

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended April 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from ----- to -----

Commission File Number 0-13283

REX Stores Corporation  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

At the close of business on June 12, 2001, the registrant had 5,079,890 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

	April 30 2001	January 31 2001 (In Thousands)	April 30 2000
ASSETS:			
Cash and cash equivalents	\$ 2,318	\$ 687	\$ 3,963
Accounts receivable, net	2,241	4,707	2,013
Merchandise inventory	152,128	144,150	160,176
Prepaid expenses and other	4,082	4,173	3,236
Future income tax benefits	9,837	9,837	9,837
	-----	-----	-----
Total current assets	170,606	163,554	179,225
PROPERTY AND EQUIPMENT, NET	135,078	135,643	116,942
FUTURE INCOME TAX BENEFITS	9,523	9,523	8,835
RESTRICTED INVESTMENTS	2,185	2,165	2,037
	-----	-----	-----
Total assets	\$317,392 =====	\$310,885 =====	\$307,039 =====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Notes payable	\$ 6,587	\$ 742	\$ 15,075
Current portion of long-term debt	5,140	4,923	3,458
Current portion, deferred income and deferred gain on sale and leaseback	11,456	11,355	11,151
Accounts payable, trade	52,856	47,680	58,559
Accrued payroll	4,000	6,369	4,668

Liabilities and Shareholders' Equity (Continued)

Other current liabilities	8,560	8,737	9,440
	-----	-----	-----
Total current liabilities	88,599	79,806	102,351
	-----	-----	-----
LONG-TERM LIABILITIES:			
Long-term mortgage debt	84,311	81,262	46,717
Deferred income	16,116	16,494	16,368
Deferred gain on sale and leaseback	1,923	2,129	2,747
	-----	-----	-----
Total long-term liabilities	102,350	99,885	65,832
	-----	-----	-----
SHAREHOLDERS' EQUITY:			
Common stock	116	116	115
Paid-in capital	106,338	106,305	105,490
Retained earnings	115,504	112,399	96,909
Treasury stock	(95,515)	(87,626)	(63,658)
	-----	-----	-----
Total shareholders' equity	126,443	131,194	138,856
	-----	-----	-----
Total liabilities and shareholders' equity	\$317,392	\$310,885	\$307,039
	=====	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended  
April 30  
2001                      2000  
(In Thousands, Except Per Share Amounts)

NET SALES	\$ 104,163	\$ 107,183
COSTS AND EXPENSES:		
Cost of merchandise sold	75,514	78,449
Selling, general and administrative expenses	25,699	24,649
	-----	-----
Total costs and expenses	101,213	103,098
	-----	-----
 INCOME FROM OPERATIONS	 2,950	 4,085
INVESTMENT INCOME	63	185
INTEREST EXPENSE	(1,966)	(1,172)
INCOME FROM LIMITED PARTNERSHIPS	3,095	1,230
	-----	-----
Income before provision for income taxes	4,142	4,328
PROVISION FOR INCOME TAXES	1,037	1,082
	-----	-----
NET INCOME	\$ 3,105	\$ 3,246
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	5,300	7,100
	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.59	\$ 0.46
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	5,895	7,770
	=====	=====
DILUTED NET INCOME PER SHARE	\$ 0.53	\$ 0.42
	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares				Paid-in Capital	Retained Earnings
	Issued Shares	Amount	Treasury Shares (In Thousands)	Amount		
Balance at April 30, 2000	11,511	\$ 115	4,782	\$ 63,658	\$105,490	\$ 96,909
Common stock issued	45	1	(9)	(112)	815	--
Treasury stock acquired	--	--	1,295	24,080	--	--
Net income	--	--	--	--	--	15,490
	-----	-----	-----	-----	-----	-----
Balance at January 31, 2001	11,556	\$ 116	6,068	\$ 87,626	\$106,305	\$112,399
Common and treasury stock issued	4	--	(5)	(64)	33	--
Treasury stock acquired	--	--	433	7,953	--	--
Net income	--	--	--	--	--	3,105
	-----	-----	-----	-----	-----	-----
Balance at April 30, 2001	<u>11,560</u>	<u>\$ 116</u>	<u>6,496</u>	<u>\$ 95,515</u>	<u>\$106,338</u>	<u>\$115,504</u>

