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, 2010 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 Smaller reporting company o
(Do not check if a smaller reporting company)

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, 2009 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 2,048,795 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was $80,172,960.

There were 9,842,083 shares of the registrant's Common Stock outstanding as of April 15, 2010.

Documents Incorporated by Reference
Portions of REX Stores Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 9, 2010 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. Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006.

In fiscal year 2007, we began to evaluate strategic alternatives for our retail segment with a focus on closing unprofitable or marginally profitable retail stores and monetizing our retail-related real estate assets. We did not believe that we were generating an adequate return from our retail business due to the competitive nature of the consumer electronics and appliance industry and the overall economic conditions in the United States. Reflecting this focus, we sold approximately 60% of our owned retail and vacant stores in fiscal year 2007 and leased back a portion of the stores which had been operating as electronics and appliance retail stores. In fiscal year 2008, we commenced an evaluation of a broad range of alternatives intended to derive value from the remaining retail operations and our remaining real estate portfolio. We engaged an investment banking firm to assist us in analyzing and ultimately marketing our retail operations. As part of those marketing efforts, late in fiscal year 2008, we initially leased 37 owned store locations to an unrelated third party. During fiscal year 2009, the lease agreements were terminated. We are marketing these vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with terms of five to twenty years.

We completed our exit of the retail business as of July 31, 2009. Going forward, we expect that our only retail related activities will consist of the administration of extended service plans we previously sold and the payment of related claims. Net sales and expenses related to extended service plans are classified as discontinued operations.

We currently have approximately $111 million of equity and debt investments in four ethanol production entities, two of which we have a majority ownership interest in. We are considering making additional investments in the alternative energy segment during fiscal year 2010.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, sorghum, ethanol, distillers grains and natural gas. As a result of price volatility for these commodities, our operating results can fluctuate substantially. The price and availability of corn and sorghum are subject to significant fluctuations depending upon a number of factors that affect commodity prices in general,

including crop conditions, weather, federal policy and foreign trade. Because the market price of ethanol is not always directly related to corn and sorghum prices, at times ethanol prices may lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the “crush spread.” Should the crush spread decline, it is possible that our ethanol plants will generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants. We expect these decisions to be made on an individual plant basis, as there are different market conditions at each of our ethanol plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain sale contracts. We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in 2009 was subject to significant volatility. For example, for calendar year 2009, the average Chicago Board of Trade (“CBOT”) near-month corn price was approximately $3.74 per bushel, with highs reaching nearly $4.20 per bushel and retreating to approximately $3.20 per bushel in the fall. Ethanol prices were generally in a range of approximately $1.50 to $1.70 per gallon for most of the year. Ethanol prices increased during the last three months of 2009 reaching as high as $2.00 per gallon. We believe this market volatility with respect to the crush spread was attributable to a number of factors, including but not limited to export demand, speculation, currency valuation, global economic conditions, ethanol demand and current production concerns. In 2009, the CBOT crush spread ranged from approximately $0.19 to $0.63 per gallon of ethanol.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately $17.8 million in fiscal year 2009 compared to a loss of approximately $9.0 million in fiscal year 2008. The swing to profitability resulted from favorable crush spreads, particularly in the later parts of fiscal year 2009, and One Earth commencing production operations in the second quarter of fiscal year 2009. We expect that future operating results will be based upon annual production of between 130 and 140 million gallons, which assumes that Levelland Hockley and One Earth will operate at or near nameplate capacity. However, due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the 2009 results.

We plan to seek and evaluate various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

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 20 of the Notes to the Consolidated Financial Statements for information regarding the net sales

and revenues and operating results for each of our business segments for the fiscal years ended January 31, 2010, 2009 and 2008.

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 2009" means the period February 1, 2009 to January 31, 2010. We refer to our fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

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 and operate 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 follow a flexible model for our investments in ethanol plants, taking both minority and majority ownership positions. The form and structure of our investments is tailored to the specific needs and goals of each project and the local farmer group or investor with whom we are partnering. We actively participate in the 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 or feedlots 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 feedlots and 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. Our plants were 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. We also sell our ethanol and related products in the local markets when it is advantageous to do so.

Adding Value to Our Partnerships. We 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. We believe the diversification of our investments in terms of geography, ownership, management, plant size and financial and operational agreements 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 four entities as of January 31, 2010, utilizing both equity and debt investments. As of January 31, 2010, all of the entities we are invested in are operating. The following table is a summary of our ethanol investments at January 31, 2010 (amounts in thousands, except operating capacity and ownership percentages):

Entity	Initial Equity Investment	Operating Capacity Million Gallons Per Year	Effective Ownership Percentage	Debt Investment	Contingent Commitment
Levelland Hockley County Ethanol, LLC	$ 16,500	40	56%	$ 6,255	$ 1,532
Big River Resources, LLC-W Burlington		92	10%	—	—
Big River Resources, LLC-Galva	20,025	100	10%	—	—
Big River United Energy, LLC		100	5%	—	—
Patriot Renewable Fuels, LLC	16,000	100	23%	1,014	—
One Earth Energy, LLC	50,765	100	74%	—	—
Total	$ 103,290			$ 7,269	$ 1,532

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 balance of this note at January 31, 2010 was $4.8 million, including accrued interest. The conversion of the note into equity would increase our ownership percentage to approximately 62%. On January 29, 2009, we agreed to fund up to $2.0 million in the form of a subordinated revolving line of credit with Levelland Hockley and to issue a $1.0 million letter of credit for the benefit of Levelland Hockley. In connection with the subordinated revolving line of credit and the letter of credit, we were granted warrants to purchase membership units of Levelland Hockley for $3.08 per unit. Our ownership percentage would increase to approximately 62% if we exercise only our rights under the warrants but do not convert the promissory note. At January 31, 2010, there was $1.5 million outstanding under the subordinated revolving line of credit. We consolidate Levelland Hockley with our financial results and include them in our alternative energy segment.

Levelland Hockley, which is located in Levelland, Texas, commenced production operations in the first quarter of fiscal year 2008. The plant has a nameplate capacity of 40 million gallons of ethanol and 135,000 tons of dried distillers grains ("DDG") per year.

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 92 million gallon dry-mill ethanol manufacturing facility in West Burlington, Iowa. The facility has been in operation since 2004.

Big River completed construction in the second quarter of fiscal year 2009 of its second plant which has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. This plant is located in Galva, Illinois.

In August 2009, Big River acquired a 50.5% interest in an ethanol production facility which has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant is located in Dyersville, Iowa. Reflecting REX's 10% ownership interest in Big River, REX has an effective 5% ownership interest in this entity.

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 commenced production operations in the second quarter of fiscal year 2008. The plant is located in Annawan, Illinois and has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year.

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 completed construction in the second quarter of fiscal year 2009 of its ethanol production facility in Gibson City, Illinois. The plant has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year.

One Earth commenced production operations late in the second quarter of fiscal year 2009 and began generating revenue in the third quarter of fiscal year 2009.

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. 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 experienced record production of 10.6 billion gallons in 2009. As of January 2010, the number of operating ethanol plants increased to 189, up from 54 in 2000 and are located in 25 states with a total capacity of 11.9 billion gallons annually.

On December 19, 2007, the Energy Independence and Security Act of 2007 (the "Energy Act of 2007") was enacted. The Energy Act of 2007 established 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 was subject to a renewable fuel standard ("RFS") of at least 12.0 billion gallons per year in 2010, with an expected 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.

Ethanol Production

The plants we have invested in are designed to 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. 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 nearly 80% 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, as well as to raise the federal cap on ethanol blend above the current 10% for most vehicles in use. The U.S. Environmental Protection Agency is expected to reach a decision on allowing ethanol blends of up to 15% for most vehicles by mid to late 2010.

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

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. The Section 29/45K tax credit program expired on December 31, 2007. As such, we do not expect to receive additional income from these investments except for the possibility of an additional payment on a facility formerly located in Gillette, Wyoming. Based upon the modified terms of a sales agreement we are currently not able to predict the likelihood and timing of payments for production from September 30, 2006 to December 31, 2007 for this facility. We expect the payments, if any, to be made within the next two years. We have not recognized this income and will recognize income, if any, upon receipt of payment or upon our ability to reasonably assure ourselves of the timing and collectability of payment.

See Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Notes 5 and 19 of the Notes to the Consolidated Financial Statements for further discussions.

Real Estate Operations

At January 31, 2010, we had lease or sub-lease agreements, as landlord, for all or parts of ten former retail stores (108,000 square feet leased and 35,000 square feet vacant). We own nine of these properties and are the tenant/sub landlord for one of the properties. We have 31 owned former retail stores (385,000 square feet), and one former distribution center (180,000 square feet), that are vacant at January 31, 2010. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (156,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (300,000 square feet).

