ 4,719	\$ 8,132
Segment profit (loss):		
Retail segment (loss) profit	\$ (453)	\$ 713
Alternative energy segment (loss) profit	(2,003)	428
Corporate expense	(383)	(537)
Interest expense	(201)	(112)
Investment income	230	664
Income from synthetic fuel investments		670
(Loss) income from continuing operations before income taxes	\$ (2,810)	\$ 1,826

Retail

The retail segment includes all of our store and distribution center operations, our real estate sales and leasing activities and certain administrative expenses. It excludes results from discontinued operations.

The net sales and revenue from our retail segment are discussed in the Comparison of Three Months Ended April 30, 2009 and 2008 discussion below.

Retail segment performance decreased \$1.2 million to a loss of \$0.5 million in the first quarter of fiscal year 2009 from profit of \$0.7 million in the first quarter of fiscal year 2008. The decrease in segment profit was primarily related to lower gross profit of approximately \$3.6 million, generally reflecting lower sales and lower gross margin percentages. This unfavorable result was partially offset by lower selling, general and administrative expenses of \$2.5 million. In general, revenue, gross profit and operating expenses were lower in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008 as a result of the wind down efforts of our retail business.

Alternative Energy

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

Net sales and revenue increased \$13.0 million to \$14.1 million as Levelland Hockley commenced production operations late in the first quarter of fiscal year 2008. Gross profit from these sales was approximately \$0.2 million during the first quarter of fiscal year 2009 compared to \$0.1 million during the first quarter of fiscal year 2008. Gross profit was negatively affected by inefficiencies and costs associated with a sustained shut down of the plant for maintenance in the first quarter of fiscal year 2009. In addition, the spread between ethanol and grain prices was lower than expected.

The following table summarizes certain operating data from Levelland Hockley:

	Three Months Ended	
	April 30,	
	2009	2008
	<u> </u>	<u> </u>
Average selling price per gallon of ethanol	\$ 1.55	\$ 2.05
Average selling price per ton of dried distiller grains	\$ 160.10	\$ 175.82
Average selling price per ton of wet distiller grains	\$ 47.82	\$ 44.04
Average cost per bushel of grain	\$ 3.26	\$ 6.03
Average cost of natural gas (per mmbtu)	\$ 5.47	\$ 6.65

Segment performance decreased \$2.4 million to a loss of \$2.0 million in the first quarter of fiscal year 2009 from profit of \$0.4 million in the first quarter of fiscal year 2008. The decrease in segment profit was primarily related to income from our investments in Big River and Patriot. We recorded a loss of \$0.3 million in the first quarter of fiscal year 2009 compared to income of \$1.0 million in the first quarter of fiscal year 2008. Interest expense increased by \$0.9 million in the first quarter of fiscal year 2009 as Levelland Hockley ceased capitalizing interest on its construction loan upon the commencement of operations in fiscal year 2008.

Corporate and Other

Corporate and other includes certain administrative expenses of the corporate headquarters, interest expense and investment income not directly allocated to the retail or alternative energy segments and income from synthetic fuel investments.

Income from synthetic fuel investments declined \$0.7 million in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008. Prior year income represents the estimated final settlements as all synthetic fuel production ceased during fiscal year 2007.

Edgar Filing: REX STORES CORP - Form 10-Q

Investment income of \$0.2 million in the first quarter of fiscal year 2009 was \$0.5 million lower compared to the first quarter of fiscal year 2008. This fluctuation is primarily a result of lower yields earned on our excess cash during the current year.

Comparison of Three Months Ended April 30, 2009 and 2008

Net sales and revenue in the quarter ended April 30, 2009 were \$29.7 million compared to \$26.8 million in the prior year's first quarter, representing an increase of \$2.9 million or 10.8%. Net sales and revenue do not include merchandise sales from stores classified in discontinued operations.

The increase was primarily caused by \$12.9 million of sales from our alternative energy segment as Levelland Hockley commenced operations late in the first quarter of fiscal year 2008. This positive trend was partially offset by a decrease in sales at retail stores of \$10.0 million in the first quarter of fiscal year 2009 compared to fiscal year 2008. The decline in retail store sales is primarily attributable to the winding down of our retail business.