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended April 30	
	2001	2000
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,105	\$ 3,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	1,054	942
Deferred income	(277)	(123)
Gain on sale of partnership interest	(3,095)	(1,230)
Changes in assets and liabilities:		
Accounts receivable	2,466	556
Merchandise inventory	(7,978)	(20,909)
Other current assets	89	(1,139)
Accounts payable, trade	5,176	12,307
Other current liabilities	(2,546)	(3,741)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(2,006)	(10,091)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(849)	(4,350)
Capital disposals	156	62
Proceeds from sale of partnership interest	3,095	1,230
Restricted investments	(20)	(17)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,382	(3,075)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	5,845	15,075
Payments of long-term debt	(1,089)	(1,512)
Proceeds from long-term debt	4,355	2,184
Common stock issued	33	187
Treasury stock issued	64	18
Treasury stock acquired	(7,953)	(24,432)
	-----	-----

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,255	(8,480)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,631	(21,646)
CASH AND CASH EQUIVALENTS, beginning of period	687	25,609
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 2,318</u>	<u>\$ 3,963</u>

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

REX STORES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2001

Note 1. Consolidated Financial Statements

The consolidated financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these unaudited consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2001 (fiscal 2000).

Note 2. Accounting Policies

The interim consolidated financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's 2000 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year end. Examples of such estimates include changes in the LIFO reserve (based upon the Company's best estimate of inflation to date), management bonuses and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature.

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

Notes to Consolidated Financial Statements (Continued)

Note 3. Stock Option Plans

The following summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2001:

	Shares Under Stock Option Plans
Outstanding at January 31, 2001 (\$8.125 to \$22.8125 per share)	2,766,240
Granted (\$18.015 per share)	925,000
Exercised (\$10.375 to \$11.50 per share)	(8,600)
	-----
Outstanding at April 30, 2001 (\$8.125 to \$22.8125 per share)	3,682,640 =====

Note 4. Subsequent Event

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

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

We are a leading specialty retailer in the consumer electronics/appliance industry. As of April 30, 2001 we operated 264 stores in 37 states, predominantly in small to medium sized markets under the trade name "REX".

Fiscal Year

All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal 2001" means the period February 1, 2001 to January 31, 2002.

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	
	April 30	
	2001	2000
Net sales	100.0%	100.0%
Cost of merchandise sold	72.5	73.2
	-----	-----
Gross profit	27.5	26.8
Selling, general and administrative expenses	24.7	23.0
	-----	-----
Income from operations	2.8	3.8
Investment income	0.1	0.2
Interest expense	(1.9)	(1.1)
Income from limited partnerships	3.0	1.1
	-----	-----
Income before provision for income taxes	4.0	4.0
Provision for income taxes	1.0	1.0
	-----	-----
Net income	3.0%	3.0%
	=====	=====

## Comparison of Three Months Ended April 30, 2001 and 2000

Net sales in the first quarter ended April 30, 2001 were \$104.2 million compared to \$107.2 million in the prior year's comparable period, representing a decrease of \$3.0 million or 2.8%. This decrease was caused by a decline in comparable store sales of 13.3%, partially offset by the sales contributed from the 29 net additional stores since the end of the first quarter of fiscal 2000.

We believe the decline in comparable store sales was largely caused by the slowing of the economy. All product categories contributed to the negative comparable store sales. The television category contributed 6.8%, the appliance category contributed 3.1%, the video and audio categories each contributed 1.4% and the other category contributed 0.6%.

As of April 30, 2001, we had 264 stores compared to 235 stores one year earlier. We opened four stores and closed two during the first quarter of fiscal 2001. There was one store opened and four closed during the first quarter of fiscal 2000.

Gross profit of \$28.6 million (27.5% of net sales) in the first quarter of fiscal 2001 was 0.3% lower than the \$28.7 million (26.8% of net sales) recorded in the first quarter of fiscal 2000. The improved gross profit margin percentage is primarily due to better buying opportunities and a continued shift in product mix to the higher gross profit margin categories such as large screen televisions.