A typical lease agreement has an initial term of five to twenty 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 lease revenue of approximately $1,089,000 and $415,000 during fiscal years 2009 and 2008, respectively.

Retail

We began fiscal year 2009 with 90 retail stores in operation, all of which were closed in the first half of the year as planned.

When we operated retail stores, we offered extended service contracts to our customers which typically provided, inclusive of manufacturers’ warranties, one to five years of warranty coverage. We plan to manage and administer these contracts and to recognize the associated income and expenses, including the cost to repair or replace covered products, over the remaining life of the contracts. We have classified

as discontinued operations all retail related activities, including those activities associated with extended service plans, in the Consolidated Statements of Operations for all periods presented.

Facilities

At January 31, 2010, we owned nine former retail store properties that were leased to outside, unrelated parties. Of the nine leased properties, three of the properties are only partially leased. There were also 31 vacant properties that we were attempting to either lease or sell. In addition, we have one former distribution center partially leased and partially vacant and another former distribution center that is vacant.

Employees

At January 31, 2010, we had 11 hourly and salaried employees supporting our corporate functions. None of our employees are represented by a labor union. We expect this employment to remain relatively stable at its current level as we have completed our exit from the retail business.

At January 31, 2010, Levelland Hockley had 54 employees and One Earth had 49 employees.

We consider our relationship with our employees to be good.

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.

The current interest rate environment has resulted in lower yields on our excess cash.

We have experienced lower yields on our excess cash compared to historical yields. Should the present economic conditions result in a sustained period of historically low interest rates, our interest income would be negatively impacted.

Risks Related to our Synthetic Fuel Investments

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

We have recognized investment income of approximately $59.3 million from the sales of our 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 significant refunds of previously recognized income with a significant adverse impact on earnings and cash flows.

The production and sale of synthetic fuel qualified for Section 29/45K tax credits if certain requirements were 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 $14.8 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 and our financial position.

Risks Related to our Alternative Energy Business

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

We do not have long term experience investing in the ethanol industry. We entered into our first agreement to invest in an ethanol plant in November 2005. At January 31, 2010, we remain invested in four entities that own and operate six ethanol production facilities. One facility has been in production since 2004, two facilities have been in production since 2008, two facilities became operational and one facility was acquired (by an equity method investee) in fiscal year 2009. 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 or management staff. As a consequence, our ethanol investments are subject to many 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.

One Earth and Big River recently completed construction of new ethanol plants.

As these new plants recently became operational, 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 debt, the plants could fail and we could lose our entire investment.

Our ethanol plants financed approximately 60% of plant construction cost with debt. The debt typically has a balloon payment due after five years. 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.

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 are the principal raw materials our ethanol plants 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 costs 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 produce.

The price of corn and sorghum 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 and sorghum is difficult to predict. Any event that tends to negatively affect the supply of corn or sorghum, such as adverse weather or crop disease, could increase corn and sorghum prices and potentially harm the business of our ethanol plants. Increasing domestic ethanol capacity could boost the demand for corn and sorghum and result in increased corn or sorghum prices. Our ethanol plants may also have difficulty, from time to time, in physically sourcing corn or sorghum on economical terms due to supply shortages. Such a shortage could require our ethanol plants to suspend operations which would have a material adverse effect on the financial returns on our ethanol investments.

The spread between ethanol and corn and sorghum prices can vary significantly. The gross margin at our ethanol plants depends principally on the spread between ethanol and corn or sorghum prices. Fluctuations in the spread 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 economically 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 as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of gasoline with which it is blended and, to a lesser extent, as a gasoline substitute. 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 nameplate capacity has increased to approximately 13.0 billion gallons per year at January 2010. The RFA estimates that, as of January 2010, approximately 1.4 billion gallons per year of additional production capacity is under construction. 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.

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.

We depend on our partners to operate our ethanol investments.

Our investments currently represent both majority and minority equity positions, 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 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.

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 of the blender's 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 American Jobs Creation Act of 2004 created the Volumetric Ethanol Tax Credit, referred to as the "blender's credit." This credit currently

allows gasoline distributors who blend ethanol with gasoline to receive a federal excise tax credit of $0.45 per gallon of pure ethanol, or $0.045 per gallon if blended with 10% ethanol (E10), and $0.3825 per gallon if blended with 85% ethanol (E85). The $0.45 per gallon incentive for ethanol is scheduled to expire on December 31, 2010. The blender's credit 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 blender's credit, 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 $0.45 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, known as the Caribbean Basin Initiative, 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. 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 allows Canada and Mexico to export ethanol to the United States duty-free.

The effect of the renewable fuel standard ("RFS") program in the Energy Independence and Security Act of 2007 (the "2007 Act") is uncertain. The mandated minimum level of use of renewable fuels in the RFS under the 2007 Act will increase from 9 billion gallons per year in 2008 to 36 billion gallons per year in 2022. The RFS mandate level for conventional biofuels, which includes corn-based ethanol, for 2010 is 12 billion gallons. This requirement progressively increases to 15 billion gallons by 2015 and remains at that level through 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.

Changes in corporate average fuel economy standards could adversely impact ethanol prices. Flexible fuel vehicles receive preferential treatment in meeting federally mandated corporate average fuel economy ("CAFE") standards for automobiles manufactured by car makers. High blend ethanol fuels such as E85 result in lower fuel efficiencies. Absent the CAFE preferences, car makers would not likely build flexible-fuel vehicles. Any change in CAFE preferences could reduce the growth of E85 markets and result in lower ethanol prices.

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.

Federal support of cellulosic ethanol may result in reduced incentives to corn-derived ethanol producers.

The American Recovery and Reinvestment Act of 2009 and the Energy Independence and Security Act of 2007 provide funding opportunities in support of cellulosic ethanol obtained from biomass sources such as switchgrass and poplar trees. The amended RFS mandates an increasing level of production of non-corn derived biofuels. These federal policies may suggest a long-term political preference for cellulosic processes using alternative feedstocks such as switchgrass, silage or wood chips. Cellulosic ethanol has a smaller carbon footprint and is unlikely to divert foodstuff from the market. Several cellulosic ethanol plants are under development and there is a risk that cellulosic ethanol could displace corn ethanol. Our plants are designed as single-feedstock facilities, located in corn production areas with limited alternative feedstock nearby, and would require significant additional investment to convert to the production of cellulosic ethanol. The adoption of cellulosic ethanol as the preferred form of ethanol could have a significant adverse effect on our ethanol business.

Our ethanol business is affected by environmental and other regulations which could impede or prohibit our ability to successfully operate our plants.

Our ethanol production facilities are subject to extensive air, water and other environmental regulations. We have had to obtain numerous permits to construct and operate our plants. Regulatory agencies could

impose conditions or other restrictions in the permits that are detrimental or which increase our costs. More stringent federal or state environmental regulations could be adopted, which could significantly increase our operating costs or require us to expend considerable resources.

Our ethanol plants emit various airborne pollutants as by-products of the ethanol production process, including carbon dioxide. In 2007, the U.S. Supreme Court classified carbon dioxide as an air pollutant under the Clean Air Act in a case seeking to require the EPA to regulate carbon dioxide in vehicle emissions. In February 2010, the EPA released its final regulations on the Renewable Fuel Standard program (RFS2). We believe our plants are grandfathered at their current operating capacity, but plant expansion will need to meet a 20% threshold reduction in greenhouse gas (GHG) emissions from a 2005 baseline measurement to produce ethanol eligible for the RFS2 mandate. Additionally, legislation is pending in Congress on a comprehensive carbon dioxide regulatory scheme, such as a carbon tax or cap-and-trade system. To expand our plant capacity, we may be required to obtain additional permits, install advanced technology such as corn oil extraction, or reduce drying of certain amounts of distillers grains.

The California Air Resources Board has adopted a Low Carbon Fuel Standard requiring a 10% reduction in GHG emissions from transportation fuels by 2020. An Indirect Land Use Charge is included in this lifecycle GHG emission calculation. While this standard is being challenged by lawsuits, implementation of such a standard could have an adverse impact on our market for corn-based ethanol if determined that in California corn-based ethanol fails to achieve lifecycle GHG emission reductions.

We face significant competition in the ethanol industry.

We face significant competition for new ethanol investment opportunities. There are varied enterprises seeking to participate in the ethanol industry. Some enterprises provide financial and management 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.

The ethanol industry is primarily comprised of smaller entities that engage exclusively in ethanol production and large integrated grain companies that produce ethanol along with their base grain business. Recently, several large oil companies have entered the ethanol production market. If these companies increase their ethanol plant ownership or other oil companies seek to engage in direct ethanol production, there would be less of a need to purchase ethanol from independent producers like our ethanol plants.