The following table reflects the approximate percent of net sales for each major product and service group for the following periods:

Product Category	Three Months Ended April 30,	
	2009	2008
Televisions	16.5%	51.4%
Appliances	13.3	28.1
Audio	1.0	4.1
Video	0.3	1.8
Extended warranties	10.0	7.1
Ethanol and related by-products	47.9	2.5
Other	11.0	5.0
	100.0%	100.0%

At April 30, 2009, we operated 19 stores compared to 111 stores one year earlier. We did not open any stores and closed 71 stores during the first three months of fiscal year 2009. We did not open any stores and closed four stores during the first three months of fiscal year 2008.

At April 30, 2009, we had lease agreements or commitments, as landlord for all or parts of 45 properties, including 40 stores leased to subsidiaries of Appliance Direct, a third party appliance retail chain. We own 41 of these properties and are the tenant/sub landlord for four of the properties. At April 30, 2009, Appliance Direct leased and occupied six of the owned properties and three of the sub leased properties. Pursuant to the amended agreement with Appliance Direct, we expect the leases for the remaining 31 owned stores to commence no later than July 31, 2009. We have three additional owned properties that are vacant at April 30, 2009. We are marketing these vacant properties to lease or sell.

Edgar Filing: REX STORES CORP - Form 10-Q

Gross profit of \$4.7 million (15.9% of net sales and revenue) in the first quarter of fiscal year 2009 was approximately \$3.4 million lower than the \$8.1 million (30.3% of net sales and revenue) recorded in the first quarter of fiscal year 2008. Gross profit for the first quarter of fiscal year 2009 was negatively impacted by lower sales related to the wind down of our retail business. In addition, low margins at Levelland contributed to the decline in gross profit as Levelland generated only \$0.2 million of gross profit on sales of \$14.1 million during the first quarter of fiscal year 2009. The plant shut down and the spread between ethanol and grain prices was the primary reason for the low gross margins Levelland experienced. Extended service contracts contributed gross profit of \$2.1 million in the first quarter of fiscal year 2009 compared to \$2.6 million in the first quarter of fiscal year 2008. Our direct warranty repair costs were approximately 29% and 23% of extended service contract revenue in the first quarter of fiscal years 2009 and 2008, respectively. The direct warranty repair costs were a higher percentage of revenue partially as a result of lower levels of vendor support in fiscal year 2009.

Selling, general and administrative expenses for the first quarter of fiscal year 2009 were \$5.7 million (19.3% of net sales and revenue), a decrease of \$3.5 million or 38.0% from \$9.2 million (34.5% of net sales and revenue) for the first quarter of fiscal year 2008. The decrease in expenses was primarily a result of lower payroll expense of \$1.1 million in fiscal year 2009 compared to fiscal year 2008 as we have lowered our head count as part of the wind down of our retail business. In addition, sales commissions declined in the first quarter of fiscal year 2009, related to the sales decrease. Advertising expense was \$0.5 million in the first quarter of fiscal year 2009, compared to \$1.2 million in the first quarter of fiscal year 2008. The decrease is primarily related to the wind down of our retail business as we cancelled many advertising programs. Expenses (primarily payroll and related costs) at Levelland Hockley were \$0.2 million during the first quarter of fiscal year 2009 compared to \$0.9 million during the first quarter of fiscal year 2008. The decrease results from start up activities incurred in fiscal year 2008 related to the commencement of operations at Levelland Hockley.

Investment income was \$0.2 million for the first quarter of fiscal year 2009 compared to \$0.9 million for the first quarter of fiscal year 2008. The decrease results primarily from lower yields earned on our excess cash compared to the prior year.

Interest expense was \$0.9 million for the first quarter of fiscal year 2009 compared to \$0.1 million for the first quarter of fiscal year 2008. The increase primarily results from the interest on the Levelland Hockley credit facility subsequent to the commencement of operations at that plant. Prior to starting operations, interest on Levelland Hockley debt was capitalized.

During the first quarter of fiscal year 2009, we paid off approximately \$7.3 million of debt. As a result, we incurred prepayment penalties and the write off of prepaid loan fees totaling approximately \$0.1 million.

