UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JANUARY 31, 2008 COMMISSION FILE NO. 001-09097

REX STORES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	31-1095548 (I.R.S. Employer Identification No.)
2875 Needmore Road, Dayton, Ohio (Address of principal executive offices)	45414 (Zip Code)

Registrant's telephone number, including area code (937) 276-3931

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange On which registered
Common Stock, $.01 par value	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

At the close of business on July 31, 2007 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 1,242,886 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was $191,653,426.

There were 10,737,051 shares of the registrant's Common Stock outstanding as of April 11, 2008.

Documents Incorporated by Reference

Portions of REX Stores Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 3, 2008 are incorporated by reference into Part III of this Form 10-K.

AVAILABLE INFORMATION

REX makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. REX's Internet website address is www.rextv.com. The contents of the Company's website are not a part of this report.

PART I

Item 1. Business

Overview

REX was incorporated in Delaware in 1984 as a holding company to succeed to the entire ownership of three affiliated corporations, Rex Radio and Television, Inc., Stereo Town, Inc. and Kelly & Cohen Appliances, Inc., which were formed in 1980, 1981 and 1983, respectively. Our principal offices are located at 2875 Needmore Road, Dayton, Ohio 45414. Our telephone number is (937) 276-3931. We are a specialty retailer in the consumer electronics and appliance industry, presently serving over 100 small to medium-sized towns and communities, and an investor in various alternative energy entities. We are leveraging our experience from our investments in synthetic fuel partnerships into the ethanol (alternative energy) industry. We closed 78 retail stores during fiscal year 2007 and invested $60.8 million in ethanol entities as we continue seeking diversified revenue and earnings sources. During fiscal year 2008, we anticipate additional retail store closings as we seek to close unprofitable or marginally profitable retail stores, although we have not established a targeted number of stores. We do not anticipate opening additional retail stores. We have historically owned a majority of our retail stores and we monetized a portion of our real estate investment by selling approximately 60% of our owned retail and vacant stores in fiscal year 2007. We have no definitive plans, beyond our existing commitments, but will continue to consider additional investments in the alternative energy segment. We do not intend to invest or otherwise deploy significant amounts of capital into the retail segment for additional stores. While we have no established timeframe to divest our retail stores, our strategy will be to close unprofitable or marginally profitable stores upon the expiration of the retail store's lease or upon successfully marketing company owned real estate for sale or lease. In addition, we intend to consider and evaluate strategic alternatives for our businesses, including opportunities to monetize our real estate portfolio.

Additional information regarding our business segments is presented below and in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-K. See Note 17 of the Notes to the Consolidated Financial Statements for information regarding the net sales and revenues for each of our business segments for the fiscal years ended January 31, 2008, 2007 and 2006.

Fiscal Year

All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal year 2007" means the period February 1, 2007 to January 31, 2008. We refer to our fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

Retail Overview

Our stores average approximately 11,300 square feet and offer a broad selection of brand name products within selected major product categories, including big screen and standard-sized televisions, major household appliances, video and audio equipment and ready to assemble furniture.

Our business strategy emphasizes depth of selection within key product categories. Brand name products are offered at everyday low prices combined with frequent special sales and promotions. We concentrate our

stores in small and medium sized markets where we believe that by introducing a high volume, low price merchandising concept, we can become a dominant retailer. We support our merchandising strategy with extensive newspaper advertising in each of our local markets and maintain a knowledgeable sales force which focuses on customer service. We believe our low price policy and attention to customer satisfaction provide customers with superior value.

Our strategy is to operate stores in small to medium sized markets. We focus on markets with a newspaper circulation that can efficiently and cost-effectively utilize our print advertising materials and where we believe we can become a dominant retailer.

Retail Business Strategy

Our objective is to be a leading consumer electronics/appliance retailer in each of our markets. The key elements of our retail business strategy include:

Focusing on Small Markets

We traditionally have concentrated our stores in markets with populations of 20,000 to 300,000. When opening stores, we focus on markets with populations under 85,000, which generally are underserved by our competitors. We believe our low-overhead store format and our ability to operate in free-standing as well as strip shopping centers and regional mall locations makes us well suited to serve these small markets.

Maintaining Guaranteed Low Prices

We actively monitor prices at competing stores and adjust our prices as necessary to meet or beat the competition. We guarantee a low price on our products through a policy of refunding 125% of the difference between our price and a competitor’s price on the same item.

Offering a Broad Selection of Brand Name Products

We offer a broad selection of brand name products within key product categories. We carry many major brands of consumer electronics and several major brands of appliances. We offer merchandise in each of our product categories at a range of price points and generally maintain sufficient product stock for immediate delivery to customers.

Capitalizing on Our Opportunistic Buying

When available, we may purchase large quantities of products directly from manufacturers on an opportunistic basis at favorable prices. We believe this buying strategy makes us an attractive customer for manufacturers seeking to sell cancelled orders and excess inventory, enabling us to develop strong relationships and extended trade credit support with vendors. We also collaborate with key suppliers to insure a steady and seasonal supply of key product categories and items.

Striving to be the Low Cost Operator in Our Markets

Our current prototype store is approximately 11,300 square feet and provides us with cost and space efficiencies. Our market selection criteria and operating philosophy allow us to minimize both occupancy and labor costs. Generally, all of our store employees, including our store managers, sell products, unload trucks, stock merchandise and process sales, which helps minimize employee count and overhead within each store. Most stores are staffed with between three and six employees.

Leveraging Our Strong Operational Controls

Our information systems and point-of-sale computer systems, which are installed in every store, allow management to monitor our merchandising programs, sales, employee productivity and in-store inventory levels on a daily basis. Our operational controls provide us with cost efficiencies which reduce overhead while allowing us to maintain high levels of in-stock merchandise. Our three distribution centers, strategically located in Dayton, Ohio, Pensacola, Florida and Cheyenne, Wyoming, reduce inventory requirements at individual stores and facilitate centralized inventory and accounting controls.

Store Operations

Stores. We locate our stores in the general vicinity of major retail shopping districts and design our stores to generate their own traffic. At January 31, 2008, 74 stores were located in free-standing buildings, with the balance situated in strip shopping centers and regional malls. Stores located in malls generally have exterior access and signage rights.

Our stores are designed with minimal interior fixtures to provide an open feeling and a view of all product categories upon entering the store. The stores are generally equipped with neon signage above each product category to further direct the customer to particular products. We believe the interior layout of our stores provides an inviting and pleasant shopping environment for the customer. This also enables us to adapt our merchandising displays and product assortments with minimal remodeling costs.

Our existing stores average approximately 11,300 square feet, including approximately 7,800 square feet of selling space and approximately 3,500 square feet of storage. Stores are open seven days and six nights per week, except for certain holidays. Generally, hours of operation are 10:00 a.m. to 8:00 p.m. Monday through Saturday and 12:00 p.m. to 6:00 p.m., or 1:00 p.m. to 5:00 p.m. in some states, on Sunday.

Our retail business is seasonal. Our net retail sales and revenue and net income historically have been highest in our fourth fiscal quarter, which includes the Christmas selling season. The fourth quarter accounted for approximately 32% and 30% of our net sales and revenue, and 30% and 29% of our gross profit in fiscal years 2007 and 2006, respectively.

Our operations are divided into seven regions, containing up to 21 stores and one district containing two stores. The seven regional vice presidents and the one district manager report to the President and Chief Operating Officer. Each store is staffed with a full-time manager and one or two assistant managers, commissioned sales personnel and, in higher-traffic stores, seasonal support personnel. Store managers are paid on a commission basis and earn bonuses based upon their store’s sales and gross margins. Sales personnel work on a commission basis.

We evaluate the performance of our stores on a regular basis and, based on an assessment of overall profitability, future cash flows and other factors we deem relevant, may close any store which is not adequately contributing to our profitability. We closed 78, 25 and 16 stores during fiscal years 2007, 2006 and 2005, respectively. Subsequent to January 31, 2008, we have closed an additional four stores.

Store Locations. The following table shows the states in which we operated stores and the number of stores

in each state as of January 31, 2008:

State	Number of Stores	State	Number of Stores
Alabama	8	New Mexico	1
Arkansas	1	New York	4
Colorado	1	North Carolina	2
Florida	12	North Dakota	1
Georgia	3	Ohio	15
Idaho	3	Oklahoma	2
Illinois	4	Pennsylvania	7
Indiana	1	South Carolina	4
Iowa	3	South Dakota	1
Kansas	1	Tennessee	5
Kentucky	1	Texas	5
Louisiana	2	Vermont	1
Maryland	1	Virginia	2
Michigan	3	Washington	2
Mississippi	7	West Virginia	5
Missouri	1	Wisconsin	2
Montana	2	Wyoming	2

Personnel. We train our employees to explain and demonstrate to customers the use and operation of our merchandise and to develop good sales practices. Our in-house training program for new employees combines on-the-job training with use of a detailed company-developed manual entitled "The REX Way." Sales personnel attend in-house training sessions conducted by experienced salespeople or manufacturers' representatives and receive sales, product and other information in meetings with managers.

We also have a manager-in-training program that consists of on-the-job training of the assistant manager at the store. Our policy is to staff store management positions with personnel promoted from within REX.

Services. Virtually all of the products we sell carry manufacturers' warranties. Except for our least expensive items, we offer extended service contracts to customers which typically provide, inclusive of manufacturers' warranties, one to five years of extended warranty coverage. We offer maintenance and repair services for most of the products we sell. These services are subcontracted to independent repair firms.

Our return policy provides that most merchandise may be returned for exchange or refund within seven days of purchase if accompanied by original packaging material and verification of sale.

We accept MasterCard, Visa, Discover and American Express. We estimate that, during fiscal year 2007, approximately 47.9% of our total sales were made on these credit cards, and approximately 16.9% were made on revolving or installment credit contracts arranged through banks or independent finance companies which bear the credit risk of these contracts. We offer a REX private label credit card in all of our stores which makes up the bulk of customer financing. We estimate that, during fiscal year 2007, approximately 35.2% of our total sales were made by payment of cash or check.

Merchandising

Products. We offer a broad selection of brand name consumer electronics and home appliance products at a range of price points. We emphasize depth of product selection within selected key product categories. During fiscal year 2007, we sold approximately 1,000 products produced by approximately 44 manufacturers.

Our product categories include:

Televisions	Video	Audio	Appliances	Other
TVs Big Screen TVs TV/VCR/DVD Combos Plasma/LCD TVs Light Engine TVs	Camcorders DVD Players DVD Recorders DVD/VCR Combos	Stereo Systems Receivers Compact Disc Players Speakers Car Stereos Portable Radios Home Theater Systems	Air Conditioners Microwave Ovens Washers Dryers Ranges Dishwashers Refrigerators Freezers Dehumidifiers	Extended Service Contracts Ready to Assemble Furniture Audio/Video Accessories

Among the leading brands sold by us during fiscal year 2007, in alphabetical order, were Frigidaire, Hitachi, Panasonic, Samsung, Sharp, Sony, Toshiba and Whirlpool.

All our stores carry a broad range of televisions, video and audio products, major appliances, microwave ovens and air conditioners.

The following table shows the approximate percent of net sales and revenue for each major product group for the last three fiscal years:

	Fiscal Year		
Product Category	2007	2006	2005
Televisions	56%	55%	56%
Appliances	28	26	22
Audio	4	7	9
Video	3	4	6
Extended warranties	6	5	5
Other	3	3	2
Total	100%	100%	100%

Pricing. Our policy is to offer our products at guaranteed low prices combined with frequent special sales and promotions. Our retail prices are established by our merchandising department, but each store manager is responsible for monitoring the prices offered by competitors and has authority to adjust prices to meet local market conditions. Our commitment to offer low prices is supported by our guarantee to refund 125% of the difference in price if, within 30 days of purchase, a customer can locate the same item offered by a local competitor at a lower price.

Advertising. We use a “price and item” approach in our advertising, stressing the offering of nationally recognized brands at significant savings. The emphasis of our advertising is our Guaranteed Low Price.

Our guarantee states:

> "Our low prices are guaranteed in writing. If you find any other local store (excluding Internet) stocking and offering to sell for less the identical item in a factory sealed box within 30 days after your REX purchase, we'll refund the difference plus an additional 25% of the difference. The Price Guarantee does not apply to our or our competitor's free offers, limited hours sale, limited quantity items, open box items, clearance items, mail-in offers, financing or bundle offers. For other exclusions, see store for details."

Advertisements are concentrated principally in newspapers and preprinted newspaper inserts, which are produced by our internal advertising department. Advertisements are complemented by in-store signage highlighting special values, including "Value Every Day," "Best Value," and "Top of the Line." Our advertising strategy includes preferred customer private mailers, special events such as "Moonlight Madness Sales" and coupon sales to provide shopping excitement and generate traffic.

Purchasing. Our merchandise purchasing and opportunistic buying are performed predominantly by three members of management. By purchasing merchandise in large volume, we are able to obtain quality products at competitive prices and advertising subsidies from vendors to promote the sale of their products. For fiscal year 2007, 10 vendors accounted for approximately 86% of our purchases, with four vendors representing approximately 50% of our inventory purchases. We typically do not maintain long-term purchase contracts with vendors and operate principally on an order-by-order basis.

We utilize a vendor financing arrangement for certain products. Under this arrangement, payment to the vendor is not due until the product is sold. Legal title to the products does not pass to us until we have paid the vendor. See Note 1 of the Notes to the Consolidated Financial Statements for a further discussion.

Distribution

Our stores are supplied by three regional distribution centers. The distribution centers consist of:

- a 470,000 square foot owned facility in Dayton, Ohio;
- a 180,000 square foot owned facility in Pensacola, Florida; and
- a 145,000 square foot owned facility in Cheyenne, Wyoming.

Inventory Management

The regional distribution centers reduce inventory requirements at individual stores, while preserving the benefits of volume purchasing and facilitating centralized inventory and accounting controls. Virtually all of our merchandise is distributed through our distribution centers, with the exception of major appliances which are often shipped directly by the vendor to the retail location. All deliveries to stores are made by independent contract carriers.

Management Information Systems

We have developed a computerized management information system which operates an internally developed software package. Our computer system provides management with the information necessary to manage inventory by stock keeping unit (SKU), monitor sales and store activity on a daily basis, capture marketing and customer information, track productivity by salesperson and control our accounting operations.

Our mainframe computer is an IBM A/S 400 model 720. The host computer is integrated with our point-of-sale system which serves as the collection mechanism for all sales activity. The combined system provides

for next-day review of inventory levels, sales by store and by SKU and commissions earned, assists in cash management and enables management to track merchandise from receipt at the distribution center until time of sale.

Competition

Our business is characterized by substantial competition. Our competitors include national and regional large format merchandisers and superstores such as Best Buy Co., Inc., Lowe's Corporation, Home Depot, Inc. and Circuit City Stores, Inc., other specialty electronics retailers including RadioShack Corporation, department and discount stores such as Sears, Roebuck and Co. and Wal-Mart Stores, Inc., furniture stores, warehouse clubs, home improvement retailers and Internet and store-based retailers who sell competitive products online. We also compete with small chains and specialty single-store operators in some markets, as well as Sears' dealer-operated units. Some of our competitors have greater financial and other resources than us, which may increase their ability to purchase inventory at a lower cost, better withstand economic downturns or engage in aggressive price competition. Competition within the consumer electronics/appliance retailing industry is based upon price, breadth of product selection, product quality, customer service and credit availability. We expect competition within the industry to increase.

Real Estate Operations

As part of our continuous evaluation of retail store performance, we explore alternative uses of owned properties. We consider factors such as the local real estate market, recent and pending commercial development and recent store profitability. We may close a retail store if we believe we can execute a real estate transaction that is more profitable to us than the continuing operation of the retail store. At January 31, 2008, we had lease agreements, as landlord, for all or parts of ten owned properties. In two of the locations, we operate a store and lease a portion of the property to another party. We do not operate a store in eight of the owned properties. We own four properties that are completely vacant at January 31, 2008 and five properties that are partially vacant. These properties are being marketed for sale or lease.

A typical lease agreement has an initial term of three to five years with renewal options. Most of our lessees are responsible for a portion of maintenance, taxes and other executory costs. We require our lessees to maintain adequate levels of insurance. We recognized approximately $492,000 and approximately $588,000 of lease revenue during fiscal years 2007 and 2006, respectively.

Alternative Energy Overview

As part of our ongoing efforts to diversify and increase our earnings, we began investing in the ethanol industry during fiscal year 2006. Our business strategy focuses on partnering with farmer groups, local groups, or farmer-controlled cooperatives to develop ethanol production plants. We seek to identify quality ethanol plant opportunities characterized by strong plant construction partners and plant management, located near adequate feedstock supply with good transportation capabilities or other economically beneficial attributes, and that utilize leading ethanol production technology. Our partnership model generally enables farmer groups to retain local management of the project, including control of their crops as a supplier to the project, while we provide capital and additional business administration experience.

We intend to follow a flexible model for our investments in ethanol plants, taking both minority and majority ownership positions. The form and structure of our investments will be tailored to the specific needs and goals of each project and the local farmer group or investor with whom we are partnering. We intend to actively participate in the development and management of our projects through our membership on the board of managers of the limited liability companies that own the plants.

Alternative Energy Strategy

The key elements of our alternative energy business strategy include:

Investing in Plants that Meet our Investment Criteria. We have stringent and structured criteria to evaluate our plant investments. We focus on identifying projects with efficient cost structure, superior infrastructure and logistics and quality partners. We evaluate the projects using the following criteria:

Partners. We judge our partners on the strength of their connection with the local community, ability to support the plant through construction and when in operation, as well as their willingness and desire for an outside partner.

Plant Location. We generally look for locations in areas that are near large quantities of feedstock which we believe will be important to procure commodities cost effectively as demand for key feedstock commodities increases. We also look for accessibility to rail, highways or waterways for ease of transportation of ethanol and distillers grains and feedstock. Access to utilities such as water and natural gas are also important considerations for our plant locations.

Technology and Construction. We look for plants that are built or will be built using the latest but proven production technology in order to facilitate cost efficient conversion of raw material into ethanol. All of our plants are being designed and built by leading plant builder and design firms, such as Fagen, Inc. or ICM, Inc.

Marketing Alliance. Each project independently chooses its own marketing alliance. We prefer marketing partners that have strong positions in the industry based on their experience and national reach, which we believe will become increasingly important as ethanol becomes a more available alternative to petroleum based fuels.

Adding Value to Our Partnerships. We will look for ways to add to the operational characteristics of our projects by being a source of development support and information on practices in the ethanol industry. The diversification of our investments in terms of geography, ownership, management, plant size and financial and operational agreements will allow us to provide our partners with value added information with respect to risk management, feedstock procurement, plant management and ethanol and co-products marketing.

Ethanol Investments

We have invested in five entities, four of which we remain invested in as of January 31, 2008, utilizing both debt and equity investments. We sold our investment in Millennium Ethanol, LLC during fiscal year 2007. Three of the entities are development stage enterprises and we expect them to begin generating operating revenue approximately 14 to 20 months after construction of the plants has begun. Big River Resources, LLC, currently has a 92 million gallon dry-mill ethanol manufacturing facility and is generating operating revenue.

The following table is a summary of our ethanol investments at January 31, 2008 (amounts in thousands, except ownership percentages):

Entity	Initial Equity Investment	Ownership Percentage	Debt Investment	Contingent Commitment
Levelland Hockley County Ethanol, LLC	$ 16,500	56%	$ 308	$ 2,100
Big River Resources, LLC	20,000	10%	—	—
Patriot Renewable Fuels, LLC	16,000	23%	—	—
One Earth Energy, LLC	50,765	74%	—	—
Total	$ 103,265		$ 308	$ 2,100

Levelland Hockley County Ethanol, LLC

On September 30, 2006, we acquired 47% of the outstanding membership units of Levelland Hockley County Ethanol, LLC, or Levelland Hockley, for $11.5 million. On December 29, 2006, we purchased a $5.0 million convertible secured promissory note from Levelland Hockley. On July 1, 2007, we converted the note into equity and increased our ownership percentage to approximately 56%. On February 20, 2008, we purchased an additional $5.0 million convertible secured promissory note from Levelland Hockley. The conversion of the note into equity would increase our ownership percentage to approximately 62%. With this note purchase, we have no further commitment to provide funding. We consolidate Levelland Hockley with our financial results and include them in our alternative energy segment.

Levelland Hockley has commenced construction of an ethanol producing facility in Levelland, Texas. ICM, Inc. is providing construction, process design and engineering services for the plant. The plant is expected to begin ethanol production by May of 2008 and has a design capacity of 40 million gallons of ethanol and 135,000 tons of dried distillers grains (“DDG”) per year. Levelland Hockley has reached an agreement with a marketing company to provide corn or other grain origination, ethanol and DDG marketing services.

Big River Resources, LLC

We have invested $20 million in Big River Resources, LLC, or Big River, for a 10% ownership interest. Big River is a holding company for several entities including Big River Resources West Burlington, LLC which operates a recently expanded 92 million gallon dry-mill ethanol manufacturing facility in West Burlington, Iowa. The facility has been in operation since 2004, previously as a 52 million gallon plant.

Big River has begun construction of its second plant which has a design capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. This plant will be located in Galva, Illinois and construction of the plant is expected to be completed by August of 2009.

Patriot Renewable Fuels, LLC

On December 4, 2006, we acquired a 23% ownership interest in Patriot Renewable Fuels, LLC, or Patriot, for $16 million. Patriot has commenced construction of an ethanol producing facility in Annawan, Illinois. The facility has a design capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. Fagen, Inc. and ICM, Inc. are providing construction, process design and engineering services for the plant. The plant is expected to begin ethanol production by the fall of 2008. Patriot has reached an agreement with a marketing company to provide corn or other grain origination, ethanol and DDG marketing.

One Earth Energy, LLC

On October 30, 2007, we acquired 74% of the outstanding membership units of One Earth Energy, LLC, or One Earth, for $50.8 million. We consolidate One Earth with our financial results and include them in our alternative energy segment. One Earth has commenced construction of an ethanol producing facility in Gibson City, Illinois. Fagen, Inc. and ICM, Inc. are providing construction process design and engineering services for the plant. The facility is expected to begin ethanol production by mid-year 2009 and has a design capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. One Earth has reached an agreement with a marketing company to provide corn or other grain origination, ethanol and DDG marketing.

Ethanol Industry

Ethanol is a renewable fuel source produced by processing corn and other biomass through a fermentation process that creates combustible alcohol that can be used as an additive or replacement to fossil fuel based gasoline. The majority of ethanol produced in the United States is made from corn because of its wide availability and ease of convertibility from large amounts of carbohydrates into glucose, the key ingredient in

producing alcohol that is used in the fermentation process. Ethanol production can also use feedstocks such as grain sorghum, switchgrass, wheat, barley, potatoes and sugarcane as carbohydrate sources.

Most ethanol plants have been located near large corn production areas, such as Illinois, Indiana, Iowa, Minnesota, Nebraska, Ohio and South Dakota. Proximity to sufficient corn as well as other inputs such as natural gas, water and transportation provides a competitive advantage for ethanol producers. Railway access and interstate access are vital for ethanol facilities due to the large amount of demand in the east- and west-coast markets, primarily as a result of the stricter air quality requirements in large parts of those markets, and the limited ethanol production facilities.

According to the Renewable Fuels Association, or RFA, the United States fuel ethanol industry has experienced record growth and expansion, increasing from 1.4 billion gallons produced in 1998 to 6.5 billion gallons produced in 2007. As of January 2008, the total number of ethanol plants increased to 139, up from 54 in 2000 and are located in 21 states.

On December 19, 2007, the Energy Independence and Security Act of 2007 (the “Energy Act of 2007”) was enacted. The Energy Act of 2007 establishes new levels of renewable fuel mandates, including two different categories of renewable fuels: conventional biofuels and advanced biofuels. Corn-based ethanol is considered conventional biofuels which will be subject to a renewable fuel standard (“RFS”) of at least 9.0 billion gallons per year in 2008, expected to increase to at least 15.0 billion gallons per year by 2015. Advanced biofuels includes ethanol derived from cellulose, hemicellulose or other non-corn starch sources; biodiesel; and other fuels derived from non-corn starch sources. Advanced biofuels RFS levels are set to reach at least 21.0 billion gallons per year, resulting in a total RFS from conventional and advanced biofuels of at least 36.0 billion gallons per year by 2022.

The domestic production of ethanol is relatively fragmented except for the top four producers who accounted for approximately 40% of the industry’s total estimated production capacity as of January 2008. The remaining production is generated by approximately 90 smaller producers and farmer-owned cooperatives, many with production of 50 million gallons per year (mgy) or less. Farmer owned plants have increased from 18 in 2000 to 49 in 2008 and the percentage of total capacity has increased from 19% in 2000 to 28% in 2008, according to the RFA.

Typical ethanol facilities take approximately 14 to 20 months from groundbreaking to operation, enabling estimates of capacity additions up to 20 months going forward. As of January 2008, the RFA estimates ethanol facilities with capacity of an additional 5.5 billion gallons per year were under construction.

Ethanol Production

The plants we have invested in will use the dry milling method of producing ethanol. In the dry milling process, the entire corn kernel is first ground into flour, which is referred to as “meal,” and processed without separating out the various component parts of the grain. The meal is processed with enzymes, ammonia and water, and then placed in a high-temperature cooker. It is then transferred to fermenters where yeast is added and the conversion of sugar to ethanol begins. After fermentation, the resulting liquid is transferred to distillation columns where the ethanol is separated from the remaining “stillage” for fuel uses. The anhydrous ethanol is then blended with denaturant, such as natural gasoline, to render it undrinkable and thus not subject to beverage alcohol tax. With the starch elements of the corn consumed in the above described process, the principal co-product produced by the dry milling process is dry distillers grains with solubles, or DDGS. DDGS is sold as a protein used in animal feed and recovers a significant portion of the total corn cost.

The Primary Uses of Ethanol

Blend component. The U.S. continues to have increased demand for automotive fuel and, in turn, a greater dependence on foreign sources for crude oil. Today, much of the ethanol blending in the U.S. is done for the

purpose of extending the volume of fuel sold at the gas pump. Blending ethanol allows refiners to produce more fuel from a given barrel of oil. Currently, ethanol is blended into more than 50% of the gasoline sold in the United States, the majority as E10 (a blend of 10% ethanol and 90% gasoline), according to the RFA. Going forward, the industry is attempting to expand the E-85 market, blend ethanol with diesel fuel and use ethanol as a fuel source for hydrogen for fuel cells.

Clean air additive. Ethanol is employed by the refining industry as a fuel oxygenate, which when blended with gasoline, allows engines to combust fuel more completely and reduce emissions from motor vehicles. Ethanol contains 35% oxygen, approximately twice that of Methyl Tertiary Butyl Ether, or MTBE, an alternative oxygenate to ethanol, the use of which is being phased out because of environmental and health concerns. The additional oxygen in ethanol results in more complete combustion of the fuel in the engine cylinder. Ethanol is non-toxic, water soluble and quickly biodegradable.

Octane enhancer.Ethanol increases the octane rating of gasoline with which it is blended. As such, ethanol is used by gasoline suppliers as an octane enhancer both for producing regular grade gasoline from lower octane blending stocks and for upgrading regular gasoline to premium grades.

Legislation

The United States ethanol industry is highly dependent upon federal and state legislation. See Item 1A. Risk Factors for a discussion of legislation affecting the U.S. ethanol industry.

Synthetic Fuel Partnerships

In fiscal year 1998, we invested in two limited partnerships, Colona SynFuel Limited Partnership, L.L.L.P. and Somerset Synfuel, L.P. which own facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based on the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. We have sold our entire interest in the Colona partnership (through a series of transactions) and received payments from the sales, on a quarterly basis, through 2007, subject to production levels. On October 14, 2005, we sold our entire interest in the Somerset Synfuel partnership for $1,200,000, net of commissions, along with a secured contingent payment note. We received payments from the sale, on a quarterly basis, through 2007, subject to production levels. On September 5, 2002, we purchased an additional synthetic fuel facility in Gillette, Wyoming. We sold our membership interest in the entity that owned the Gillette facility on March 30, 2004 for $2,750,000 along with a secured contingent payment note. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006.

The IRS has completed an audit on the Colona partnership with no impact on related tax credits generated. The IRS has completed an audit of the Somerset partnership for calendar year 2001 as part of its normal audit program of the general partner. The audit resulted in no impact on related tax credits generated. REX has been allocated income tax credits of approximately $25.0 million and recognized investment income of approximately $97.6 million from the sales of its partnership interests in years subsequent to these audits. Although we believe the retroactive disallowance of our synthetic fuel credits is unlikely, any such disallowance could result in a significant liability for income tax credits previously taken or income recognized. The Section 29/45K tax credit program expired on December 31, 2007. We will not receive income related to Section 29/45K tax credits for the production and sale of synthetic fuel after that date.

See Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Notes 4 and 16 of the Notes to the Consolidated Financial Statements for further discussions.

Facilities

We owned 39 of our stores operated at January 31, 2008. The remaining 76 stores operated on leased premises, with the unexpired terms of the leases ranging from less than one year to 19 years, inclusive of options to renew. For fiscal year 2007, the total net rent expense for our leased facilities was approximately $4.7 million.

At January 31, 2008, we owned six properties that were not operated as stores and were leased to outside, unrelated parties. These properties are former store sites on which we have closed the retail store. There were also six completely or partially vacant properties that we were attempting to either lease or sell.

Levelland Hockley County Ethanol, LLC began construction of a 40 million gallon ethanol plant during fiscal year 2006. We expect that plant construction will be completed by May 2008.

One Earth Energy, LLC began construction of a 100 million gallon ethanol plant during fiscal year 2007. We expect that plant construction will be completed during the second quarter of fiscal year 2009.

Employees

At January 31, 2008, we had approximately 91 hourly and salaried employees and approximately 421 commission-based sales employees. We also employ additional personnel during peak selling seasons. None of our employees are represented by a labor union. We consider our relationship with our employees to be good.

At January 31, 2008, Levelland Hockley had 27 employees. We anticipate this will increase to approximately 30 employees once the plant is operational.

At January 31, 2008, One Earth had two employees. We do not anticipate this employment level to change significantly until construction of the plant is substantially completed.

Service Marks

We have registered our service mark “REX”, and we own an application to register the mark “Farmers Energy”, with the United States Patent and Trademark Office. We are not aware of any adverse claims concerning our service marks.

Item 1A. Risk Factors

We encourage you to carefully consider the risks described below and other information contained in this report when considering an investment decision in REX common stock. Any of the events discussed in the risk factors below may occur. If one or more of these events do occur, our results of operations, financial condition or cash flows could be materially adversely affected. In this instance, the trading price of REX stock could decline, and investors might lose all or part of their investment.

We have concentrations of cash deposits at financial institutions that exceed federal insurance limits.

We generally have cash deposits that exceed federal insurance limits. Should the financial institutions we deposit our cash at experience insolvency or other financial difficulty, our access to cash deposits could be limited. In extreme cases, we could lose our cash deposits entirely. This would negatively impact our liquidity and results of operations.

Risks Related to our Retail Business

We face significant competition from other retailers many of whom have greater financial resources. This could result in a decline of our sales and profitability.

We face significant competition from a diverse group of retailers. Our competitors include national and regional large format merchandisers and superstores such as Best Buy Co., Inc., Lowe's Corporation, Home Depot, Inc. and Circuit City Stores, Inc., other specialty electronics retailers including RadioShack Corporation, department and discount stores such as Sears, Roebuck and Co. and Wal-Mart Stores, Inc., furniture stores, warehouse clubs, home improvement retailers and Internet and store-based retailers who sell consumer electronics and home appliance products online. We also compete with small chains and specialty single-store operators in some markets, as well as Sears' dealer-operated units. Some of our competitors have greater financial resources than us, which may increase their ability to purchase inventory at a lower cost, better withstand economic downturns or engage in aggressive price competition.

We expect competition within the consumer electronics/appliance retailing industry to increase. National merchandisers continue to expand their geographic markets and enter markets traditionally served by us. In the event that competitors enter markets we serve, we may experience pricing pressures, reduced gross margins and declines in comparable store sales.

A decline in economic conditions could lead to reduced consumer demand for the products we sell.

Demand for consumer electronics and home appliance products is dependent upon various economic factors outside of our control. These factors include:

- general economic conditions;
- consumer confidence;
- consumer spending patterns and preferences; and
- new housing starts.

A slowdown in the national or regional economies or an uncertain economic outlook could adversely affect discretionary consumer spending habits and negatively impact our sales and operating results.

If new products are not introduced or consumers do not accept new products, our sales may decline.

We rely upon the periodic introduction of new products to help stimulate consumer demand. The lack of new products could reduce consumer interest and lower our sales.

In addition, many products which incorporate the newest technologies, such as high definition television, are subject to technological and pricing limitations and may not achieve widespread or rapid consumer acceptance in the markets we serve. If these new products do not meet with widespread or rapid market acceptance, our results of operations may be impaired.

Furthermore, the introduction or expected introduction of new products may depress sales of existing products and technologies. Government mandates for such areas as high definition television tuners can increase production costs and lead to higher retail prices that could reduce product acceptance. Other mandates include the Department of Energy compliance mandates for major appliances that went into effect in 2007. This could also lead to higher retail prices and a slowdown in overall product demand.

If we do not adequately anticipate and respond to changing consumer demand and preferences, our results of operations may be impaired.

Our success depends, in part, on our ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding consumer electronics and home appliances. Our failure to adequately anticipate and respond to these changes could have a material adverse effect on our business, results of operation and financial condition either from lost sales or lower margins due to the need to mark down excess inventory.

Our opportunistic product buying strategy could negatively impact our sales and gross margins.

When available, we may purchase large quantities of merchandise on an opportunistic or when-available basis at favorable prices. Our inability to find suitable opportunistic product buying opportunities could negatively impact our sales and gross margins. As manufacturers move to more market-driven, supply chain management strategies, the opportunities for opportunistic purchases may decline.

Products purchased on an opportunistic basis generally are held in inventory longer than our other products. This can result in increased inventory levels and lower inventory turnover, which increase our working capital requirements and inventory carrying costs. Increased inventory levels and lower turnover rates also increase the risk of inventory mark-downs. The introduction of digitally-based display products such as plasma, LCD and other micro display products has shortened product life cycles and introduced a higher degree of risk for opportunistic buying. Given the rate of change of technology and price levels, opportunity costs for purchasing in large quantities can be offset by the obsolescence risk of holding merchandise that may have to be deeply discounted to consumers.

Fluctuations in our comparable store sales may cause the price of our common stock to fluctuate substantially.

"Comparable store sales" is a term we use to compare the year over year sales performance of our stores. We consider a store to be comparable after it has been open six full fiscal quarters.

A number of factors have historically affected and will continue to affect our comparable store sales, including the following:

- competition;
- national and regional economic conditions;
- consumer trends;
- new product introductions;
- weather conditions which can impact store traffic as well as sales of seasonal products such as air conditioners;
- changes in our product mix and availability of products from key vendors;
- duration of the holiday selling season;
- timing of promotional events; and
- attracting and retaining qualified sales personnel.

Comparable store sales are often followed closely by the investment community and significant fluctuations in these results could cause the price of our common stock to fluctuate substantially.

Our quarterly operating results are subject to seasonality. Our profitability would be adversely affected by lower than expected fourth quarter results.

Our retail business is seasonal. Our net retail sales and net income historically have been highest in our fourth fiscal quarter, which includes the Christmas selling season. The fourth quarter accounted for approximately 32% and 30% of our net sales and revenue, and 30% and 29% of our gross profit in fiscal year 2007 and

2006, respectively. Our annual financial results would be adversely impacted if our sales were to fall substantially below what we normally expect during this period.

We depend on our suppliers for products and our business could be adversely affected if we do not maintain relationships with our key vendors.

Our success depends to a significant degree upon our suppliers of consumer electronics and home appliance products. We do not have any long-term supply agreements or exclusive arrangements with vendors. We typically order merchandise by issuing individual purchase orders to vendors. We rely significantly on a few suppliers. Our 10 largest suppliers accounted for approximately 86% of our purchases during fiscal year 2007, with four suppliers representing approximately 50% of our inventory purchases in fiscal year 2007. The loss of any of these key vendors, our failure to establish and maintain relationships with our vendors, or any prolonged disruptions in product supply, could have a material adverse impact on our business.

We may incur higher costs or decreased sales and gross margins because we purchase imported products.

A significant portion of our inventory is manufactured outside the United States. Changes in trade regulations, currency fluctuations or other factors may increase the cost of items manufactured outside the United States or create shortages of those items. We purchase all of our products in U.S. dollars. Significant reductions in the cost of such items in U.S. dollars may cause a significant reduction in retail price levels of those products, which could adversely affect our sales and gross margins.

The loss of the services of our Chief Executive Officer or our other key employees could jeopardize our ability to maintain our competitive position.

We believe that our success depends on the continued service of our key executive management personnel. Loss of the services of Stuart Rose, our Chairman and Chief Executive Officer, or other key employees could jeopardize our ability to maintain our competitive position in the industry.

Risks Related to our Synthetic Fuel Investments

Income and tax credits from our investments in facilities producing synthetic fuel have contributed significantly to our operating and net income in past years but will not continue after December 31, 2007.

In fiscal year 1998, we invested in two limited partnerships, Colona Synfuel Limited Partnership, L.L.L.P. (Colona) and Somerset Synfuel, L.P. (Somerset), which own facilities producing synthetic fuel. In fiscal year 2002, we purchased a plant located in Gillette, Wyoming (Gillette) designed and constructed for the production of synthetic fuel. The entities earned federal income tax credits under Section 29/45K of the Internal Revenue Code based on the quantity and content of synthetic fuel production and sales.

We sold our interest in the Colona partnership in three separate sale transactions and received cash payments from the sales on a quarterly basis through 2007, subject to production levels. We reported income from the sales of approximately $4.2 million and $5.3 million in fiscal years 2007 and 2006, respectively, which accounted for approximately 11% and 35% of our income from continuing operations before income taxes and minority interest in those years. The loss of this income will significantly reduce our net income.

We also sold our interest in the limited liability company that owned the Gillette facility and received $2.75 million at the time of the sale in March 2004. This plant was dismantled and relocated. The facility resumed commercial operations in the second quarter of 2005 and we received an additional $3.5 million. We were

also eligible to receive $1.50 per ton of “qualified production” fuel produced by the facility and sold through 2007. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006.

Effective October 1, 2005, we sold our entire ownership interest in the Somerset partnership. We received $1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. We received quarterly payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels. We reported income from the sale of approximately $2.8 million and $4.4 million in fiscal years 2007 and 2006, respectively. The loss of this income will significantly reduce our net income.

The Section 29/45K tax credit program expired on December 31, 2007. We will not receive income related to Section 29/45K tax credits for the production and sale of synthetic fuel after that date.

We face synthetic fuel risks as future IRS audits may result in the disallowance of previously recognized tax credits.

We have been allocated approximately $25.0 million of Section 29/45K tax credits and recognized investment income of approximately $97.6 million from the sales of its partnership interests from years that the partnerships have not been audited by the Internal Revenue Service (IRS). Should the tax credits be denied on any future audit and we fail to prevail through the IRS or the legal process, there could be a significant tax liability owed for previously taken tax credits or previously recognized income with a significant adverse impact on earnings and cash flows.

The production and sale of synthetic fuel qualifies for Section 29/45K tax credits if certain requirements are satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal used to produce the synthetic fuel and that the fuel was produced from a facility placed in service before July 1, 1998.

We may not be able to generate sufficient taxable income to realize our deferred tax assets.

We have approximately $32.5 million of deferred tax assets recorded on our consolidated financial statements. Should future results of operations or other factors cause us to determine that it is unlikely that we will generate sufficient taxable income to fully utilize our deferred tax assets, we would then be required to establish a valuation allowance against such deferred tax assets. We would increase our income tax expense by the amount of the tax benefit we do not expect to realize. This would reduce our net income and could have a material adverse effect on our results of operations.

We may realize capital losses related to our sales of synthetic fuel ownership interests.

We have, for income tax purposes, recognized capital gain in the year of sale for certain sales of our ownership interests in synthetic fuel entities. Should we, in subsequent years, realize a capital loss for income tax purposes, we may be required to carry the loss back to prior years. This could result in the write down of previously used Section 29/45K tax credits. This would reduce our net income and could have a material adverse effect on our results of operations.

Risks Related to our Alternative Energy Business

Our ethanol investments are subject to the risks of a development stage business which could adversely affect the returns on our ethanol investments and our results of operations.

We do not have an established record for investing in the ethanol industry. We entered into our first agreement to invest in an ethanol plant in November 2005. At January 31, 2008, we remain invested in four entities. Three entities have begun construction of ethanol production facilities and one recently completed an expansion of its ethanol production facility. Our ethanol investments have been managed by our Chief Executive Officer, our Vice President and our Chief Financial Officer. We do not otherwise have a dedicated ethanol development staff. As a consequence, our ethanol investments are subject to all of the risks associated with a development stage company, including an unproven business model, a lack of operating history and an undeveloped operating structure. These development stage risks could result in our making investments in ethanol plants that perform substantially below our expectations, which would adversely affect our results of operations and financial condition.

We invest in new construction of ethanol plants and significant expansion of existing plants. As a result, we face significant project development risks that may adversely affect our investment returns.

In each of our investments, we are investing in the new construction of a plant or a significant expansion of an existing plant. As a result, our investments face risks of construction delays and cost overruns that could delay or reduce our investment returns. Significant delays in the construction schedule, or material variations between estimated versus actual construction cost, could prevent commencement of plant operations as expected and adversely impact the ability of the plant to operate profitably.

In addition, the new plants are development-stage operations that must obtain environmental and other permits, complete arrangements for transportation, water, natural gas and marketing of the ethanol, and hire and train employees before production can begin. In some cases, development of infrastructure outside of our control will be required, including additional rail capacity, adequate water supply, additional ethanol storage facilities and increases in truck fleets to transport ethanol within local markets. The failure to obtain any of these necessary elements in a timely manner or on commercially acceptable terms could adversely affect the profitability of each plant. Once the new plants or expansions begin production, they face uncertainties of whether they will perform to specifications and whether they will achieve anticipated operating results.

If cash flow from operations of our ethanol plants is not sufficient to service its debt, the plant could fail and we could lose our entire investment.

We expect our ethanol plants to finance approximately 60% of plant construction cost with debt. The ability of each company owning the plant to repay borrowings incurred will depend upon the plant’s financial and operating performance. The cash flows and capital resources of an ethanol plant may be insufficient to repay its debt obligations. If a plant cannot service its debt, it may be forced to reduce or delay capital expenditures, sell assets, restructure its indebtedness or seek additional capital. If unable to do so, the value of our investment could decline significantly.

The institutional senior lenders to the companies which own and operate our ethanol plants hold liens on the plant’s assets. If a company fails to make its debt service payments, the senior lender will have the right to repossess the plant’s assets in addition to other remedies, which are superior to our rights as an equity investor or subordinated lender. Such action could have a materially adverse impact on our investment in the ethanol plant.

We depend on our partners to operate our ethanol investments.

Our investments currently represent both majority and minority equity positions or debt, and day-to-day operating control of each plant generally remains with the local farmers’ cooperative or investor group that has promoted the plant. We may not have the ability to directly modify the operations of the plants in response to changes in the business environment or in response to any deficiencies in local operations of the

plants. In addition, local plant operators, who also represent the primary suppliers of corn and other crops to the plants, may have interests, such as the price and sourcing of corn and other crops, that may differ from our interest, which is based solely on the operating profit of the plant. The limitations on our ability to control day-to-day plant operations could adversely affect plant results of operations.

We may not successfully acquire or develop additional ethanol investments.

The growth of our ethanol business depends on our ability to identify and develop new ethanol investments. Our ethanol development strategy depends on referrals, and introductions, to new investment opportunities from industry participants, such as ethanol plant builders, financial institutions, marketing agents and others. We must continue to maintain favorable relationships with these industry participants, and a material disruption in these sources of referrals would adversely affect our ability to expand our ethanol investments.

Any expansion strategy will depend on prevailing market conditions for the price of ethanol and the costs of corn and natural gas and the expectations of future market conditions. The significant expansion of ethanol production capacity currently underway in the United States could impede any expansion strategy. There is increasing competition for suitable sites for ethanol plants. Even if suitable sites or opportunities are identified, we may not be able to secure the services and products from contractors, engineering firms, construction firms and equipment suppliers necessary to build or expand ethanol plants on a timely basis or on acceptable economic terms. Construction costs associated with expansion may increase to levels that would make a new plant too expensive to complete or unprofitable to operate. Additional financing may also be necessary to implement any expansion strategy, which may not be accessible or available on acceptable terms.

We face significant competition in the ethanol industry.

We face significant competition for new ethanol investment opportunities. There are many enterprises seeking to participate in the ethanol industry. Some enterprises provide financial support similar to our business model. Other enterprises seek to acquire or develop plants which they will directly own and operate. Many of our competitors are larger and have greater financial resources and name recognition than we do. We must compete for investment opportunities based on our strategy of supporting and enhancing local development of ethanol plant opportunities. We may not be successful in competing for investment opportunities based on our strategy.

There is a consolidation trend in the ethanol industry. As a result, firms are growing in size and scope. Larger firms offer efficiencies and economics of scale, resulting in lower costs of production. Absent significant growth and diversification, our ethanol plants may not be able to operate profitably in a more competitive environment. No assurance can be given that our ethanol plants will be able to compete successfully or that competition from larger companies with greater financial resources will not have a materially adverse affect on the results of our ethanol investments.

The financial returns on our ethanol investments are highly dependent on commodity prices, which are subject to significant volatility and uncertainty, and the availability of supplies, so our results could fluctuate substantially.

The financial returns on our ethanol investments are substantially dependent on commodity prices, especially prices for corn or other feedstock, natural gas, ethanol and unleaded gasoline. As a result of the volatility of the prices for these items, the returns may fluctuate substantially and our investments could experience periods of declining prices for their products and increasing costs for their raw materials, which could result in operating losses at our ethanol plants.

Our returns on ethanol investments are highly sensitive to grain prices. Corn or sorghum is the principal raw material our ethanol plants use or plan to use to produce ethanol and co-products. As a result, changes in

the price of corn or sorghum can significantly affect their businesses. Rising corn or sorghum prices result in higher cost of ethanol and co-products. Because ethanol competes with non-corn-based fuels, our ethanol plants generally will be unable to pass along increased grain costs to their customers. At certain levels, grain prices may make ethanol uneconomical to use in fuel markets. Over the ten-year period from 1998 through 2007, corn prices (based on the Chicago Board of Trade, or CBOT, daily futures data) have ranged from a low of $1.75 per bushel in 2000 to a high of $4.55 per bushel in 2007, with prices averaging $2.42 per bushel during this period.

The ethanol industry has experienced significantly higher corn prices beginning in the fourth quarter of 2006, which have remained high in 2007 at substantially higher levels than in 2006. During 2007, CBOT corn prices ranged from a low of $3.10 per bushel to a high of $4.55 per bushel, with prices averaging $3.73 per bushel. At January 31, 2008, the CBOT price per bushel of corn for March delivery was $5.01. If these high corn prices continue, they may have a material adverse effect on our ethanol plants' business, results of operations and financial position.

The price of corn is influenced by weather conditions and other factors affecting crop yields, transportation costs, farmer planting decisions, exports, the value of the U.S. dollar and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade, and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm the business of our ethanol plants. Increasing domestic ethanol capacity could boost the demand for corn and result in increased corn prices. In 2006, corn bought by ethanol plants represented approximately 18% of the total corn supply for that year according to results reported by the National Corn Growers Association, and this percentage is expected to increase as additional ethanol capacity comes online, rising to more than 30% of the total corn supply by 2009/2010 according to the United States Department of Agriculture. In addition, the price our ethanol plants pay for corn at a facility could increase if an additional ethanol production facility is built in the same general vicinity.

Our ethanol plants may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. Such a shortage could require our ethanol plants to suspend operations until corn is available at economical terms which would have a material adverse effect on the financial returns on our ethanol investments.

The spread between ethanol and corn prices can vary significantly and may not return to recent high levels. The gross margin at our ethanol plants depends principally on the spread between ethanol and corn prices. During the five-year period from 2003 to 2007, ethanol prices (based on average U.S. ethanol rack prices from Bloomberg, L.P., or Bloomberg) have ranged from a low of $1.11 per gallon to a high of $3.98 per gallon, averaging $1.90 per gallon during this period. For 2007, ethanol prices averaged $2.12 per gallon, reaching a high of $2.50 per gallon and a low of $1.69 per gallon (based on the daily closing prices from Bloomberg). In early 2006, the spread between ethanol and corn prices was at historically high levels, driven in large part by oil companies removing a competitive product, MTBE, from the fuel stream and replacing it with ethanol in a relatively short time period. However, this spread has fluctuated widely and narrowed significantly during 2007. Fluctuations are likely to continue to occur. A sustained narrow spread or any further reduction in the spread between ethanol and corn prices, whether as a result of sustained high or increased corn prices or sustained low or decreased ethanol prices, would adversely affect the results of operations at our ethanol plants.

The market for natural gas is subject to market conditions that create uncertainty in the price and availability of the natural gas that our ethanol plants use in their manufacturing process. Our ethanol plants rely upon third parties for their supply of natural gas, which is consumed as fuel in the manufacture of ethanol. The prices for and availability of natural gas are subject to volatile market conditions. These market conditions often are affected by factors beyond the ethanol plants' control, such as weather conditions, overall

economic conditions and foreign and domestic governmental regulation and relations. Significant disruptions in the supply of natural gas could impair the ethanol plants' ability to manufacture ethanol for their customers. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect results of operations and financial position at our ethanol plants.

Fluctuations in the selling price and production costs of gasoline may reduce profit margins at our ethanol plants. Ethanol is marketed both as a fuel additive to reduce vehicle emissions from gasoline and as an octane enhancer to improve the octane rating of gasoline with which it is blended. As a result, ethanol prices are influenced by the supply and demand for gasoline and our ethanol plants' results of operations and financial position may be materially adversely affected if gasoline demand or price decreases.

New plants under construction or decreases in demand for ethanol may result in excess production capacity in the ethanol industry, which may cause the price of ethanol and/or distillers grains to decrease.

According to the Renewable Fuels Association, or RFA, domestic ethanol production capacity has increased from 1.9 billion gallons per year in January 2001 to approximately 7.9 billion gallons per year at January 2008. The RFA estimates that, as of January 2008, approximately 5.5 billion gallons per year of additional production capacity is under construction. The ethanol industry in the U.S. now consists of more than 130 production facilities. Excess capacity in the ethanol industry would have an adverse effect on the results of our ethanol investments. In a manufacturing industry with excess capacity, producers have an incentive to manufacture additional products for so long as the price exceeds the marginal cost of production (i.e., the cost of producing only the next unit, without regard for interest, overhead or fixed costs). This incentive could result in the reduction of the market price of ethanol to a level that is inadequate to generate sufficient cash flow to cover costs.

Excess capacity may also result from decreases in the demand for ethanol, which could result from a number of factors, including, but not limited to, regulatory developments and reduced U.S. gasoline consumption. Reduced gasoline consumption could occur as a result of increased prices for gasoline or crude oil, which could cause businesses and consumers to reduce driving or acquire vehicles with more favorable gasoline mileage or acquire hybrid vehicles. There is some evidence that this has occurred in the recent past as U.S. gasoline prices have increased.

In addition, because ethanol production produces distillers grains as a co-product, increased ethanol production will also lead to increased supplies of distillers grains. An increase in the supply of distillers grains, without corresponding increases in demand, could lead to lower prices or an inability to sell our ethanol plants' distillers grains production. A decline in the price of distillers grains or the distillers grains market generally could have a material adverse effect on the results of our ethanol investments.

Our ethanol plants may be adversely affected by technological advances and efforts to anticipate and employ such technological advances may prove unsuccessful.

The development and implementation of new technologies may result in a significant reduction in the costs of ethanol production. For instance, any technological advances in the efficiency or cost to produce ethanol from inexpensive, cellulosic sources such as wheat, oat or barley straw could have an adverse effect on our ethanol plants, because those facilities are designed to produce ethanol from corn, which is, by comparison, a raw material with other high value uses. We cannot predict when new technologies may become available, the rate of acceptance of new technologies by competitors or the costs associated with new technologies. In addition, advances in the development of alternatives to ethanol could significantly reduce demand for or eliminate the need for ethanol.

Any advances in technology which require significant unanticipated capital expenditures to remain competitive or which reduce demand or prices for ethanol would have a material adverse effect on the results of our ethanol investments.

In addition, alternative fuels, additives and oxygenates are continually under development. Alternative fuel additives that can replace ethanol may be developed, which may decrease the demand for ethanol. It is also possible that technological advances in engine and exhaust system design and performance could reduce the use of oxygenates, which would lower the demand for ethanol, and the results of our ethanol investments may be materially adversely affected.

The U.S. ethanol industry is highly dependent upon a myriad of federal and state legislation and regulation and any changes in legislation or regulation could materially and adversely affect our results of operations and financial position.

The elimination or significant reduction in the blenders' credit could have a material adverse effect on the results of our ethanol investments. The cost of production of ethanol is made significantly more competitive with regular gasoline by federal tax incentives. The federal excise tax incentive program currently allows gasoline distributors who blend ethanol with gasoline to receive a federal excise tax rate reduction for each blended gallon they sell. If the fuel is blended with 10% ethanol, the refiner/marketer pays $0.051 per gallon less tax, which equates to an incentive of $0.51 per gallon of ethanol. The $0.51 per gallon incentive for ethanol is scheduled to be reduced to $0.46 per gallon in 2009 and to expire in 2010. The blenders' credits could be eliminated or reduced at any time through an act of Congress and may not be renewed in 2010 or may be renewed on different terms. In addition, the blenders' credits, as well as other federal and state programs benefiting ethanol (such as tariffs), generally are subject to U.S. government obligations under international trade agreements, including those under the World Trade Organization Agreement on Subsidies and Countervailing Measures, and might be the subject of challenges thereunder, in whole or in part.

Ethanol can be imported into the U.S. duty-free from some countries, which may undermine the ethanol industry in the U.S. Imported ethanol is generally subject to a $0.54 per gallon tariff that was designed to offset the $0.51 per gallon ethanol incentive that is available under the federal excise tax incentive program for refineries that blend ethanol in their fuel. A special exemption from the tariff exists for ethanol imported from 24 countries in Central America and the Caribbean Islands, which is limited to a total of 7% of U.S. production per year. Imports from the exempted countries may increase as a result of new plants under development. Since production costs for ethanol in these countries are estimated to be significantly less than what they are in the U.S., the duty-free import of ethanol through the countries exempted from the tariff may negatively affect the demand for domestic ethanol and the price at which our ethanol plants sell ethanol. Although the $0.54 per gallon tariff has been extended through December 31, 2008, bills were previously introduced in both the U.S. House of Representatives and U.S. Senate to repeal the tariff. We do not know the extent to which the volume of imports would increase or the effect on U.S. prices for ethanol if the tariff is not renewed beyond its current expiration. Any changes in the tariff or exemption from the tariff could have a material adverse effect on the results of our ethanol investments. In addition, the North America Free Trade Agreement, or NAFTA, which entered into force on January 1, 1994, allows Canada and Mexico to export ethanol to the United States duty-free or at a reduced rate. Canada is exempt from duty under the current NAFTA guidelines, while Mexico's duty rate is $0.10 per gallon.

