

FORM 10-Q  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 1996

OR

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

Commission File Number 0-13283

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

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

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

513-276-3931  
(Registrant's telephone number, including area code)

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

At the close of business on December 10, 1996, the registrant had 8,841,731 shares of Common Stock, par value \$.01 per share, outstanding.

REX STORES CORPORATION AND SUBSIDIARIES

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets.....	3
Consolidated Statements of Income.....	5
Consolidated Statements of Shareholders' Equity.....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K.....	13



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## REX STORES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

## A S S E T S

	October 31 1996	January 31 1996	October 31 1995
	(In Thousands)		
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,763	\$ 685	\$ 2,084
Short-term investments	1,625	1,525	1,525
Accounts receivable, net	1,073	1,604	713
Merchandise inventory	170,879	146,566	183,801
Prepaid expenses and other	4,889	1,825	2,519
Future income tax benefits	3,818	3,818	4,084
	-----	-----	-----
Total current assets	184,047	156,023	194,726
PROPERTY AND EQUIPMENT, NET	86,368	70,307	67,648
FUTURE INCOME TAX BENEFITS	8,269	8,269	7,619
	-----	-----	-----
Total assets	\$ 278,684	\$ 234,599	\$ 269,993
	=====	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>			
Notes payable	\$ 36,501	\$ 9,327	\$ 51,162
Current portion of long-term debt	2,595	2,050	1,963
Accounts payable, trade	50,356	39,525	50,059
Accrued income taxes	-	4,121	-
Current portion, deferred income and deferred gain on sale and leaseback	10,442	9,083	8,521
Accrued payroll	4,961	6,570	5,826
Other liabilities	5,731	5,331	5,371
	-----	-----	-----
Total current liabilities	110,586	76,007	122,902
	-----	-----	-----

Liabilities and Shareholders' Equity (Continued)

LONG-TERM LIABILITIES:

Long-term debt	40,605	32,590	31,342
Deferred income	17,117	16,506	14,907
Deferred gain on sale and leaseback	6,443	7,150	7,386
	-----	-----	-----
Total long-term liabilities	64,165	56,246	53,635
	-----	-----	-----

SHAREHOLDERS' EQUITY:

Common stock	96	95	95
Paid-in capital	57,141	56,732	56,386
Retained earnings	52,885	49,401	40,857
Treasury stock	(6,189)	(3,882)	(3,882)
	-----	-----	-----
Total shareholders' equity	103,933	102,346	93,456
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 278,684	\$ 234,599	\$ 269,993
	=====	=====	=====

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended October 31		Nine Months Ended October 31	
	1996	1995	1996	1995
(In Thousands, Except Per Share Amounts)				
NET SALES	\$ 90,543	\$ 94,914	\$283,579	\$278,799
COSTS AND EXPENSES:				
Cost of merchandise sold	67,990	70,546	211,424	207,632
Selling, general and administrative expenses	20,793	19,716	62,430	58,187
Total costs and expenses	88,783	90,262	273,854	265,819
INCOME FROM OPERATIONS	1,760	4,652	9,725	12,980
INVESTMENT INCOME	17	25	62	159
INTEREST EXPENSE	1,361	1,467	4,030	3,177
Income before income taxes	416	3,210	5,757	9,962
PROVISION FOR INCOME TAXES	164	1,268	2,273	3,933
NET INCOME	\$ 252	\$ 1,942	\$ 3,484	\$ 6,029
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVA- LENT SHARES OUTSTANDING	9,316	9,412	9,322	9,388
NET INCOME PER SHARE	\$ 0.03	\$ 0.21	\$ 0.37	\$ 0.64

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares				Paid-in Capital	Retained Earnings
	----- Issued		Treasury			
	Shares	Amount	Shares	Amount (In Thousands)		
Balance at October 31, 1995	9,483	\$ 95	534	\$3,882	\$56,386	\$40,857
Common stock issued	38	-	-	-	346	-
Net income	-	-	-	-	-	8,544
	-----	-----	---	-----	-----	-----
Balance at January 31, 1996	9,521	\$ 95	534	\$3,882	\$56,732	\$49,401
Common stock issued	77	1	-	-	409	-
Treasury stock acquired	-	-	225	2,307	-	-
Net income	-	-	-	-	-	3,484
	-----	-----	---	-----	-----	-----
Balance at October 31, 1996	9,598	\$ 96	759	\$6,189	\$57,141	\$52,885
	=====	=====	===	=====	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended  
October 31  
1996            1995  
(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,484	\$ 6,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	2,163	1,610
Deferred income	1,657	2,390
Accounts receivable	531	364
Merchandise inventory	(24,313)	(68,454)
Other current assets	(3,068)	(2,278)
Accounts payable, trade	10,831	16,764
Other liabilities	(5,331)	(2,727)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(14,046)	(46,302)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short-term investments	(100)	30
Capital expenditures	(18,931)	(19,561)
Capital disposals	318	29
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(18,713)	(19,502)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	27,174	51,162
Payments of long-term debt	(1,674)	(1,361)
Long-term debt borrowings	10,234	7,391
Common stock issued	410	297
Treasury stock acquired	(2,307)	(2,264)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	33,837	55,225
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,078	(10,579)
CASH AND CASH EQUIVALENTS, beginning of period	685	12,663
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 1,763	\$ 2,084
	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1996

Note 1. Consolidated Financial Statements

The consolidated financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these unaudited consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 1996.