There is a consolidation trend in the ethanol industry, partly a result of companies recently seeking protection under the United States Bankruptcy Code. As a result, firms are growing in size and scope. Larger firms offer efficiencies and economies of scale, resulting in lower costs of production. In addition, plants currently being sold as part of a bankruptcy proceeding may have significantly lower costs than our ethanol plants. 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.

There is a risk of foreign competition in the ethanol industry.

Ethanol produced or processed in several countries in Central America and the Caribbean region is eligible for tariff reduction or elimination under the Caribbean Basin Initiative. Brazil, currently the world's second largest ethanol producer, makes ethanol primarily from sugarcane which historically has been less expensive to produce than producing ethanol from corn. Other foreign producers may be able to produce ethanol at lower input costs, including feedstock, facilities and personnel, than our plants. Ethanol imported from Brazil or other foreign countries, even with the import tariff, or from a Caribbean Basin source may be a less expensive alternative to domestically produced ethanol.

Our plants depend on an uninterrupted supply of energy and water to operate. Unforeseen plant shutdowns could harm our business.

Our plants require a significant and uninterrupted supply of natural gas, electricity and water to operate. We generally rely on third parties to provide these resources. If there is an interruption in the supply of energy or water for any reason, such as supply, delivery or mechanical problems and we are unable to secure an adequate alternative supply to sustain plant operations, we may be required to stop production. A production halt for an extended period of time could result in material losses.

Potential business disruption from factors outside our control, including natural disasters, severe weather conditions, accidents, strikes, unexpected equipment failures and unforeseen plant shutdowns, could adversely affect our cash flow and operating results.

The debt agreements for the ethanol plants contain restrictive financial and performance covenants.

Ethanol facility debt covenants contain several financial and performance restrictions. A breach of any of these covenants could result in a default under the applicable agreement. If a default were to occur, we would likely seek a waiver of that default, attempt to reset the covenant, or refinance the instrument and accompanying obligations. If we were unable to obtain this relief, the default could result in the acceleration of the total due related to that debt obligation. If a default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. In addition, certain lease agreements could also be in default if a default of the debt agreement occurs. Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

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 interest rate swaps at January 31, 2010 that, in essence, fix the interest rate on a portion of their variable rate debt. During fiscal year 2009, we recognized losses on these swaps of approximately $2.5 million. Further reductions in interest rates could increase the liability position of the interest rate swaps, requiring us to record additional expense which could be material. The liability for these interest rate swaps could also result in a default of the term loan agreements' restrictive financial covenants.

In addition, increases in interest rates could have a negative impact on results of operations as all of the debt our ethanol plants have is variable rate debt. Furthermore, the interest rate swaps do not fix the interest rate on the entire portion of the related debt. Levelland Hockley's interest rate swap expires in April 2010.

Risks Related to the wind down and exit of our retail business and our real estate segment.

Our future costs associated with administering extended product service contracts may result in higher than expected costs.

We will continue to administer extended product service contracts that have contractual maturities over the next four years. To the extent we do not have products or an adequate repair service network to satisfy warranty claims, we may incur material costs as we would be required to refund cash to customers for warranted products.

We have a significant amount of vacant warehouse and retail space after the completion of the wind down of our retail business.

At January 31, 2010, we own two distribution facilities and 34 former retail store properties comprising approximately 911,000 square feet that are completely or partially vacant. We are currently marketing these facilities for lease or sale. We may not be able to successfully lease or sell these properties which could result in lost opportunities for revenue or future impairment charges related to the carrying value of the associated assets. We would also have costs related to the vacant properties such as property taxes and utilities that we would have to bear without any revenue from such properties.

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 "Retail Overview," "Real Estate Operations" and "Facilities" and is incorporated herein by reference.

Item 3. Legal Proceedings

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

Executive Officers of the Company

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

Name	Age	Position
Stuart Rose	55	Chairman of the Board and Chief Executive Officer*
Douglas Bruggeman	49	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	60	Secretary*
Zafar Rizvi	60	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.

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 Dinsmore & Shohl LLP (formerly Chernesky, Heyman & Kress P.L.L.), our legal counsel, since 1988. Mr. Kress has practiced law in Dayton, Ohio since 1974.

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.

Item 4. **Removed and Reserved**

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, 2008	$ 21.15	$ 15.84
July 31, 2008	16.98	10.78
October 31, 2008	13.46	6.50
January 31, 2009	10.48	5.76
April 30, 2009	$ 13.50	$ 5.52
July 31, 2009	12.99	9.36
October 31, 2009	13.02	9.75
January 31, 2010	15.41	11.89

As of April 15, 2010, there were 132 holders of record of our common stock, including shares held in nominee or street name by brokers.

Dividend Policy

We did not pay dividends in the current or prior years. We currently have no restrictions on the payment of dividends. Our consolidated ethanol subsidiaries have certain restrictions on their ability to pay us dividends.

Issuer Purchases of Equity Securities

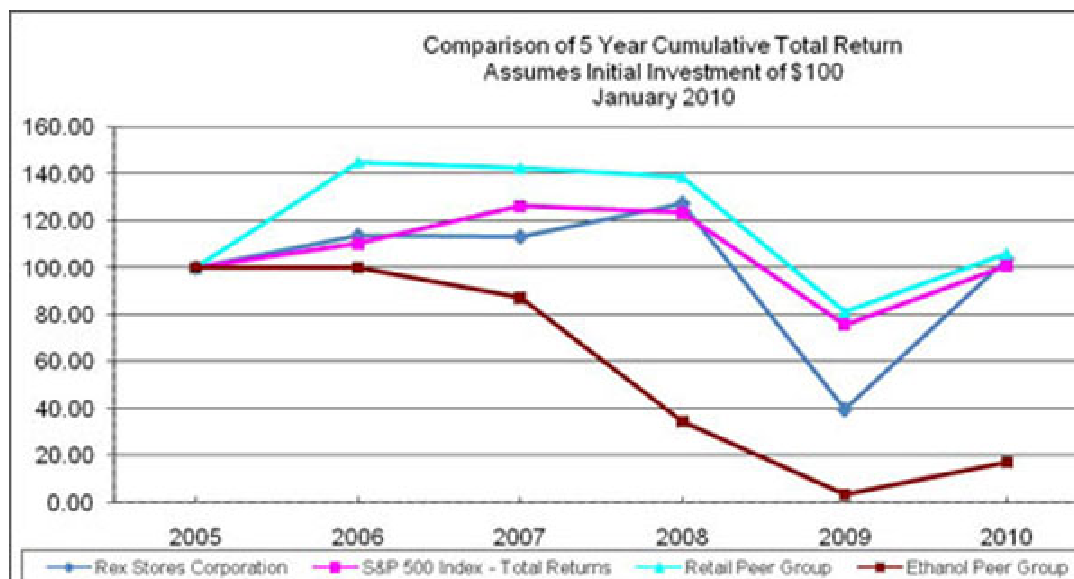
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
November 1-30, 2009	6,700	$ 12.22	6,700	38,101
December 1-31, 2009	—	$ —	—	538,101
January 1-31, 2010	715,357	$ 14.07	55,400	482,701
Total	722,057	$ 14.06	62,100	482,701

(1) A total of 659,957 shares of common stock were purchased by us other than through a publicly announced plan or program. These shares were acquired on January 8, 2010 in payment of the exercise price of stock options exercised by Stuart A. Rose, our Chairman and Chief Executive Office pursuant to the Company’s Stock-for-Stock and Cashless Option Exercise Rules and Procedures, adopted on June 4, 2001. The purchase price was $14.00 per share.

(2) On December 1, 2009, our Board of Directors increased our share repurchase authorization by an additional 500,000 shares. At January 31, 2010, a total of 482,701 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, 2005 and ended January 31, 2010. The graph assumes an investment of $100 in our Common Stock and each index on January 31, 2005 and reinvestment of all dividends.



* The retail peer group is comprised of Best Buy Co., Inc. and Conn’s, Inc. This is the last year we will show a retail peer group as we ceased our retail operations during fiscal year 2009.

