

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 1998

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 31-1095548  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

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

(937)276-3931

(Registrant's telephone number, including area code)

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

At the close of business on December 14, 1998, the registrant had 7,176,222 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

## A S S E T S

	October 31 1998	January 31 1998	October 31 1997
	(In Thousands)		
ASSETS:			
Cash and cash equivalents	\$ 7,362	\$ 16,937	\$ 1,836
Short-term investments	1,816	1,637	1,627
Accounts receivable, net	1,154	2,775	791
Merchandise inventory	177,207	126,498	169,345
Prepaid expenses and other	3,357	2,078	3,929
Future income tax benefits	7,899	7,899	6,624
	-----	-----	-----
Total current assets	198,795	157,824	184,152
PROPERTY AND EQUIPMENT, NET	95,624	93,165	93,676
FUTURE INCOME TAX BENEFITS AND OTHER NON-CURRENT ASSETS	12,500	9,541	10,219
	-----	-----	-----
Total assets	\$ 306,919 =====	\$ 260,530 =====	\$288,047 =====

## LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Notes payable	\$ 36,797	\$ -	\$29,861
Current portion of long-term debt	2,998	2,959	3,234
Accounts payable, trade	64,662	49,832	55,598
Accrued income taxes	-	1,671	-
Current portion, deferred income and deferred gain on sale and leaseback	11,463	11,402	11,350
Accrued payroll	4,407	5,810	4,979
Other liabilities	10,740	7,263	5,868
	-----	-----	-----
Total current liabilities	131,067 -----	78,937 -----	110,890 -----

Liabilities and Shareholders' Equity (Continued)

LONG-TERM LIABILITIES:

Long-term debt	52,634	52,661	51,499
Deferred income	16,452	17,886	17,364
Deferred gain on sale and leaseback	4,557	5,264	5,500
	-----	-----	-----
Total long-term liabilities	73,643	75,811	74,363
	-----	-----	-----

SHAREHOLDERS' EQUITY:

Common stock	97	97	97
Paid-in capital	58,403	57,896	57,836
Retained earnings	67,505	64,175	59,302
Treasury stock	(23,796)	(16,386)	(14,441)
	-----	-----	-----
Total shareholders' equity	102,209	105,782	102,794
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 306,919	\$ 260,530	\$288,047
	=====	=====	=====

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Ended	Three Months Ended		Nine Months	
	October 31 1998	October 31 1997	October 31 1998	October 31 1997
(In Thousands, Except Per Share Amounts)				
NET SALES	\$ 92,634	\$87,967	\$273,044	\$266,130
COSTS AND EXPENSES:				
Cost of merchandise sold	67,326	63,475	197,710	191,396
Selling, general and administrative expenses	22,152	21,973	65,186	65,205
Total costs and expenses	89,478	85,448	262,896	256,601
INCOME FROM OPERATIONS	3,156	2,519	10,148	9,529
INVESTMENT INCOME	64	23	287	72
INTEREST EXPENSE	1,911	1,911	4,829	5,406
EQUITY IN EARNINGS OF LIMITED PARTNERSHIP	(270)	-	(270)	-
Income before income taxes	1,039	631	5,336	4,195
PROVISION FOR INCOME TAXES	307	248	2,006	1,656
NET INCOME	\$ 732	\$ 383	\$ 3,330	\$ 2,539
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,202	7,917	7,512	7,933
BASIC NET INCOME PER SHARE	\$ 0.10	\$ 0.05	\$ 0.44	\$ 0.32
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	7,509	8,203	7,916	8,185

DILUTED NET INCOME PER SHARE	\$ 0.10	\$ 0.05	\$ 0.42	\$ 0.31
	=====	=====	=====	=====

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(In Thousands)

	Common Shares					
	Issued		Treasury		Paid-in Capital	Retained Earnings
	Shares	Amount	Shares	Amount		
Balance at October 31, 1997	9,685	\$ 97	1,763	\$14,441	\$57,836	\$59,302
Common stock issued	3	-	-	-	60	-
Treasury stock acquired	-	-	192	1,945	-	-
Net income	-	-	-	-	-	4,873
	-----	-----	-----	-----	-----	-----
Balance at January 31, 1998	9,688	\$ 97	1,955	\$16,386	\$57,896	\$64,175
Common stock issued	68	-	-	-	507	-
Treasury stock acquired	-	-	627	7,410	-	-
Net income	-	-	-	-	-	3,330
	-----	-----	-----	-----	-----	-----
Balance at October 31, 1998	9,756	\$ 97	2,582	\$23,796	\$58,403	\$67,505
	=====	=====	=====	=====	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended October 31	
	1998	1997
	(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,330	\$2,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	2,360	2,228
Deferred income	(1,373)	(409)
Future income tax benefits	-	(2,780)
Accounts receivable	1,621	686
Merchandise inventory	(50,709)	(34,312)
Other current assets	(1,284)	(1,715)
Accounts payable, trade	14,830	24,333
Other liabilities	403	(1,497)
	-----	-----
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(30,822)</b>	<b>(10,927)</b>
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Short-term investments and other assets	(3,137)	18
Capital expenditures	(7,926)	(6,975)
Capital disposals	2,404	8
	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(8,659)</b>	<b>(6,949)</b>
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in notes payable	36,797	17,719
Payments of long-term debt	(3,277)	(2,030)
Long-term debt borrowings	3,289	2,530
Common stock issued	507	607
Treasury stock acquired	(7,410)	(3,073)
	-----	-----
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>29,906</b>	<b>15,753</b>
	-----	-----
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,575)</b>	<b>(2,123)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>16,937</b>	<b>3,959</b>
	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$7,362</b>	<b>\$1,836</b>



[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1998

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 generally accepted accounting principles 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, 1998.

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 1998 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 1999 presentation.