Note 2. Accounting Policies

The interim consolidated financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's 1996 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year end. Examples of such estimates include changes in the LIFO reserve (based upon the Company's best estimate of inflation to date) and management bonuses. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature.



Notes to Consolidated Financial Statements (Continued)

Note 3. Equivalent Shares Outstanding

The Company follows the treasury method of calculating common equivalent shares outstanding. The following summarizes options granted, exercised and cancelled or expired at October 31, 1996:

	Shares Under Stock Option Plans
Outstanding at January 31, 1996 (\$3.25 to \$18.975 per share)	2,068,558
Granted (\$15.25 to \$16.775 per share)	202,398
Exercised (\$3.25 to \$13.00 per share)	(77,129)
Expired or cancelled (\$6.375 to \$17.25 per share)	(60,200)
	-----
Outstanding at October 31, 1996 (\$3.375 to \$18.975 per share)	2,133,627
	=====

Note 4. Legal Matters

The employment related lawsuit discussed in the Company's second quarter report was settled and dismissed with prejudice in November 1996 and the resolution of this matter did not have a material impact on the Company's financial position or results of operations.

Note 5. Accounting Change

On February 1, 1996, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which addresses the identification and measurement of asset impairments and requires the recognition of impairment losses on long-lived assets when carrying values exceed expected future cash flows. The application of this accounting standard did not have a material impact on the Company's financial position or results of operations.

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

The Company is a leader in the consumer electronics/appliance retailing industry, operating predominantly in small to medium sized markets in the Midwest, Southeast and Northwest under the trade name "REX".

Results of Operation

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

	Three Months Ended		Nine Months Ended	
	October 31		October 31	
	1996	1995	1996	1995
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	75.1	74.3	74.6	74.5
	-----	-----	-----	-----
Gross profit	24.9	25.7	25.4	25.5
Selling, general and administrative expense	23.0	20.8	22.0	20.8
	-----	-----	-----	-----
Income from operations	1.9	4.9	3.4	4.7
Interest, net	1.4	1.5	1.4	1.1
	-----	-----	-----	-----
Income before income taxes	.5	3.4	2.0	3.6
Provision for income taxes	.2	1.3	.8	1.4
	-----	-----	-----	-----
Net income	.3%	2.1%	1.2%	2.2%
	=====	=====	=====	=====

## Comparison of Nine Months Ended October 31, 1996 and 1995

Net sales in the third quarter ended October 31, 1996 were \$90.5 million compared to \$94.9 million in the prior year's comparable period, representing a decline of \$4.4 million or 4.6%. This decrease is a result of a decline in comparable store merchandise sales of 18.9%, offset by sales from 29 net additional store locations in the current year. Net sales for the first nine months of fiscal 1997 were \$283.6 million compared to \$278.8 million for the first nine months of fiscal 1996, representing an increase of \$4.8 million or 1.7%. This increase is primarily a result of 29 net additional store locations in the current year offset by a decline of 13.7% in comparable store merchandise sales for the year to date period. As of October 31, 1996, the Company had 204 stores compared to 175 stores one year earlier. The Company considers a store to be comparable after it has been open six full fiscal quarters.

The Company opened 11 stores and closed six during the first nine months of fiscal 1997, compared to opening ten stores and closing none during the first nine months of fiscal 1996. During the fourth quarter of the current fiscal year, the Company has opened an additional 24 stores bringing the total opened for the year to 35 stores. The Company will continue to evaluate stores and markets and will close stores that are not adequately contributing to Company profitability.

Gross profit of \$22.6 million in the third quarter of fiscal 1997 (24.9% of net sales) was 7.4% lower than the \$24.4 million gross profit (25.7% of net sales) recorded in the third quarter of the prior year. In the first nine months of fiscal 1997, gross profit was \$72.2 million (25.4% of net sales), a 1.4% increase over the \$71.2 million (25.5% of net sales) for the first nine months of fiscal 1996. The decline in gross profit, as a percent to net sales, is primarily due to increased promotional activity. The third quarter was also negatively impacted by lower air conditioner sales, which generally have a higher gross profit margin, and a higher percentage of appliance sales, which generally have a lower gross profit margin. Extended service contract revenues, which generally have a higher gross profit margin, increased as a percent to net sales in both fiscal 1997 periods due to the decline in comparable store sales.