* The ethanol peer group (and the month the companies went public) is comprised of Pacific Ethanol, Inc. (March 2005), BioFuel Energy Corp. (June 2007) and Green Plains Renewable Energy, Inc. (March 2006). In prior years, the ethanol peer group included Aventine Renewable Energy Holdings, Inc. which filed for Chapter 11 reorganization in February 2009 and has been removed from the ethanol peer group. We added Green Plains Renewable Energy, Inc. this year. 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 our former retail segment and certain real estate assets to discontinued operations as a result of our exit of the retail business and real estate sales. 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, derivative financial instruments, 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, 2010	2009	2008	2007	2006
Net sales and revenue (a)	$ 170,264	$ 68,638	$ 382	$ 316	$ 233
Income (loss) from continuing operations attributable to REX common shareholders (a) (b)	$ 5,158	$ (2,919)	$ 19,588	$ 6,587	$ 22,315
Net income (loss) attributable to REX common shareholders (b)	$ 8,652	$ (3,297)	$ 33,867	$ 11,351	$ 28,269
Basic income per (loss) share from continuing operations attributable to REX common shareholders (a)	$ 0.55	$ (0.29)	$ 1.88	$ 0.64	$ 2.09
Diluted income (loss) per share from continuing operations attributable to REX common shareholders (a)	$ 0.54	$ (0.29)	$ 1.67	$ 0.57	$ 1.83
Basic net income (loss) per share	$ 0.93	$ (0.32)	$ 3.25	$ 1.10	$ 2.64
Diluted net income (loss) per share	$ 0.91	$ (0.32)	$ 2.89	$ 0.98	$ 2.31
Total assets	$ 451,505	$ 451,288	$ 408,978	$ 345,442	$ 304,535
Long-term debt and capital lease obligations, net of current maturities	$ 126,689	$ 103,939	$ 35,224	$ 31,236	$ 21,462
Long-term deferred gain on sale and leaseback	$ —	$ 3,467	$ 4,493	$ 504	$ —

a) Amounts differ from those previously reported as the results of our former retail segment and certain real estate assets have been reclassified into discontinued operations. See Note 18 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations.

b) The results for the years ended January 31, 2008, 2007 and 2006 include significant amounts of income from synthetic fuel investments. The results for the year ended January 31, 2008 also includes a realized gain from the sale of its interest in Millennium Ethanol, LLC.

Quarterly Financial Data
(Unaudited)

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2009	July 31, 2009	October 31, 2009	January 31, 2010
Net sales and revenue (a)	$ 14,248	$ 17,145	$ 61,697	$ 77,174
Gross profit (a)	275	912	5,661	12,885
Net (loss) income	(1,731)	837	2,273	7,273
Basic net (loss) income per share attributable to REX common shareholders (b)	$ (0.19)	$ 0.09	$ 0.25	$ 0.78
Diluted net (loss) income per share attributable to REX common shareholders (b)	$ (0.19)	$ 0.09	$ 0.24	$ 0.75

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2008	July 31, 2008	October 31, 2008	January 31, 2009
Net sales and revenue (a)	$ 1,262	$ 24,971	$ 22,539	$ 19,866
Gross profit (a)	151	740	(2,357)	2,671
Net income (loss)	1,526	1,206	(650)	(5,379)
Basic net income (loss) per share attributable to REX common shareholders (b)	$ 0.14	$ 0.11	$ (0.07)	$ (0.57)
Diluted net income (loss) per share attributable to REX common shareholders (b)	$ 0.13	$ 0.11	$ (0.07)	$ (0.57)

a) Amounts differ from those previously reported as the results of our former retail segment and certain real estate assets have been reclassified as discontinued operations. See Note 18 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations. Also, see Note 2 of the Notes to the Consolidated Financial Statements for further discussion and analysis of an error and reclassification related to discontinued operations of our former retail segment.

b) The total of the quarterly net income (loss) per share amounts do not equal the annual net loss or income per share amount due to the impact of varying amounts of shares and options outstanding during the year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006.

In fiscal year 2007, we began to evaluate strategic alternatives for our retail segment with a focus on closing unprofitable or marginally profitable retail stores and monetizing our retail-related real estate assets. We did not believe that we were generating an adequate return from our retail business due to the competitive nature of the consumer electronics and appliance industry and the overall economic conditions in the United States. Reflecting this focus, we sold approximately 60% of our owned retail and vacant stores in fiscal year 2007 and leased back a portion of the stores which had been operating as electronics and appliance retail stores. In fiscal year 2008, we commenced an evaluation of a broad range

of alternatives intended to derive value from the remaining retail operations and our remaining real estate portfolio. We engaged an investment banking firm to assist us in analyzing and ultimately marketing our retail operations. As part of those marketing efforts, late in fiscal year 2008, we initially leased 37 owned store locations to an unrelated third party. During fiscal year 2009, the lease agreements were terminated. We are marketing the vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with a term of five to twenty years.

We completed our exit of the retail business as of July 31, 2009. Going forward, we expect that our only retail related activities will consist of the administration of extended service plans we previously sold and the payment of related claims. All activities related to extended service plans will be classified as discontinued operations.

We currently have approximately $111 million of equity and debt investments in four ethanol production entities, two of which we have a majority ownership interest in. We are considering making additional investments in the alternative energy segment during fiscal year 2010.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, sorghum, ethanol, distillers grains and natural gas. As a result of price volatility for these commodities, our operating results can fluctuate substantially. The price and availability of corn and sorghum are subject to significant fluctuations depending upon a number of factors that affect commodity prices in general, including crop conditions, weather, federal policy and foreign trade. Because the market price of ethanol is not always directly related to corn and sorghum prices, at times ethanol prices may lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the “crush spread.” Should the crush spread decline, our ethanol plants are likely to generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants. We expect these decisions to be made on an individual plant basis, as there are different market conditions at each of our ethanol plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain sale contracts. We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three months; we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in 2009 was subject to significant volatility. For example, for calendar year 2009, the average Chicago Board of Trade (“CBOT”) near-month corn price was approximately $3.74 per bushel, with highs reaching nearly $4.20 per bushel and retreating to approximately $3.20 per bushel in the fall. Ethanol prices were generally in a range of approximately $1.50 to $1.70 per gallon for most of the year. Ethanol prices increased during the last three months of 2009 reaching as high as $2.00 per gallon. We believe this market volatility with respect to the CBOT crush spread was attributable to a number of factors, including but not limited to export demand, speculation, currency valuation, global

economic conditions, ethanol demand and current production concerns. In 2009, the CBOT crush spread ranged from approximately $0.19 to $0.63 per gallon of ethanol.

We reported segment profit in fiscal year 2009 (before income taxes and noncontrolling interests) from our alternative energy segment of approximately $17.8 million in fiscal year 2009 compared to a loss of approximately $9.0 million in fiscal year 2008. The swing to profitability results from favorable crush spreads, particularly in the later parts of fiscal year 2009, and One Earth commencing production operations in the second quarter of fiscal year 2009. Approximately $13.0 million of the segment profit was earned in the fourth quarter. This period of time was when the crush spread was at its highest.

We expect that future operating results, from our consolidated subsidiaries, will be based upon annual production of between 130 and 140 million gallons, which assumes that Levelland Hockley and One Earth will operate at or near nameplate capacity. However, due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the 2009 results.

Ethanol Investments

In fiscal year 2006, we entered the alternative energy industry by investing in several entities organized to construct and, subsequently operate, ethanol producing plants. We have invested in five entities, four of which we remain invested in as of January 31, 2010, utilizing both equity and debt investments. We sold our investment in Millennium during fiscal year 2007.

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

Entity	Initial Equity Investment	Operating Capacity Million Gallons Per Year	Effective Ownership Percentage	Debt Investment	Contingent Commitment
Levelland Hockley County Ethanol, LLC	$ 16,500	40	56%	$ 6,255	$ 1,532
Big River Resources, LLC-W Burlington		92	10%	—	—
Big River Resources, LLC-Galva	20,025	100	10%	—	—
Big River United Energy, LLC		100	5%	—	—
Patriot Renewable Fuels, LLC	16,000	100	23%	1,014	—
One Earth Energy, LLC	50,765	100	74%	—	—
Total	$ 103,290			$ 7,269	$ 1,532

Big River completed construction in the second quarter of fiscal year 2009 of its second plant which has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant is located in Galva, Illinois.

In August 2009, Big River acquired a 50.5% interest in an ethanol production facility which has a nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant is located in Dyersville, Iowa.

One Earth commenced production operations late in the second quarter of fiscal year 2009 and began generating revenue in the third quarter of fiscal year 2009.

Investment in Synthetic Fuel Partnerships

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. The Section 29/45K tax credit program expired on December 31, 2007. As such we do not expect to receive additional income from these investments except for the possibility of an additional payment on a facility formerly located in Gillette, Wyoming. Based upon the modified terms of a sales agreement, we are currently not able to predict the likelihood and timing of payments for production from September 30, 2006 to December 31, 2007 for this facility. We expect the payments, if any, to be made within the next two years. We have not recognized this income and will recognize income, if any, upon receipt of payment or upon our ability to reasonably assure ourselves of the timing and collectability of payment.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 5 and 19 of the Notes to the Consolidated Financial Statements for further discussions.