Notes to Consolidated Financial Statements (Continued)

Note 3. Stock Option Plans

The following summarizes options granted, exercised and canceled or expired during the nine months ended October 31, 1998:

	Shares Under Stock Option Plans
Outstanding at January 31, 1998 (\$3.375 to \$18.975 per share)	2,287,464
Granted (\$9.9375 to \$12.50 per share)	996,625
Exercised (\$6.875 to \$10.375 per share)	68,145
Canceled or expired (\$14.30 per share)	6,993
	-----
Outstanding at October 31, 1998 (\$3.375 to \$18.975 per share)	3,208,951
	=====

Note 4. Net Income Per Share

Effective February 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS 128) "Earnings per Share," which replaces the calculation of primary and fully diluted earnings per share under previous accounting standards with basic and diluted earnings per share. As a result, the Company's reported net income per share amounts for the three and nine month periods ended October 31, 1997 have been restated as follows:

	Per Share Amounts	
	Three Months Ended October 31, 1997	Nine Months Ended October 31,
1997		
Primary net income per share, as reported	\$0.05	\$0.31
Effect of SFAS 128	-	0.01
	-----	-----
Basic net income per share, as restated	\$0.05	\$0.32
	=====	=====

Fully diluted net income per share, as reported	\$0.05	\$0.31
Effect of SFAS 128	-	-
	-----	-----
Diluted net income per share, as restated	\$0.05	\$0.31
	=====	=====

The following table reconciles the basic and diluted net income per share computations for each period presented:

	Three Months Ended					
	October 31, 1998			October 31, 1997		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic net income per share	\$ 732	7,202	\$0.10	\$ 383	7,917	\$0.05
			=====			=====
Effect of stock options	-	307		-	286	
	-----	-----		-----	-----	
Diluted net income per share	\$ 732	7,509	\$0.10	\$ 383	8,203	\$0.05
	=====	=====	=====	=====	=====	=====

	Nine Months Ended					
	October 31, 1998			October 31, 1997		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic net income per share	\$3,330	7,512	\$0.44	\$2,539	7,933	\$0.32
			=====			=====
Effect of stock options	-	404		-	252	
	-----	-----		-----	-----	
Diluted net income per share	\$3,330	7,916	\$0.42	\$2,539	8,185	\$0.31
	=====	=====	=====	=====	=====	=====

For the three and nine months ended October 31, 1998, a total of 1,463,967 and 1,163,967 shares, respectively, subject to

outstanding options at exercise prices ranging from \$11.50 to \$18.975 per share were not included in the common equivalent shares outstanding calculation as the exercise prices were above the average trading price of the Company's stock for those periods.

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

The Company is a leader in the consumer electronics/appliance retailing industry with 223 stores in 35 states, operating predominantly in small to medium sized markets under the trade name "REX".

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		Nine Months Ended	
	October 31		October 31	
	1998	1997	1998	1997
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	72.7	72.2	72.4	71.9
	-----	-----	-----	-----
Gross profit	27.3	27.8	27.6	28.1
Selling, general and administrative expense	23.9	25.0	23.9	24.5
	-----	-----	-----	-----
Income from operations	3.4	2.8	3.7	3.6
Interest, net	2.0	2.1	1.7	2.0
Equity in earnings of limited partnership	(0.3)	-	(0.1)	-
	-----	-----	-----	-----
Income before income taxes	1.1	0.7	1.9	1.6
Provision for income taxes	0.3	0.3	0.7	0.6
	-----	-----	-----	-----
Net income	0.8%	0.4%	1.2%	1.0%
	=====	=====	=====	=====

Comparison of Three and Nine Months Ended October 31, 1998 and 1997

Net sales for the three months ended October 31, 1998 were \$92.6 million compared to \$88.0 million in the prior year's comparable period, representing an increase of \$4.6 million or 5.3%. This increase is primarily a result of an increase in comparable store sales of 4.4% along with increased sales at non-comparable stores. Net sales for the first nine months of fiscal 1999 were \$273.0 million compared to \$266.1 million in the first nine months of fiscal 1998, representing an increase of \$6.9 million or 2.6%. Comparable store sales increased 1.4% for the first nine months of fiscal 1999. The Company considers a store to be comparable after it has been open six fiscal quarters.

As of October 31, 1998, the Company has 223 stores compared to 218 stores one year earlier. There were six stores opened and five closed in the first nine months of fiscal 1999. In the prior year's comparable period there were three stores opened and seven closed. The Company evaluates the performance of its stores on a continuous basis and, based on an assessment of factors it deems relevant, will close any store which is not adequately contributing to Company profitability.

Gross profit of \$25.3 million in the third quarter of fiscal 1999 (27.3% of net sales) was 3.3% higher than the \$24.5 million gross profit (27.8% of net sales) recorded in the third quarter of fiscal 1998. In the first nine months of fiscal 1999 gross profit was \$75.3 million (27.6% of net sales), a 0.8% increase from \$74.7 million (28.1% of net sales) for the first nine months of fiscal 1998. The reduced gross profit margin, as a percent of net sales, is primarily the result of a change in the merchandise mix, partially offset by the recognition of a higher amount of extended service contract revenues, which generally have a higher gross profit margin.

Selling, general and administrative expenses for the third quarter of fiscal 1999 were \$22.2 million (23.9% of net sales), a 0.8% increase over the \$22.0 million (25.0% of net sales) for the third quarter of fiscal 1998. Selling, general and administrative expenses for the first nine months of fiscal 1999 and 1998 were \$65.2 million (23.9% and 24.5% of net sales for the first nine months of fiscal 1999 and 1998, respectively). The decrease in expense, as a percent of net sales, is primarily attributable to lower advertising expenditures in certain markets, partially offset by an increase in incentive commissions for sales personnel.

Interest expense for the quarters ended October 31, 1998 and 1997 was \$1.9 million (2.1% and 2.2% of net sales, respectively). Interest expense for the first nine months of fiscal 1999 decreased

to \$4.8 million (1.8% of net sales) from \$5.4 million (2.0% of net sales) for the first nine months of fiscal 1998. The decrease in interest expense is a result of lower average borrowings (\$14.6 million during the first nine months of fiscal 1999 compared to \$22.9 million during the comparable period of fiscal 1998 )on the line of credit primarily due to lower inventory levels during the first half of fiscal 1999 compared to fiscal 1998.

Results for the third quarter of fiscal 1999 also reflect the impact of the Company's recent investment in two limited partnerships which produce synthetic fuels which totals approximately \$2.9 million at October 31, 1998. The Company recorded a pre-tax charge of \$270,000 to record its share of the partnerships' operating results and, as a result of the investment, the Company's effective tax rate was reduced from 39.5% to 29.5% to reflect the Company's estimated share of Federal tax credits earned by the partnerships under Section 29 of the Internal Revenue Code. The Company's effective tax rate for the third quarter of fiscal 1999 is based upon an estimated annual effective tax rate of 33%.

