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**FORM 10-Q**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

(Mark One)

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

**For the quarterly period ended July 31, 2001**

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 0-13283

**REX Stores Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

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

**31-1095548**

(I.R.S. Employer  
Identification Number)

**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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

At the close of business on September 13, 2001, the registrant had 7,729,514 shares of Common Stock, par value \$.01 per share, outstanding.

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REX STORES CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

## REX STORES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

## ASSETS

	July 31 2001	January 31 2001 (In Thousands)	July 31 2000
ASSETS:			
Cash and cash equivalents	\$ 2,822	\$ 687	\$ 4,608
Accounts receivable, net	2,730	4,707	924
Merchandise inventory	160,235	144,150	181,167
Prepaid expenses and other	3,752	4,173	4,823
Future income tax benefits	9,837	9,837	9,837
Total current assets	179,376	163,554	201,359
PROPERTY AND EQUIPMENT, NET	134,118	135,643	124,558
FUTURE INCOME TAX BENEFITS	9,523	9,523	8,835
RESTRICTED INVESTMENTS	2,200	2,165	2,104
Total assets	\$ 325,217	\$ 310,885	\$ 336,856

## LIABILITIES AND SHAREHOLDERS' EQUITY

## CURRENT LIABILITIES:

Notes payable	\$ 9,448	\$ 742	\$ 46,416
Current portion of long-term debt	5,272	4,923	3,576
Current portion, deferred income and deferred gain on sale and leaseback	11,477	11,355	11,099
Accounts payable, trade	52,223	47,680	59,664
Accrued payroll	4,706	6,369	5,255
Other current liabilities	9,246	8,737	9,270
Total current liabilities	92,372	79,806	135,280

## LONG-TERM LIABILITIES:

Long-term mortgage debt	84,744	81,262	48,322
Deferred income	15,525	16,494	16,056
Deferred gain on sale and leaseback	1,716	2,129	2,541
Total long-term liabilities	101,985	99,885	66,919

## SHAREHOLDERS' EQUITY:

Common stock	175	173	173
Paid-in capital	107,338	106,248	105,799
Retained earnings	119,374	112,399	100,889
Treasury stock	(96,027)	(87,626)	(72,204)

Total shareholders' equity	130,860	131,194	134,657
Total liabilities and shareholders' equity	\$ 325,217	\$ 310,885	\$ 336,856

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended July 31		Six Months Ended July 31	
	2001	2000	2001	2000
(In Thousands, Except Per Share Amounts)				
NET SALES	\$ 99,867	\$ 101,609	\$ 204,030	\$ 208,792
COSTS AND EXPENSES:				
Cost of merchandise sold	70,967	72,822	146,481	151,271
Selling, general and administrative expenses	26,265	24,823	51,964	49,472
Total costs and expenses	97,232	97,645	198,445	200,743
INCOME FROM OPERATIONS	2,635	3,964	5,585	8,049
INVESTMENT INCOME	31	29	94	215
INTEREST EXPENSE	(2,261)	(1,877)	(4,227)	(3,049)
INCOME FROM LIMITED PARTNERSHIPS	4,754	3,190	7,849	4,419
Income before provision for income taxes	5,159	5,306	9,301	9,634
PROVISION FOR INCOME TAXES	1,289	1,326	2,326	2,408
NET INCOME	\$ 3,870	\$ 3,980	\$ 6,975	\$ 7,226
WEIGHTED AVERAGE SHARES OUTSTANDING-BASIC	7,641	9,816	7,793	10,229
BASIC NET INCOME PER SHARE	\$ 0.51	\$ 0.41	\$ .90	\$ 0.71
WEIGHTED AVERAGE SHARES OUTSTANDING-DILUTED	8,839	10,917	8,825	11,273
DILUTED NET INCOME PER SHARE	\$ 0.44	\$ 0.37	\$ 0.79	\$ 0.64