The effect of the renewable fuel standard ("RFS") program in the Energy Independence and Security Act signed into law on December 19, 2007 (the "2007 Act") is uncertain. The mandated minimum level of use of renewable fuels in the RFS under the 2007 Act increased to 9 billion gallons per year in 2008 (from 5.4 billion gallons under the RFS enacted in 2005), further increasing to 36 billion gallons per year in 2022. The 2007 Act also requires the increased use of "advanced" biofuels, which are alternative biofuels produced without using corn starch such as cellulosic ethanol and biomass-based diesel, with 21 billion gallons of the mandated 36 billion gallons of renewable fuel required to come from advanced biofuels by 2022. Required RFS volumes for both general and advanced renewable fuels in years to follow 2022 will be determined by a governmental administrator, in coordination with the U.S. Department of Energy and U.S. Department of Agriculture. Increased competition from other types of biofuels could have a material adverse effect on the results of our ethanol investments.

The RFS program and the 2007 Act also include provisions allowing “credits” to be granted to fuel producers who blend in their fuel more than the required percentage of renewable fuels in a given year. These credits may be used in subsequent years to satisfy RFS production percentage and volume standards and may be traded to other parties. The accumulation of excess credits could further reduce the impact of the RFS mandate schedule and result in a lower ethanol price or could result in greater fluctuations in demand for ethanol from year to year, both of which could have a material adverse effect on the results of our ethanol investments.

Waivers of the RFS minimum levels of renewable fuels included in gasoline could have a material adverse effect on the results of our ethanol investments. Under the RFS as passed as part of the Energy Policy Act of 2005, the U.S. Environmental Protection Agency, in consultation with the Secretary of Agriculture and the Secretary of Energy, may waive the renewable fuels mandate with respect to one or more states if the Administrator of the U.S. Environmental Protection Agency, or EPA, determines upon the petition of one or more states that implementing the requirements would severely harm the economy or the environment of a state, a region or the U.S., or that there is inadequate supply to meet the requirement. In addition, the 2007 Act allows any other person subject to the requirements of the RFS or the EPA Administrator to file a petition for such a waiver. Any waiver of the RFS with respect to one or more states could adversely offset demand for ethanol and could have a material adverse effect on the results of our ethanol investments.

Various studies have criticized the efficiency of ethanol, in general, and corn-based ethanol in particular, which could lead to the reduction or repeal of incentives and tariffs that promote the use and domestic production of ethanol or otherwise negatively impact public perception and acceptance of ethanol as an alternative fuel.

Although many trade groups, academics and governmental agencies have supported ethanol as a fuel additive that promotes a cleaner environment, others have criticized ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and as potentially depleting water resources. Other studies have suggested that corn-based ethanol is less efficient than ethanol produced from switchgrass or wheat grain and that it negatively impacts consumers by causing prices for dairy, meat and other foodstuffs from livestock that consume corn to increase. If these views gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol could decline, leading to reduction or repeal of these measures. These views could also negatively impact public perception of the ethanol industry and acceptance of ethanol as an alternative fuel.

Changes in interest rates could have a material adverse effect on the results of our ethanol investments.

Levelland Hockley, One Earth and Patriot all have forward interest rate swaps at January 31, 2008. During fiscal year 2007, we recognized an unrealized loss on these swaps of approximately $3.5 million. Further reductions in interest rates could reduce the fair market value of the interest rate swaps, requiring us to record additional expense. Such expense could be material.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The information required by this Item 2 is set forth in Item 1 of this report under “Store Operations—Stores and Store Locations,” “Distribution,” “Real Estate Operations” and “Facilities” and is incorporated herein by reference.

Item 3. Legal Proceedings

We are involved in various legal proceedings incidental to the conduct of our business. We believe that these proceedings will not have a material adverse effect on our financial condition or results of operations.

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

None.

Executive Officers of the Company

Set forth below is certain information about each of our executive officers.

Name	Age	Position
Stuart Rose	53	Chairman of the Board and Chief Executive Officer*
David Bearden	57	President and Chief Operating Officer
Douglas Bruggeman	47	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	58	Secretary*
David Fuchs	54	Vice President-Management Information Systems
Keith Magby	49	Vice President-Operations
Zafar Rizvi	58	Vice President, and President of Farmers Energy Incorporated

* Also serves as a director.

Stuart Rose has been our Chairman of the Board and Chief Executive Officer since our incorporation in 1984 as a holding company to succeed to the ownership of Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc. and Stereo Town, Inc. Prior to 1984, Mr. Rose was Chairman of the Board and Chief Executive Officer of Rex Radio and Television, Inc., which he founded in 1980 to acquire the stock of a corporation which operated four retail stores.

David Bearden has been our President and Chief Operating Officer since 2005. Mr. Bearden joined us from Panasonic Company where he held several senior management positions over 24 years, most recently as Group President of Panasonic’s Consumer Electronics Sales Group.

Douglas Bruggeman has been our Vice President – Finance and Treasurer since 1989 and was elected Chief Financial Officer in 2003. From 1987 to 1989, Mr. Bruggeman was our Manager of Corporate Accounting. Mr. Bruggeman was employed with the accounting firm of Ernst & Young prior to joining us in 1986.

Edward Kress has been our Secretary since 1984 and a director since 1985. Mr. Kress has been a partner of the law firm of Chernesky, Heyman & Kress P.L.L., our legal counsel, since 1988. Mr. Kress has practiced law in Dayton, Ohio since 1974.

David Fuchs has been our Vice President – Management Information Systems since 1989. From 1985 to 1989, Mr. Fuchs was our Manager of Management Information Systems.

Keith Magby has been our Vice President – Operations since 1991. From 1982 to 1991, Mr. Magby was employed in the consumer electronics/appliance retailing industry in a variety of management positions.

Zafar Rizvi has been our Vice President, and President of Farmers Energy Incorporated, our alternative energy investment subsidiary, since 2006. From 1991 to 2006, Mr. Rizvi was our Vice President – Loss Prevention. From 1986 to 1991, Mr. Rizvi was employed in the video retailing industry in a variety of management positions.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

SHAREHOLDER INFORMATION

Common Share Information and Quarterly Share Prices

Our common stock is traded on the New York Stock Exchange under the symbol RSC.

Fiscal Quarter ended	High	Low
April 30, 2006	$ 19.95	$ 14.15
July 31, 2006	20.23	13.17
October 31, 2006	17.14	13.38
January 31, 2007	18.49	15.68
April 30, 2007	$ 18.15	$ 14.62
July 31, 2007	21.52	15.66
October 31, 2007	22.68	15.88
January 31, 2008	19.00	14.62

As of April 11, 2008, there were 144 holders of record of our common stock, including shares held in nominee or street name by brokers.

Dividend Policy

Under our revolving credit agreement, we are permitted to pay dividends only if the bank determines that we have and will maintain at least $25 million of excess borrowing availability for the 12 months immediately preceding and following the dividend payment. We did not pay dividends in the current or prior years.

Issuer Purchases of Equity Securities

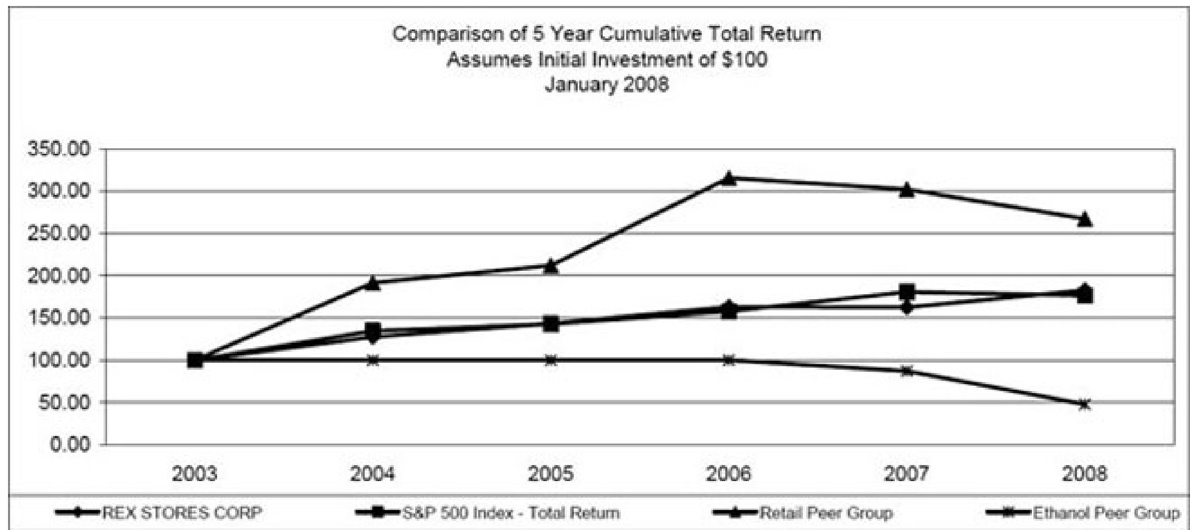
Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
November 1-30, 2007	86,200	$ 17.18	86,200	231,400
December 1-31, 2007	15,800	$ 14.95	15,800	215,600
January 1-31, 2008	186,919	$ 18.50	—	215,600
Total	288,919	$ 17.91	102,000	215,600

(1) A total of 186,919 shares of common stock were purchased by us other than through a publicly announced plan or program. These shares were acquired on January 29, 2008 in payment of the exercise price of stock options exercised by Stuart A. Rose, our Chairman and Chief Executive Officer pursuant to the Company's Stock-for-Stock and Cashless Option Exercise Rules and Procedures, adopted on June 4, 2001. The purchase price was $18.50 per share.

(2) On May 31, 2007, our Board of Directors increased our share repurchase authorization up to 1,000,000 shares. At January 31, 2008, a total of 215,600 shares remained available to purchase under this authorization.

Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return on our Common Stock against the cumulative total return of the S&P 500 Stock Index and two peer groups comprised of selected publicly traded consumer electronics retailers and ethanol producers (*) for the period commencing January 31, 2003 and ended January 31, 2008. The graph assumes an investment of $100 in our Common Stock and each index on January 31, 2003 and reinvestment of all dividends.



* The retail peer group is comprised of Best Buy Co., Inc., Circuit City Stores, Inc. and Conn's, Inc. In prior years, the retail peer group included Tweeter Home Entertainment Group, Inc. Tweeter filed for Chapter 11 reorganization in June 2007 and has been removed from the retail peer group.

* The ethanol peer group (and the date the companies went public) is comprised of Pacific Ethanol, Inc. (March 2005), Aventine Renewable Energy Holdings, Inc. (June 2006), VeraSun Energy Corporation (June 2006) and BioFuel Energy Corp. (June 2007). Returns for the ethanol peer group are included upon a full year's return being available as of January 31.

Item 6. Selected Financial Data

The following statements of operations and balance sheet data have been derived from our consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related Notes. Prior period amounts applicable to the statement of operations have been adjusted to recognize the reclassification of the results of certain stores to discontinued operations as a result of store closings or real estate sales and certain other reclassifications. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of income from synthetic fuel, ethanol

investments, gain on sale of real estate and long-term debt. These items have fluctuated significantly in recent years and may affect comparability of years.

Five Year Financial Summary

(In Thousands, Except Per Share Amounts)	Years Ended January 31,				
	2008	2007	2006	2005	2004
Net sales and revenue (a)	$ 223,975	$ 235,701	$ 244,831	$ 232,930	$ 239,227
Income from continuing operations (a)	$ 25,924	$ 10,043	$ 27,258	$ 26,835	$ 26,693
Net income	$ 33,867	$ 11,351	$ 28,269	$ 27,549	$ 27,440
Basic income per share from continuing operations (a)	$ 2.49	$ 0.97	$ 2.55	$ 2.42	$ 2.46
Diluted income per share from continuing operations (a)	$ 2.21	$ 0.87	$ 2.23	$ 2.11	$ 2.11
Basic net income per share	$ 3.25	$ 1.10	$ 2.64	$ 2.49	$ 2.53
Diluted net income per share	$ 2.89	$ 0.98	$ 2.31	$ 2.17	$ 2.17
Total assets (a)	$ 408,978	$ 345,442	$ 304,535	$ 319,182	$ 322,368
Long-term debt, net of current maturities	$ 35,224	$ 31,236	$ 21,462	$ 30,501	$ 53,548
Long term deferred gain on sale and leaseback	$ 4,493	$ 504	$ —	$ —	$ —
Derivative financial instrument liability	$ 2,601	$ —	$ —	$ —	$ —

a) Amounts differ from those previously reported as a result of certain stores being reclassified into discontinued operations and certain other reclassifications. See Note 15 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations.

Quarterly Financial Data (Unaudited)

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2007	July 31, 2007	October 31, 2007	January 31, 2008
Net sales and revenue (a)	$ 48,888	$ 48,247	$ 55,416	$ 71,424
Gross profit (a)	15,481	15,316	15,696	19,462
Net income	7,534	5,810	14,666	5,857
Basic net income per share (b)	$ 0.72	$ 0.55	$ 1.41	$ 0.58
Diluted net income per share	$ 0.64	$ 0.48	$ 1.25	$ 0.52

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2006	July 31, 2006	October 31, 2006	January 31, 2007
Net sales and revenue (a)	$ 54,871	$ 53,253	$ 56,221	$ 71,356
Gross profit (a)	15,735	15,129	15,366	19,077
Net income	1,489	1,497	4,815	3,550
Basic net income per share (b)	$ 0.15	$ 0.15	$ 0.47	$ 0.34
Diluted net income per share	$ 0.13	$ 0.13	$ 0.42	$ 0.30

a) Amounts differ from those previously reported as a result of certain stores being reclassified into discontinued operations and certain other reclassifications. See Note 15 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations.

b) The total of the quarterly net income per share amounts is greater than the annual net income per share amount due to rounding.

Item7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a specialty retailer in the consumer electronics and appliance industry, presently serving over 100 small to medium-sized towns and communities, and an investor in various alternative energy companies. We are leveraging our experience from our investments in synthetic fuel partnerships into the ethanol (alternative energy) industry. We closed 78 retail stores during fiscal year 2007 and invested $60.8 million in ethanol entities as we continue to seek diversified revenue and earnings sources. During fiscal year 2008, we anticipate additional retail store closings as we seek to close unprofitable or marginally profitable retail stores, although we have not established a targeted number of stores. We do not anticipate opening additional retail stores. We have historically owned a majority of our retail stores and we monetized a portion of our real estate investment by selling approximately 60% of our owned retail and vacant stores in fiscal year 2007. We have no definitive plans, beyond our existing commitments, but will continue to consider additional investments in the alternative energy segment. We do not intend to invest or otherwise deploy significant amounts of capital into the retail segment for additional stores. While we have no established timeframe to divest our retail stores, our strategy will be to close unprofitable or marginally profitable stores upon the expiration of the retail store's lease or upon taking opportunities to market company owned real estate for sale or lease. In addition, we intend to consider and evaluate strategic alternatives for our businesses, including opportunities to monetize our real estate portfolio.

Retail

We are a specialty retailer in the consumer electronics/appliance industry. As of January 31, 2008, we operated 115 stores in 34 states under the “REX” trade name. By offering a broad selection of brand name products at guaranteed low prices, we believe we have become a leading consumer electronics/appliance retailer in our markets.

Our comparable store sales decreased 6.7% for fiscal year 2007, decreased 5.0% for fiscal year 2006, and increased 5.0% for fiscal year 2005. We believe our comparable store sales have recently been negatively affected by increased competition and rapid change in television technology, resulting in the loss of CRT and projection television sales. We consider a store to be comparable after it has been open six full fiscal quarters. Comparable store sales comparisons do not include sales of extended service contracts or sales from stores classified in discontinued operations.

In recent years, we have continued to experience declines in our audio and video product groups of our retail business. These two product groups are subject to high levels of competition and have become a commodity business. We believe the market for flat screen televisions will remain strong during fiscal year 2008 as more consumers transition to digital technology. Although we are seeing gains in flat screen television units sold, the average selling price of televisions continues to decline. We believe the market for large projection televisions will continue to decline, as there is a limited availability of such product. We expect sales of our audio products to decline as customers have opted for portable audio products that we do not sell. We expect sales of appliances to be consistent with recent sales and the demand for appliance products to remain stable in the markets we serve.

Our extended service contract revenues and sales commissions are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers’ warranty periods. Terms of coverage, including the manufacturers’ warranty periods, are usually for periods of 12 to 60 months. Extended service contract revenues represented 6.1% of net sales and revenue for fiscal year 2007, 5.2% of net sales and revenue for fiscal year 2006 and 4.8% of net sales and revenue for fiscal year 2005. Service contract repair costs are charged to operations as incurred.

Investments in Alternative Energy

In fiscal year 2006, we entered the alternative energy industry by investing in several entities organized to construct and, subsequently operate, ethanol producing plants. As we continue to seek to diversify sources of revenue and earnings we have invested in five entities, four of which we remain invested in as of January 31, 2008 utilizing both debt and equity investments. We sold our investment in Millennium Ethanol, LLC during fiscal year 2007.

Through January 31, 2008, we have invested approximately $103.3 million in the four ethanol entities. We had a contingent commitment to invest $2.1 million in Levelland Hockley during fiscal year 2008 and actually funded $5.0 million through a convertible promissory note on February 20, 2008. We have no definitive plans, beyond our existing commitments, but will continue to consider additional investments in the alternative energy segment.

The following table is a summary of our ethanol investments (amounts in thousands, except ownership percentages):

Entity	Initial Equity Investment	Ownership Percentage	Debt Investment	Contingent Commitment
Levelland Hockley County Ethanol, LLC	$ 16,500	56%	$ 308	$ 2,100
Big River Resources, LLC	20,000	10%	—	—
Patriot Renewable Fuels, LLC	16,000	23%	—	—
One Earth Energy, LLC	50,765	74%	—	—
Total	$ 103,265		$ 308	$ 2,100

Annual ethanol production of Levelland Hockley is expected to be approximately 40 million gallons, while annual ethanol production of Patriot and One Earth are expected to be approximately 100 million gallons each. We expect the construction cost of the plants and initial working capital requirements to be approximately $1.70 to $2.00 per gallon of expected annual ethanol production. We expect the plants to finance approximately 60% of the plant construction cost. Once the plants are operational, we will begin to recognize interest expense on this debt. We expect a majority, if not all, of the interest incurred while the plants are being constructed to be capitalized.

Big River Resources recently expanded its 52 million gallon dry-mill ethanol manufacturing facility to a 92 million gallon dry-mill facility in fiscal year 2007. Big River has begun construction of its second plant which has a design capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant will be located in Galva, Illinois and construction of the plant is expected to be completed by August of 2009.

We expect the Levelland Hockley, Patriot and One Earth facilities to be operational by May 2008, September 2008 and July 2009, respectively. Each plant has hired a commodities marketing company to assist in managing risks in the ethanol industry. Income from our ethanol facilities, once operational, is highly dependent on the price of corn or sorghum, the price of natural gas and the selling price of ethanol. These items are commodities subject to rapid price changes. For much of fiscal year 2006, the spread between ethanol and corn prices were at historically high levels, driven in large part by high oil prices and historically low corn prices resulting from continuing record corn yields and acreage. For the majority of 2007, the price of ethanol declined and the cost of corn rose sharply, however, ethanol prices did increase during the fourth quarter. On December 31, 2007, the Chicago spot price per gallon of ethanol was $2.36, whereas on December 29, 2006, the Chicago spot price per gallon of ethanol was $2.45. Over the same period, corn prices (based on CBOT daily futures data) rose to $4.55 per bushel on December 31, 2007, from $3.90 per bushel on December 29, 2006. The spread between the price of a gallon of ethanol and the cost of the corn required to produce a gallon of ethanol will likely continue to fluctuate. We expect that all of our ethanol plants will generate approximately 2.8 gallons of ethanol per bushel of grain used. We estimate that natural gas consumption will be 0.03 million British Thermal Units per gallon of ethanol produced. We anticipate using a combination of hedges and energy specialists to assist us with our natural gas purchasing.

Investment in Synthetic Fuel Partnerships

Income from synthetic fuel investments declined approximately $3.8 million as a result of a partial phase out of Section 29/45K tax credits and the halting of production at Colona. Credits under Section 29/45K are only available for qualified fuels sold before January 1, 2008. In fiscal year 1998, we invested in two limited partnerships which owned four facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based on the tonnage and content of solid

synthetic fuel produced and sold to unrelated parties. Our share of the credits generated may be used to reduce our federal income tax liability down to the alternative minimum tax (AMT) rate. The tax credits begin to phase out if the reference price of a barrel of oil exceeds certain levels adjusted annually for inflation. The 2007 phase-out started at $56.77 per barrel and based upon the price of oil to date, we estimated the phase out for calendar 2007 to be approximately 70%. We do not expect to receive income from our Colona and Somerset synthetic fuel investments for production beyond fiscal year 2007, as the Section 29/45K tax credit program expired on December 31, 2007. However, we may realize income from our Gillette synthetic fuel investment as payments for production subsequent to September 30, 2006 through December 31, 2007 are expected to be made after January 31, 2008. We expect any such payments to be made within the next four years. We have not recognized this income and will recognize income upon receipt of payments or upon our ability to reasonably assure ourselves of the timing and collectibility of the payments.

See Notes 4 and 16 of the Notes to the Consolidated Financial Statements for further discussion.

We initially held a 30% interest in Colona Synfuel Limited Partnership, L.L.L.P. (Colona) and an 18.75% interest in Somerset Synfuel, L.P. (Somerset). We sold our ownership in the Colona and Somerset partnerships as described below.

Effective February 1, 1999, we sold 13% of our interest in the Colona partnership, reducing our ownership percentage from 30% to 17%. Payments are contingent upon and equal to 75% of the federal income tax credits attributable to the 13% interest sold and are subject to certain annual limitations. Effective July 31, 2000, we sold an additional portion of our interest in the Colona partnership, reducing our ownership percentage from 17% to 8%. Effective May 31, 2001, we sold our remaining 8% ownership in the Colona partnership. For the 2000 and 2001 sales, payments are contingent upon and equal to the greater of 82.5% of the federal income tax credits attributable to the interest sold subject to annual limitations or 74.25% of the federal income tax credits amounts attributable to the interest sold with no annual limitations. Because the purchase price for the Colona sales is based on the value of Section 29/45K tax credits generated, they are subject to production levels and to possible reduction or elimination to the extent the credit is limited.

Effective October 1, 2005, we sold our entire ownership interest in the Somerset partnership. We received $1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. We received payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold. Because the purchase price is based on the value of Section 29/45K tax credits generated, it is subject to production levels and to possible reduction or elimination to the extent the credit is limited.

On September 5, 2002, we purchased a plant located in Gillette, Wyoming designed and constructed for the production of synthetic fuel, which qualified for tax credits under Section 29/45K of the Internal Revenue Code. We obtained a Private Letter Ruling from the Internal Revenue Service, which allowed for the disassembly, and reconstruction, of the facility. On March 30, 2004, we sold our membership interest in the limited liability company that owned the Gillette facility to an outside party. We received $2,750,000 at the time of sale, resulting in pre-tax income of approximately $468,000 along with a secured contingent payment note that could provide additional investment income. The facility resumed commercial operations during the second quarter of fiscal year 2005; as such, we received $3.5 million as a one-time payment per the terms of the purchase agreement. In addition, we were eligible to receive $1.50 per ton of “qualified production” produced by the facility. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. The modified agreement calls for us to receive payments related to production occurring after September 30, 2006, only after the related Section 29/45K tax credits are allowed under IRS audit, or the applicable statute of limitations for an IRS audit have expired. We cannot reasonably assure ourselves of collectibility of these payments, thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. Our proceeds from production occurring subsequent to September 30,

2006 are subject to possible reduction based upon the price of oil and to the extent future production decreases. At January 31, 2008, we estimate that there is approximately 6.0 million tons of production (occurring after September 30, 2006) for which we did not recognize income nor receive payment. We estimate this could result in approximately $2.3 million of future income and cash receipts after the effects of phase-out.

Tax credits generated from the Somerset partnership were applied to reduce tax expense in the amounts of approximately $0.2 million and $6.4 million in fiscal years 2006 and 2005, respectively.

See Item 1A Risk Factors for further discussion of the risks involved with our synthetic fuel investments.

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 and revenue:

	Years Ended January 31,		
	2008	2007	2006
Net sales and revenue	100.0%	100.0%	100.0%
Cost of sales	(70.6)	(72.3)	(71.0)
Gross profit	29.4	27.7	29.0
Selling, general and administrative expenses	(27.4)	(27.4)	(27.2)
Interest income	2.6	1.0	0.1
Interest expense	(0.1)	(0.5)	(0.6)
Loss on early termination of debt	(0.3)	—	—
Gain on sale of real estate	0.2	0.7	0.1
Equity in income of unconsolidated ethanol affiliates	0.7	0.2	—
Realized investment gains	10.7	—	—
Income from synthetic fuel investments	3.1	4.6	12.4
Unrealized loss on derivative financial instruments	(1.2)	—	—
Income from continuing operations before taxes and minority interest	17.7	6.3	13.8
Provision for income taxes	(6.6)	(2.1)	(2.7)
Minority interest in loss of consolidated subsidiaries	0.4	—	—
Income from continuing operations	11.5	4.2	11.1
(Loss) income from discontinued operations, net of tax	(1.0)	—	0.3
Gain on disposal of discontinued operations, net of tax	4.6	0.6	0.1
Net income	15.1%	4.8%	11.5%

Business Segment Results

As discussed in Note 17 of the Notes to the Consolidated Financial Statements our chief operating decision maker (as defined by SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”) is our chief executive officer, who evaluates the operating performance of our business segments using a

measure we call segment profit. Segment profit excludes income taxes, interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America. Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

Items excluded from segment profit generally result from decisions made by corporate executives. Financing, divestiture and tax structure decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables the chief operating decision maker to evaluate business segment operating performance based upon current economic conditions.

The following table sets forth, for the periods indicated, sales and profits by segments for the periods indicated (amounts in thousands):

	Years Ended January 31,		
	2008	2007	2006
Net sales and revenues:			
Retail	$ 223,975	$ 235,701	$ 244,831
Alternative energy	—	—	—
Total net sales and revenues	$ 223,975	$ 235,701	$ 244,831
Segment profit:			
Retail segment profit	$ 9,795	$ 5,801	$ 8,562
Alternative energy segment profit	22,404	168	—
Corporate expenses	(2,077)	(2,138)	(3,896)
Interest expense	(869)	(1,121)	(1,605)
Interest income	3,575	1,521	308
Income from synthetic fuel investments	6,945	10,764	30,515
Income from continuing operations before income taxes and minority interest	$ 39,773	$ 14,995	$ 33,884

Comparison of Fiscal Years Ended January 31, 2008 and 2007

Net Sales and Revenue – All of our net sales and revenue was generated by our retail segment, as the ethanol entities we consolidate did not have an operating plant in fiscal year 2007. Net sales and revenue in fiscal year 2007 were $224.0 million, a 5.0% decrease from $235.7 million in fiscal year 2006. This decrease was due to a decrease in comparable store sales of 6.7% for fiscal year 2007. This decrease was partially offset by revenue from extended service contracts which was $13.7 million in fiscal year 2007 compared to $12.4 million in fiscal year 2006. The increase in revenue from extended service contracts primarily results from higher accretion of revenue from extended service contracts sold in previous years when our merchandise sales levels were higher. We consider a store to be comparable after it has been open six full fiscal quarters. Comparable store sales comparisons do not include sales of extended service contracts. We closed 78 stores (67 of which were classified as discontinued operations for all periods presented) during fiscal year 2007 and 25 stores during fiscal year 2006. We did not open any new stores in fiscal years 2007 and 2006. We had 115 stores open at January 31, 2008 compared to 193 stores at January 31, 2007.

The television category negatively impacted comparable store sales by 3.1%. This resulted from gains in LCD television sales being more than offset by declines in plasma, light engine and traditional tube televisions. The audio category negatively impacted comparable store sales by 3.0%. The audio category decline is consistent with industry trends away from traditional audio products to portable digital media which we do not sell. The video category negatively impacted comparable store sales by 1.6%. The video category has generally been impacted by lower price points, as many of these products continue to become more of a commodity item with very high levels of competition. The appliance category positively impacted comparable store sales by 1.0%. The appliance category performance was primarily due to an increased promotional effort and an increase in the breadth of products offered.

The following table reflects the approximate percent of net sales and revenue for each product group for the periods presented:

	Fiscal Year		
Product Category	**2007**	**2006**	**2005**
Televisions	56%	55%	56%
Appliances	28	26	22
Audio	4	7	9
Video	3	4	6
Extended warranties	6	5	5
Other	3	3	2
Total	100%	100%	100%

Lease income was approximately $0.5 million in fiscal year 2007, consistent with $0.6 million in fiscal year 2006.

Gross Profit – Gross profit was $66.0 million in fiscal year 2007, or 29.4% of net sales and revenue, versus $65.3 million for fiscal year 2006 or 27.7% of net sales and revenue. Merchandise gross profit in fiscal year 2007 was $54.4 million (25.9% of merchandise sales) compared to $55.2 million (24.8% of merchandise sales) in fiscal year 2006. Lower merchandise sales in fiscal year 2007 were the primary cause of the gross profit dollar decline. In addition, extended service contracts contributed gross profit of $11.0 million in fiscal year 2007 compared to $9.5 million in fiscal year 2006, reflecting higher accretion of revenue from extended service contracts sold in previous years. Our direct warranty repair costs were approximately 19% and 23% of extended service contract revenue in fiscal years 2007 and 2006, respectively.

Selling, General and Administrative Expenses – Selling, general and administrative expenses for fiscal year 2007 were $61.3 million, or 27.4% of net sales and revenue, a $3.3 million decrease from $64.6 million, or 27.4% of net sales and revenue, for fiscal year 2006. The decrease in expenditures was primarily due to lower advertising expenses of $2.3 million as we had fewer markets to serve after our store closings and we continued to emphasize cost control. In addition, we incurred lower payroll expenses of $1.3 million primarily reflecting lower store personnel payroll costs for fiscal year 2007.

Interest Income – Interest income increased to $5.7 million, or 2.6% of net sales and revenue, for fiscal year 2007 from $2.4 million, or 1.0% of net sales and revenue for fiscal year 2006. Approximately $2.4 million of the increase results from more excess cash available for investment in fiscal year 2007 and $1.0 million of interest income from our ethanol investments in Millennium, Levelland Hockley and One Earth.

Interest Expense – Interest expense decreased to $0.2 million, or 0.1% of net sales and revenue, for fiscal year 2007 from $1.1 million, or 0.5% of net sales and revenue, for fiscal year 2006. The decline in interest

expense was primarily caused by capitalizing $1.6 million in interest related to plant construction at Levelland Hockley and One Earth and our equity method investment in Patriot in fiscal year 2007. We capitalized $0.4 million of interest related to our equity investments in ethanol entities in fiscal year 2006.

Loss on Early Termination of Debt – During fiscal year 2007, we completed the early payoff of mortgages for 10 retail locations totaling approximately $7.1 million and modified the collateral securing the revolving line of credit. We incurred a charge of approximately $0.6 million related to this termination of debt.

Gain on Sale of Real Estate – During fiscal year 2007, we completed a sale and leaseback for thirteen properties classified in continuing operations for a net gain of $365,000. During fiscal year 2006, we completed a sale and leaseback for one property classified in continuing operations for a gain of $1,734,000. A portion of the gains was deferred, based upon the present value of the minimum lease payments.

Equity in Income of Unconsolidated Ethanol Affiliates – During fiscal year 2007, we recognized income of $1,601,000 from our equity investments in Big River Resources, LLC and Patriot Renewable Fuels, LLC. Big River Resources, LLC has an operating ethanol facility while Patriot Renewable Fuels, LLC is currently constructing an ethanol facility. Income from Big River was $2,379,000 in fiscal year 2007 while we recorded a loss of $778,000 from Patriot in fiscal year 2007. The loss from Patriot includes a charge of $849,000 representing our share of unrealized losses on derivative financial instruments (an interest rate swap). In fiscal year 2006, we recognized income of $499,000 from our equity investment in Big River Resources, LLC.

Realized Investment Gains – On August 29, 2007, US BioEnergy Corporation (“US BioEnergy”) completed the acquisition of Millennium Ethanol, LLC (“Millennium”). In connection with the acquisition, we received 3,693,858 shares of US BioEnergy common stock and approximately $4.8 million of cash as total consideration for our interest in Millennium based upon the conversion of our $14 million convertible secured promissory note, accrued interest and related purchase rights. We sold all of the US BioEnergy common stock during fiscal year 2007 and recorded a gain of $24.0 million related to the sale of our Millennium investment and subsequent holdings of US BioEnergy common stock and cash proceeds received from US BioEnergy.

Income from Synthetic Fuel Investments – Results for fiscal years 2007 and 2006 reflect the impact of our equity investment in two limited partnerships, Colona Synfuel Limited Partnership L.L.L.P. (“Colona”) and Somerset Synfuel, L.P. (“Somerset”), which produced synthetic fuels. We recognized income from the three separate sales of our interests in Colona ranging from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold subject to certain annual limitations and production levels. We recognized income from the sale of our interest in Somerset equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels. The Section 29/45K tax credit program expired on December 31, 2007. We do not anticipate income or loss from the Colona or Somerset sales to be significant beyond fiscal year 2007.

Income from synthetic fuel investments for fiscal year 2006 also includes income related to our sale of our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We are eligible to receive $1.50 per ton of “qualified production” (subject to phase out) produced by the facility and sold through 2007. During the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. At January 31, 2008, we estimate that there is approximately 6.0 million tons of production for which we did not recognize income nor receive payment. We estimate this could result in approximately $2.3 million (net of phase out) of future income and cash receipts.

Below is a table (amounts in thousands) summarizing the income from the sales, net of certain expenses, of our interests in synthetic fuel entities.

	Years Ended January 31,	
	2008	2007
February 1, 1999 Colona sale	$ 1,673	$ 1,928
July 31, 2000 Colona sale	1,335	1,805
May 31, 2001 Colona sale	1,186	1,604
March 30, 2004 Gillette sale	—	1,058
October 1, 2005 Somerset sale	2,751	4,369
Total	$ 6,945	$ 10,764

Unrealized Loss on Derivative Financial Instruments – We recognized an unrealized loss of $2.6 million related to forward starting interest rate swaps that Levelland Hockley and One Earth entered into during fiscal year 2007 due to interest rate changes. Levelland Hockley's unrealized loss was $0.9 million and One Earth's unrealized loss was $1.7 million.

Income Taxes – Our effective tax rate was 36.9% and 33.0% for fiscal years 2007 and 2006, respectively, after reflecting our share of federal tax credits earned by the Somerset limited partnership for fiscal year 2006. Our effective tax rate increased, as we no longer receive federal tax credits for synthetic fuel produced subsequent to September 30, 2005. We recognized $0.2 million of tax credits in fiscal year 2006 based upon final published IRS rates for 2005. State tax expense, net of federal tax benefit, increased during fiscal year 2007 as a result of income from our sale and leaseback transaction and ethanol activities generating state taxable income that exceeded available net operating losses in certain states.

Minority Interest – Minority interest of $841,000 represents the owners' (other than us) share of the loss of Levelland Hockley County Ethanol, LLC and One Earth Energy, LLC. Minority interest of Levelland Hockley and One Earth Energy was $454,000 and $387,000, respectively.

Income from Continuing Operations – As a result of the foregoing, income from continuing operations was $25.9 million for fiscal year 2007 versus $10.0 million for fiscal year 2006.

Discontinued Operations **–** During fiscal year 2007, we closed 67 stores that were classified as discontinued operations. In addition, we closed four stores subsequent to January 31, 2008 that are also classified as discontinued operations. As a result of these underperforming stores, we had a loss from discontinued operations, net of tax benefit, of $2.3 million in fiscal year 2007 compared to $0.1 million in fiscal year 2006. We sold 70 store locations classified as discontinued operations in fiscal year 2007 compared to selling seven properties in fiscal year 2006. As a result, we had a gain from disposal of discontinued operations, net of a tax provision, of $10.2 million in fiscal year 2007 compared to $1.4 million in fiscal year 2006.

Net Income – As a result of the foregoing, net income was $33.9 million for fiscal year 2007 versus $11.4 million for fiscal year 2006.

In addition to the information discussed above, the following sections discuss the results of operations for each of our business segments and corporate and other. As discussed in Note 17, our chief operating decision maker (as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information") evaluates the operating performance of our business segments using a measure we call segment profit. Segment profit excludes income taxes, interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting

principles generally accepted in the United States of America. Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

Items excluded from segment profit generally result from decisions made by corporate executives. Financing, divestiture and tax structure decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables us to evaluate business segment operating performance based upon current economic conditions. Amounts in the other category below include business activities that are not separately reportable and income from synthetic fuel investments (amounts in thousands):

	Years Ended January 31,		
	2008	2007	2006
Net sales and revenues:			
Retail	$ 223,975	$ 235,701	$ 244,831
Alternative energy	—	—	—
Total net sales and revenues	$ 223,975	$ 235,701	$ 244,831
Segment profit:			
Retail segment profit	$ 9,795	$ 5,801	$ 8,562
Alternative energy segment profit	22,404	168	—
Corporate expenses	(2,077)	(2,138)	(3,896)
Interest expense	(869)	(1,121)	(1,605)
Interest income	3,575	1,521	308
Income from synthetic fuel investments	6,945	10,764	30,515
Income from continuing operations before income taxes	$ 39,773	$ 14,995	$ 33,884

Retail

The retail segment includes all of our store and distribution center operations, our real estate sales and leasing activities and certain administrative expenses. It excludes results from discontinued operations.

The net sales and revenue are discussed under ***Net Sales and Revenue***—Comparison of Fiscal Years Ended January 31, 2008 and 2007.

Segment profit increased $4.0 million (69.0%) to $9.8 million in fiscal year 2007 from $5.8 million in fiscal year 2006. The increase in segment profit was primarily related to lower selling, general and administrative expenses of $4.7 million. Payroll expenditures declined $3.6 million from fiscal year 2006 as we utilized a sales commission program during fiscal year 2007 that emphasized cost control. Furthermore, we utilized a higher incentive program for our sales force during fiscal year 2006 designed to reduce selected inventory items. Gross profit increased $0.6 million in fiscal year 2007, primarily the result of extended service contracts as higher amounts of revenue were recognized primarily related to extended service contracts sold in prior years.

Alternative Energy

The alternative energy segment includes the consolidated financial statements of Levelland Hockley County Ethanol, LLC and One Earth Energy, LLC, our other investments in ethanol facilities, the income related to those investments and certain administrative expenses. No sales or revenue is attributable to this segment as

Levelland Hockley and One Earth are development stage enterprises and income related to equity method investments is not reported as sales or revenue.

Segment profit increased $22.2 million to $22.4 million in fiscal year 2007 from $0.2 million in fiscal year 2006. Realized investment gains increased to $24.0 million in fiscal year 2007, as a result of the acquisition of our interest in Millennium Ethanol, LLC by US BioEnergy Corporation, while equity in unconsolidated affiliates increased $1.1 million to $1.6 million in fiscal year 2007. Income from Big River Resources, LLC was $2.4 million in fiscal year 2007 while we recorded a loss of $0.8 million from Patriot Renewable Fuels, LLC in fiscal year 2007. The loss from Patriot Renewable Fuels, LLC includes a charge of $0.8 million representing our share of unrealized losses on derivative financial instruments. In fiscal year 2006, we recognized income of $0.5 million from our equity investment in Big River Resources, LLC. Interest income increased to $2.1 million in fiscal year 2007 from $0.9 million in fiscal year 2006. Interest income from our debt investment in Millennium Ethanol, LLC accounted for a majority of the increase in interest income. Selling, general and administrative expenses were $2.7 million in fiscal year 2007, an increase of $1.6 million from fiscal year 2006. Allocated compensation expense accounted for $1.3 million of this increase, primarily reflecting higher executive incentive compensation related to alternative energy.

We recognized an unrealized loss of $2.6 million related to forward interest rate swaps that Levelland Hockley and One Earth entered into during fiscal year 2007 due to interest rate changes. Levelland Hockley's unrealized loss was $0.9 million and One Earth's unrealized loss was $1.7 million.

Corporate and Other

Corporate and other includes certain administrative expenses of the corporate headquarters, interest expense and interest income not directly allocated to the retail or alternative energy segments and income from synthetic fuel investments.

Income from synthetic fuel investments declined to $6.9 million in fiscal year 2007 from $10.8 million in fiscal year 2006 as the impact of the phase out of Section 29/45K credits was estimated to be 70% in calendar year 2007 compared to an estimate of 40% in calendar year 2006 and production at the Colona facility was halted in fiscal year 2007. As the Section 29/45K tax credit program expired on December 31, 2007, we do not anticipate income or loss from the Colona or Somerset sales to be significant beyond fiscal year 2007. During the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the Gillette synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. At January 31, 2008, we estimate that there is approximately 6.0 million tons of production for which we did not recognize income nor receive payment. We estimate this could result in approximately $2.3 million (net of phase out) of future income and cash receipts.

Selling, general and administrative expenses were $2.1 million in fiscal year 2007, consistent with fiscal year 2006. Unallocated interest income was $3.6 million in fiscal year 2007, compared to $1.5 million in fiscal year 2006. The increase resulted from having more excess cash available for investment in fiscal year 2007.

Comparison of Fiscal Years Ended January 31, 2007 and 2006

Net Sales and Revenue – All of our net sales and revenue was generated by our retail segment, as the only ethanol entity we consolidate did not have an operating plant in fiscal year 2006. Net sales and revenue in fiscal year 2006 were $235.7 million, a 3.7% decrease from $244.8 million in fiscal year 2005. This decrease was primarily a result of a decrease in comparable store sales of 5.0% for fiscal year 2006. This decrease was partially offset by revenue from extended service contracts which was $12.4 million in fiscal year 2006 compared to $11.8 million in fiscal year 2005. The increase in revenue from extended service contracts results from higher accretion of revenue from extended service contracts sold in previous years. We consider

a store to be comparable after it has been open six full fiscal quarters. Comparable store sales results do not include sales of extended service contracts. We closed 25 stores (22 of which were classified as discontinued operations) during fiscal year 2006 and 16 stores during fiscal year 2005. We did not open any new stores in fiscal years 2006 and 2005. We had 193 stores open at January 31, 2007 compared to 218 stores at January 31, 2006.

The appliance category was our strongest product category for fiscal year 2006, positively impacting comparable store sales by 3.5%. The appliance category performance was primarily due to improved sales across most of the appliance category products as we continue to emphasize a broader selection of appliance products. The television category negatively impacted comparable store sales by 4.0%. This resulted from gains in LCD and plasma television sales being offset by declines in high definition projection, light engine and traditional tube televisions. The audio and video categories negatively impacted comparable store sales by 2.2% and 1.8%, respectively. Both the audio and video categories have been impacted by lower price points of their respective products as these products have become more of a commodity item with very high levels of competition.

Revenue from extended service contracts in fiscal year 2006 was approximately $12.4 million, a 5.0% increase from $11.8 million in fiscal year 2005.

Lease income was approximately $588,000, a 7.7% increase from $546,000 in fiscal year 2005. The increase results primarily from more properties being leased during fiscal year 2006.

Gross Profit – Gross profit was approximately $65.3 million in fiscal year 2006, or 27.7% of net sales and revenue, versus approximately $71.1 million for fiscal year 2005 or 29.0% of net sales and revenue. Gross profit margin for fiscal year 2006 was negatively impacted by a change in product mix, a competitive market environment and a focused effort to sell slow moving or aged inventory at a discount. In addition, extended service contracts contributed gross profit of $9.5 million in fiscal year 2006, compared to $9.2 million in fiscal year 2005, generally reflecting the income recognition of extended service contracts sold in prior years. Our direct warranty repair costs were approximately 23% and 22% of extended service contract revenue in fiscal years 2006 and 2005, respectively.

Selling, General and Administrative Expenses – Selling, general and administrative expenses for fiscal year 2006 were approximately $64.6 million, or 27.4% of net sales and revenue, a 3.1% decrease from approximately $66.7 million, or 27.2% of net sales and revenue, for fiscal year 2005. The decrease in expenditures was primarily due to an impairment charge of $1.2 million related to company owned real estate incurred in fiscal year 2005. In addition, we had lower advertising expenses for fiscal year 2006 of $0.8 million as we had fewer markets to serve after our store closings and an emphasis on cost control. During fiscal year 2006, we also experienced lower accruals for executive incentive compensation of $1.2 million associated with lower profitability levels. These decreases in expenses were partially offset as we recognized stock based compensation expense in fiscal year 2006 of $1.7 million.

Interest Income – Interest income increased to approximately $2,374,000 or 1.0% of net sales and revenue, for fiscal year 2006 from approximately $308,000 or 0.1% of net sales and revenue for fiscal year 2005. The increase is primarily a result of having more excess cash available for investment in fiscal year 2006 and $853,000 of interest income from our ethanol investments in Millennium and Levelland Hockley.

Interest Expense – Interest expense decreased to approximately $1.1 million, or 0.5% of net sales and revenue, for fiscal year 2006 from approximately $1.6 million, or 0.6% of net sales and revenue, for fiscal year 2005. The decline in interest expense was primarily caused by a reduction in the amount of mortgage debt outstanding and the capitalization of approximately $373,000 of interest related to our equity investments in ethanol entities.

Gain on Sale of Real Estate – During fiscal year 2006, we completed a sale and leaseback for one property for a gain of approximately $1,734,000. During fiscal year 2005, we sold one parcel of land attached to an owned property for a gain of $253,000.

Income from Synthetic Fuel Investments – Results for fiscal years 2006 and 2005 reflect the impact of our equity investment in two limited partnerships, Colona Synfuel Limited Partnership L.L.L.P. and Somerset Synfuel, L.P., which produce synthetic fuels. We expect to receive payments from the three separate sales of our interests in Colona, on a quarterly basis through 2007, which will range from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold, subject to production levels. We expect to receive payments of approximately $5.9 million during fiscal year 2007 related to 2006 production which were deferred based upon an agreement with the owner and operator of the facility.

Effective October 1, 2005, we sold our entire ownership interest in the Somerset limited partnership that owned two synthetic fuel facilities. We received $1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. We expect to receive quarterly payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels. With this sale, we have divested all of our ownership interests in facilities that produce synthetic fuel which qualifies for Section 29/45K tax credits.

Income from synthetic fuel investments for fiscal year 2006 also includes income related to our sale of our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We received $2.8 million at the time of sale on March 30, 2004 along with a secured contingent payment note that could provide additional investment income to us. The facility resumed commercial operations during the second quarter of fiscal year 2005; as such, we received $3.5 million as a one-time payment per the terms of the purchase agreement. In addition, we are eligible to receive $1.50 per ton of “qualified production” produced by the facility and sold through 2007. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, we currently are not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. At January 31, 2007, we estimate that there is approximately 1.8 million tons of production for which we did not recognize income. Because the purchase price of all our synthetic fuel sales is based on the value of Section 29/45K tax credits generated, it is subject to production levels and to possible reduction or elimination to the extent the credit is limited.

Below is a table (amounts in thousands) summarizing the income from the sales, net of certain expenses, of our interests in synthetic fuel entities:

	Years Ended January 31,	
	2007	**2006**
February 1, 1999 Colona sale	$ 1,928	$ 8,516
July 31, 2000 Colona sale	1,805	7,552
May 31, 2001 Colona sale	1,604	6,713
March 30, 2004 Gillette sale	1,058	6,125
October 1, 2005 Somerset sale	4,369	1,609
Total	$ 10,764	$ 30,515

Income Taxes – Our effective tax rate was approximately 33.0% and 19.6% for fiscal years 2006 and 2005, respectively, after reflecting our share of federal tax credits earned by the Somerset limited partnership. Our

effective tax rate increased for fiscal year 2006, as we no longer receive federal tax credits for synthetic fuel produced subsequent to September 30, 2005. We received $6.4 million in tax credits generated by Somerset for fiscal year 2005 and recognized $0.2 million in fiscal year 2006 based upon final published IRS rates for 2005.

Income from Continuing Operations – As a result of the foregoing, income from continuing operations was approximately $10.0 million for fiscal year 2006 versus approximately $27.3 million for fiscal year 2005.

Discontinued Operations **–** During fiscal year 2006, we closed 22 stores that were classified as discontinued operations. As a result of these underperforming stores, we had a loss from discontinued operations, net of tax benefit, of approximately $103,000 in fiscal year 2006 compared to income, net of tax provision of approximately $802,000 in fiscal year 2005. We sold seven of these store locations and as a result had a gain from disposal of discontinued operations, net of a tax provision, of approximately $1,411,000 in fiscal year 2006 compared to approximately $209,000 in fiscal year 2005.

Net Income – As a result of the foregoing, net income was approximately $11.4 million for fiscal year 2006 versus approximately $28.3 million for fiscal year 2005.

In addition to the information discussed above, the following sections discuss the results of operations for each of our business segments and corporate and other.

Retail

The net sales and revenue are discussed under ***Net Sales and Revenue***—Comparison of Fiscal Years Ended January 31, 2007 and 2006.

Segment profit decreased $2.8 million (32.6%) to $5.8 million in fiscal year 2006 from $8.6 million in fiscal year 2005. The decrease in segment profit was primarily related to lower gross profit of $5.8 million. Selling, general and administrative expenses of $61.2 million in fiscal year 2006 were $1.6 million (2.5%) lower than the $62.8 million in fiscal year 2005. Lower advertising expenditures and impairment charges were the primary reason for the decrease in selling, general and administrative expenses. During fiscal year 2006, we completed a sale and leaseback for one property for a gain of $1.7 million. Approximately $0.7 million of the gain from the sale and leaseback transaction was deferred. In fiscal year 2006, we sold one parcel of land attached to an owned property for a gain of $0.3 million.

Alternative Energy

The alternative energy segment includes the consolidated financial statements of Levelland Hockley County Ethanol, LLC, our other investments in ethanol facilities, the income related to those investments and certain administrative expenses. No sales or revenue is attributable to this segment as Levelland Hockley is a development stage enterprise and income related to equity method investments is not reported as sales or revenue.

Interest income attributable to alternative energy increased to $0.8 million in fiscal year 2006, while equity in unconsolidated affiliates increased $0.5 million in fiscal year 2006. Expenses were $1.2 million in fiscal year 2006, which represented $1.0 million of allocated general and administrative expenses and $0.2 million of expenses from Levelland Hockley County Ethanol, LLC.

Corporate and Other

Income from synthetic fuel investments declined $19.8 million as production was halted at the Gillette and Colona facilities for a majority of fiscal year 2006. Selling, general and administrative expenses were approximately $2.1 million in fiscal year 2006, compared to approximately $3.9 million in fiscal year 2005,

primarily a result of lower executive incentive payroll expense. Unallocated interest income was approximately $1.5 million in fiscal year 2006, compared to approximately $0.3 million in fiscal year 2005. Interest income increased as a result of having more excess cash available for investment during fiscal year 2006.

Liquidity and Capital Resources

Our primary sources of financing have been income from operations and our investment in synthetic fuel limited partnerships, supplemented by mortgages on owned properties. In fiscal year 2007, we also generated cash from our sale of Millennium and the subsequent sale of US BioEnergy common stock. Historically, we have used borrowings under our revolving line of credit to fund our seasonal working capital needs. In addition, we monetized a significant portion of our real estate portfolio in fiscal year 2007, generating approximately $71 million in net cash receipts. Our primary uses of cash have been debt and equity investments in ethanol entities, long term debt repayments and stock repurchases.

Outlook – We consider our inventory of $49.9 million at January 31, 2008 to be a normal level for that time of the year based upon our current store count. Our inventory levels are subject to seasonal fluctuations, with January 31 traditionally a time of lower inventory levels. Our cash levels will tend to fluctuate inversely with our inventory levels.

Our cash balance of $127,716,000 includes $30,251,000 held by One Earth which will be used primarily to fund the construction of a 100 million gallon ethanol plant and to provide working capital until the plant commences operations. Levelland Hockley held $5,000 of cash at January 31, 2008. In addition, One Earth intends to borrow up to $111 million over the next two years to fund construction costs and provide working capital. Levelland Hockley intends to borrow up to an additional $19.8 million during fiscal year 2008 to fund construction costs and provide working capital. Currently, we do not have definitive plans to make additional investments in the alternative energy segment during fiscal year 2008, other than to assist in funding working capital needs of Levelland Hockley. We have not identified specific uses of our excess cash. Possible uses of the cash are to pay down long term mortgage debt and repurchase our common stock.

Operating Activities – Net cash provided by operating activities was $14.8 million for fiscal year 2007 compared to $31.8 million in fiscal year 2006. For fiscal year 2007, operating cash flow was provided by net income of $33.9 million adjusted for the impact of a $24.0 million gain on sale of investments, a $6.9 million gain on sales of partnership interest, $1.4 million of stock based compensation expense and non-cash items of $15.7 million, which consist of deferred income, the deferred income tax provision, minority interest, impairment charges, gain on disposal of fixed assets, income from ethanol investments, unrealized loss on derivatives and depreciation and amortization. Cash was provided by a decrease in inventory of $20.1 million, primarily due to store closings during fiscal year 2007. Additionally, cash was provided by a decrease in other assets of $5.2 million, primarily a result of a $5.0 million advance equity deposit being used for an equity investment at January 31, 2008. Other liabilities increased $4.2 million, primarily a result of an accrual for amounts owed related to synthetic fuel production as payments received from our synthetic fuel partnership sales exceeded our estimated amounts due us. Accounts payable, excluding accrued capital expenditures for ethanol related construction in process, decreased $3.0 million, primarily the result of the timing of inventory purchases and payments.

For fiscal year 2006, operating cash flow was provided by net income of $11.4 million adjusted for the impact of a $10.8 million gain on sales of partnership interest, $1.7 million of stock based compensation expense and non-cash items of $5.8 million, which consist of deferred income, the deferred income tax provision, impairment charges, gain on disposal of fixed assets, income from ethanol investments and depreciation and amortization. Cash was provided by a decrease in inventory of $27.3 million, primarily due to managing our inventory at lower than normal in late fiscal year 2006. In addition, we are carrying a lower level of air conditioners. The inventory levels of air conditioners fluctuate significantly based upon sales and vendor arrangements. We experienced relatively higher sales of air conditioners in fiscal year 2006 compared to

fiscal year 2005. Additionally, cash was provided by a decrease in accounts receivable of $1.5 million and an increase in accounts payable of $2.3 million. The decrease in accounts receivable is primarily a result of the timing of settlements with our credit card merchant processor. The increase in accounts payable is primarily a result of a vendor financing arrangement for appliance inventory. The largest uses of cash were an increase in other assets of $4.1 million and a decrease in other liabilities of $3.2 million. Other assets increased primarily as a result of a $5.0 million advance equity investment in Big River. Other liabilities decreased partially as a result of lower accruals for executive bonus compensation.