As a result of the foregoing, net income for the third quarter of fiscal 1999 was \$732,000, a 91.1% increase from \$383,000 for the third quarter of fiscal 1998. Net income for the first nine months of fiscal 1999 was \$3.3 million, a 31.2% increase from \$2.5 million for the first nine months of fiscal 1998.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$30.8 million for the first nine months of fiscal 1999, compared to \$10.9 million for the prior year's first nine months. Cash was provided by net income of \$3.3 million, adjusted for non-cash charges of \$1.0 million. The primary use of cash was an increase in inventory of \$50.7 million primarily due to seasonal fluctuations and opportunistic inventory purchases. This was partially offset by an increase in trade payables of \$14.8 million. Changes in other working capital items provided cash of approximately \$0.8 million.

At October 31, 1998, working capital was \$67.7 million compared to \$78.9 million at January 31, 1998. The ratio of current assets to current liabilities was 1.5 to 1 at October 31, 1998 and 2.0 to 1 at January 31, 1998.

The Company had outstanding borrowings on its revolving line of credit of \$36.8 million at October 31, 1998 at an average interest rate of approximately 7.42%. At October 31, 1998, the Company had approximately \$75.0 million borrowing availability on the revolving line of credit.

Year 2000

The statements in this section include "Year 2000 readiness disclosure" within the meaning of the Year 2000 Information and Readiness Disclosure Act.

Certain software and hardware systems are time sensitive. Older time sensitive systems often use a two digit dating convention ("00" rather than "2000") that could result in system failure and disruption of operations as the Year 2000 approaches. This is referred to as the Year 2000 issue. The Year 2000 issue will impact the Company, its suppliers, customers and other third parties that transact business with the Company.

The Company has dedicated a staff of internal resources (the "Year 2000 Team") to address Year 2000 issues. This team believes it has identified substantially all hardware and software systems within the Company and significant suppliers and other third parties that transact business with the Company which may be susceptible to Year 2000 issues. Projects have been established to address all significant Year 2000 issues. The Year 2000 Team reports regularly to senior management on the progress of significant Year 2000 projects.

Most Year 2000 activities are to test hardware and software systems, including non-information technology systems such as telephones and store security systems. The Company has determined that it needs to modify some of its software. The Company believes all hardware systems are Year 2000 compliant. The Company is reprogramming all of the systems impacted by Year 2000 issues. The Company is currently working with the outside vendors on the compliance status of the telephones and store security systems.

The Company has initiated communications with significant suppliers, customers and other relevant third parties to identify and minimize disruptions to the Company's operations and to assist in resolving Year 2000 issues. However, there can be no certainty that the impacted systems and products of other parties on which the Company relies will be Year 2000 compliant.

The Company generally believes that its vendors who supply products to the Company for resale are responsible for Year 2000 functionality of those products. However, should product failures occur, the Company may be required to address the administrative aspects of those failures such as handling product returns or repairs.

The estimated cost for resolving Year 2000 issues are approximately \$175,000. Most of these costs are labor related to



reprogramming existing software. Estimates of Year 2000 costs are based on numerous assumptions; actual costs could be greater than estimates. Specific factors that might cause such differences include, but are not limited to, the continuing availability of personnel trained in this area and the ability to timely identify and correct all relevant software and hardware systems.

While the Company believes it is diligently addressing the Year 2000 issues to ensure Year 2000 readiness, there can be no absolute assurance that the objective will be achieved either internally or as it relates to third parties. The Company anticipates completing substantially all of its Year 2000 projects by the end of the second quarter of 1999. In the event the Company falls short of these milestones, additional internal resources will be focused on completing these projects or implementing contingency plans.

#### 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 Form 10-Q for the quarter ended October 31, 1997 (File No. 0-13283).

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

None.

PART II. OTHER INFORMATION

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

(a) Exhibits. The following exhibits are filed with this report:

- 10.1 Employment Agreement dated October 14, 1998 between Rex Radio and Television, Inc. and Stuart Rose.....
- 10.2 Employment Agreement dated October 14, 1998 between Rex Radio and Television, Inc. and Lawrence Tomchin.....
- 10.3 Executive Stock Option dated October 14, 1998 granting Stuart Rose an option to purchase 500,000 shares of registrant's Common Stock.....
- 10.4 Executive Stock Option dated October 14, 1998 granting Lawrence Tomchin an option to purchase 150,000 shares of registrant's Common Stock.....
- 27 Financial Data Schedule.....

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended October 31, 1998.

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

December 15, 1998

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

December 15, 1998

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

## EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into as of the 14th day of October, 1998 between Rex Radio and Television, Inc. (the "Corporation"), and Stuart A. Rose (the "Employee").

### Recitals

A. The Corporation and Employee entered into Employment Agreements dated July 17, 1984, December 1, 1989, January 1, 1993, January 1, 1994 and September 1, 1995;

B. The Corporation and Employee now desire to agree to substantially the same terms in order to continue Employee's position with the Corporation;

C. Employee desires to accept such employment on the basis of the mutual benefits and covenants contained herein;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

### ARTICLE I - DUTIES OF EMPLOYEE

1.1 Duties of Employee. Employee shall be employed as Chief Executive Officer of the Corporation, for the period set forth in Article II below. Employee shall be subject to the supervision of the Board of Directors of the Corporation, and shall perform those executive, operational and administrative duties normally performed by the Chief Executive Officer of a corporation.

1.2 Engaging in Other Employment. Employee shall devote a substantial portion of his business time, energies, attention and abilities to the business of the Corporation; provided, however, that Employee shall not be prohibited from: (i) making investments in other businesses; and (ii) actively participating in the operation of any business within which he has invested.

1.3 Additional Duties. In addition to the foregoing duties, Employee shall perform such other work as may be assigned to him from time to time subject to the instructions, directions and control of the Board of Directors.

