

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 July 31, 2006

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 (X) No ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ( ) Accelerated filer (X)  
Non-accelerated filer ( )

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

At the close of business on September 5, 2006 the registrant had 10,332,588 shares of Common Stock, par value \$.01 per share, outstanding.

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  
 Unaudited July 31 January 31 July 31 2006 2006 2005 ---- ---- ---- (In  
 Thousands) ASSETS CURRENT ASSETS: Cash and cash equivalents \$ 5,481 \$ 20,096 \$  
 1,744 Accounts receivable, net 4,149 3,457 3,458 Synthetic fuel receivable  
 3,171 1,680 786 Note receivable, related party 5,595 -- -- Merchandise  
 inventory 123,349 97,371 133,759 Prepaid expenses and other 2,226 2,052 2,807  
 Future income tax benefits 9,354 9,361 10,929 -----  
 Total current assets 153,325 134,017 153,483 PROPERTY AND EQUIPMENT, NET  
 121,994 125,245 128,700 ASSETS HELD FOR SALE 2,822 1,497 1,669 OTHER ASSETS 707  
 760 915 FUTURE INCOME TAX BENEFITS 29,228 30,031 27,978 RESTRICTED INVESTMENTS  
 2,367 2,318 2,290 ----- Total assets \$ 310,443 \$  
 293,868 \$ 315,035 =====  
 EQUITY CURRENT LIABILITIES: Notes payable \$ -- \$ -- \$ 4,031 Current portion of  
 long-term debt 2,476 2,389 2,919 Current portion of deferred income and  
 deferred gain on sale and leaseback 11,425 10,883 9,920 Accounts payable, trade  
 31,557 19,129 35,599 Accrued income taxes 597 541 -- Accrued payroll and  
 related items 4,230 7,183 5,093 Other current liabilities 6,469 5,863 6,623 ---  
 ----- Total current liabilities 56,754 45,988 64,185 ----  
 ----- LONG-TERM LIABILITIES: Long-term mortgage debt 20,117  
 21,462 28,490 Deferred income and deferred gain on sale and leaseback 12,812  
 12,213 11,387 ----- Total long-term liabilities 32,929  
 33,675 39,877 ----- SHAREHOLDERS' EQUITY: Common stock  
 295 294 293 Paid-in capital 138,238 135,775 135,496 Retained earnings 243,884  
 240,898 227,450 Treasury stock (161,657) (162,762) (152,266) -----  
 ----- Total shareholders' equity 220,760 214,205 210,973 -----  
 ----- Total liabilities and shareholders' equity \$ 310,443 \$ 293,868 \$  
 315,035 ===== The accompanying notes are an integral  
 part of these unaudited consolidated condensed financial statements. 3

REX STORES CORPORATION AND SUBSIDIARIES Consolidated Condensed Statements Of  
 Income Unaudited Three Months Ended Six Months Ended July 31 July 31 ----- --  
 ----- 2006 2005 2006 2005 ---- ---- ---- ---- (In Thousands, Except Per Share  
 Amounts) NET SALES AND REVENUE \$ 82,113 \$ 82,515 \$ 167,802 \$ 169,939 Cost of  
 sales 59,543 57,968 121,241 121,311 -----  
 Gross profit 22,570 24,547 46,561 48,628 Selling, general and administrative  
 expenses 22,361 23,730 45,554 46,037 -----  
 OPERATING INCOME 209 817 1,007 2,591 INVESTMENT INCOME 287 58 579 132 INTEREST  
 EXPENSE (497) (695) (999) (1,294) GAIN ON SALE OF REAL ESTATE 1,735 -- 1,735 --  
 INCOME FROM SYNTHETIC FUEL INVESTMENTS 722 10,398 2,785 16,380 -----  
 ----- Income from continuing operations before provision for  
 income taxes and discontinued operations 2,456 10,578 5,107 17,809 PROVISION  
 FOR INCOME TAXES 892 1,652 1,892 2,746 -----  
 Income from continuing operations 1,564 8,926 3,215 15,063 Loss from  
 discontinued operations, net of tax (67) (205) (229) (367) Gain on disposal of  
 discontinued operations, net of tax -- -- -- 125 -----  
 ----- NET INCOME \$ 1,497 \$ 8,721 \$ 2,986 \$ 14,821 =====  
 ===== WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC 10,323 10,871  
 10,235 11,011 ===== Basic income per share  
 from continuing operations \$ 0.15 \$ 0.82 \$ 0.31 \$ 1.37 Basic loss per share  
 from discontinued operations -- (0.02) (0.02) (0.03) Basic income per share on  
 disposal of discontinued operations -- -- -- 0.01 -----  
 ----- BASIC NET INCOME PER SHARE \$ 0.15 \$ 0.80 \$ 0.29 \$ 1.35 =====  
 ===== WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED  
 11,575 12,437 11,607 12,602 ===== Diluted  
 income per share from continuing operations \$ 0.13 \$ 0.72 \$ 0.28 \$ 1.20 Diluted  
 loss per share from discontinued operations -- (0.02) (0.02) (0.03) Diluted  
 income per share on disposal of discontinued operations -- -- -- 0.01 -----  
 ----- DILUTED NET INCOME PER SHARE \$ 0.13 \$ 0.70 \$ 0.26  
 \$ 1.18 ===== The accompanying notes are an  
 integral part of these unaudited consolidated condensed financial statements. 4