Investing Activities – Net cash provided by investing activities was $79.4 million for fiscal year 2007. We paid $10.0 million for an equity investment in Big River. The acquisition and resulting consolidation of One Earth provided cash of $8.7 million as One Earth's cash balance exceeded the purchase price of $50.8 million which resulted in us acquiring a 74% ownership interest in One Earth. Cash of $15.2 million was provided by proceeds from the sale of our partnership interests in synthetic fuel and $94.8 million was provided by proceeds from the sale of real estate and property and equipment. The acquisition of our interest in Millennium Ethanol by US BioEnergy Corporation and the subsequent sale of their stock provided proceeds of $39.5 million. Capital expenditures in fiscal year 2007 totaled $68.8 million. Expenditures included approximately $68.6 million for the construction of ethanol plants and $0.2 million of improvements to existing stores.

Net cash was used by investing activities of $22.2 million for fiscal year 2006. We paid $16.0 million and $5.0 million for equity investments in Patriot and Big River, respectively. We paid $14.0 million for a debt investment in Millennium. The acquisition and resulting consolidation of Levelland Hockley provided cash of $1.7 million as Levelland Hockley's cash balance of $13.2 million exceeded the purchase price of $11.5 million which resulted in us acquiring a 47% ownership interest in Levelland Hockley. Cash of $3.7 million was provided by proceeds from the sale of our partnership interest in synthetic fuel and $9.3 million from the sale of real estate and property and equipment. Capital expenditures in fiscal year 2006 totaled $1.7 million. Expenditures included approximately $1.0 million for the construction of the Levelland Hockley ethanol plant and $0.5 million of improvements to existing stores.

Financing Activities – Cash used in financing activities was $9.5 million for fiscal year 2007. During fiscal year 2007, we borrowed $25.4 million in long term debt. Levelland Hockley accounted for $23.9 million of the borrowing as they used loan proceeds to construct their ethanol plant during fiscal year 2007. Repayments of debt totaled $26.0 million during fiscal year 2007. Stock option exercises in fiscal year 2007 generated cash of $5.6 million. During fiscal year 2007, we purchased approximately 784,000 shares of our common stock for $14.6 million in open market transactions.

Cash provided by financing activities was $12.1 million for fiscal year 2006. During fiscal year 2006, we borrowed $13.8 million in long term mortgage debt. Scheduled repayments of debt totaled $3.7 million during fiscal year 2006. Stock option exercises in fiscal year 2006 generated cash of $2.6 million.

At January 31, 2008, we had a remaining authorization from our Board of Directors to purchase 215,600 shares of our common stock. All acquired shares will be held in treasury for possible future use.

At January 31, 2008, we had approximately $39.3 million of debt outstanding at a weighted average interest rate of 8.34%, with maturities from February 1, 2008 to November 20, 2016. During fiscal year 2007, we paid off $26.0 million of long-term mortgage debt from scheduled repayments and early payoffs. During fiscal year 2006, we paid off $3.7 million of long-term mortgage debt from scheduled repayments.

We received proceeds of approximately $5.6 million and $2.6 million for fiscal years 2007 and 2006, respectively, from the exercise of stock options by employees and directors. The exercise of non-qualified stock options resulted in a tax benefit of approximately $2.0 million and $1.0 million for fiscal years 2007 and 2006, respectively, which was reflected as an increase in additional paid-in capital.

On September 14, 2004, we entered into an Amended and Restated Loan Agreement (the "Loan Agreement") with four banks. The Loan Agreement provided for a $115,000,000 five-year revolving credit facility, with a $50,000,000 sub-limit for letters of credit, through September 14, 2009. Effective July 17, 2007, we exercised our right to reduce the revolving credit commitment to $75,000,000. This reduction also reduced the sub-limit for letters of credit to $32.6 million. Amounts available for borrowing are based upon the sum of specific percentages of eligible accounts receivable, eligible inventories, and certain real estate assets as defined. Amounts available for borrowing are reduced by any letter of credit commitments outstanding. Borrowings on the revolving credit agreement accrue interest at prime minus .50% or LIBOR plus 1.75% (at our discretion). Borrowings are secured by certain fixed assets, accounts receivable, inventories and the capital stock of our subsidiaries. The loan agreement requires the maintenance of excess borrowing availability of 10% of the borrowing base, contains covenants limiting indebtedness, liens, mergers and permitted acquisitions, asset divestitures, dividends, loans, investments and transactions with affiliates, and contains customary default provisions including, but not limited to, failure to pay interest or principal when due and failure to comply with covenants. We are in compliance with all covenants at January 31, 2008.

We had no borrowings outstanding on the line of credit at January 31, 2008 or January 31, 2007. A total of approximately $33.8 million was available at January 31, 2008, net of letters of credit outstanding of $0.4 million. Borrowing levels may vary during the course of a year based upon our seasonal working capital needs. The maximum direct borrowings outstanding during fiscal year 2007 were approximately $0.5 million. The weighted average interest rate was 6.9% (537.6% including commitment fees) for fiscal year 2007.

To pay a dividend, we must notify the Agent Bank and the Agent Bank must have determined that, at the time of making the dividend payment and after giving effect thereto, Excess Availability on the line of credit for the 12 months preceding the payment and on a projected pro-forma basis for the 12 months following the payment is greater than $25,000,000. At January 31, 2008, we estimate that the maximum dividend we could pay without violating the restriction in the revolving loan agreement is $8.4 million plus available cash.

On September 27, 2006, Levelland Hockley entered into a construction and term loan agreement with Merrill Lynch Capital for a principal sum of up to $43.7 million (including accrued interest). Advances are available monthly at a minimum of $2 million each, with usage restrictions limited to actual costs incurred for items agreed upon. The construction and term loan bears interest at a floating rate of 400 basis points above LIBOR, adjusted monthly through the maturity date. The construction loan will be converted into a term loan on May 31, 2008, or earlier if certain terms of the construction and term loan agreement are fulfilled.

Beginning with the first monthly payment date following the conversion date, payments will be due in 59 equal monthly payments of principal and accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date for the remaining unpaid principal balance with accrued interest. The maturity date for the term loan will be the fifth anniversary of the conversion date.

Borrowings are secured by all property of Levelland Hockley. As of January 31, 2008, approximately $23.9 million had been drawn on the construction loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. Levelland Hockley was in compliance with all covenants at January 31, 2008. Levelland Hockley paid approximately $3.5 million for various fees associated with the construction and term loan agreement. These fees are recorded as prepaid loan fees and will be amortized ratably over the loan term. At January 31, 2008, our proportionate share of restricted assets related to Levelland Hockley was approximately $14.1 million. Such assets are restricted per the terms of the loan agreement with Merrill Lynch Capital.

In September 2007, One Earth Energy entered into a $111,000,000 financing agreement consisting of a construction loan agreement for $100,000,000 together with a $10,000,000 revolving loan and a $1,000,000 letter of credit with First National Bank of Omaha. During the construction period, One Earth will be required to make interest payments quarterly on the outstanding principal amount at a variable interest rate equal to LIBOR plus 310 basis points. The construction loan will be converted into a term loan upon completion of plant construction. The term loan will bear interest at rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points and is payable over five years.

Borrowings are secured by all property of One Earth Energy. As of January 31, 2008, no amounts were drawn on the construction and term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth was in compliance with all covenants at January 31, 2008. One Earth has paid approximately $1,174,000 in financing costs. These costs are recorded as prepaid loan fees and will be amortized ratably over the loan term. Upon One Earth borrowing money under this loan agreement, our proportionate share of One Earth's net assets will be restricted pursuant to the terms of the loan agreement.

Tabular Disclosure of Contractual Obligations

In the ordinary course of business, we enter into agreements under which we are obligated to make legally enforceable future cash payments. These agreements include obligations related to purchasing inventory, mortgaging, interest rate management, and leasing retail space.

The following table summarizes by category expected future cash outflows associated with contractual obligations in effect as of January 31, 2008 (amounts in thousands):

	Payment due by period				
Contractual Obligations (a)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating lease obligations (b)	$ 21,554	$ 6,127	$ 7,241	$ 4,328	$ 3,858
Long-term debt obligations	39,325	4,101	9,366	8,130	17,728
Inventory purchase orders	8,978	8,978	—	—	—
Interest on variable rate debt (c)	8,766	2,034	3,734	2,730	268
Interest on fixed rate debt	4,116	812	1,340	889	1,075
Other (d)	104,485	92,840	11,645	—	—
Total (e)	$ 187,224	$ 114,892	$ 33,326	$ 16,077	$ 22,929

(a) Contractual obligations exclude contingent commitments to invest in one ethanol entity and certain forward purchase contracts of grain. See Note 13 of the Notes to the Consolidated Financial Statements for further discussion of these commitments.

(b) Amounts include minimum rentals related to lease renewal options assumed to be exercised in the amounts of $2,061,000 for the fiscal years ended January 31, 2011, 2012 and 2013 and $3,858,000 for years subsequent to January 31, 2014.

(c) The interest rates effective as of January 31, 2008 for variable rate loans were used to calculate future payments of interest on variable rate debt.

(d) Amounts represent construction and related commitments of Levelland Hockley County Ethanol, LLC and One Earth Energy, LLC for construction of their ethanol producing plants.

(e) We are not able to determine the likely settlement period for uncertain tax positions, accordingly $1,394,000 of uncertain tax positions and related interest and penalties have been excluded from the table above. We are not able to determine the likely settlement period for interest rate swaps, accordingly $2,601,000 of liabilities for derivative financial instruments have been excluded from the table above.

Seasonality and Quarterly Fluctuations

Our retail business is seasonal. As is the case with many other retailers, our net sales and revenue and net income are generally greatest in our fourth fiscal quarter, which includes the Christmas selling season. The fourth fiscal quarter accounted for 32% and 30% of net sales and revenue for fiscal years 2007 and 2006, respectively. The fourth fiscal quarter accounted for 30% and 29% of gross profit in fiscal years 2007 and 2006, respectively. Year to year comparisons of quarterly results of operations and comparable store sales can be affected by a variety of factors, including the duration of the holiday selling season, weather conditions, the timing of new ethanol investments and fluctuations in synthetic fuel production.

Impact of Inflation

The impact of inflation has not been material to our results of operations for the past three fiscal years.

Critical Accounting Policies

We believe the application of the following accounting policies, which are important to our financial position and results of operations, require significant assumptions, judgments and estimates on the part of management. We base our assumptions, judgments, and estimates on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented in accordance with generally accepted accounting principles (GAAP). However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Further, if different assumptions, judgments and estimates had been used, the results could have been different and such differences could be material. For a summary of all of our accounting policies, including the accounting policies discussed below, see Note 1 of the Notes to the Consolidated Financial Statements. Management believes that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management’s most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Revenue Recognition – We recognize sales of products upon receipt by the customer. We will honor returns from customers within seven days from the date of sale. We establish liabilities for estimated returns at the point of sale. Such liabilities are immaterial in all years presented.

We also sell product service contracts covering periods beyond the normal manufacturers’ warranty periods, usually with terms of coverage (including manufacturers’ warranty periods) of between 12 to 60 months. Contract revenues and sales commissions are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers’ warranty periods. Amortization of deferred contract revenues is included in net sales and revenue while amortization of deferred sales commissions is

included in selling, general and administrative expenses. We retain the obligation to perform warranty service and such costs are charged to operations as incurred.

We recognize income from synthetic fuel partnership sales as the synthetic fuel is produced and sold except for operations at the Gillette facility as we do not believe that collection of our proceeds for production occurring subsequent to September 30, 2006 is reasonably assured from that plant. We estimate the impact of oil prices and the likelihood of any phase out of Section 29/45K credits and the resulting reduction of synthetic fuel income quarterly. We use available market data concerning crude oil prices to determine the phase out. We estimate the tax credits and related income will be subject to a phase out of approximately 70% for calendar year 2007. This phase out resulted in approximately $13.6 million of potential income not being recognized in fiscal year 2007. We estimate the impact of oil prices and the likelihood of any phase out of Section 29/45K credits and the resulting reduction of synthetic fuel income quarterly. See Note 4 of the Notes to the Consolidated Financial Statements for a further discussion of synthetic fuel partnership sales.

We include income from our real estate leasing activities in net sales and revenue. We account for these leases as operating leases. Accordingly, minimum rental revenue is recognized on a straight-line basis over the term of the lease.

***Goodwill* –** Goodwill represents the cost in excess of the fair value of net assets acquired. Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (“SFAS 142”) we are required to identify reporting units for purposes of assessing impairment of goodwill. We conduct impairment assessments annually or when events indicate a triggering event has occurred.

***Investments* –** From time to time, in advance of making an investment in debt or equity securities of investees, such as the investments we have in ethanol entities, we may enter into a commitment for such investment which is contingent upon future events occurring, including but not limited to, the investee raising additional financing and/or equity. These commitments may be backed by letters of credit or other means as mutually agreed to by the investee and us. Generally, because commitments are contingently exercisable and represent the potential acquisition of a minority position in the investee, we believe that we are not the primary beneficiary of the investee under the guidance in FASB Interpretation Number 46R (“FIN 46R”). When, and if the commitment is exercised and we make our investment, we are required to re-evaluate whether we are the primary beneficiary under the guidance in FIN 46R.

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which we are the primary beneficiary. The evaluation of consolidation under FIN 46R is complex and requires judgments to be made. We consolidate the results of two majority owned subsidiaries, Levelland Hockley and One Earth, on a one month lag. See Note 5 of the Notes to the Consolidated Financial Statements for a further discussion of the acquisitions of Levelland Hockley and One Earth. Investments in businesses that we do not control, or maintain a majority voting interest or maintain a primary beneficial interest, but we have the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method.

Investments in debt securities are considered “held to maturity”, “available for sale”, or “trading securities” under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (“SFAS 115”). Under SFAS 115, held to maturity securities are required to be carried at their cost; while available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses, net of income taxes, that are considered temporary in nature recorded in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. The fair

values of our investments in debt securities are determined based upon market quotations and various valuation techniques, including discounted cash flow analysis.

We periodically evaluate our investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If we determine that a decline in market value is other than temporary, then a charge to earnings is recorded in investment and other income (expense), net in the accompanying consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

Vendor allowances – Vendors often fund, up front, certain advertising costs and exposure to general changes in pricing to customers due to technological change. Allowances are deferred as received from vendors and recognized into income as an offset to the cost of merchandise sold when the related product is sold.

Inventory Reserves – Inventory is recorded at the lower of cost or market, net of reserves established for estimated technological obsolescence. The market value of inventory is often dependent upon changes in technology resulting in significant changes in customer demand. If these estimates are inaccurate, we may be exposed to market conditions that require an additional reduction in the value of certain inventories affected. We provide an inventory reserve for specifically identified inventory items that have a cost greater than net realizable value, aged and slow moving inventory and non-saleable or defective inventory items. The inventory reserve was approximately $4.1 million and $5.2 million at January 31, 2008 and January 31, 2007, respectively. Fluctuations in the inventory reserve generally relate to the levels and composition of such inventory at a given point in time. Assumptions we use to estimate the necessary reserve have not significantly changed over the last three fiscal years. Such assumptions include our ability to return defective products to vendors for credit and the estimated salvage value of defective inventory items if we are unable to return such items to the vendor for credit.

Financial Instruments – Forward grain purchase and ethanol sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of SFAS No. 133 because these arrangements are for purchases of grain and sales of ethanol that will be delivered in quantities expected to be used by us over a reasonable period time in the normal course of business. We use derivative financial instruments to manage our balance of fixed and variable rate debt. We do not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. Our swap agreements were not designated for hedge accounting pursuant to SFAS No. 133. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the accompanying statements of consolidated income.

Income Taxes – Income taxes are recorded based on the current year amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how those events are treated for tax purposes, net of valuation allowances. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and other expectations about future outcomes, including the outcome of tax credits under Section 29/45K of the Internal Revenue Code. Changes in existing regulatory tax laws and rates and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. We have established valuation allowances for certain state net operating loss carryforwards and other deferred tax assets. The valuation allowance was approximately $0.8 million and $1.0 million at January 31, 2008 and January 31, 2007, respectively. Should estimates of future income differ significantly from our prior estimates, we could be required to make a material change to our deferred tax valuation allowance. The primary assumption used to estimate the valuation allowance has been estimates of future state taxable income. Such estimates can have material variations from year to year based upon expected levels of retail income and projected capital gains. Our accounting for deferred tax consequences

represents management's best estimate of future events that can be appropriately reflected in the accounting estimates.

We adopted the provisions of FIN 48 on February 1, 2007. As a result of the adoption of FIN 48, we recorded a $287,000 decrease to retained earnings. As of January 31, 2008, total unrecognized tax benefits were $1,171,000, and accrued penalties and interest were $223,000. If we were to prevail on all unrecognized tax benefits recorded, approximately $417,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a material effect on results of operations or financial position.

On a quarterly and annual basis, we accrue for the effects of open uncertain tax positions and the related potential penalties and interest. Should future estimates of open uncertain tax positions differ from our current estimates, we could be required to make a material change to our accrual for uncertain tax positions. In addition, new income tax audit findings could also require us to make a material change to our accrual for uncertain tax positions.

Recoverability of Long-Lived Assets – Given the nature of our business, each income producing property must be evaluated separately when events and circumstances indicate that the value of that asset may not be recoverable. We recognize an impairment loss when the estimated future undiscounted cash flows expected to result from the use of the asset and its value upon disposal are less than its carrying amount. Changes in the real estate market for particular locations could result in changes to our estimates of the property's value upon disposal.

Costs Associated with Exit Activities – We occasionally vacate stores prior to the expiration of the related lease. For vacated locations that are under long-term leases, we record an expense for the difference between our future lease payments and related costs (real estate taxes, maintenance, etc.) from the date of closure through the end of the remaining lease term, net of expected future sublease rental income. If actual results related to sublease income, vacancy periods and the payment of settlements and repairs differ from our estimates, we may be exposed to gains and or losses that could be material.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement initially applies, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 157 are effective for the fiscal years beginning after November 15, 2007. We anticipate adopting this standard as of February 1, 2008. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions. We anticipate adopting this standard as of February 1, 2008. This FSP excludes FASB Statement No. 13, Accounting for Leases, and its related interpretive accounting pronouncements from the provisions of SFAS No. 157. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In February 2008, the FASB issued FSP No. 157-2, Effective Date of FASB Statement No. 157, which delays our February 1, 2008 effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until February 1, 2009. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS 141 (R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51" ("SFAS 160"). SFAS 141(R) retains the fundamental requirements of SFAS 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS 160, which are to be applied retrospectively for all periods presented, SFAS 141 (R) and SFAS 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities —An Amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In January 2008, the FASB cleared SFAS 133 Implementation Issue E23, *Clarification of the Application of the Shortcut Method* ("Issue E23"). Issue E23 amends SFAS 133 by permitting interest rate swaps to have a non-zero fair value at inception, as long as the difference between the transaction price (zero) and the fair value (exit price), as defined by SFAS 157, is solely attributable to a bid-ask spread. In addition, entities would not be precluded from assuming no ineffectiveness in a hedging relationship of interest rate risk involving an interest bearing asset or liability in situations where the hedged item is not recognized for accounting purposes until settlement date as long as the period between trade date and settlement date of the hedged item is consistent with generally established conventions in the marketplace. Issue E23 is effective for hedging relationships designated on or after January 1, 2008. We have not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

There were no other new accounting standards issued during fiscal year 2007 that had or are expected to have a material impact on our financial position, results of operations, or cash flows.

Item 7A. **Quantitative and Qualitative Disclosures About Market Risk**

As of January 31, 2008, we had financial instruments which were sensitive to changes in interest rates. These financial instruments consist of a revolving credit agreement, ethanol construction loans and various mortgage notes payable secured by certain land, buildings and leasehold improvements.

The revolving credit agreement is with four banks through September 14, 2009, with interest at prime minus .50% or LIBOR plus 1.75% (at our discretion) and commitment fees of 1/4% payable on the unused portion. Amounts available for borrowing are based upon the sum of specific percentages of eligible accounts receivable and eligible inventories, as defined, and certain real estate assets. Amounts available for borrowing are reduced by any letter of credit commitments outstanding. Borrowings are secured by certain fixed assets, accounts receivable, inventories and the capital stock of our subsidiaries. At January 31, 2008, a total of approximately $33.8 million was available for borrowings under the revolving credit agreement, net of one letter of credit outstanding of $0.4 million. We had no outstanding borrowings under the revolving credit agreement at January 31, 2008.

Approximately $11.8 million of our debt consists of fixed rate debt. The interest rates range from 3.7% to 8.4%. The remaining $27.5 million of debt is variable rate debt. In general, the rate on the variable rate debt ranges from the one month LIBOR plus 4.1% to prime less 0.25%. If the variable interest rate increased 1%, we estimate our annual interest cost would increase approximately $275,000 for the variable rate debt. Principal and interest are payable monthly over terms which generally range from 5 to 10 years. The fair value of our long-term debt at January 31, 2008 was approximately $39.7 million. The fair value was estimated based on rates available to us for debt with similar terms and maturities. Including the impact of the interest rate swap agreements, approximately 91% of our indebtedness was based on fixed interest rates at January 31, 2008.

We anticipate managing a portion of our risk with respect to the volatility of commodity prices inherent in the ethanol industry by using forward purchase and sale contracts and other similar instruments. Levelland Hockley has purchase commitments for 760,000 bushels of sorghum, the expected principal raw material for its ethanol plant. Levelland Hockley expects to take delivery of the sorghum by April 2008. Levelland Hockley has forward sales commitments for 1.0 million gallons of ethanol and 500 tons of distiller grains. Levelland Hockley expects to deliver the ethanol and distillers grains by April 2008.

Levelland Hockley entered into a forward interest rate swap in the notional amount of $43.7 million with Merrill Lynch Capital during fiscal year 2007. The swap fixed the variable interest rate of the term loan, subsequent to the plant completion date, at 7.89%. The swap settlements commence as of April 30, 2008 and terminate on April 30, 2010. At January 31, 2008, we recorded a liability of $879,000 related to the fair value of the swap. The change in fair value was recorded as “unrealized loss on derivative financial instruments” in the accompanying consolidated statements of income.

One Earth entered into a forward interest rate swap in the notional amount of $50.0 million with the First National Bank of Omaha (as required under the loan agreement) during fiscal year 2007. The swap fixed a portion of the variable interest rate of the term loan, subsequent to the plant completion date, at 7.9%. The swap settlements commence as of July 31, 2009 and terminate on July 8, 2014. At January 31, 2008, we recorded a liability of $1,722,000 related to the fair value of the swap. The change in fair value was recorded as “unrealized loss on derivative financial instruments in the accompanying consolidated statements of income. A hypothetical 10% change (for example, from 7.0% to 6.3%) in market interest rates at January 31, 2008 would change the fair value of the interest rate swap contracts by approximately $1.5 million.

Item 8. Financial Statements and Supplementary Data

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	January 31, 2008	January 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 127,716	$ 43,008
Accounts receivable-net	1,877	1,975
Synthetic fuel receivable	573	8,838
Merchandise inventory- net	49,933	70,078
Prepaid expenses and other	2,492	2,915
Deferred taxes	10,599	9,192
Total current assets	193,190	136,006
Property and equipment-net	136,505	122,769
Assets held for sale-net	—	2,009
Other assets	14,803	18,986
Goodwill	1,322	1,322
Deferred taxes	21,929	26,245
Equity method investments	38,748	21,699
Investments in debt instruments	—	14,000
Restricted investments	2,481	2,406
TOTAL ASSETS	$ 408,978	$ 345,442
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	$ 4,101	$ 2,678
Accounts payable –trade	27,253	23,254
Deferred income	14,448	15,641
Deferred gain on sale and leaseback	1,436	101
Other current liabilities	13,617	10,510
Total current liabilities	60,855	52,184
LONG TERM LIABILITIES:		
Long term debt	35,224	31,236
Deferred income	17,172	19,286
Deferred gain on sale and leaseback	4,493	504
Derivative financial instruments	2,601	—
Other	4,313	—
Total long term liabilities	63,803	51,026
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	27,729	11,443
SHAREHOLDERS' EQUITY:		
Common stock, 45,000 shares authorized, 29,813 and 29,513 shares issued at par	298	295
Paid in capital	141,357	139,337
Retained earnings	285,629	252,249
Treasury stock, 19,094 and 19,089 shares	(170,693)	(161,092)
Total shareholders' equity	256,591	230,789
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 408,978	$ 345,442

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Amounts)

	Year Ended January 31,		
	2008	2007	2006
Net sales and revenue	$ 223,975	$ 235,701	$ 244,831
Cost of sales	158,020	170,394	173,752
Gross profit	65,955	65,307	71,079
Selling, general and administrative expenses	(61,288)	(64,562)	(66,666)
Interest income	5,714	2,374	308
Interest expense	(242)	(1,121)	(1,583)
Loss on early termination of debt	(627)	—	(22)
Gain on sale of real estate	365	1,734	253
Equity in income of unconsolidated ethanol affiliates	1,601	499	—
Realized investment gains	23,951	—	—
Income from synthetic fuel investments	6,945	10,764	30,515
Unrealized loss on derivative financial instruments	(2,601)	—	—
Income from continuing operations before income taxes and minority interest	39,773	14,995	33,884
Provision for income taxes	(14,690)	(4,952)	(6,626)
Minority interest in loss of consolidated subsidiaries	841	—	—
Income from continuing operations	25,924	10,043	27,258
(Loss) income from discontinued operations, net of tax	(2,272)	(103)	802
Gain on disposal of discontinued operations, net of tax	10,215	1,411	209
Net income	$ 33,867	$ 11,351	$ 28,269
Weighted average shares outstanding – basic	10,420	10,291	10,688
Basic income per share from continuing operations	$ 2.49	$ 0.97	$ 2.55
Basic (loss) income per share from discontinued operations	(0.22)	(0.01)	0.07
Basic gain per share on disposal of discontinued operations	0.98	0.14	0.02
Basic net income per share	$ 3.25	$ 1.10	$ 2.64
Weighted average shares outstanding – diluted	11,721	11,576	12,220
Diluted income per share from continuing operations	$ 2.21	$ 0.87	$ 2.23
Diluted (loss) income per share from discontinued operations	(0.19)	(0.01)	0.06
Diluted gain per share on disposal of discontinued operations	0.87	0.12	0.02
Diluted net income per share	$ 2.89	$ 0.98	$ 2.31

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Year Ended January 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 33,867	$ 11,351	$ 28,269
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,428	4,190	4,645
Stock based compensation expense	1,413	1,660	—
Impairment charges	158	346	1,345
Income from equity method investments	(1,601)	(499)	—
Dividends received from equity method investments	525	—	—
Minority interest in consolidated subsidiaries	(841)	(6)	—
Income from synthetic fuel investments	(6,945)	(10,764)	(30,515)
Unrealized loss on derivative financial instruments	2,601	—	—
Gain on sale of investments	(23,951)	—	—
Gain on disposal of real estate and property and equipment	(16,584)	(3,775)	(375)
Deferred income	(4,819)	1,548	961
Excess tax benefits from stock option exercises	(69)	(27)	—
Deferred income tax	2,909	3,955	(485)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	126	1,507	2,003
Merchandise inventory	20,145	27,293	26,817
Other current assets	(859)	151	(844)
Other long term assets	5,195	(4,199)	103
Accounts payable-trade	(3,041)	2,281	(12,446)
Other liabilities	4,172	(3,187)	(435)
Net cash provided by operating activities	14,829	31,825	19,043
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(68,754)	(1,668)	(2,171)
Proceeds from sale of synthetic fuel investments	15,210	3,716	30,510
Purchase of investments	(10,000)	(40,795)	—
Proceeds of note receivable and sale of investments	39,541	5,595	—
Acquisition, net of cash acquired	8,703	1,665	—
Proceeds from sale of real estate and property and equipment	94,775	9,339	1,523
Restricted investments	(75)	(88)	(48)
Net cash provided by (used in) investing activities	79,400	(22,236)	29,814
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long term debt	25,424	13,812	—
Payments of long term debt	(26,023)	(3,749)	(9,547)
Loan fees	—	(593)	—
Stock options exercised	5,596	2,559	5,696
Excess tax benefits from stock option exercises	69	27	—
Treasury stock acquired	(14,587)	—	(28,314)
Net cash (used in) provided by financing activities	(9,521)	12,056	(32,165)
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,708	21,645	16,692
CASH AND CASH EQUIVALENTS-Beginning of year	43,008	21,363	4,671
CASH AND CASH EQUIVALENTS-End of year	$ 127,716	$ 43,008	$ 21,363
Non cash investing activities– Accrued capital expenditures	$ 8,100	$ 131	$ —

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2008, 2007 AND 2006
(Amounts in thousands)

	Common Shares Issued		Treasury					
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income	Total Shareholders' Equity
Balance at February 1, 2005	29,038	$ 290	17,865	($ 137,839)	$ 133,474	$ 212,629	$ —	$ 208,554
Net income						28,269		28,269
Treasury stock acquired			2,088	(30,186)				(30,186)
Stock options exercised and related tax effects	352	4	(664)	5,263	2,301			7,568
Balance at January 31, 2006	29,390	294	19,289	(162,762)	135,775	240,898	—	214,205
Net income						11,351		11,351
Stock based compensation					1,660			1,660
Stock options exercised and related tax effects	123	1	(200)	1,670	1,902			3,573
Balance at January 31, 2007	29,513	$ 295	19,089	($ 161,092)	$ 139,337	$ 252,249	$ —	$ 230,789

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2008, 2007 AND 2006
(Amounts in thousands)

	Common Shares Issued		Treasury					
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income	Total Shareholders' Equity
Balance at January 31, 2007	29,513	$ 295	19,089	($ 161,092)	$ 139,337	$ 252,249	$ —	$ 230,789
Net income						33,867		33,867
Cumulative effect of adopting FIN 48						(287)		(287)
Treasury stock acquired			971	(18,045)				(18,045)
Stock based compensation					1,413			1,413
Stock options exercised and related tax effects	300	3	(966)	8,444	607			9,054
Minority interest distribution						(200)		(200)
Unrealized holding gains, net of tax							9,717	9,717
Reclassification adjustment for net gains included in net income, net of tax							(9,717)	(9,717)
Balance at January 31, 2008	29,813	$ 298	19,094	($ 170,693)	$ 141,357	$ 285,629	$ —	$ 256,591

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Principles of Consolidation* –** The accompanying financial statements consolidate the operating results and financial position of REX Stores Corporation, its wholly-owned and majority owned subsidiaries and entities in which REX maintains a primary beneficial interest (the “Company”). All significant intercompany balances and transactions have been eliminated. As of January 31, 2008, the Company operated 115 retail consumer electronics and appliance stores under the REX name in 34 states and maintains ownership interests in four ethanol entities. The Company operates in two reportable segments, retail and alternative energy.

***Reclassifications* –** The Company reclassified $10.2 million and $9.3 million of prepaid commissions from current and long-term portion of deferred income on extended warranties to other assets at January 31, 2007 and 2006, respectively to conform to current year presentation.

***Fiscal Year* –** All references in these consolidated financial statements to a particular fiscal year are to the Company’s fiscal year ended January 31. For example, “fiscal year 2007” means the period February 1, 2007 to January 31, 2008.

***Use of Estimates* –** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents* –** Cash equivalents are principally short-term investments with original maturities of less than three months. The carrying amount of cash equivalents approximate fair value.

***Merchandise Inventory* –** Inventories are carried at the lower of cost or market on a first-in, first-out (“FIFO”) basis and includes certain costs associated with purchasing, warehousing and transporting merchandise. Reserves are established for estimated technological obsolescence. The market value of inventory is often dependent upon changes in technology resulting in significant changes in customer demand. In the fourth quarter of fiscal year 2006, the Company changed its method of accounting for inventory of an acquired subsidiary, Kelly & Cohen (K&C) from the last-in, first-out (“LIFO”) method to the FIFO method (see note 2). Ten suppliers accounted for approximately 86% of the Company’s purchases in fiscal year 2007. Nine suppliers accounted for approximately 86% of the Company’s purchases in fiscal year 2006. Three suppliers represented approximately 40% and 45% of the Company’s inventory purchases in fiscal years 2007 and 2006, respectively. The Company has reserves for obsolete inventory of $4,100,000 and $5,107,000 at January 31, 2008 and 2007, respectively.

The Company has inventory that it does not have legal title but maintains constructive title to of $4.4 million and $2.8 million at January 31, 2008 and 2007, respectively. This inventory is subject to a product financing agreement with one vendor. This agreement transfers the risk and rewards of ownership to the Company upon receipt of the goods. Such inventory cannot be encumbered or otherwise pledged as collateral by the Company.

***Property and Equipment* –** Property and equipment is recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and

3 to 12 years for fixtures and equipment. Leasehold improvements are depreciated over the initial lease term and one renewal term when exercise of the renewal term is reasonably assured, or the life of the improvement, whichever is shorter.

The components of property and equipment at January 31, 2008 and 2007 are as follows (amounts in thousands):

	2008	2007
Land	$ 13,683	$ 36,304
Buildings and improvements	39,567	99,001
Fixtures and equipment	10,596	16,397
Leasehold improvements	5,500	7,067
Construction in progress	91,689	6,834
	161,035	165,603
Less: accumulated depreciation	(24,530)	(42,834)
	$ 136,505	$ 122,769

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. The Company recorded an impairment charge included in selling, general and administrative expenses in the consolidated statements of income of $158,000, $346,000 and $1,345,000 in the fiscal years ended January 31, 2008, 2007 and 2006, respectively. The impairment charges all relate to individual stores in the Company’s retail segment. These impairment charges are primarily related to increased competition in local markets and/or unfavorable changes in real estate conditions in local markets. Impairment charges result from the Company’s management performing cash flow analysis for individual store locations and represent management’s estimate of the excess of net book value over estimated future cash flows. Long- lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Generally, declining cash flows from a retail store operation or deterioration in local real estate market conditions are indicators of possible impairment. Impairment charges result from the Company’s management performing a discounted cash flow analysis for individual store locations and represent management’s estimate of the excess of net book value over estimated discounted future cash flows.

Goodwill – Goodwill represents the cost in excess of the fair value of net assets acquired. Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (“SFAS 142”), the Company is required to identify reporting units for purposes of assessing impairment of goodwill. The Company conducts impairment assessments annually or when events indicate a triggering event has occurred.

Investments – Restricted investments, which are principally marketable debt securities of a federal government agency, are stated at cost plus accrued interest, which approximates market. Restricted investments at January 31, 2008 and 2007 are required by two states to cover possible future claims under product service contracts. In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, the Company has classified these investments as held-to-maturity. The investments had maturity dates of less than one year at January 31, 2008 and 2007. The Company has the intent and ability to hold these securities to maturity.

From time to time, in advance of making an investment in debt or equity securities of investees, such as the contingent investments the Company has in an ethanol entity, the Company may enter into a commitment for such investment which is contingent upon future events occurring, including but not limited to, the investee raising additional financing and/or equity. These commitments may be backed by letters of credit or other means as mutually agreed to by the Company and the investee. Generally, because commitments are contingently exercisable and represent the potential acquisition of a minority position in the investee, the Company believes that it is not the primary beneficiary of the investee under the guidance in FASB Interpretation Number 46R (“FIN 46R”). When, and if the commitment is exercised and the Company makes its investment, it is required to re-evaluate whether it is the primary beneficiary under the guidance in FIN 46R.

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, Levelland Hockley and One Earth, on a one month lag. See Note 5 for a further discussion of the acquisitions of Levelland Hockley and One Earth. Investments in businesses that the Company does not control, but has the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method.

Investments in debt securities are considered “held to maturity”, “available for sale”, or “trading securities” under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (“SFAS 115”). Under SFAS 115, held to maturity securities are required to be carried at their cost; while available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses, net of income taxes, that are considered temporary in nature recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. The fair values of investments in debt securities are determined based upon market quotations and various valuation techniques, including discounted cash flow analysis.

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company determines that a decline in market value is other than temporary, then a charge to earnings is recorded in investment and other income (expense), net in the consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

Revenue Recognition – The Company recognizes sales of products upon receipt by the customer. The Company will honor returns from customers within seven days from the date of sale. The Company establishes liabilities for estimated returns at the point of sale. Such liabilities are immaterial for all periods presented.

The Company also sells product service contracts covering periods beyond the normal manufacturers’ warranty periods, usually with terms of coverage (including manufacturers’ warranty periods) of between 12 to 60 months. Contract revenues and sales commissions are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers’ warranty periods. Amortization of deferred contract revenues is included in net sales and revenue while amortization of deferred sales commissions is included in selling, general and administrative expenses. The Company retains the obligation to perform warranty service and such costs are charged to operations as incurred. Extended service contract revenues represented 6.1%, 5.2% and 4.8% of net sales and revenue for fiscal years 2007, 2006 and 2005, respectively.

The Company recognizes amounts billed to a customer for shipping and handling as revenue and actual costs incurred for shipping as selling, general and administrative expense in the consolidated statements of income. Amounts classified as selling, general and administrative expense were $1,944,000, $1,951,000 and $2,079,000 in fiscal years 2007, 2006 and 2005, respectively.

Merchandise sold under interest-free financing arrangements is recorded as a sale when the customer receives the merchandise. In general, the Company receives payment within three to ten business days from the third-party lender. The amount the Company receives from the third-party lender is generally discounted for the interest free financing option, which is recorded as a marketing expense in selling, general and administrative expense. The net expense for third party financing was approximately $976,000, $749,000, and $769,000 in fiscal years 2007, 2006 and 2005, respectively.

The Company recognizes income from synthetic fuel partnership sales as production is completed and collectibility of receipts is reasonably assured. The Company is paid for actual tax credits earned as the synthetic fuel is produced with the exception of production at the Pine Mountain (Gillette) facility. The Company estimates the impact of oil prices and the likelihood of any phase out of Section 29/45K credits and the resulting reduction of synthetic fuel income quarterly. See Note 4 for a further discussion of synthetic fuel partnership sales.

The Company includes income from its real estate leasing activities in net sales and revenue. The Company accounts for these leases as operating leases. Accordingly, minimum rental revenue is recognized on a straight-line basis over the term of the lease.

Costs of Sales – Cost of sales includes the cost of merchandise, inventory reserves and inventory shortage, receiving, warehousing and freight charges to get merchandise to retail stores, service repair bills as well as cash discounts and rebates. Due to this classification, the Company's gross margins may not be comparable to those of other retailers that include costs related to their distribution network in selling, general and administrative expense. The Company classifies purchasing costs as selling, general and administrative expenses.

Selling, General and Administrative Expenses – The Company includes store expenses (such as payroll and occupancy costs), advertising, buying, depreciation, insurance and overhead costs in selling, general and administrative expenses.

Vendor Allowances and Advertising Costs – Vendors often fund, up front, certain advertising costs, display allowances and exposure to general changes in pricing to customers due to technological change. Allowances are deferred as received from vendors and recognized into income as an offset to the cost of merchandise sold when the related product is sold. Advertising costs are expensed as incurred. Advertising expense was approximately $11,403,000, $13,654,000 and $14,445,000 for fiscal years 2007, 2006 and 2005, respectively and was not offset by vendor allowances.

Interest Cost – Interest expense of approximately $242,000, $1,121,000 and $1,583,000 for fiscal years 2007, 2006 and 2005, respectively, is net of approximately $1,565,000, $373,000 and $15,000 of interest capitalized related to equity investments, store, ethanol plant or warehouse construction. Cash paid for interest in fiscal years 2007, 2006 and 2005 was approximately $2,017,000, $2,118,000 and $2,525,000, respectively.

Deferred Financing Costs – Direct expenses and fees associated with obtaining notes payable or long-term debt are capitalized and amortized to interest expense over the life of the loan using the effective interest method.

Financial Instruments – Forward grain purchase and ethanol sale contracts are accounted for under the "normal purchases and normal sales" scope exemption of SFAS No. 133 because these arrangements are

for purchases of grain that will be delivered in quantities expected to be used by us and sales of ethanol quantities expected to be produced by us over a reasonable period of time in the normal course of business. The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreements were not designated for hedge accounting pursuant to SFAS No. 133. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the statements of consolidated income.

Stock Compensation – The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement based on the grant-date fair value of the award. It also requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award (presumptively the vesting period). SFAS 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and its related interpretations. The Company adopted SFAS 123(R) on February 1, 2006. The Company chose the Modified Prospective Application ("MPA") method for implementing SFAS 123(R). Under the MPA method, new awards, if any, are valued and accounted for prospectively upon adoption. Outstanding prior awards that are unvested as of February 1, 2006 will be recognized as compensation cost over the remaining requisite service period. Prior periods have not been restated.

Prior to its adoption of SFAS 123(R), the Company accounted for stock-based compensation in compliance with APB 25, under which no compensation cost was recognized. The Company provided disclosures based on the fair value as permitted by SFAS 123. In fiscal year 2006, the adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of approximately $1,660,000 ($1,112,000 net of tax, or $0.11 per basic share and $0.10 per diluted share). Prior to the adoption of SFAS 123(R), the Company reported all tax benefits resulting from the exercise of non-qualified stock options as operating cash flows in its consolidated statements of cash flows. In accordance with SFAS 123(R), the Company revised its current year statement of cash flows presentation to report the excess tax benefits from the exercise of non-qualified stock options as financing cash flows. There were approximately $69,000 and $27,000 of excess tax benefits from the exercise of non-qualified stock options for fiscal years 2007 and 206, respectively.

SFAS 123(R) also requires the Company to establish the beginning balance of the additional paid in capital pool ("APIC pool") related to actual tax deductions from the exercise of stock options. This APIC pool is available to absorb tax shortfalls (actual tax deductions less than recognized compensation expense) recognized subsequent to the adoption of SFAS 123(R). On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." This FASB Staff Position provided companies with the option to use either the transition method prescribed by SFAS 123(R) or a simplified alternative method described in the staff position. The Company chose to utilize the transition method prescribed by SFAS 123(R), which requires the calculation of the APIC pool as if the Company had adopted SFAS 123 for fiscal years beginning after December 15, 1994.

SFAS 123 requires the presentation of pro forma information for the comparative period prior to the adoption as if all of the Company's employee stock options had been accounted under the fair value method of the original SFAS 123. Had compensation cost for these plans been determined at fair value

consistent with SFAS 123, *Accounting for Stock-Based Compensation*, the Company's net income and net income per share would have been reduced to the following pro forma amounts for the fiscal year ended January 31, 2006 (amounts in thousands, except per-share amounts):

Net income			
	As reported	$	28,269
	Compensation cost, net of tax		3,590
	Pro forma		24,679
Basic net income per share			
	As reported	$	2.64
	Compensation cost, net of tax		0.33
	Pro forma		2.31
Diluted net income per share			
	As reported	$	2.31
	Compensation cost, net of tax		0.29
	Pro forma		2.02

No options were granted in the fiscal years ended January 31, 2008, January 31, 2007 or January 31, 2006. In accordance with the provisions of SFAS 123, the fair value method of accounting was not applied to options granted prior to February 1, 1995 in estimating the pro forma amounts.

The following table summarizes options granted, exercised and canceled or expired during the fiscal year ended January 31, 2008:

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding—Beginning of year	4,337	$ 8.18		
Granted	—	—		
Exercised	(1,266)	5.64		
Canceled or expired	(55)	12.67		
Outstanding—End of year	3,016	$ 9.16	3.4	$ 28,298
Exercisable—End of year	2,854	$ 8.96	3.3	$ 27,329

The total intrinsic value of options exercised in the fiscal years ended January 31, 2008, 2007 and 2006, was approximately $14.6 million, $3.0 million and $9.1 million, respectively, resulting in tax deductions to realize benefits of approximately $2.1 million, $1.0 million and $2.2 million, respectively. All outstanding options are expected to vest.

At January 31, 2008, there was approximately $1.4 million (pre-tax) of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted average period of 1.1 years.

Income Taxes – The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company adopted the provisions of FIN 48 on February 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $287,000 decrease to retained earnings. As of January 31, 2008, total unrecognized tax benefits were $1,171,000, and accrued penalties and interest were $223,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately $417,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, the Company does not expect the change to have a material effect on results of operations or financial position.

On a quarterly and annual basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. Should future estimates of open uncertain tax positions differ from our current estimates, the Company could be required to make a material change to its accrual for uncertain tax positions. In addition, new income tax audit findings could also require the Company to make a material change to its accrual for uncertain tax positions.

Discontinued Operations – The Company classifies closed or sold stores in discontinued operations when the operations and cash flows of the store have been (or will be) eliminated from ongoing operations and when the Company will not have any significant continuing involvement in the operation of the store after disposal. To determine if cash flows had been or would be eliminated from ongoing operations, the Company evaluates a number of qualitative and quantitative factors, including, but not limited to, proximity to remaining open stores and estimates of sales migration from the closed store to any stores remaining open. The estimated sales migration is based on the Company's historical estimates of sales migration upon opening a new store in a similar market and geographical considerations. For purposes of reporting the operations of stores meeting the criteria for discontinued operations, the Company reports net sales and revenue, gross profit and related selling, general and administrative expenses that are specifically identifiable to those stores operations as discontinued operations. Certain corporate level charges, such as general office expense, certain interest expense, and other "fixed" expenses are not allocated to discontinued operations because the Company believes that these expenses are not specific to the store's operations.

New Accounting Pronouncements – In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement initially applies, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 157 are effective for the fiscal years beginning after November 15, 2007. The Company anticipates adopting this standard as of February 1, 2008. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions. The Company anticipates adopting this standard as of February 1, 2008. This FSP excludes FASB Statement No. 13, Accounting for Leases, and its related interpretive accounting pronouncements from the provisions of SFAS No. 157. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In February 2008, the FASB issued FSP No. 157-2, Effective Date of FASB Statement No. 157, which delays the February 1, 2008 effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until February 1, 2009. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS 141 (R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51" ("SFAS 160"). SFAS 141(R) retains the fundamental requirements of SFAS 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS 160, which are to be applied retrospectively for all periods presented, SFAS 141 (R) and SFAS 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities —An Amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In January 2008, the FASB cleared SFAS 133 Implementation Issue E23, Clarification of the Application of the Shortcut Method ("Issue E23"). Issue E23 amends SFAS 133 by permitting interest

rate swaps to have a non-zero fair value at inception, as long as the difference between the transaction price (zero) and the fair value (exit price), as defined by SFAS 157, is solely attributable to a bid-ask spread. In addition, entities would not be precluded from assuming no ineffectiveness in a hedging relationship of interest rate risk involving an interest bearing asset or liability in situations where the hedged item is not recognized for accounting purposes until settlement date as long as the period between trade date and settlement date of the hedged item is consistent with generally established conventions in the marketplace. Issue E23 is effective for hedging relationships designated on or after January 1, 2008. The Company has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

2. ACCOUNTING CHANGES

During the fourth quarter of fiscal year 2006, the Company changed its method of accounting for the inventory of an acquired subsidiary, Kelly & Cohen Appliances, Inc. ("K&C"). K&C inventory was historically valued at the lower of cost or market using the last-in, first-out ("LIFO") method. The Company changed its method of accounting for the inventory of K&C from the LIFO method to the first-in, first-out ("FIFO") method. The Company believes the FIFO method is preferable because it conforms all of the Company's inventory to a single costing method and it is comparable with its major competitors. In accordance with FAS 154, "Accounting Changes and Error Corrections" (FAS 154), the change from the LIFO method has been applied retrospectively. However, the change to the FIFO method for the K&C inventory does not result in either a current period or retrospective adjustment to any historical consolidated balance sheets, statements of income or statements of cash flow as the lower of cost or market inventory value using the LIFO method has been equivalent to the lower of cost or market inventory value using the FIFO method for all periods presented.

3. INVESTMENTS

The Company has debt and equity investments. The debt investments are accounted for under FAS 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115) while the equity investments are accounted for under Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" (APB 18). The following tables summarize investments at January 31, 2008 and 2007 (amounts in thousands):

Debt Securities January 31, 2008

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Carrying Amount
United States Treasury Bill	2.82%	2/28/2008	Held to Maturity	$ 1,548	$ 1,548
Total Debt Securities				$ 1,548	$ 1,548

Debt Securities January 31, 2007

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Carrying Amount
Federal National Mortgage Association Note	5.04%	2/16/2007	Held to Maturity	$ 1,473	$ 1,473
Millennium Ethanol, LLC Convertible Note	15.60%	4/1/2015	Available for Sale	14,000	14,000
Total Debt Securities				$ 15,473	$ 15,473

There were no unrealized holding gains or losses at January 31, 2008 or 2007.

On August 29, 2007, US BioEnergy Corporation completed the acquisition of Millennium Ethanol, LLC (“Millennium”). In connection with the acquisition, the Company received 3,693,858 shares of US BioEnergy common stock and approximately $4.8 million of cash as total consideration for its interest in Millennium based upon the conversion of the Company’s $14 million convertible secured promissory note, accrued interest and related purchase rights. The Company sold all of its shares of US BioEnergy common stock during fiscal year 2007. The Company recorded a realized gain (pre-tax) of $24.0 million as a result of this transaction.

The Company has $933,000 at January 31, 2008 and 2007 on deposit with the Florida Department of Financial Services to secure its obligation to fulfill future obligations related to extended warranty contracts sold in the state of Florida. The deposits earned 6.3% and 5.7% at January 31, 2008 and 2007, respectively**.**

Equity Securities January 31, 2008:

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	10%	$ 22,353	$ 20,000
Patriot Renewable Fuels, LLC	23%	16,395	16,000
Total Equity Securities		$ 38,748	$ 36,000

Equity Securities January 31, 2007:

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	4%	$ 5,499	$ 5,000
Patriot Renewable Fuels, LLC	23%	16,200	16,000
Total Equity Securities		$ 21,699	$ 21,000

On October 1, 2006, the Company entered into an agreement to invest $20 million in Big River Resources, LLC (“Big River”). Big River is an Iowa limited liability company and holding company for several entities including Big River Resources West Burlington, LLC which presently operates a 92 million gallon ethanol manufacturing facility. Big River has begun construction of its second plant, which has design capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant will be located in Galva, Illinois, and construction of the plant is expected to be completed by August of 2009. The Company funded this investment in exchange for a 10% ownership interest. The Company recorded income of $2,379,000 and $499,000 as its share of earnings from Big River during fiscal years 2007 and 2006, respectively.

On June 8, 2006, the Company entered into an agreement to invest $16 million in Patriot Renewable Fuels, LLC (“Patriot”) which has commenced construction of an ethanol producing facility in Annawon, Illinois. The facility is expected to have a design capacity of 100 million gallons annually. The Company funded this investment on December 4, 2006 in exchange for a 23% ownership interest. Patriot is a development stage enterprise; the Company has capitalized interest of $1,173,000 and $200,000 at January 31, 2008 and January 31, 2007, respectively, as Patriot is constructing its ethanol plant. The Company recorded a loss of $778,000 and $0 as its share of loss from Patriot during fiscal years 2007 and 2006, respectively.

Undistributed earnings of equity method investees totaled approximately $2.4 million at January 31, 2008.

4. SYNTHETIC FUEL LIMITED PARTNERSHIPS

During fiscal year 1998, the Company invested in two limited partnerships that produced synthetic fuels. The limited partnerships earned Federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the quantity and content of synthetic fuel production and sales. Credits under Section 29/45K are available for qualified fuels sold before January 1, 2008 (see Note 16). The Company accounted for its share of the income tax credits as a reduction of the income tax provision in the period earned and such credits totaled approximately $0, $200,000, and $6,400,000 in fiscal years 2007, 2006 and 2005, respectively (see Note 14).

Through a series of sales, the Company sold its ownership interest in Colona Synfuel Limited Partnership L.L.L.P (Colona), a limited partnership that owned a synthetic fuel facility and generally received cash payments from the sales on a quarterly basis through fiscal year 2007. These payments were contingent upon and equal to approximately 75% of the federal income tax credits attributable to the interest sold, subject to certain adjustments. The Company earned and reported as income approximately $4.2 million, $5.3 million and $22.8 million for fiscal years 2007, 2006 and 2005, respectively.

The Company sold its entire ownership interest in Somerset Synfuel, L.P., (Somerset), a limited partnership that owned two synthetic fuel facilities and generally received cash payments from the sales on a quarterly basis through fiscal year 2007. These payments were contingent upon and equal to approximately 80% of the federal income tax credits attributable to the ownership interest sold. The Company earned and reported as income approximately $2.8 million, $4.4 million and $1.6 million for fiscal years 2007, 2006 and 2005, respectively.

The Section 29/45K tax credit program expired, under current law, at the end of 2007. Thus, the Company will not receive any income or loss from the Colona and Somerset sales beyond fiscal year 2007, except for a final adjustment expected in the first quarter of fiscal year 2008, once the IRS publishes the final credit per ton and phase out amounts.

Income from synthetic fuel investments also includes income related to the sale of the Company’s membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. The Company received $2.8 million (resulting in $0.5 million in pre tax investment income) at the time of sale on March 30, 2004 along with a secured contingent payment note that could provide additional investment income. The facility resumed commercial operations during the second quarter of fiscal years 2005; as such, the Company received $3.5 million as a one-time payment per the terms of the purchase agreement. In addition, the Company was eligible to receive $1.50 per ton of “qualified production” produced by the facility and sold through 2007. The plant was subsequently sold and during the third quarter of fiscal year 2006, the Company modified its agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the modified agreement, the Company currently is not able to determine the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, the Company cannot currently determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. The Company recognized approximately $0, $1.1 million and $6.1 million of pre-tax investment income from this sale during fiscal years 2007, 2006 and 2005, respectively.

At January 31, 2008 and 2007, the Company had a liability of approximately $4.3 million and $0, respectively, for overpayments related to production at the Colona facility, commissions and certain distributions owed which is included in other current liabilities on the consolidated balance sheet.

5. BUSINESS COMBINATIONS

On September 30, 2006, the Company acquired 47 percent of the outstanding membership units of Levelland Hockley County Ethanol, LLC (“Levelland Hockley”). Levelland Hockley is a development stage entity that has commenced construction of an ethanol production facility in Levelland, Texas, which will have a design capacity of 40 million gallons of ethanol annually.

The results of Levelland Hockley’s operations have been included in the consolidated financial statements subsequent to the acquisition date and are included in the Company’s alternative energy segment. The aggregate purchase price was $11.5 million, all of which was cash.

The acquisition was recorded by allocating the total purchase price to the assets acquired, including intangible assets, and liabilities assumed, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the net amounts assigned to the fair values of the assets acquired and liabilities assumed was recorded as goodwill. There was no change in goodwill for the year ended January 31, 2008. The acquired goodwill of $1.3 million was the only change in goodwill for the years ended January 31, 2007 and 2006.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(In thousands)

Cash	$	13,165
Accrued interest receivable		24
Property, plant and equipment		595
Prepaid loan fees		3,200
Deposits		5,220
Goodwill		1,322
Total assets acquired		23,526
Current liabilities		(577)
Minority interest		(11,449)
Net purchase price	$	11,500

Prepaid loan fees have an estimated useful life of 6 years. None of the goodwill is expected to be deductible for income tax purposes.

Effective July 1, 2007, the Company converted its $5.0 million convertible secured promissory note, which increased its ownership interest in Levelland Hockley to 56%. There was a $200,000 premium over book value related to the conversion; the premium was recorded as a non-cash distribution to minority interest holders on the consolidated statement of shareholders' equity.

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Levelland Hockley, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented (in thousands, except per share amounts):

		Year Ended January 31, 2007
Net sales and revenue	$	235,701
Net income		10,871
Basic net income per share		1.06
Diluted net income per share		0.94

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each of the periods presented.

On October 30, 2007, the Company acquired 74 percent of the outstanding membership units of One Earth Energy, LLC ("One Earth"). The results of One Earth's operations have been included in the consolidated financial statements subsequent to the acquisition date and are included in the Company's alternative energy segment. The aggregate purchase price was $50.8 million, all of which was cash.

