

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended July 31, 2000

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 at least the past 90 days. Yes (X) No ( )

At the close of business on September 13, 2000, the registrant had 5,937,372 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

	July 31 2000	January 31 2000 (In Thousands)	July 31 1999
ASSETS:			
Cash and cash equivalents	\$ 4,608	\$ 25,609	\$ 9,734
Accounts receivable, net	924	2,569	1,414
Merchandise inventory	181,167	139,267	149,362
Prepaid expenses and other	4,823	2,097	2,177
Equity investment in limited partnerships	-	-	781
Future income tax benefits	9,837	9,837	9,366
Total current assets	201,359	179,379	172,834
PROPERTY AND EQUIPMENT, NET	124,558	113,802	101,716
FUTURE INCOME TAX BENEFITS	8,835	8,835	8,109
RESTRICTED INVESTMENTS	2,104	2,020	1,949
Total assets	\$336,856 =====	\$304,036 =====	\$284,608 =====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	\$ 46,416	\$ -	\$ -
Current portion of long-term debt	3,576	3,303	3,203
Current portion, deferred income and deferred gain on sale and leaseback	11,099	11,219	11,349
Accounts payable, trade	59,664	46,252	56,908
Accrued income taxes	-	1,572	663
Accrued payroll	5,255	6,947	6,515
Other current liabilities	9,270	9,330	11,342
Total current liabilities	135,280	78,623	89,980
LONG-TERM LIABILITIES:			
Long-term debt	48,322	46,200	58,708
Deferred income	16,056	16,423	16,038
Deferred gain on sale and leaseback	2,541	2,953	3,365
Total long-term liabilities	66,919	65,576	78,111
SHAREHOLDERS' EQUITY:			
Common stock	115	115	99
Paid-in capital	105,857	105,303	57,226
Retained earnings	100,889	93,663	81,555
Treasury stock	(72,204)	(39,244)	(22,363)
Total shareholders' equity	134,657	159,837	116,517
Total liabilities and shareholders' equity	\$336,856 =====	\$304,036 =====	\$284,608 =====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended July 31		Six Months Ended July 31	
	2000	1999	2000	1999
	(In Thousands, Except Per Share Amounts)			
NET SALES	\$101,609	\$107,739	\$208,792	\$206,795
COSTS AND EXPENSES:				
Cost of merchandise sold	72,822	76,870	151,271	149,483
Selling, general and administrative expenses	24,823	24,509	49,472	47,294
Total costs and expenses	97,645	101,379	200,743	196,777
INCOME FROM OPERATIONS	3,964	6,360	8,049	10,018
INVESTMENT INCOME	29	41	215	190
INTEREST EXPENSE	(1,877)	(1,453)	(3,049)	(2,756)
INCOME FROM LIMITED PARTNERSHIPS	3,190	516	4,419	796
INCOME BEFORE INCOME TAXES	5,306	5,464	9,634	8,248
PROVISION FOR INCOME TAXES	1,326	1,366	2,408	2,063
NET INCOME	\$ 3,980	\$ 4,098	\$ 7,226	\$ 6,185
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	6,544	7,576	6,819	7,480
BASIC NET INCOME PER SHARE	\$ 0.61	\$ 0.54	\$ 1.06	\$ 0.83
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVA- LENT SHARES OUTSTANDING	7,278	8,493	7,515	8,122
DILUTED NET INCOME PER SHARE	\$ 0.55	\$ 0.48	\$ 0.96	\$ 0.76