REX STORES CORPORATION AND SUBSIDIARIES Consolidated Condensed Statements Of  
 Shareholders' Equity Unaudited Common Shares Issued Treasury Total -----  
 --- Paid-in Retained Shareholders' Shares Amount Shares Amount Capital Earnings  
 Equity ----- (In Thousands)  
 Balance at January 31, 2006 29,390 \$294 19,289 \$(162,762) \$135,775 \$ 240,898  
 \$214,205 Net income 2,986 2,986 Share-based compensation 934 934 Stock options  
 exercised and related tax effects 101 1 (131) 1,105 1,529 2,635 -----  
 ----- Balance at July 31, 2006 29,491 \$295  
 19,158 \$(161,657) \$138,238 \$243,884 \$220,760 =====  
 ===== Common Shares Issued Treasury Total -----  
 Paid-in Retained Shareholders' Shares Amount Shares Amount Capital Earnings  
 Equity ----- (In Thousands)  
 Balance at January 31, 2005 29,038 \$290 17,865 \$(137,839) \$133,474 \$ 212,629  
 \$208,554 Net income 14,821 14,821 Treasury stock acquired 1,199 (17,533)  
 (17,533) Stock options exercised and related tax effects 274 3 (400) 3,106  
 2,022 5,131 ----- Balance at  
 July 31, 2005 29,312 \$293 18,664 \$(152,266) \$135,496 \$227,450 \$210,973 =====  
 ===== The accompanying notes are an  
 integral part of these unaudited consolidated condensed financial statements. 5

REX STORES CORPORATION AND SUBSIDIARIES Consolidated Condensed Statements Of  
 Cash Flows Unaudited Six Months Ended July 31 ----- 2006 2005 ---- ---- (In  
 Thousands) CASH FLOWS FROM OPERATING ACTIVITIES: Net income \$ 2,986 \$ 14,821  
 Adjustments to reconcile net income to net cash used in operating activities:  
 Depreciation and amortization 1,946 2,174 Stock based compensation expense 934  
 -- Impairment charges 85 -- Income from limited partnerships (2,785) (16,380)  
 (Gain) loss on disposal of fixed assets (1,704) 185 Deferred income 486 (828)  
 Excess tax benefits from stock option exercises (24) -- Deferred income tax 810  
 -- Changes in assets and liabilities: Accounts receivable (692) 2,002  
 Merchandise inventory (25,978) (9,571) Prepaid expenses and other 812 (1,577)  
 Other long term assets 53 (74) Accounts payable, trade 12,428 2,757 Other  
 current liabilities (2,291) (2,306) ----- NET CASH USED IN OPERATING  
 ACTIVITIES (12,934) (8,797) ----- CASH FLOWS FROM INVESTING  
 ACTIVITIES: Capital expenditures (331) (2,158) Proceeds from sale of  
 partnership interest 1,294 17,269 Purchase of note receivable (5,595) --  
 Proceeds from sale of real estate and fixed assets 2,585 1,139 Restricted  
 investments (49) (20) ----- NET CASH (USED IN) PROVIDED BY INVESTING  
 ACTIVITIES (2,096) 16,230 ----- CASH FLOWS FROM FINANCING ACTIVITIES:  
 Increase in notes payable -- 4,031 Payments of long-term debt (1,258) (1,989)  
 Stock options exercised 1,649 3,812 Excess tax benefits from stock option  
 exercises 24 -- Treasury stock acquired -- (16,214) ----- NET CASH  
 PROVIDED BY (USED IN) FINANCING ACTIVITIES 415 (10,360) ----- NET  
 DECREASE IN CASH AND CASH EQUIVALENTS (14,615) (2,927) CASH AND CASH  
 EQUIVALENTS, BEGINNING OF PERIOD 20,096 4,671 ----- CASH AND CASH  
 EQUIVALENTS, END OF PERIOD \$ 5,481 \$ 1,744 ===== ===== The accompanying  
 notes are an integral part of these unaudited consolidated condensed financial  
 statements. 6

REX STORES CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS July 31, 2006

**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. 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, 2006 (fiscal 2005). The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

**Note 2. Reclassifications** The Company reclassified \$0.2 million and \$0.4 million of lease income from selling, general and administrative expenses to net sales and revenue for the quarter and six months ended July 31, 2005, respectively, to conform to current year presentation.

**Note 3. 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 2005 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 and income from synthetic fuel limited partnership sales 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.

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The following table reflects the approximate percent of net sales and revenue for each major product group for the periods presented. Three Months Ended Six Months Ended July 31 July 31 ----- Product Category 2006 2005 2006 2005 - -----

Product Category	2006	2005	2006	2005
Televisions.....	47.5%	49.1%	52.1%	
52.2% Appliances.....	33.9	29.6	28.4	
24.8 Audio.....	6.9	8.8	7.7	
10.1 Video.....	3.8	5.0	3.7	5.1
Other.....	7.9	7.5	8.1	7.8
-- -----	100.0%	100.0%	100.0%	100.0%

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. The Company recognizes income from synthetic fuel partnership sales as production is completed. The Company is paid for actual tax credits earned as the synthetic fuel is produced. The Company estimates the impact of oil prices and the likelihood of any phase out of Section 29/45K credits and the resulting reduction of synthetic fuel income quarterly. See Note 7 for a further discussion of synthetic fuel partnership sales. 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 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. The Company includes stores expenses (such as payroll and occupancy costs), advertising, purchasing, depreciation, insurance and overhead costs in selling, general and administrative expenses. Interest expense was \$999,000 for the six months ended July 31, 2006 and no interest was capitalized. Interest expense of \$1,294,000 for the six months ended July 31, 2005 is net of approximately \$15,000 of interest capitalized. Cash paid for interest for the six months ended July 31, 2006 and 2005 was approximately \$966,000 and \$1,214,000, respectively. 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 8