During the first quarter of fiscal year 2009, we donated an owned building and land to a charitable organization. As a result, we recognized a loss on disposal of real estate equal to \$0.2 million, the book value of the related assets.

On April 30, 2007, we completed a transaction for the sale of 86 of our current and former store locations to Klac for \$74.5 million in cash, before selling expenses. We also

Edgar Filing: REX STORES CORP - Form 10-Q

entered into agreements to leaseback 40 of the properties from Klac for initial lease terms expiring January 31, 2010, with renewal options for up to 15 additional years. The leases on 28 of the properties have been terminated as of April 30, 2009. We also entered into license agreements with Klac for 15 of the properties that allowed us to occupy the properties for up to 90 days rent free. Upon the expiration of the license period, we vacated the 15 properties.

This transaction resulted in a gain (realized and deferred) of \$14.8 million. Of this gain, \$2.6 million and \$0.3 million was recognized in the first quarter of fiscal years 2009 and 2008, respectively. The increase in current year gain recognition relates to our restructuring and winding down of our retail business. Amortization of the gain was accelerated for properties that we closed during fiscal year 2009. We had a deferred gain of \$1.4 million and \$5.1 million at April 30, 2009 and 2008, respectively, based upon the present value of the remaining minimum lease payments. The deferred gain will be amortized as a reduction to lease expense over the lease periods or recognized as gain on disposal at the end of the lease period. The leases have been accounted for as operating leases. The following table summarizes the pre-tax gains and losses recognized during the first quarters of fiscal years 2009 and 2008 (amounts in thousands):

<u>Classification of Gain</u>	<u>Quarter Ended April 30, 2009</u>	<u>Quarter Ended April 30, 2008</u>
Continuing Operations	\$ 58	\$ 58
Discontinued Operations	2,516	278
Total Pre-Tax Gain	\$ 2,574	\$ 336

The following table summarizes the components of the sale and leaseback transaction (dollar amounts in thousands):

<u>Property Category</u>	<u>Number of Properties</u>	<u>Deferred Gain</u>	<u>Recognized Gain</u>
Vacated	74	\$	\$ 10,790
Leased until January 31, 2010	12	1,360	2,655
Total	86	\$ 1,360	\$ 13,445

During the first quarter of fiscal year 2009, we recognized income of approximately \$0.1 million and loss of approximately \$0.4 million from our equity investments in Big River and Patriot, respectively. During the first quarter of fiscal year 2008, we recognized income of approximately \$1.0 million and \$41,000 from our equity investments in Big River and Patriot, respectively.

Income from continuing operations for the first quarter of fiscal year 2008 includes approximately \$0.7 million of pre-tax investment income from the sales of the Company's entire partnership interests in Colona SynFuel Limited Partnership, L.L.P., (Colona) and Somerset Synfuel, L.P. (Somerset). This income represents the estimated final settlements related to Colona and Somerset as all synthetic fuel production ceased during fiscal year 2007. As the

Edgar Filing: REX STORES CORP - Form 10-Q

Section 29/45K program expired December 31, 2007, the Company does not expect additional income from these sales.

We also sold our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. We did not recognize any income from this sale during the first quarter of fiscal years 2009 or 2008.

We recognized losses of \$556,000 during the first quarter of fiscal year 2009, related to forward starting interest rate swap agreements that Levelland Hockley and One Earth entered into during fiscal year 2007. Levelland Hockley's loss was \$318,000 and One Earth's loss was \$238,000. We recognized an unrealized gain of \$472,000 during the first quarter of fiscal year 2008, related to the swaps. Levelland Hockley's unrealized gain was \$161,000 and One Earth's unrealized gain was \$311,000.

Our effective tax rate was 30.6% and 25.8% for the first quarter of fiscal years 2009 and 2008, respectively. The change is primarily a result of a reduction in the reserve for uncertain tax positions during fiscal year 2008, related to the expiration of the statute of limitations in certain states and the recognition of a federal tax credit that is earned by Levelland Hockley as a small ethanol producer. We do not expect to be eligible to utilize the ethanol small producer federal tax credit for years beyond fiscal year 2008.