### ARTICLE II - TERM OF EMPLOYMENT

2.1 Term. The Corporation shall employ Employee commencing as of the 1st day of January, 2000, and continuing for a period of three (3) years through December 31, 2002 (the "Employment Period") and any renewal period provided for in Section 2.2 below unless earlier terminated by Employee's: (i) resignation; (ii) death; (iii) total disability; or (iv) termination of employment, as provided in Article VI. "Total disability" shall mean such disability as shall render Employee incapable of performing substantially all of his duties for the Corporation as determined by any two qualified physicians chosen by the Corporation.

2.2 Renewal Term. The terms and conditions of this Employment Agreement shall automatically renew, without any further action by either party required, upon the expiration of the Employment Period and any period of renewal for subsequent one (1) year periods unless (i) notice of termination is provided to the other party at least 180 days prior to the expiration of the Employment Period or any period of renewal or (ii) this Employment Agreement is otherwise terminated pursuant to Article VI.

### ARTICLE III - COMPENSATION AND EXPENSES

3.1 Compensation. Employee shall receive as compensation for services rendered under this Agreement a base salary of One Hundred Fifty Four Thousand Five Hundred Dollars (\$154,500.00) per year, payable in equal monthly installments of Twelve Thousand Eight Hundred Seventy Five Dollars (\$12,875.00) per month on the last working day of each month (or such more frequent dates as the Corporation may choose), and prorated for any partial monthly period.

3.2 Expenses. Employee is authorized to incur reasonable expenses in connection with the performance of his duties for the

Corporation, including expenses for entertainment of customers, travel, and similar business purposes. The Corporation will reimburse Employee for all such expenses upon the presentation of an itemized account of such expenditures and approval of the expenditures by a designated officer. In incurring reasonable business expenses, Employee shall conform to the policies of the Corporation as adopted by the Board of Directors from time to time.

#### ARTICLE IV - EMPLOYEE BENEFITS AND BONUSES

4.1 Employee Benefit Plans. Employee shall be entitled to participate in any qualified pension plan, qualified profit-sharing plan, medical and dental reimbursement plan, group term life insurance plan, and any other employee benefit plan which may be established by the Corporation, such participation to be in accordance with the terms of any such plan.

4.2 Bonus. In addition to Employee's salary as provided in Section 3.1, Employee may be paid a cash bonus as determined in the sole discretion of the Board of Directors of the Corporation, any such bonus to be commensurate with the effort and achievement of Employee on behalf of the Corporation.

4.3 Vacation. Employee shall be entitled to eight (8) weeks of vacation during each 12-month period of the Employment Period or any period of renewal at full pay; provided, however, that no portion of a vacation not taken in any 12-month period may be taken in any other 12-month period. The time for such vacation shall be selected by Employee. Employee shall not be entitled to vacation pay in lieu of vacation.

#### ARTICLE V - NONDISCLOSURE AND NONCOMPETITION

5.1 Confidential Information. Employee agrees to keep secret and confidential the Confidential Information (as defined below) and shall not use or disclose said information, either during or after his employment with the Corporation, for any purpose not authorized by the Corporation. Upon termination of his employment with the Corporation, Employee shall leave with the Corporation all records, including all copies thereof, containing any Confidential Information, including, but not limited to, such documents as memoranda, notes, records, reports, customer lists, manuals, drawings, blueprints and maps. "Confidential Information" means information about the Corporation and any of its subsidiaries which is disclosed to Employee or known by him as a consequence of or through his work with or on behalf of the Corporation (including information conceived, originated, discovered, or developed by him) not generally known about the Corporation, including, but not limited to, matters of a technical nature, such as "know-how," innovations, research projects, methods, and matters of a business nature, such as information about costs, profits, markets, sales, lists of customers, suppliers, business processes, computer programs, accounting methods, information systems, business or marketing, financial plans and reports and any other information of a similar nature.

5.2 Restrictions on Competition. During the term of this Agreement and for a period of two years after termination of

Employee's employment with the Corporation, for any reason, Employee shall not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is (i) in competition in any manner whatsoever with the business of the Corporation within 100 miles of any store operated by the Corporation or its affiliates at the time of Employee's termination; or (ii) the owner or operator of a retail business similar to that of the Corporation within 100 miles of any store operated by the Corporation or its affiliates at the time of Employee's termination.

5.3 Saving. In the event any provision of this Article V shall be held invalid, illegal, or unenforceable, the remaining provisions shall in no way be affected thereby, and shall continue in full force and effect. If, moreover, any one or more of the provisions contained in this Article V shall for any reason be held to be excessively broad as to time, duration, geographical scope, activity or subject, it shall be construed, by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

#### ARTICLE VI - TERMINATION

6.1 Termination of Employment with Cause. The Corporation may at any time terminate Employee's employment for cause. Such termination of employment for cause shall not prejudice any other remedy to which the Corporation may be entitled either at law, in equity, or under this Agreement. "Termination of employment for cause" shall mean termination upon: (i) Employee's repeated failure or refusal to perform his duties hereunder faithfully, diligently, competently and to the best of his ability for reasons other than serious disability or other incapacity; (ii) Employee's violation of any material provision of this Agreement; or (iii) Employee's clear and intentional violation of a state or federal law of which he is aware or should have been aware: (a) involving the commission of a felonious crime against the Corporation which has a materially adverse effect upon the Corporation; or (b) involving a felony other than against the Corporation having a materially adverse effect upon the Corporation, as determined in either case in the reasonable judgment of the Board of Directors.

6.2 Termination by Either Party. This Agreement may be terminated by either party with or without cause upon 180 days notice.

6.3 Effect of Termination on Compensation. In the event this Agreement is terminated prior to the completion of the Employment

Period or any period of renewal, Employee shall be entitled to the compensation earned by him prior to the date of termination as provided for in this Agreement computed pro rata up to and including that date. Employee shall be entitled to no further compensation as of the date of termination.

6.4 Effect of Termination on Bonus Plans. In the event of the termination of this Agreement prior to the completion of the Employment Period or any period of renewal, Employee shall automatically and completely forfeit any rights which he may have under any bonus plan established by the Corporation.