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 \$0.1 million and \$4.0 million for the six months ended July 31, 2006 and 2005, respectively. From time to time, in advance of making an investment in debt or equity securities of investees, such as the contingent investments the Company has in ethanol entities, the Company may enter into a commitment for such investment which is contingent upon future events occurring, including but not limited to, the investee raising additional financing and/or equity. These commitments may be backed by letters of credit or other means as mutually agreed to by the Company and the investee. Generally, because commitments are contingently exercisable and represent the potential acquisition of a minority position in the investee, the Company believes that it is not the primary beneficiary of the investee under the guidance in FASB Interpretation Number 46R ("FIN 46R"). When, and if the commitment is exercised and the Company makes its investment, the Company is required to re-evaluate whether the Company is the primary beneficiary under the guidance in FIN 46R. The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The consolidated financial statements include the Company's controlled subsidiaries that are not considered variable interest entities. The Company has not identified any variable interests in which the Company is the primary beneficiary. Investments in businesses that the Company does not control, but has the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method. All intercompany transactions between the consolidated subsidiaries are eliminated. Investments in debt securities are considered "held to maturity", "available for sale", or "trading securities" under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115".) Under SFAS 115, held to maturity securities are required to be carried at their cost; while available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses, net of income taxes, that are considered temporary in nature recorded in accumulated other comprehensive income (loss) in the accompanying consolidated condensed balance sheets. The fair values of the Company's investments in debt securities are determined based upon market quotations and various valuation techniques, including discounted cash flow analysis. The Company periodically evaluates its investments in debt securities 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 investment and other income (expense), net in the accompanying consolidated income statements for all or a portion of the unrealized loss, and a new cost basis in the investment is established. Restricted investments of \$2.4 9



million, which are principally marketable debt securities of a federal government agency, are classified as held to maturity, and are stated as cost plus accrued interest, which approximates market. A note receivable of \$5.6 million, which is a debt security of Levelland/Hockley County Ethanol, LLC ("Levelland/Hockley") is classified as held to maturity and is stated at cost plus accrued interest, which approximates market. Levelland/Hockley is a development stage entity that intends to construct and operate an ethanol plant. The note is collateralized by all of the assets of Levelland/Hockley. The note is payable in full by December 31, 2006 and bears an annual interest rate of 12%. Levelland/Hockley is a related party as one of the Company's executive officers is on the board of directors of Levelland/Hockley. The Company has the intent and ability to hold this security to maturity. This note is not a component of the commitments to fund Levelland/Hockley, which is discussed in Note 9. Recently Issued Accounting Standards In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective for the Company beginning February 1, 2007. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements. Note 4. 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. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement based on the grant-date fair value of the award. It also requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award (presumptively the vesting period). SFAS 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB25"), and its related interpretations. The Company adopted SFAS 123(R) on February 1, 2006. The Company chose the Modified Prospective Application ("MPA") method for implementing SFAS 123(R). Under the MPA method, new awards, if any, are valued and accounted for prospectively upon adoption. Outstanding prior awards that are unvested as of February 1, 2006 will be recognized as compensation cost over the remaining requisite service period. Prior periods have not been restated. On May 26, 2005, the Company's Board of Directors approved accelerating the vesting of out-of-the-money, unvested stock options held by current employees, including non-director executive officers. 10

An option was considered out-of-the-money if the stated option exercise price was greater than \$13.82, which was the closing price of the Company's common stock on May 26, 2005. As a result, options to purchase approximately 118,000 shares, including options to purchase approximately 60,000 shares held by executive officers, became immediately exercisable. The decision to accelerate vesting of these options was made to avoid recognizing compensation cost in the consolidated statement of income upon the adoption of SFAS 123(R). As a result of the acceleration, stock option expense was reduced by approximately \$362,000 (\$224,000, net of tax) in the first six months of fiscal 2006 under the MPA. Prior to its adoption of SFAS 123(R), the Company accounted for stock-based compensation in compliance with APB 25, under which no compensation cost was recognized. The Company provided disclosures based on the fair value as permitted by SFAS 123. In the second quarter of fiscal 2006, the adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of approximately \$368,000 (\$228,000 net of tax, or \$0.02 per basic and diluted share.) In the first six months of fiscal 2006, the adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of approximately \$934,000 (\$579,000 net of tax, or \$0.06 per basic and \$0.05 per diluted share.) Prior to the adoption of SFAS 123(R), the Company reported all tax benefits resulting from the exercise of non-qualified stock options as operating cash flows in its consolidated statements of cash flows. In accordance with SFAS 123(R), the Company revised its current year statement of cash flows presentation to report the excess tax benefits from the exercise of non-qualified stock options as financing cash flows. There were approximately \$24,000 of excess tax benefits from the exercise of non-qualified stock options for the six months ended July 31, 2006. SFAS 123 requires the presentation of pro forma information for the comparative period prior to the adoption as if all of the Company's employee stock options had been accounted under the fair value method of the original SFAS 123. Had compensation cost for all options granted been determined based on the fair value at grant date consistent with SFAS 123, the Company's net earnings and earnings per share would have been as follows (in thousands, except per share amounts): 11

Three Months Six Months Ended Ended July 31, 2005 July 31, 2005 ----- -  
 ----- Net Income As Reported \$8,721 \$14,821 Compensation Cost, net of  
 tax 1,502 2,340 Pro forma 7,219 12,481 Basic net income per share As Reported \$  
 0.80 \$ 1.35 Compensation Cost, net of tax 0.14 0.22 Pro forma 0.66 1.13 Diluted  
 net income per share As Reported \$ 0.70 \$ 1.18 Compensation Cost, net of tax  
 0.12 0.19 Pro forma 0.58 0.99 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 fiscal years ended January 31, 2005 and 2004,  
 respectively: risk-free interest rate of 4.7% and 4.3%, expected volatility of  
 65.4% and 65.9% and a weighted average stock option life of nine years for all  
 years. The total intrinsic value of options exercised during the six months  
 ended July 31, 2006 and 2005 was approximately \$2.3 million and \$6.1 million,  
 respectively, resulting in tax deductions to realize benefits of approximately  
 \$1.0 million and \$1.6 million, respectively. The following table summarizes  
 options granted, exercised and canceled or expired during the six months ended  
 July 31, 2006: Weighted Average Aggregate Weighted Average Remaining Intrinsic  
 Value Shares Exercise Price Contractual Term (in thousands) Outstanding at  
 January 31, 2006 4,673,721 \$ 8.15 Exercised (231,542) \$ 7.12 Forfeited (4,200)  
 \$12.69 ----- ----- Outstanding at July 31, 2006 4,437,979 \$ 8.20 4.3 \$25,676  
 ===== ===== === ===== Exercisable at July 31, 2006 4,038,720 \$ 7.76 4.0  
 \$25,162 ===== ===== === ===== 12

At July 31, 2006, there was approximately \$3.5 million (pre-tax) of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted average period of 2.5 years. Note 5.