Noncontrolling interest loss of \$622,000 and \$217,000 represents the owners' (other than REX) share of the loss of Levelland Hockley and One Earth for the quarters ended April 30, 2009 and 2008, respectively.

During the quarter ended April 30, 2009 we closed 37 stores that were classified as discontinued operations. As a result of these closings and certain other store closings from prior periods, we had a loss from discontinued operations, net of tax benefit, of \$402,000 for the first quarter of fiscal year 2009 compared to \$46,000 for the first quarter of fiscal year 2008. Included in current year results are \$1.5 million of early lease termination costs and \$1.8 million of gain recognition related to the KLAC real estate sale.

As a result of the foregoing, net loss for the first quarter of fiscal year 2009 was \$1.7 million, a decrease of \$3.2 million from net income of \$1.5 million for the first quarter of fiscal year 2008.

Liquidity and Capital Resources

Net cash provided by operating activities was approximately \$10.4 million for the first quarter of fiscal year 2009, compared to cash used of \$5.2 million for the first quarter of fiscal year 2008. For the first three months of fiscal year 2008, cash was used by net loss of \$2.4 million, adjusted for non-cash items of \$4.2 million, which consisted of depreciation and amortization, stock based compensation expense, loss from equity method investments, loss on

Edgar Filing: REX STORES CORP - Form 10-Q

disposal of real estate and property and equipment, deferred income and the deferred income tax provision. In addition, inventory provided cash of \$17.9 million, primarily a result of the wind down of our retail business inventory levels as we have liquidated a significant portion of our retail merchandise inventory as we close stores. The primary use of cash was a decrease in accounts payable of \$2.3 million as we have reduced virtually all of our merchandise vendor balances in connection with the wind down of our retail business. Accounts receivable provided \$1.9 million of cash, primarily a result of the timing of cash receipts and customer billings at Levelland Hockley. Prepaid expenses and other current assets used cash of \$0.4 million as we had an increase in the balance of refundable income taxes due to the operating losses incurred in fiscal year 2008.

Net cash used in operating activities was approximately \$5.2 million for the first quarter of fiscal year 2008. For the first three months of fiscal year 2008, cash was provided by net income of \$1.5 million, adjusted for the impact of \$0.7 million for gains on our installment sales of the limited partnership interests, the unrealized gain on derivative financial instruments of \$0.5 million and non-cash items of \$2.1 million, which consisted of depreciation and amortization, stock based compensation expense, income from equity method investments, deferred income and the deferred income tax provision. In addition, accounts payable provided cash of \$11.6 million, primarily a result of changes in inventory levels and extended terms from vendors. The primary use of cash was a decrease in other liabilities of \$8.5 million, primarily a result of incentive compensation and other payroll and sales tax payments being made in the first quarter of fiscal year 2008. The increase in inventory of \$6.9 million was primarily due to seasonal fluctuations in our retail segment and Levelland Hockley commencing operations.

At April 30, 2009, working capital was \$67.5 million compared to \$84.4 million at January 31, 2009. This decrease is primarily a result of the early payoffs of approximately \$7.3 in mortgage debt and a decrease in current deferred taxes during the first quarter of fiscal year 2009 as our estimate of taxable income for fiscal year 2009 was reduced. The ratio of current assets to current liabilities was 2.5 to 1 at April 30, 2009 and January 31, 2009.

Cash of \$22.6 million was used in investing activities for the first quarter of fiscal year 2009, compared to \$27.4 million of cash used during the first quarter of fiscal year 2008. During the first quarter of fiscal year 2009, we had capital expenditures of approximately \$21.6 million, primarily related to construction at the One Earth ethanol plant. We paid approximately \$1.0 million into a restricted account as collateral for a letter of credit on behalf of Levelland Hockley to secure grain purchasing.

Cash of \$27.4 million was used in investing activities for the first quarter of fiscal year 2008. During the first quarter of fiscal year 2008, we received proceeds of \$1.2 million from the installment sales of our ownership interests in synthetic fuel entities. We had capital expenditures of approximately \$28.7 million during the first quarter of fiscal year 2008, primarily related to construction at the Levelland Hockley and One Earth ethanol plants.