#### ARTICLE VII - WAIVER OF BREACH

7.1 Effect of Waiver. Waiver by the Corporation of any condition, or of the breach of Employee of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall not be deemed to be or construed as a further or continuing waiver of any such condition or to be a waiver either of any other condition or of the breach of any other term or covenant of this Agreement. The failure of the Corporation at any time or times to require performance of any provision hereof shall in no manner affect its rights at a later time to require the same.

#### ARTICLE VIII - MISCELLANEOUS

8.2 Notices. All notices and other communications by any party hereto shall be made in writing to the other party and shall be deemed to have been duly given when mailed by United States certified mail, with postage prepaid, addressed as the parties hereto may designate from time to time in writing.

8.2 Entire Agreement. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Employee by the Corporation, and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever.

8.3 Assignability. Neither this Agreement, nor any duties or obligations hereunder shall be assignable by Employee without the prior written consent of the Board of Directors of the Corporation.

8.4 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.



8.5 Captions. The captions in this Agreement are inserted for convenience only and shall not be considered part of or affect the construction or interpretation of any provision of this Agreement.

8.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first set forth above.

REX RADIO AND TELEVISION, INC.

By:/s/EDWARD M. KRESS  
Edward M. Kress, Secretary

EMPLOYEE:

/s/ STUART A. ROSE

Stuart A. Rose

## EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into as of the 14th day of October, 1998 between Rex Radio and Television, Inc. (the "Corporation"), and Lawrence Tomchin (the "Employee").

### Recitals

A. The Corporation and Employee entered into Employment Agreements dated July 17, 1984, December 1, 1989, January 1, 1993 January 1, 1994 and September 1, 1995;

B. The Corporation and Employee now desire to agree to substantially the same terms in order to continue Employee's position with the Corporation;

C. Employee desires to accept such employment on the basis of the mutual benefits and covenants contained herein;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

### ARTICLE I - DUTIES OF EMPLOYEE

1.1 Duties of Employee. Employee shall be employed as President and Chief Operating Officer of the Corporation, for the period set forth in Article II below. Employee shall be subject to the supervision of the Board of Directors of the Corporation, and shall perform those executive, operational and administrative duties normally performed by the President and Chief Operating Officer of a corporation.

1.2 Engaging in Other Employment. Employee shall devote a substantial portion of his business time, energies, attention and abilities to the business of the Corporation; provided, however, that Employee shall not be prohibited from: (i) making investments in other businesses; and (ii) actively participating in the operation of any business within which he has invested.

1.3 Additional Duties. In addition to the foregoing duties, Employee shall perform such other work as may be assigned to him from time to time subject to the instructions, directions and control of the Board of Directors.

### ARTICLE II - TERM OF EMPLOYMENT

2.1 Term. The Corporation shall employ Employee commencing as of the 1st day of January, 2000, and continuing for a period of three (3) years through December 31, 2002 (the "Employment Period") and any renewal period provided for in Section 2.2 below unless earlier terminated by Employee's: (i) resignation; (ii) death; (iii) total disability; or (iv) termination of employment, as provided in Article VI. "Total disability" shall mean such disability as shall render Employee incapable of performing substantially all of his duties for the Corporation as determined by any two qualified physicians chosen by the Corporation.

2.2 Renewal Term. The terms and conditions of this Employment Agreement shall automatically renew, without any further action by either party required, upon the expiration of the Employment Period and any period of renewal for subsequent one (1) year periods unless (i) notice of termination is provided to the other party at least 180 days prior to the expiration of the Employment Period or any period of renewal or (ii) this Employment Agreement is otherwise terminated pursuant to Article VI.

### ARTICLE III - COMPENSATION AND EXPENSES

3.1 Compensation. Employee shall receive as compensation for services rendered under this Agreement a base salary of One Hundred Fifty Four Thousand Five Hundred Dollars (\$154,500.00) per year, payable in equal monthly installments of Twelve Thousand Eight Hundred Seventy Five Dollars (\$12,875.00) per month on the last working day of each month (or such more frequent dates as the Corporation may choose), and prorated for any partial monthly period.

3.2 Expenses. Employee is authorized to incur reasonable

expenses in connection with the performance of his duties for the Corporation, including expenses for entertainment of customers, travel, and similar business purposes. The Corporation will reimburse Employee for all such expenses upon the presentation of an itemized account of such expenditures and approval of the expenditures by a designated officer. In incurring reasonable business expenses, Employee shall conform to the policies of the Corporation as adopted by the Board of Directors from time to time.

#### ARTICLE IV - EMPLOYEE BENEFITS AND BONUSES

4.1 Employee Benefit Plans. Employee shall be entitled to participate in any qualified pension plan, qualified profit-sharing plan, medical and dental reimbursement plan, group term life insurance plan, and any other employee benefit plan which may be established by the Corporation, such participation to be in accordance with the terms of any such plan.

4.2 Bonus. In addition to Employee's salary as provided in Section 3.1, Employee may be paid a cash bonus as determined in the sole discretion of the Board of Directors of the Corporation, any such bonus to be commensurate with the effort and achievement of Employee on behalf of the Corporation.

4.3 Vacation. Employee shall be entitled to eight (8) weeks of vacation during each 12-month period of the Employment Period or any period of renewal at full pay; provided, however, that no portion of a vacation not taken in any 12-month period may be taken in any other 12-month period. The time for such vacation shall be selected by Employee. Employee shall not be entitled to vacation pay in lieu of vacation.

#### ARTICLE V - NONDISCLOSURE AND NONCOMPETITION

5.1 Confidential Information. Employee agrees to keep secret and confidential the Confidential Information (as defined below) and shall not use or disclose said information, either during or after his employment with the Corporation, for any purpose not authorized by the Corporation. Upon termination of his employment with the Corporation, Employee shall leave with the Corporation all records, including all copies thereof, containing any Confidential Information, including, but not limited to, such documents as memoranda, notes, records, reports, customer lists, manuals, drawings, blueprints and maps. "Confidential Information" means information about the Corporation and any of its subsidiaries which is disclosed to Employee or known by him as a consequence of or through his work with or on behalf of the Corporation (including information conceived, originated, discovered, or developed by him) not generally known about the Corporation, including, but not limited to, matters of a technical nature, such as "know-how," innovations, research projects, methods, and matters of a business nature, such as information about costs, profits, markets, sales, lists of customers, suppliers, business processes, computer programs, accounting methods, information systems, business or marketing, financial plans and reports and any other information of a similar nature.