Sale and Leaseback Transaction On July 28, 2006, the Company completed a transaction for the sale and leaseback of one of its stores under an initial three-year lease term. A pre-tax financial statement gain of \$1.7 million (net of expenses) resulted from this sale. The Company has also deferred \$0.7 million, which represents 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. Note 6.

Income Per Share from Continuing Operations The following table reconciles the basic and diluted net income per share from continuing operations computation for each period presented (in thousands, except per share amounts):

Three Months Ended		Six Months Ended		July 31, 2006		July 31, 2005	
Per	Income	Shares	Share	Income	Shares	Share	Share
Basic income per share from continuing operations	\$1,564	10,323	\$0.15	\$3,215	10,235	\$0.31	\$8,926
Effect of stock options	1,252	1,372					10,871
Diluted income per share from continuing operations	\$1,564			\$3,215	11,607	\$0.28	\$12,437
							\$15,063
							\$11,011
							\$1.37
							\$1.20

==== For the three months ended July 31, 2006 and 2005, a total of 488,874 shares and 314,336 shares, respectively, and for the six months ended July 31, 2006 and 2005, a total of 488,874 shares and 314,336 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive. 13

Note 7. Synthetic Fuel Income from continuing operations for the second quarter and first six months of fiscal 2006 includes approximately \$0.7 million and \$2.8 million, respectively, of pre-tax investment income from the sales of the Company's entire partnership interest in Colona SynFuel Limited Partnership, L.L.L.P., (Colona) and Somerset Synfuel, L.P. (Somerset), which produce synthetic fuel. The Company was to receive payments from the three separate sales of its interests in Colona, on a quarterly basis through 2007, ranging from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold subject to certain annual limitations and production levels. The Company has agreed to accept payments for calendar year 2006 production in 2007 after the 2006 "Annual Adjustment Amount" is published by the Internal Revenue Service. During the first quarter of fiscal 2006, the Company recorded approximately \$504,000 of income which relates to a payment received for 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The \$504,000 payment was made to the Company after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006. During the first quarter of fiscal 2005, the Company recorded approximately \$448,000 of income which relates to a payment received for 2004 production. The 2004 production payments were based upon estimated income tax credits per ton of coal produced. The \$448,000 payment was made to the Company after the Internal Revenue Service published the 2004 income tax credit per ton amount in April of 2005. Effective October 1, 2005, the Company sold its entire ownership interest in the Somerset limited partnership that owned two synthetic fuel facilities. The Company received \$1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. The Company expects to receive quarterly payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels. During the first quarter of fiscal 2006, the Company recorded approximately \$58,000 of income which relates to 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The \$58,000 was recognized after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006. Income from synthetic fuel investments for the first six months of fiscal 2006 also includes income related to the Company's sale of its membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. The Company received \$2.8 million at the time of sale on March 30, 2004 along with a secured contingent payment note that could provide additional income. The facility resumed commercial operations during the second quarter of fiscal 2005; as such, the Company received \$3.5 million as a one-time payment per the terms of the purchase agreement. In addition, the Company is eligible to receive \$1.50 per ton of "qualified production" produced by the facility and sold through 2007. Payments for qualified production occurring after January 31, 2006 through March 31, 2006 have been placed into escrow. Subject to certain conditions, the Company may receive certain payments placed into escrow in calendar year 2007 after information necessary to calculate any phase out of Section 29/45K credits is published by the Department of Treasury. Payments for qualified production occurring after March 31, 2006, if any, may be paid directly to the Company. 14

As provided by the current Internal Revenue Code, the Code Section 29/45K tax credit program is expected to continue through December 31, 2007; however, recent increases in the price of oil could limit the amount of those credits or eliminate them altogether for 2006 and 2007. This possibility is due to a provision of Section 29/45K that provides that if the average wellhead price per barrel for unregulated domestic crude oil for the year (the "Annual Average Price") exceeds a certain threshold value (the "Threshold Price"), the Section 29/45K tax credits are subject to phase out. For calendar year 2005, the Threshold Price was \$53.20 per barrel and the Phase Out Price was \$66.78 per barrel. The Threshold Price and the Phase Out Price are adjusted annually as a result of inflation and are published by the Internal Revenue Service in April of the following year. The Company cannot predict with absolute certainty the Annual Average Price for 2006 or beyond. Therefore, it cannot predict whether the price of oil will have a material effect on its synthetic fuel business after 2005. However, if during 2006 or 2007 oil prices remain at historically high levels or increase, such that the Annual Average Price exceeds the Threshold Price, the Company's synthetic fuel business may be adversely affected for those years, and, depending on the magnitude of such increases in oil prices, the adverse effect for those years could be material and could have an impact on the Company's synthetic fuel results of operations. Based upon the price of oil to date and considering the NYMEX futures market, the Company estimates the tax credits would be subject to approximately a 75% phase out as of July 31, 2006. Because synthetic fuel is not economical to produce absent the associated tax credits and the fact that the Company has no control or decision involvement with production levels, the Company cannot determine the impact of possible production reduction or elimination on the Company's financial results. The Company does not anticipate receiving significant additional income from the sale of its synthetic fuel interests for the remainder of fiscal 2006. This could change, should operations resume and/or continue subject to the phase out provisions of Section 29/45K. Below is a table summarizing the income from the sales, net of certain expenses, of the Company's interests in synthetic fuel entities (in thousands):

Three Months Ended	Six Months Ended	July 31, 2006	July 31, 2005	2006	2005	2006	2005
February 1, 1999	Colona sale	\$103					
July 31, 2000	Colona sale	82					
May 31, 2001	Colona sale	73	1,872				
October 1, 2005	Somerset sale	464	--	950	--		
March 30, 2004	Gillette sale	--	4,272	423	4,264	--	--
		\$722	\$10,398	\$2,785	\$16,380	====	=====