The acquisition was recorded by allocating the total purchase price to the assets acquired, including intangible assets, and liabilities assumed, based on their estimated fair values at the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price to the assets and liabilities of the One Earth

acquisition is based upon preliminary estimates and is therefore subject to change:

(In thousands)

Cash	$ 59,313
Property, plant and equipment	9,899
Prepaid expenses	307
Prepaid loan fees	1,012
Total assets acquired	70,531
Current liabilities	(1,922)
Long term debt	(1,010)
Minority interest	(16,832)
Net purchase price	$ 50,767

Prepaid loan fees have an estimated useful life of 6 years. One Earth is a development stage entity that has commenced construction of an ethanol production facility in Gibson City, Illinois, which will have a design capacity of 100 million gallons of ethanol annually.

The unaudited financial information in the table below summarizes the combined results of operations of the Company and One Earth, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented (in thousands, except per share amounts):

	Years Ended January 31,	
	2008	2007
Net sales and revenue	$ 223,975	$ 235,701
Net income	33,661	11,075
Basic net income per share	3.23	1.08
Diluted net income per share	2.87	0.96

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each of the periods presented.

6. OTHER ASSETS

The components of other assets at January 31, 2008 and 2007 are as follows (amounts in thousands):

	January 31,	
	2008	2007
Prepaid loan fees	$ 5,187	$ 4,377
Advance equity investment	—	5,000
Prepaid commissions	9,208	10,234
Equipment deposit	293	—
Other	115	155
Total	14,803	19,766
Less current portion	—	780
Long term	$ 14,803	$ 18,986

Advance equity investment represents a payment made to Big River Resources, LLC in January 2007, and effective February 1, 2007; this increased the Company's ownership percentage in Big River from 4.3% to 6.9%. Prepaid loan fees represent amounts paid to obtain both mortgage debt and borrowings under the Company's, Levelland Hockley's and One Earth's lines of credit. Such amounts are amortized as interest expense. Future amortization expense is as follows (amounts in thousands):

Year Ended January 31,	Amortization
2009	$ 1,046
2010	1,130
2011	944
2012	834
2013	695
Thereafter	538
Total	$ 5,187

Prepaid commissions represent sales commissions paid in connection with extended warranties sold by the Company's sales staff. Such amounts are capitalized and amortized ratably over the life of the extended warranty plan sold. Future amortization of prepaid commissions is as follows (amounts in thousands):

Year Ended January 31,	Amortization
2009	$ 3,934
2010	2,829
2011	1,529
2012	698
2013	218
Thereafter	—
Total	$ 9,208

7. NET INCOME PER SHARE FROM CONTINUING OPERATIONS

The Company reports net income per share in accordance with SFAS No. 128, "Earnings per Share". Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and dilutive common share equivalents during the year. Common share equivalents for each year include the number of shares issuable upon the exercise of outstanding options, less the shares that could be purchased under the treasury stock method. The following table reconciles the basic and diluted net income per share from continuing operations computations for each year

presented for fiscal years 2007, 2006, and 2005 (amounts in thousands, except per-share amounts):

	2007		
	Income	Shares	Per Share
Basic net income per share from continuing operations	$ 25,924	10,420	$ 2.49
Effect of stock options		1,301	
Diluted net income per share from continuing operations	$ 25,924	11,721	$ 2.21

	2006		
	Income	Shares	Per Share
Basic net income per share from continuing operations	$ 10,043	10,291	$ 0.97
Effect of stock options		1,285	
Diluted net income per share from continuing operations	$ 10,043	11,576	$ 0.87

	2005		
	Income	Shares	Per Share
Basic net income per share from continuing operations	$ 27,258	10,688	$ 2.55
Effect of stock options		1,532	
Diluted net income per share from continuing operations	$ 27,258	12,220	$ 2.23

For fiscal years 2007, 2006 and 2005, a total of 162,719, 468,779 and 296,702 shares, respectively, subject to outstanding options were not included in the common equivalent shares outstanding calculation as the exercise prices were above the average trading price of the Company’s common stock for those periods. Equivalent shares information herein was also used for purposes of determining earnings per share related to discontinued operations.

8. SALE AND LEASEBACK TRANSACTIONS AND OTHER LEASES

On September 29, 2007, the Company completed a transaction for the sale and leaseback of one of its stores. The lease term was month to month and expired on January 31, 2008. A pre-tax gain, classified as discontinued operations, of approximately $951,000 (net of expenses) resulted from this sale.

On April 30, 2007, the Company completed a transaction for the sale of 86 of its current and former store locations to KLAC REX, LLC (“Klac”), formerly referred to as Coventry Real Estate Investments, LLC for $74.5 million in cash, before selling expenses. The Company also entered into leases to leaseback 40 of the properties from Klac for initial lease terms expiring January 31, 2010, with renewal options for up to 15 additional years. Either the Company or Klac may terminate a lease after the initial six months of the initial lease term on 28 of the leases, 14 of which were terminated in fiscal year 2007. The Company also entered into license agreements with Klac for 15 of the properties that allowed the Company to occupy the properties for up to 90 days rent free. Upon the expiration of the license period, the Company vacated the 15 properties.

This transaction resulted in a gain (realized and deferred) of $14.8 million. The Company recognized a pre-tax gain on sale of real estate of $8.0 million (net of expenses and losses) in fiscal year 2007. Of this gain, $7.6 million was classified as discontinued operations and the remaining $0.4 million was classified as continuing operations. Approximately $1.4 million of the deferred gain was recognized as a reduction of lease expense during fiscal year 2007. Of this gain, $0.3 million was classified as discontinued operations and the remaining $1.1 million was classified as continuing operations. The leases have been accounted for as operating leases. The Company has a deferred gain of $5.4 million at January 31, 2008 based upon the present value of the remaining minimum lease payments. The deferred gain will be amortized as a reduction to lease expense over the lease periods or recognized as gain on disposal at the end of the lease period.

The following table summarizes the components of the April 30, 2007 sale and leaseback transaction (amounts in thousands):

Property Category	Number of Properties	Deferred Gain	Recognized Gain
Vacated	60	$ —	$ 7,548
Leased until January 31, 2010	12	3,818	201
Leased until January 31, 2010 (6 month kickout clause)	14	1,608	1,630
Total	86	$ 5,426	$ 9,379

Future amortization of the deferred gain is as follows (amounts in thousands):

Year Ended January 31,	Amortization
2009	$ 1,343
2010	1,343
2011	539
2012	539
2013	539
Thereafter	1,123
Total	$ 5,426

On July 28, 2006, the Company completed a transaction for the sale and leaseback of one of its stores under an initial three-year lease term. A pre-tax gain, classified as continuing operations, of approximately $1.7 million (net of expenses) resulted from this sale. The Company has also deferred $0.5 million at January 31, 2008, based upon the present value of the minimum lease payments and will amortize this deferred gain as a reduction to lease expense over the lease term. The lease has been accounted for as an operating lease.

In addition to the leaseback transactions described above, the Company is committed under operating leases for certain retail store locations. The lease agreements are for varying terms through fiscal year 2011 and contain renewal options for additional periods. Real estate taxes, insurance and maintenance costs are generally paid by the Company. Contingent rentals based on sales volume are not significant. Certain leases contain scheduled rent increases and rent expense is recognized on a straight-line basis over the term of the leases.

The following is a summary of rent expense under operating leases (amounts in thousands):

Years Ended January 31	Minimum Rentals	Gain Amortization	Sublease Income	Total
2008	$ 6,042	$ (1,142)	$ (224)	$ 4,676
2007	3,470	(50)	(218)	3,202
2006	3,602	—	(133)	3,469

The Company is secondarily liable under lease arrangements when there is a sublessee. These arrangements arise out of the normal course of business when the Company decides to close stores prior to lease expiration and is able to sublease the facility. As of January 31, 2008, future minimum annual rentals on all leased locations and sublease income are as follows (amounts in thousands):

Years Ended January 31	Minimum Rentals	Sublease Income
2009	$ 6,127	$ 218
2010	4,541	134
2011 (a)	2,700	70
2012 (a)	2,267	5
2013 (a)	2,061	—
Thereafter (a)	3,858	—
	$ 21,554	$ 427

(a) Amounts include minimum rentals related to lease renewal options assumed to be exercised in the amounts of $2,061,000 for the fiscal years ended January 31, 2011, 2012 and 2013 and $3,858,000 for the thereafter category.

At January 31, 2008, the Company has lease agreements, as landlord, for all or portions of 10 owned properties. At eight of these locations, the Company does not operate a retail store. The Company operates a store and leases a portion of the properties to tenants at two properties. All of the leases are accounted for as operating leases. The Company recognized lease income of approximately $492,000, $588,000 and $546,000 in fiscal years 2007, 2006 and 2005, respectively. As of January 31, 2008, future minimum annual rentals on such leases are as follows (amounts in thousands):

Years Ended January 31	Minimum Rentals
2009	$ 446
2010	419
2011	372
2012	265
2013	226
Thereafter	390
	$ 2,118

9. COMMON STOCK

During fiscal years 2007, 2006 and 2005, the Company purchased 971,319 shares, 0 shares and 2,088,671 shares, respectively, of its common stock for $18,045,000, $0 and $30,186,000, respectively. Included in these amounts are shares the Company received totaling 186,919, 0 and 132,271 for the years ended January 31, 2008, 2007 and 2006, respectively, as tenders of the exercise price of stock options exercised by the Company's Chief Executive Officer. The cost of these shares, determined as the fair market value on the date they were tendered, was approximately $3,458,000, $0 and $1,872,000 for fiscal years 2007, 2006 and 2005, respectively. At January 31, 2008, the Company had prior authorization by its Board of Directors to purchase, in open market transactions, an additional 215,600 shares of its common stock.

Information regarding the Company's common stock is as follows (amounts in thousands):

	January 31, 2008	January 31, 2007
Authorized shares	45,000	45,000
Issued shares	29,813	29,513
Outstanding shares	10,719	10,424

10. REVOLVING LINE OF CREDIT

During fiscal year 2007, the Company modified its revolving line of credit agreement, reducing the total available line from $115,000,000 to $75,000,000. The revolving credit agreement is with four banks and expires on September 14, 2009. Amounts available for borrowing under the loan agreement are subject to a borrowing base equal to the sum of 85% of net appraised liquidation value of eligible inventory, 85% of eligible receivables and 60% of the fair market value of certain real estate assets. Borrowings accrue interest at prime minus 0.5% or LIBOR plus 1.75% (at the discretion of the Company). Borrowings are guaranteed by the Company and are presently secured by all of the Company's inventory, receivables, certain real estate assets and the capital stock of the Company's subsidiaries. The loan agreement does not contain any financial covenants. The loan agreement requires the maintenance of excess borrowing availability of 10% of the borrowing base, contains covenants limiting indebtedness, liens, mergers and permitted acquisitions, asset divestitures, dividends, loans, investments and transactions with affiliates, and contains customary default provisions including, but not limited to, failure to pay interest or principal when due and failure to comply with covenants. The Company was in compliance with all covenants as of January 31, 2008.

To pay a dividend, the Company must notify the Agent Bank and the Agent Bank must have determined that, at the time of making the dividend payment and after giving effect thereto, Excess Availability on the line of credit for the 12 months preceding the payment and on a projected pro-forma basis for the 12 months following the payment is greater than $25,000,000. At January 31, 2008, the Company estimates that the maximum dividend it could pay without violating the restriction in the revolving loan agreement is $8.4 million plus available cash.

There were no borrowings outstanding on the line of credit at January 31, 2008 or January 31, 2007. A total of approximately $33.8 million was available at January 31, 2008, net of one letter of credit outstanding of $0.4 million.

Borrowing levels may vary during the course of a year based upon seasonal working capital needs. The maximum direct borrowings outstanding during fiscal year 2007 were approximately $0.5 million. The weighted average interest rate was 6.9% (537.6% including commitment fees) for fiscal year 2007.

11. LONG-TERM DEBT AND INTEREST RATE SWAPS

Long-term debt consists of notes payable secured by certain land, buildings and leasehold improvements. Interest rates ranged from 3.7% to 8.7% in fiscal years 2007 and 2006. Principal and interest are payable monthly over terms that generally range from 5 to 10 years. The following provides information on rates segregated as fixed or variable and by term for fiscal years 2007 and 2006:

Fiscal Year 2007

Interest Rates	Maturity	Balance (in thousands)
	Variable	
5.68% - 8.69%	Within five years	$ 27,540
	Fixed	
6.75% - 7.21%	Within five years	$ 2,836
3.70% - 8.40%	Five to ten years	8,949
	Total fixed	$ 11,785

Fiscal Year 2006

Interest Rates	Maturity	Balance (in thousands)
	Variable	
7.07% - 8.00%	Within five years	$ 3,642
	Fixed	
6.75% - 8.50%	Within five years	$ 5,790
3.70% - 8.40%	Five to ten years	22,264
7.75% - 7.95%	Ten to fifteen years	2,218
	Total fixed	$ 30,272

Maturities of long-term debt are as follows (amounts in thousands):

Years Ending January 31,		
2009	$	4,101
2010		4,169
2011		5,197
2012		4,036
2013		4,094
Thereafter		17,728
	$	39,325

In fiscal year 2007, the Company paid off approximately $22.5 million in mortgage debt prior to maturity. As a result, the Company expensed unamortized financing cost and prepayment penalties of approximately $0.6 million as loss on early termination of debt.

In fiscal year 2005, the Company paid off approximately $6.9 million in mortgage debt prior to maturity. As a result, the Company expensed unamortized financing cost of approximately $22,000 as loss on early termination of debt.

The fair value of the Company's long-term debt at January 31, 2008 and 2007 was approximately $39.7 million and $34.1 million, respectively.

On September 27, 2006, Levelland Hockley entered into a construction and term loan agreement with Merrill Lynch Capital ("MLC") for a principal sum up to $43.7 million (including accrued interest). Advances are available monthly at a minimum of $2 million each, with usage restrictions limited to actual costs incurred for items agreed upon. The construction and term loan bears interest at a floating rate of 400 basis points above LIBOR, adjusted monthly through the maturity date. The construction loan will be converted into a term loan on May 31, 2008, or earlier if certain terms of the construction and term loan agreement are fulfilled.

Beginning with the first monthly payment date following the conversion date, payments will be due in 59 equal monthly payments of principal and accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date for the remaining unpaid principal balance with accrued interest. The maturity date for the term loan will be the fifth anniversary of the conversion date.

Borrowings are secured by all of the property of Levelland Hockley. As of January 31, 2008, approximately $23.9 million had been drawn on the construction loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. Levelland Hockley was in compliance with all covenants at January 31, 2008. Levelland Hockley paid approximately $3.5 million for various fees associated with the construction and term loan agreement. These fees are recorded as prepaid loan fees and will be amortized ratably over the loan term. At January 31, 2008, the Company's proportionate share of restricted assets related to Levelland Hockley was approximately $14.1 million. Such assets are restricted per the terms of the loan agreement with Merrill Lynch Capital.

Levelland Hockley entered into a forward interest rate swap in the notional amount of $43.7 million with MLC during fiscal year 2007. The swap fixed the variable interest rate of the term loan subsequent to

the plant completion date at 7.89%. The swap settlements commence as of April 30, 2008 and terminate on April 30, 2010. At January 31, 2008, the Company recorded a liability of $879,000 related to the fair value of the swap. The change in fair value was recorded in the consolidated statements of income.

In September 2007, One Earth Energy entered into a $111,000,000 financing agreement consisting of a construction loan agreement for $100,000,000 together with a $10,000,000 revolving loan and a $1,000,000 letter of credit with First National Bank of Omaha (the “Bank”). During the construction period, One Earth will be required to make interest payments quarterly on the outstanding principal amount at a variable interest rate equal to LIBOR plus 310 basis points. The construction loan will be converted into a term loan upon plant construction being completed. The term loan will bear interest at rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points and is payable over five years. Upon One Earth borrowing money under this loan agreement, the Company’s proportionate share of One Earth’s net assets will be restricted pursuant to the terms of the loan agreement.

Borrowings are secured by all of the property of One Earth Energy. As of January 31, 2008, no amounts were drawn on the construction and term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth was in compliance with all covenants at January 31, 2008. One Earth has paid approximately $1,174,000 in financing costs. These costs are recorded as prepaid loan fees and will be amortized ratably over the loan term.

One Earth entered into a forward interest rate swap in the notional amount of $50.0 million with the Bank (as required under the loan agreement) during fiscal year 2007. The swap settlements commence as of July 31, 2009 and terminate on July 8, 2014. The swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9%. At January 31, 2008, the Company recorded a liability of $1,722,000 related to the fair value of the swap. The change in fair value was recorded in the consolidated statements of income.

12. EMPLOYEE BENEFITS

Stock Option Plans – The Company maintains the REX Stores Corporation 1995 Omnibus Stock Incentive Plan and the REX Stores Corporation 1999 Omnibus Stock Incentive Plan (the Omnibus Plans). Under the Omnibus Plans, the Company may grant to officers and key employees awards in the form of non-qualified stock options, stock appreciation rights, restricted stock, other stock-based awards and cash incentive awards. The Omnibus Plans also provide for yearly grants of non-qualified stock options to directors who are not employees of the Company. The exercise price of each option must be at least 100% of the fair market value of the Company’s common stock on the date of grant. A maximum of 4,500,000 shares of common stock are authorized for issuance under each of the Omnibus Plans. On January 31, 2008, 108,011 and 2,092,432 shares remain available for issuance under the 1995 and 1999 Plans, respectively.

On October 14, 1998, the Company’s Board of Directors approved a grant of non-qualified stock options to two key executives for 1,462,500 shares at an exercise price of $4.42, which represented the market price on the date of grant. These options became fully vested as of December 31, 2003. On January 31, 2008, 169,921 of these options remained outstanding.

On April 17, 2001, the Company’s Board of Directors approved a grant of non-qualified stock options to two key executives for 1,462,500 shares at an exercise price of $8.01, which represented the market price on the date of grant. These became fully vested as of December 31, 2005. All of these options remained outstanding at January 31, 2008.

On May 26, 2005, the Company’s Board of Directors approved accelerating the vesting of out-of-the-money, unvested stock options held by current employees, including non-director executive officers. An

option was considered out-of-the-money if the stated option exercise price was greater than $13.82, which was the closing price of the Company's common stock on May 26, 2005. As a result, options to purchase approximately 118,000 shares, including options to purchase approximately 60,000 shares held by non director executive officers, became immediately exercisable. As a result of the acceleration, stock option expense was reduced by approximately $181,000, ($118,000, net of tax) during fiscal year 2007 and $723,000, ($470,000, net of tax) during fiscal year 2006.

The following summarizes stock option activity for fiscal years 2007, 2006 and 2005 (amounts in thousands, except per-share amounts):

	2007		2006		2005	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding—Beginning of year	4,337	$ 8.18	4,674	$ 8.15	5,751	$ 7.70
Granted	—	—	—	—	—	—
Exercised	(1,266)	5.64	(323)	7.69	(1,016)	5.29
Canceled or expired	(55)	12.67	(14)	12.65	(61)	12.75
Outstanding—End of year	3,016	$ 9.16	4,337	$ 8.18	4,674	$ 8.15
Exercisable—End of year	2,854	$ 8.96	4,007	$ 7.81	4,082	$ 7.62

Price ranges and other information for stock options outstanding as of January 31, 2008 were as follows (amounts in thousands, except per share amounts):

	Outstanding			Exercisable	
Range of Exercise Prices	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life	Shares (000's)	Weighted Average Exercise Price
$4.42 to $6.63	308	$ 4.78	0.79	308	$ 4.78
$8.01 to $12.02	1,964	8.26	3.09	1,964	8.26
$12.04 to $16.04	744	13.34	5.44	582	13.55
	3,016	$ 9.16	3.44	2,854	$ 8.96

Profit Sharing Plan – The Company has a qualified, noncontributory profit sharing plan (the "Plan") covering full-time employees who meet certain eligibility requirements. The Plan also allows for additional 401(k) saving contributions by participants, along with certain company matching contributions. Aggregate contributions to the Plan are determined annually by the Board of Directors and are not to exceed 15% of total compensation paid to all participants during such year. The Company contributed approximately $18,000, $26,000 and $27,000 for fiscal years 2007, 2006 and 2005, respectively, under the Plan.

13. COMMITMENTS

In June 2006, Levelland Hockley entered into an agreement with a designer/builder for the construction of Levelland's ethanol plant. The designer/builder is responsible for all engineering, labor, materials and equipment to design, construct, startup and achieve guaranteed performance criteria of the plant. The contract price is approximately $58 million, subject to adjustments as provided by the general conditions of the agreement, of which approximately $49 million has been spent through January 31, 2008.

In July 2002, Levelland Hockley entered into an agreement with RIO Technical Services, Inc. ("RIO") regarding the planning, financing, design, construction, and operation of Levelland's ethanol plant. RIO is a related party, as certain officers of RIO own equity interests in Levelland Hockley. The Company estimates that fees for these services will be approximately $3.0 million, of which approximately $2.1 million has been spent through January 31, 2008. In addition, Levelland Hockley paid RIO approximately $3.6 million as compensation for RIO's evaluation and assistance for Levelland Hockley to obtain financing. These costs are recorded as either prepaid loan fees or equity issuance costs.

Levelland Hockley has forward purchase contracts for 760,000 bushels of sorghum, the principal raw material for its ethanol plant. Levelland Hockley expects to take delivery of the sorghum by April 2008. The unrealized gain or loss of such contracts is immaterial at January 31, 2008.

Levelland Hockley has sales commitments for 1.0 million gallons of ethanol and 500 tons of distiller grains. Levelland Hockley expects to deliver the ethanol and distiller grains by April 2008. The unrealized gain or loss of such contracts is immaterial at January 31, 2008.

In August 2007, the Company entered into a conditional agreement to fund up to an additional $2.1 million in Levelland Hockley in the form of either subordinated debt or equity.

In May 2007, One Earth entered into an agreement with a designer/builder for the construction of One Earth's ethanol plant. The designer/builder is responsible for all engineering, labor, materials and equipment to design, construct, startup and achieve guaranteed performance criteria of the plant. The contract price is approximately $120 million, subject to adjustments as provided by the general conditions of the agreement, of which approximately $30 million has been spent through January 31, 2008. One Earth has also entered other construction and facility related contracts. Some of these contracts have been completed and all required funds have been expended as of January 31, 2008. The total of other incomplete construction and facility related contracts is approximately $4 million, of which approximately $1 million has been spent through January 31, 2008.

14. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for fiscal years 2007, 2006 and

2005 consists of the following (amounts in thousands):

	2007	2006	2005
Federal:			
Current	$ 11,528	$ 940	$ 6,794
Deferred	2,685	4,109	(1,520)
	14,213	5,049	5,274
State and Local:			
Current	253	57	317
Deferred	224	(154)	1,035
	477	(97)	1,352
	$ 14,690	$ 4,952	$ 6,626

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of January 31, 2008 and 2007 (amounts in thousands):

	2008	2007
Assets:		
Deferral of service contract income	$ 8,023	$ 8,938
Accrued liabilities	1,851	1,808
Inventory accounting	1,949	2,693
Income from synthetic fuel investments	1,333	1,297
Installment sales of limited partnerships	1,297	(2,614)
Sale and leaseback accounting	2,283	—
Derivative accounting	678	—
Stock based compensation	1,153	601
Depreciation	1,255	968
AMT credit carryforward	12,595	22,322
Valuation allowance	(809)	(959)
Other items	920	383
Total deferred taxes	$ 32,528	$ 35,437

The Company has approximately $12,595,000 and $22,322,000 of alternative minimum tax (“AMT”) credit carryforwards as of January 31, 2008 and 2007, respectively. The AMT credit carryforwards can be used to offset future regular income tax liabilities subject to certain limitations. The AMT credit carryforwards have no expiration date. The Company must generate approximately $84 million in future taxable income to fully utilize the AMT credit carryforward. If the Company is not able to generate sufficient taxable income in subsequent years to allow for the utilization of the deferred tax assets, the Company would need to provide a valuation allowance for such deferred tax assets, thus increasing income tax expense.

The Company has state net operating loss carryforwards of approximately $7.0 million, which will begin to expire in fiscal year 2008.

The Company has a valuation allowance of approximately $809,000 at January 31, 2008. The Company reduced the valuation allowance by $150,000 and $62,000 in fiscal years 2007 and 2006, respectively. The Company established an additional valuation allowance of $669,000 in fiscal year 2005. These adjustments to the valuation allowance in fiscal years 2007, 2006 and 2005 are a result of estimates of realizing certain future state tax benefits.

The Company has been allocated, from two synthetic fuel partnerships, approximately $25 million in Section 29/45K credits in years that the partnerships have not been audited by the IRS (see Notes 4 and 16).

The Company paid income taxes of $13,429,000, $1,210,000 and $7,041,000 in fiscal years 2007, 2006 and 2005, respectively.

The effective income tax rate on consolidated pre-tax income differs from the federal income tax statutory rate for fiscal years 2007, 2006 and 2005 as follows:

	2007	2006	2005
Federal income tax at statutory rate	35.0%	34.0%	35.0%
Tax credits from investment in limited partnership	—	(1.5)	(18.8)
State and local taxes, net of federal tax benefit	2.2	(0.4)	2.1
Net provision (reduction) in valuation allowance	(0.4)	0.3	2.0
Uncertain tax positions	(0.8)	—	—
Minority interest	0.8	—	—
Other	0.1	0.6	(0.7)
Total	36.9%	33.0%	19.6%

The Company files a U.S. federal income tax return and income tax returns in various states. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal years ended January 31, 2004 and prior.

The Company adopted the provisions of FIN 48 on February 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $287,000 decrease to retained earnings. As of January 31, 2008, total unrecognized tax benefits were $1,171,000, and accrued penalties and interest were $223,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately $417,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

On a quarterly and annual basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. The Company prevailed on an unrecognized tax benefit of $279,000 that was recorded during fiscal year 2007. Accordingly, the liability for the unrecognized tax benefit of $279,000 and related penalties and interest of $42,000 were reduced during fiscal year 2007.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, the Company does not expect the change to have a material effect on results of operations or financial position. A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and

penalties, is as follows (dollars in thousands):

Unrecognized tax benefits, February 1, 2007	$	940
Changes for tax positions for prior years		(321)
Changes for current year tax positions		775
Unrecognized tax benefits, January 31, 2008	$	1,394

15. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

All amounts reported as discontinued operations and assets held for sale relate to the Company's retail segment. During fiscal years 2007 and 2006, the Company closed 67 and 14 stores, respectively, in vacated markets. Accordingly, those stores were classified as discontinued operations for all periods presented. Subsequent to January 31, 2008, the Company closed four stores which were classified as discontinued operations.

Below is a table reflecting certain items of the income statement that were reclassified as discontinued operations for fiscal years 2007, 2006 and 2005 (amounts in thousands):

	2007	2006	2005
Net sales and revenue	$ 47,082	$ 128,251	$ 159,235
Cost of merchandise sold	$ 37,535	$ 96,371	$ 119,243
(Loss) income before benefit/provision for income taxes	($ 3,513)	($ 156)	$ 1,216
Benefit (provision) for income taxes	1,241	53	(414)
(Loss) income from discontinued operations, net of tax	($ 2,272)	($ 103)	$ 802
Gain on disposal before provision for income taxes	$ 15,797	$ 2,139	$ 317
Provision for income taxes	(5,582)	(728)	(108)
Gain on disposal of discontinued operations, net of tax	$ 10,215	$ 1,411	$ 209

16. CONTINGENCIES

The Company owned a minority interest in two entities (Somerset and Colona) that provided Section 29/45K credits to the Company in prior years. The production and sale of the synthetic fuel from these facilities qualify for tax credits under Code Section 29/45K if certain requirements are satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel and that the fuel was produced from a facility that was placed in service before July 1, 1998. The amount of Section 29/45K credits that the Company was allowed to claim in any year was limited by the amount of the Company's regular income tax liability. Excess credits could not be carried back or carried forward to offset the Company's regular tax liability in any other tax year. In addition, synthetic fuel tax credits were not allowed to offset the Company's alternative minimum tax liability. Consequently, the Company paid significant alterative minimum tax when utilizing synthetic fuel tax credits. To the extent the Company paid alternative minimum tax, the Company generated alternative minimum tax credits which are carried forward indefinitely. The Company has been allocated approximately $25 million in Section 29/45K credits in years that the partnerships have not been audited by the IRS. Should the tax credits be denied on any future audit and the Company fails to prevail through the IRS or the legal process, there could be a significant tax liability owed for previously taken tax credits with a significant impact on earnings and cash flows. In

the Company's opinion, the Somerset and Colona partnerships are complying with all the necessary requirements to be allowed such credits and believes it is likely, although not certain, that the partnerships will prevail if challenged by the IRS on any credits taken.

The Company sold its entire interest, through a series of transactions, in three partnerships (Colona, Gillette and Somerset) that owned synthetic fuel facilities. As such, the Company was no longer allocated Section 29/45K tax credits after fiscal year 2005. In connection with the Colona and Somerset sales, the Company received contingent payments based upon percentages of qualified Section 29/45K credits generated. In connection with the sale of the Gillette partnership, the Company was eligible to receive contingent payments based upon the amount of "qualified production." The Company has recognized $97.6 million of income from these sales from years the partnerships have not been audited by the IRS. In the event that the synthetic fuel tax credits are reduced as a result of IRS audits, the amount of proceeds realized from the sales could be significantly impacted.

The Company is involved in various legal actions arising in the normal course of business. After taking into consideration legal counsels' evaluation of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated financial statements.

17. SEGMENT REPORTING

The Company has two reportable segments, consumer electronics and appliance retailing ("retail") and alternative energy. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America. Amounts in the other category below include business activities that are not separately reportable and income from synthetic fuel investments (amounts in thousands):

	Years Ended January 31,		
	2008	2007	2006
Net sales and revenues:			
Retail	$ 223,975	$ 235,701	$ 244,831
Alternative energy	—	—	—
Total net sales and revenues	$ 223,975	$ 235,701	$ 244,831
Segment profit:			
Retail segment profit	$ 9,795	$ 5,801	$ 8,562
Alternative energy segment profit	22,404	168	—
Corporate expenses	(2,077)	(2,138)	(3,896)
Interest expense	(869)	(1,121)	(1,605)
Interest income	3,575	1,521	308
Income from synthetic fuel investments	6,945	10,764	30,515
Income from continuing operations before income taxes and minority interest	$ 39,773	$ 14,995	$ 33,884

	Years Ended January 31,		
	2008	2007	2006
Sales of products retail segment:			
Televisions	56%	55%	56%
Appliances	28%	26%	22%
Audio	4%	7%	9%
Video	3%	4%	6%
Other	3%	3%	2%
Total	94%	95%	95%
Sales of services retail segment:			
Extended service contracts	6%	5%	5%
Interest income:			
Retail	$ —	$ —	$ —
Alternative energy	2,142	853	—
Unallocated	3,572	1,521	308
Total interest income	$ 5,714	$ 2,374	$ 308
Depreciation and amortization expense:			
Retail	$ 1,831	$ 2,358	$ 2,568
Alternative energy	—	—	—
Total depreciation and amortization expense	$ 1,831	$ 2,358	$ 2,568
Equity in unconsolidated affiliates:			
Retail	$ —	$ —	$ —
Alternative energy	1,601	499	—
Total equity in unconsolidated affiliates:	$ 1,601	$ 499	$ —

	Years Ended January 31,		
	2008	2007	2006
Additions to property and equipment:			
Retail	$ 199	$ 848	$ 2,171
Alternative energy	68,555	820	—
Total additions to property and equipment	$ 68,754	$ 1,668	$ 2,171
Assets:			
Retail	$ 120,711	$ 233,666	$ 263,353
Alternative energy	167,070	67,653	—
Corporate	121,197	44,123	41,182
Total assets	$ 408,978	$ 345,442	$ 304,535
Additions to other long lived assets:			
Retail	$ —	$ —	$ —
Alternative energy	1,103	42,021	—
Total additions to other long lived assets	$ 1,103	$ 42,021	$ —

Additions to other long lived assets represent primarily equity method investments, goodwill and prepaid loan fees.

Certain corporate costs and expenses, including information technology, employee benefits, and other shared services, are allocated to the business segments. The allocations are generally amounts agreed upon by management, which may differ from amounts that would be incurred if such services were purchased separately by the business segment. Corporate assets are primarily cash, synthetic fuel accounts receivable and deferred income tax benefits.

Cash, except for cash held by Levelland Hockley and One Earth, is considered to be fungible and available for both corporate and segment use depending on liquidity requirements. Cash of approximately $30.3 million held by One Earth will be used primarily to fund the construction of a 100 million gallon ethanol plant and to provide working capital until the plant commences operations.

18. SUBSEQUENT EVENTS

Subsequent to January 31, 2008, the Company closed four of its retail stores. All of these properties were leased. The results of operations from these four stores have been classified as discontinued operations.

On February 20, 2008, the Company purchased a $5.0 million secured promissory note from Levelland Hockley. The note provides the Company rights to convert the note into an equity ownership position. With the purchase of this note, the Company has no further commitments to provide additional debt or equity financing for Levelland Hockley.

* * * * * *

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
REX Stores Corporation

We have audited the accompanying consolidated balance sheets of REX Stores Corporation and subsidiaries (the "Company") as of January 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2008. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of REX Stores Corporation and subsidiaries as of January 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109*, effective February 1, 2007, and Statement of Financial Accounting Standards No. 123(R) (Revised 2004), *Shared Based Payments*, effective February 1, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 14, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Cincinnati, Ohio

April 14, 2008

REX STORES CORPORATION AND SUBSIDIARIES

Schedule II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JANUARY 31, 2008, 2007 AND 2006
(Amounts in thousands)

		Additions	Deductions	
	Balance Beginning of Year	Charged to Cost and Expenses	Charges for Which Reserves Were Created	Balance End of Year
2008:				
Allowance for doubtful accounts	$ 116	$ 169	$ 201	$ 84
2007:				
Allowance for doubtful accounts	$ 159	$ 296	$ 339	$ 116
2006:				
Allowance for doubtful accounts	$ 157	$ 428	$ 426	$ 159
2008:				
Inventory reserve	$ 5,107	$ 571	$ 1,578	$ 4,100
2007:				
Inventory reserve	$ 5,211	$ 2,130	$ 2,234	$ 5,107
2006:				
Inventory reserve	$ 5,476	$ 1,750	$ 2,015	$ 5,211

Item 9. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

Item 9A. **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our officers concluded that our disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management,

including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems deemed to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of January 31, 2008 based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon this assessment, our management concluded that our internal control over financial reporting was effective as of January 31, 2008 based on those criteria.

The effectiveness of our internal control over financial reporting as of January 31, 2008 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

STUART A. ROSE Stuart A. Rose	Chairman of the Board and Chief Executive Officer (principal executive officer)	April 14, 2008
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 14, 2008

Item 9B. <u>Other Information</u>

None

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
REX Stores Corporation

We have audited the internal control over financial reporting of REX Stores Corporation and subsidiaries (the “Company”) as of January 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended January 31, 2008 of the Company and our report dated April 14, 2008 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule and included an explanatory paragraph regarding the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109*, in 2007, and Statement of Financial Accounting Standards No. 123 (R) (Revised 2004), *Shared Based Payments*, in 2006.

Deloitte & Touche LLP

Cincinnati, Ohio

April 14, 2008

PART III

Item 10. **Directors, Executive Officers and Corporate Governance**

The information required by this Item 10 is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2008, except for certain information concerning our executive officers which is set forth in Part I of this report.

Item 11. **Executive Compensation**

The information required by this Item 11 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2008 and is incorporated herein by reference.

Item 12. **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item 12 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2008 and is incorporated herein by reference.

Item 13. **Certain Relationships and Related Transactions and Director Independence**

The information required by this Item 13 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2008 and is incorporated herein by reference.

Item 14. **Principal Accountant Fees and Services**

The information required by this Item 14 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2008 and is incorporated herein by reference.

PART IV

Item 15. **Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

The following consolidated financial statements of REX Stores Corporation and subsidiaries are filed as a part of this report at Item 8 hereof.

Consolidated Balance Sheets as of January 31, 2008 and 2007

Consolidated Statements of Income for the years ended January 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended January 31, 2008, 2007 and 2006

Consolidated Statements of Shareholders’ Equity for the years ended January 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(a)(2) Financial Statement Schedules

The following financial statement schedule is filed as a part of this report at Item 8 hereof.

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

See Exhibit Index at page 95 of this report.

Management contracts and compensatory plans and arrangements filed as exhibits to this report are identified by an asterisk in the exhibit index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By STUART A. ROSE
Stuart A. Rose
Chairman of the Board and
Chief Executive Officer

Date: April 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
STUART A. ROSE Stuart A. Rose	Chairman of the Board and Chief Executive Officer (principal executive officer)	April 14, 2008
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 14, 2008
LAWRENCE TOMCHIN Lawrence Tomchin	Director	April 14, 2008
EDWARD M. KRESS Edward M. Kress	Director	April 14, 2008
ROBERT DAVIDOFF Robert Davidoff	Director	April 14, 2008
CHARLES A. ELCAN Charles A. Elcan	Director	April 14, 2008
DAVID S. HARRIS David S. Harris	Director	April 14, 2008
MERVYN L. ALPHONSO Mervyn L. Alphonso	Director	April 14, 2008

EXHIBIT INDEX

(3) *Articles of incorporation and by-laws:*

3(a)	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to Form 10-K for fiscal year ended January 31, 1994, File No. 0-13283)
3(b)(1)	By-Laws, as amended (incorporated by reference to Registration Statement No. 2-95738, Exhibit 3(b), filed February 8, 1985)
3(b)(2)	Amendment to By-Laws adopted June 29, 1987 (incorporated by reference to Exhibit 4.5 to Form 10-Q for quarter ended July 31, 1987, File No. 0-13283)

(4) *Instruments defining the rights of security holders, including indentures:*

4(a)	Amended and Restated Loan Agreement dated as of September 14, 2004 among Rex Radio and Television, Inc., as lead borrower, Kelly & Cohen Appliances, Inc., Rex Alabama, Inc., Rex Kansas, Inc., rexstores.com, Inc. and Stereo Town, Inc. (the “Borrowers”), the Lenders named therein, Fleet Retail Group, Inc. as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4(a) to Form 8-K filed September 17, 2004, File No. 001-09097)
4(b)	First Amendment to Amended and Restated Loan Agreement and Consent Under Amended and Restated Parent Guaranty dated as of August 5, 2005 among the Borrowers, REX Stores Corporation, the Lenders named therein, Fleet Retail Group, LLC as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended July 31, 2005, File No. 001-09097)
4(c)	Second Amendment to Amended and Restated Loan Agreement dated as of January 26, 2006 among the Borrowers, REX Stores Corporation, the Lenders named therein, Bank of America, N.A. (f/k/a Fleet Retail Group, Inc.) as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4 (c) to Form 10-K for fiscal year ended January 31, 2006, File No. 001-09097)
4(d)	Third Amendment to Amended and Restated Loan Agreement dated as of May 4, 2006 among the Borrowers, REX Stores Corporation, the Lenders named therein, Bank of America, N.A. (f/k/a Fleet Retail Group, Inc.) as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended April 30, 2006, File No. 001-09097)
4(e)	Fourth Amendment to Amended and Restated Loan Agreement dated as of August 18, 2006 among the Borrowers, REX Stores Corporation, the Lenders named therein, Bank of America, N.A. (f/k/a Fleet Retail Group, Inc.) as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended October 31, 2006, File No. 001-09097)

4(f)	Fifth Amendment to Amended and Restated Loan Agreement dated as of April 24, 2007 among the Borrowers, REX Stores Corporation, the Lenders named therein, Bank of America, N.A. (f/k/a Fleet Retail Group, Inc.) as agent for the Lenders and KeyBank National Association as syndication agent (incorporated by reference to Exhibit 4(a) to Form 8-K filed July 18, 2007, File No. 001-09097)
4(g)	Notice of Reduction of Commitments dated July 17, 2007 from Rex Radio and Television, Inc. as Lead Borrower, to Bank of America, N.A. as agent for the Lenders (incorporated by reference to Exhibit 4(b) to Form 8-K filed July 18, 2007, File No. 001-09097)
4(h)	Construction and Term Loan Agreement dated as of September 27, 2006 among Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent, the Lenders party thereto and Levelland Hockley County Ethanol, LLC (incorporated by reference to Exhibit 4(f) to Form 10-K for fiscal year ended January 31, 2007, File No. 001-09097)
(4i)	First Amendment to Construction and Term Loan Agreement and Other Loan Documents dated as of August 10, 2007 among Levelland Hockley County Ethanol, LLC, the Lenders party thereto, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent
4(j)	Second Amendment to Construction and Term Loan Agreement and Other Loan Documents dated as of February 15, 2008 among Levelland Hockley County Ethanol, LLC, the Lenders party thereto, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent
4(k)	Third Amendment to Construction and Term Loan Agreement and Other Loan Documents dated as of February 19, 2008 among Levelland Hockley County Ethanol, LLC, the Lenders party thereto, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent
4(l)	Construction Loan Agreement dated as of September 20, 2007 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant has not filed as an exhibit to this Form 10-K certain instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees to furnish a copy of such instruments to the Commission upon request.

(10) *Material contracts:*

10(a)*	Employment Agreement dated November 29, 2005 between Rex Radio and Television, Inc. and Stuart Rose (incorporated by reference to Exhibit 10(a) to Form 8-K filed November 30, 2005, File No. 001-09097)
10(b)*	Amended and Restated Amendment No. 1 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and Stuart A. Rose
10(c)*	Amendment No. 2 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and Stuart A. Rose
10(d)*	Employment Agreement dated October 11, 2005 between Rex Radio and Television, Inc. and David L. Bearden (incorporated by reference to Exhibit 10(a) to Form 8-K filed October 12, 2005, File No. 001-09097)
10(e)*	Amendment No. 1 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and David L. Bearden
10(f)*	Amendment No. 2 to Employment Agreement dated March 6, 2008 between Rex Radio and Television, Inc. and David L. Bearden
10(g)*	Executive Stock Option dated October 14, 1998 granting Lawrence Tomchin an option to purchase 150,000 shares of registrant’s Common Stock (incorporated by reference to Exhibit 10.4 to Form 10-Q for quarter ended October 31, 1998, File No. 001-09097)
10(h)*	Executive Stock Option dated April 17, 2001 granting Stuart Rose an option to purchase 500,000 shares of registrant’s Common Stock (incorporated by reference to Exhibit 10(g) to Form 10-K for fiscal year ended January 31, 2002, File No. 001-09097)
10(i)*	Executive Stock Option dated April 17, 2001 granting Lawrence Tomchin an option to purchase 150,000 shares of registrant’s Common Stock (incorporated by reference to Exhibit 10(h) to Form 10-K for fiscal year ended January 31, 2002, File No. 001-09097)
10(j)*	Subscription Agreement dated December 1, 1989 from Stuart Rose to purchase 300,000 shares of registrant’s Common Stock (incorporated by reference to Exhibit 6.5 to Form 10-Q for quarter ended October 31, 1989, File No. 0-13283)
10(k)*	Subscription Agreement dated December 1, 1989 from Lawrence Tomchin to purchase 140,308 shares of registrant’s Common Stock (incorporated by reference to Exhibit 6.6 to Form 10-Q for quarter ended October 31, 1989, File No. 0-13283)
10(l)*	1995 Omnibus Stock Incentive Plan, as amended and restated effective June 2, 1995 (incorporated by reference to Exhibit 4© to Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-81706)
10(m)*	1999 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10(a) to Form 10-Q for quarter ended April 30, 2000, File No. 001-09097)

	10(n)*	Form of Stock Option Agreement under 1999 Omnibus Stock Incentive Plan (Nonqualified Stock Option) (incorporated by reference to Exhibit 10(a) to Form 10-Q for quarter ended October 31, 2004, File No. 001-09097)
	10(o)*	Form of Stock Option Agreement under 1999 Omnibus Stock Incentive Plan (Nonemployee Director Stock Option) (incorporated by reference to Exhibit 10(b) to Form 10-Q for quarter ended October 31, 2004, File No. 001-09097)
	10(p)	Lease dated December 12, 1994 between Stuart Rose/Beavercreek, Inc. and Rex Radio and Television, Inc. (incorporated by reference to Exhibit 10(q) to Form 10-K for fiscal year ended January 31, 1995, File No. 0-13283)
	10(q)	Purchase and Sale Agreement dated February 8, 2007 among Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc., Stereo Town, Inc., REX Stores Corporation and Coventry Real Estate Investments, LLC (incorporated by reference to Exhibit 10(o) to Form 10-K for fiscal year ended January 31, 2007, File No. 001-09097)
(14)	*Code of Ethics:*	
	14(a)	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14(a) to Form 10-K for fiscal year ended January 31, 2004, File No. 001-09097)
(21)	*Subsidiaries of the registrant:*	
	21(a)	Subsidiaries of registrant
(23)	*Consents of experts and counsel:*	
	23	Consent of Deloitte & Touche LLP to use its report dated April 14, 2008 included in this annual report on Form 10-K into registrant's Registration Statements on Form S-8 (Registration Nos. 33-3836, 33-81706, 33-62645, 333-69081, 333-69089, 333-35118 and 333-69690)
(31)	Rule 13a-14(a)/15d-14(a) Certifications:	
	31	Certifications
(32)	*Section 1350 Certifications:*	
	32	Certifications
		Copies of the Exhibits not contained herein may be obtained by writing to Edward M. Kress, Secretary, REX Stores Corporation, 2875 Needmore Road, Dayton, Ohio 45414.

Those exhibits marked with an asterisk (*) above are management contracts or compensatory plans or arrangements for directors or executive officers of the registrant.

FIRST AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT AND OTHER LOAN DOCUMENTS

THIS FIRST AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT AND OTHER LOAN DOCUMENTS (this "Amendment"), dated as of August 7, 2007, is executed by and among LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC, a Texas limited liability company (the "Borrower"), each of the Lenders or other lending institutions which is a signatory hereto or any successor or assignee thereof, and MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., a Delaware corporation (in its capacity as administrative agent for the Lenders, together with its successors in such capacity, the "Administrative Agent").

R E C I T A L S:

A. The Borrower, the Lenders, and the Administrative Agent are parties to that certain Construction and Term Loan Agreement, dated as of September 27, 2006 (the "Loan Agreement"). The terms defined in the Loan Agreement and not otherwise defined herein shall be used herein as defined in the Loan Agreement.

B. In connection with the Loan Agreement, the Borrower and the Administrative Agent executed that certain Security Agreement dated as of September 27, 2006 (the "Security Agreement").

C. The Borrower, the Administrative Agent and the Lenders desire to amend the Loan Agreement and the Security Agreement as described herein, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows intending to be legally bound:

ARTICLE I

Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Loan Agreement, as amended hereby.

ARTICLE II

Amendments

Section 2.1 Amendment to Preamble of the Loan Agreement. Effective as of the date hereof, the reference to the street address "1012 Austin Street" in the Preamble of the Loan Agreement is deleted and the street address "103 South FM 2646" is inserted in lieu thereof.

Section 2.2 Amendments to Definitions in the Loan Agreement. Effective as of the date hereof, the following definitions in Section 1.1 of the Loan Agreement are amended and restated to read in their entirety as follows:

"Construction Costs" means all costs to acquire the Land and all equipment and materials that comprise the Improvements and to design and construct the Improvements, including labor and materials, architectural, engineering, interior and landscape design, legal, consulting and other related fees; costs for Construction Contracts; the Imposition costs; bond and insurance costs; and any financing costs payable to any creditor other than Administrative Agent or any Lender during the Construction Phase but excluding all financing costs payable to Administrative Agent and Lenders and including all Allocations itemized in the Budget under "Construction Costs".

"Note Amount" means $43,710,000.

Section 2.3 Amendments to Section 2.8(a) of the Loan Agreement. Effective as of the date hereof, Section 2.8(a) of the Loan Agreement is amended and restated in its entirety to read as follows:

(a) Procedures. Advances shall be made only once each Draw Period during the Construction Phase. Each Advance shall be in an amount of not less than the Minimum Advance, and Borrower shall not request an Advance for less than the Minimum Advance. Advances will be made only for actual costs incurred in accordance with the Budget and other provisions hereof. For each Advance, Borrower must submit to Administrative Agent and the Independent Consultant a written Draw Request. Each Draw Request must include the information and documentation required in this Agreement, along with the lien waivers and releases, information, certifications, approvals, instruments, and documents required as a condition to the requested Advance (except the down date endorsement to the Title Insurance must be received by Administrative Agent and the Independent Consultant prior to the date that the requested Advance is actually made). In each Draw Request, Borrower must (i) specify the amount of such Draw Request that applies to each Allocation; (ii) identify all funds being used to pay any portion of the costs reflected in the Draw Request other than the funds being requested to be advanced, and identify the sources and respective amounts from each source of such other funds; (iii) include a summary of all Budgeted costs to be paid pursuant to the Draw Request that are not covered by a payment application; and (iv) state the date the Advance is requested, which shall be at least 10 Business Days after Administrative Agent and the Independent Consultant receive the Draw Request but in no event earlier than the date payment is due under the applicable Construction Contracts. All Draw Requests shall account for the retainage and other withholdings required pursuant to Section 2.8(f). Except as otherwise provided in this Loan Agreement, all Advances will be deposited in the Construction Account; provided that if not all of the conditions to an Advance for Construction Costs have been met or satisfied (including if a Default or an Event of Default exists), but Administrative Agent and each Lender elects to make such Advance, then Administrative Agent and such Lender shall have the unconditional right, exercisable in Administrative Agent's and such Lender's sole discretion, to make such Advance, in whole or in part, upon such terms and conditions as

Administrative Agent may require, to one or more of (A) directly to Borrower by depositing same in the Construction Account, (B) directly to the Contractor, Design Professional, subcontractors, laborers, or materials suppliers owed, and/or (C) jointly to Borrower and any one or more of the Contractor, Design Professional, subcontractors, laborers, or materials suppliers owed. Borrower will hold the Advances deposited in the Construction Account (until payment to the proper payee) as a trust fund for the purpose of paying the respective costs contained in the Draw Request, pursuant to which such Advance was made. Borrower will apply all proceeds from Advances promptly to the payment of the respective costs specified in the subject Draw Request and for which the Advance is made, and will not use any part thereof for any other purpose. Borrower irrevocably authorizes Administrative Agent to make an Advance in an amount equal to the accrued and unpaid interest on the Loan notwithstanding that (i) such Advance may be less than the Minimum Advance, (ii) Borrower has previously requested an Advance during such Draw Period, (iii) Borrower has not satisfied the conditions contained in Sections 3.2, 3.4 and 3.5, (iv) Borrower has not provided a completed Draw Request and/or (v) a Default has occurred and is continuing.

Section 2.4 Amendments to Section 2.8(f) of the Loan Agreement. Effective as of the date hereof, Section 2.8(f) of the Loan Agreement is amended and restated to read in its entirety as follows:

(f) Retainage. An amount equal to 10% of all costs incurred pursuant to a Construction Contract for acquisition or construction of any Improvements, excluding Construction Contracts for design, and for which an Advance has been requested or made, plus the amount of any claims asserted by any laborers or materialmen against any portion of the Collateral pursuant to stop notices, lien claims or similar demands or notices received by Administrative Agent and the Independent Consultant (which have not been bonded against or otherwise secured in accordance with the applicable provisions of the Mortgage), shall be retained by Administrative Agent. Such retainage shall be paid over by Administrative Agent to Borrower, excluding the amount of any such unbonded or unsecured lien claims, plus potential costs and interest related thereto (which funds will be disbursed only as such claims are resolved or bonded around reasonably satisfactorily to Administrative Agent in addition to the satisfaction of the following conditions), plus the amounts to be retained upon substantial Completion under and as such term is defined in that certain Agreement between Owner and Design/Builder on the Basis of a Stipulated Price (the "Design /Builder Agreement") dated July 14, 2006 between Borrower and ICM, Inc., pursuant to Section 4.01. B.2 and 3 of the Design/Builder Agreement, when all of the following have occurred to the satisfaction of Administrative Agent:

(i) Administrative Agent has received a certificate of substantial completion, in form and substance acceptable to Administrative Agent, executed by Borrower, the Contractor and the appropriate Design Professional, and approved by the Independent Consultant, certifying, among other things, that all requirements for substantial Completion have been satisfied, the date of substantial Completion, that direct connection has been made to all proposed utility facilities and such utilities are available for use at the Project, and that the

construction of the Project has been completed (except the punch list items) in a good and workmanlike manner, free of defects and damages.

(ii) Administrative Agent and the Independent Consultant shall have received such other evidence as Administrative Agent may require that no mechanics' or materialmen's liens or other encumbrances have been filed and remain in effect against the Collateral, and the time periods for the filing of any stop notice or lien claim with respect to the construction of the Improvements shall have elapsed without the filing or providing of any such stop notice or lien claim. The Design Professional, Contractor, and all subcontractors and material suppliers who performed or provided work or materials related to the Improvements have been paid in full, subject to the release of the retainage as provided in this Section 2.8(f).

(iii) Each applicable Governmental Agency shall have duly inspected and approved the Improvements and the right of occupancy of same and issued the appropriate permits, licenses and certificates evidencing proper completion of the Improvements and the right of occupancy, to the extent that the Improvements require Governmental Agency inspection and the issuance of a permit, license or certificate, and Administrative Agent and the Independent Consultant shall have received satisfactory evidence of the foregoing or Administrative Agent shall have expressly waived any such requirement (which Administrative Agent may do in its sole discretion and subject to such conditions and requirements as Administrative Agent may impose).

(iv) All conditions to an Advance contained in Section 3.5 are met or satisfied.

Notwithstanding the previous provisions of this Section 2.8(f) to the contrary, Administrative Agent hereby agrees to release separately the amount of retainage withheld with respect to each subcontractor providing services or materials for the construction of the Improvements, but only after (A) all other conditions to an Advance are satisfied, (B) the Independent Consultant approves the separate release of such amount, and (C) such subcontractor and the Contractor execute an affidavit, lien waiver, and release in form and substance acceptable to Administrative Agent in Administrative Agent's sole discretion, for the benefit of Administrative Agent and Lenders (1) stating that the subcontractor has completed all of its services relating to the construction of the Improvements and has been paid in full for such services, and (2) providing a waiver and release by the subcontractor of any and all mechanic's and materialmen's or other Liens it may have against the Land, Improvements, and other Collateral. The amount retained for punch list items in accordance with Section 4.01. B.2(ii) of the Design/Builder Agreement and the $750,000 retained pursuant to Section 4.01. B.2(iii) of the Design/Builder Agreement shall be disbursed upon Administrative Agent's receipt of evidence satisfactory to Administrative Agent that all requirements under the Design/Builder Agreement for the release and disbursement of such retained funds have been met.