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	Amount (In Thousands)		
Balance at July 31, 1999	9,934	\$ 99	2,284	\$22,363	\$ 57,226	\$ 81,555
Common stock issued	1,561	16	-	-	48,077	-
Treasury stock acquired	-	-	1,142	16,881	-	-
Net income	-	-	-	-	-	12,108
	-----	-----	-----	-----	-----	-----
Balance at January 31, 2000	11,495	115	3,426	39,244	105,303	93,663
Common stock issued	52	-	(10)	(113)	554	-
Treasury stock acquired	-	-	1,790	33,073	-	-
Net income	-	-	-	-	-	7,226
	-----	-----	-----	-----	-----	-----
Balance at July 31, 2000	11,547	\$115	5,206	\$72,204	\$105,857	\$100,889
	=====	=====	=====	=====	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended July 31	
	2000	1999
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,226	\$ 6,185
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization, net	1,896	1,693
Equity in losses of limited partnerships	-	1,057
Deferred income	(487)	(696)
Changes in assets and liabilities:		
Accounts receivable	1,645	883
Merchandise inventory	(41,900)	(17,360)
Other current assets	(2,726)	(141)
Accounts payable, trade	13,412	4,234
Other liabilities	(3,324)	3,574
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(24,258)	(571)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(13,143)	(5,869)
Capital disposals	79	943
Restricted investments	(84)	(121)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(13,148)	(5,047)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	46,416	-
Payments of long-term debt	(2,213)	(2,003)
Long-term debt borrowings	4,608	5,322
Common stock issued	554	1,623
Treasury stock issued	113	1,728
Treasury stock acquired	(33,073)	(3,230)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	16,405	3,440
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,001)	(2,178)
CASH AND CASH EQUIVALENTS, beginning of period	25,609	11,912
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 4,608	\$ 9,734
	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2000

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, 2000 (fiscal 1999).

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 1999 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.

Notes to Consolidated Financial Statements (Continued)

Note 3. Stock Option Plans

The following summarizes options granted, exercised and canceled or expired during the six months ended July 31, 2000:

Shares Under Stock  
Option Plans

Outstanding at January 31, 2000 (\$8.125 to \$22.6875 per share)	2,649,517
Granted (\$21.4063 to \$22.8125 per share)	217,013
Exercised (\$8.125 to \$17.25 per share)	(62,490)
Canceled (\$10.375 to \$22.8125 per share)	(5,600)
	-----
Outstanding at July 31, 2000 (\$8.125 to \$22.8125 per share)	2,798,440
	=====



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

We are a leading specialty retailer in the consumer electronics/appliance industry. As of July 31, 2000, we operated 242 stores in 36 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 1999" means the period February 1, 1999 to January 31, 2000. In the past, we referred to this period as "fiscal 2000."

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 31	July 31	July 31	July 31
	2000	1999	2000	1999
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	71.7	71.3	72.4	72.3
	-----	-----	-----	-----
Gross profit	28.3	28.7	27.6	27.7
Selling, general and administrative expenses	24.4	22.8	23.7	22.9
	-----	-----	-----	-----
Income from operations	3.9	5.9	3.9	4.8
Interest, net	(1.8)	(1.3)	(1.4)	(1.2)
Income from limited partnerships	3.1	0.5	2.1	0.4
	-----	-----	-----	-----
Income before income taxes	5.2	5.1	4.6	4.0
Provision for income taxes	1.3	1.3	1.1	1.0
	-----	-----	-----	-----
Net income	3.9%	3.8%	3.5%	3.0%
	=====	=====	=====	=====

## Comparison of Three and Six Months Ended July 31, 2000 and 1999

Net sales in the second quarter ended July 31, 2000 were \$101.6 million compared to \$107.7 million in the prior year's second quarter, representing a decrease of \$6.1 million or 5.7%. This decrease was caused by a decline of 12.8% in comparable store sales, partially offset by sales from the net increase of 16 stores since the second quarter of fiscal 1999.

The decline in comparable store sales for the second quarter was primarily caused by a decline in air conditioner and other appliance sales largely due to unseasonably cool weather in the northeastern and midwestern parts of the United States. The appliance category negatively impacted comparable store sales by 15.5% for the second quarter. Excluding the appliance category, comparable store sales would have increased by 4.5%. Our strongest product categories were larger screen televisions (30 inch and larger) which contributed 9.3% to the comparable store sales and DVD players which contributed 0.5%. We believe DVD players serve to replace certain VCR sales. As a result of this and falling average selling prices, VCR sales negatively impacted comparable store sales by approximately 2.1%. Other products which negatively impacted comparable store sales for the second quarter were smaller screen televisions (27 inches and smaller) by approximately 1.5%, camcorders by approximately 1.1% and car stereos by approximately 0.7%.