Note 8. Discontinued Operations and Assets Held for Sale During the first six months of fiscal 2006 the Company closed two stores in which the Company vacated the market or will not have a further continuing involvement with the related property. Those stores and certain other stores closed in previous periods or scheduled to be closed in the next twelve months were classified as discontinued operations for all periods presented. Four of the closed stores are classified as held for sale. The net assets of those stores at July 31, 2006 were approximately \$2.8 million. The Company expects to sell the assets related to these stores within the 15

next 12 months through normal real estate channels. A charge of \$85,000 has been recognized, as the estimated net realizable value did not exceed the carrying value of one property. Below is a table reflecting certain items of the income statement that were reclassified as discontinued operations for the period indicated. Three Months Ended Six Months Ended July 31, July 31, -----  
 - - - - - 2006 2005 2006 2005 - - - - - (In Thousands) Net sales and revenue..... \$445 \$2,525 \$1,414 \$6,376 Cost of merchandise sold ..... 350 1,873 1,131 4,866 Loss before benefit for income taxes ..... (103) (315) (352) (565) Benefit for income taxes..... 36 110 123 198 Net loss..... \$(67) \$(205) \$(229) \$(367)

Note 9. Commitments On November 28, 2005, the Company entered into a contingent agreement with Levelland/Hockley County Ethanol, LLC ("Levelland/Hockley") to purchase a convertible secured promissory note in the principal amount of \$5 million. The proceeds of the note will be used to capitalize Levelland/Hockley which intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 40 million gallons annually. The purchase of the note is expected to occur before December 31, 2006, subject to Levelland/Hockley obtaining additional financing and certain other conditions. On July 31, 2006, the Company entered into a contingent agreement with Levelland/Hockley to invest an additional \$11.5 to \$18.0 million. The additional investment, along with the \$5 million convertible secured promissory note, enables the Company to secure a majority ownership interest in Levelland/Hockley. On March 17, 2006, the Company entered into a contingent agreement to purchase a note in the principal amount of \$14 million issued by a limited liability company organized to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The purchase of the note is subject to the limited liability company obtaining additional financing by September 18, 2006. The Company has obtained a \$14 million irrevocable letter of credit to secure its purchase obligation. The note purchase agreement provides the Company rights to purchase an equity interest in the limited liability company in exchange for the note. At July 31, 2006, the \$14 million letter of credit remained outstanding. On May 26, 2006, the Company entered into a contingent agreement to invest \$24.9 million in a limited liability company that intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The equity investment is expected to occur before June 30, 2007, subject to the limited liability company obtaining additional financing and certain other conditions. 16

On June 8, 2006, the Company entered into a contingent agreement to invest \$16 million in a limited liability company that intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The equity investment is expected to occur before December 31, 2006, subject to the limited liability company obtaining additional financing and certain other conditions. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. We are a specialty retailer in the consumer electronics/appliance industry. As of July 31, 2006 we operated 210 stores in 36 states, predominantly in small to medium-sized markets under the trade name "REX". Over the past eight years, we have also been active in several synthetic fuel investments and we currently have contingent agreements to invest in four ethanol producing plants. Fiscal Year All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal 2006" means the period February 1, 2006 to January 31, 2007. 17





increased promotional effort, an increase in the breadth of products offered and from our stores serving the Gulf Coast region. The Gulf Coast stores experienced higher demand for appliances as a result of hurricanes in the fall of 2005. The television category results were consistent with the prior year. We continue to experience growth in light engine, LCD and plasma sets, however, the growth was offset by declines in high definition projection sets. The audio category negatively impacted comparable store sales by 1.8%. The video category negatively impacted comparable store sales by 1.0%. Both the audio and video categories have been impacted by lower price points of their respective products, as these products are becoming more of a commodity item with very high levels of competition. Net sales and revenue for the first six months of fiscal 2006 were \$167.8 million compared to \$169.9 million for the first six months of fiscal 2005. This represents a decrease of \$2.1 million or 1.3%. This decrease was primarily caused by a net reduction of 19 stores (seven of which were classified as discontinued operations) since the end of the second quarter of fiscal 2005. The reduction in stores accounted for approximately \$4.4 million of the decrease. This was partially offset by an increase in comparable store sales of 2.0% for the first half of fiscal 2006. The appliance and television product categories positively impacted comparable store sales for the first six months of fiscal 2006 with the appliance category impact being 4.8% and the television category impact being 1.1%. The appliance category increase is related to an increased promotional effort, an increase in the breadth of products offered and from our stores serving the Gulf Coast region. The Gulf Coast stores experienced higher demand for appliances as a result of hurricanes in the fall of 2005. The television category increase results from demand for light engine, LCD and plasma televisions. The audio and video categories negatively impacted comparable store sales for the first half of fiscal 2006 by 2.3% and 1.4%, respectively, reflecting a continuing trend of lower price points of the respective products, as these products are becoming more of a commodity item with very high levels of competition. The following table reflects the approximate percent of net sales and revenue for each major product group for the periods presented. Three Months Ended Six Months Ended July 31 July 31 ----- Product Category 2006 2005 2006 2005 - -----

Product Category	2006	2005	2006	2005
Televisions.....	47.5%	49.1%	52.1%	52.2%
Appliances.....	33.9	29.6	28.4	24.8
Audio.....	6.9	8.8	7.7	10.1
Video.....	3.8	5.0	3.7	5.1
Other.....	7.9	7.5	8.1	7.8
	100.0%	100.0%	100.0%	100.0%

=====  
 ----- As of July 31, 2006, we operated 210 stores compared to 228 stores one year earlier. We did not open any stores and closed eight stores during the first six months of fiscal 2006. Of the eight stores closed, we have lease agreements, as landlord, for three of the locations and are marketing three of the locations for lease or sale. We abandoned two of the stores upon the expiration of our lease as lessee. We did not open any stores and closed six stores during the first six months of fiscal 2005. 19