Section 2.5 Amendment to Section 2.13 of the Loan Agreement. Effective as of the date hereof, Section 2.13 of the Loan Agreement is amended and restated to read in its entirety as follows:

> Section 2.13 Borrower's Equity. All of Borrower's Equity shall be expended, and evidence thereof shall be provided to Administrative Agent prior to disbursement of any Advance; provided however, Borrower may retain a portion of Borrower's Equity for purposes of paying costs incurred by Borrower in accordance with the Budget prior to the date of Completion so long as (a) such amount of Borrower's Equity retained by Borrower shall not exceed in the aggregate $250,000 (or such other amount acceptable to Administrative Agent) during such period, (b) no Default has occurred and is continuing, (c) all such amounts are deposited into a deposit account that is subject to a first priority perfected lien in favor of Administrative Agent, (d) for budgeting purposes, the unused balance of such funds shall be considered "operating cash at start-up", and (e) Borrower provides to Administrative Agent such invoices and other documentation as Administrative Agent may request with respect to the proposed uses of such funds or that may otherwise be required or permitted for an Advance.

Section 2.6 Amendment to Section 3.1(g) of the Loan Agreement. Effective as of the date hereof, Section 3.1(g) of the Loan Agreement is amended and restated to read in its entirety as follows:

> (g) [Reserved.]

Section 2.7 Amendment to Exhibit C to the Loan Agreement. Effective as of the date hereof, all references in the Loan Agreement to "Exhibit C" shall be deemed to mean the "Exhibit C" attached hereto as Exhibit C.

Section 2.8 Amendment to Exhibit F to the Loan Agreement. Effective as of the date hereof, all references in the Loan Agreement to "Exhibit F" shall be deemed to mean the "Exhibit F" attached hereto as Exhibit F.

Section 2.9 Amendment to Schedule 2 to Security Agreement. Effective as of the date hereof, all references in the Security Agreement to "Schedule 2" shall be deemed to mean the "Schedule 2" attached hereto as Schedule 2.

ARTICLE III

Conditions Precedent

Section 3.1 Condition. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

> (a) Amendment. The Administrative Agent shall have received this Amendment executed by the Borrower, the Administrative Agent and the Majority Lenders.
>
> (b) No Default. No Default shall have occurred and be continuing.

(c) Representations and Warranties. All of the representations and warranties contained in Article IV of the Loan Agreement and in the other Loan Documents shall be true and correct on and as of the date of this Amendment with the same force and effect as if such representations and warranties had been made on and as of such date, except to the extent such representations and warranties speak to a specific date.

ARTICLE IV

No Waiver

Nothing contained herein shall be construed as a consent by the Administrative Agent and the Lenders to any breach of any covenant or provision of the Loan Agreement, the other Loan Documents, this Amendment, or of any other contract or instrument among Borrower, the Administrative Agent and the Lenders, and the failure of the Administrative Agent or any Lender at any time or times hereafter to require strict compliance by Borrower of any provision thereof shall not waive, affect or diminish any right of the Administrative Agent and the Lenders to thereafter demand strict compliance therewith. The Administrative Agent and the Lenders hereby reserve all rights granted under the Loan Agreement and the other Loan Documents (in each case as amended by this Amendment), and this Amendment and any other contract or instrument among Borrower, the Administrative Agent and the Lenders.

ARTICLE V

Ratifications, Representations and Warranties

Section 5.1 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and the other Loan Documents and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The Borrower, the Administrative Agent and the Majority Lenders agree that the Loan Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally.

Section 5.2 Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite corporate action on the part of the Borrower and will not violate the articles of organization, operating agreement or regulations or other organizational documents of the Borrower, (ii) the representations and warranties contained in the Loan Agreement, as such Loan Agreement is amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof except for those that relate solely to a specific date or have changed as a result of transactions permitted by the Loan Agreement, (iii) after giving effect to this Amendment, no Default has occurred and is continuing, and (iv) after giving effect to this Amendment, the Borrower is in full compliance with all material covenants and agreements contained in the Loan Agreement as amended hereby.

ARTICLE VI

Miscellaneous

Section 6.1 Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Document (as amended by this Amendment), including any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and such other Loan Documents, and no investigation by the Administrative Agent or any Lender shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely upon them.

Section 6.2 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.3 **GOVERNING LAW. THIS LOAN AGREEMENT, THE NOTE AND, UNLESS OTHERWISE EXPRESSLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS, SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF ILLINOIS, NOT INCLUDING ITS CONFLICT OF LAW PROVISIONS; PROVIDED THAT THE LAWS OF THE STATE WHERE REAL PROPERTY COLLATERAL IS LOCATED SHALL GOVERN WITH RESPECT TO THE CREATION, PERFECTION AND ENFORCEMENT OF RIGHTS, SECURITY INTERESTS, REMEDIES AND LIENS AGAINST THE REAL PROPERTY COLLATERAL.**

Section 6.4 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Administrative Agent, the Lenders and the Borrower and their respective successors and assigns, except the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of the Administrative Agent and the Lenders.

Section 6.5 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument. Facsimiles of signatures shall be binding and effective as originals.

Section 6.6 Effect of Waiver. No consent or waiver, express or implied, by the Administrative Agent or any Lender to or for any breach of or deviation from any covenant, condition or duty by the Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.7 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.8 ENTIRE AGREEMENT. THIS AMENDMENT, THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO RELATING TO THIS AMENDMENT AND SUPERSEDE ANY AND ALL PRIOR AND CONTEMPORANEOUS

COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

[Remainder of Document Intentionally Left Blank]

IN WITNESS WHEREOF, this Amendment is executed as of the date first set forth above.

BORROWER:

LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC

By: /s/ James P. Halbert
James P. Halbert
Vice President

ADMINISTRATIVE AGENT AND LENDER:

MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent and a Lender

By: /s/ Steve Coley
Steve Coley
Vice President, Group Credit Manager

OTHER LENDERS:

STATE BANK OF TEXAS,
as a Lender

By: /s/ Sushil Patel
Name: Sushil Patel
Title: CLO

PALM DESERT NATIONAL BANK,
as a Lender

By: /s/ C. Dawson-Voight
Name: Cheryl Dawson-Voight
Title: VP/Loan Administrator

COMMUNITY FIRST BANK,
as a Lender

By: /s/ Thomas J. Fleming
Name: Thomas J. Fleming
Title: Vice President

MIDWEST BANK OF WESTERN ILLINOIS,
as a Lender

By: /s/ Brad S. Ray
Name: Brad S. Ray
Title: Vice President

TEXAS CITIZENS BANK N.A.,
as a Lender

By: /s/ Cindy Howell
Name: Cindy Howell
Title: Vice President

EXHIBIT C

Form of Draw Request

[See Attached]

EXHIBIT F

Budget

[See Attached]

SCHEDULE 2

Addresses

		Address	Record Owner
(a)	Chief Executive Office:	103 South FM 2646 Levelland, TX 79336	Debtor
(b)	Locations where books and records are kept:	c/o RIO Technical Services Inc. 4200 South Hulen, Suite 630 Fort Worth, TX 76109	RIO Technical Services Inc.
(c)	Locations where Equipment and Inventory are kept:	103 South FM 2646 Levelland, TX 79336	Debtor
(d)	All other places of business not listed above:	None	None
(e)	Persons (other than Debtor) who have possession of Collateral or other property:	None	None

SECOND AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT

THIS SECOND AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT (this "Amendment"), dated as of February 15, 2008, is executed by and among LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC, a Texas limited liability company (the "Borrower"), each of the Lenders or other lending institutions which is a signatory hereto or any successor or assignee thereof, and MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., a Delaware corporation (in its capacity as administrative agent for the Lenders, together with its successors in such capacity, the "Administrative Agent").

R E C I T A L S:

A. The Borrower, the Lenders, and the Administrative Agent are parties to that certain Construction and Term Loan Agreement, dated as of September 27, 2006, as amended by that certain First Amendment to Construction and Term Loan Agreement and other Loan Documents dated as of August 10, 2007 (as has been and may be amended, modified, supplemented or restated from time to time, the "Loan Agreement").

B. The Borrower, the Administrative Agent and the Lenders desire to amend the Loan Agreement as described herein, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows intending to be legally bound:

ARTICLE I

Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Loan Agreement, as amended hereby.

ARTICLE II

Amendments

Section 2.1 Amendments to Definitions in the Loan Agreement. Effective as of the date hereof, the following definitions in Section 1.1 of the Loan Agreement are amended and restated to read in their entirety as follows:

"Commitment Expiration Date means the earlier of (a) May 31, 2008, (b) the day before the Conversion Date, or (c) the date on which the Commitment is terminated pursuant to Section 9.2(a).

"Maturity Date" means (a) as to the Construction Loan, the earliest of (i) May 31, 2008, (ii) the date Completion shall have occurred, plus 30 days or (iii) the date the

Commitments are sooner terminated and the Obligations are due and payable in accordance with Section 9.2, and (b) if the Construction Loan is converted to a Term Loan, then as to the Term Loan, the earlier of (i) the date that is the fifth anniversary of the Conversion Date, or (ii) the date the Note and the other Obligations are due and payable in accordance with Section 9.2.

Section 2.2 Amendment to Section 3.2(j) of the Loan Agreement. Effective as of the date hereof, Section 3.2(j) of the Loan Agreement is amended and restated in its entirety to read as follows:

(j) in Administrative Agent's determination, which cannot be made in bad faith, Completion will occur on or before May 31, 2008;

Section 2.3 Amendments to Section 7.6 of the Loan Agreement. Effective as of the date hereof, Section 7.6 of the Loan Agreement is amended by deleting all references to the date "March 31, 2008" and inserting in lieu thereof the date "May 31, 2008."

Section 2.4 Amendment to Section 9.1(m) of the Loan Agreement. Effective as of the date hereof, Section 9.1(m) of the Loan Agreement is amended and restated to read in its entirety as follows:

(m) Construction. The construction of the Improvements is (i) at any time discontinued for an unscheduled period of 10 or more consecutive days other than by reason of an event of Force Majeure, (ii) not resumed within 90 days after the date of any event of Force Majeure, or (iii) not completed by May 31, 2008, or Borrower is unable to satisfy any condition precedent to Borrower's right to receive Advances hereunder for a period in excess of 30 days after Administrative Agent's refusal to make any further Advances.

ARTICLE III

Conditions Precedent

Section 3.1 Condition. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

(a) Amendment. The Administrative Agent shall have received this Amendment executed by the Borrower, the Administrative Agent and the Lenders.

(b) No Default. No Default shall have occurred and be continuing.

(c) Representations and Warranties. All of the representations and warranties contained in Article IV of the Loan Agreement and in the other Loan Documents shall be true and correct on and as of the date of this Amendment with the same force and effect as if such representations and warranties had been made on and as of such date, except to the extent such representations and warranties speak to a specific date.

ARTICLE IV

No Waiver

Nothing contained herein shall be construed as a consent by the Administrative Agent and the Lenders to any breach of any covenant or provision of the Loan Agreement, the other Loan Documents, this Amendment, or of any other contract or instrument among Borrower, the Administrative Agent and the Lenders, and the failure of the Administrative Agent or any Lender at any time or times hereafter to require strict compliance by Borrower of any provision thereof shall not waive, affect or diminish any right of the Administrative Agent and the Lenders to thereafter demand strict compliance therewith. The Administrative Agent and the Lenders hereby reserve all rights granted under the Loan Agreement and the other Loan Documents (in each case as amended by this Amendment), and this Amendment and any other contract or instrument among Borrower, the Administrative Agent and the Lenders.

ARTICLE V

Ratifications, Representations and Warranties

Section 5.1 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and the other Loan Documents and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The Borrower, the Administrative Agent and the Lenders agree that the Loan Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally.

Section 5.2 Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite action on the part of the Borrower and will not violate the articles of organization, operating agreement or regulations or other organizational documents of the Borrower, (ii) the representations and warranties contained in the Loan Agreement, as such Loan Agreement is amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof except for those that relate solely to a specific date or have changed as a result of transactions permitted by the Loan Agreement, (iii) after giving effect to this Amendment, no Default has occurred and is continuing, and (iv) after giving effect to this Amendment, the Borrower is in full compliance with all material covenants and agreements contained in the Loan Agreement as amended hereby.

ARTICLE VI

Miscellaneous

Section 6.1 Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Document (as amended by this

Amendment), including any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and such other Loan Documents, and no investigation by the Administrative Agent or any Lender shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely upon them.

Section 6.2 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.3 **GOVERNING LAW. THIS LOAN AGREEMENT, THE NOTE AND, UNLESS OTHERWISE EXPRESSLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS, SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF ILLINOIS, NOT INCLUDING ITS CONFLICT OF LAW PROVISIONS; PROVIDED THAT THE LAWS OF THE STATE WHERE REAL PROPERTY COLLATERAL IS LOCATED SHALL GOVERN WITH RESPECT TO THE CREATION, PERFECTION AND ENFORCEMENT OF RIGHTS, SECURITY INTERESTS, REMEDIES AND LIENS AGAINST THE REAL PROPERTY COLLATERAL.**

Section 6.4 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Administrative Agent, the Lenders and the Borrower and their respective successors and assigns, except the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of the Administrative Agent and the Lenders.

Section 6.5 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument. Facsimiles of signatures shall be binding and effective as originals.

Section 6.6 Effect of Waiver. No consent or waiver, express or implied, by the Administrative Agent or any Lender to or for any breach of or deviation from any covenant, condition or duty by the Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.7 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.8 ENTIRE AGREEMENT. THIS AMENDMENT, THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO RELATING TO THIS AMENDMENT AND SUPERSEDE ANY AND ALL PRIOR AND CONTEMPORANEOUS COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

IN WITNESS WHEREOF, this Amendment is executed as of the date first set forth above.

BORROWER:

LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC

By: /s/ James P. Halbert
James P. Halbert
Vice President

ADMINISTRATIVE AGENT AND LENDER:

MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent and a Lender

By: /s/ Steve Coley
Steve Coley
Vice President, Group Credit Manager

<u>OTHER LENDERS</u>:

STATE BANK OF TEXAS,
as a Lender

By: /s/ Sushil Patel
Name: Sushil Patel
Title: CLO

PALM DESERT NATIONAL BANK,
as a Lender

By: /s/ C. Dawson-Voight
Name: Cheryl Dawson-Voight
Title: Vice President/Credit Administrator

COMMUNITY FIRST BANK,
as a Lender

By: /s/ Thomas J. Fleming
Name: Thomas J. Fleming
Title: Vice President

MIDWEST BANK OF WESTERN ILLINOIS,
as a Lender

By: /s/ Brad Ray
Name: Brad Ray
Title: Vice President

TEXAS CITIZENS BANK N.A.,
as a Lender

By: /s/ Cindy Howell
Name: Cindy Howell
Title: Vice President

INTERSTATE BANK, SSB,
as a Lender

By: /s/ David Bergin
Name: David Bergin
Title: President

THIRD AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT

THIS THIRD AMENDMENT TO CONSTRUCTION AND TERM LOAN AGREEMENT (this "Amendment"), dated as of February 19, 2008, is executed by and among LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC, a Texas limited liability company (the "Borrower"), each of the Lenders or other lending institutions which is a signatory hereto or any successor or assignee thereof, and MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., a Delaware corporation (in its capacity as administrative agent for the Lenders, together with its successors in such capacity, the "Administrative Agent").

R E C I T A L S:

A. The Borrower, the Lenders, and the Administrative Agent are parties to that certain Construction and Term Loan Agreement, dated as of September 27, 2006, as amended by (a) that certain First Amendment to Construction and Term Loan Agreement and other Loan Documents dated as of August 10, 2007 and (b) that certain Second Amendment to Construction and Term Loan Agreement dated as of February 15, 2008 (as has been and may be amended, modified, supplemented or restated from time to time, the "Loan Agreement").

B. The Borrower, the Administrative Agent and the Lenders desire to amend the Loan Agreement as described herein, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows intending to be legally bound:

ARTICLE I

Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Loan Agreement, as amended hereby.

ARTICLE II

Amendments

Section 2.1 Amendments to Definitions in the Loan Agreement. Effective as of the date hereof, the following definitions in Section 1.1 of the Loan Agreement are amended and restated to read in their entirety as follows:

> "Permitted Exceptions" means (a) Liens in favor of Administrative Agent for the benefit of itself and Lenders, (b) as to Real Property Collateral, the liens, easements, restrictions, security interests and other title matters, if any, as reflected on the mortgagee policy of title insurance accepted by Administrative Agent with respect to the Mortgage, (c) Liens of Governmental Agencies for taxes not yet due and payable, (d) Liens not

delinquent arising in the ordinary course of business and created by statute in connection with worker's compensation, unemployment insurance, social security and similar statutory obligations, (e) as to Personal Property Collateral, other non-consensual liens arising in the ordinary course of business for sums not due, (f) if Secured Parties' rights to and interest in the Collateral would not be materially and adversely affected thereby, any Liens for taxes or other non-consensual Liens against the Collateral arising in the ordinary course of business and being contested in good faith by appropriate proceedings, so long as adequate reserves are maintained with respect to such contested amounts in amount (including the amount contested, and potential costs, interest, and penalties) and manner acceptable to Administrative Agent, (g) as to grain in storage or in transit, byproducts and proceeds of byproducts but excluding grain in-process and proceeds of grain in-process, Liens in favor of a third party reasonably acceptable to Administrative Agent to secure Indebtedness permitted under Section 6.3(f), (h) Liens arising pursuant to the Rex Subordinated Debt Documents, (i) Liens arising pursuant to the New Rex Subordinated Debt Documents, and (j) any other Liens expressly permitted in writing by Administrative Agent.

"Rex Subordinated Debt Documents" means collectively, (a) that certain Convertible Secured Promissory Note Purchase Agreement dated effective as of November 22, 2005, by and between Borrower and Rex, as amended by that certain Amendment to Convertible Secured Promissory Note Purchase Agreement dated effective as of May 31, 2006 by and between Borrower and Rex, (b) that certain Amended and Restated Secured Promissory Note, dated July 1, 2007, in an original principal amount of $307,600.75 executed by Borrower and payable to the order of FEL, (c) that certain Guaranty dated as of May 31, 2006 executed by Rex Stores Corporation, a Delaware corporation, in favor of Borrower, (d) that certain Right of First Offer and Co-Sale Agreement dated effective as of November 22, 2005 by and among Rex, RIO, Lindy Walker and James P. Halbert, all as assigned by Rex to FEL under that certain Assignment and Acknowledgement dated as of July 19, 2006 pursuant to which Rex assigned all its rights to FEL under the documents described in clauses (a), (b) and (d) above, and (e) any subordinate security agreements and mortgages or deeds of trust securing payment thereof to the extent the terms and provisions thereof are reasonably satisfactory to Administrative Agent.

"Subordination Agreement" means, that certain Subordination Agreement dated as of the Closing Date, by and among Administrative Agent, Borrower and FEL, as amended by certain First Amendment to Subordination Agreement dated as of February 19, 2008, by and among Administrative Agent, Borrower and FEL, as the same has been and may be amended, restated or modified from time to time, all in form and substance satisfactory to Administrative Agent.

Section 2.2 Addition of Definitions to the Loan Agreement. Effective as of the date hereof, the following definitions are added to Section 1.1 of the Loan Agreement to read as follows:

"New Rex Subordinated Debt" means the Indebtedness in an aggregate original principal amount of up to $5,000,000 evidenced by the New Rex Subordinated Debt Documents.

"New Rex Subordinated Debt Documents" means, collectively (a) that certain Convertible Secured Promissory Note Purchase Agreement dated effective as of January 29, 2008 by and among Borrower, Rex Stores Corporation, a Delaware corporation, and FEL, (b) that certain Convertible Secured Promissory Note in an original principal amount of up to $5,000,000 to be issued by Borrower and payable to the order of FEL pursuant to the Convertible Secured Promissory Note Purchase Agreement described in clause (a) above, and (c) any subordinate security agreements and mortgages or deeds of trust securing payment thereof to the extent the terms and provisions thereof are reasonably satisfactory to Administrative Agent.

Section 2.3 Amendment to Section 6.3(d) of the Loan Agreement. Effective as of the date hereof, Section 6.3(d) of the Loan Agreement is amended and restated in its entirety to read as follows:

(d) [Reserved]

Section 2.4 Amendment to Section 6.3(f) of the Loan Agreement. Effective as of the date hereof, Section 6.3(f) of the Loan Agreement is amended and restated to read in its entirety as follows:

(f) other Indebtedness (including without limitation, the New Rex Subordinated Debt) not to exceed $8,000,000 in the aggregate at any one time outstanding for general working capital purposes, including without limitation, the financing of grain in storage and in transit.

Section 2.5 Amendment to Section 6.5 of the Loan Agreement. Effective as of the date hereof, Section 6.5 of the Loan Agreement is amended and restated to read in its entirety as follows:

Section 6.5 Restricted Payments. Borrower shall not make or permit any Restricted Payment, except Borrower may (a) prepay in full the FEL Subordinated Debt and the Rex Subordinated Debt and (b) may pay the New Rex Subordinated Debt to the extent permitted in the Subordination Agreement.

Section 2.6 Amendment to Section 6.8 of the Loan Agreement. Effective as of the date hereof, Section 6.8 of the Loan Agreement is amended and restated to read in its entirety as follows:

Section 6.8 Amendments to Entity Documents and Other Agreements. Borrower will not, and will not permit any Subsidiary to, amend its formation or governing documents without the prior written consent of Administrative Agent. Borrower will not amend, modify, waive or consent to any change or modification in any material agreement, document, contract or instrument to which it is a party, including without limitation, any Rex Subordinated Debt Documents, any FEL Subordinated Debt

Documents, any New Rex Subordinated Debt Documents, any Operating Contract, any Construction Contract, any Property Contract or the Plan, except (a) as otherwise permitted pursuant to Section 7.5 or (b) with the prior written consent of the Administrative Agent.

ARTICLE III

Conditions Precedent

Section 3.1 Condition. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

(a) Amendment. The Administrative Agent shall have received this Amendment executed by the Borrower, the Administrative Agent and the Lenders.

(b) First Amendment to Subordination Agreement. The Administrative Agent shall have received the First Amendment to Subordination Agreement executed by the Administrative Agent, the Borrower and FEL.

(c) New Rex Subordinated Debt Documents. The Administrative Agent shall have received a copy of the executed New Rex Subordinated Debt Documents certified by the Borrower to be true, correct and complete copies.

(d) Payoff of Rex Subordinated Debt Documents. The Administrative Agent shall have received evidence satisfactory to the Administrative Agent that the Rex Subordinated Debt has been paid in full (or will be paid concurrent with the funding of the New Rex Subordinated Debt).

(e) No Default. No Default shall have occurred and be continuing.

(f) Representations and Warranties. All of the representations and warranties contained in Article IV of the Loan Agreement and in the other Loan Documents shall be true and correct on and as of the date of this Amendment with the same force and effect as if such representations and warranties had been made on and as of such date, except to the extent such representations and warranties speak to a specific date.

ARTICLE IV

No Waiver

Nothing contained herein shall be construed as a consent by the Administrative Agent and the Lenders to any breach of any covenant or provision of the Loan Agreement, the other Loan Documents, this Amendment, or of any other contract or instrument among Borrower, the Administrative Agent and the Lenders, and the failure of the Administrative Agent or any Lender at any time or times hereafter to require strict compliance by Borrower of any provision thereof shall not waive, affect or diminish any right of the Administrative Agent and the Lenders to thereafter demand strict compliance therewith. The Administrative Agent and the Lenders hereby reserve all rights granted under the Loan Agreement and the other Loan Documents (in

each case as amended by this Amendment), and this Amendment and any other contract or instrument among Borrower, the Administrative Agent and the Lenders.

ARTICLE V

Ratifications, Representations and Warranties

Section 5.1 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and the other Loan Documents and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The Borrower, the Administrative Agent and the Lenders agree that the Loan Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally.

Section 5.2 Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite action on the part of the Borrower and will not violate the articles of organization, operating agreement or regulations or other organizational documents of the Borrower, (ii) the representations and warranties contained in the Loan Agreement, as such Loan Agreement is amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof except for those that relate solely to a specific date or have changed as a result of transactions permitted by the Loan Agreement, (iii) after giving effect to this Amendment, no Default has occurred and is continuing, and (iv) after giving effect to this Amendment, the Borrower is in full compliance with all material covenants and agreements contained in the Loan Agreement as amended hereby.

ARTICLE VI

Miscellaneous

Section 6.1 Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Document (as amended by this Amendment), including any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and such other Loan Documents, and no investigation by the Administrative Agent or any Lender shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely upon them.

Section 6.2 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.3 **<u>GOVERNING LAW</u>. THIS LOAN AGREEMENT, THE NOTE AND, UNLESS OTHERWISE EXPRESSLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS, SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF ILLINOIS, NOT INCLUDING ITS CONFLICT OF LAW PROVISIONS; PROVIDED THAT THE LAWS OF THE STATE WHERE REAL PROPERTY COLLATERAL IS LOCATED SHALL GOVERN WITH RESPECT TO THE CREATION, PERFECTION AND ENFORCEMENT OF RIGHTS, SECURITY INTERESTS, REMEDIES AND LIENS AGAINST THE REAL PROPERTY COLLATERAL.**

Section 6.4 <u>Successors and Assigns</u>. This Amendment is binding upon and shall inure to the benefit of the Administrative Agent, the Lenders and the Borrower and their respective successors and assigns, except the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of the Administrative Agent and the Lenders.

Section 6.5 <u>Counterparts</u>. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument. Facsimiles of signatures shall be binding and effective as originals.

Section 6.6 <u>Effect of Waiver</u>. No consent or waiver, express or implied, by the Administrative Agent or any Lender to or for any breach of or deviation from any covenant, condition or duty by the Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.7 <u>Headings</u>. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.8 <u>ENTIRE AGREEMENT</u>. THIS AMENDMENT, THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO RELATING TO THIS AMENDMENT AND SUPERSEDE ANY AND ALL PRIOR AND CONTEMPORANEOUS COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

[Remainder of Document Intentionally Left Blank]

IN WITNESS WHEREOF, this Amendment is executed as of the date first set forth above.

BORROWER:

LEVELLAND/HOCKLEY COUNTY ETHANOL, LLC

By: /s/ James P. Halbert
James P. Halbert
Vice President

ADMINISTRATIVE AGENT AND LENDER:

MERRILL LYNCH CAPITAL, a division of Merrill Lynch Business Financial Services Inc., as Administrative Agent and a Lender

By: /s/ Steve Coley
Steve Coley
Vice President, Group Credit Manager

OTHER LENDERS:

STATE BANK OF TEXAS,
as a Lender

By: ______________________________
Name: ___________________________
Title: ___________________________

PALM DESERT NATIONAL BANK,
as a Lender

By: /s/ Cheryl Dawson-Voight
Name: Cheryl Dawson-Voight
Title: VP/Credit Administrator

COMMUNITY FIRST BANK,
as a Lender

By: /s/ Thomas J. Fleming
Name: Thomas J. Fleming
Title: Vice President

MIDWEST BANK OF WESTERN ILLINOIS,
as a Lender

By: ______________________________
Name: ____________________________
Title: ____________________________

TEXAS CITIZENS BANK N.A.,
as a Lender

By: ______________________________
Name: ______________________________
Title: ______________________________

INTERSTATE BANK, SSB,
as a Lender

By: ______________________________
Name: ____________________________
Title: _____________________________

CONSTRUCTION LOAN AGREEMENT

This Construction Loan Agreement (the "AGREEMENT") is dated as of the 20th day of September, 2007, and is by and among **ONE EARTH ENERGY, LLC**, an Illinois limited liability company ("BORROWER"), **FIRST NATIONAL BANK OF OMAHA** ("FNBO"), a national banking association headquartered at Omaha, Nebraska as a BANK and as administrative agent for the BANKS (in such capacity, the “ADMINISTRATIVE AGENT”), as accounts bank (in such capacity, the “ACCOUNTS BANK”) and as collateral agent for the BANKS (in such capacity, the “COLLATERAL AGENT”), and the other financial institutions which are or may become a party to this AGREEMENT in accordance with the terms of this AGREEMENT and listed in Exhibit H to this AGREEMENT.

WHEREAS, BORROWER has requested BANKS to lend to BORROWER up to the sum of the lesser of (i) One Hundred Million and No/100 Dollars ($100,000,000.00) or (ii) sixty percent (60%) of the TOTAL PROJECT COST as shown in the TOTAL PROJECT COST STATEMENT (the "CONSTRUCTION LOAN"), for the purpose of partially funding the cost of the construction of an ethanol plant on the real estate described in Exhibit F attached hereto and by this reference made a part hereof (together with all property encumbered by the MORTGAGE or otherwise constituting collateral for the LAONS, the "PROPERTY") together with a Ten Million and No/100 Dollars ($10,000,000.00) revolving line of credit ("REVOLVING LOAN"), up to One Million and No/100 Dollars ($1,000,000.00) to support the issuance by FNBO of Letters of Credit, and SWAP CONTRACTS with an additional exposure to FNBO. The foregoing may be collectively referred to in this AGREEMENT as the “LOANS” and singly referred to as a “LOAN”.

WHEREAS, BANKS are willing to provide such LOANS to BORROWER upon the terms and conditions herein set forth.

SECTION 1 Definitions.

1.1 “ACCOUNTS BANK” means FNBO in its capacity as depositary bank, bank and securities intermediary hereunder, and any successor to FNBO in such capacity.

1.2 **“**ADJUSTED EBITDA” means EBITDA less taxes, less capital expenditures and less TAX DISTRIBUTIONS and other distributions permitted under this AGREEMENT, in each case for the applicable reporting period.

1.3 “ADMINISTRATIVE AGENT” means FNBO in its capacity as administrative agent for the BANKS hereunder, and any successor to FNBO in such capacity.

1.4 "AGENT" means collectively, the ACCOUNTS AGENT, ADMINISTRATIVE AGENT and COLLATERAL AGENT.

1.5 "ASSIGNMENT OF CONSTRUCTION CONTRACT" means the assignment of that certain Lump Sum Design-Build Agreement ("CONSTRUCTION CONTRACT") between BORROWER and Fagen, Inc. (the "DESIGN-BUILDER") dated June 13, 2007 for construction of the PROJECT in

accordance with PLANS applicable thereto, by which BORROWER assigns, as additional security for repayment of the OBLIGATIONS, BORROWER's interest in the CONSTRUCTION CONTRACT in a form acceptable to COLLATERAL AGENT, and pursuant to which BORROWER collaterally assigns to COLLATERAL AGENT all other construction contracts relating to the PROJECT.

1.6 "BANKS" means collectively the financial institutions which are or become a party to this AGREEMENT and agree to make the LOANS to BORROWER, with any one of the BANKS individually referred to as a "BANK".

1.7 "BANKING DAY" means a day on which ADMINISTRATIVE AGENT is open for substantially all of its business. "EURODOLLAR BUSINESS DAY" means a BANKING DAY on which commercial banks are open for international business (including dealings in U.S. Dollar deposits) in London, England.

1.8 "BORROWING BASE" means the lesser of:

(i) $10,000,000.00,

or

(ii) The aggregate of (i) 75% of BORROWER's corn inventory value as reported by Alliance Grain Co. of Gibson City, Illinois on the date reported to ADMINISTRATIVE AGENT less all accounts payable for such corn inventory, plus (ii) 75% of the amount of BORROWER's Ethanol and Distillers Grains Accounts aged thirty (30) days or less, excluding any such Accounts reasonably deemed ineligible by BANK, plus (iii) 75% of BORROWER's Finished Goods-Ethanol and Distillers Grains Inventory (both wet and dry), valued at the lower of cost or market value, plus (iv) 100% of the positive balance of BORROWER’s hedging accounts pledged to, and subject to a perfected security interest in favor of, COLLATERAL AGENT, valued at fair market value on the date of reporting and less (v) the negative balance of BORROWER’s hedging accounts pledged to, and subject to a perfected security interest in favor of, COLLATERAL AGENT.

1.9 "CLOSING" shall mean the date on which ADMINISTRATIVE AGENT receives this AGREEMENT, executed by BORROWER and the BANKS, together with the CONSTRUCTION NOTES, the REVOLVING NOTES and the other LOAN DOCUMENTS which must be delivered by the CLOSING as provided for in this Agreement.

1.10 “COLLATERAL AGENT” means FNBO in its capacity as collateral agent for the BANKS hereunder, and any successor to FNBO in such capacity.

1.11 "COMMITMENTS" means with respect to each BANK, as applicable, such BANK’s respective amount of each LOAN, as applicable, committed to BORROWER by such BANK under this AGREEMENT, which COMMITMENTS for each BANK are listed in Exhibit H to this AGREEMENT.

1.12 "CONSTRUCTION LOAN TERMINATION DATE" means the earlier of (i) July 31, 2009, or (ii) such earlier date upon which BANKS' commitment to make a disbursement under the CONSTRUCTION LOAN is terminated in accordance with the terms of the CONSTRUCTION NOTES or this AGREEMENT and the outstanding balance of the CONSTRUCTION LOAN became due and payable in full.

1.13 "COMPLETION DATE" means the earlier of July 15, 2009, or the date ADMINISTRATIVE AGENT determines following a proper inspection and in the exercise of ADMINISTRATIVE AGENT's reasonable discretion, that the PROJECT has been completed in accordance with the PLANS.

1.14 "CONSTRUCTION NOTES" means the promissory notes executed and delivered by BORROWER to each BANK substantially in the form of Exhibit A evidencing borrowings under the CONSTRUCTION LOAN up to an aggregate maximum amount of the lesser of (i) One Hundred Million and No/100 Dollars ($100,000,000.00), and (ii) sixty percent (60%) of the TOTAL PROJECT COST.

1.15 “DEFAULTING BANK” means any BANK that (a) has failed to make any portion of the LOANS required to be funded by it hereunder on the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the ADMINISTRATIVE AGENT or any other BANK any other amount required to be paid by it hereunder or under any LOAN DOCUMENT within one (1) BANKING DAY of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent, become the subject of a bankruptcy or insolvency proceeding or had its assets and/or control frozen or seized by the applicable banking regulators or other governmental agency.

1.16 "DRAW REQUEST" means forms acceptable to ADMINISTRATIVE AGENT to be submitted to ADMINISTRATIVE AGENT by BORROWER when an advance is requested under the CONSTRUCTION LOAN.

1.17 "EBITDA" means without duplication Earnings Before Interest, Taxes, Depreciation and Amortization, in each case during the applicable reporting period, all as determined in accordance with GAAP.

1.18 “EQUITY INTEREST” means, with respect to any PERSON, all of the shares of capital stock or units, shares or membership interests of (or other ownership or profit interests in) such PERSON, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock or units, shares or membership interests of (or other ownership or profit interests in) such PERSON or warrants, rights or options for the purchase or acquisition from such PERSON of such shares, units or membership interests (or such other interests), and all of the other ownership or profit interests in such PERSON (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, units, membership interests, warrants, options, rights or other interests are outstanding on any

date of determination, in each such case including all voting rights and economic rights related thereto.

1.19 "EVENT OF DEFAULT" has the meaning provided for in Section 7 of this AGREEMENT.

1.20 "EXCESS CASH FLOW" means ADJUSTED EBITDA, less scheduled payments on the LOANS, in each case for the applicable reporting period.

1.21 "FIXED CHARGE COVERAGE RATIO" means the ratio derived when comparing (i) ADJUSTED EBITDA to (ii) BORROWER's scheduled payments on the principal and interest of the LOANS made during the applicable reporting period, excluding any principal repaid on REVOLVING LOAN and LONG TERM REVOLVING NOTES.

1.22 "GAAP" means generally accepted accounting principles in the United States, applied on a basis consistent with the accounting principles applied in the preparation of the annual financial statements of BORROWER referred to in Section 6.1 of this AGREEMENT and the PROJECTIONS described in Section 5.7 of this AGREEMENT. All accounting terms not otherwise defined in this AGREEMENT have the meaning assigned to them in accordance with GAAP.

1.23 "INDEBTEDNESS" means, as to BORROWER, all indebtedness for borrowed money from any lender including long-term debt, short-term debt, the NEGATIVE TERMINATION VALUE of SWAP CONTRACTS, and capital leases.

1.24 "INDEPENDENT INSPECTOR" means the firm which will be retained by ADMINISTRATIVE AGENT, at BORROWER's cost, to conduct on site inspections of the work-in-progress on the PROJECT, and to issue periodic reports to BANKS as to the progress of construction of the PROJECT and adherence to the PLANS.

1.25 "INTEREST PERIOD" means for the FIXED RATE NOTES, VARIABLE RATE NOTES, CONSTRUCTION NOTES and LONG TERM REVOLVING NOTES a period of three (3) months, and for the REVOLVING NOTES a period of one (1) month; provided that:

1.25.1 subject to clause 1.25.2 below, any INTEREST PERIOD which would otherwise end on a day which is not a EURODOLLAR BUSINESS DAY shall be extended to the next succeeding EURODOLLAR BUSINESS DAY; and

1.25.2 no INTEREST PERIOD shall extend beyond the LOAN TERMINATION DATE applicable to such NOTE.

1.26 "LIBOR RATE" means, for each INTEREST PERIOD, the London Interbank Offered Rate for U.S. Dollar Deposits for such INTEREST PERIODS as quoted by the Bloomberg service or such other vendor chosen by ADMINISTRATIVE AGENT for the purpose of determining the London Interbank Offered Rate for U.S. Dollar Deposits for each INTEREST PERIOD.

1.27 "LOAN DOCUMENTS" means this AGREEMENT and each agreement or instrument referred to in Section 4 of this AGREEMENT which is executed by or on behalf of BORROWER to govern, evidence or secure the OBLIGATIONS.

1.28 "LOAN TERMINATION DATE" means the earliest to occur of the following: (i) as to the CONSTRUCTION NOTES, the CONSTRUCTION LOAN TERMINATION DATE, as to the REVOLVING NOTES, September 19, 2008, as to the FIXED RATE NOTES, the VARIABLE RATE NOTES, and as to the LONG TERM REVOLVING NOTES, a date which is five years subsequent to the CONSTRUCTION LOAN TERMINATION DATE, (ii) the date the OBLIGATIONS are accelerated pursuant to this AGREEMENT, and (iii) the date ADMINISTRATIVE AGENT has received (a) notice in writing from BORROWER of BORROWER's election to terminate this AGREEMENT and (b) indefeasible payment in full of the OBLIGATIONS.

1.29 “MATERIAL ADVERSE EFFECT” means any event or circumstance which (i) is reasonably likely to materially impair or adversely effect the ability of BORROWER to perform and pay the OBLIGATIONS and to perform and comply with the terms and provisions of the LOAN DOCUMENTS or (ii) would or could reasonably be expected to impair or adversely effect the financial condition of BORROWER, or the construction or operation of the PROJECT.

1.30 MARKETING AND RISK MANAGEMENT CONTRACTS" means the contracts between BORROWER and third parties for the marketing and sale of ethanol products, the marketing and sale of distiller’s dried grains (“DDGS”), risk management, grain procurement, and commodity hedging accounts, all of which shall be assigned to the COLLATERAL AGENT and shall be subject to the reasonable approval of the ADMINISTRATIVE AGENT.

1.31 “MAXIMUM AVAILABILITY” means the maximum principal amount on the LONG TERM REVOLVING NOTES available to BORROWER for borrowing on the date of determination (which shall initially be $10,000,000.00) as such MAXIMUM AVAILABILITY is reduced by (i) $250,000.00 on each REDUCTION DATE and (ii) the EXCESS CASH FLOW calculation provided for in Section 6.2.3 of this AGREEMENT on each EXCESS CASH FLOW REDUCTION DATE as defined in Section 6.2.3 of this AGREEMENT.

1.32 "MORTGAGE" means the Construction Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statement executed and delivered by BORROWER as grantor in favor of COLLATERAL AGENT as mortgagee and COLLATERAL AGENT for the BANKS, creating a first lien on the PROPERTY and a security interest in all of the personal property located on the PROPERTY as security for payment of the OBLIGATIONS, and all modifications and amendments thereof.

1.33 "NEGATIVE TERMINATION VALUE" means, with respect to any SWAP CONTRACT of BORROWER, the amount (if any) that BORROWER would be required to pay if such SWAP CONTRACT were terminated by reason of a default by or other termination event relating to BORROWER, such amount to be determined on the basis of a good faith estimate made by ADMINISTRATIVE AGENT, in consultation with BORROWER. The NEGATIVE

TERMINATION VALUE of any such SWAP CONTRACT at any date shall be determined (i) as of the end of the most recent fiscal quarter ended on or prior to such date if such SWAP CONTRACT was then outstanding or (ii) as of the date such SWAP CONTRACT is terminated. However, if an applicable agreement between BORROWER and the relevant counterparty provides that, upon any such termination by such counterparty, one or more other SWAP CONTRACTS (if any exist) between BORROWER and such counterparty would also terminate and the amount (if any) payable by BORROWER would be a net amount reflecting the termination of all the SWAP CONTRACTS so terminated, then the NEGATIVE TERMINATION VALUE of all the SWAP CONTRACTS subject to such netting shall be, at any date, a single amount equal to such net amount (if any) payable by BORROWER, determined as of the later of (i) the end of the most recently ended fiscal quarter or (ii) the date on which the most recent SWAP CONTRACT subject to such netting was terminated.

1.34 "NET WORTH" means, as to BORROWER as of any date, total assets less total liabilities and less the following types of assets: (1) leasehold improvements; (2) receivables (other than those created by sale of goods) from a member and other investments in or amounts due from any member, employee or other person or entity related to or affiliated with BORROWER); (3) goodwill, patents, copyrights, mailing lists, trade names, trademarks, servicing rights, organizational and franchise costs, bond underwriting costs and other like assets properly classified as intangible, and (4) treasury stock or equity interests in BORROWER, all as determined in accordance with GAAP; provided, however, (x) NET WORTH shall not include any debt due to BORROWER not acceptable to ADMINISTRATIVE AGENT in the exercise of its reasonable discretion, and (y) any TIF Grant funds actually received by BORROWER may be included in the determination of total assets.

1.35 "OBLIGATIONS" means the obligation of the BORROWER:

1.35.1 To pay the principal of, and interest on, the LOANS in accordance with the terms thereof**,** to pay any fees owed to ADMINISTRATIVE AGENT or BANKS under this AGREEMENT**,** and to satisfy all of its other liabilities to BANKS whether hereunder or otherwise, whether now existing or hereafter incurred, matured or unmatured, direct or contingent, joint or several, including any extensions, modifications, renewals thereof, and substitutions therefore and including, but not limited to, any obligations under letter of credit agreements and SWAP CONTRACTS;

1.35.2 To repay to BANKS all amounts advanced by BANKS hereunder, under any other LOAN DOCUMENT (including, without limitation, any protective advance made under the MORTGAGE) or otherwise on behalf of BORROWER, including, but without limitation, advances for principal or interest payments to prior secured parties, mortgagees, or licensors, or taxes, levies, insurance, rent, or repairs to, or maintenance or storage of, any of the real or personal property securing BORROWER's payment and performance of this AGREEMENT; and

1.35.3 To reimburse BANKS, on demand, for BANKS' reasonable and necessary out of pocket expenses and costs, including the reasonable fees and expenses of counsel, in connection with the preparation, administration, amendment, modification, or enforcement of

---

this AGREEMENT and the LOAN DOCUMENTS required hereunder, including, without limitation, any proceeding brought or threatened, to enforce payment of any of the OBLIGATIONS referred to in this section of the AGREEMENT.

1.36 "PERMIT" or "PERMITS" means any and all licenses, consents or permits required under any federal, state or local law or regulation, including, but not limited to any environmental law or regulation, required to construct and operate the facility on the PROPERTY after completion of the PROJECT at its operational capacity, including without limitation the following:

1.36.1 An air emissions permit, which PERMIT will allow BORROWER after the COMPLETION DATE to operate the ethanol plant on the PROPERTY after construction of the PROJECT at maximum capacity;

1.36.2 All permits required in connection with the construction and operation of all above or below ground storage tanks included in the PLANS for the ethanol plant;

1.36.3 A National Pollution Discharge Elimination System Construction Permit for any storm water and/or waste water that is discharged during construction and after construction of the PROJECT; and

1.36.4 The other permits listed on Exhibit I attached hereto and incorporated herein by reference.

1.37 “PERSON” means an individual, partnership, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, GOVERNMENTAL AUTHORITY, or other entity of whatever nature. GOVERNMENTAL AUTHORITY means any federal, state, county, or local governmental department, commission, board, bureau, agency, authority, instrumentality or judicial or regulatory body or entity having or asserting jurisdiction as to any of the PROPERTY, the PROJECT or BORROWER, either during the construction of the PROJECT or the operation of the PROJECT following completion thereof, including courts of appropriate jurisdiction.

1.38 "PLANS" means collectively all of the plans, specifications and materials listing for the construction of the PROJECT, including but not limited to the plans, specifications and materials prepared by Fagen Engineering, LLC (“FAGEN ENGINEERING”) and DESIGN-BUILDER on behalf of BORROWER for the construction of the ethanol plant and certified to BANKS as the plans for the ethanol plant by the DESIGN-BUILDER, FAGEN ENGINEERING and BORROWER.

1.39 "PROJECT" means collectively the design and construction of BORROWER’s ethanol plant, administration building and railroad spur, together with all necessary and appropriate fixtures, equipment, attachments, and accessories, as described in the PLANS and the plans, specifications and materials listing relating to the administration building and railroad spur, to be constructed on the PROPERTY.

1.40 “REDUCTION DATE” means the date of any scheduled quarterly payment on the TERM LOANS as provided for in Section 2.5 below, on which dates the MAXIMUM AVAILABILITY on the LONG TERM REVOLVING NOTE shall reduce by $250,000.00.

1.41 "REQUIRED BANKS" means, at any time, ADMINISTRATIVE AGENT and any combination of BANKS (other than AGENT) whose COMMITMENTS in the LOANS aggregate at least fifty-one percent (51%) of the aggregate COMMITMENTS; provided, however, that the COMMITMENTS of any DEFAULTING BANK other than AGENT shall be excluded for purposes of making a determination of the REQUIRED BANKS.

1.42 "REVOLVING NOTES" means the promissory note of BORROWER to each BANK in the amount of such BANK’s COMMITMENT evidencing the REVOLVING LOAN described in Section 2.8 of this AGREEMENT, its renewals, modifications and extensions.

1.43 "SECURITY AGREEMENT" means the SECURITY AGREEMENT between BORROWER, as debtor, and COLLATERAL AGENT, as secured party and collateral agent for the BANKS, creating a first priority security interest in all of BORROWER's assets, including general intangibles and payment intangibles, securing the OBLIGATIONS.

1.44 "SUBCONTRACTOR" means any person who contracts with the DESIGN-BUILDER, the general contractor of the administration building, the general contractor of the railroad spur or BORROWER to perform any work or supply any of the materials or equipment necessary to complete the PROJECT.

1.45 "SWAP CONTRACT" or "SWAP CONTRACTS" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. Provided, however, the term SWAP CONTRACT shall not, for the purposes of this AGREEMENT, include commodity hedging or commodity risk management contracts. The term "commodity" includes ethanol, grain, natural gas and other traded commodities.

1.46 “TAX DISTRIBUTIONS” means quarterly cash distributions to BORROWER’s members for the purpose of paying their respective quarterly estimated federal and state income tax payments required to be made by each of BORROWER’s members based upon the operations of BORROWER and the resulting federal and state income tax liability of such members in an amount based upon an assumed combined federal and state tax rate for each member of 42%.

1.47 "TERM NOTES" means collectively the FIXED RATE NOTES, VARIABLE RATE NOTES and LONG TERM REVOLVING NOTES to be executed by BORROWER in favor of each BANK up to the amount of each BANKS COMMITMENT which evidence permanent financing to pay the CONSTRUCTION LOAN as described in Section 2.5 of this AGREEMENT, their renewals, modifications and extensions.

1.48 "TOTAL PROJECT COST" means the aggregate total cost to acquire the PROPERTY and construct the PROJECT, including all hard and soft costs, as shown in the TOTAL PROJECT COST STATEMENT.

1.49 "TOTAL PROJECT COST STATEMENT" means the budget detailing by category the TOTAL PROJECT COST to acquire the PROPERTY and construct the PROJECT in accordance with the PLANS, as attached hereto as Exhibit G, which has been approved by BANKS, as such TOTAL PROJECT COST STATEMENT may be modified, amended or supplemented by "CONSTRUCTION VARIANCE REPORTS" submitted by BORROWER to ADMINISTRATIVE AGENT in connection with a DRAW REQUEST. The "CONSTRUCTION COST STATEMENT" shall be the portion of the TOTAL PROJECT COST STATEMENT applicable to the costs incurred under the CONSTRUCTION CONTRACT with the DESIGN-BUILDER. The TOTAL PROJECT COST STATEMENT includes a "SOURCES AND USES OF FUNDS" which demonstrates the source of funds to be applied to the TOTAL PROJECT COST as shown in the TOTAL PROJECT COST STATEMENT.

1.50 "WORKING CAPITAL" means current assets (less investments in or other amounts due from any member, manager, employee or any person or entity related to or affiliated with BORROWER and prepayments), plus the amount available to BORROWER for drawing under the LONG TERM REVOLVING NOTES, less current liabilities.

SECTION 2 Amount and Terms of the LOANS.

2.1 CONSTRUCTION LOAN. To the extent of their respective COMMITMENTS, each BANK agrees, on the terms and subject to the conditions hereinafter set forth, to make, from time to time during the period from the date of execution of this AGREEMENT to and including the CONSTRUCTION LOAN TERMINATION DATE disbursements to BORROWER pursuant to that certain Disbursing Agreement dated of even date with this AGREEMENT among ADMINISTRATIVE AGENT, BORROWER, the TITLE COMPANY (as defined in Section 4.1.11 below) and Homestead Escrow and Exchange Company (the "DISBURSING AGREEMENT"), in an aggregate principal amount not to exceed the amount of the CONSTRUCTION LOAN for the sole purpose of paying approved construction costs of the PROJECT. If, prior to the COMPLETION DATE, there is paid to ADMINISTRATIVE AGENT a third party payment (a grant payment, for example), which is applied to the CONSTRUCTION LOAN, BANKS will advance such amount, or a lesser sum, as in ADMINISTRATIVE AGENT's reasonable discretion is necessary to complete the PROJECT. Approved construction costs are costs actually incurred in connection with the construction of the PROJECT, which shall include but not be limited to costs of PERMITS, licenses, labor, supplies, materials, services, equipment, insurance premiums, real estate taxes and interest on disbursements, and ADMINISTRATIVE AGENT-approved operating costs of the PROJECT.

Construction costs do not include the cost associated with payment of lost profits connected with termination under Article 15 of the CONSTRUCTION CONTRACT.

2.2 The CONSTRUCTION NOTES. The obligation of BORROWER to repay the CONSTRUCTION LOAN shall be evidenced by the CONSTRUCTION NOTES. Notwithstanding any provisions of the CONSTRUCTION NOTES, interest shall be payable at the rate provided therein only on such portions of the CONSTRUCTION LOAN proceeds as actually have been disbursed pursuant to this AGREEMENT and the DISBURSING AGREEMENT.

2.3 Interest on the CONSTRUCTION LOAN. Prior to the CONSTRUCTION LOAN TERMINATION DATE, interest on the principal balance outstanding on the CONSTRUCTION LOAN shall accrue at a rate equal to the three month LIBOR RATE plus 310 hundred basis points, as more particularly set forth in the CONSTRUCTION NOTES. The interest rate on the CONSTRUCTION LOAN shall initially be set two (2) EURODOLLAR BUSINESS DAYS prior to the date of the CONSTRUCTION LOAN, and shall adjust on the 8th day of every third month thereafter. After the CONSTRUCTION LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the CONSTRUCTION LOAN at a rate equal to the three month LIBOR RATE plus nine hundred ten (910) basis points.

2.4 Repayment of the CONSTRUCTION NOTES. Interest only shall be payable quarterly on the CONSTRUCTION NOTES as more particularly provided for in the CONSTRUCTION NOTES. All outstanding principal and accrued but unpaid interest shall be payable in full on the CONSTRUCTION LOAN TERMINATION DATE.

2.5 TERM LOANS. The existing balance on the CONSTRUCTION LOAN, including any advance made to increase WORKING CAPITAL, as of CONSTRUCTION LOAN TERMINATION DATE will be restated and said balance will be paid by the TERM NOTES substantially in the forms attached hereto as Exhibits B, C, and D, respectively, and are by this reference made a part hereof. The TERM NOTES evidence the "TERM LOANS". The TERM NOTES shall be amortized on a ten (10) year basis and repaid as follows:

On the eighth (8th) day of every third (3rd) month, commencing three (3) months after the CONSTRUCTION LOAN TERMINATION DATE, BORROWER shall pay to ADMINISTRATIVE AGENT, for the account of BANKS in accordance with their respective COMMITMENTS in the FIXED RATE LOAN, the scheduled principal payment shown in Schedule I, attached hereto and by this reference made a part hereof, plus accrued interest on the FIXED RATE LOAN.

In addition, on the eighth (8th) day of every third (3rd) month, commencing three (3) months after the CONSTRUCTION LOAN TERMINATION DATE, BORROWER shall pay $1,902,832.10 to ADMINISTRATIVE AGENT, for the account of BANKS in accordance with their respective COMMITMENT in the TERM LOANS, as follows:

(a). first to accrued interest on the LONG TERM REVOLVING NOTES;
(b). next to accrued interest on the VARIABLE RATE NOTES; and
(c). next to principal on the VARIABLE RATE NOTES.

After the VARIABLE RATE NOTES have been fully paid, such quarterly payments shall be allocated first to accrued interest on the LONG TERM REVOLVING NOTES, and thence to principal outstanding on the LONG TERM REVOLVING NOTES; provided, however, that, if there is no outstanding interest or principal on the LONG TERM REVOLVING NOTES, or the MAXIMUM AVAILABILITY on the LONG TERM REVOLVING NOTES has been reduced to zero dollars ($0), then such quarterly payment shall no longer be required.

In addition, on each REDUCTION DATE and EXCESS CASH FLOW REDUCTION DATE, BORROWER shall pay and apply to the then outstanding principal balance of the LONG TERM REVOLVING NOTES, if any, the amount necessary to reduce the outstanding principal balance of the LONG TERM REVOLVING NOTES so that they are within the MAXIMUM AVAILABILITY applicable on each such REDUCTION DATE and EXCESS CASH FLOW REDUCTION DATE.

All unpaid principal and accrued interest under the TERM LOANS shall be due and payable on the LOAN TERMINATION DATE applicable thereto, if not sooner paid.

2.6 Interest on the TERM LOANS. Prior to the applicable LOAN TERMINATION DATE, interest shall accrue on the TERM LOANS as follows:

(a). FIXED RATE NOTES. Interest on the principal balance outstanding on the FIXED RATE NOTES shall accrue at a rate equal to the three month LIBOR RATE plus 300 hundred basis points, as more particularly set forth in the FIXED RATE NOTES. The interest rate on the FIXED RATE NOTES shall initially be set two (2) EURODOLLAR BUSINESS DAYS prior to the date of the FIXED RATE NOTES, and shall adjust on the 8th day of every third month thereafter. After the applicable LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the FIXED RATE NOTES at a rate equal to the three month LIBOR RATE plus nine hundred (900) basis points.

(b). VARIABLE RATE NOTES. Subject to the incentive pricing provisions contained in Section 2.15 of this AGREEMENT, interest on the principal balance outstanding on the VARIABLE RATE NOTES shall accrue at a rate equal to the three month LIBOR RATE plus 310 basis points, as more particularly set forth in the VARIABLE RATE NOTES. The interest rate on the VARIABLE RATE NOTES shall initially be set two (2) EURODOLLAR BUSINESS DAYS prior to the date of the VARIABLE RATE NOTES, and shall adjust on the 8th day of every third month thereafter. After the applicable LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the VARIABLE RATE NOTES at a rate equal to the three month LIBOR RATE plus nine hundred ten (910) basis points.