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares				Paid-in Capital	Retained Earnings
	Issued		Treasury			
	Shares	Amount	Shares	Amount		
(In Thousands)						
Balance at July 31, 2000	17,320	\$173	7,809	\$72,204	\$105,799	\$100,889
Common stock issued	14	-	(2)	(17)	449	-
Treasury stock acquired	-	-	1,295	15,439	-	-
Net income	-	-	-	-	-	11,510
Balance at January 31, 2001	17,334	\$173	9,102	\$87,626	\$106,248	\$112,399
Common stock issued	170	2	(30)	(292)	1,090	-
Treasury stock acquired	-	-	709	8,693	-	-
Net income	-	-	-	-	-	6,975
Balance at July 31, 2001	17,504	\$175	9,781	\$96,027	\$107,338	\$119,374

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2001	Six Months Ended July 31	2000
		(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$	6,975	\$ 7,226
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, net		2,100	1,896
Capital disposals		802	79
Deferred income		(848)	(487)
Gain on sale of partnership interest		(7,849)	(4,419)
Changes in assets and liabilities:			
Accounts receivable		1,977	1,645
Merchandise inventory		(16,085)	(41,900)
Other current assets		417	(2,726)
Accounts payable, trade		4,543	13,412
Other current liabilities		(1,154)	(3,324)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(9,122)</b>	<b>(28,598)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures		(1,785)	(13,143)
Proceeds from sale of partnership interest		7,849	4,419
Restricted investments		(35)	(84)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		<b>6,029</b>	<b>(8,808)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in notes payable		8,706	46,416
Payments of long-term debt		(2,269)	(2,213)
Proceeds from long-term debt		6,100	4,608
Common stock issued		1,092	554
Treasury stock issued		292	113
Treasury stock acquired		(8,693)	(33,073)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>5,228</b>	<b>16,405</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,135</b>	<b>(21,001)</b>
CASH AND CASH EQUIVALENTS, beginning of period		687	25,609
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$</b>	<b>2,822</b>	<b>\$ 4,608</b>

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2001

Note 1. Consolidated Financial Statements

The consolidated 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 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. It is suggested that these unaudited consolidated 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, 2001 (fiscal 2000).

## Note 2. Accounting Policies

The interim consolidated 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 2000 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 changes in the LIFO reserve (based upon the Company's best estimate of inflation to date), management bonuses and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature.

Certain reclassifications have been made to prior year amounts to conform with their fiscal 2001 presentation.

## Note 3. Stock Option Plans

The following summarizes options granted, exercised and canceled or expired during the six months ended July 31, 2001:

	Shares Under Stock Option Plans
Outstanding at January 31, 2001 (\$5.42 to \$15.21 per share)	4,149,356
Granted (\$12.01 to \$15.56 per share)	1,413,210
Exercised (\$5.42 to \$11.18 per share)	(200,436)
	<hr/>
Outstanding at July 31, 2001 (\$5.42 to \$15.56 per share)	5,362,130
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## Note 4. Investments in Limited Partnerships

Effective May 31, 2001, the Company sold its remaining 8% interest in one of its synthetic fuel limited partnership investments. The Company expects to receive cash payments from the sale on a quarterly basis through 2007. The payments will range from 74.25% to 82.5% of the federal income tax credits attributable to the 8% interest sold, calculated annually, depending upon synthetic fuel sales levels of the partnership.

## Note 5. Stock Split

On July 12, 2001, the Company's Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend, payable on August 10, 2001 to shareholders of record on July 31, 2001. The stock split has been retroactively reflected in the accompanying consolidated financial statements.

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

We are a leading specialty retailer in the consumer electronics/appliance industry. As of July 31, 2001 we operated 264 stores in 37 states, predominantly in small to medium-sized markets under the trade name "REX".

### Fiscal Year

All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal 2000" means the period February 1, 2000 to January 31, 2001.