Selling, general and administrative expenses for the third quarter of fiscal 1997 were \$20.8 million (23.0% of net sales), a 5.5% increase over the \$19.8 million (20.8% of net sales) for the third quarter of fiscal 1996. Selling, general and administrative expenses for the first nine months of fiscal 1997 were \$62.4 million (22.0% of net sales), a 7.3% increase over the \$58.2 million (20.8% of net sales) for the first nine months of fiscal 1996. The increase in expenses is primarily attributable to higher advertising, occupancy and general costs associated with the net

addition of 29 stores from a year ago. The increase in selling, general and administrative expenses as a percent of net sales is primarily the result of the decline in comparable store sales.

Income from operations was \$1.8 million (1.9% of net sales) in the third quarter of fiscal 1997, a 62.2% decrease from \$4.7 million (4.9% of net sales) for the third quarter of fiscal 1996. Income from operations was \$9.7 million (3.4% of net sales) for the first nine months of fiscal 1997, a 25.1% decrease from \$13.0 million (4.7% of net sales) for the first nine months of fiscal 1996.

Interest expense was \$1.4 million (1.4% of net sales) for the quarter ended October 31, 1996 and \$1.5 million (1.5% of net sales) for the previous year's third quarter. This decline is due to lower borrowings on the line of credit for the current year's third quarter, partially offset by additional mortgage debt on Company owned store locations. Average borrowings on the line of credit for the third quarter of fiscal 1997 were approximately \$20.1 million compared to approximately \$31.5 million in the third quarter of fiscal 1996. Interest expense for the first nine months of fiscal 1997 increased to \$4.0 million (1.4% of net sales) from \$3.2 million (1.1% of net sales) for the first nine months of fiscal 1996. This increase is primarily a result of additional mortgage debt of \$9.9 million (at an average interest rate of approximately 8.75%) since October 31, 1995 associated with more Company owned store locations and higher average borrowings on the line of credit for the nine months ended October 31, 1996 (average outstanding borrowings of approximately \$20.7 million for the first nine months of fiscal 1997 compared to \$14.3 million for the first nine months of fiscal 1996).

The effective tax rate was approximately 39.5% for all years presented.

As a result of the foregoing, net income for the third quarter of fiscal 1997 was \$252,000, an 87% decline from \$1.9 million for the third quarter of fiscal 1996. Net income for the first nine months of fiscal 1997 was \$3.5 million, a 42.2% decrease from \$6.0 million for the first nine months of fiscal 1996.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$14.0 million for the nine months ended October 31, 1996. The primary use of cash was an increase in inventory of \$24.3 million in preparation for new store openings and the Christmas selling season. This was partially offset by an increase in trade payables of \$10.8 million. Other liabilities decreased by \$5.3 million primarily due to the timing of income tax payments.

At October 31, 1996, working capital was \$73.5 million compared to \$80.0 million at January 31, 1996. The ratio of current assets to current liabilities was 1.7 to 1 at October 31, 1996 and 2.1 to 1 at January 31, 1996.

The Company had outstanding borrowings of \$36.5 million on its revolving line of credit at October 31, 1996 at an average interest rate of 7.5%. At October 31, 1996, the Company had approximately \$71.4 million additional borrowing availability on the revolving line of credit.

During fiscal 1997, the Company has opened 35 new REX stores. Capital expenditures for the first nine months of fiscal 1997 were \$18.9 million with additional expenditures of approximately \$6 million expected in the fourth quarter. The Company has closed long-term mortgage financing of \$10.2 million for 17 stores during the first nine months of fiscal 1997 and anticipates obtaining approximately \$10 million of additional mortgage financing for fiscal 1997 stores. The Company believes it will be able to secure long-term mortgage financing on a site-by-site basis for Company built or Company purchased store locations.

#### Accounting Standards

During the first quarter of fiscal 1997, the Company adopted the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The application of this accounting standard did not have a material impact on the Company's financial position or results of operations.

#### PART II. OTHER INFORMATION

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

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

27 Financial Data Schedule..... 15

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended October 31, 1996.

SIGNATURES

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

REX STORES CORPORATION  
Registrant

December 11, 1996

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

December 11, 1996

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



0000744187  
REX STORES CORPORATION

1,000  
U.S. DOLLARS

9-MOS

	JAN-31-1997	
	FEB-1-1996	
	OCT-31-1996	
	1	
		1,763
	1,625	
	1,476	
	403	
	170,879	
	184,047	
		97,159
	10,791	
	278,684	
110,586		
		40,605
		96
0		
		0
		103,837
278,684		
		283,579
	283,579	
		211,424
	211,424	
	0	
	0	
	4,030	
	5,757	
	2,273	
3,484		
	0	
	0	
		0
	3,484	
	.37	
	.37	