(c). LONG TERM REVOLVING NOTES. Subject to the incentive pricing provisions contained in Section 2.15 of this AGREEMENT, interest on the principal balance outstanding on the LONG TERM REVOLVING NOTES shall accrue at a rate equal to the three month LIBOR RATE plus 310 basis points, as more particularly set forth in the LONG

TERM REVOLVING NOTES. The interest rate on the LONG TERM REVOLVING NOTES shall initially be set two (2) EURODOLLAR BUSINESS DAYS prior to the date of the LONG TERM REVOLVING NOTES, and shall adjust on the 8th day of every third month thereafter. After the applicable LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the LONG TERM REVOLVING NOTES at a rate equal to the three month LIBOR RATE plus nine hundred ten (910) basis points.

2.7 LONG TERM REVOLVING NOTES. Subject to the extent of their respective COMMITMENTS in the LONG TERM REVOLVING LOAN, BANKS agree to lend $10,000,000.00 to BORROWER pursuant to this facility (reducing on each REDUCTION DATE and EXCESS CASH FLOW REDUCTION DATE as provided for above). ADMINISTRATIVE AGENT will credit proceeds of this revolving loan ("LONG TERM REVOLVING LOAN") to BORROWER's deposit account with ACCOUNTS BANK, bearing number 110226509.

2.7.1 Subject to the terms hereof and their respective COMMITMENT, BANKS will lend BORROWER, from time to time until the LOAN TERMINATION DATE such sums as BORROWER may request by reasonable same day notice to ADMINISTRATIVE AGENT, received by ADMINISTRATIVE AGENT not later than 11:00 A.M. of such day, but which shall not exceed in the aggregate principal amount at any one time outstanding, the MAXIMUM AVAILABILITY in effect on the date of any requested advance. BORROWER may borrow, repay without penalty or premium and reborrow hereunder, from the date of this AGREEMENT until the LOAN TERMINATION DATE, either the full amount of the MAXIMUM AVAILABILITY or any lesser sum.

2.8 REVOLVING LOAN. Subject to their respective COMMITMENTS in the REVOLVING LOAN , BANKS agree to lend $10,000,000.00 to BORROWER pursuant to this facility. ADMINISTRATIVE AGENT will credit proceeds of this revolving loan ("REVOLVING LOAN") to BORROWER's deposit account with ACCOUNTS BANK, bearing number 110226509.

2.8.1 Subject to the terms hereof and their respective COMMITMENTS, BANKS will lend BORROWER, from time to time until the LOAN TERMINATION DATE, such sums as BORROWER may request by reasonable same day notice to ADMINISTRATIVE AGENT, received by ADMINISTRATIVE AGENT not later than 11:00 A.M. of such day, but which shall not exceed in the aggregate principal amount at any one time outstanding, the lesser of (i) $10,000,000.00 or (ii) the BORROWING BASE (the "REVOLVING LOAN COMMITMENT"). BORROWER may borrow, repay without penalty or premium and reborrow hereunder, from the date of this AGREEMENT until the LOAN TERMINATION DATE, either the full amount of the REVOLVING LOAN COMMITMENT or any lesser sum. It is the intention of the parties that the outstanding balance of the REVOLVING LOAN shall not exceed the BORROWING BASE, as required in Section 6.1.9, and if at any time said balance exceeds the BORROWING BASE, BORROWER shall forthwith pay ADMINISTRATIVE AGENT for application to the REVOLVING LOAN sufficient funds to reduce the balance of the REVOLVING LOAN until it is in compliance with this requirement.

2.9 THE REVOLVING NOTES. The REVOLVING LOAN COMMITMENT shall be evidenced by REVOLVING NOTES having stated maturity on the LOAN TERMINATION DATE applicable thereto, substantially in the form attached hereto as Exhibit E.

2.10 INTEREST ON THE REVOLVING NOTES. Prior to maturity and subject to the incentive pricing provisions contained in Section 2.15 of this AGREEMENT, interest on the principal balance outstanding on the REVOLVING NOTES shall accrue at a rate equal to the one month LIBOR RATE plus 310 hundred basis points, as more particularly set forth in the REVOLVING NOTES. The interest rate on the REVOLVING NOTES shall initially be set two (2) EURODOLLAR BUSINESS DAYS prior to the date of the REVOLVING NOTES, and shall adjust on the 8th day of each month thereafter. After the applicable LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the REVOLVING NOTES at a rate equal to the one month LIBOR RATE plus nine hundred ten (910) basis points.

2.11 LETTERS OF CREDIT. FNBO will issue its letters of credit at BORROWER's request, on BORROWER's account, pursuant to FNBO's customary policies and with its standardized documents, in amounts outstanding at no time exceeding $1,000,000.00 in the aggregate.

2.12 Payments and Prepayments. All principal, interest and fees due under the OBLIGATIONS and the LOAN DOCUMENTS shall be paid in immediately available funds as contracted in this AGREEMENT and no later than the payment due dates set forth in the applicable NOTES (and with regards to fees, the due dates set forth in the periodic statements mailed to BORROWER by ADMINISTRATIVE AGENT). Should a payment come due on a day other than a BANKING DAY, then the payment shall be made no later than the next BANKING DAY and interest shall continue to accrue during the extended period.

On the occasion of any prepayment of the CONSTRUCTION NOTES or all TERM NOTES in full as a result of refinancing with a lender other than FNBO, BORROWER will pay to ADMINISTRATIVE AGENT, for the account of the BANKS in accordance with their respective COMMITMENTS, a prepayment fee calculated as follows: If the prepayment occurs during the construction of the PROJECT or within the first two (2) years of the TERM LOANS, a fee of one (1%) percent of the original amount or exposure of the LOANS.

In the event that BORROWER pre-pays all of the FIXED RATE NOTES or VARIABLE RATE NOTES, where the rate is fixed in excess of one month, and except as to such payments as required by this AGREEMENT, BORROWER shall pay ADMINISTRATIVE AGENT a breakage fee sufficient to make BANKS whole for any expenses actually incurred by BANKS and/or ADMINISTRATIVE AGENT related to breaking fixed interest rates, which ADMINISTRATIVE AGENT shall apportion among the BANKS in accordance with their respective expenses actually incurred; provided, however, no payment of EXCESS CASH FLOW shall be the cause of a payment to ADMINISTRATIVE AGENT for interest rate breakage fees or otherwise result in any prepayment fee.

2.13 Fees. BORROWER shall pay to ADMINISTRATIVE AGENT the fees and other amounts described and provided for in that certain fee letter of even date with this AGREEMENT between

---

BORROWER and ADMINISTRATIVE AGENT (as it may be amended or modified and in effect from time to time, the "FEE LETTER") in accordance with the terms of the FEE LETTER.

BORROWER agrees to pay ADMINISTRATIVE AGENT for the account of BANKS in proportion to their respective COMMITMENTS in the REVOLVING LOAN an unused commitment fee equal to 35 basis points of the average unused portion of the REVOLVING LOAN COMMITMENT, calculated and payable on a quarterly basis in arrears; provided, however, the unused commitment fees on same shall not begin accruing or be payable by BORROWER until the CONSTRUCTION LOAN TERMINATION DATE. BORROWER shall pay ADMINISTRATIVE AGENT commitment fees equal to two percent (2%) per annum of issued and outstanding Letters of Credit issued at BORROWER's request and on BORROWER's account with such fee payable quarterly, together with such other fees as are consistent with FNBO's then current International Trade Services Fee Schedule.

2.14 Appraisal. ADMINISTRATIVE AGENT will obtain, at BORROWER's expense, an appraisal of the PROJECT and PROPERTY providing values obtained by use of the cost approach, the income approach and the replacement cost approach. If such appraisal shows that the outstanding CONSTRUCTION LOAN amount at that time exceeds the value of the PROJECT and PROPERTY as determined by the appraisal, using the replacement cost approach, then BORROWER shall, within thirty (30) days of notice by ADMINISTRATIVE AGENT and without penalty or premium, pay the difference between the outstanding CONSTRUCTION LOAN amount and the appraised value amount of the PROJECT and PROPERTY as determined by such appraisal, and no further advances shall be made on the CONSTRUCTION LOAN thereafter until such time as the appraised value of the PROJECT and PROPERTY exceeds the CONSTRUCTION LOAN amount.

2.15 Incentive Pricing. The interest rate applicable to the REVOLVING LOAN, VARIABLE RATE NOTES and the LONG TERM REVOLVING LOAN is subject to reduction commencing six months subsequent to CONSTRUCTION LOAN TERMINATION DATE, based on the most recent interim financial statements delivered by or on behalf of BORROWER to ADMINISTRATIVE AGENT. In the event that BORROWER maintains the following ratios, measured quarterly, the interest rate will be reduced accordingly:

If INDEBTEDNESS to NET WORTH is:	Interest rate will be:
Greater than or equal to 1.25 : 1.00	LIBOR RATE plus 295 basis points
Less than 1.25 : 1.00, but greater than or equal to 1.00 : 1.00	LIBOR RATE plus 280 basis points
Less than 1.00 : 1.00, but greater than 0.75 : 1.00	LIBOR RATE plus 275 basis points
Less than 0.75 : 1.00	LIBOR RATE plus 265 basis points

SECTION 3 Disbursement Procedures.

3.1 Submission of DRAW REQUESTS. BORROWER has submitted to ADMINISTRATIVE AGENT, and BANKS have approved, the TOTAL PROJECT COST STATEMENT. Whenever BORROWER desires a disbursement under the CONSTRUCTION LOAN, which shall be no more often than three (3) times a month, unless ADMINISTRATIVE AGENT agrees otherwise, BORROWER shall submit to ADMINISTRATIVE AGENT a DRAW REQUEST, duly executed on behalf of BORROWER setting forth the information requested therein. Each DRAW REQUEST shall be delivered to ADMINISTRATIVE AGENT at least ten (10) days before the date the disbursement is desired. Upon receipt of each DRAW REQUEST, ADMINISTRATIVE AGENT shall promptly notify BANKS of the amount each BANK is required to fund of such DRAW REQUEST. Not later than 11:00 a.m. (Omaha, Nebraska time) on the applicable payment date each BANK will make available to ADMINISTRATIVE AGENT in immediately available funds an amount equal to such BANK's pro rata share based on such BANK's COMMITMENT of the amount to be advanced to BORROWER pursuant to such DRAW REQUEST. The failure of any BANK to fund its COMMITMENTS shall not relieve any other BANK from funding its COMMITMENTS (it being understood however that no BANK shall be responsible for the failure of any other BANK to fund its COMMITMENTS). Unless the ADMINISTRATIVE AGENT shall have been notified by any BANK prior to a proposed funding date of any advance on any LOAN that such BANK will not make available to the ADMINISTRATIVE AGENT its portion of the borrowing proposed to be made on such date, the ADMINISTRATIVE AGENT shall assume that such BANK has made such amounts available to the ADMINISTRATIVE AGENT on such date and the ADMINISTRATIVE AGENT in its sole discretion may, in reliance upon such assumption, (but shall not be obligated to) make available to BORROWER a corresponding amount. If such corresponding amount is not in fact made available to the ADMINISTRATIVE AGENT by such BANK and the ADMINISTRATIVE AGENT has made such amount available to BORROWER, the ADMINISTRATIVE AGENT shall be entitled to recover such corresponding amount on demand from such DEFAULTING BANK and, if such DEFAULTING BANK pays such amount (together with the interest noted below), then the amount so paid shall constitute such DEFAULTING BANK’s loan included in such borrowing. If such DEFAULTING BANK does not pay such corresponding amount forthwith upon the ADMINISTRATIVE AGENT’s demand, the ADMINISTRATIVE AGENT shall be entitled to recover from such DEFAULTING BANK interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the ADMINISTRATIVE AGENT to BORROWER to the date such corresponding amount is recovered by the ADMINISTRATIVE AGENT, at an interest rate per annum equal to the greater of the federal funds rate determined by the ADMINISTRATIVE AGENT and a rate determined by the ADMINISTRATIVE AGENT in accordance with banking industry rules on interbank compensation. Nothing herein shall be deemed to relieve any BANK from its obligation to fulfill its Commitments hereunder or be deemed to be a release or waiver of any other right or remedy the ADMINISTRATIVE AGENT and/or BORROWER may have at law or in equity for a DEFAULTING BANK’S. failure to fund its COMMITMENT.

3.2 Amount of DRAW REQUEST. Each DRAW REQUEST shall be limited to amounts equal to (i) the total of costs actually incurred and paid or owing by BORROWER to the date of such DRAW REQUEST for work performed or materials incorporated in the PROJECT as described in the PLANS, plus (ii) the cost of materials and equipment not incorporated in the PROJECT, but

delivered to and suitably stored at the PROJECT site, plus (iii) prepayments for equipment when prepayment is required by the manufacturer or supplier or, with ADMINISTRATIVE AGENT's prior written approval, when such prepayment results in a material financial benefit to BORROWER; plus (iv) any other hard or soft costs which are consistent with the TOTAL PROJECT COST STATEMENT approved by ADMINISTRATIVE AGENT, as modified or supplemented by any CONSTRUCTION VARIANCE REPORT approved by ADMINISTRATIVE AGENT, for which a disbursement under the CONSTRUCTION LOAN is available as demonstrated in the SOURCES AND USES OF FUNDS; less, (v) prior disbursements for such costs and from the CONSTRUCTION LOAN or BORROWER's WORKING CAPITAL for such costs. Notwithstanding anything herein to the contrary, no disbursements for materials stored at the PROJECT site will be made by ADMINISTRATIVE AGENT unless BORROWER shall advise ADMINISTRATIVE AGENT of its intention to store materials prior to their delivery, and provide suitable security for such storage. No advances on the CONSTRUCTION LOAN may be repaid and re-advanced.

3.3 Other Documents. At the time of submission of each DRAW REQUEST, BORROWER shall submit or cause to be submitted to ADMINISTRATIVE AGENT the following:

3.3.1. A written lien waiver from the DESIGN-BUILDER or other general contractor and each SUBCONTRACTOR for work done and materials supplied by it which were paid for pursuant to the next preceding DRAW REQUEST with copies of all invoices supporting the DRAW REQUEST.

3.3.2. A document from BORROWER and DESIGN-BUILDER or other general contractor or SUBCONTRACTOR (as applicable), and if applicable, the INDEPENDENT INSPECTOR requesting and/or approving payment of the relevant DRAW REQUEST.

3.3.3. Such other supporting evidence as may be reasonably requested by ADMINISTRATIVE AGENT to substantiate all payments which are to be made out of the relevant DRAW REQUEST and/or to substantiate all payments then made with respect to the PROJECT.

3.3.4. Subject to the provisions of Section 3.4 below, if BORROWER desires to reallocate funds from one budget category to another or modify, amend or supplement the TOTAL PROJECT COST STATEMENT, then BORROWER shall submit to ADMINISTRATIVE AGENT for ADMINISTRATIVE AGENT's approval a CONSTRUCTION VARIANCE REPORT showing the details of such reallocation, modification, amendment or supplement. ADMINISTRATIVE AGENT may approve or disapprove of such CONSTRUCTION VARIANCE REPORT in ADMINISTRATIVE AGENT's discretion, but ADMINISTRATIVE AGENT's approval shall not be unreasonably withheld.

3.4 Cost Over Runs. BORROWER agrees that all cost over runs on the PROJECT shall be paid solely by BORROWER and that BORROWER shall deliver additional funds to ADMINISTRATIVE AGENT in accordance with Section 3.6 of this AGREEMENT to pay any cash required to fund cost over runs on the PROJECT. Notwithstanding the foregoing, BORROWER shall be entitled to apply

any previously achieved savings in any completed category of the TOTAL PROJECT COST STATEMENT to pay for any such cost over runs. In addition, BORROWER may from time to time request that the contingency fund line item in the TOTAL PROJECT COST STATEMENT be reallocated to pay needed costs of the PROJECT. Such requests shall be subject to ADMINISTRATIVE AGENT’s written approval in its reasonable discretion, which shall not be unreasonably withheld. Notwithstanding the foregoing, BORROWER shall be entitled to advances from the contingency fund line item in the TOTAL PROJECT COST STATEMENT so long as at all times there are sufficient funds remaining from all sources identified in the SOURCES AND USES OF FUNDS to complete the construction of the PROJECT in accordance with the PLANS in the discretion of ADMINISTRATIVE AGENT.

3.5 Making the Disbursements. If on the date a DRAW REQUEST is received by ADMINISTRATIVE AGENT, BORROWER has performed all of its agreements and complied with all requirements therefore to be performed or complied with hereunder including satisfaction of all applicable conditions precedent contained in Section 4 of this AGREEMENT and all of the BANKS have funded their pro rata share of such DRAW REQUEST based on their respective COMMITMENTS, and, if required by ADMINISTRATIVE AGENT, ADMINISTRATIVE AGENT has received a current report from the INDEPENDENT INSPECTOR documenting material compliance with the PLANS for those portions of the PROJECT indicated as completed in the DRAW REQUEST and otherwise confirming the acceptability of the PROJECT work represented by the DRAW REQUEST, ADMINISTRATIVE AGENT shall pay to the ESCROW COMPANY (as defined in the DISBURSING AGREEMENT) for disbursement to BORROWER in accordance with the DISBURSING AGREEMENT the amount of the requested disbursement; provided, however, that a DEFAULT BANK'S failure to fund its COMMITMENT amount of such DRAW REQUEST shall not relieve any other BANK from its obligation to fund its COMMITMENT amount of such DRAW REQUEST, an ADMINISTRATIVE AGENT will pay to the ESCROW COMPANY the amount actually funded by the BANKS with respect to such DRAW REQUEST and WILL NOT withhold funding due to a DEFAULTING BANK'S failure to fund its share of such DRAW REQUST. Each disbursement disbursed to BORROWER under the CONSTRUCTION LOAN shall bear interest at the rate provided in the CONSTRUCTION NOTES evidencing the disbursement from the date such disbursement is so disbursed to BORROWER or deposited into BORROWER's account.

3.6 Deposit of Funds by BORROWER. If the ADMINISTRATIVE AGENT or INDEPENDENT INSPECTOR shall at any time in good faith determine that the undisbursed amount of the CONSTRUCTION LOAN is less than the amount required to pay all cash required to pay costs and expenses of any kind which reasonably may be anticipated in connection with the completion of the PROJECT after application of all funds received from BORROWER's equity and shall thereupon send written notice thereof to BORROWER specifying the amount required to be deposited by BORROWER with the ADMINISTRATIVE AGENT to provide sufficient funds to complete the PROJECT, BORROWER agrees that it will, within forty-five (45) calendar days of receipt of any such notice, deposit with the ADMINISTRATIVE AGENT, the amount of funds specified in ADMINISTRATIVE AGENT's notice. BORROWER agrees that any such funds deposited with ADMINISTRATIVE AGENT may be disbursed before any further disbursement of

CONSTRUCTION LOAN proceeds from ADMINISTRATIVE AGENT, to pay any and all costs and expenses of any kind in connection with completion of the PROJECT.

3.7 Disbursements Without Receipt of DRAW REQUEST. Notwithstanding anything herein to the contrary, ADMINISTRATIVE AGENT shall have the irrevocable right at any time and from time to time to apply funds which it agrees to disburse hereunder to pay interest on the CONSTRUCTION LOAN as and when such interest becomes due, and to pay any and all of the expenses of ADMINISTRATIVE AGENT related to the PROJECT and the CONSTRUCTION LOAN, all without receipt of a DRAW REQUEST.

3.8 Miscellaneous Procedures. ADMINISTRATIVE AGENT may establish additional procedures regarding disbursements as are reasonable to assure the proceeds of the CONSTRUCTION LOAN are paid only to those persons and entities entitled to the same, and that the liens securing the OBLIGATIONS are in all cases first and paramount liens on the PROPERTY.

3.9 Appointment of INDEPENDENT INSPECTOR. No DRAW REQUEST shall be honored after commencement of construction unless BORROWER has acknowledged the appointment of an INDEPENDENT INSPECTOR.

SECTION 4 Conditions of Lending.

4.1 Conditions Precedent to the Initial Disbursement. The obligation of BANKS to make the initial disbursement under the CONSTRUCTION LOAN is subject to the condition precedent, unless waived by the ADMINISTRATIVE AGENT, that BORROWER shall be in compliance with the conditions set forth in Section 4.2 of this AGREEMENT and to the further condition precedent that, unless waived by ADMINISTRATIVE AGENT in writing in the POST-CLOSING LETTER (as defined below in Section 8.13), ADMINISTRATIVE AGENT shall have received on or before the CLOSING all of the following, each dated (unless otherwise indicated) the day of CLOSING, in form and substance satisfactory to ADMINISTRATIVE AGENT:

4.1.1 This AGREEMENT, and the CONSTRUCTION NOTES, duly executed on behalf of BORROWER and delivered to ADMINISTRATIVE AGENT.

4.1.2 The MORTGAGE duly executed on behalf of BORROWER and in form acceptable for recording in Ford County, Illinois.

4.1.3 The FEE LETTER duly executed by BORROWER and delivered to ADMINISTRATIVE AGENT.

4.1.4 The SECURITY AGREEMENT, duly executed on behalf of BORROWER and delivered to ADMINISTRATIVE AGENT.

4.1.5 A financing statement or statements sufficient when filed to perfect the security interests granted under the MORTGAGE, the SECURITY AGREEMENT, and the ASSIGNMENT OF CONSTRUCTION CONTRACT, to the extent such security interests

are capable of being perfected by filing, and a deposit account control agreement in form and substance acceptable to the ACCOUNTS BANK to perfect the ACCOUNTS BANK's security interest in any deposit accounts maintained by BORROWER with financial institutions other than the ACCOUNTS BANK and a securities control agreement to perfect any investment property held by a financial intermediary.

4.1.6 A copy of the PLANS, with the PLANS prepared by FAGEN ENGINEERING certified by FAGEN ENGINEERING, DESIGN-BUILDER and BORROWER, and a copy of the plans for a dewatering system which addresses shallow groundwater at the PROPERTY to the satisfaction of ADMINISTRATIVE AGENT and the INSPECTING ARCHITECT.

4.1.7 The ASSIGNMENT OF CONSTRUCTION CONTRACT, duly executed by BORROWER and consented to by the DESIGN-BUILDER and a copy of the CONSTRUCTION CONTRACT, together with the General Conditions of Contract referred to therein, if any, and an assignment of the general construction contract for the administration building and railroad spur consented to by the applicable general contractor and a copy of such general contracts.

4.1.8 A TOTAL PROJECT COST STATEMENT of the PROJECT duly executed by BORROWER, setting forth the anticipated total cost of the PROJECT's completion, and a CONSTRUCTION COST STATEMENT duly executed by the DESIGN-BUILDER, setting forth its anticipated construction costs of the PROJECT.

4.1.9 An ALTA/ACSM Land Title Survey prepared in accordance with the current accuracy standards jointly adopted by ALTA (American Land Title Association), ACSM (American Congress on Surveying and Mapping) and NSPS (National Society of Professional Surveyors) together with optional survey requirements #2 (vicinity map showing the property surveyed in reference to nearby highway(s) or major street intersections); #6 (identify setbacks); #7 (identify exterior dimensions of all existing and proposed buildings "As-Built", including square footage of exterior footprint of all buildings, gross floor area of all buildings); and #11 (location of utilities). The survey shall show the location of all easements and encroachments onto or from the PROPERTY that are visible on the PROPERTY, known to the surveyor preparing the survey or of record, identifying easements of record by recording data. Such surveyor shall certify there are no easements or encroachments upon the PROPERTY except as shown on the survey.

4.1.10 An as built appraisal based upon the PLANS to be performed by Natwick Associates Appraisal Services which shows the as-completed value of the PROPERTY and PROJECT addressed to and otherwise acceptable to ADMINISTRATIVE AGENT.

4.1.11 A title binder, issued by First American Title Insurance Company (the "TITLE COMPANY") at BORROWER's expense, constituting a commitment by the TITLE COMPANY to issue a mortgagee's title policy in favor of COLLATERAL AGENT as mortgagee under the MORTGAGE and an owner's title policy to BORROWER if applicable, that will be free from all standard exceptions, including mechanics' liens and all

other exceptions not previously approved by AGENT and that will insure the MORTGAGE to be a valid first lien on the PROPERTY. Such loan policy shall include additional rider coverage as may be reasonably requested by AGENT, including, without limitation, the following ALTA endorsement forms:

ALTA Endorsement Form 3.1	Zoning-Completed Structure
ALTA Endorsement Form 6	Variable Rate Mortgage
ALTA Endorsement Form 8.1	Environmental Protection
ALTA Endorsement Form 9	Restrictions, Encroachments, Minerals
Usury	
ALTA Pending Disbursement Endorsement	Mechanic's Lien Coverage
ALTA Endorsement Form 14	Future Advance
ALTA Endorsement Form 19	Contiguity
ALTA Endorsement Form 21	Creditor's Rights

4.1.12 A soil report on the PROPERTY certified by a registered engineer including structural design recommendations in form and substance satisfactory to ADMINISTRATIVE AGENT. Such report shall include soil borings and geo-technical analyses.

4.1.13 A Phase I Environmental Report of the PROPERTY, as well as any subsequent Environmental Site Assessments issued prior to CLOSING, and such other environmental testing and due diligence as may be reasonably required by ADMINISTRATIVE AGENT, all in form and content satisfactory to ADMINISTRATIVE AGENT and establishing the environmental condition of the PROPERTY as satisfactory to ADMINISTRATIVE AGENT.

4.1.14 An assignment of any License Agreements with ICM, INC., and ICM, INC.'s consent to any such assignment.

4.1.15 Copies of all PERMITS from the applicable regulatory agencies from whom a permit or license is required as of the then current stage of the PROJECT.

4.1.16 Copies of documents from the appropriate state, federal, city or county authority having jurisdiction over the PROPERTY and the PROJECT that provide to the reasonable satisfaction of ADMINISTRATIVE AGENT that the PROJECT when constructed in accordance with the PLANS will comply in all material respects with all applicable ordinances, zoning, subdivision, platting, environmental and land use requirements, without special variance or exception, and such other evidence as ADMINISTRATIVE AGENT shall reasonably request to establish that the PROJECT and the contemplated use thereof are permitted by and comply in all material respects with all applicable use or other restrictions and requirements in prior conveyances, zoning ordinances, environmental laws and regulations, water shed district regulations and all other applicable laws or regulations, and governmental authorities having jurisdiction over the PROJECT.

4.1.17 Copies of certificates of insurance demonstrating the types, levels, deductibles, endorsements and other coverage parameter issues to the satisfaction of ADMINISTRATIVE AGENT for builder's risk insurance, commercial general liability, an umbrella policy, business automobile liability insurance, environmental liability insurance, worker's compensation insurance, and permanent all risk property insurance thirty days prior to completion of construction, all as required under Section 6.3 of this AGREEMENT, with all such insurance in full force and effect and approved by ADMINISTRATIVE AGENT, in the exercise of its reasonable discretion, and naming ADMINISTRATIVE AGENT as an additional insured and loss payee together with appropriate flood insurance, if the PROPERTY is in a flood hazard area. Notwithstanding the foregoing, BORROWER is not required to obtain worker's compensation insurance until required by applicable law. In addition, BORROWER shall provide to ADMINISTRATIVE AGENT proof of insurance for business interruption/extra expense coverage for six months of operating expenses, and also directors/officers errors and omissions coverage in a minimum amount of $5,000,000.00.

4.1.18 A signed opinion of counsel for BORROWER, addressed to AGENT but for the benefit of and reliance upon by the BANKS, in form and substance acceptable to AGENT and AGENT’s counsel.

4.1.19 A Certificate of Authority or Secretary’s Certificate executed by such person or persons authorized by BORROWER's organizational documents and/or agreements to do so, certifying the incumbency and signatures of the officers or other persons authorized to execute the LOAN DOCUMENTS to which it is a party, and authorizing the execution of the LOAN DOCUMENTS to which it is a party and performance in accordance with their terms.

4.1.20 A recently certified copy of BORROWER's Amended and Restated Operating Agreement, and any amendments thereto.

4.1.21 A recently certified copy of BORROWER's Articles of Organization and any amendments thereto.

4.1.22 A certificate of good standing for BORROWER from the office of the Illinois Secretary of State.

4.1.23 Proof of injection of equity capital into BORROWER of no less than $66,000,000.00 including any grant funds actually received and any funds actually received from tax increment financing or TIF programs.

4.1.24 A copy of any MARKETING AND RISK MANAGEMENT CONTRACTS, together with assignments in favor of BANK and consents thereto in form satisfactory to COLLATERAL AGENT, as well as control agreements reasonably requested by COLLATERAL AGENT, in form reasonably acceptable to COLLATERAL AGENT.

4.1.25 A copy of any existing contracts for BORROWER's natural gas, electricity, water service and grain procurement and assignments of such contracts along with the consent of BORROWER’s vendors under such contracts.

4.1.26 Evidence satisfactory to ADMINISTRATIVE AGENT that BORROWER has acquired marketable fee simple title to the PROPERTY subject only to the Permitted Exceptions identified in the MORTGAGE and the WATER EASEMENTS.

4.1.27 Documentation of the SWAP CONTRACTS in form satisfactory to ADMINISTRATIVE AGENT.

4.1.28 Copies of executed Water Line Easements, consents and approvals from all applicable parties and governmental authorities in recordable form and otherwise satisfactory to ADMINISTRATIVE AGENT providing for the construction and maintenance of a water main extending from the PROPERTY to the site of Borrower's well and water treatment facility, to provide water service to the PROJECT (the foregoing easements are collectively referred to in this Agreement as the "WATER EASEMENTS"). In addition, Borrower shall comply with the terms set forth in the POST CLOSING LETTER with respect to the WATER EASEMENTS and other matters relating to the foregoing water main.

4.1.29 The obligations and INDEBTEDNESS of BORROWER secured by the liens described in Section 6.4.1(ii) below and such liens described in Section 6.4.1(ii) shall be subordinated to the OBLIGATIONS and collateral securing the OBLIGATIONS pursuant to a Subordination Agreement executed by the holder of the INDEBTEDNESS described in Section 6.4.1(ii) in favor of AGENT, with such Subordination Agreement being in form and substance acceptable to AGENT. In addition, it is a condition precedent to the initial disbursement on the CONSTRUCTION LOAN or an advance on any LOAN that the liens described in Section 6.4.1(ii) be terminated and released, and the Junior Creditor's liens on the Subordinate Collateral (as such terms are defined in the Subordination Agreement) be terminated and release.

4.1.30 Norfolk Southern Railway Company ("NSR") and Bloomer Connecting Shippers Railway Co. ("BLOOMERS") shall have entered into a switching agreement as contemplated in that certain Memorandum of Understanding between NSR and BLOOMERS dated on or about August 31, 2007, which gives BORROWER access to rail service, with such switching agreement in form and substance and rail access acceptable to the ADMINISTRATIVE AGENT.

4.1.31 The POST CLOSING LETTER duly executed by BORROWER and ADMINISTRATIVE AGENT detailing BORROWER's post-closing obligations

4.1.32 A grant of access from the City of Gibson City, Illinois to the railway line which is the subject of that certain Rail Access Easement dated January 26, 2005, recorded as Document No. 231815 in the Ford County Illinois Real Estate Records.

4.2 Conditions Precedent to All Disbursements on the CONSTRUCTION LOAN. The obligation of BANKS to make any advances under the CONSTRUCTION LOAN (including the initial disbursement) is subject to the further conditions precedent that BORROWER shall remain in compliance with the conditions precedent contained in Section 4.1 of this AGREEMENT and, unless waived by ADMINISTRATIVE AGENT in writing in the POST CLOSING LETTER, ADMINISTRATIVE AGENT shall have received on or before the submission of a DRAW REQUEST for such advance all of the following in form and substance satisfactory to ADMINISTRATIVE AGENT:

4.2.1 The disbursement requirements of Section 3 of this AGREEMENT have been satisfied and the DISBURSING AGREEMENT, in form and substance acceptable to ADMINISTRATIVE AGENT, has been executed by each party thereto and delivered to ADMINISTRATIVE AGENT.

4.2.2 That the INDEPENDENT INSPECTOR, based upon on-site inspections of the PROJECT, has reported to ADMINISTRATIVE AGENT that the portion of the PROJECT completed as of the date of last inspection by the INDEPENDENT INSPECTOR has been completed in accordance with the PLANS and that the PROJECT can be completed by the CONSTRUCTION LOAN TERMINATION DATE in accordance with the PLANS for the remaining funds available for construction of the PROJECT.

4.2.3 The TITLE COMPANY shall have issued an endorsement to the loan policy of title insurance reflecting the amount of all previous advances on the CONSTRUCTION LOAN, insuring the continued priority of the MORTGAGE over mechanics' liens and similar liens and showing no exceptions to title other than those previously approved by ADMINISTRATIVE AGENT and the TITLE COMPANY will issue an endorsement insuring the requested advance on the CONSTRUCTION LOAN upon compliance with the terms of the DISBURSING AGREEMENT.

4.2.4 Construction of the PROJECT to the date of the request for the advance has been completed in accordance with all applicable laws, rules, restrictions, regulations and PERMITS, and BORROWER has complied with all applicable PERMITS and such PERMITS remain valid and have not been challenged, terminated, revoked or restricted, or modified, altered, restated or amended without the prior written consent of ADMINISTRATIVE AGENT.

4.2.5 BORROWER has delivered to ADMINISTRATIVE AGENT a fully executed Notice to Proceed as referenced and defined in the CONSTRUCTION CONTRACT. In addition, BORROWER, DESIGN-BUILDER and each SUBCONTRACTOR have each materially complied with all of their respective obligations under the CONSTRUCTION CONTRACT and other general contracts for the construction of the railroad spur and administration building and the CONSTRUCTION CONTRACT and such other general contracts remain in full force and effect.

4.2.6 Evidence satisfactory to ADMINISTRATIVE AGENT that all then due installments of general real estate taxes, special assessments and other levies against the PROPERTY or the PROJECT have been paid in full.

4.2.7 BORROWER has expended the equity referenced in Section 4.1.23 above and any TIF and grant funds on the PROJECT in accordance with the SOURCES AND USES OF FUNDS.

4.2.8 The representations and warranties contained in Section 5 of this AGREEMENT are correct in all material respects on and as of the date of such disbursement as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date and except to the extent of changes permitted under the terms of this AGREEMENT.

4.2.9 No event has occurred and is continuing, or would result from such disbursement, which constitutes an EVENT OF DEFAULT.

4.2.10 No determination shall have been made by ADMINISTRATIVE AGENT or the INDEPENDENT INSPECTOR in the exercise of their reasonable judgment that the undisbursed amount of the CONSTRUCTION LOAN is less than the amount required to pay all costs and expenses of any kind which reasonably may be anticipated in connection with the completion of the PROJECT; or, if such a determination has been made and notice thereof sent to BORROWER in accordance with this AGREEMENT, BORROWER shall have deposited the necessary funds with ADMINISTRATIVE AGENT in accordance with the Section 3.6 of this AGREEMENT.

4.2.11 If required by ADMINISTRATIVE AGENT, ADMINISTRATIVE AGENT shall be furnished with a statement from BORROWER and the DESIGN-BUILDER or other general contractor, in form and substance satisfactory to ADMINISTRATIVE AGENT, in the exercise of its reasonable discretion, setting forth the names, addresses and amounts due or to become due, as well as the amounts previously paid, to every SUBCONTRACTOR whose charges exceed $20,000.00.

4.2.12 No PERMIT necessary for the construction of the PROJECT shall have been revoked or the issuance thereof subjected to challenge before any court or other governmental authority having or asserting jurisdiction as to the PROJECT, and the construction of the PROJECT is in compliance with applicable PERMITS.

4.2.13 The parties intend that the CONSTRUCTION LOAN is available to fund the lesser of sixty percent (60%) of the TOTAL PROJECT COST as shown in the TOTAL PROJECT COST STATEMENT, including all other approved expenses as set forth in the final version of the SOURCES AND USES OF FUNDS document furnished to BANK by BORROWER prior to CLOSING, or $100,000,000.00. No advances or disbursements under the CONSTRUCTION LOAN shall exceed such levels, unless ADMINISTRATIVE AGENT consents in writing to the same.

4.3 Conditions Precedent to the Final Disbursements. The obligation of BANKS to make the final disbursement on the CONSTRUCTION LOAN shall be subject to the condition precedent that BORROWER shall be in compliance with all conditions set forth in Sections 4.1 and 4.2 of this AGREEMENT and, further, that the following conditions shall have been satisfied or waived by ADMINISTRATIVE AGENT on or prior to the CONSTRUCTION LOAN TERMINATION DATE:

4.3.1 The PROJECT has been completed in material compliance with the PLANS and ADMINISTRATIVE AGENT shall have received a certificate of completion from the DESIGN-BUILDER, certifying that (i) work on the PROJECT has been completed in material compliance with the PLANS and all labor, services, materials and supplies used in such work have been paid for and (ii) the completed PROJECT conforms in all material respects with all applicable zoning, land use planning, building and environmental laws and regulations of the governmental authorities having jurisdiction over the PROJECT.

4.3.2 ADMINISTRATIVE AGENT has received satisfactory evidence that all work requiring inspection by municipal or other governmental authorities having jurisdiction has been duly inspected and approved by such authorities and by the rating or inspection organization, bureau, corporation or office having jurisdiction.

4.3.3 ADMINISTRATIVE AGENT shall have received a lien waiver from each SUBCONTRACTOR whose charges exceed $20,000.00 and the DESIGN-BUILDER and all other general contractors for all work done and for all materials furnished by it for the PROJECT.

4.3.4 ADMINISTRATIVE AGENT has received an itemized list from BORROWER of all material items of equipment and fixtures, which are at that time subject to BANKS' security interest.

4.3.5 BORROWER has hired a plant operations manager or general manager acceptable to ADMINISTRATIVE AGENT in the exercise of ADMINISTRATIVE AGENT’s reasonable discretion.

4.3.6 BORROWER has duly executed and delivered to ADMINISTRATIVE AGENT each TERM NOTE.

4.3.7 BORROWER shall have delivered to ADMINISTRATIVE AGENT an as-built ALTA/ACSM survey showing all improvements constructed on the LAND and otherwise meeting the requirements set out in Section 4.1.9 above.

4.3.8 Payment to ADMINISTRATIVE AGENT of all fees provided for in the FEE LETTER which have not previously been paid or are not then due under the terms of the FEE LETTER.

4.3.9 BORROWER shall have delivered to ADMINISTRATIVE AGENT a Certificate(s) of Insurance showing the coverages required under Section 6.3.4 of this Agreement.

4.4 No Waiver. The making of any disbursement under the CONSTRUCTION LOAN prior to fulfillment of any condition thereto shall not be construed as a waiver of such condition, and ADMINISTRATIVE AGENT reserves the right to require fulfillment of any and all such conditions prior to making any subsequent disbursements under the CONSTRUCTION LOAN.

SECTION 5 Representations and Warranties.

To induce BANKS to enter into this AGREEMENT, BORROWER makes the following representations and warranties and agrees that each DRAW REQUEST and each request for an advance under the REVOLVING LOAN or LONG TERM REVOLVING LOAN constitutes a reaffirmation of these representations and warranties and that such representations and warranties shall survive until all of the OBLIGATIONS are fully and finally paid:

5.1 Existence and Power. BORROWER is a limited liability company duly organized and existing under the laws of the State of Illinois. BORROWER has accomplished all necessary actions required by a limited liability company under applicable law to own the PROPERTY and construct the PROJECT, and to execute and deliver, and to perform all of its obligations under the LOAN DOCUMENTS to which it is a party. There are no outstanding subscriptions, options, warrants, calls or rights (including preemptive rights) to acquire, and no outstanding securities or instruments convertible into, EQUITY INTERESTS of BORROWER, except as set forth on Exhibit J attached hereto and incorporated herein by reference.

5.2 Authorization of Borrowing; No Conflict as to Law or Other Agreements. The execution, delivery and performance by BORROWER of the LOAN DOCUMENTS and the borrowings from time to time hereunder have been duly authorized by all necessary limited liability company actions of BORROWER and do not and will not (a) require any material consent or approval, or authorization, by any GOVERNMENTAL AUTHORITY, domestic or foreign, other than those obtained and in full force and effect, (b) violate, in any material respect, any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect having applicability to BORROWER, or violate any provision of the Articles of Organization or operating agreement or any members’ agreement or similar agreement of BORROWER, (c) result in a breach of or constitute a default beyond any applicable cure period under any indenture or loan or credit agreement or any other agreement, lease or instrument to which BORROWER is a party or by which it or its properties may be bound or affected, or (d) other than liens in favor of the COLLATERAL AGENT and the liens set forth in Section 6.4.1 below, result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature to or with any other creditor of BORROWER, in the aggregate exceeding $100,000.00, upon or with respect to any of the properties now owned or hereafter acquired by BORROWER.

5.3 Legal Agreements. The LOAN DOCUMENTS to which it is a party constitute the legal, valid and binding obligations of BORROWER enforceable against BORROWER in accordance with

their respective terms, and as to any LOAN DOCUMENTS to which BORROWER is not a party, BORROWER has no knowledge that any such LOAN DOCUMENTS do not constitute the legal, valid and binding obligations of the parties thereto, enforceable against such parties in accordance with their respective terms, except in each case (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

5.4 Licenses and Permits. BORROWER has all necessary PERMITS required for construction and operation of the PROJECT except those which are not required for the current stage of construction of the PROJECT, or which cannot be obtained until completion of the PROJECT. BORROWER will provide ADMINISTRATIVE AGENT copies of all PERMITS as they are obtained and when required by the various regulatory agencies. BORROWER will timely obtain and will retain all necessary PERMITS and licenses to operate its businesses at the PROPERTY. Other than the PERMITS, no consent, permission, order, license, approval or authorization of any GOVERNMENTAL AUTHORITY is necessary or desirable in connection with the construction or operation of the PROJECT. BORROWER has complied with and will continue to comply with all of the terms, conditions, limitations and restrictions contained in any PERMIT.

5.5 Construction of the PROJECT. The PROJECT will be constructed in material compliance with the PLANS and the applicable PERMITS; and will not encroach upon or overhang any easement or right-of-way on land not constituting part of the PROPERTY. The PROJECT, both during construction and on COMPLETION DATE, and the contemplated use thereof, will not violate in any material respect, any applicable PERMIT, zoning or use statute, ordinance, building code, rule or regulation, or any covenant or agreement of record. BORROWER agrees that it will furnish from time to time such satisfactory evidence with respect thereto as may be required by ADMINISTRATIVE AGENT.

5.6 Title to the PROPERTY. BORROWER has good and marketable fee simple title to the PROPERTY as required pursuant to Section 4.1.26 above and has maintained good and marketable fee simple title to the PROPERTY, subject to the limitations described in 4.1.11, above, and except to the extent title is affected by the matters permitted under 6.4.1, below. Except as created by the LOAN DOCUMENTS and the liens set forth in Section 6.4.1 below, there is no lien, security interest or other charge or encumbrance upon or with respect to any of the assets, properties or income of BORROWER.

5.7 Financial Condition. BORROWER has furnished to ADMINISTRATIVE AGENT its compiled cash flow projection of BORROWER for the construction period and for the first five (5) years of operations, which projections were prepared by Christianson & Associates and are dated July 10, 2006 (the "PROJECTIONS"). To the knowledge of BORROWER, the PROJECTIONS fairly present the projected financial condition of BORROWER on the dates thereof, and were prepared in GAAP format and on the basis of assumptions deemed reasonable by BORROWER. There has been no material adverse change in the operations, properties or condition (financial or otherwise) of BORROWER since the date of the PROJECTIONS and no additional borrowings have been made by BORROWER other than the borrowing contemplated hereby or approved by

ADMINISTRATIVE AGENT or INDEBTEDNESS secured by the liens set forth in Section 6.4.1 below. No certificate or statement furnished to BANKS by or on behalf of BORROWER in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading. To the best of the knowledge of BORROWER, there is no fact or circumstance current or in the future (so far as BORROWER now foresees) which is reasonably likely to have a MATERIAL ADVERSE EFFECT which has not been set forth herein or in a certificate or statement furnished to ADMINISTRATIVE AGENT by BORROWER.

5.8 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of BORROWER, threatened against or affecting BORROWER or the properties of BORROWER before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which, if determined adversely to BORROWER, would have a MATERIAL ADVERSE EFFECT.

5.9 Taxes. BORROWER has filed all federal, state and local tax returns which to the knowledge of BORROWER are required to be filed, and BORROWER has paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by it to the extent such taxes have become due except those which BORROWER is contesting in good faith and with respect to which adequate reserves have been set aside.

5.10 No Default. There is no event, which is, or with notice or the lapse of time would be, an EVENT OF DEFAULT under this AGREEMENT or any other LOAN DOCUMENT.

5.11 ERISA. BORROWER is in compliance in all material respects with the Employee Retirement Income Security Act of 1974, as amended, and has received no notice to the contrary from the Internal Revenue Service, the Department of Labor, the Pension Benefit Guaranty Corporation or any other governmental entity or notice of any claims or pending claims under ERISA.

5.12 Environmental Matters. Except as set forth in the Phase I Environmental Report referenced in Section 4.1.13 of this AGREEMENT, BORROWER is in compliance in all material respects with all health and environmental laws applicable to BORROWER and its operations and knows of no existing conditions or circumstances that could materially interfere with such compliance in the future. Except for PERMITS that cannot be obtained until completion of the PROJECT or which are not required for the current stage of construction of the PROJECT, BORROWER has obtained all PERMITS, and approvals required by law for the operation of its business. BORROWER has not identified any "recognized environmental conditions," as that term is defined by the American Society for Testing and Materials in its standards for environmental due diligence, which could subject BORROWER to enforcement action if brought to the attention of appropriate governmental authorities.

5.13 Necessary Utilities, Etc. BORROWER has made suitable arrangements so that the PROJECT has all necessary electrical, natural gas, water, storm and sewer facilities in place for the proper construction and operation of its ethanol plant. BORROWER has made adequate provision

for all storage facilities, equipment and product supplies, including corn, as specified by its engineers for the maximum output and operation of the plant.

5.14 Securities Regulation Compliance. BORROWER has complied with all applicable federal, state and local statutes, laws, codes, regulations and ordinances applicable to the public offering and sale of securities in or of BORROWER.

SECTION 6 Additional Covenants of BORROWER.

6.1 Financial Information and Reporting. Except as otherwise stated in this AGREEMENT, all financial information provided to ADMINISTRATIVE AGENT shall be compiled using GAAP consistently applied. During the time period that any amounts are outstanding under the OBLIGATIONS or this AGREEMENT or the LOAN DOCUMENTS to which it is a party, unless ADMINISTRATIVE AGENT shall otherwise agree in writing:

6.1.1 BORROWER shall provide ADMINISTRATIVE AGENT within 120 days of BORROWER's fiscal year end, BORROWER's annual financial statements. The statements must be audited with an unqualified opinion by a certified public accountant reasonably acceptable to ADMINISTRATIVE AGENT, and must be accompanied by a certificate of such accountants stating whether, in conducting their audit, they have become aware of any EVENT OF DEFAULT, or of any event which would, after the lapse of time or the giving of notice, or both, constitute an EVENT OF DEFAULT, specifying the nature and duration of the default. Such audit statement shall be accompanied by the accountants' calculations of BORROWER's compliance with the covenants contained in Section 6.2 of this AGREEMENT as of the said fiscal year end.

6.1.2 After the CONSTRUCTION LOAN TERMINATION DATE, BORROWER will furnish to ADMINISTRATIVE AGENT within thirty (30) days after the end of each calendar month monthly internally prepared financial statements consisting of a balance sheet and income statement of BORROWER as of the end of such period, and income statements and statements of changes in cash flow for such period and year to date, prepared in accordance with GAAP, all in reasonable detail, except for the absence of financial footnotes, and calculations of the financial covenants set forth below.

6.1.3 For each quarter of each fiscal year ending after the CONSTRUCTION LOAN TERMINATION DATE, BORROWER will deliver to ADMINISTRATIVE AGENT, within thirty (30) days of each full fiscal quarter end, a certificate in form reasonably acceptable to ADMINISTRATIVE AGENT that has been signed by an authorized manager or officer of BORROWER, which: 1) certifies that the statements required by Section 6.1.1 and 6.1.2 have been accurately prepared in accordance with GAAP applied consistently (except for the absence of financial footnotes to the statements furnished under Section 6.1.2 and normal or customary year-end adjustments to the statements furnished under Section 6.1.2); 2) contains calculations of the financial covenants contained in Section 6.2 of this AGREEMENT and certifies compliance with such financial covenants, and 3) certifies that neither the authorized manager or officer nor BORROWER has knowledge of any EVENT OF DEFAULT under

this AGREEMENT or the LOAN DOCUMENTS, or of any event which would, after the lapse of time or the giving of notice, or both, constitute an event of default under this AGREEMENT or the other LOAN DOCUMENTS.

6.1.4 After CONSTRUCTION LOAN TERMINATION DATE, BORROWER will deliver to ADMINISTRATIVE AGENT each month, within thirty (30) days of each month end, a monthly Production Report, in form reasonably acceptable to ADMINISTRATIVE AGENT, reporting for such month BORROWER's Input and Output amounts and costs of Corn Usage, DDGS Output, Ethanol Output, and if applicable, CO_2 Output.

6.1.5 BORROWER shall notify ADMINISTRATIVE AGENT of the existence of any EVENT OF DEFAULT promptly after such EVENT OF DEFAULT becomes known to any officer, director or general manager of BORROWER.

6.1.6 BORROWER shall authorize all federal, state and municipal authorities to furnish reports of examinations, records and other information relating to the condition and affairs of BORROWER and its ethanol plant, and any information from reports, returns, files and records by such authorities regarding BORROWER upon request to ADMINISTRATIVE AGENT.

6.1.7 BORROWER will give ADMINISTRATIVE AGENT prompt written notice of any material violation as to any environmental matter by BORROWER of which BORROWER obtains knowledge and, of the commencement of any judicial or administrative proceeding adverse to BORROWER relating to health, safety or environmental matters (i) in which an adverse determination or result could result in the revocation of or have a MATERIAL ADVERSE EFFECT on any PERMITS held by BORROWER which are material to the operations of BORROWER, and (ii) which will or threatens to impose a material liability on BORROWER to any person or party or which will require a material expenditure by BORROWER to cure any alleged problem or violation.

6.1.8 BORROWER will give prompt notice to ADMINISTRATIVE AGENT of (i) any litigation or proceeding in which it is a party if an adverse decision therein would require it to pay more than $100,000.00 or deliver assets the value of which exceeds such sum (whether or not the claim is considered to be covered by insurance); and (ii) the institution of any other suit or proceeding involving it that is reasonably likely to have a MATERIALLY ADVERSE EFFECT.

6.1.9 BORROWER shall provide monthly BORROWING BASE certificates in form reasonably acceptable to ADMINISTRATIVE AGENT, calculating advance rates under the REVOLVING LOAN pursuant to the BORROWING BASE beginning with the certificate with respect to the fourth month following CONSTRUCTION LOAN TERMINATION DATE or at the time of any request for an advance on the REVOLVING LOAN.

6.1.10 BORROWER shall provide to ADMINISTRATIVE AGENT monthly summaries of all grain hedging transactions, from the entity providing BORROWER’s grain hedging

account(s), and from any entity providing BORROWER with an ethanol or natural gas hedging account(s), monthly summaries of all ethanol and natural gas hedging transactions.

6.1.11 BORROWER will provide ADMINISTRATIVE AGENT with such other information as it may reasonably request.

6.1.12 BORROWER will deliver to ADMINISTRATIVE AGENT, no later than thirty- (30) days prior to its fiscal year end, its projected financial statements for the ensuing fiscal year, and a budget of BORROWER's projected capital expenditures for the ensuing fiscal year ("CAPEX BUDGET").

6.2 Financial Covenants. At all times that any amounts are outstanding under any OBLIGATION, or this AGREEMENT or the LOAN DOCUMENTS to which BORROWER is a party, unless the REQUIRED BANKS shall otherwise agree in writing, BORROWER agrees to comply with the financial covenants described below, which shall be calculated using GAAP consistently applied, except as they may be otherwise modified by the capitalized definitions:

6.2.1 BORROWER shall maintain a FIXED CHARGE COVERAGE RATIO, measured on a rolling four quarters trailing basis at the end of each full fiscal quarter, of no less than 1.25:1.0, for all periods following the CONSTRUCTION LOAN TERMINATION DATE; provided, however, the FIXED CHARGE COVERAGE RATIO shall be measured as follows for the first three fiscal quarters after the CONSTRUCTION LOAN TERMINATION DATE:

first fiscal quarter: on a rolling one quarter basis at the end of the first fiscal quarter;

second fiscal quarter: on a rolling two quarter basis at the end of the second fiscal quarter;

third fiscal quarter: on a rolling three quarter basis at the end of the third fiscal quarter.

The FIXED CHARGE COVERAGE RATIO shall be tested by ADMINISTRATIVE AGENT quarterly on a fiscal quarter basis commencing at the end of the first full fiscal quarter after the CONSTRUCTION LOAN TERMINATION DATE.

6.2.2 After the CONSTRUCTION LOAN TERMINATION DATE, BORROWER shall maintain NET WORTH of not less than $63,000,000.00 less any loss that may occur during construction. The required minimum NET WORTH of BORROWER shall be measured annually at the end of each fiscal year of BORROWER, and shall increase each fiscal year commencing on or after the CONSTRUCTION LOAN TERMINATION DATE by an amount equal to the greater of (a) $500,000.00 or (b) the amount of undistributed earnings accumulated during the fiscal year just ended (less any allowable distributions attributable to the just ended fiscal year's earnings).

6.2.3 For each fiscal year following the CONSTRUCTION LOAN TERMINATION DATE, BORROWER shall determine and report to ADMINISTRATIVE AGENT, within 120 days after the end of each such fiscal year, the amount of its EXCESS CASH FLOW for such ended fiscal year. Effective on the 120th day after the end of each fiscal year following the CONSTRUCTION LOAN TERMINATION DATE (each such day, an "EXCESS CASH FLOW REDUCTION DATE"), the MAXIMUM AVAILABILITY on the LONG TERM REVOLVING NOTE shall reduce by an amount equal to twenty percent (20%) of the EXCESS CASH FLOW for said ended fiscal year; provided, however, that, the maximum amount of such reduction for any fiscal year shall not exceed $6,000,000.00, and the maximum amount of such reduction during the term of this AGREEMENT shall not exceed $18,000,000.00 in the aggregate. If the reduction to the MAXIMUM AVAILABILITY would cause BORROWER to be in default under any provision of this AGREEMENT, the amount of reduction shall be limited to the amount of reduction in the MAXIMUM AVAILABILITY to allow BORROWER to remain in compliance with the terms of this AGREEMENT. By the payment due date on the LONG TERM REVOLVING LOAN immediately following an EXCESS CASH FLOW REDUCTION DATE or a REDUCTION DATE, BORROWER shall pay and apply to the then outstanding principal balance on the LONG TERM REVOLVING NOTE, the amount necessary to reduce the outstanding principal amount of the LONG TERM REVOLVING LOAN so that it is within the MAXIMUM AVAILABILITY applicable after each EXCESS CASH FLOW REDUCTION DATE or REDUCTION DATE, as applicable. Such reduction payments shall not release BORROWER from making any payment of principal or interest otherwise required by this AGREEMENT or the LONG TERM REVOLVING NOTES.