5.2 Restrictions on Competition. During the term of this Agreement and for a period of two years after termination of

Employee's employment with the Corporation, for any reason, Employee shall not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is (i) in competition in any manner whatsoever with the business of the Corporation within 100 miles of any store operated by the Corporation or its affiliates at the time of Employee's termination; or (ii) the owner or operator of a retail business similar to that of the Corporation within 100 miles of any store operated by the Corporation or its affiliates at the time of Employee's termination.

5.3 Saving. In the event any provision of this Article V shall be held invalid, illegal, or unenforceable, the remaining provisions shall in no way be affected thereby, and shall continue in full force and effect. If, moreover, any one or more of the provisions contained in this Article V shall for any reason be held to be excessively broad as to time, duration, geographical scope, activity or subject, it shall be construed, by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

#### ARTICLE VI - TERMINATION

6.1 Termination of Employment with Cause. The Corporation may at any time terminate Employee's employment for cause. Such termination of employment for cause shall not prejudice any other remedy to which the Corporation may be entitled either at law, in equity, or under this Agreement. "Termination of employment for cause" shall mean termination upon: (i) Employee's repeated failure or refusal to perform his duties hereunder faithfully, diligently, competently and to the best of his ability for reasons other than serious disability or other incapacity; (ii) Employee's violation of any material provision of this Agreement; or (iii) Employee's clear and intentional violation of a state or federal law of which he is aware or should have been aware: (a) involving the commission of a felonious crime against the Corporation which has a materially adverse effect upon the Corporation; or (b) involving a felony other than against the Corporation having a materially adverse effect upon the Corporation, as determined in either case in the reasonable judgment of the Board of Directors.

6.2 Termination by Either Party. This Agreement may be terminated by either party with or without cause upon 180 days notice.

6.3 Effect of Termination on Compensation. In the event this Agreement is terminated prior to the completion of the Employment

Period or any period of renewal, Employee shall be entitled to the compensation earned by him prior to the date of termination as provided for in this Agreement computed pro rata up to and including that date. Employee shall be entitled to no further compensation as of the date of termination.

6.4 Effect of Termination on Bonus Plans. In the event of the termination of this Agreement prior to the completion of the Employment Period or any period of renewal, Employee shall automatically and completely forfeit any rights which he may have under any bonus plan established by the Corporation.

#### ARTICLE VII - WAIVER OF BREACH

7.1 Effect of Waiver. Waiver by the Corporation of any condition, or of the breach of Employee of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall not be deemed to be or construed as a further or continuing waiver of any such condition or to be a waiver either of any other condition or of the breach of any other term or covenant of this Agreement. The failure of the Corporation at any time or times to require performance of any provision hereof shall in no manner affect its rights at a later time to require the same.

#### ARTICLE VIII - MISCELLANEOUS

8.2 Notices. All notices and other communications by any party hereto shall be made in writing to the other party and shall be deemed to have been duly given when mailed by United States certified mail, with postage prepaid, addressed as the parties hereto may designate from time to time in writing.

8.2 Entire Agreement. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Employee by the Corporation, and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever.

8.3 Assignability. Neither this Agreement, nor any duties or obligations hereunder shall be assignable by Employee without the prior written consent of the Board of Directors of the Corporation.

8.4 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.

8.5 Captions. The captions in this Agreement are inserted for convenience only and shall not be considered part of or affect the construction or interpretation of any provision of this Agreement.

8.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first set forth above.

REX RADIO AND TELEVISION, INC.

By: /s/ EDWARD M. KRESS  
Edward M. Kress, Secretary

EMPLOYEE:

/s/ LAWRENCE TOMCHIN

Lawrence Tomchin

## REX Stores Corporation

NONQUALIFIED  
EXECUTIVE STOCK OPTION

REX Stores Corporation (the "Company") hereby grants to STUART A. ROSE (the "Optionee"), effective October 14, 1998 (the "Effective Date"), as a matter of separate inducement and agreement in connection with Optionee's employment by the Company, and not in lieu of any salary or other compensation for his services, an option to purchase a maximum of 500,000 shares of its Common Stock, One Cent (\$.01) par value (the "Shares"), at a price of \$9.9375 per share, subject to the following terms and conditions:

1. Time of Exercise. This option may not be exercised prior to the first anniversary of the Effective Date. On or after December 31, 2000, this option shall be exercisable only up to a maximum of one-third (1/3) of the total number of Shares originally subject to the option, or 166,666 shares. On or after December 31, 2001, this option shall be exercisable only up to a maximum of two-thirds (2/3) of the total number of Shares originally subject to the option, or 333,333 Shares. On or after December 31, 2002, the option shall be exercisable in full.

Notwithstanding anything to the contrary herein contained, so long as the Optionee shall be employed by the Company or any of its subsidiaries, this option may not be exercised if, in the opinion of counsel for the Company, the issuance of the Shares pursuant thereto, either alone or in combination with the issuance of other securities by the Company, would constitute a violation of applicable federal or state securities laws or regulations or orders thereunder. In the event this option may not otherwise be exercised by reason of the foregoing sentence, the Company shall use its best efforts to register said shares with the Securities and Exchange Commission on Form S-8 (or successor form) as soon as practicable after said form may be used by the Company and, concurrently therewith, to take such steps as may be necessary to comply with applicable state securities laws in connection with such issuance.

2. Term of Option. This option shall expire on the tenth (10th) anniversary of the effective date of this Agreement.

3. Methods of Exercise. This option shall be exercisable by a written notice in the form attached hereto as Exhibit "A", which specifies the number of Shares to be purchased. Upon receipt of payment acceptable to the Company for the Shares, the Company will thereafter deliver or cause to be delivered to the Optionee (or any other individual or individuals exercising this option if permitted under the terms of this option) at the office of the Company, a certificate or certificates for the number of Shares with respect to which this option is being exercised, registered in the name of the Optionee or other individual or individuals exercising the option (if permitted under this option), provided, however, that if any law or regulation or order of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require the Company or Optionee (or other individual or individuals exercising this option if permitted under the terms of this option) to take any action in connection with the Shares then being purchased, the delivery of the certificate or certificates for such shares shall be delayed for the period necessary to take and complete such action.