### 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:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2001	2000	2001	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	71.1	71.7	71.8	72.4
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	28.9	28.3	28.2	27.6
Selling, general and administrative expenses	26.3	24.4	25.5	23.7
	<hr/>	<hr/>	<hr/>	<hr/>
Income from operations	2.6	3.9	2.7	3.9
Investment income	0.1	-	0.1	0.1
Interest expense	(2.3)	(1.8)	(2.1)	(1.5)
Income from limited partnerships	4.8	3.1	3.8	2.1
	<hr/>	<hr/>	<hr/>	<hr/>
Income before provision for income taxes	5.2	5.2	4.5	4.6
Provision for income taxes	1.3	1.3	1.1	1.1

Net income	3.9%	3.9%	3.4%	3.5%
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#### Comparison of Three and Six Months Ended July 31, 2001 and 2000

Net sales in the second quarter ended July 31, 2001 were \$99.9 million compared to \$101.6 million in the prior year's second quarter, representing a decrease of \$1.7 million or 1.7%. This decrease was caused by a decline of 8.4% in comparable store sales, partially offset by sales from the net increase of 22 stores since the second quarter of fiscal 2000.

All product categories contributed to the decline in comparable store sales for the quarter. The television category contributed 3.5%, the video category contributed 1.7%, the appliance category contributed 1.6%, the audio category contributed 1.2% and the other category contributed 0.4%.

Net sales for the first half of fiscal 2001 were \$204.0 million compared to \$208.8 million for the first half of fiscal 2000, representing a decrease of \$4.8 million or 2.3%. This decrease was caused by a decline in comparable store sales of 11.0% for the first half of fiscal 2001, partially offset by sales from the net increase of 22 stores since the second quarter of fiscal 2000.

All product categories contributed to the decline in comparable store sales for the first six months of fiscal 2001. The television category contributed 5.1%, the video category contributed 2.1%, the appliance category contributed 1.9%, the audio category contributed 1.3% and the other category contributed 0.6%.

As of July 31, 2001, we had 264 stores compared to 242 stores one year earlier. There were six stores opened and four closed in the first half of fiscal 2001. In the prior year's first half there were nine stores opened and five closed.

Gross profit of \$28.9 million (28.9% of net sales) in the second quarter of fiscal 2001 was \$100,000 higher than the \$28.8 million (28.3% of net sales) recorded in the second quarter of fiscal 2000. Gross profit for the first half of fiscal 2001 and fiscal 2000 was \$57.5 million for each year. However, the gross profit margin percentage increased to 28.2% for fiscal 2001 from 27.6% for fiscal 2000. The improvement in the gross profit margin percentage is primarily due to opportunistic inventory purchases available from our vendors.

Selling, general and administrative expenses for the second quarter of fiscal 2001 were \$26.3 million (26.3% of net sales) compared to \$24.8 million (24.4% of net sales) for the second quarter of fiscal 2000. This represents an increase of \$1.5 million or 6.0%. Selling, general and administrative expenses for the first half of fiscal 2001 were \$52.0 million (25.5% of net sales), a 5.0% increase from \$49.5 million (23.7% of net sales) for the first half of fiscal 2000. The increase in expense is primarily caused by the increased advertising and store expenses associated with the net increase of 22 stores since July 31, 2000.

Interest expense increased to \$2.3 million (2.3% of net sales) for the second quarter from \$1.9 million (1.8% of net sales) for the second quarter of fiscal 2000. Interest expense for the first half of fiscal 2001 was \$4.2 million (2.1% of net sales) compared to \$3.0 million (1.5% of net sales) for the first half of fiscal 2000. The increase in expense is primarily due to an increased amount of mortgage debt outstanding on company-owned store locations.