Net sales for the first half of fiscal 2000 were \$208.8 million compared to \$206.8 million for the first half of fiscal 1999, representing an increase of \$2.0 million or 1.0%. This increase was caused by a net increase of 16 stores since the second quarter of fiscal 1999, partially offset by a decline of 4.9% in comparable store sales for the first half of fiscal 2000. The decline in comparable store sales for the first half of the year was largely caused by a decline in air conditioner and other appliance sales largely due to unseasonably cool weather during the summer months in the northeastern and midwestern parts of the United States. The appliance category negatively impacted comparable store sales by 8.8% for the first half of fiscal 2000. Excluding the appliance category, comparable store sales would have increased by 5.6%. Our strongest product categories were larger screen televisions (30 inches and larger) which contributed 10.6% to comparable store sales and DVD players which contributed 1.0%. Other than appliances, the largest contributors to the negative comparable store sales were VCR sales by approximately 2.8%, smaller screen televisions (27 inches and smaller) by approximately 2.1%, camcorders by approximately 1.2% and car stereos by approximately 0.7%.

As of July 31, 2000, we had 242 stores compared to 226 stores one year earlier. There were nine stores opened and five closed in the first half of fiscal 2000. In the prior year's first half there was one store opened and three closed.

Gross profit of \$28.8 million (28.3% of net sales) in the second quarter of fiscal 2000 was \$2.1 million lower than the \$30.9 million (28.7% of net sales) recorded in the second quarter of fiscal 1999. Gross profit in the first half of fiscal 2000 was \$57.5 million (27.6% of net sales), a \$200,000 increase from \$57.3 million (27.7% of net sales) in the first half of fiscal 1999. The decline in gross profit margin is primarily due to the slower air conditioner sales, which generally have a higher gross profit margin, and the overall competitive retail environment in consumer electronics and appliances.

Selling, general and administrative expenses for the second quarter of fiscal 2000 were \$24.8 million (24.4% of net sales), a 1.3% increase over the \$24.5 million (22.8% of net sales) for the second quarter of fiscal 1999. Selling, general and administrative expenses for the first half of fiscal 2000 were \$49.5 million (23.7% of net sales), a 4.6% increase from \$47.3 million (22.9% of net sales) for the first half of fiscal 1999. The increase in expense is primarily attributable to an increase in advertising cost for new stores and increased expenditures for radio and television advertising.

Interest expense increased to \$1.9 million (1.8% of net sales) for the second quarter of fiscal 2000 from \$1.5 million (1.3% of net sales) for the second quarter of fiscal 1999. Interest expense for the first half of fiscal 2000 was \$3.0 million (1.4% of net sales) compared to \$2.8 million (1.2% of net sales) for the first half of fiscal 1999. The increase in interest expense is due to higher borrowings on our line of credit to fund higher inventory levels and the stock buyback program.

Results for the second quarter and first half of fiscals 2000 and 1999 also reflect the impact of our equity investment in two limited partnerships which produce synthetic fuels. Effective February 1, 1999, we entered into an agreement to sell a portion of our investment in one of the limited partnerships, which resulted in the reduction in our ownership interest from 30% to 17%. We expect to receive cash payments from the sale on a quarterly basis through 2007. These payments are contingent upon and equal to 75% of the federal income tax credits attributable to the 13% interest sold, subject to certain annual maximums.

Effective July 31, 2000, we sold an additional portion of our investment in the above limited partnership, reducing our ownership interest from 17% to 8%. We received and reported income of \$1.5 million from the sale in the second quarter of fiscal 2000. We also expect to receive cash payments from the sale on a quarterly basis through 2007. These payments are contingent upon and equal to 82.5% of the federal income tax credits attributable to the 9% interest sold, subject to certain annual maximums.