6.2.4 BORROWER shall maintain the following minimum WORKING CAPITAL during the periods stated below, measured continuously:

Period	**Minimum WORKING CAPITAL**
Beginning with the first day of the fourth month after the CONSTRUCTION LOAN TERMINATION DATE through the seventh month after the CONSTRUCTION LOAN TERMINATION DATE	$4,000,000.00
Beginning with the first day of the eighth month through the twelfth month after the CONSTRUCTION LOAN TERMINATION DATE	$7,000,000.00
Beginning with the first day of the thirteenth month after the CONSTRUCTION LOAN TERMINATION DATE until payment in full of the TERM LOANS	$10,000,000.00

For the purpose of this covenant, the amount of any available borrowing under LONG TERM REVOLVING LOAN shall constitute an addition to WORKING CAPITAL.

6.3 Affirmative Covenants. During the time period that any amounts are outstanding under any OBLIGATION, this AGREEMENT or the LOAN DOCUMENTS to which BORROWER is a party, unless the REQUIRED BANKS shall otherwise agree in writing, BORROWER shall:

6.3.1 Diligently proceed with construction of the PROJECT in material compliance with the PLANS and in accordance in all material respects with all applicable laws and ordinances, and complete the PROJECT by the COMPLETION DATE.

6.3.2 Use the proceeds of each of the disbursements under the CONSTRUCTION LOAN solely for the purposes set forth in this AGREEMENT.

6.3.3 Use its best efforts to require the DESIGN-BUILDER, other general contractors and each SUBCONTRACTOR to comply in all material respects with all rules, regulations, ordinances and laws bearing on its conduct of work on the PROJECT.

6.3.4 Provide and maintain at all times during the process of building the PROJECT and, from time to time at the request of ADMINISTRATIVE AGENT, furnish ADMINISTRATIVE AGENT with proof of payment of premiums on:

(i) Builders' Risk completed value form insurance insuring the PROJECT (and after completion of the PROJECT, a permanent All Risk property policy of insurance with coverage equal to the replacement cost of the facility, as well as casualty/umbrella (Commercial General Liability) insurance) insuring the PROJECT, against all risks, including flood, earthquake, and mechanical and electrical breakdown including testing to the full value of the PROJECT (subject to reasonable loss deductible provisions). Notwithstanding the foregoing, the policy limits on flood and earthquake coverage may be $40,000,000.00 each. BANKS' interest shall be protected by naming AGENT as additional insured on the liability policies and loss payee on the property policies;

(ii) Casualty (Commercial General Liability) & Umbrella insurance (including products and completed operations, operations of subcontractors, and contractual liability insurance) with coverage in the amount of $2,000,000.00 in the form of either a $2,000,000.00 primary policy or a $1,000,000.00 primary policy and a $1,000,000.00 Umbrella policy. BANKS' interest shall be protected by naming AGENT as an additional named insured on all such policies;

(iii) State worker's compensation insurance, with statutory limits, and Employer's Liability coverage with coverage of no less than $500,000.00.

(iv) Business automobile liability insurance insuring all vehicles on the site, including hired and non-owned liability with coverage in the amount of $2,000,000.00 in the form of either a $2,000,000.00 primary policy or a $1,000,000.00 primary policy and a $1,000,000.00 Umbrella policy. BANKS' interest shall be protected by naming AGENT as loss payee on all such policies;

(v) Environmental coverage shall be provided for clean up and removal once the Project becomes operational (unless the condition precedent site survey and soil tests establish adverse findings which may generate the need for environmental coverage prior to operation), but only insofar as it is reasonably required by AGENT. BANKS' interest shall be protected by naming AGENT as additional insured on the liability policies and loss payee on the property policies;

(vi) Directors/Officers errors and omissions coverage of no less than $5,000,000.00.

(vii) By the COMPLETION DATE, Business Interruption and Extra Expense insurance equal to 100% of the projected revenue loss during a potential interruption of production of not less than six months.

The policies of insurance required pursuant to clauses (i) and (ii) above shall be in form and content satisfactory to AGENT and shall be placed with financially sound and reputable insurers. The policy of insurance referred to in clause (i) above shall contain an agreement of the insurer to give not less than thirty (30) days' advance written notice to AGENT in the event of cancellation of such policy or change affecting the coverage there under. Acceptance of insurance policies referred to above shall not bar AGENT from requiring additional insurance, which it reasonably deems necessary.

6.3.5 Assign to ADMINISTRATIVE AGENT, in form acceptable to ADMINISTRATIVE AGENT, all equipment and systems warranties relating to the PROJECT, together with all contracts for natural gas, electricity, water and other utilities, grain procurement contracts, grain and ethanol hedging contracts, as the same are obtained by BORROWER following CLOSING, together with all consents from the vendors and other parties under such contracts.

6.3.6 Maintain accurate and complete books, accounts and records pertaining to the PROPERTY and the PROJECT and its ongoing and continuing operations in form and substance reasonably satisfactory to ADMINISTRATIVE AGENT. BORROWER will permit ADMINISTRATIVE AGENT, at ADMINISTRATIVE AGENT's expense if ADMINISTRATIVE AGENT's employees make the inspection, but at BORROWER's expense if ADMINISTRATIVE AGENT contracts with third parties at reasonable expense to make the inspection and if an EVENT OF DEFAULT has occurred, to examine upon reasonable notice and in a manner that does not interfere with the PROJECT or BORROWER’s operations all books, records, contracts, plans, drawings, PERMITS, bills and statements of account pertaining to the PROJECT and to inspect upon reasonable notice all books and records pertaining to its operations and to make extracts therefrom and copies thereof.

6.3.7 Cause to be paid to the proper authorities when due all federal, state and local taxes, including taxes on the PROPERTY, required to be paid or withheld by it except those which BORROWER is contesting in good faith and with respect to which adequate reserves have been set aside.

6.3.8 Allow AGENT and AGENT’s representatives, at any time upon reasonable notice, and at its expense, to conduct such inspections of the PROJECT and BORROWER's assets, books and records as AGENT may deem necessary for the protection of BANKS' interest. Provided, however, such inspections shall occur during regular business hours, or such other time as BORROWER and AGENT may agree, shall not occur more frequently than twice per fiscal year unless there shall have occurred and be continuing an EVENT OF DEFAULT and shall not unreasonably interfere with BORROWER's business operations. Any such inspections shall be made and any certificates issued are solely for the benefit and protection of BANKS, and BORROWER shall not be entitled to rely thereon.

6.3.9 Make all repairs, renewals or replacements necessary to keep its plant, properties and equipment in good working condition.

6.3.10 Comply in all material respects with all laws and regulations applicable to its form of organization, offering, sale and regulation of securities, business, and the ownership of its property and the ownership and operation of the PROJECT on the PROPERTY.

6.3.11 Maintain and preserve all PERMITS, licenses, rights, privileges, charters, franchises and easements (including but not limited to the WATER EASEMENTS) that it are required to hold to construct and operate the PROJECT and comply with the terms, conditions, limitations and restrictions contained in such PERMITS, licenses rights, privileges, charters, franchises and easements (including but not limited to the WATER EASEMENTS).

6.3.12 Observe and comply with all laws, rules, regulations and orders of any government or government agency relating to health, safety, pollution, hazardous materials or other environmental matters to the extent non-compliance could result in a material liability or otherwise have a Material Adverse Effect on BORROWER or the operation of the PROJECT.

6.3.13 Maintain primary banking accounts (including those accounts containing BORROWER's equity capital) with the ACCOUNTS BANK, other than as otherwise agreed by ADMINISTRATIVE AGENT. AGENT agrees that BORROWER's payroll and other non-primary accounts may be maintained at local financial institutions on the conditions that, (i) if required by AGENT, BORROWER, AGENT and such local financial institution enter into a control agreement to perfect AGENT's security interest in such accounts, (ii) that deposits in such accounts do not exceed at any time $250,000.00 and (iii) that BORROWER provide AGENT with copies of the monthly statements relating to such deposit accounts.

6.3.14 BORROWER shall execute and deliver to ADMINISTRATIVE AGENT no later than 90 days following CLOSING such SWAP CONTRACTS as ADMINISTRATIVE AGENT shall require, in form satisfactory to ADMINISTRATIVE AGENT.

6.4 Negative Covenants. During the time period that any amounts are outstanding under any OBLIGATION, or this AGREEMENT or the LOAN DOCUMENTS to which BORROWER is a party, unless the REQUIRED BANKS shall otherwise agree in writing, BORROWER shall not:

6.4.1 Permit any security interest or mortgage or lien on the PROPERTY or PROJECT or other real or personal property BORROWER owns now or in the future, or assign any interest that it may have in any assets or subordinate any rights that it may have in any assets now or in the future, except: (i) liens, assignments, or subordinations in favor of AGENT; (ii) that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement dated June 18, 2007 encumbering the Mortgaged Property as defined therein executed by BORROWR in favor of Farmers Energy One Earth, LLC recorded in the real estate records of Ford County, Illinois on June 29, 2007, as document reference number 239266 and the Fixture Financing Statement related thereto executed by BORROWER and filed on June 29, 2007 as Document No. 239263; that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement dated June 13, 2007 encumbering the Mortgaged Property as defined therein executed by BORROWER in favor of Farmers Energy One Earth, LLC recorded in the real estate records of Ford County, Illinois on June 29, 2007 as document reference number 239267 and the Fixture Financing Statement related thereto executed by BORROWER and filed on June 29, 2007 as Document No. 239264; that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement dated June 13, 2007 encumbering the Mortgaged Property as defined there executed by BORROWER in favor of Framers Energy One Earth, LLC recorded in the real estate records of Ford County, Illinois on June 29, 2007 as Document reference number 239268, with a portion of the Mortgaged Property released pursuant to that certain Partial Release of Real Estate Mortgage dated as of August 3, 2007 recorded in the real estate records of Ford County, Illinois as document reference number 239639 and the Fixture Financing Statement related thereto executed by BORROWER and filed on June 29, 2007 as Document No. 239265; that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement dated August 3, 2007 encumbering the Mortgaged Property as defined therein executed by BORROWER in favor of Farmers Energy One Earth, LLC recorded in the real estate records of Ford County, Illinois on August 13, 2007 as document reference number 239637 and the Fixture Financing Statement related thereto executed by BORROWER and filed on August 13, 2007 as Document No. 239638; that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement dated August 3, 2007 encumbering the Mortgaged Property as defined therein executed by BORROWER in favor of Farmers Energy One Earth, LLC recorded in the real estate records of Ford County, Illinois on August 21, 2007 as document reference number 239710 and the Fixture Financing Statement related thereto executed by BORROWER and filed on August 21, 2007 as Document No. 239711; that certain Security Agreement dated June 13, 2007 encumbering the Collateral defined therein executed by BORROWER in favor of Farmers Energy One Earth, LLC; that certain UCC-1 Financing Statement filed on June

18, 2007 with the Illinois Secretary of State as Filing No. 12213719; that certain Conditional Assignment of Purchase Agreement dated June 13, 2007 executed by BORROWER in favor of Farmers Energy One Earth, LLC collaterally assigning the Construction Contract to Farmers Energy One Earth, LLC; and that certain Assignment of Permits dated June 13, 2007 executed by BORROWER in favor of Farmers Energy One Earth, LLC; (iii) liens, assignments, or subordinations outstanding on the date of this AGREEMENT and disclosed in advance to AGENT in writing and approved by AGENT; (iv) liens for taxes or assessments or other governmental charges not delinquent or which BORROWER is contesting in good faith and for which, if required under GAAP or by ADMINISTRATIVE AGENT, BORROWER has reserved against such taxes, assessments or governmental charges in an amount reasonably satisfactory to ADMINISTRATIVE AGENT; (v) liens which secure purchase money indebtedness allowed under this AGREEMENT; (vi) liens, pledges, or deposits under workers' compensation, unemployment insurance, Social Security, or similar legislation, but only if any such lien is being contested by BORROWER in good faith by appropriate proceedings which prevent foreclosure and has established reserves which ADMINISTRATIVE AGENT reasonably deems sufficient to satisfy such lien in the event of an adverse determination; and (vii) liens created in favor of a hedging account entity and described in the control agreements to which such hedging account entity, BORROWER and AGENT are party.

6.4.2 Agree or consent to any material changes in the PLANS, any material changes in the terms and provisions of the CONSTRUCTION CONTRACT or, to any one change order in an amount exceeding $250,000.00, or all change orders when combined exceeding $1,000,000.00, or any material change to any other contract identified in Section 4 of this AGREEMENT.

6.4.3 Incorporate in the PROJECT any materials, fixtures or property that are subject to the claims of any other person, whether pursuant to conditional sales contract, security agreement, lease, mortgage, except as permitted under Section 6.4.1.

6.4.4 Lease, sell, transfer, convey, assign, or otherwise transfer all or any material part of the interest of BORROWER in the PROJECT or the PROPERTY.

6.4.5 Make any changes in BORROWER’S general manager for the PROJECT without the prior written consent of ADMINISTRATIVE AGENT, which consent shall not be unreasonably withheld.

6.4.6 Engage in any line of business materially different from that presently engaged in by BORROWER.

6.4.7 Make any change to its organizational structure as a limited liability company.

6.4.8 Make any material changes in its accounting procedures for tax or other purposes.

6.4.9 Incur any INDEBTEDNESS except: (1) debt arising under this AGREEMENT or another agreement with AGENT (including, but not limited to, SWAP CONTRACTS and documentation relating to letters of credit); (ii) unsecured trade credit incurred in the ordinary course of business; (iii) indebtedness in existence on the date of this AGREEMENT and disclosed in advance to ADMINISTRATIVE AGENT in writing and approved by ADMINISTRATIVE AGENT, and (iv) indebtedness set forth on Schedule 6.4.9, attached hereto and by this reference made a part hereof, if any. BORROWER shall not borrow other than pursuant to this AGREEMENT or as otherwise permitted hereunder, without permission of ADMINISTRATIVE AGENT. Provided, however, ADMINISTRATIVE AGENT consents to BORROWER in the ordinary course of its business, borrowing up to $100,000.00 each year, without further permission from ADMINISTRATIVE AGENT.

6.4.10 Consolidate, or merge or pool or syndicate or otherwise combine with any other entity, or give any preferential treatment, make any advance, directly or indirectly, by way of loan, gift, bonus, or otherwise, to any entity directly or indirectly controlling or affiliated with or controlled by BORROWER, or any other entity, or to any partner or employee of BORROWER, or of any such entity.

6.4.11 After completion of the PROJECT, make, or commit to make, capital expenditures (including the total amount of any capital leases, but excluding ADMINISTRATIVE AGENT approved plant construction) in an aggregate amount exceeding $1,000,000.00 in any single fiscal year, nor capital expenditures not included in a ADMINISTRATIVE AGENT approved CAPEX BUDGET.

6.4.12 Make or pay, without the prior written consent of ADMINISTRATIVE AGENT, which written consent will not be unreasonably withheld, in and for any fiscal year, distributions to members or shareholders of BORROWER in excess of the TAX DISTRIBUTIONS permitted below and distributions permitted below based on BORROWER’s previous fiscal year's net income.

(i) TAX DISTRIBUTIONS. So long as no EVENT OF DEFAULT has occurred and is continuing, BORROWER may make TAX DISTRIBUTIONS to its members within thirty (30) days prior to each June 15, September 15 and January 15, each in an amount equal to one fourth (¼) of the estimated income tax liability to be incurred for such year by BORROWER’s members by reason of their membership interest in BORROWER, based upon an assumed 42% combined federal and state income tax rate for each member and based upon BORROWER’s most recent financial information available.

(ii) Final TAX DISTRIBUTION. BORROWER may make a final TAX DISTRIBUTION to its members within thirty (30) days prior to each April 15, so long as (a) no EVENT OF DEFAULT has occurred and is continuing or would occur after giving effect to the payment of such final TAX DISTRIBUTION described herein and the distributions permitted in Subsection 6.4.12(iii) below, (b) BORROWER has delivered to ADMINISTRATIVE AGENT BORROWER's annual

audited financial statements and compliance statements as required in this AGREEMENT and (c) BORROWER is in compliance with all of the financial and other covenants provided for in this AGREEMENT and will remain so after giving effect to the payment of such final TAX DISTRIBUTION described herein and the distributions permitted in Subsection 6.4.12(iii) below, in an amount not to exceed the positive difference between the total tax liability of BORROWER’s members incurred by reason of their membership interest in BORROWER and the amounts previously distributed to such members pursuant to Subsection 6.4.12(i) above, provided, that if the difference between the total tax liability of BORROWER’s members incurred by reason of their membership interest in BORROWER and the amounts previously distributed to such members pursuant to Subsection 6.4.12(i) above is zero or a negative number, then no final TAX DISTRIBUTION may be made by BORROWER under this Subsection 6.4.12(ii) .

(iii) Net Income Distributions. So long as (a) no EVENT OF DEFAULT has occurred and is continuing or would occur after giving effect to the payment of the distribution described in this Subsection 6.4.12(iii) and the year ending quarter TAX DISTRIBUTION described in Subsection 6.4.12(ii) above, (b) BORROWER has delivered to ADMINISTRATIVE AGENT BORROWER's annual audited financial statements and compliance statements as required in this AGREEMENT and (c) BORROWER is in compliance with all of the financial and other covenants provided for in this AGREEMENT and will remain so after giving effect to the payment of such distribution described in this Subsection 6.4.12(iii) and the year ending quarter TAX DISTRIBUTION described Subsection 6.4.12(ii) above, BORROWER may make one distribution of net income each fiscal year based upon the net income of BORROWER for the immediately preceding fiscal year in an amount not to exceed the percentage of BORROWER’s net income for such preceding fiscal year determined as follows:

If BORROWER's ratio of INDEBTEDNESS to NET WORTH is:	**Allowable distributions up to:**
Greater than or equal to 1.00 : 1.00	45%
Less than 1.00 : 1.00 but greater than 0.75 : 1.00	55%
Less than 0.75 : 1.00	65%

Notwithstanding anything contained in this Agreement to the contrary, in no event shall any distributions, including, but not limited to TAX DISTRIBUTIONS, be made prior to BORROWER’s full payment and satisfaction of all of BORROWER’s OBLIGATIONS which have accrued to the date of payment of such distributions (including TAX DISTRIBUTIONS). Further, in no event shall any distributions, except for TAX DISTRIBUTIONS permitted in this AGREEMENT, be made prior to BORROWER’s full payment of all of BORROWER’s OBLIGATIONS which have accrued to the date of payment of such distributions, including the application of EXCESS CASH FLOW as

provided for in Section 6.2.3 of this Agreement above. In no event shall total distributions for any fiscal year, including but not limited to TAX DISTRIBUTIONS, exceed the amounts calculated in the table above.

6.4.13 Assume, guarantee, endorse or otherwise becoming contingently liable for any obligations of any other person, except for those guaranties outstanding at the time of execution of this AGREEMENT and disclosed to ADMINISTRATIVE AGENT in writing.

6.4.14 Make sales to or purchases from any affiliate of BORROWER or extend credit or make payments for services rendered by any affiliate of BORROWER, unless such sales or purchases are made or such services are rendered in the ordinary course of business and on terms and conditions at least as favorable to BORROWER as the terms and conditions which would apply in a similar transaction with a person or party not an affiliate of BORROWER.

6.4.15 Sell or dispose of all or substantially all its assets.

6.4.16 Redeem, purchase, or retire any of its membership interests or grant or issue, or purchase or retire for any consideration, any warrant, right or option pertaining thereto, or permit any redemption, retirement, or other acquisition by BORROWER of the ownership of the outstanding membership interests of BORROWER; provided however, that BORROWER may redeem, purchase or retire its membership interest with funds that otherwise would be available for distribution pursuant to Section 6.4.12(iii) above.

6.4.17 Acquire or receive more grain from Alliance Grain's ("Alliance") West Gibson City Elevator, ID No. 053803AAH than is permitted under the Construction Permit issued by the Illinois Environmental Protection Agency as ID No. 053010AAW on May 7, 2007 (the "Air Permit").

6.4.18 Alliance shall not increase its equity interest or acquire voting or management control over BORROWER, and BORROWER and Alliance shall remain independent companies as required in the Air Permit.

SECTION 7 EVENTS OF DEFAULT, Rights and Remedies.

7.1 EVENTS OF DEFAULT. Each of the following shall be an EVENT OF DEFAULT and give ADMINISTRATIVE AGENT the right to exercise its remedies under this AGREEMENT:

7.1.1 BORROWER shall fail to pay when due any OBLIGATIONS or any other installment of principal or interest or fee payable to BANKS.

7.1.2 BORROWER shall fail to provide reports and other information and otherwise comply with the provisions of Section 6.1 above when due.

7.1.3 BORROWER shall fail to observe or perform any other obligation to be observed or performed by it hereunder (other than BORROWER's obligations under Sections 4, 6.1, 6.2,

6.3.2, 6.3.4, 6.3.8, 6.3.13 and Section 6.4 hereof) or under any of the LOAN DOCUMENTS.

7.1.4 BORROWER shall fail to pay any INDEBTEDNESS in an aggregate principal amount in excess of $100,000.00 due any third party, and such failure shall continue beyond any applicable grace period, or BORROWER shall default under any material agreement binding BORROWER, and such default shall continue beyond any applicable grace period.

7.1.5 Any financial statement, representation, warranty, or certificate made or furnished by or with respect to BORROWER to AGENT in connection with this AGREEMENT, or as an inducement to BANKS to enter into this AGREEMENT, or in any separate statement or document to be delivered to AGENT hereunder, shall be materially false, incorrect, or incomplete when made.

7.1.6 BORROWER shall admit its inability to pay its debts as they mature or shall make an assignment for the benefit of itself or any of its creditors.

7.1.7 Proceedings in bankruptcy, or for reorganization of BORROWER, or for the readjustment of debt under the Bankruptcy Code, as amended, or any part thereof, or under any other laws, whether state or federal, for the relief of debtors, now or hereafter existing, shall be commenced against or by BORROWER and, except with respect to any such proceedings instituted by BORROWER, shall not be discharged within sixty (60) days of their commencement.

7.1.8 A receiver or trustee shall be appointed for BORROWER or for any substantial part of its respective assets, or any proceedings shall be instituted for the dissolution or the full or partial liquidation of BORROWER, and except with respect to any such appointments requested or instituted by BORROWER, such receiver or trustee shall not be discharged within sixty (60) days of his appointment, and except with respect to any such proceedings instituted by BORROWER, such proceedings shall not be discharged within sixty (60) days of their commencement, or BORROWER shall discontinue business or materially change the nature of its business.

7.1.9 BORROWER shall suffer final judgments for payment of money aggregating in excess of $100,000.00 which are not covered, without reservation, by insurance and shall not discharge the same within a period of thirty (30) days unless, pending further proceedings, execution has not been commenced or, if commenced, has been effectively stayed.

7.1.10 A judgment creditor of BORROWER shall obtain possession of any of BANKS' collateral by any means, including (without implied limitation) attachment, levy, distraint, replevin, or self-help which is reasonably likely to have a MATERIAL ADVERSE EFFECT.

7.1.11 The construction of the PROJECT is abandoned or shall be unreasonably delayed or be discontinued for a period of thirty (30) consecutive calendar days, in each instance for reasons other than acts of God, fire, storm, adverse weather, strikes, blackouts, labor

difficulties, riots, inability to obtain materials, equipment or labor, governmental restrictions or any similar cause not subject to BORROWER's control and other than a change in the DESIGN-BUILDER as provided in Section 7.1.14.

7.1.12 BORROWER at any time prior to the completion of the PROJECT, shall delay construction or suffer construction to be delayed for any period of time, for any reason whatsoever, so that the completion of the PROJECT in accordance with the PLANS approved by ADMINISTRATIVE AGENT cannot be accomplished, in the reasonable judgment of ADMINISTRATIVE AGENT, by the COMPLETION DATE.

7.1.13 The PROJECT is materially damaged or destroyed by fire or other casualty and the loss, in the reasonable judgment of ADMINISTRATIVE AGENT, is not adequately covered by insurance actually collected or in the process of collection.

7.1.14 Fagen, Inc. shall cease to be the DESIGN-BUILDER and BORROWER has not replaced the DESIGN-BUILDER, within thirty (30) days following the termination of the same with the replacement contractor to the satisfaction of ADMINISTRATIVE AGENT, which ADMINISTRATIVE AGENT approval shall not be unreasonably withheld, but which approval may include a bonding requirement in the reasonable exercise of ADMINISTRATIVE AGENT's judgment.

7.1.15 Any entity described in any MARKETING AND RISK MANAGEMENT CONTRACTS approved by ADMINISTRATIVE AGENT ceases to be the marketing agent of BORROWER, and BORROWER has not within thirty (30) days following termination of any of the foregoing obtained a replacement to ADMINISTRATIVE AGENT's satisfaction, which ADMINISTRATIVE AGENT approval will not be unreasonably withheld.

7.1.16 BORROWER shall fail to maintain a general manager acceptable to ADMINISTRATIVE AGENT, or if BORROWER has not within thirty (30) days following a termination of any such person obtained a replacement to ADMINISTRATIVE AGENT’s satisfaction, which ADMINISTRATIVE AGENT approval shall not unreasonably be withheld.

7.1.17 The filing of any mechanics’, construction, materialmens’ or similar liens upon the PROPERTY and/or against the PROJECT which are not released or bonded against (in a manner satisfactory to ADMINISTRATIVE AGENT) for a period in excess of ten (10) BANKING DAYS after the filing date of such lien, unless such lien is being contested by BORROWER in good faith by appropriate proceedings which prevent foreclosure and has established reserves which ADMINISTRATIVE AGENT reasonably deems sufficient to satisfy such lien in the event of an adverse determination.

7.1.18 If BORROWER defaults under, or suffers a default to exist under, or fails to comply with, keep or perform its obligations under, the CONSTRUCTION CONTRACT or any other contract relating to the PROJECT to which BORROWER is a party, or the CONSTRUCTION CONTRACT or any such other contract relating to the PROJECT is

terminated without the prior written consent of ADMINISTRATIVE AGENT, which consent shall not be unreasonably withheld.

7.1.19 The occurrence of a material deviation or change in the PLANS approved by ADMINISTRATIVE AGENT without the prior written approval of ADMINISTRATIVE AGENT, which approval shall not be unreasonably withheld.

7.1.20 BORROWER fails to timely comply with its obligations contained in that certain post-closing letter agreement of even date herewith between AGENT and BORROWER relating to BORROWER’s post-closing obligations.

7.1.21 BORROWER defaults under any contract for the provision of electricity, natural gas, water or water service or any other utility, or any such contract is terminated, revoked, altered, amended or restated without the prior written consent of ADMINISTRATIVE AGENT.

7.1.22 BORROWER defaults under any grain procurement contract or any such contract is terminated, revoked, altered, amended or restated without the prior written consent of ADMINISTRATIVE AGENT.

7.1.23 BORROWER fails to timely make any payment required after an EXCESS CASH FLOW REDUCTION DATE or REDUCTION DATE to bring the outstanding principal balance of the LONG TERM REVOLVING NOTE within the MAXIMUM AVAILABILITY after each such EXCESS CASH FLOW REDUCTION DATE or REDUCTION DATE.

7.1.24 The WATER EASEMENTS terminate, are removed or BORROWER's rights thereunder are materially adversely affected.

7.1.25 BORROWER fails to comply with the terms, conditions, limitations and restrictions contained in any PERMIT, or any PERMIT is revoked.

7.2 Rights and Remedies. If an EVENT OF DEFAULT shall have occurred and be continuing, ADMINISTRATIVE AGENT may refrain from making any further disbursements hereunder (but ADMINISTRATIVE AGENT may make disbursements after the occurrence of such an EVENT OF DEFAULT without thereby waiving its rights and remedies hereunder), and ADMINISTRATIVE AGENT may exercise any or all of the following rights and remedies:

7.2.1 ADMINISTRATIVE AGENT may declare the OBLIGATIONS to be terminated, whereupon the same shall forthwith terminate, and ADMINISTRATIVE AGENT shall have no further obligation to make any advances thereunder.

7.2.2 ADMINISTRATIVE AGENT may declare the entire unpaid principal amount of the OBLIGATIONS then outstanding, all interest accrued and unpaid thereon, and all other amounts payable under this AGREEMENT to be forthwith due and payable, whereupon the

---

OBLIGATIONS, all such accrued interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by BORROWER.

7.2.3 AGENT may exercise and enforce its rights and remedies under any or all of the LOAN DOCUMENTS.

7.2.4 AGENT may enter upon the PROPERTY, if allowed under applicable law, and take possession thereof, together with the PROJECT then in the course of construction, and proceed either in its own name or in the name of BORROWER, as the attorney-in-fact of BORROWER (which authority is coupled with an interest and is irrevocable by BORROWER) to complete or cause to be completed the PROJECT, at the cost and expense of BORROWER. If ADMINISTRATIVE AGENT elects to complete or cause to be completed the PROJECT, it may do so according to the PLANS or according to such changes, alterations or modifications in and to the PLANS as ADMINISTRATIVE AGENT may reasonably deem appropriate; and ADMINISTRATIVE AGENT may enforce or cancel all contracts let by BORROWER relating to construction of the PROJECT, and/or let other contracts which in ADMINISTRATIVE AGENT's reasonable judgment, ADMINISTRATIVE AGENT deems advisable; and BORROWER shall forthwith turn over and duly assign to ADMINISTRATIVE AGENT, as ADMINISTRATIVE AGENT may from time to time require, contracts not already assigned to AGENT relating to construction of the PROJECT, blueprints, shop drawings, bonds, building permits, bills and statements of accounts pertaining to the PROJECT, whether paid or not, and any other instruments or records in the possession of BORROWER pertaining to the PROJECT. In addition, ADMINISTRATIVE AGENT and its contractors and agents may utilize all or any part of the labor, materials, equipment, fixtures and articles of personal property contracted for by BORROWER, whether or not previously incorporated into the PROJECT, and BANKS may pay, settle or compromise all bills or claims which may become a lien against the PROPERTY and/or the PROJECT, or any portion thereof. BORROWER shall be liable under this AGREEMENT to pay to ADMINISTRATIVE AGENT, on demand, any amount or amounts reasonably expended by BANKS in so completing the PROJECT, together with any reasonable costs, charges, or expenses incident thereto or resulting therefrom, all of which shall be secured by the LOAN DOCUMENTS. In the event that a proceeding is instituted against BORROWER for recovery and reimbursement of any moneys expended by BANKS in connection with the completion of the PROJECT, a statement of such expenditures, verified by the affidavit of an officer of ADMINISTRATIVE AGENT, shall be prima facie evidence of the amounts so expended and of the appropriateness and advisability of such expenditures; and the burden of proving to the contrary shall be upon BORROWER. ADMINISTRATIVE AGENT shall have the right to apply any funds which it agrees to disburse hereunder to bring about the completion of the PROJECT and to pay the costs thereof; and if such money so agreed to be disbursed is insufficient, in the sole judgment of ADMINISTRATIVE AGENT, to complete the PROJECT, BORROWER agrees to promptly deliver and pay to ADMINISTRATIVE AGENT such sum or sums of money as ADMINISTRATIVE AGENT may from time to time demand for the purpose of completing the PROJECT or of paying any liability, charge or expense which may have been incurred or

assumed by ADMINISTRATIVE AGENT under or in performance of this AGREEMENT, or for the purpose of completing the PROJECT. It is expressly understood and agreed that in no event shall BANKS be obligated, or liable in any way to complete the PROJECT or to pay for the costs of construction thereof beyond the amount of the CONSTRUCTION LOAN.

7.2.5 The ADMINISTRATIVE AGENT is hereby authorized at any time, and from time to time, without written notice to BORROWER (any such notice being expressly waived by each BORROWER) and without regard to the source of any funds, to instruct AGENT to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the BANKS to or for the credit or the account of BORROWER against any and all of the obligations of BORROWER now or hereafter existing under this AGREEMENT or the LOANS or any other LOAN DOCUMENT, irrespective of whether or not the ADMINISTRATIVE AGENT shall have made any demand under this AGREEMENT or such other LOAN DOCUMENT and although such obligations may be unmatured. The ADMINISTRATIVE AGENT agrees promptly to notify BORROWER after any such setoff and the application thereof, however, the parties hereto agree that the failure to give such notice shall in no way affect the validity of such setoff and the application. The rights of the AGENT and the BANKS under this Section 7.2.5 are in addition to other rights and remedies the AGENT and the BANKS may have.

7.2.6 AGENT may exercise any other rights and remedies available to it by law, in equity or agreement.

SECTION 8 Miscellaneous.

8.1 Inspections. In addition to the inspections provided for under Section 6.3.8 of this AGREEMENT above, BORROWER, DESIGN-BUILDER and the other general contractors on the PROJECT shall be responsible for making inspections of the PROJECT during the course of construction and shall determine to their own satisfaction that the work done or materials supplied by the DESIGN-BUILDER or any general contractor or SUBCONTRACTOR to whom payment is to be made out of each disbursement has been properly done or supplied in accordance with the CONSTRUCTION CONTRACT. If any work done or materials supplied by the DESIGN-BUILDER or any SUBCONTRACTOR are not satisfactory to BORROWER and/or its DESIGN-BUILDER and the same is not remedied within fifteen (15) days of the discovery thereof, BORROWER will immediately notify ADMINISTRATIVE AGENT in writing of such fact. It is expressly understood and agreed that ADMINISTRATIVE AGENT and the INDEPENDENT INSPECTOR or other party designated by AGENT may conduct such inspections of the PROJECT, subject to the limitations expressed in this AGREEMENT, as AGENT may deem necessary for the protection of BANKS' interest, and that any inspections which may be made of the PROJECT by AGENT will be made, solely for the benefit and protection of AGENT and the BANKS, and that BORROWER will not rely thereon.

8.2 Indemnification by BORROWER. BORROWER shall bear all loss, expense (including reasonable attorneys' fees) and damage in connection with, and agrees to reimburse, indemnify,

defend and hold harmless BANKS, their respective agents, servants and employees from, all claims, demands and judgments made or recovered against BANKS, their respective agents, servants and employees, because of damages, fines, fees, penalties or other charges, bodily injuries, including death at any time resulting there from, and/or because of damages to property (including loss of use) from any cause whatsoever, arising out of, incidental to, or in connection with the construction of the PROJECT, the operation of the PROJECT, permits applicable to the PROJECT (including, but not limited to, noncompliance with such permits) and other matters relating to the PROJECT, whether or not due to any act of omission or commission, including negligence of BORROWER or the DESIGN-BUILDER or of its or their employees, servants or agents, other than gross negligence or willful misconduct of BANKS or their respective agents. BORROWER's liability hereunder shall not be limited to the extent of insurance carried by or provided by BORROWER or subject to any exclusion from coverage in any insurance policy. OBLIGATIONS of BORROWER under this Section shall survive the payment of the CONSTRUCTION NOTES and the TERM NOTES. Notwithstanding the foregoing, BORROWER's liability hereunder shall terminate at such time as a private or governmental plaintiff is barred by the applicable statute of limitations from bringing a claim for the actions giving rise to any BANK's claim for indemnification hereunder.

8.3 No Waiver; Cumulative Remedies. No failure or delay on the part of AGENT or BORROWER in exercising any right, power or remedy under the LOAN DOCUMENTS shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy under the LOAN DOCUMENTS. The remedies provided in the LOAN DOCUMENTS are cumulative and not exclusive of any remedies provided by law or in equity.

8.4 Amendments, Etc. No amendment, modification, termination or waiver of any provision of any of the LOAN DOCUMENTS or consent to any departure by BORROWER therefrom shall be effective unless the same shall be in writing and signed by the applicable AGENT and BORROWER, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on BORROWER in any case shall entitle BORROWER to any other or further notice or demand in similar or other circumstances.

8.5 Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for under the LOAN DOCUMENTS shall be in writing and sent by first class certified mail, return receipt requested, recognized overnight courier or telecopy (if by telecopy with a confirmation mailed within two BUSINESS DAYS thereafter), to the applicable party at its address indicated below:

If to BORROWER: One Earth Energy, LLC
1306 West 8th Street
Gibson City, IL 60936-0546
Attention: Steve Kelly
Telecopy: (217) 784-8949

If to AGENT: First National Bank of Omaha

1620 Dodge St. STOP 1050
Omaha, NE 68197-1050
Attention: Fallon Savage
Telecopy: 402-633-3519

or, as to each party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall, when mailed, be effective when deposited in the mails or with an overnight courier, addressed as aforesaid, or, when telecopied, is effective when confirmation of receipt is received, except that notices or requests to AGENT pursuant to any of the provisions hereunder shall not be effective until received by AGENT.

8.6 Time of Essence. Time is of the essence in the performance of this AGREEMENT.

8.7 Execution in Counterparts. The LOAN DOCUMENTS may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument.

8.8 Binding Effect, Assignment. The LOAN DOCUMENTS to which they are parties shall be binding upon and inure to the benefit of BORROWER and BANKS and their respective successors and assigns, except that BORROWER shall not have the right to assign its rights thereunder or any interest therein without the prior written consent of ADMINISTRATIVE AGENT which consent shall not be unreasonably withheld. Each BANK is extending its COMMITMENTS in the LOANS for its own account, and no BANK may participate, subparticipate, assign or otherwise transfer any of its COMMITMENTS or interests in the LOANS without the prior written consent of ADMINISTRATIVE AGENT, which consent shall not be unreasonably withheld, and ADMINISTRATIVE AGENT shall notify BORROWER of any such participation, subparticipation, assignment or transfer.

8.9 Governing Law. The LOAN DOCUMENTS, to the extent they do not otherwise provide, shall be governed by, and construed in accordance with, the laws of the State of Nebraska, exclusive of its choice of laws principles.

8.10 Severability of Provisions. Any provision of this AGREEMENT, which is prohibited or unenforceable, shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

8.11 Headings. Section headings in this AGREEMENT are included herein for convenience of reference only and shall not constitute a part of this AGREEMENT for any other purpose.

8.12 Integration. This AGREEMENT supersedes, replaces and terminates any prior oral offers, negotiations, understandings or agreements and any commitment letters or similar writings relating to any of the matters contemplated herein.

8.13 Post-Closing Matters. BORROWER, AGENT, and the BANKS acknowledge that the closing of the LOANS provided for herein may occur prior to the time BORROWER has delivered to AGENT all of the documents, consents and certifications required pursuant to the terms and provisions of this AGREEMENT. In the event thereof, BORROWER agrees to execute and deliver to AGENT at CLOSING a post-closing letter in form and substance acceptable to ADMINISTRATIVE AGENT (the “POST CLOSING LETTER”). BORROWER acknowledges and agrees that, notwithstanding any terms or provisions of this AGREEMENT to the contrary, AGENT and the BANKS are not, and shall not be, required to make available or fund any portion of the LOANS provided for in this AGREEMENT until each of the items, documents, consents and certifications described in the POST CLOSING LETTER have been delivered to ADMINISTRATIVE AGENT in form and content reasonably acceptable to ADMINISTRATIVE AGENT.

Section 9 AGENT

9.1 Appointment and Authority.

(a) Each of the BANKS (in its capacity as a BANK) hereby irrevocably appoints, designates and authorizes AGENT to take such action on its behalf under the provisions of this AGREEMENT and each other LOAN DOCUMENT and to exercise such powers and perform such duties as are expressly delegated to AGENT by the terms of this AGREEMENT or any other LOAN DOCUMENT, together with such actions as are reasonably incidental thereto. The provisions of this Section 9 are solely for the benefit of AGENT and the BANKS, and neither the BORROWER nor any other PERSON shall have rights as a third party beneficiary of any of such provisions.

(b) Each BANK hereby appoints FNBO as its ADMINISTRATIVE AGENT under and for purposes of each LOAN DOCUMENT. FNBO hereby accepts this appointment and agrees to act as the ADMINISTRATIVE AGENT for the BANKS in accordance with the terms of this AGREEMENT. Each BANK appoints and authorizes the ADMINISTRATIVE AGENT to act on behalf of such BANK under each LOAN DOCUMENT and, in the absence of other written instructions from the REQUIRED BANKS received from time to time by the ADMINISTRATIVE AGENT (with respect to which the ADMINISTRATIVE AGENT agrees that it will comply, except as otherwise provided in this Section 9.1 or as otherwise advised by counsel), to exercise such powers hereunder and thereunder as are specifically delegated to or required of the ADMINISTRATIVE AGENT by the terms hereof and thereof, together with such powers as may be reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in any LOAN DOCUMENT, the ADMINISTRATIVE AGENT shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the ADMINISTRATIVE AGENT have or be deemed to have any fiduciary relationship with any BANK, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into any LOAN DOCUMENT or otherwise exist against the ADMINISTRATIVE AGENT. Without limiting the generality of the foregoing sentence, the use of the term “agent” in this AGREEMENT or any other LOAN DOCUMENT with reference to the ADMINISTRATIVE AGENT is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any

applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(c) Each BANK (in its capacity as a BANK) hereby appoints FNBO as its COLLATERAL AGENT under and for purposes of each LOAN DOCUMENT. FNBO hereby accepts this appointment and agrees to act as the COLLATERAL AGENT for the BANKS in accordance with the terms of this AGREEMENT. Each of the BANKS hereby irrevocably appoints and authorizes the COLLATERAL AGENT to act as the agent of such BANK for purposes of acquiring, holding and enforcing any and all mortgages, deeds of trust, pledges, liens, security interests or other charges or encumbrances of any nature on collateral granted by BORROWER or other PERSON to the COLLATERAL AGENT in order to secure any of the OBLIGATIONS, together with such powers and discretion as are reasonably incidental thereto. In this connection the COLLATERAL AGENT, and any co-agents, sub-agents and attorneys-in-fact appointed by the COLLATERAL AGENT, as the case may be, pursuant to Section 9.5 for purposes of holding or enforcing any mortgages, deeds of trust, pledges, liens, security interests or other charges or encumbrances of any nature on any collateral (or any portion thereof) granted under the LOAN DOCUMENTS, or for exercising any rights and remedies thereunder at the direction of the COLLATERAL AGENT, as the case may be, shall be entitled to the benefits of all provisions of this Section 9 as if set forth in full herein with respect thereto. Notwithstanding any provision to the contrary contained elsewhere in any LOAN DOCUMENT, the COLLATERAL AGENT shall not have any duties or responsibilities, except those expressly set forth herein or in the other LOAN DOCUMENTS, nor shall the COLLATERAL AGENT have or be deemed to have any fiduciary relationship with any BANK, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into any LOAN DOCUMENT or otherwise exist against the COLLATERAL AGENT. Without limiting the generality of the foregoing sentence, the use of the term “agent” in this AGREEMENT or any other LOAN DOCUMENT with reference to the COLLATERAL AGENT is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(d) Each BANK hereby appoints and authorizes the ACCOUNTS BANK to act as depository for the COLLATERAL AGENT, on behalf of the BANKS, and as the securities intermediary or bank with respect to any securities accounts held with the ACCOUNTS BANK for the benefit of the COLLATERAL AGENT, on behalf of the BANKS, with such powers as are expressly delegated to the ACCOUNTS BANK by the terms of this AGREEMENT, together with such other powers as are reasonably incidental thereto. The ACCOUNTS BANK hereby accepts this appointment and agrees to act as the depository for the COLLATERAL AGENT, on behalf of the BANKS, and as the securities intermediary or bank with respect to securities accounts held with the ACCOUNTS BANK, for the benefit of the COLLATERAL AGENT, on behalf of the BANKS, in accordance with the terms of this AGREEMENT. Notwithstanding any provision to the contrary contained elsewhere in any LOAN DOCUMENT, the ACCOUNTS BANK shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the ACCOUNTS BANK have or be deemed to have any fiduciary relationship with any BANK, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into any LOAN DOCUMENT or

---

otherwise exist against the ACCOUNTS BANK. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this AGREEMENT with reference to the ACCOUNTS BANK is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

Section 9.2 Rights as a BANK. Each Person serving as AGENT hereunder or under any other LOAN DOCUMENT shall have the same rights and powers in its capacity as a BANK as any other BANK and may exercise the same as though it were not an AGENT. Each such Person and its affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with BORROWER or affiliate thereof as if such Person were not an AGENT hereunder and without any duty to account therefor to the BANKS or any other AGENT.

Section 9.3 Exculpatory Provisions. No AGENT shall have any duties or obligations except those expressly set forth herein and in the other LOAN DOCUMENTS. Without limiting the generality of the foregoing, no AGENT shall:

(i) be subject to any fiduciary or other implied duties, regardless of whether an EVENT OF DEFAULT has occurred and is continuing;

(ii) have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other LOAN DOCUMENTS that such AGENT is required to exercise as directed in writing by the REQUIRED BANKS; *provided* that such AGENT shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the AGENT to liability or that is contrary to any LOAN DOCUMENT or applicable law; or

(iii) except as expressly set forth herein and in the other LOAN DOCUMENTS, have any duty to disclose, nor shall any AGENT be liable for any failure to disclose, any information relating to BORROWER or any of its affiliates that is communicated to or obtained by the PERSON serving as an AGENT or any of its affiliates in any capacity.

No AGENT shall be liable for any action taken or not taken by it (i) with the prior written consent or at the request of the REQUIRED BANKS (or such other number or percentage of the Lenders as may be necessary, or as such AGENT may believe in good faith to be necessary, under the circumstances as provided in Section 9) or (ii) in the absence of its own gross negligence or willful misconduct. Each AGENT shall be deemed not to have knowledge of any EVENT OF DEFAULT unless and until notice describing such EVENT OF DEFAULT is given to such AGENT in writing by BORROWER.

No AGENT shall be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this AGREEMENT or any other LOAN DOCUMENT, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence or continuance of any EVENT OF DEFAULT, (iv) the validity, enforceability, effectiveness or genuineness of this AGREEMENT, any other LOAN DOCUMENT or any other agreement, instrument or document, or the perfection or priority of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature created or purported to be created by any LOAN DOCUMENT, or (v) the satisfaction of any condition set forth in this AGREEMENT or any other LOAN DOCUMENT, other than to confirm receipt of items expressly required to be delivered to any such AGENT.

9.4 Reliance by AGENT. Each AGENT shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper PERSON. Each AGENT also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper PERSON, and shall not incur any liability for relying thereon. Each AGENT may consult with legal counsel (who may be counsel for any of the Borrowers), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.5 Delegation of Duties. Each AGENT may perform any and all of its duties and exercise any and all of its rights and powers hereunder or under any other LOAN DOCUMENT by or through any one or more sub-agents appointed by such AGENT. Each AGENT and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective affiliates or subsidiaries. The exculpatory provisions of this Section 9 shall apply to any such subagent and to the affiliates and subsidiaries of such AGENT and any such sub-agent, and shall apply to their respective activities in connection with their acting as AGENT.

9.6 Resignation or Removal of AGENT. Any AGENT may resign from the performance of all of its functions and duties hereunder and/or under the other LOAN DOCUMENTS at any time by giving thirty (30) days' prior notice to BORROWER and the BANKS. Any AGENT also may be removed at any time by the REQUIRED BANKS upon thirty (30) days' prior notice. Such resignation or removal shall take effect upon the appointment of a successor AGENT, in accordance with this Section 9.6.

Upon any notice of resignation by any AGENT or upon the removal of any AGENT by the REQUIRED BANKS, the BANKS shall, so long as no EVENT OF DEFAULT has occurred and is continuing, with the consent (not to be unreasonably withheld or delayed) of BORROWER, appoint a successor to such AGENT hereunder and under each other LOAN DOCUMENT who shall be a commercial bank having a combined capital and surplus of at least Two Hundred Fifty Million and No/100ths Dollars ($250,000,000.00) . If no successor AGENT has been appointed by the BANKS

within thirty (30) days after the date such notice of resignation was given by such AGENT or the REQUIRED BANKS elected to remove such AGENT, any BANK may petition any court of competent jurisdiction for the appointment of a successor AGENT. Such court may thereupon, after such notice, if any, as it may deem proper, appoint a successor AGENT, as applicable, who shall serve as such AGENT, hereunder and under each other LOAN DOCUMENT until such time, if any, as the BANKS appoint a successor AGENT, as provided above. Upon the acceptance of a successor's appointment as an AGENT hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed AGENT, and the retiring or removed AGENT shall be discharged from all of its duties and obligations hereunder or under the other LOAN DOCUMENTS. After the retirement or removal of any AGENT hereunder and under the other LOAN DOCUMENTS, the provisions of this Section 9 shall continue in effect for the benefit of such retiring or removed AGENT, its sub-agents and their respective affiliates and subsidiaries in respect of any actions taken or omitted to be taken by any of them while the retiring AGENT was acting as AGENT.

If a retiring or removed AGENT is the ACCOUNTS BANK, such ACCOUNTS BANK will promptly transfer all of the deposit accounts and security accounts of BORROWER relating to this AGREEMENT to the possession or control of the successor ACCOUNTS BANK, and the ACCOUNTS BANK and BORROWER will execute and deliver such notices, instructions and assignments as may be reasonably necessary or desirable to transfer the rights of the ACCOUNTS BANK with respect thereto to the successor ACCOUNTS BANK.

If a retiring or removed AGENT is the COLLATERAL AGENT, such COLLATERAL AGENT will promptly transfer any collateral for the LOANS in the possession or control of such COLLATERAL AGENT to the successor COLLATERAL AGENT, and the COLLATERAL AGENT and BORROWER will execute and deliver such notices, instructions and assignments as may be reasonably necessary or desirable to transfer the rights of the COLLATERAL AGENT with respect to such collateral property for the LOANS to the successor COLLATERAL AGENT.

9.7 No Amendment to Duties of AGENT Without Consent. No AGENT shall be bound by any waiver, amendment, supplement or modification of this AGREEMENT or any other LOAN DOCUMENT that affects its rights or duties hereunder or thereunder unless such AGENT shall have given its prior written consent, in its capacity as AGENT, thereto.

9.8 Non-Reliance on AGENT and Other BANKS. Each BANK acknowledges that it has, independently and without reliance upon any AGENT or any other BANK or any of their affiliates or subsidiaries and based on such documents and information as it has deemed appropriate, made its own credit analysis of the PROJECT and BORROWER and has made its own decision to enter into this AGREEMENT and make the LOANS. Each BANK also acknowledges that it will, independently and without reliance upon any AGENT or any other BANK or any of their affiliates or subsidiaries and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this AGREEMENT, any other LOAN DOCUMENT or any related agreement or any document furnished hereunder or thereunder.

9.9 COLLATERAL AGENT May File Proofs of Claim. In case of the pendency of any bankruptcy or insolvency proceeding relative to BORROWER (including any event described in Sections 7.1.6, 7.1.7 or 7.1.8 of this AGREEMENT, the COLLATERAL AGENT (irrespective of whether the principal of any LOAN shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the COLLATERAL AGENT or any other BANK shall have made any demand on BORROWER) shall be entitled and empowered, but shall not be obligated to, by intervention in such proceeding or otherwise:

9.9.1 to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the LOANS and all other OBLIGATIONS that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the BANKS (including any claim for the reasonable compensation, expenses, disbursements and advances of the BANKS and their respective agents and counsel and all other amounts due the BANKS under this AGREEMENT or the other LOAN DOCUMENTS) allowed in such judicial proceeding;

9.9.2 to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same; and

9.9.3 any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each BANK to make such payments to the COLLATERAL AGENT and, in the event that the COLLATERAL AGENT may consent to the making of such payments directly to the BANKS, to pay to the COLLATERAL AGENT any amount due for the reasonable compensation, expenses, disbursements and advances of the AGENT and their respective agents and counsel, and any other amounts due the AGENT under this AGREEMENT and the other LOAN DOCUMENTS.

9.10 Collateral Matters. The BANKS irrevocably authorize the COLLATERAL AGENT, upon the direction of the ADMINISTRATIVE AGENT, to release any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature on any property granted to or held by the COLLATERAL AGENT under any LOAN DOCUMENT upon BORROWER's full and final satisfaction of the OBLIGATIONS. Upon request by the COLLATERAL AGENT at any time, the BANKS will confirm in writing the COLLATERAL AGENT's authority to release its interest in particular types or items of property pursuant to this Section 9.10. In each case as specified in this Section 9.10, the COLLATERAL AGENT will, at BORROWER's expense, execute and deliver to BORROWER such documents as BORROWER may reasonably request to evidence the release of such item of collateral from the assignment and security interest granted under the LOAN DOCUMENTS in accordance with the terms of the LOANS DOCUMENTS and this Section 9.10.

Notwithstanding anything to the contrary in any LOAN DOCUMENT, the powers conferred on the COLLATERAL AGENT under the LOAN DOCUMENTS are solely to protect its interest (on behalf of the BANKS) in the collateral securing the LOANS and shall not impose any duty upon it to exercise any such powers. Except for the reasonable care of any such collateral in its possession and

---

the accounting for moneys actually received by it under the LOAN DOCUMENTS, the COLLATERAL AGENT shall have no duty as to any such collateral, or responsibility, for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any investment property constituting collateral, whether or not the COLLATERAL AGENT has or is deemed to have knowledge of such matters, or (ii) taking any necessary steps to preserve rights against prior parties or any other rights pertaining to any such collateral. The COLLATERAL AGENT shall be deemed to have exercised reasonable care in the custody and preservation of any collateral in its possession if such collateral is accorded treatment substantially equal to that which it accords its own property.

The COLLATERAL AGENT shall not be liable for interest on any money or assets received by it. Assets held in trust by the COLLATERAL AGENT need not be segregated from other assets except to the extent required by law.

Before the COLLATERAL AGENT acts or refrains from acting, it may require a certificate of an appropriate officer of BORROWER at the expense of BORROWER. The COLLATERAL AGENT shall not be liable for any action it takes or omits to take in good faith in reliance on such officer’s certificate.

The COLLATERAL AGENT shall not be liable for any action that it takes or omits to take in good faith that it reasonably believes to be authorized or within its rights or powers under the LOAN DOCUMENTS. The COLLATERAL AGENT shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the COLLATERAL AGENT, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the COLLATERAL AGENT shall determine to make such further inquiry or investigation, it shall be entitled, upon reasonable notice to BORROWER, to examine the books, records and premises of BORROWER, personally or by agent or attorney and to consult with the officers and representatives of BORROWER, including BORROWER’s accountants and attorneys.

The COLLATERAL AGENT shall be under no obligation to exercise any of the rights or powers vested in it by the LOAN DOCUMENTS at the request, order or direction of the BANKS unless such BANKS have offered to the COLLATERAL AGENT security or indemnity reasonably satisfactory to the COLLATERAL AGENT against the costs, expenses and liabilities that may be incurred by it in compliance with such request, order or direction. The COLLATERAL AGENT shall not be required to give any bond or surety in respect of the performance of its powers and duties under the LOAN DOCUMENTS.

The COLLATERAL AGENT may from time to time, at its option, perform any act that BORROWER agrees hereunder or under any LOAN DOCUMENT to perform and that BORROWER shall fail to perform after being requested in writing so to perform (it being understood that no such request need be given after the occurrence of an EVENT OF DEFAULT) and the COLLATERAL AGENT may from time to time take any other action that the COLLATERAL AGENT reasonably deems necessary for the maintenance, preservation or protection of any of the collateral for the LOANS or of its security interest therein.