At July 31, 2006, we had lease agreements, as landlord/sub landlord, for all or parts of 24 properties. We own 21 of these properties and are the tenant/sub landlord for three of the properties. In eight of the owned locations, we operate a store and lease a portion of the property to another party. We do not operate a store in 13 of the owned properties. We have five owned properties that are vacant at July 31, 2006. The assets for four of these properties are classified as assets held for sale. Gross profit of \$22.6 million (27.5% of net sales and revenue) in the second quarter of fiscal 2006 was approximately \$2.0 million lower than the \$24.5 million (29.7% of net sales and revenue) recorded in the second quarter of fiscal 2005. Gross profit for the first six months of fiscal 2006 was \$45.6 million (27.7 % of net sales and revenue) compared to \$48.6 million (28.6 % of net sales and revenue) for the first six months of fiscal 2005. Gross profit margin for the second quarter and first half of fiscal 2006 was negatively impacted by approximately \$0.7 million and \$1.2 million, respectively, as a result of having 18 net fewer stores compared to the prior year. Lower gross profit margin percentages caused gross profit to decline for the second quarter and first half of fiscal 2006 by approximately \$1.3 million and approximately \$1.8 million, respectively. Gross profit margin for the second quarter and first six months of fiscal 2006 was negatively impacted by a higher percentage of appliance sales which tend to have lower gross profit margins than our other core products. Selling, general and administrative expenses for the second quarter of fiscal 2006 were \$22.4 million (27.2% of net sales and revenue), a decrease of \$1.3 million or 5.8% from \$23.7 million (28.7% of net sales and revenue) for the second quarter of fiscal 2005. Selling, general and administrative expenses were \$45.6 million (27.1% of net sales and revenue) for the first six months of fiscal 2006 representing a decrease of \$0.4 million or 1.0% from \$46.0 million (27.1% of net sales and revenue) for the first six months of fiscal 2005. The decrease in expenditures was primarily a result of lower advertising expenditures and lower corporate payroll cost due to lower profitability levels in the current year. These decreases were partially offset by a corresponding increase in payroll costs associated with higher commissions paid to sales personnel. In addition, we recognized stock based compensation expense in the second quarter and first half of fiscal 2006 of \$0.3 million and \$0.9 million, respectively as we adopted SFAS 123(R) during the first quarter of fiscal 2006. Operating income in the second quarter of fiscal 2006 was \$0.2 million (0.3% of net sales and revenue), a decrease of \$0.6 million (1%) from \$0.8 million (1.0% of net sales and revenue) for the second quarter of fiscal 2005. Operating income in the first six months of fiscal 2006 was \$1.0 million (0.6% of net sales and revenue), a decrease of \$1.6 million (61.1%) from the \$2.6 million (1.5% of net sales and revenue) for the first six months of fiscal 2005. Investment income was \$287,000 and \$58,000 for the second quarter of fiscal 2006 and 2005, respectively. Investment income for the first six months of fiscal 2006 was \$579,000 compared to \$132,000 for the first six months of fiscal 2005. A majority of the increase in investment income results from higher levels of excess cash invested and higher interest rates during fiscal 2006 as compared to fiscal 2005. Interest expense was \$0.5 million (0.6% of net sales and revenue) for the second quarter of fiscal 2006 compared to \$0.7 million (0.8% of net sales and revenue) for the second quarter of fiscal 2005. Interest expense was \$1.0 million (0.6% of net sales and revenue) for the first six months of fiscal 2006 compared to \$1.3 million (0.8% of net sales and revenue) for the first six months of fiscal 20

2005. Interest expense for the current year has been lowered due to lower average borrowings on the line of credit and the pay-off of approximately \$1.3 million in mortgage debt since July 31, 2005. During the second quarter and six months ended July 31, 2006, we executed a sale and leaseback agreement for one owned property for a financial statement gain of approximately \$1.7 million. Results for the second quarter and first six months of fiscal 2006 and 2005 reflect the impact of the sales of our investment in Colona SynFuel Limited Partnership, L.L.L.P. (Colona), and Somerset Synfuel, L.P. (Somerset), which produces synthetic fuels. We sold our ownership interest in the Colona limited partnership through a series of three sales. We were to receive payments from the three separate sales of our interests in Colona, on a quarterly basis through 2007, ranging from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold subject to certain annual limitations and production levels. We have agreed to accept payments for calendar year 2006 production in 2007 after the 2006 "Annual Adjustment Amount" is published by the Internal Revenue Service. During the first quarter of fiscal 2006, we recorded approximately \$504,000 of income which relates to a payment received for 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The \$504,000 payment was made to us after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006. During the first quarter of fiscal 2005, we recorded approximately \$448,000 of income which relates to a payment received for 2004 production. The 2004 production payments were based upon estimated income tax credits per ton of coal produced. The \$448,000 payment was made to us after the Internal Revenue Service published the 2004 income tax credit per ton amount in April of 2005. Effective October 1, 2005, we sold our entire ownership interest in the Somerset limited partnership that owned two synthetic fuel facilities. We received \$1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. We expect to receive quarterly payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels. During the first quarter of fiscal 2006, we recorded approximately \$58,000 of income which relates to 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The \$58,000 was recognized after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006. Income from synthetic fuel investments for the first six months of fiscal 2006 and 2005 also includes income related to our sale of our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We received \$2.8 million at the time of sale on March 30, 2004 along with a secured contingent payment note that could provide additional investment income to us. The facility resumed commercial operations during the second quarter of fiscal 2005; as such, we received \$3.5 million as a one-time payment per the terms of the purchase agreement. In addition, we are eligible to receive \$1.50 per ton of "qualified production" produced by the facility and sold through 2007. Payments for qualified production occurring after January 31, 2006 through March 31, 2006 have been placed into escrow. Subject to certain conditions, we will receive any payments placed into escrow in calendar year 2007 after information necessary to calculate any phase out of Section 29/45K credits is published by the Department of Treasury. Payments for qualified production occurring after March 31, 2006, if any, may be paid directly to us. 21