Income from the limited partnerships was \$3.2 million for the second quarter of fiscal 2000, which consisted of \$1.7 million of income from the 1999 sale and \$1.5 million from the 2000 sale, net of certain expenses. Income from the limited partnerships was \$516,000 for the second quarter of fiscal 1999, which consisted of \$1,119,000 of income generated from the 1999 sale, partially offset by a charge of \$603,000 to reflect our equity share of the partnerships' losses. For the first half of fiscal 2000, we reported income from the limited partnerships of \$4.4 million, which consisted of \$2.9 million of income from the 1999 sale and \$1.5 million from the 2000 sale, net of certain expenses. Income from the limited partnerships was \$796,000 for the first half of fiscal 1999, which consisted of \$1,853,000 of income generated by the 1999 sale, partially offset by a charge of \$1,057,000 to reflect our equity share of the partnerships' losses. Our initial investment was reduced to zero as of January 31, 2000 because of cumulative losses recorded using the equity method of accounting. Consequently, we have ceased recording our share of equity losses beginning in fiscal 2000.

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

As a result of the foregoing, net income for the second quarter of fiscal 2000 was \$4.0 million, a 2.9% decrease from \$4.1 million for the second quarter of fiscal 1999. Net income for the first half of fiscal 2000 was \$7.2 million, a 16.8% increase from \$6.2 million for the first half of fiscal 1999.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$24.3 million for the first six months of fiscal 2000, compared to \$0.6 million for the first six months of fiscal 1999. For the first six months of fiscal 2000, operating cash flow was provided by net income of \$7.2 million, adjusted for the net impact of non-cash items of \$1.4 million which consist primarily of depreciation and deferred income. The primary use of cash was an increase in inventory of \$41.9 million due to slow summer air conditioner sales and increased inventories to support our store expansion program. The other uses of cash were a decrease in other liabilities of \$3.3 million and an increase in other assets of \$2.7 million primarily due to timing of payments of income taxes and compensation. Cash was also provided by a decrease in accounts receivable of \$1.6 million and an increase in accounts payable of \$13.4 million primarily due to the increase in inventory and timing of payments to vendors.

At July 31, 2000, working capital was \$66.1 million compared to \$100.8 million at January 31, 2000. The ratio of current assets to current liabilities

was 1.5 to 1 at July 31, 2000 and 2.3 to 1 at January 31, 2000.

Capital expenditures through July 31, 2000 totaled \$13.1 million and primarily relate to the acquisition of store sites and other construction expenditures associated with planned fiscal 2000 store openings. We plan to open 30 to 35 new stores for fiscal 2000 with anticipated capital expenditures of approximately \$25.0 to \$30.0 million. We plan to fund the new store openings with cash generated from operations and investments and additional mortgage debt.

Cash provided by financing activities totaled approximately \$16.4 million for the first six months of fiscal 2000. The primary source of cash was borrowings of \$46.4 million on the line of credit. A total of approximately \$69.9 million was available for borrowings on the line of credit as of July 31, 2000. We also received proceeds of \$4.6 million from long-term debt borrowings related to mortgage financing for five store locations. The primary use of cash was for the acquisition of treasury stock. We purchased a total of 1,789,600 shares of our common stock for \$33.1 million during the first half of fiscal 2000. As of July 31, 2000, we had authorization to purchase an additional 568,300 shares. Subsequent to the end of the quarter, we purchased an additional 406,800 shares for \$7.5 million and our board of directors authorized the purchase of an additional 1,000,000 shares.

#### 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, 2000 (File No. 0-13283).

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

No material changes since January 31, 2000.

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 5, 2000, at which the following matter was submitted to a vote of shareholders:

1. Election of five directors.

Nominee	For	Withheld
Stuart Rose	6,042,499	63,375
Lawrence Tomchin	6,042,499	63,375
Robert Davidoff	6,042,499	63,375
Edward Kress	6,042,439	63,435
Lee Fisher	6,042,499	63,375

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

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

27 Financial Data Schedule

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended July 31, 2000.

SIGNATURES

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

REX STORES CORPORATION  
Registrant

September 13, 2000

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

September 13, 2000

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

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REX STORES CORPORATION

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	JAN-31-2001	
	FEB-1-2000	
	JUL-31-2000	
		4,608
		0
		1,382
		458
		181,167
	201,359	
		148,686
		24,128
	336,856	
135,280		
		48,322
		115
	0	
		0
		134,542
336,856		
		208,792
	208,792	
		151,271
		151,271
		0
		0
	3,049	
		9,634
		2,408
7,226		
		0
		0
		0
		7,226
		1.06
		.96