Selling, general and administrative expenses for the quarter ended April 30, 2001 were \$25.7 million (24.7% of net sales), a 4.2% increase from \$24.6 million (23.0% of net sales) for the first quarter of fiscal 2000. The increase in expense is primarily caused by the increased advertising and store expenses associated with the net increase of 29 stores since April 30, 2000.

Interest expense was \$2.0 million for the first quarter of fiscal 2001 versus \$1.2 million for the first quarter of fiscal 2000. The increase in expense is primarily due to an increased amount of mortgage debt outstanding on company owned store locations.

We reported investment income of \$3.1 million for the first quarter of fiscal 2001 versus \$1.2 million for the prior year comparable period from our investment in two synthetic fuel limited partnerships. During the first quarter of the current year we reported income of \$1.8 million from the 1999 sale of a portion of our interest in one partnership and \$1.3 million from the 2000 sale of an additional portion of the interest. During the first quarter of fiscal 2000 we reported income of \$1.2 million from the 1999 sale.

Our effective tax rate was 25% for the first quarter of fiscal 2001 and 2000 after reflecting our share of federal income tax credits earned by the limited partnerships.

As a result of the foregoing, net income was \$3.1 million for the first quarter of fiscal 2001, versus \$3.2 million for the first quarter of fiscal 2000.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$2.0 million for the first quarter of fiscal 2001, compared to usage of \$10.1 million for the first quarter of fiscal 2000. For the first quarter of fiscal 2001, cash was provided by net income of \$3.1 million, adjusted for the impact of a \$3.1 million gain on our installment sales of the limited partnership interest and non-cash items of \$777,000 which consisted of deferred income and depreciation and amortization. Cash was also provided by an increase of \$5.2 million in accounts payable and a decrease of \$2.5 million in accounts receivable. The primary uses of cash were an increase of \$8.0 million in inventory due to seasonal air conditioner purchases and other inventory purchases and a decrease of \$2.5 million in other liabilities primarily due to the timing of payment for compensation and taxes.

At April 30, 2001, working capital was \$82.0 million compared to \$83.7 million at January 31, 2001. The ratio of current assets to current liabilities was 1.9 to 1 at April 30, 2001 and 2.0 to 1 at January 31, 2001.

Capital expenditures through April 30, 2001 totaled \$849,000 and primarily relate to the construction expenditures associated with planned fiscal 2001 store openings. We received proceeds of \$3.1 million during the first quarter of fiscal 2001 from installment sales of a portion of our ownership interest in a limited partnership.

Cash provided by financing activities totaled approximately \$1.3 million. Cash was provided by borrowings of \$5.8 million on the line of credit during the first quarter of fiscal 2001 and proceeds of \$4.4 million from long-term debt borrowings related to mortgage financing for five stores. A total of approximately \$90.8 million was available for borrowing on the line of credit as of April 30, 2001. Cash was used to purchase 433,000 shares of our common stock for approximately \$8.0 million during the first quarter of fiscal 2001. As of April 30, 2001 we had authorization from our board of directors to purchase an additional 271,800 shares. Cash was also used for payments on long-term debt of \$1.1 million.

## Forward-Looking Statements

This Form 10-Q contains or may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "believes", "estimates", "plans", "expects", "intends", "anticipates" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties. Factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001 (File No. 0-13283).

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

No material changes since January 31, 2001.

PART II. OTHER INFORMATION

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

The annual meeting of shareholders of REX Stores Corporation was held on June 4, 2001, at which the following matter was submitted to a vote of shareholders:

1. Election of six directors.

Nominee	For	Withheld
Stuart Rose	4,057,192	249,795
Lawrence Tomchin	4,057,192	249,795
Robert Davidoff	4,231,812	75,175
Edward Kress	4,231,152	75,835
Lee Fisher	4,230,812	76,175
Alexander Schwartz, Jr.	4,228,412	78,575

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

(a) Exhibits. No exhibits are filed with this report.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended April 30, 2001.

SIGNATURES

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

REX STORES CORPORATION  
Registrant

June 13, 2001

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

June 13, 2001

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