4. Purchase for Investment. This option is granted on the condition that the purchase of Shares of stock hereunder shall be for the account of the Optionee (or other individuals or individuals exercising this option) for investment purposes and not with a view to resale or distribution, except that such condition shall be inoperative if the offering of Shares subject to the option is registered under the Securities Act of 1933, as amended, or if in the opinion of counsel for the Company such shares may be resold without registration. At the time of any exercise of the option, the Optionee (or other individual or individuals exercising this option) will execute such further agreements as the Company may require to implement the foregoing condition and to acknowledge the Optionee's (or such other individual's) familiarity with restrictions on the resale of the shares under applicable securities laws.



5. Non-Transferability. This option may not be sold, pledged, hypothecated, or transferred by the Optionee, except as otherwise provided in Paragraph 6(iii) herein.

6. Termination of Options. This Agreement, and the options granted hereunder, shall terminate and may no longer be exercised if the Optionee ceases for any reason to be an employee of the Company, or any of its subsidiaries, except that:

(i) If the Optionee's employment shall have been terminated for any reason other than cause, disability or death, he

may at any time within a period of one hundred eighty (180) days after such termination of employment exercise his option to the extent permitted in Paragraph 1 of this Agreement on the date of termination of his employment; and/or

(ii) If the Optionee's employment shall have been terminated because of disability, he may at any time within a period of one (1) year after such termination of employment exercise his option to the extent permitted in Paragraph 1 of this Agreement on the date of termination of his employment; and/or

(iii) If the Optionee dies at a time when the option was exercisable by him, then his estate, personal representative or beneficiary to whom it has been transferred may, within six (6) months following the death, exercise the option to the extent permitted in Paragraph 1 of this Agreement at the time of Optionee's death, provided, however, that no option may be exercised to any extent by anyone after the date of expiration of the option.

7. Rights as Shareholder. The Optionee shall have no rights as a shareholder with respect to any Shares covered by this option until the date of issuance of a stock certificate to him for such Shares.

8. Stock Dividends; Splits; Stock Combination; Recapitalization. Appropriate adjustment shall be made in the maximum number of Shares of Common Stock subject to this option and in the number, kind, and option price of Shares covered by outstanding options granted hereunder to give effect to any stock dividends or other distribution, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company after the Effective Date.

9. Merger; Sale of Assets; Dissolution. In the event of a change of the Common Stock resulting from a merger or similar reorganization as to which the Company is the surviving corporation, the number and kind of Shares which thereafter may be subject to options granted hereunder and the price per share thereof shall be appropriately adjusted in such a manner as the Board of Directors of the Company may deem equitable to prevent substantial dilution or enlargement of the rights available or granted hereunder. If the Company at any time should elect to dissolve, sell all or substantially all of its assets, undergo a reorganization, or merge or consolidate with any corporation and the Company is not the surviving corporation, then (unless in the case of a reorganization, merger, or consolidation, the surviving corporation assumes the optionees' rights hereunder or issues substantially equivalent substitute rights in place hereof) the Optionee shall be notified by the Company of his right to exercise all outstanding

options prior to any such dissolution, sale, reorganization, merger or consolidation. The failure to exercise such outstanding options within thirty (30) days of such notification shall cause the option hereunder to be terminated.

10. Effect of the Option on Employment Relationship. This option shall in no way, now or hereafter, reduce, enlarge or modify the employment relationship between the Company and the Optionee. Nothing contained herein shall be construed as conferring upon the Optionee any right to continue in the employ of the Company.

11. General. This option shall be governed by and be construed in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF, the Company has caused this Stock Option to be executed this 14th day of October, 1998.

REX Stores Corporation

By /s/ EDWARD M. KRESS  
Edward M. Kress, Secretary

/s/ STUART A. ROSE

Stuart A. Rose

EXHIBIT A

WRITTEN NOTICE OF EXERCISE OF  
STOCK OPTION  
REX Stores Corporation

The undersigned hereby exercises his option granted to him pursuant to the 1998 Nonqualified Executive Stock Option No. 98-70, subject to and in accordance with the terms and conditions thereof, to purchase \_\_\_\_\_ shares of the Common Stock of REX Stores Corporation, at a price of \$9.9375 per share, said number of shares not to exceed the number permitted in Paragraph 1 of the Option. The undersigned hereby makes payment to REX Stores Corporation of the purchase price in full. Kindly issue all shares to the undersigned and deliver to the undersigned at the address stated below.

Name: Stuart A. Rose

Address: 2875 Needmore Road, Dayton, Ohio 45414

Social Security Number: ###-##-####

Signature: \_\_\_\_\_

Purchase Price Attached: \_\_\_\_\_

Dated: \_\_\_\_\_

REX Stores Corporation

NONQUALIFIED  
EXECUTIVE STOCK OPTION

REX Stores Corporation (the "Company") hereby grants to LAWRENCE TOMCHIN (the "Optionee"), effective October 14, 1998 (the "Effective Date"), as a matter of separate inducement and agreement in connection with Optionee's employment by the Company, and not in lieu of any salary or other compensation for his services, an option to purchase a maximum of 150,000 shares of its Common Stock, One Cent (\$.01) par value (the "Shares"), at a price of \$9.9375 per share, subject to the following terms and conditions:

1. Time of Exercise. This option may not be exercised prior to the first anniversary of the Effective Date. On or after December 31, 2000, this option shall be exercisable only up to a maximum of one-third (1/3) of the total number of Shares originally subject to the option, or 50,000 shares. On or after December 31, 2001, this option shall be exercisable only up to a maximum of two-thirds (2/3) of the total number of Shares originally subject to the option, or 100,000 Shares. On or after December 31, 2002, the option shall be exercisable in full.

Notwithstanding anything to the contrary herein contained, so long as the Optionee shall be employed by the Company or any of its subsidiaries, this option may not be exercised if, in the opinion of counsel for the Company, the issuance of the Shares pursuant thereto, either alone or in combination with the issuance of other securities by the Company, would constitute a violation of applicable federal or state securities laws or regulations or orders thereunder. In the event this option may not otherwise be exercised by reason of the foregoing sentence, the Company shall use its best efforts to register said shares with the Securities and Exchange Commission on Form S-8 (or successor form) as soon as practicable after said form may be used by the Company and, concurrently therewith, to take such steps as may be necessary to comply with applicable state securities laws in connection with such issuance.