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

Real Estate Operations

At January 31, 2010, we had lease or sub-lease agreements, as landlord, for all or parts of ten former retail stores (108,000 square feet leased and 35,000 square feet vacant). We own nine of these properties and are the tenant/sub landlord for one of the properties. We have 31 owned former retail stores (385,000 square feet), and one former distribution center (180,000 square feet), that are vacant at January 31, 2010. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (156,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (300,000 square feet).

Retail

We completed the exit of our retail business during the second quarter of fiscal year 2009. We offered extended service contracts to our customers which typically provide, inclusive of manufacturers' warranties, one to five years of warranty coverage. We plan to manage and administer these contracts over the life of the contracts. Service contract repair costs are charged to operations as incurred. We expect to continue recognizing extended service contract revenues and expenses (as discontinued operations) through January 2014, although the revenues will decline annually as we are no longer selling new contracts. We typically service a warranty claim through a network of third party repair and service providers. Warranty repair costs have been in the range of 19% to 25% of extended service contract revenue over the last three years; we expect these costs to average approximately 25% of extended service contract revenue in future years. Future expected amortization of deferred revenue and

commission expense are as follows (amounts in thousands):

Years Ended January 31,	Deferred Revenue	Deferred Commission Expense
2011	$ 7,816	$ 2,396
2012	3,983	1,195
2013	1,864	565
2014	551	164
Total	$ 14,214	$ 4,320

Results of Operations

For a detailed analysis of period to period changes, see the segment discussion that follows this section as this is how management views and monitors our business.

Comparison of Fiscal Years Ended January 31, 2010 and 2009

Net Sales and Revenue – Net sales and revenue in fiscal year 2009 were $170.3 million, a 148.3% increase from $68.6 million in fiscal year 2008. Net sales and revenue do not include sales from retail and real estate operations classified in discontinued operations. The increase was primarily caused by higher sales in our alternative energy segment of $101.0 million. Net sales and revenue from our real estate segment increased $0.7 million over the prior year to $1.1 million.

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

	Fiscal Year		
Product or Service Category	2009	2008	2007
Ethanol	82%	82%	—%
Distiller grains	17	17	—
Leasing	1	1	100
Total	100%	100%	100%

Gross Profit – Gross profit was $19.7 million in fiscal year 2009, or 11.6% of net sales and revenue, versus $1.2 million in fiscal year 2008 or 1.8% of net sales and revenue. This represents an increase of $18.5 million. Gross profit for fiscal year 2009 increased by $21.1 million over the prior year as a result of operations in the alternative energy segment. Gross profit for fiscal year 2009 decreased by $2.6 million compared to the prior year from our real estate segment.

Selling, General and Administrative Expenses – Selling, general and administrative expenses for fiscal year 2009 were $6.0 million (3.5% of net sales and revenue), a decrease of $0.6 million or 9.1% from $6.6 million (9.7% of net sales and revenue) for fiscal year 2008. Compared to the prior year, these expenses declined approximately $0.3 million and $0.2 million in the corporate and other category and the alternative energy segment, respectively.

Interest Income – Interest income decreased to $0.4 million for fiscal year 2009 from $2.0 million for fiscal year 2008. The decline generally results from lower yields earned on our excess cash in the current year compared to the prior year. The lower yields are a result of the overall macroeconomic environment and not a result of a shift to investments with less risk.

Interest Expense – Interest expense increased to $4.7 million for fiscal year 2009 from $3.2 million for fiscal year 2008. The increase in interest expense was primarily attributable to the alternative energy segment as we had higher amounts of average debt outstanding upon the completion of One Earth's ethanol plant.

Loss on Early Termination of Debt – During fiscal year 2009, we completed the early payoff of $8.0 million of mortgage debt prior to maturity. As a result, we expensed certain unamortized financing costs and prepayment penalties of approximately $89,000 as loss on early termination of debt.

Equity in Income of Unconsolidated Ethanol Affiliates – During fiscal years 2009 and 2008, we recognized income of approximately $6.0 million and $0.8 million, respectively from our equity investments in Big River and Patriot. Big River has a 92 million gallon plant which has been in operations since 2004. Big River opened an additional 100 million gallon plant during the second quarter of fiscal year 2009 and acquired a 50.5% ownership in a 100 million gallon plant in August 2009. Patriot completed construction of its ethanol facility with a nameplate capacity of 100 million gallons during the second quarter of fiscal year 2008. Income from Big River was approximately $2.5 million and $2.4 million in fiscal years 2009 and 2008, respectively. Although our proportionate 10% share of income from Big River has been consistent over the prior two years, we expect such income to be based upon increased sales in future years as the Big River Galva and Big River United Energy facilities are in production for a full year.

We recorded income of approximately $3.5 million and a loss of $1.5 million from Patriot in fiscal years 2009 and 2008, respectively. Patriot benefited in the current year from a full year of production and favorable crush spreads, particularly during the latter half of calendar year 2009.

Due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results from Big River and Patriot being similar to the 2009 results.

Income from Synthetic Fuel Investments – Results for fiscal year 2008 reflect the impact of our equity investment in two limited partnerships, Colona and Somerset, which produced synthetic fuels. The income recognized in fiscal year 2008 represents the final settlements related to Colona and Somerset as all synthetic fuel production ceased during fiscal year 2007. We recognized income from the sales of our interests in Colona and Somerset equal to certain percentages 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 additional income or loss from these sales.

We also sold our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. 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 predict the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot determine the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. We did not recognize any income from this sale during fiscal years 2009 or 2008.

Other Income – During fiscal year 2009, Levelland Hockley entered into an agreement with Layne Christensen Company ("Layne") to settle litigation between the two parties. As a result of the settlement agreement, Layne paid Levelland Hockley $1.5 million. Of the proceeds received, approximately $0.3 million was recognized as other income during fiscal year 2009.

During fiscal year 2009, Levelland Hockley received notification from the United States Department of Agriculture that Levelland Hockley had been approved to receive funds under the Advanced Biofuel Producer Program. As a result, approximately $0.5 million was recognized as other income during fiscal year 2009. We anticipate applying to receive funds under this federal program assuming such federal programs are available and adequately funded by the government in future years.

Losses on Derivative Financial Instruments – We recognized losses of $2.5 million and $3.8 million during fiscal years 2009 and 2008, respectively, related to forward interest rate swaps that Levelland Hockley and One Earth entered into during fiscal year 2007. During fiscal year 2009, Levelland Hockley's loss was $0.5 million and One Earth's loss was $2.0 million. Levelland Hockley's swap expires in April 2010 while One Earth's swaps expire in July 2011 and July 2014. In general, declining interest rates have a negative effect on our interest rate swaps as our swaps fixed the interest rate of variable rate debt. As interest rates declined during fiscal years 2009 and 2008, we incurred large losses on the interest rate swaps. Should interest rates continue to decline, we would expect to experience continued losses on the interest rate swaps. We would expect to incur gains on the interest rate swaps should interest rates increase. We cannot predict the future movements in interest rates; thus, we are unable to predict the likelihood or amounts of future gains or losses related to interest rate swaps.

Income Taxes – Our effective tax rate was a provision of 33.5% and a benefit of 31.1% for fiscal years 2009 and 2008, respectively. Our effective tax rate increased, as the noncontrolling interests in the income or loss of consolidated subsidiaries is presented in the Consolidated Statements of Operations after income tax benefit or provision. In addition, the effective tax rate was lower in fiscal year 2008 as a result of a federal tax credit available to certain ethanol producers. We do not anticipate benefiting from this credit in future years.

Income/Loss from Continuing Operations Including Noncontrolling Interests – As a result of the foregoing, income from continuing operations including noncontrolling interests was $9.1 million for fiscal year 2009 versus a loss of $6.1 million for fiscal year 2008.

Discontinued Operations **–** During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result of these closings and certain other retail store and real estate property closings from prior years, we had income from discontinued operations, net of tax benefit, of $2.1 million in fiscal year 2009 compared to a loss of $2.2 million in fiscal year 2008. Five properties classified as discontinued operations were sold or abandoned during fiscal year 2009, resulting in a gain, net of tax expense, of $1.4 million. We sold 6 retail store locations classified as discontinued operations in fiscal year 2008; as a result, we had a gain from disposal of discontinued operations, net of a tax provision, of $1.8 million in fiscal year 2008. We expect income from discontinued operations to decline in future periods as our extended service plan activities wind down.