Results for the second quarter and first half of fiscals 2001 and 2000 also reflect the impact of our equity investment in two limited partnerships which produce synthetic fuels. Effective February 1, 1999, we entered into an agreement to sell a portion of our investment in one of the limited partnerships, which resulted in the reduction in our ownership interest from 30% to 17%. Effective July 31, 2000, we sold an additional portion of our ownership interest in that partnership, reducing our ownership percentage from 17% to 8%. Effective May 31, 2001, we sold our remaining 8% ownership interest. We report the income from these sales on a quarterly basis as payments are received. Below is a table summarizing the income from the sales, net of certain expenses.

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2001	2000	2001	2000
	(In Thousands)			
February 1, 1999 sale	\$ 1,780	\$ 1,706	\$ 3,587	\$ 2,946
July 31, 2000 sale	1,626	1,515	2,914	1,515
May 31, 2001 sale	1,347	-	1,347	-
Cash contribution	-	(31)	-	(42)
	<u>\$ 4,753</u>	<u>\$ 3,190</u>	<u>\$ 7,848</u>	<u>\$ 4,419</u>

Our effective tax rate was 25% for all periods presented after reflecting our share of federal income tax credits earned by the limited partnerships under Section 29 of the Internal Revenue Code.

As a result of the foregoing, net income for the second quarter of fiscal 2001 was \$3.9 million, a 2.5% decrease from \$4.0 million for the second quarter of fiscal 2000. Net income for the first half of fiscal 2001 was \$7.0 million, a 2.8% decrease from \$7.2 million for the first half of fiscal 2000.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$9.9 million for the first six months of fiscal 2001, compared to \$28.7 million for the first six months of fiscal 2000. For the first half of fiscal 2001, cash was provided by net income of \$7.0 million, adjusted for the impact of \$7.8 million for gains on our installment sales of the limited partnership interest and non-cash items of \$1.3 million which consisted of deferred income and depreciation and amortization. Cash was also provided by an increase of \$4.5 million in accounts payable, a decrease of \$2.0 million in accounts receivable and a decrease of \$417,000 in other assets. The primary use of cash was an increase of \$16.1 million in inventory due to the timing of purchases and a decrease in other liabilities of \$1.2 million.

At July 31, 2001, working capital was \$87.0 million compared to \$83.7 million at January 31, 2001. The ratio of current assets to current liabilities was 1.9 to 1 at July 31, 2001 and 2.0 to 1 at January 31, 2001.

Capital expenditures through July 31, 2001 totaled \$1.8 million and primarily relate to the construction expenditures associated with planned fiscal 2001 store openings. We received proceeds of \$7.8 million during the first half of fiscal 2001 from installment sales of our ownership interest in a limited partnership.

Cash provided by financing activities totaled approximately \$5.2 million. Cash was provided by borrowings of \$8.7 million on the line of credit during the first half of fiscal 2001 and proceeds of \$6.1 million from long-term debt borrowings related to mortgage financing of seven stores. A total of approximately \$102.3 million was available for borrowings on the line of credit as of July 31, 2001. We also received proceeds of \$1.4 million from the exercise of 200,437 shares (split adjusted) of employee stock options. Cash was used to purchase 709,800 shares (split adjusted) of our common stock for approximately \$8.7 million during the first half of fiscal 2001. As of July 31, 2001, we had authorization from our board of directors to purchase an additional 797,700 shares. Cash was also used for payments on long-term debt of \$2.3 million.

#### 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. The words "believes", "estimates", "plans", "expects", "intends", "anticipates" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties. Factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001 (File No. 0-13283).

#### Item 3. Quantitative and Qualitative Disclosure About Market Risk

No material changes since January 31, 2001.

#### PART II. OTHER INFORMATION

#### Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits. No exhibits are filed with this report.
- (b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended July 31, 2001.

#### 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

September 14, 2001

STUART A. ROSE  
Stuart A. Rose  
Chairman of the Board  
(Chief Executive Officer)

September 14, 2001

DOUGLAS L. BRUGGEMAN  
Douglas L. Bruggeman  
Vice President, Finance and Treasurer  
(Principal Financial and Chief Accounting Officer)