2. Term of Option. This option shall expire on the tenth (10th) anniversary of the effective date of this Agreement.

3. Methods of Exercise. This option shall be exercisable by a written notice in the form attached hereto as Exhibit "A", which specifies the number of Shares to be purchased. Upon receipt of payment acceptable to the Company for the Shares, the Company will thereafter deliver or cause to be delivered to the Optionee (or any other individual or individuals exercising this option if permitted under the terms of this option) at the office of the Company, a certificate or certificates for the number of Shares with respect to which this option is being exercised, registered in the name of the Optionee or other individual or individuals exercising the option (if permitted under this option), provided, however, that if any law or regulation or order of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require the Company or Optionee (or other individual or individuals exercising this option if permitted under the terms of this option) to take any action in connection with the Shares then being purchased, the delivery of the certificate or certificates for such shares shall be delayed for the period necessary to take and complete such action.

4. Purchase for Investment. This option is granted on the condition that the purchase of Shares of stock hereunder shall be for the account of the Optionee (or other individuals or individuals exercising this option) for investment purposes and not with a view to resale or distribution, except that such condition shall be inoperative if the offering of Shares subject to the option is registered under the Securities Act of 1933, as amended, or if in the opinion of counsel for the Company such shares may be resold without registration. At the time of any exercise of the option, the Optionee (or other individual or individuals exercising this option) will execute such further agreements as the Company may require to implement the foregoing condition and to acknowledge the Optionee's (or such other individual's) familiarity with restrictions on the resale of the shares under applicable securities laws.

5. Non-Transferability. This option may not be sold, pledged, hypothecated, or transferred by the Optionee, except as otherwise provided in Paragraph 6(iii) herein.

6. Termination of Options. This Agreement, and the options granted hereunder, shall terminate and may no longer be exercised if the Optionee ceases for any reason to be an employee of the Company, or any of its subsidiaries, except that:

(i) If the Optionee's employment shall have been terminated for any reason other than cause, disability or death, he

may at any time within a period of one hundred eighty (180) days after such termination of employment exercise his option to the extent permitted in Paragraph 1 of this Agreement on the date of termination of his employment; and/or

(ii) If the Optionee's employment shall have been terminated because of disability, he may at any time within a period of one (1) year after such termination of employment exercise his option to the extent permitted in Paragraph 1 of this Agreement on the date of termination of his employment; and/or

(iii) If the Optionee dies at a time when the option was exercisable by him, then his estate, personal representative or beneficiary to whom it has been transferred may, within six (6) months following the death, exercise the option to the extent permitted in Paragraph 1 of this Agreement at the time of Optionee's death, provided, however, that no option may be exercised to any extent by anyone after the date of expiration of the option.

7. Rights as Shareholder. The Optionee shall have no rights as a shareholder with respect to any Shares covered by this option until the date of issuance of a stock certificate to him for such Shares.

8. Stock Dividends; Splits; Stock Combination; Recapitalization. Appropriate adjustment shall be made in the maximum number of Shares of Common Stock subject to this option and in the number, kind, and option price of Shares covered by outstanding options granted hereunder to give effect to any stock dividends or other distribution, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company after the Effective Date.

9. Merger; Sale of Assets; Dissolution. In the event of a change of the Common Stock resulting from a merger or similar reorganization as to which the Company is the surviving corporation, the number and kind of Shares which thereafter may be subject to options granted hereunder and the price per share thereof shall be appropriately adjusted in such a manner as the Board of Directors of the Company may deem equitable to prevent substantial dilution or enlargement of the rights available or granted hereunder. If the Company at any time should elect to dissolve, sell all or substantially all of its assets, undergo a reorganization, or merge or consolidate with any corporation and the Company is not the surviving corporation, then (unless in the case of a reorganization, merger, or consolidation, the surviving corporation assumes the optionees' rights hereunder or issues substantially equivalent substitute rights in place hereof) the Optionee shall be notified by the Company of his right to exercise all outstanding

options prior to any such dissolution, sale, reorganization, merger or consolidation. The failure to exercise such outstanding options within thirty (30) days of such notification shall cause the option hereunder to be terminated.

10. Effect of the Option on Employment Relationship. This option shall in no way, now or hereafter, reduce, enlarge or modify the employment relationship between the Company and the Optionee. Nothing contained herein shall be construed as conferring upon the Optionee any right to continue in the employ of the Company.

11. General. This option shall be governed by and be construed in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF, the Company has caused this Stock Option to be executed this 14th day of October, 1998.

REX Stores Corporation

By /s/ EDWARD M. KRESS  
Edward M. Kress, Secretary

/s/ LAWRENCE TOMCHIN  
Lawrence Tomchin



EXHIBIT A

WRITTEN NOTICE OF EXERCISE OF  
STOCK OPTION  
REX Stores Corporation

The undersigned hereby exercises his option granted to him pursuant to the 1998 Nonqualified Executive Stock Option No. 98-71, subject to and in accordance with the terms and conditions thereof, to purchase \_\_\_\_\_ shares of the Common Stock of REX Stores Corporation, at a price of \$9.9375 per share, said number of shares not to exceed the number permitted in Paragraph 1 of the Option. The undersigned hereby makes payment to REX Stores Corporation of the purchase price in full. Kindly issue all shares to the undersigned and deliver to the undersigned at the address stated below.

Name: Lawrence Tomchin

Address: 2875 Needmore Road, Dayton, Ohio 45414

Social Security Number: ###-##-####

Signature: \_\_\_\_\_

Purchase Price Attached: \_\_\_\_\_

Dated: \_\_\_\_\_

0000744187  
REX STORES CORPORATION

1,000  
U.S. DOLLARS

9-MOS

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	177,207	
	198,795	
		113,091
	17,467	
	306,919	
131,067		
		52,634
		97
0		
		0
		102,112
306,919		
		273,044
	273,044	
		197,710
	197,710	
	0	
	0	
	4,829	
	5,336	
	2,006	
3,330		
	0	
	0	
		0
	3,330	
	.44	
	.42	