Noncontrolling Interests – (Income) or loss related to noncontrolling interests was $(3.9) million and $3.1 million during fiscal years 2009 and 2008, respectively, and represents the owners' (other than us) share of the income of Levelland Hockley and One Earth. Noncontrolling interests of Levelland Hockley and One Earth was $(1.4) million and $(2.5) million, respectively during fiscal year 2009 and $2.3 million and $0.8 million, respectively during fiscal year 2008.

Net Income/Loss Attributable to REX Common Shareholders – As a result of the foregoing, net income attributable to REX common shareholders was $8.7 million for fiscal year 2009 compared to a net loss of $3.3 million for fiscal year 2008.

Business Segment Results

During fiscal year 2009, we realigned our reportable business segments to be consistent with changes to our management structure and reporting. We now have two segments: alternative energy and real estate. The real estate segment was formerly included in the retail segment. For former retail stores and warehouses closed which we have a retained interest in the related real estate, operations are now presented in the real estate segment based upon when retail operations ceased. Historical results from retail store operations have been reclassified as discontinued operations for all periods presented.

The following sections discuss the results of operations for each of our business segments and corporate and other. As discussed in Note 20, our chief operating decision maker (as defined by ASC 280 "*Segment Reporting*") 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,		
	2010	2009	2008
Net sales and revenues:			
Alternative energy	$ 169,175	$ 68,223	$ —
Real estate	1,089	415	382
Total net sales and revenues	$ 170,264	$ 68,638	$ 382

	Years Ended January 31,		
	2010	2009	2008
Segment gross profit (loss):			
Alternative energy	$ 21,923	$ 807	$ —
Real estate	(2,190)	398	364
Total gross profit	$ 19,733	$ 1,205	$ 364
Segment profit (loss):			
Alternative energy segment	$ 17,811	$ (8,992)	$ 22,404
Real estate	(2,373)	116	177
Corporate expenses	(1,721)	(2,038)	(2,077)
Interest expense	(369)	(387)	(1,032)
Interest income	263	1,788	3,575
Income from synthetic fuel investments	—	691	6,945
Income (loss) from continuing operations before income taxes and noncontrolling interests	$ 13,611	$ (8,822)	$ 29,992

Alternative Energy

The alternative energy segment includes the consolidated financial results of Levelland Hockley and One Earth, our other investments in ethanol facilities, the income or loss related to those investments and certain administrative expenses. One Earth began limited production operations late in the second quarter of fiscal year 2009 and became fully operational during the third quarter of fiscal year 2009.

The following table summarizes sales from Levelland Hockley and One Earth by product group (amounts in thousands):

	Years Ended January 31,	
	2010	2009
Ethanol	$ 140,443	$ 55,989
Dried distiller grains	20,223	6,478
Wet distiller grains	7,953	5,449
Other	556	307
Total	$ 169,175	$ 68,223

The following table summarizes selected operating data from Levelland Hockley and One Earth:

	Years Ended January 31,	
	2010	2009
Average selling price per gallon of ethanol	$ 1.68	$ 2.14
Average selling price per ton of dried distiller grains	$ 112.29	$ 180.42
Average selling price per ton of wet distiller grains	$ 41.53	$ 51.74
Average cost per bushel of grain	$ 3.58	$ 4.82
Average cost of natural gas (per mmbtu)	$ 4.28	$ 9.01

Net sales and revenue for the current year increased $101.0 million over the prior year to $169.2 million, primarily a result of One Earth becoming fully operational during the third quarter of fiscal year 2009. The average selling price per gallon of ethanol declined from $2.14 in the prior year to $1.68 in the current year. Our sales were based upon 83.6 million gallons of ethanol in the current year compared to 26.2 million gallons in the prior year. We expect that net sales and revenue in future periods will be based upon production of approximately 130 million to 140 million gallons per year. This expectation assumes that One Earth and Levelland will continue to operate at or near nameplate capacity, which is dependent upon the crush spread realized at each respective plant.

Gross profit from these sales was approximately $21.9 million during the current year compared to $0.8 million during the prior year. Gross profit improved primarily as a result of One Earth beginning operations in fiscal year 2009. The crush spread realized improved during the third and fourth quarters of the current year, which is when One Earth began operations. Given the inherent volatility in ethanol and grain prices, we cannot predict the likelihood that the spread between ethanol and grain prices in future periods will remain favorable compared to historical periods.

We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three months. Approximately 10-15% of our forecasted ethanol production during the next 12 months has been sold under fixed-price contracts. As a result of these positions, the effect of a 10% adverse move in the price of ethanol from the current pricing would result in a decrease in revenues of $24.9 million. Similarly, approximately 10-15% of our estimated corn/sorghum usage for the next 12 months was subject to fixed-price contracts. As a result of these positions, the effect of a 10% adverse move in the price of corn/sorghum from current pricing would result in an increase in cost of goods of approximately $16.1 million.

Selling, general and administrative expenses were approximately $4.1 million in fiscal year 2009, a $0.2 million decrease from $4.3 million in fiscal year 2008. An impairment charge of approximately $1.3 million related to the write off of goodwill associated with the Levelland Hockley acquisition was recorded in fiscal year 2008. We incurred approximately $0.7 million in increased expenses (in fiscal year 2009) related to the start of operations at One Earth. We expect selling, general and administrative expenses in future periods to remain consistent with comparable historical periods.

Interest expense increased $1.7 million in the current year over the prior year to $4.5 million, as we no longer capitalize interest on the One Earth credit facility subsequent to the commencement of operations at the plant. In addition, One Earth borrowed approximately $49.0 million during fiscal year 2009; the resulting higher outstanding debt amount also contributed to the increase in interest expense. Based on current interest rates, we expect interest expense to increase to approximately $5.8 million in fiscal year 2010 based on current debt levels and that we do not anticipate capitalizing significant amounts of interest now that all facilities are in operation.

Other income increased $0.8 million in the current year compared to the prior year. The increase is a result of Levelland Hockley recognizing a legal settlement of $0.3 million and grant income of $0.5 million in fiscal year 2009. We do not expect other income to be significant to our financial results in future periods.

Income from equity method investments in Big River and Patriot increased from $0.8 million in the prior year to $6.0 million in the current year. We recognized $2.5 million of income from Big River in fiscal year 2009 which is consistent with the prior year amount of $2.4 million. We recognized $3.5 million of income from Patriot in fiscal year 2009, which is $5.0 million higher than the loss of $1.5 million in the prior year. The fluctuation related to income from Patriot is primarily a result of fiscal year 2009 being the first year that Patriot was in production for a full year. Patriot was in production for approximately four months during fiscal year 2008. We expect that revenue recognized by Patriot in future periods will be consistent with the current year assuming that the plant continues to operate at or near nameplate capacity. We expect that revenue recognized by Big River in future periods will increase over the current year as it had two plants in operation for only a portion of fiscal year 2009.

Given the inherent volatility in the factors that affect the crush spread, we cannot predict the likelihood that the trend with respect to income from equity method investments will continue in future periods.

Losses on derivative financial instruments held by One Earth and Levelland were $2.5 million in the current year compared to $3.8 million in the prior year. Since the gains or losses on these derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with current year results.

As a result of the factors discussed above, segment profit increased to $17.8 million in the current year from a loss of $9.0 million in the prior year.

Real Estate

The real estate segment includes all owned and sub-leased real estate including those previously used as retail store and distribution center operations, our real estate sales and leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At January 31, 2010, we had lease or sub-lease agreements, as landlord, for all or parts of ten former retail stores (108,000 square feet leased and 35,000 square feet vacant). We own nine of these properties and are the tenant/sub landlord for one of the properties. We have 31 owned former retail stores (385,000 square feet), and one former distribution center (180,000 square feet), that are vacant at January 31, 2010. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (156,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (300,000 square feet).

Net sales and revenue for the current year increased $0.7 million over the prior year to $1.1 million. The increase in revenue is primarily a result of 15 properties leased to Appliance Direct for a portion of the current year. Gross loss from these leases was approximately $2.2 million during the current year compared to gross profit of approximately $0.4 during the prior year. Gross profit declined as a result of expenses associated with vacant properties; the largest of which was a long-lived asset impairment charge of approximately $1.6 million. The increase in vacant properties is a result of the agreement we reached with Appliance Direct during the third quarter of the current year which relieved Appliance Direct of their obligation to lease properties from us. We expect lease revenue in fiscal year 2010 to be consistent with fiscal year 2009 based upon leases currently executed.

Selling, general and administrative expenses were approximately $183,000 in fiscal year 2009, consistent with the $289,000 in fiscal year 2008. We expect selling, general and administrative expenses in future periods to remain consistent with comparable historical periods.

As a result of the factors discussed above, segment profit decreased to a loss of $2.4 million in the current year from income of $0.1 million in the prior year. Excluding any property sales that may occur in fiscal year 2010, we expect to generate another segment loss in fiscal year 2010 based upon the current number of vacant properties.