As provided by the current Internal Revenue Code, the Code Section 29/45K tax credit program is expected to continue through December 31, 2007; however, recent increases in the price of oil could limit the amount of those credits or eliminate them altogether for 2006 and 2007. This possibility is due to a provision of Section 29/45K that provides that if the average wellhead price per barrel for unregulated domestic crude oil for the year (the "Annual Average Price") exceeds a certain threshold value (the "Threshold Price"), the Section 29/45K tax credits are subject to phase out. For calendar year 2005, the Threshold Price was \$53.20 per barrel and the Phase Out Price was \$66.78 per barrel. The Threshold Price and the Phase Out Price are adjusted annually as a result of inflation and are published by the Internal Revenue Service in April of the following year. We cannot predict with absolute certainty the Annual Average Price for 2006 or beyond. Therefore, we cannot predict whether the price of oil will have a material effect on our synthetic fuel business after 2005. However, if during 2006 or 2007, oil prices remain at historically high levels or increase, such that the Annual Average Price exceeds the Threshold Price, our synthetic fuel business may be adversely affected for those years, and, depending on the magnitude of such increases in oil prices, the adverse affect for those years could be material and could have an impact on our synthetic fuel results of operations. Based upon the price of oil to date and considering the NYMEX futures market, we estimate the tax credits would be subject to approximately a 75% phase out as of July 31, 2006. Because synthetic fuel is not economical to produce absent the associated tax credits and the fact that we have no control or decision involvement with production levels, we cannot determine the impact of possible production reduction or elimination on our financial results. We do not anticipate receiving significant additional income from the sale of our synthetic fuel interests for the remainder of fiscal 2006. This could change, should operations resume and/or continue subject to the phase out provisions of Section 29/45K. Below is a table summarizing the income from the sales, net of certain expenses, of our interests in synthetic fuel entities (in thousands):

Three Months Ended	Six Months Ended	2006	2005	2006	2005
July 31, 2006	July 31, 2005	-----	-----	-----	-----
February 1, 1999 Colona sale		\$103	\$2,148	\$362	\$4,522
July 31, 2000 Colona sale		82	2,106	556	4,020
May 31, 2001 Colona sale		73	1,872	494	3,574
October 1, 2005 Somerset sale		464	950	950	950
March 30, 2004 Gillette sale		4,272	423	4,264	-----
					\$722

\$10,398 \$2,785 \$16,380 ===== Our effective tax rate was 36.3% and 15.6% for the second quarter of fiscal 2006 and 2005, respectively, after reflecting our share of federal income tax credits earned during 2005 by the limited partnerships under Section 29/45K of the Internal Revenue Code. Our effective tax rate was 37% and 15.4% for the first six months of fiscal 2006 and 2005, respectively, after reflecting our share of federal income tax credits earned during 2005 by the limited partnerships under Section 29/45K of the 22

Internal Revenue Code. As we no longer earn federal income tax credits from synthetic fuel production, we expect our tax rate in fiscal 2006 to be in the range of 35% to 40%. During the quarter and six months ended July 31, 2006 we closed or committed to close two and four stores, respectively, 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 \$0.1 million for the second quarter of fiscal 2006, compared to a loss of \$0.2 million for the second quarter of fiscal 2005. We had a loss from discontinued operations, net of tax benefit, of \$0.2 million for the first six months of fiscal 2006 compared to \$0.4 million for the first six months of fiscal 2005. We sold one property during the first six months of fiscal 2005 that had been previously closed. As a result, we had a gain, net of tax expense, of \$0.1 million for the first quarter of fiscal 2005. As a result of the foregoing, net income for the second quarter of fiscal 2006 was \$1.5 million, a 82.8% decrease from \$8.7 million for the second quarter of fiscal 2005. Net income for the first six months of fiscal 2006 was \$3.0 million, a 79.9% decrease from \$14.8 million for the first six months of fiscal 2005. Liquidity and Capital Resources Net cash used in operating activities was approximately \$12.9 million for the first six months of fiscal 2006, compared to \$8.8 million used in operating activities for the first six months of fiscal 2005. For the first six months of fiscal 2006, cash was provided by net income of \$3.0 million, adjusted for the impact of \$2.8 million for gains on our installment sales of the limited partnership interests, non-cash items of \$2.5 million, which consisted of depreciation and amortization, stock based compensation expense, impairment charges, deferred income and gain on disposal of fixed assets. In addition, accounts payable provided cash of \$12.4 million, primarily a result of changes in inventory levels. The primary use of cash was an increase in inventory of \$26.0 million primarily due to seasonal fluctuations. The inventory decline from July 31, 2005 primarily results from lower television levels. The other use of cash was a decrease in other current liabilities of \$2.3 million. For the first half of fiscal 2005, cash was provided by net income of \$14.8 million, adjusted for the impact of \$16.4 million for gains on our installment sales of the limited partnership interests, non-cash items of \$1.5 million, which consisted of depreciation and amortization, accounts receivable, deferred income, prepaid expenses and loss on disposal of fixed assets. In addition, accounts payable provided cash of \$2.8 million, primarily a result of changes in inventory levels. The primary use of cash was an increase in inventory of \$9.6 million primarily due to seasonal fluctuations. The other use of cash was a decrease in other current liabilities of \$2.3 million. At July 31, 2006, working capital was \$96.6 million compared to \$88.0 million at January 31, 2006. This increase is primarily a result of inventory level fluctuations. The ratio of current assets to current liabilities was 2.7 to 1 at July 31, 2006 and 2.9 to 1 at January 31, 2006. Cash of \$2.1 million was used in investing activities for the first six months of fiscal 2006, compared to cash provided by investing activities of \$16.2 million for the first six months of fiscal 23