Cash provided by financing activities totaled approximately \$6.1 million for the first quarter of fiscal year 2009 compared to \$11.2 million for the first quarter of fiscal year 2008. Cash was provided by debt borrowings of \$15.3 million on construction loans at ethanol

Edgar Filing: REX STORES CORP - Form 10-Q

facilities and stock option activity of \$0.6 million. Cash of \$8.7 million was used for payments of mortgage debt. In addition, cash of \$1.2 million used to repurchase our common shares.

Cash provided by financing activities totaled approximately \$11.2 million for the first quarter of fiscal year 2008. Cash was provided by debt borrowings of \$11.9 million and stock option activity of \$0.3 million. Cash of \$1.0 million was used for scheduled payments of mortgage debt.

In May 2007, One Earth entered into an agreement with a designer/builder for the construction of One Earth's ethanol plant. The designer/builder is responsible for all engineering, labor, materials and equipment to design, construct, startup and achieve guaranteed performance criteria of the plant. The contract price is approximately \$120.2 million, subject to adjustments as provided by the general conditions of the agreement, of which approximately \$109.2 million has been spent through April 30, 2009. One Earth has also entered into other construction and facility related contracts. Some of these contracts have been completed and all required funds have been expended as of April 30, 2009. The total of other incomplete construction and facility related contracts is approximately \$9.8 million, of which approximately \$9.3 million has been spent through April 30, 2009.

We expect One Earth to begin operations late in the second quarter of fiscal year 2009. In connection with beginning operations, One Earth will expend funds for initial inventories, supplies and other items. We believe One Earth has sufficient working capital and credit availability to fund these commitments and the initial steps necessary to begin production.

Forward-Looking Statements

This Form 10-Q 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 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 highly competitive nature of the consumer electronics retailing industry, changes in the national or regional economies, weather, the effects of terrorism or acts of war on consumer spending patterns, the availability of certain products, technological changes and changes in real estate market conditions, the fluctuating amount of income received from the Company's synthetic fuel investments and the impact of Internal Revenue Service audits. As it relates to ethanol investments, risks and uncertainties include among other things: the uncertainty of constructing plants on time and on budget, the impact of legislative changes, the price volatility and availability of corn, sorghum, distiller grains, ethanol, gasoline and natural gas and the plants operating efficiently and according to forecasts and projections. 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 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009 (File No. 001-09097).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes since January 31, 2009.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1A. Risk Factors**

During the quarter ended April 30, 2009, there have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended January 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
February 1-28, 2009	94,237	\$ 7.01	94,237	485,111
March 1-31, 2009	32,800	\$ 6.58	32,800	452,311
April 1-30, 2009	27,526	\$ 12.16	27,526	424,785
Total	154,563	\$ 7.84	154,563	424,785

- (1) During the first quarter of fiscal year 2009, we completed the purchase of our common stock under a previously announced authorization. On February 20, 2009, we announced our Board of Directors had authorized the repurchase of up to an additional 500,000 shares from time to time in private or market transactions at prevailing market prices. At April 30, 2009, a total of 424,785 shares remained available to purchase under this authorization.

Item 4. Submission of Matters to a Vote of Security Holders.

The annual meeting of shareholders of REX Stores Corporation was held on June 2, 2009, at which the following matter was submitted to a vote of shareholders:

1. Election of seven directors.

Nominee	For	Withheld
Stuart A. Rose	6,984,478	1,721,200
Lawrence Tomchin	6,894,408	1,811,270
Robert Davidoff	8,276,810	428,868
Edward M. Kress	6,894,778	1,810,900
Charles A. Elcan	6,588,625	2,117,053
David S. Harris	8,510,872	194,806
Mervyn L. Alphonso	8,531,635	174,043

Item 6. Exhibits.

The following exhibits are filed with this report:

- 31 Rule 13a-14(a)/15d-14(a) Certifications
- 32 Section 1350 Certifications

Edgar Filing: REX STORES CORP - Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REX STORES CORPORATION
Registrant

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Stuart A. Rose</u> (Stuart A. Rose)	Chairman of the Board (Chief Executive Officer)	June 9, 2009
<u>/s/ Douglas L. Bruggeman</u> (Douglas L. Bruggeman)	Vice President, Finance and Treasurer (Chief Financial Officer)	June 9, 2009