Corporate and Other

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

Selling, general and administrative expenses were $1.7 million in the current year consistent with the $2.0 million in the prior year.

Interest expense of $0.4 million in the current year is consistent with prior year expense.

Investment income was $0.3 million in the current year compared to $1.8 million in the prior year. The decline generally results from lower yields earned on our excess cash in the current year compared to the prior year. The lower yields are a result of the overall macroeconomic environment and not a result of a shift to investments with less risk.

There was no income from synthetic fuel investments in fiscal year 2009, compared to $0.7 million in the prior year. Prior year income represents the final settlements for Colona and Somerset as all synthetic fuel production ceased during fiscal year 2007. We do not expect additional income or loss from the Colona and Somerset partnership sales.

Comparison of Fiscal Years Ended January 31, 2009 and 2008

Net Sales and Revenue – Net sales and revenue in fiscal year 2008 were $68.6 million, a $68.2 million increase from $0.4 million in fiscal year 2007. Net sales and revenue do not include sales from retail and real estate operations classified in discontinued operations. The increase was primarily caused by higher sales in our alternative energy segment of $68.2 million. Net sales and revenue from our real estate segment of $415,000 were consistent with the prior year amount of $382,000.

Gross Profit – Gross profit was $1.2 million in fiscal year 2008 versus $0.4 million for fiscal year 2007. This represents an increase of $0.8 million. Gross profit for fiscal year 2008 increased by $0.8 million over the prior year as a result of operations in the alternative energy segment. Our real estate segment had gross profit for fiscal year 2008 of $0.4 million consistent with the prior year.

Selling, General and Administrative Expenses – Selling, general and administrative expenses for fiscal year 2008 were approximately $6.6 million, a 34.0% increase from approximately $5.0 million for fiscal year 2007. Compared to the prior year, these expenses increased approximately $1.6 million in the alternative energy segment.

Interest Income – Interest income decreased to approximately $2.0 million for fiscal year 2008 from approximately $5.7 million for fiscal year 2007. Approximately $1.6 million of the decrease results from lower yields earned on our excess cash in fiscal year 2008. We recognized $1.3 million of interest income in fiscal year 2007 from our debt investment in Millennium Ethanol, LLC, which was sold in fiscal year 2007. We also had lower interest income in fiscal year 2008 from our consolidated ethanol entities of approximately $0.3 million, as excess cash was spent on the construction activities at Levelland Hockley and One Earth.

Interest Expense – Interest expense increased to approximately $3.2 million for fiscal year 2008 from approximately $0.6 million for fiscal year 2007. The increase in interest expense was primarily caused by the interest incurred on the Levelland Hockley credit facility subsequent to the commencement of operations at that plant. Prior to the commencement of operations at Levelland Hockley, related interest was capitalized. We capitalized $3.2 million in interest related to plant construction at Levelland Hockley and One Earth and our equity method investment in Patriot in fiscal year 2008. We capitalized $1.6 million of interest in fiscal year 2007.

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 $0.4 million related to this termination of debt.

Equity in Income of Unconsolidated Ethanol Affiliates – During fiscal years 2008 and 2007, we recognized income of $849,000 and $1,601,000, respectively from our equity investments in Big River and Patriot. Big River operates an ethanol facility with a nameplate capacity of 92 million gallons. Patriot completed construction of its ethanol facility with a nameplate capacity of 100 million gallons during the second quarter of fiscal year 2008. Income from Big River was $2,397,000 and $2,379,000 in fiscal years 2008 and 2007, respectively. We recorded a loss of $1,548,000 and $778,000 from Patriot in fiscal years 2008 and 2007, respectively.

Although our proportionate 10% share of income from Big River has been consistent over the past two years, we expected this to change as Big River was constructing its second ethanol plant with a nameplate capacity of 100 million gallons of ethanol. Future results will depend greatly on the crush spread, the future movement of which we are unable to predict. Thus, we are unable to predict whether results from Big River will continue to remain consistent with results from the last two years.

We also expect our proportionate 23% share of income from Patriot to change in future years. Fiscal year 2008 was the first year that Patriot was in operation as Patriot commenced production operations in the second quarter of fiscal year 2008. During fiscal year 2008, we reported an equity method loss in operations of $1.5 million, of which $0.5 million related to the effects of an interest rate swap. Also during fiscal year 2008, Patriot began production at a time when the crush spread did not provide for gross margins sufficient to cover interest expense and other general and administrative expenses. Future results will depend greatly on the crush spread, the future movement of which we are unable to predict. Thus, we are unable to predict whether results from Patriot will improve compared to the results from the last two years. However, we do expect revenues to increase as we expect Patriot to operate at or near nameplate capacity in future years.

Overall, we expect the trends in crush spread margins described in the “Overview” section to be generally consistent with the operating experience of Big River and Patriot as their results are dependent on the same key drivers (corn and natural gas pricing as well ethanol pricing, all of which are commodities.)

Realized Investment Gains – On August 29, 2007, US BioEnergy Corporation (“US BioEnergy”) completed the acquisition of Millennium. In connection with the acquisition, we received approximately 3.7 million 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 $14.0 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 2008 and 2007 reflect the impact of our equity investment in two limited partnerships, Colona and Somerset, which produced synthetic fuels. We recognized income from the sales of our interests in Colona and Somerset subject to certain annual limitations and production levels. The Section 29/45K tax credit program expired on December 31, 2007.

The income recognized in fiscal year 2008 represents the final settlements related to Colona and Somerset as all synthetic fuel production ceased during fiscal year 2007. We do not anticipate additional income or loss from the sales of our Colona and Somerset partnership interests.

We also sold our membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. 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 predict the likelihood and timing of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently predict the timing of income recognition, if any, related to production occurring subsequent to September 30, 2006. At January 31, 2009, 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. We did not recognize any income from this sale during fiscal years 2008 or 2007.

Losses on Derivative Financial Instruments – We recognized losses of $3.8 million and $2.6 million during fiscal years 2008 and 2007, respectively, related to forward interest rate swaps that Levelland Hockley and One Earth entered into during fiscal year 2007. During fiscal year 2008, Levelland Hockley's loss was $0.8 million and One Earth's loss was $3.0 million.

Income Taxes – Our effective tax rate was a benefit of 31.1% and a provision of 37.5% for fiscal years 2008 and 2007, respectively. Our effective tax rate was lower in fiscal year 2008, as the noncontrolling interests in the loss of consolidated subsidiaries is presented in the statement of operations after income tax benefit or provision. In addition, the effective tax rate was lower in fiscal year 2008 as a result of a federal tax credit available to certain ethanol producers. We do not anticipate benefitting from this credit in future years.

Loss/Income from Continuing Operations Including Noncontrolling Interests – As a result of the foregoing, loss from continuing operations including noncontrolling interests was approximately $6.1 million for fiscal year 2008 versus income of $18.7 million for fiscal year 2007.

Discontinued Operations **–** During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified them as discontinued operations. As a result of these closings and certain other retail store and real estate property closings from prior years, we had a loss from discontinued operations, net of tax benefit, of $2.2 million in fiscal year 2008 compared to income of $3.8 million in fiscal year 2007. We sold 6 retail store locations classified as discontinued operations in fiscal year 2008 compared to selling 101 properties in fiscal year 2007. As a result, we had a gain from disposal of discontinued operations, net of a tax provision, of approximately $1.8 million in fiscal year 2008 compared to approximately $10.5 million in fiscal year 2007.

Noncontrolling Interests – (Income) loss related to noncontrolling interests of $3.2 million and $0.8 million, respectively, and represents the owners' (other than us) share of the loss of Levelland Hockley and One Earth. Noncontrolling interests of Levelland Hockley and One Earth was $2.4 million and $0.8 million, respectively during fiscal year 2008 and $0.5 million and $0.3 million, respectively during fiscal year 2007.

Net Loss/Income Attributable to REX Common Shareholders – As a result of the foregoing, net loss attributable to REX common shareholders was approximately $3.3 million for fiscal year 2008 versus net income of approximately $33.9 million for fiscal year 2007.

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.

Alternative Energy

The alternative energy segment includes the consolidated financial statements of Levelland Hockley and One Earth, our other investments in ethanol facilities, the income related to those investments and certain administrative expenses. Fiscal year 2008 is the first year that this segment has sales as Levelland Hockley commenced production operations during the second quarter of fiscal year 2008. One Earth is a development stage company and income related to equity method investments is not reported as sales or revenue.