2005. We paid \$5.6 million for a note investment in Levelland/Hockley and received proceeds of \$2.6 million from the sale of real estate and fixed assets during the first half of fiscal 2006. Additionally, during the first half of fiscal 2006, we received proceeds of \$1.3 million from installment sales of our ownership interests in synthetic fuel entities. We expect proceeds from installment sales of our ownership interests in synthetic fuel entities to be materially lower, compared to the prior year, for the remainder of fiscal 2006. We had capital expenditures of approximately \$0.3 million during the first half of fiscal 2006, primarily related to improvements at selected stores. During the first six months of fiscal 2005, we received proceeds of approximately \$17.3 million from installment sales of our ownership interest in the synthetic fuel entities. We had capital expenditures of approximately \$2.2 million during the first six months of fiscal 2005, primarily related to the relocation of a store, the purchase of a store previously leased and improvements to a distribution center. We received proceeds of approximately \$1.1 million from the sale of a store previously closed and reported as discontinued operations. Cash provided by financing activities totaled approximately \$0.4 million for the first six months of fiscal 2006 compared to cash used in financing activities of \$10.4 million for the first half of fiscal 2005. Cash was provided by stock option activity of \$1.7 million. We also recorded a tax benefit of approximately \$1.0 million during the first six months of fiscal 2006 from the exercise of non-qualified stock options as an increase in additional paid-in capital. Cash of \$1.3 million was used for scheduled payments of mortgage debt. Cash used in financing activities totaled approximately \$10.4 million for the first six months of fiscal 2005. Cash was provided by stock option activity of \$3.8 million. We also recorded a tax benefit of approximately \$1.6 million during the first half of fiscal 2005 from the exercise of non-qualified stock options as an increase in additional paid-in capital. Cash of \$2.0 million was used for scheduled payments of mortgage debt. Cash of approximately \$16.2 million was also used to acquire approximately 1.0 million shares of our common stock. On November 28, 2005, we entered into a contingent agreement with Levelland/Hockley County Ethanol, LLC ("Levelland/Hockley") to purchase a convertible secured promissory note in the principal amount of \$5 million. The proceeds of the note will be used to capitalize Levelland/Hockley which intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 40 million gallons annually. The purchase of the note is expected to occur before December 31, 2006, subject to Levelland/Hockley obtaining additional financing and certain other conditions. On July 31, 2006, we entered into a contingent agreement with Levelland/Hockley to invest an additional \$11.5 to \$18.0 million. The additional investment, along with the \$5 million note, enables us to secure a majority ownership interest in Levelland/Hockley. On March 17, 2006, we entered into a contingent agreement to purchase a note in the principal amount of \$14 million issued by a limited liability company organized to construct and operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The purchase of the note is subject to the limited liability company obtaining additional financing by September 18, 2006. We have obtained a \$14 million irrevocable letter of credit to 24

secure our purchase obligation. The note purchase agreement provides us rights to purchase an equity interest in the limited liability company. At July 31, 2006, the \$14 million letter of credit remained outstanding. On May 26, 2006, we entered into a contingent agreement to invest \$24.9 million in a limited liability company that intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The equity investment is expected to occur before June 30, 2007, subject to the limited liability company obtaining additional financing and certain other conditions. On June 8, 2006, we entered into a contingent agreement to invest \$16 million in a limited liability company that intends to construct and, subsequently, operate an ethanol producing facility. The facility is expected to have a design capacity of 100 million gallons annually. The equity investment is expected to occur before December 31, 2006, subject to the limited liability company obtaining additional financing and certain other conditions. We believe we have sufficient resources to fund these and other potential ethanol investments. However, depending upon the timing of these ethanol investments and future results of retail operations and synthetic fuel investments, we may incur increased borrowings, and a corresponding increase in interest expense, or seek other sources of financing. 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. These risks and uncertainties 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, new regulatory restrictions or tax law changes relating to the Company's synthetic fuel investments, the fluctuating amount of quarterly payments received by the Company with respect to sales of its partnership interests in synthetic fuel investments, the uncertain amount of synthetic fuel production and resulting income received from time to time from the Company's synthetic fuel investments, and the potential for Section 29/45K tax credits to phase out based on the price of crude oil adjusted for inflation. As it relates to ethanol investments, risks and uncertainties include among other things: the uncertainty of constructing plants on time and on budget and the volatility of corn, dried distiller grains, ethanol, gasoline and natural gas prices. 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, 2006 (File No. 001-09097). Item 3. Quantitative and Qualitative Disclosures About Market Risk No material changes since January 31, 2006. 25



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 designed to ensure that information required to be disclosed in the reports that we file or submit under the Act 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 and six months ended July 31, 2006, 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, 2006. Item 6. Exhibits. The following exhibits are filed with this report:  
31 Rule 13a-14(a)/15d-14(a) Certifications 32 Section 1350 Certifications 26

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  
Signature Title Date ----- /s/ Stuart A. Rose September 6, 2006  
----- Chairman of the Board (Stuart A. Rose) (Chief Executive  
Officer) /s/ Douglas L. Bruggeman ----- Vice President,  
Finance and Treasurer September 6, 2006 (Douglas L. Bruggeman) (Chief Financial  
Officer) 27

CERTIFICATIONS

I, Stuart A. Rose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of REX Stores Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2006

/s/ Stuart A. Rose  
Stuart A. Rose  
Chairman of the Board and  
Chief Executive Officer



## CERTIFICATIONS

I, Douglas L. Bruggeman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of REX Stores Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2006

/s/ Douglas L. Bruggeman  
Douglas L. Bruggeman  
Vice President, Finance, Treasurer and  
Chief Financial Officer

REX Stores Corporation  
CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officers of REX Stores Corporation (the "Company") hereby certify, to their knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended July 31, 2006, which this certificate accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Stuart A. Rose  
Stuart A. Rose

/s/ Douglas L. Bruggeman  
Douglas L. Bruggeman

Dated: September 6, 2006