The COLLATERAL AGENT is authorized to endorse, in the name of BORROWER, any item, howsoever received by the COLLATERAL AGENT, representing any payment on or other proceeds of any of the collateral for the LOANS.

9.11 Indemnification. Each BANK other than AGENT jointly and severally agrees to indemnify AGENT (to the extent not reimbursed by BORROWER), ratably according to the respective COMMITMENTS of the BANKS, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against AGENT acting as AGENT in any way relating to or arising out of this AGREEMENT or any other LOAN DOCUMENT or any action taken or omitted by AGENT acting as the AGENT under this AGREEMENT or any other LOAN DOCUMENT, *provided* that no BANK shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from AGENT's gross negligence or willful misconduct in connection with AGENT acting as AGENT. Without limitation of the foregoing, each BANK jointly and severally agrees to reimburse AGENT promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by AGENT in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this AGREEMENT or any other LOAN DOCUMENT to the extent that AGENT is not reimbursed for such expenses by BORROWER.

A CREDIT AGREEMENT MUST BE IN WRITING TO BE ENFORCEABLE UNDER NEBRASKA LAW. TO PROTECT YOU (BORROWER) AND US (LENDER) FROM ANY MISUNDERSTANDINGS OR DISAPPOINTMENTS, ANY CONTRACT, PROMISE, UNDERTAKING, OR OFFER TO FOREBEAR REPAYMENT OF MONEY OR TO MAKE ANY OTHER FINANCIAL ACCOMMODATION IN CONNECTION WITH THIS LOAN OF MONEY OR GRANT OR EXTENSION OF CREDIT, OR ANY AMENDMENT OF, CANCELLATION OF, WAIVER OF, OR SUBSTITUTION FOR ANY OR ALL OF THE TERMS OR PROVISIONS OF ANY INSTRUMENT OR DOCUMENT EXECUTED IN CONNECTION WITH THIS LOAN OF MONEY OR GRANT OR EXTENSION OF CREDIT, MUST BE IN WRITING TO BE EFFECTIVE.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this AGREEMENT to be executed by their respective officers thereunto duly authorized, as of the date first above written.

ONE EARTH ENERGY, LLC

By: /s Steve Kelly
Title: President

FIRST NATIONAL BANK OF OMAHA, in its capacity as a BANK, ADMINISTRATIVE AGENT, COLLATERAL AGENT and ACCOUNTS BANK

By: /s/ Fallon Savage
Fallon Savage, Commercial Loan Officer

EXHIBIT A

Construction Note Form

CONSTRUCTION NOTE

Note Date: September 20, 2007 $ ___________

Maturity Date: July 31, 2009

FOR VALUE RECEIVED, ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), promises to pay to the order of FIRST NATIONAL BANK OF OMAHA ("BANK"), at its principal office in Omaha, Nebraska or such other address as BANK or holder may designate from time to time, the principal sum of ________________________ Dollars ($_____________), or the amount shown on BANK's records to be outstanding, plus interest (calculated on the basis of actual days elapsed in a 360-day year) accruing each day on the unpaid principal balance at the annual interest rates defined below. Absent manifest error, BANK's records shall be conclusive evidence of the principal and accrued interest owing hereunder.

This CONSTRUCTION NOTE is executed pursuant to a Construction Loan Agreement ("LOAN AGREEMENT") between BORROWER and BANKS dated of even date herewith. All capitalized terms not otherwise defined in this CONSTRUCTION NOTE shall have the meanings provided in the LOAN AGREEMENT.

INTEREST ACCRUAL. Interest on the principal amount outstanding on the CONSTRUCTION LOAN shall accrue, for the period through and including the CONSTRUCTION LOAN TERMINATION DATE, at a rate equal to the three month LIBOR RATE plus three hundred ten (310) basis points from time to time until maturity, and at a rate equal to the three month LIBOR RATE plus nine hundred ten (910) basis points from time to time after maturity, whether by acceleration or otherwise. Interest shall be calculated on the basis of a 360-day year, counting the actual number of days elapsed, and will adjust monthly as described in the LOAN AGREEMENT.

REPAYMENT TERMS. Until the CONSTRUCTION LOAN TERMINATION DATE applicable to this CONSTRUCTION NOTE, interest only shall be payable quarterly, commencing December 8, 2007. On the CONSTRUCTION LOAN TERMINATION DATE applicable to this CONSTRUCTION NOTE, all principal and accrued interest shall be due and payable. The LOAN AGREEMENT describes the TERM NOTES that may be used by BORROWER to pay this CONSTRUCTION NOTE.

PREPAYMENT. The LOAN AGREEMENT contains provisions regarding prepayment.

ADDITIONAL TERMS AND CONDITIONS. The LOAN AGREEMENT, and any amendments or substitutions, contains additional terms and conditions, including default and acceleration provisions, which are incorporated into this CONSTRUCTION NOTE by reference. BORROWER agrees to pay all costs of collection, including reasonable attorneys' fees and legal expenses incurred by BANK if this CONSTRUCTION NOTE is not paid as provided above. This CONSTRUCTION NOTE shall be governed by the substantive laws of the State of Nebraska, exclusive of its choice of laws principles.

WAIVER OF PRESENTMENT AND NOTICE OF DISHONOR. BORROWER and any other person who signs, guarantees or endorses this CONSTRUCTION NOTE, to the extent allowed by law, hereby waives presentment, demand for payment, notice of dishonor, protest, and any notice relating to the acceleration of the maturity of this CONSTRUCTION NOTE.

[SIGNATURE PAGE FOLLOWS]

Executed as of the Note Date first above written.

ONE EARTH ENERGY, LLC, an Illinois limited liability company

By: ____________________________

Title: ____________________________

EXHIBIT B
Fixed Rate Note

FIXED RATE NOTE

Note Date: ____________ $ __________
Maturity Date:____________

FOR VALUE RECEIVED, ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), promises to pay to the order of FIRST NATIONAL BANK OF OMAHA ("AGENT"), at its principal office or such other address as AGENT or holder may designate from time to time, the principal sum of ____________________________________ Dollars ($__________), or the amount shown on AGENT's records to be outstanding, plus interest (calculated on the basis of actual days elapsed in a 360-day year) accruing each day on the unpaid principal balance at the annual interest rates defined below. Absent manifest error, AGENT's records shall be conclusive evidence of the principal and accrued interest owing hereunder.

This FIXED RATE NOTE is executed pursuant to a Construction Loan Agreement between BORROWER and BANKS dated as of September 20, 2007, (the Construction Loan Agreement, together with all amendments, modifications and supplements thereto and all restatements and replacements thereof is called the "AGREEMENT"). All capitalized terms not otherwise defined in this note shall have the meanings provided in the AGREEMENT.

INTEREST ACCRUAL. Interest on the principal amount outstanding shall accrue at a per annum rate equal to the three month LIBOR RATE plus 300 basis points on the Note Date referenced above and adjusting as provided for in the AGREEMENT, and at the three month LIBOR RATE plus 900 basis points from time to time after maturity, whether by acceleration or otherwise. Interest shall be calculated on the basis of a 360-day year, counting the actual number of days elapsed.

REPAYMENT TERMS. Principal shall be due and payable in the amounts and on the dates set forth in Schedule I attached to the AGREEMENT, and incorporated herein by reference, and accrued and unpaid interest shall be due and payable in arrears on the same dates that principal installments are due. Any remaining principal balance, plus any accrued but unpaid interest, shall be fully due and payable on _______________________, if not sooner paid.

PREPAYMENT. BORROWER may prepay this FIXED RATE NOTE in full or in part at any time. Provided, however, a condition of any prepayment of all of this FIXED RATE NOTE, the VARIABLE RATE NOTE and the LONG TERM REVOLVING NOTE is that certain fees shall be paid to BANK. If such complete prepayment occurs within the first two (2) years following the CONSTRUCTION LOAN TERMINATION DATE, a fee of one percent (1%) of the original principal amount of this FIXED RATE NOTE shall be paid to BANK. In the event that BORROWER pre-pays all of this FIXED RATE NOTE and except as to such payments as are required by the AGREEMENT, BORROWER shall pay BANK a breakage fee sufficient to make BANK whole for any expenses relating to breaking fixed interest rates, which BANK shall

apportion among its participants. Any prepayment may be applied in inverse order of maturity or as BANK in its sole discretion may deem appropriate. Such prepayment shall not excuse BORROWER from making subsequent payments each quarter until the indebtedness is paid in full. No payment of EXCESS CASH FLOW shall be the cause of a payment to BANK for interest rate breakage fees or otherwise result in any prepayment fee.

ADDITIONAL TERMS AND CONDITIONS. This FIXED RATE NOTE is executed pursuant to the AGREEMENT. The AGREEMENT, and any amendments or substitutions thereof or thereto, contains additional terms and conditions, including default and acceleration provisions, which are incorporated into this FIXED RATE NOTE by reference.

The aggregate unpaid principal amount hereof plus interest shall become immediately due and payable without demand or further action on the part of BANK upon the occurrence of an EVENT OF DEFAULT as set forth under the AGREEMENT or any other LOAN DOCUMENT. If the maturity date of this FIXED RATE NOTE is accelerated as a consequence of an EVENT OF DEFAULT, then BANK shall have all the rights and remedies provided for in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity. The rights, powers, privileges, options and remedies of BANK provided in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity shall be cumulative and concurrent, and may be pursued singly, successively or together at the sole discretion of BANK, and may be exercised as often as occasion therefor shall occur. No delay or discontinuance in the exercise of any right, power, privilege, option or remedy shall be deemed a waiver of such right, power, privilege, option or remedy, nor shall the exercise of any right, power, privilege, option or remedy be deemed an election of remedies or a waiver of any other right, power, privilege, option or remedy. Without limiting the generality of the foregoing, BANK's waiver of an EVENT OF DEFAULT shall not constitute a waiver of acceleration in connection with any future EVENT OF DEFAULT. BANK may rescind any acceleration of this FIXED RATE NOTE without in any way waiving or affecting any acceleration of this FIXED RATE NOTE in the future as a consequence of an EVENT OF DEFAULT. BANK's acceptance of partial payment or partial performance shall not in any way affect or rescind any acceleration of this FIXED RATE NOTE made by BANK.

Unless prohibited by law, BORROWER will pay on demand all reasonable costs of collection, reasonable legal expenses and reasonable attorneys' fees and costs incurred or paid by BANK in collecting and/or enforcing this FIXED RATE NOTE. Furthermore, BANK reserves the right to offset without notice all funds held by BANK against debts owing to BANK by BORROWER.

WAIVER OF PRESENTMENT AND NOTICE OF DISHONOR. BORROWER and any other person who signs, guarantees or endorses this FIXED RATE NOTE, to the extent allowed by law, hereby waives presentment, demand for payment, notice of dishonor, protest, and any notice relating to the acceleration of the maturity of this FIXED RATE NOTE.

[SIGNATURE PAGE FOLLOWS]

Executed as of the Note Date first above written.

ONE EARTH ENERGY, LLC, an Illinois limited liability company

By: ______________________________
Title: ______________________________

EXHIBIT C
Variable Rate Note

VARIABLE RATE NOTE

Note Date: ____________ $ _________________
Maturity Date:____________

FOR VALUE RECEIVED, ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), promises to pay to the order of FIRST NATIONAL BANK OF OMAHA ("BANK"), at its principal office or such other address as BANK or holder may designate from time to time, the principal sum of ________________ and 00/100 Dollars ($________________), or the amount shown on BANK's records to be outstanding, plus interest (calculated on the basis of actual days elapsed in a 360-day year) accruing each day on the unpaid principal balance at the annual interest rates defined below. Absent manifest error, BANK's records shall be conclusive evidence of the principal and accrued interest owing hereunder.

This VARIABLE RATE NOTE is executed pursuant to a Construction Loan Agreement between BORROWER and BANK dated as of June ___, 2007, (the Construction Loan Agreement, together with all amendments, modifications and supplements thereto and all restatements and replacements thereof is called the "AGREEMENT"). All capitalized terms not otherwise defined in this note shall have the meanings provided in the AGREEMENT.

INTEREST ACCRUAL. Interest on the principal amount outstanding shall accrue based on the three month LIBOR RATE plus 310 basis points from time to time until maturity as provided for in the AGREEMENT, and at a rate equal to the three month LIBOR RATE plus 910 basis points from time to time after maturity, whether by acceleration or otherwise. Interest shall be calculated on the basis of a 360-day year, counting the actual number of days elapsed.

INCENTIVE PRICING. The interest rate applicable to this VARIABLE RATE NOTE is subject to reduction after a date six months subsequent to the CONSTRUCTION LOAN TERMINATION DATE, as provided for in Section 2.15 of the AGREEMENT.

REPAYMENT TERMS. Interest and principal shall be due and payable at the times, in the amounts and applied in the manner provided for in Section 2.5 of the AGREEMENT. Any remaining principal balance, plus any accrued but unpaid interest, shall be fully due and payable on the Maturity Date, if not sooner paid.

PREPAYMENT. BORROWER may prepay this VARIABLE RATE NOTE in full or in part at any time; provided, however, that any prepayment fees provided for in the AGREEMENT shall be due at the time of any such prepayment. Any prepayment may be applied in inverse order of maturity or as BANK in its sole discretion may deem appropriate. Such prepayment shall not excuse BORROWER from making subsequent payments each quarter until the indebtedness is paid in full.

ADDITIONAL TERMS AND CONDITIONS. This VARIABLE RATE NOTE is executed pursuant to the AGREEMENT. The AGREEMENT, and any amendments or substitutions thereof or thereto, contains additional terms and conditions, including default and acceleration provisions, which are incorporated into this VARIABLE RATE NOTE by reference.

The aggregate unpaid principal amount hereof plus interest shall become immediately due and payable without demand or further action on the part of BANK upon the occurrence of an EVENT OF DEFAULT as set forth under the AGREEMENT or any other LOAN DOCUMENT. If the maturity date of this VARIABLE RATE NOTE is accelerated as a consequence of an EVENT OF DEFAULT, then BANK shall have all the rights and remedies provided for in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity. The rights, powers, privileges, options and remedies of BANK provided in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity shall be cumulative and concurrent, and may be pursued singly, successively or together at the sole discretion of BANK, and may be exercised as often as occasion therefor shall occur. No delay or discontinuance in the exercise of any right, power, privilege, option or remedy shall be deemed a waiver of such right, power, privilege, option or remedy, nor shall the exercise of any right, power, privilege, option or remedy be deemed an election of remedies or a waiver of any other right, power, privilege, option or remedy. Without limiting the generality of the foregoing, BANK's waiver of an EVENT OF DEFAULT shall not constitute a waiver of acceleration in connection with any future EVENT OF DEFAULT. BANK may rescind any acceleration of this VARIABLE RATE NOTE without in any way waiving or affecting any acceleration of this VARIABLE RATE NOTE in the future as a consequence of an EVENT OF DEFAULT. BANK's acceptance of partial payment or partial performance shall not in any way affect or rescind any acceleration of this VARIABLE RATE NOTE made by BANK.

Unless prohibited by law, BORROWER will pay on demand all reasonable costs of collection, reasonable legal expenses and reasonable attorneys' fees and costs incurred or paid by BANK in collecting and/or enforcing this VARIABLE RATE NOTE. Furthermore, BANK reserves the right to offset without notice all funds held by BANK against debts owing to BANK by BORROWER.

WAIVER OF PRESENTMENT AND NOTICE OF DISHONOR. BORROWER and any other person who signs, guarantees or endorses this VARIABLE RATE NOTE, to the extent allowed by law, hereby waives presentment, demand for payment, notice of dishonor, protest, and any notice relating to the acceleration of the maturity of this VARIABLE RATE NOTE.

[SIGNATURE PAGE FOLLOWS]

Executed as of the Note Date first above written.

ONE EARTH ENERGY, LLC, an Illinois limited liability company

By: ______________________________

Title: ______________________________

<u>**EXHIBIT D**</u>

Long Term Revolving Note

LONG TERM REVOLVING NOTE

Note Date: ____________ $ ________________

Maturity Date:____________

FOR VALUE RECEIVED, ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), promises to pay to the order of FIRST NATIONAL BANK OF OMAHA ("BANK"), at its principal office or such other address as BANK or holder may designate from time to time, the principal sum of _____________ and 00/100 Dollars ($10,000,000.00) or the amount shown on BANK's records to be outstanding, plus interest (calculated on the basis of actual days elapsed in a 360-day year) accruing each day on the unpaid principal balance at the annual interest rates defined below. Absent manifest error, BANK's records shall be conclusive evidence of the principal and accrued interest owing hereunder.

This LONG TERM REVOLVING NOTE is executed pursuant to a Construction Loan Agreement between BORROWER and BANKS dated as of September 20, 2007, (the Construction Loan Agreement, together with all amendments, modifications and supplements thereto and all restatements and replacements thereof is called the "AGREEMENT"). All capitalized terms not otherwise defined in this note shall have the meanings provided in the AGREEMENT.

INTEREST ACCRUAL. Interest on the principal amount outstanding shall accrue based on the three month LIBOR RATE plus 300 basis points from time to time until maturity as adjusted as provided for in the AGREEMENT, and at a rate equal to the three month LIBOR RATE plus 900 basis points from time to time after maturity, whether by acceleration or otherwise. Interest shall be calculated on the basis of a 360-day year, counting the actual number of days elapsed.

REVOLVING FEATURE. Subject to the MAXIMUM AVAILABILITY, BORROWER may reborrow, on a revolving basis, that principal amount repaid on this LONG TERM REVOLVING NOTE. Pursuant to this revolving loan feature BANK will lend BORROWER, from time to time until maturity of this LONG TERM REVOLVING NOTE such sums as BORROWER may request by reasonable same day notice to BANK, received by BANK not later than 11:00 A.M. on Friday, or the next BANKING DAY thereafter, each week but which shall not exceed in the aggregate principal amount at any one time outstanding, the MAXIMUM AVAILABILITY then applicable to this LONG TERM REVOLVING NOTE. BORROWER may borrow, repay and reborrow hereunder, from the date of this LONG TERM REVOLVING NOTE until the maturity of this LONG TERM REVOLVING NOTE, said amount or any lesser sum.

INCENTIVE PRICING. The interest rate applicable to this LONG TERM REVOLVING NOTE is subject to reduction after a date six months subsequent to CONSTRUCTION LOAN TERMINATION DATE, as provided for in Section 2.15 of the AGREEMENT.

REPAYMENT TERMS. Interest and principal shall be due and payable at the times, in the amounts and applied in the manner provided for in Section 2.5 of the AGREEMENT. Any remaining principal balance, plus any accrued but unpaid interest, shall be fully due and payable on the Maturity Date, if not sooner paid. On each REDUCTION DATE and EXCESS CASH FLOW REDUCTION DATE, BORROWER shall pay and apply to the then outstanding principal balance of this LONG TERM REVOLVING NOTE the amount necessary to reduce the outstanding principal balance of this LONG TERM REVOLVING NOTE so that it is within the MAXIMUM AVAILABILITY applicable on each such REDUCTION DATE and/or EXCESS CASH FLOW REDUCTION DATE.

PREPAYMENT. BORROWER may prepay this LONG TERM REVOLVING NOTE in full or in part at any time; provided, however, that any prepayment fees provided for in the AGREEMENT shall be due at the time of any such prepayment. No payment applied to this LONG TERM REVOLVING NOTE to bring the outstanding principal balance within the MAXIMUM AVAILABILITY shall be the cause of a payment to BANK for interest rate breakage fees or otherwise result in any prepayment fee.

ADDITIONAL TERMS AND CONDITIONS. This LONG TERM REVOLVING NOTE is executed pursuant to the AGREEMENT. The AGREEMENT, and any amendments or substitutions thereof or thereto, contains additional terms and conditions, including default and acceleration provisions, which are incorporated into this LONG TERM REVOLVING NOTE by reference.

The aggregate unpaid principal amount hereof plus interest shall become immediately due and payable without demand or further action on the part of BANK upon the occurrence of an EVENT OF DEFAULT as set forth under the AGREEMENT or any other LOAN DOCUMENT. If the maturity date of this LONG TERM REVOLVING NOTE is accelerated as a consequence of an EVENT OF DEFAULT, then BANK shall have all the rights and remedies provided for in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity. The rights, powers, privileges, options and remedies of BANK provided in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity shall be cumulative and concurrent, and may be pursued singly, successively or together at the sole discretion of BANK, and may be exercised as often as occasion therefor shall occur. No delay or discontinuance in the exercise of any right, power, privilege, option or remedy shall be deemed a waiver of such right, power, privilege, option or remedy, nor shall the exercise of any right, power, privilege, option or remedy be deemed an election of remedies or a waiver of any other right, power, privilege, option or remedy. Without limiting the generality of the foregoing, BANK’s waiver of an EVENT OF DEFAULT shall not constitute a waiver of acceleration in connection with any future EVENT OF DEFAULT. BANK may rescind any acceleration of this LONG TERM REVOLVING NOTE without in any way waiving or affecting any acceleration of this LONG TERM REVOLVING NOTE in the future as a consequence of an EVENT OF DEFAULT. BANK’s acceptance of partial payment or partial performance shall not in any way affect or rescind any acceleration of this LONG TERM REVOLVING NOTE made by BANK.

Unless prohibited by law, BORROWER will pay on demand all reasonable costs of collection, reasonable legal expenses and reasonable attorneys' fees and costs incurred or paid by BANK in collecting and/or enforcing this LONG TERM REVOLVING NOTE. Furthermore, BANK reserves the right to offset without notice all funds held by BANK against debts owing to BANK by BORROWER.

WAIVER OF PRESENTMENT AND NOTICE OF DISHONOR. BORROWER and any other person who signs, guarantees or endorses this LONG TERM REVOLVING NOTE, to the extent allowed by law, hereby waives presentment, demand for payment, notice of dishonor, protest, and any notice relating to the acceleration of the maturity of this LONG TERM REVOLVING NOTE.

[SIGNATURE PAGE FOLLOWS]

Executed as of the Note Date first above written.

ONE EARTH ENERGY, LLC, an Illinois limited liability company

By: ______________________________
Title: ______________________________

EXHIBIT E
Revolving Promissory Note

REVOLVING PROMISSORY NOTE

Omaha, Nebraska $ ____________
Note Date: September 20, 2007
Maturity Date: September 19, 2008

On or before September ____, 2008, ONE EARTH ENERGY, LLC ("BORROWER"), promises to pay to the order of FIRST NATIONAL BANK OF OMAHA ("BANK") at any of its offices in Omaha, Nebraska the principal sum hereof, which shall be _____________ and no/100 Dollars ($_________________) or so much thereof as may have been advanced by BANK and shown on the records of BANK to be outstanding under this REVOLVING PROMISSORY NOTE and the AGREEMENT (as defined below). Interest on the principal balance from time to time outstanding will be payable at a rate equal to the one month LIBOR RATE plus three hundred ten (310) basis points from time to time until maturity as such rate will be adjusted as provided for in the AGREEMENT, and at a rate equal to the one month LIBOR RATE plus nine hundred ten (910) basis points from time to time after maturity, whether by acceleration or otherwise. Interest shall be calculated on the basis of a 360-day year, counting the actual number of days elapsed. Interest on the REVOLVING LOAN shall be payable quarterly, in arrears.

The interest rate applicable to this REVOLVING NOTE is subject to reduction after a date six months subsequent to the CONSTRUCTION LOAN TERMINATION DATE, as provided for in Section 2.15 of the AGREEMENT.

This REVOLVING PROMISSORY NOTE is executed pursuant to that certain Construction Loan Agreement dated September 20, 2007 between BANKS and BORROWER (the Construction Loan Agreement, together with all amendments, modifications and supplements thereto and all restatements and replacements thereof is called the (“AGREEMENT”). The AGREEMENT, and any amendments or substitutions thereof or thereto, contains additional terms and conditions, including default and acceleration provisions, which are incorporated into this REVOLVING PROMISSORY NOTE by reference. All capitalized terms not otherwise defined herein shall have the same meanings as set forth in the AGREEMENT.

The aggregate unpaid principal amount hereof plus interest shall become immediately due and payable without demand or further action on the part of BANK upon the occurrence of an EVENT OF DEFAULT as set forth under the AGREEMENT or any other LOAN DOCUMENT. If the maturity date of this REVOLVING PROMISSORY NOTE is accelerated as a consequence of an EVENT OF DEFAULT, then BANK shall have all the rights and remedies provided for in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity. The rights, powers, privileges, options and remedies of BANK provided in the AGREEMENT, the other LOAN DOCUMENTS or otherwise available at law or in equity shall be cumulative and concurrent,

and may be pursued singly, successively or together at the sole discretion of BANK, and may be exercised as often as occasion therefor shall occur. No delay or discontinuance in the exercise of any right, power, privilege, option or remedy shall be deemed a waiver of such right, power, privilege, option or remedy, nor shall the exercise of any right, power, privilege, option or remedy be deemed an election of remedies or a waiver of any other right, power, privilege, option or remedy. Without limiting the generality of the foregoing, BANK's waiver of an EVENT OF DEFAULT shall not constitute a waiver of acceleration in connection with any future EVENT OF DEFAULT. BANK may rescind any acceleration of this REVOLVING PROMISSORY NOTE without in any way waiving or affecting any acceleration of this REVOLVING PROMISSORY NOTE in the future as a consequence of an EVENT OF DEFAULT. BANK's acceptance of partial payment or partial performance shall not in any way affect or rescind any acceleration of this REVOLVING PROMISSORY NOTE made by BANK.

Unless prohibited by law, BORROWER will pay on demand all reasonable costs of collection, reasonable legal expenses and reasonable attorneys' fees and costs incurred or paid by BANK in collecting and/or enforcing this REVOLVING PROMISSORY NOTE. Furthermore, BANK reserves the right to offset without notice all funds held by BANK against debts owing to BANK by BORROWER.

All makers and endorsers hereby waive presentment, demand, protest and notice of dishonor, consent to any number of extensions and renewals for any period without notice; and consent to any substitution, exchange or release of collateral, and to the addition or releases of any other party primarily or secondarily liable.

[SIGNATURE PAGE FOLLOWS]

Executed as of the Note Date set forth above.

ONE EARTH ENERGY, LLC, an Illinois limited liability company

By: ______________________________
Title: ______________________________

FIRST NATIONAL

EXHIBIT F

Real Estate Description

Parcel 1:

All that part of the South 1204.28 Feet of the South Half of Section 3, Township 23 North, Range 7 East of the Third Principal Meridian, Ford County, Illinois, lying east of the Northerly Extension of the East Line of a tract of land conveyed to Ameren Energy Generating Company by Special Warranty Deed recorded September 11, 2000, as Document No. 216254 in the Ford County Recorder's Office, and lying west of the Northerly Extension of the East Line of the West 250 Feet of the Northeast Quarter of Section 10, Township 23 North, Range 7 East of the Third Principal Meridian, situated in the City of Gibson, County of Ford and State of Illinois.
Said Parcel 1 contains 34.00 acres, more or less.

Parcel 2:

A part of the Northwest Quarter of Section 10, Township 23 North, Range 7 East of the Third Principal Meridian, Gibson City, Ford County, Illinois, more particularly described as follows: Beginning at the Northeast Corner of Lot 4 in the First Addition to Jordan Industrial Park Subdivision in the City of Gibson City, Illinois, according to the Plat recorded as Document No. 205053 in the Ford County Recorder's Office. From said Point of Beginning, thence west 1146.34 feet along the North Line of said Lot 4 to the Northwest Corner thereof; thence north 543.85 feet along the East Right-of-Way line of Jordan Drive according to the Dedication thereof recorded as Document No. 212435 in said Recorder's Office which forms an angle to the left of 90°00'00" with the last described course; thence east 20.00 feet along said Right-of-Way Line which forms an angle to the left of 89°39'36" with the last described course; thence north 30.00 feet along said Right-of-Way Line which forms an angle to the left of 270°20'24" with the last described course to the Southwest Corner of Parcel 4 conveyed to Ameren Energy Generating Company by Warranty Deed recorded as Document No. 235733 in said Recorder's Office; thence east 150.65 feet along the South Line of said Parcel 4 which forms an angle to the left of 89°39'36" with the last described course to the Southeast Corner thereof; thence north 580.00 feet along the East Line of said Parcel 4 and the East Line of a Tract of Land conveyed by Special Warranty Deed recorded as Document No. 216254 in said Recorder's Office, which lines form an angle to the left of 269°57'50" with the last described course to the Northeast Corner of said Tract, said Northeast Corner being on the North Line of the Northwest Quarter of said Section 10; thence east 979.71 feet along said North Line which forms an angle to the left of 90°02'10" with the last described course to the Northeast Corner of the Northwest Quarter of said Section 10; thence south 1147.04 feet along the East Line of the Northwest Quarter of said Section 10 which forms an angle to the left of 89°57'15; with the last described course to the Point of Beginning, situated in the County of Ford and State of Illinois, containing 28.07 acres, more or less.

Parcel 3:

Lot 4 in the First Addition to Jordan Industrial Park Subdivision in the City of Gibson, Ford County, Illinois, according to the Plat recorded as Document No. 205053 in the Ford County Recorder's

---

Office excepting (Exception No. 1) therefrom the East 100 Feet of even width thereof and also excepting (Exception No. 2) the following described tract: A part of Lot 4 in the First Addition to Jordan Industrial Park Subdivision in the City of Gibson City, Ford County, Illinois according to the Plat recorded as Document No. 205053 in the Ford County Recorder's Office, more particularly described as follows: Beginning at a point on the North Line of said Lot 4 lying 100.00 feet west of the Northeast Corner thereof, said point being the Northwest Corner of a Tract of Land conveyed to Bloomer Line Railroad according to the Deed recorded as Document No. 217701 in said Recorder's Office. From said Point of Beginning, thence west 551.97 feet along the North Line of said Lot 4 to the point of intersection with the Northerly Extension of the West Line of Lot 3 in said First Addition; thence south 599.81 feet along said Northerly Extension which forms an angle to the right of 90°56'03" with the last described course to the Northwest Corner of said Lot 3 being a point on the South Line of said Lot 4; thence east 557.71 feet along the South Line of said Lot 4 which forms an angle to the right of 89°03'55" with the last described course to a point lying 100.00 feet west of the Southeast Corner of said Lot 4, said point being the Southwest Corner of said Tract conveyed by Document No. 217701; thence north 599.74 feet along the West Line of said Tract which forms an angle to the right of 90°23'11" with the last described course to the Point of Beginning, situated in the County of Ford and State of Illinois.
Said Parcel 3 contains 7.85 acres, more or less.

Parcel 4:

A part of a Tract of Land conveyed by Warranty Deed recorded January 27, 2005 as Document No. 231777 in the Ford County Recorder's Office being a part of Lot 4 in the First Addition to Jordan Industrial Park Subdivision in the City of Gibson City, Ford County, Illinois, according to the Plant recorded as Document No. 205053 in the Ford County Recorder's Office, more particularly described as follows: Beginning at a point on the North Line of said Lot 4 lying 100.00 feet west of the Northeast Corner thereof, said point being the Northwest Corner of a Tract of Land conveyed to Bloomer Line Railroad according to the Deed recorded as Document No. 217701 in said Recorder's Office. From said Point of Beginning, thence west 551.97 feet along the North Line of said Lot 4 to the point of intersection with the Northerly Extension of the West Line of Lot 3 in said First Addition; thence south 599.81 feet along said Northerly Extension which forms an angle to the right of 90°56'03" with the last described course to the Northwest Corner of said Lot 3 being a point on the South Line of said Lot 4: thence east 60.00 feet along the South Line of said Lot 4 which forms an angle to the right of 89°03'55" with the last described course; thence north 200.00 feet along a line which is parallel with the West Line of said Tract conveyed by Document No. 217701 and which forms an angle to the right of 90°23'11" with the last described course; thence east 497.71 feet along a line which is parallel with the South Line of said Lot 4 and which forms an angle to the right of 269°36'49" with the last described course to a point on the West Line of said Tract conveyed by Document No. 217701 lying 200.00 feet north of the Southwest corner thereof; thence North 399.74 feet along the West Line of said Tract which forms an angle to the right of 90°23'11" with the last described course to the Point of Beginning, containing 5.35 acres, more or less.

Parcel 5:

All that part of the West 250 Feet of the Northeast Quarter of Section 10, Township 23 North, Range 7 East of the Third Principal Meridian, situated in the City of Gibson, County of Ford and State of Illinois, lying north of the North Line of a tract of land conveyed to Alliance Grain Company by Warranty Deed recorded October 2, 2000, as Document No. 216478 in the Ford County Recorder's Office.
Said Parcel 5 contains 10.02 acres, more or less.

Parcel 6:

All that part of the North 100 Feet of the Northeast Quarter of Section 10, Township 23 North, Range 7 East of the Third Principal Meridian, Gibson City, Ford County, Illinois, lying west of the Centerline of Drummer Creek and East of the East Line of a tract of land conveyed to One Earth Energy, LLC by Warranty Deed recorded May 2, 2007, as Document No. 238795 in the Recorder's Office of Ford County, Illinois, situated in the County of Ford and State of Illinois.

Said Parcel 6 contains 4.84 acres, more or less.

EXHIBIT G
Total Project Cost Statement

EXHIBIT H
BANKS' COMMITMENTS

BANK	CONSTRUCTION LOAN/TERM LOAN COMMITMENT AMOUNT	REVOLVING LOAN COMMITMENT AMOUNT	TOTAL COMMITMENT, CONSTRUCTION LOAN/TERM LOANS AND REVOLVING LOANS
1st Farm Credit Services	$7,500,000.00	N/A	$7,500,000.00
Transamerica Occidental Life Insurance Company	$11,000,000.00	N/A	$11,000,000.00
Busey Bank	$5,000,000.00	N/A	$5,000,000.00
Capital Farm Credit	$3,000,000.00	N/A	$3,000,000.00
Citizens First National Bank	$9,000,000.00	$1,000,000.00	$10,000,000.00
CoBank	$4,550,000.00	$450,000.00	$5,000,000.00
Deere Credit, Inc.	$18,181,818.00	$1,818,182.00	$20,000,000.00
Farm Credit Services of America	$8,000,000.00	N/A	$8,000,000.00
First Indiana Bank	$9,000,000.00	$1,000,000.00	$10,000,000.00
First National Bank of Omaha	$19,768,182.00	$5,731,818.00	$25,500,000.00
Quad City Bank and Trust	$5,000,000.00	N/A	$5,000,000.00
Totals	$100,000,000.00	$10,000,000.00	$110,000,000.00

EXHIBIT I
PERMITS

1. Construction Air Permit – NSPS Source

2. Above Ground Storage Tank Permit

3. National Pollution Discharge Elimination System Permit, consisting of:
   - - Storm Water Pollution Prevention Plan for Construction
   - Storm Water Pollution Prevention Plan for Industrial
   - - Discharge of Process, Non-contract Water (cooling water)
   - - Industrial Wastewater Treatment Pond Permit

4. Building Permits
   - - State
   - - County
   - - Mechanical
   - - Electrical
   - - Structures

5. Fire Protection Permit

6. Septic Tank and Drain Field Permit

7. Railroad Permit/Approval

8. Approval for Access to County Road/Highway Access Permit

9. Water Permits
   - - Water Appropriations Permit
   - - Potable Water

10. Water Treatment Discharge Permit from the State of Illinois

11. Tobacco Trade Bureau Permit

12. Archeological Survey

13. Risk Management Plan

14. Spill Prevention, Control and Countermeasure Plan

15. Operations Permit

16. Wells Permits

<u>EXHIBIT J</u>
OUTSTANDING EQUITY INTERESTS

Subscription Agreements in connection with the following:

One Earth Energy, LLC Initial Public Offering Dated August 17, 2007

One Earth Energy, LLC Rescission Offer Dated August 20, 2007

SCHEDULE "I" TO CONSTRUCTION LOAN AGREEMENT

AMORTIZATION SCHEDULE – U.S. RULE (NO COMPOUNDING), 360 DAY YEAR

One Earth Energy, LLC Fixed Rate Loan
Principal Schedule for Payments Plus Interest

AMORTIZATION SCHEDULE - U.S. Rule (no compounding), 360 Day Year

	Principal	Balance $
1	$828,141.32	$49,171,858.68
2	$844,783.51	$48,327,075.17
3	$851,087.91	$47,475,987.26
4	$868,379.18	$46,607,608.08
5	$906,606.78	$45,701,001.30
6	$914,533.28	$44,786,468.02
7	$923,021.25	$43,863,446.77
8	$941,773.96	$42,921,672.81
9	$979,864.74	$41,941,808.07
10	$990,077.41	$40,951,730.66
11	$1,000,930.33	$39,950,800.33
12	$1,021,265.90	$38,929,534.43
13	$1,059,208.49	$37,870,325.94
14	$1,071,897.23	$36,798,428.71
15	$1,085,311.58	$35,713,117.13
16	$1,107,361.49	$34,605,755.64
17	$1,137,501.49	$33,468,254.15
18	$1,160,360.53	$32,307,893.62
19	$1,176,544.28	$31,131,349.34
20	$31,131,349.34	$0.00

SCHEDULE 5.2

(PERMITTED LIENS)

1st FARM CREDIT SERVICES, FLCA as a BANK

By: /s/ Dale Richardson

Title: VP, Illinois Capital Markets Group

TRANSAMERICA OCCIDENTAL INSURANCE COMPANY, as a BANK

By: /s/ Tom Nordstrom

Title: Vice President

BUSEY BANK, as a BANK

By: /s/ Doug Roesch

Title: Senior Vice President

FARM CREDIT SERVICES OF AMERICA,
FLCA, as a BANK

By: /s/ Ron Brandt

Title: Vice President

FIRST INDIANA BANK, as a BANK

By: /s/ Jimmy Grey

Title: Vice President

QUAD CITY BANK AND TRUST, as a BANK

By: /s/ Rebecca Skafidas

Title: Commercial Banking Officer

CAPITAL FARM CREDIT, as a BANK

By: /s/ Robert P. Abbott

Title: President Corporate Lending

CITIZENS FIRST NATIONAL BANK, as a BANK

By: /s/ Joseph K. Bates

Title: VP – Agribusiness Banking

COBANK, as a BANK

By: /s/ Jeffrey J. Grave

Title: Vice-President

DEERE CREDIT, INC., as a BANK

By: /s/ Mark A. Thompson

Title: Vice President, AFS Operations

AMENDED AND RESTATED AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT is entered into as of the 10th day of December, 2007 between Rex Radio and Television, Inc., an Ohio corporation (the “Corporation”), and Stuart A. Rose (the “Employee”).

Recitals

A. The Corporation and the Employee entered an Employment Agreement dated November 29, 2005 (the “Agreement”).

B. The Corporation and the Employee entered into Amendment No. 1 to the Agreement dated December 20, 2006 (the “Amendment”) to amend the terms and conditions of the Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as enacted.

C. The Corporation and the Employee desire to amend and restate the Amendment to comply with the Final Section 409A Regulations issued in 2007.

NOW, THEREFORE, the Corporation and the Employee hereby amend and restate the Amendment as follows:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Agreement.

2. Amendment to Section 2.1. Section 2.1 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

> “Each twelve month period ending on January 31 during the Employment Period or any period of renewal provided for in Section 2.2 below shall be referred to as a “Performance Period.” For purposes of the Agreement, the Employment Period shall consist of the following Performance Periods: (i) the Performance Period ending January 31, 2007; (ii) the Performance Period ending January 31, 2008; and (iii) the Performance Period ending January 31 of each period of renewal.”

3. Amendment to Section 4.2. Section 4.2(c) of the Agreement is hereby amended and supplemented by adding the following sentence at the end thereof:

> “Subject to Section 6.3 and new Section 6.7 below, the Corporation shall pay the Retail Bonus and Energy Investment Bonus (collectively, the “Bonus Payments”) to Employee during the Corporation’s taxable year immediately following the taxable year in which the Performance Period ends.”

4. Amendment to Section 6.3. Section 6.3 of the Agreement is hereby deleted in its entirety, and the following is inserted in its place:

> “6.3 Effect of Termination of Employment Without Cause On or Prior to January 31, 2007. In the event the Corporation terminates Employee’s

employment on or prior to January 31, 2007 other than: (a) ”For Cause” (as defined in Section 6.1); or (b) due to death or total disability as provided in Section 2.1, the Corporation shall pay Employee, in full satisfaction and complete discharge of all obligations and liabilities of the Corporation to Employee under this Agreement or otherwise: (i) the balance of his compensation under Section 3.1 for the remainder of the Employment Period; plus (ii) all Bonus Payments for the remainder of the Employment Period, computed pursuant to Section 4.2 hereof. Employee shall be paid the balance of his compensation under Section 3.1 as follows: the compensation that accrues to Employee for the six months immediately following termination shall be paid in a lump sum on the first day of the seventh month following the date of termination, and any compensation that accrues after the six months immediately following termination shall be paid on the first day of the month that immediately follows the month in which such compensation accrued. Employee shall be paid his Bonus Payments in two installments, the first installment being paid during the Corporation’s taxable year immediately following the taxable year in which the Performance Period that includes the date of termination ends and the second installment being paid in the next following taxable year.”

5. Amendment to Section 6.4. Section 6.4 of the Agreement is hereby amended and supplemented by adding the following sentence at the end thereof:

“Employee shall be paid his pro rata Bonus Payments during the Corporation’s taxable year immediately following the taxable year in which the Performance Period that includes the date of termination ends.”

6. Amendment to Section 6.5. Section 6.5 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

“Employee shall be paid his pro rata Bonus Payments during the Corporation’s taxable year (the “Payment Year”) immediately following the taxable year in which the Performance Period that includes the date of termination ends. Notwithstanding the foregoing, if termination is due to total disability, then the payment shall not be made before the date in the Payment Year which is six (6) months after the date of termination, unless the Corporation, in its sole discretion, determines that (i) the Employee’s total disability constitutes being “disabled” under Section 409A of the Internal Revenue Code of 1986 (“Section 409A”), or (ii) the payment under this Section 6.5 will not constitute a deferral of compensation under the exemption for separation pay due to involuntary separation from service or participation in a window program set forth in Income Tax Regulation Section 1.409A-1(a)(9)(ii) (the “Severance Pay Exemption”).”

7. Amendment to Section 6.6. Section 6.6 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

“Employee shall be paid his pro rata Bonus Payments during the Corporation’s taxable year (the “Payment Year”) immediately following the taxable year in which the Performance Period that includes the date of termination ends.

Notwithstanding the foregoing, the payment shall not be made before the date in the Payment Year which is six (6) months after the date of termination, unless the Corporation, in its sole discretion, determines that the payment under this Section 6.6 will not constitute a deferral of compensation under the Severance Pay Exception."

8. Addition of Section 6.7. The Agreement is hereby amended and supplemented by adding a new Section 6.7 as follows:

"6.7 Effect of Termination of Employment Without Cause After January 31, 2007. In the event the Corporation terminates Employee's employment after January 31, 2007 other than: (a) "For Cause" (as defined in Section 6.1); or (b) due to death or total disability as provided in Section 2.1, the Corporation shall pay Employee, in full satisfaction and complete discharge of all obligations and liabilities of the Corporation to Employee under this Agreement or otherwise: (i) the balance of his compensation under Section 3.1 for the remainder of the Employment Period or period of renewal; plus (ii) all Bonus Payments, for the remainder of the Employment Period or period of renewal, computed pursuant to Section 4.2 hereof. Employee shall be paid the balance of his compensation under Section 3.1 in equal monthly installments on the last day of each month (or otherwise in accordance with the Corporation's established payroll policies) commencing on the last day of the month in which termination occurs. Notwithstanding the foregoing, if at the time of termination Employee is a "specified employee" within the meaning of Section 409A, then the payments otherwise due Employee during the first six months after termination shall be paid in a lump sum on the first day of the seventh month following termination, unless the Corporation, in its sole discretion, determines that the payments otherwise payable during the first six months following termination will not constitute a deferral of compensation under the Severance Pay Exception. Employee shall be paid his Bonus Payments during the Corporation's taxable year (the "Payment Year") immediately following the taxable year in which the Performance Period that includes the date of termination ends. Notwithstanding the foregoing, the payment shall not be made before the date in the Payment Year which is six (6) months after the date of termination, unless the Corporation, in its sole discretion, determines that the payment under this Section 6.7 will not constitute a deferral of compensation under the Severance Pay Exception."

9. Effectiveness. This Amendment shall be effective as of the date first written above. Except as specifically amended by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and are hereby ratified and confirmed.

10. Miscellaneous. This Amendment shall be deemed to be a contract made under the laws of the State of Ohio and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such State. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and attested, all as of the day and year first above written.

REX RADIO AND TELEVISION, INC.

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

EMPLOYEE

/s/ Stuart A. Rose
Stuart A. Rose

Exhibit 10(c)

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT is entered into as of the 10th day of December, 2007 between Rex Radio and Television, Inc., an Ohio corporation (the “Corporation”), and Stuart A. Rose (the “Employee”).

Recitals

A. The Corporation and the Employee entered into an Employment Agreement dated November 29, 2005 (the “Agreement”).

B. The Corporation and the Employee entered into Amendment No. 1 to the Agreement dated December 20, 2006 (the “Amendment”) to amend the terms and conditions of the Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as enacted.

C. The Corporation and the Employee entered into Amended and Restated Amendment No. 1 to the Agreement dated December 10, 2007 (the “1st Amendment”) to amend and restate the Amendment to comply with the Final Section 409A Regulations issued in 2007.

D. The Corporation and the Employee desire to enter into Amendment No. 2 to the Agreement dated December 10, 2007 (the “2nd Amendment”) to make an additional change to comply with the Final Section 409A Regulations issued in 2007.

NOW, THEREFORE, the Corporation and the Employee hereby amend and restate the 1st Amendment as follows:

1. Payment on or before December 31. Whenever the 1st Amendment provides for a payment to be made in a certain taxable year of the Corporation such payment is required to be made on or before December 31 of such taxable year. Thus, for example, the 1st Amendment amended Section 4.2(c) of the Agreement to provide as follows:

> “Subject to Section 6.3 and new Section 6.7 below, the Corporation shall pay the Retail Bonus and Energy Investment Bonus (collectively, the “Bonus Payments”) to Employee during the Corporation’s taxable year immediately following the taxable year in which the Performance Period ends.”

Under this 2nd Amendment, the amount payable to “Employee during the Corporation’s taxable year immediately following the taxable year in which the Performance Period ends” shall be paid on or before December 31 of such taxable year.

2. Effectiveness. This 2nd Amendment shall be effective as of the date first written above. Except as specifically amended by this 2nd Amendment, all other terms and conditions of the Agreement (including the Amendment and the 1st Amendment) shall remain in full force and effect and are hereby ratified and confirmed.

3. Miscellaneous. This 2nd Amendment shall be deemed to be a contract made under the laws of the State of Ohio and for all purposes shall be governed by and construed in accordance

with the laws of such State applicable to contracts made and to be performed entirely within such State. If any term, provision, covenant or restriction of this 2nd Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of the Agreement (including the Amendment and the 1st Amendment) shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

IN WITNESS WHEREOF, the parties hereto have caused this 2nd Amendment to be duly executed and attested, all as of the day and year first above written.

REX RADIO AND TELEVISION, INC.

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

EMPLOYEE

/s/ Stuart A. Rose
Stuart A. Rose

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT (the “Amendment”) is entered into as of the 10th day of December, 2007 between Rex Radio and Television, Inc., an Ohio corporation (the “Corporation”), and David L. Bearden (the “Employee”).

Recitals

A. The Corporation and the Employee entered into an Employment Agreement dated October 11, 2005 (the “Agreement”).

B. The Corporation and the Employee desire to amend the terms and conditions of the Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as enacted.

NOW, THEREFORE, the Corporation and the Employee hereby amend the Agreement as follows:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Agreement.

2. Amendment to Section 4.3. The third paragraph of Section 4.3 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

> “If the Change of Ownership Award is triggered by a sale which constitutes “a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation” within the meaning of Section 409A of the Internal Revenue Code of 1986 (“Section 409A”), then the Award shall be paid within ninety (90) days following the sale. If the Change of Ownership Award is triggered by a sale which does not constitute “a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation” within the meaning of Section 409A, then the Award shall be paid within ninety (90) days following Employee’s “separation from service” (within the meaning of Section 409A) with the Corporation. Notwithstanding the foregoing, if at the time of separation from service Employee is a “specified employee” within the meaning of Section 409A, then payment of the Award shall not be made before the date which is six (6) months after the date on which separation from service occurred.”

3. Amendment to Section 6.2. Section 6.2 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

> “Employee shall be paid his compensation due under this Section in equal monthly installments on the last day of each month (or otherwise in accordance with the Corporation’s established payroll policies) commencing on the last day of the month in which the separation from service occurs. Notwithstanding the foregoing, if at the time of separation from service Employee is a “specified

employee" within the meaning of Section 409A, then the payments otherwise due Employee during the first six months after separation from service shall be paid in a lump sum on the first day of the seventh month following separation, unless the Corporation, in its sole discretion, determines that the payments otherwise payable during the first six months following separation will not constitute a deferral of compensation under the exception for separation pay due to involuntary separation from service or participation in a window program set forth in Income Tax Regulation Section 1.409A -1(a)(9)(ii)."

4. Amendment to Section 6.4. Section 6.4 of the Agreement is hereby amended and supplemented by adding the following sentences at the end thereof:

"The Award shall be paid within ninety (90) days following the sale. Notwithstanding the foregoing, if at the time of separation from service Employee is a "specified employee" within the meaning of Section 409A, then payment of the Award shall not be made before the date which is six (6) months after the date on which separation from service occurred."

5. Effectiveness. This Amendment shall be effective as of the date first written above. Except as specifically amended by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and are hereby ratified and confirmed.

6. Miscellaneous. This Amendment shall be deemed to be a contract made under the laws of the State of Ohio and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such State. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and attested, all as of the day and year first above written.

REX RADIO AND TELEVISION, INC.

By: /s/ Stuart A. Rose
Stuart A. Rose
Chief Executive Officer

EMPLOYEE

/s/ David L. Bearden
David L. Bearden

Exhibit 10(f)

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT (the “Amendment”) is entered into as of the 6th day of March, 2008 between Rex Radio and Television, Inc., an Ohio corporation (the “Corporation”), and David L. Bearden (the “Employee”).

Recitals

A. The Corporation and the Employee entered into an Employment Agreement dated October 11, 2005, as amended by Amendment No. 1 to Employment Agreement dated December 10, 2007 (the “Agreement”).

B. The Corporation and the Employee desire to amend the terms and conditions of the Agreement as described herein.

NOW, THEREFORE, the Corporation and the Employee hereby amend the Agreement as follows:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Agreement.

2. Amendment to Section 4.3. The first paragraph of Section 4.3 of the Agreement is hereby amended to read in its entirety as follows:

> “Bonus. In addition to Employee’s salary as provided in Section 3.1, Employee shall be entitled to an annual cash bonus computed based upon the earnings before income taxes (“EBT”) of the retail business of REX Stores Corporation and its subsidiaries (“REX”) determined by the independent public accountants then engaged by REX. EBT shall not include (i) any income from REX’s synthetic fuel or other alternative energy investments, (ii) any deduction for Stuart A. Rose’s bonus as Chief Executive Officer of the Corporation, (iii) any expenses of REX relating to stock options, and (iv) any extraordinary income, expense, gain or loss incurred by REX, including, but not limited to, any extraordinary income, expense, gain or loss from restructuring, store closing, sale of real estate and/or partial or complete sale of the retail business.”

3. Application of Amended Section 4.3. Section 4.3 as amended hereby shall apply to the computation of Employee’s bonus for the fiscal year ended January 31, 2008 and beyond.

4. Effectiveness. This Amendment shall be effective as of the date first written above. Except as specifically amended by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and are hereby ratified and confirmed.

5. Miscellaneous. This Amendment shall be deemed to be a contract made under the laws of the State of Ohio and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such

State. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and attested, all as of the day and year first above written.

REX RADIO AND TELEVISION, INC.

By: /s/ Stuart A. Rose
Stuart A. Rose
Chief Executive Officer

EMPLOYEE

/s/ David L. Bearden
David L. Bearden

EXHIBIT 21(a)

SUBSIDIARIES OF REX STORES CORPORATION

Name	State of Incorporation
Rex Radio and Television, Inc.[1]	Ohio
Stereo Town, Inc.	Georgia
Kelly & Cohen Appliances, Inc.[1]	Ohio
Rex Kansas, Inc.[2]	Kansas
AVA Acquisition Corp.	Delaware
Rex Louisiana, Inc.[3] [4]	Ohio
Rex Alabama, Inc.[2]	Ohio
REX Investment, LLC[5]	Ohio
rexstores.com, Inc.	Ohio
Rex Acquisition, LLC[3]	Ohio
Farmers Energy Incorporated	Delaware
Farmers Energy Big River Holding, LLC[6]	Ohio
Farmers Energy Big River, LLC[7]	Ohio
Farmers Energy Levelland Holding, LLC[6]	Ohio
Farmers Energy Levelland, LLC[7]	Ohio
Farmers Energy Millennium Holding, LLC[6]	Ohio
Farmers Energy Millennium, LLC[7]	Ohio
Farmers Energy One Earth Holding, LLC[6]	Ohio
Farmers Energy One Earth, LLC[7]	Ohio

Farmers Energy Patriot Holding, LLC[6]	Ohio
Farmers Energy Patriot, LLC[7]	Ohio
FEI Investment Incorporated[2]	Delaware

---

(1) Wholly-owned subsidiary of AVA Acquisition Corp.

(2) Wholly-owned subsidiary of Rex Radio and Television, Inc.

(3) Non-operating subsidiary.

(4) Wholly-owned subsidiary of Kelly & Cohen Appliances, Inc.

(5) AVA Acquisition Corp. is the managing member and owns a 98.032% Class A interest, a 95.46% Class B interest and a 100% Class C interest.

(6) First-tier wholly-owned subsidiary of Farmers Energy Incorporated.

(7) Second-tier wholly-owned subsidiary of Farmers Energy Incorporated.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-3836, 33-81706, 33-62645, 333-69089, 333-35118, 333-69081 and 333-69690 on Form S-8 of our reports dated April 14, 2008, relating to the consolidated financial statements and consolidated financial statement schedule of Rex Stores Corporation, (which reports express an unqualified opinion and include an explanatory paragraph relating to the adoption of Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of Financial Accounting Standards Board Statement No. 109,*" on February 1, 2007, and Statement of Financial Accounting Standards No. 123 (Revised 2004), "*Share-Based Payment,*" on February 1, 2006), and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of REX Stores Corporation for the year ended January 31, 2008.

Deloitte & Touche LLP

Cincinnati, OH
April 14, 2008

Exhibit 31

CERTIFICATIONS

I, Stuart A. Rose, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: April 14, 2008

/s/ STUART A. ROSE

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

I, Douglas L. Bruggeman, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 14, 2008

/s/DOUGLAS L. BRUGGEMAN

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

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officers of REX Stores Corporation (the “Company”) hereby certify, to their knowledge, that the Company’s Annual Report on Form 10-K for the period ended January 31, 2008, which this certificate accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/STUART A. ROSE

Stuart A. Rose

/s/DOUGLAS L. BRUGGEMAN

Douglas L. Bruggeman

Dated: April 14, 2008