The following table summarizes sales from Levelland Hockley by product group (amounts in thousands):

	Year Ended January 31, 2009	
Ethanol	$	55,989
Dried distiller grains		6,478
Wet distiller grains		5,449
Other		307
Total	$	68,223

The following table summarizes selected operating data from Levelland Hockley:

	Year Ended January 31, 2009	
Average selling price per gallon of ethanol	$	2.14
Average selling price per ton of dried distiller grains	$	180.42
Average selling price per ton of wet distiller grains	$	51.74
Average cost per bushel of grain	$	4.82
Average cost of natural gas (per mmbtu)	$	9.01

Net sales and revenue for the current year increased to $68.2 million as Levelland Hockley commenced production operations during fiscal year 2008. Sales were based on approximately 31.9 million gallons during fiscal year 2008. We expect sales (from Levelland Hockley) in future years to be based on approximately 30 million to 40 million gallons should the plant at Levelland Hockley run at or near nameplate capacity during future years, which we believe is a reasonable assumption given the current operating environment at the plant and assuming that the crush spread remains at levels that support operations at or near nameplate capacity. We expect sales (from One Earth) in future years to be based on approximately 100 million gallons should the plant at One Earth run at or near nameplate capacity during future years, which we believe is a reasonable assumption dependent upon adequate crush spreads.

Gross profit from these sales was approximately $0.8 million (1.2% of net sales and revenue) during fiscal year 2008. Gross profit was lower than we expected, generally as a result of a decline in the spread between ethanol and grain prices and start up costs. In general, corn and grain prices increased more than ethanol prices during fiscal year 2008. Given the inherent volatility in ethanol and grain prices, we cannot predict the likelihood that the spread between ethanol and grain prices in future periods will remain favorable compared to historical periods.

We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three months.

Selling, general and administrative expenses were approximately $4.3 million in fiscal year 2008, a $1.6 million increase from $2.7 million in fiscal year 2007. We incurred a non cash impairment charge of $1.3 million in fiscal year 2008 related to the write off of goodwill associated with the Levelland Hockley. We also incurred expenses of $2.0 million from Levelland Hockley in fiscal year 2008 compared to $0.4 million in fiscal year 2007. This increase results from Levelland Hockley commencing production operations in the second quarter of fiscal year 2008. Levelland Hockley was a development stage company during fiscal year 2007. Executive compensation declined by $1.5 million in fiscal year 2008, a result of the decline in segment profit. We expect selling, general and administrative expenses to increase in future periods once One Earth becomes fully operational, which we expect to occur in fiscal year 2009.

Interest income decreased to $0.3 million in fiscal year 2008 from $2.1 million in fiscal year 2007. Interest income from our debt investment in Millennium, which was sold during fiscal year 2007, accounted for a majority of the decrease in interest income.

Interest expense increased to $2.8 million in fiscal year 2008 as interest incurred by Levelland Hockley was not capitalized subsequent to the start of production operations. All interest incurred by Levelland Hockley in fiscal year 2007 was capitalized. We expect interest expense to increase in future years once One Earth becomes operational and ceases to capitalize interest on its debt.

Income from equity method investments in Big River and Patriot decreased from $1.6 million in the prior year to $0.8 million in the current year. We recognized $2.4 million of income from our investment in Big River in fiscal years 2008 and 2007. We recognized a loss of $1.5 million and $0.8 million during fiscal years 2008 and 2007, respectively from our investment in Patriot. The fluctuation related to income from Patriot is primarily a result of the start up of production in fiscal year 2008. Patriot was in production for approximately four months during fiscal year 2008.

Given the inherent volatility in the factors that affect the crush spread, we cannot predict the likelihood that the trend with respect to income from equity method investments will continue in future periods. However, we do expect Patriot to operate at or near nameplate capacity in future years, given the current operating environment at Patriot, which we believe is a reasonable assumption dependent upon adequate crush spreads.

Realized investment gains were $24.0 million in fiscal year 2007, as a result of the acquisition of our interest in Millennium by US BioEnergy Corporation. There was no such income in fiscal year 2008.

Losses on derivative financial instruments held by One Earth and Levelland were $3.8 million in the current year compared to $2.6 million in the prior year. Since the gains or losses on these derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with current year results.

As a result of the factors discussed above, segment loss/profit decreased to a loss of $9.0 million in the current year from profit of $22.4 million in the prior year.

Real Estate

The real estate segment includes all owned and sub-leased real estate including those previously used as retail store and distribution center operations, our real estate sales and leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At January 31, 2009, we had lease or sub-lease agreements, as landlord, for all or parts of 41 owned properties, including 37 stores leased to subsidiaries of Appliance Direct, Inc. ("Appliance Direct"), a third party appliance chain. We did not operate a retail store at seven of these locations. We operated a retail store at the remaining 34 locations, which we anticipated closing throughout the first half of fiscal year 2009. We also own two distribution facilities, comprising approximately 650,000 square feet that we are marketing to sell or lease.

Net sales and revenue for the current year of $0.4 million is consistent with the prior year. We expected net sales and revenue to increase in future years as a result of the properties leased to Appliance Direct and our marketing efforts related to other vacant properties.

Gross profit from these sales was approximately $0.4 million during fiscal years 2008 and 2007. We expected gross profit to increase in future years as a result of the properties leased to Appliance Direct and our marketing efforts related to other vacant properties.

Selling, general and administrative expenses were approximately $289,000 in fiscal year 2008, consistent with the $210,000 in fiscal year 2007. We expected selling, general and administrative expenses in future periods to remain consistent with comparable historical periods.

As a result of the factors discussed above, segment profit decreased to $116,000 in fiscal year 2008 from $177,000 in fiscal year 2007.

Corporate and Other

Income from synthetic fuel investments declined to $0.7 million in fiscal year 2008 from $6.9 million in fiscal year 2007. The income recognized in fiscal year 2008 represents the estimated final settlements related to Colona and Somerset as all synthetic fuel production ceased during 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 predict 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.

Selling, general and administrative expenses were $2.0 million in fiscal year 2008, consistent with fiscal year 2007. Unallocated interest income was $1.8 million in fiscal year 2008, compared to $3.6 million in fiscal year 2007. The decrease resulted from lower yields earned during fiscal year 2008 on our excess cash as interest rates were generally lower in fiscal year 2008 compared to fiscal year 2007.

Liquidity and Capital Resources

Our primary sources of financing have been income from operations, sales of real estate and debt financing. Our primary uses of cash have been equity and debt investments in ethanol entities, construction of ethanol plants, long term debt repayments and stock repurchases.

Outlook – Our cash balance of $100.4 million includes $17.9 million held by Levelland Hockley and One Earth. Pursuant to the respective debt agreements, each plant is limited with respect to paying dividends. Thus, we expect that Levelland Hockley and One Earth will use the $17.9 million for working capital needs at these plants. All of our ethanol investments have significant amounts of long term debt and we expect these organizations to limit the payment of dividends based upon working capital needs and debt service requirements.

We are considering making additional investments in the alternative energy segment during fiscal year 2010. Other possible uses of our excess cash are to pay down long term mortgage debt and repurchase our common stock. In general, we will pay down long term debt when the interest rate environment is unfavorable as it relates to the type of debt (fixed rate versus variable rate) and if the specific debt does not contain significant prepayment penalties. Such pay downs are carried out at levels that do not impede on other cash requirements we may have, such as investments in prospective entities we are investigating. We typically repurchase our common stock when our stock price is trading at prices we deem to be a discount to the underlying value of our net assets. Such purchases are carried out at levels that do not impede on other cash requirements we may have, such as prospective investments in entities we are investigating. Historically, we have not incurred additional borrowings under our debt agreements to fund repurchases of our common stock. We also plan to seek and evaluate other various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

During the first quarter of fiscal year 2010, we are expecting our financial performance from our ethanol plants to decline compared to the fourth quarter of fiscal year 2009 as the crush spread is decreasing from end of year 2009 levels. The near month crush spread (determined by information on CBOT) averaged approximately $0.39 per gallon of ethanol during the first quarter of fiscal year 2010 compared to approximately $0.56 per gallon of ethanol during the fourth quarter of fiscal year 2009.

Operating Activities – Net cash provided by operating activities was $11.0 million for fiscal year 2009 compared to $2.9 million in fiscal year 2008. For fiscal year 2009, operating cash flow was provided by net income of $12.6 million adjusted for the impact of impairment charges of $1.5 million and non-cash items of $(1.0) million, which consist of deferred income, the deferred income tax provision, gain on disposal of real estate and property and equipment, income from ethanol investments, and depreciation and amortization. Cash was provided by a decrease in inventory of $15.7 million, primarily due to our exit of the retail business. Additionally, cash was provided by a decrease in other assets of $1.9 million, primarily a result of prepaid commissions related to extended service contracts decreasing, reflecting our lower sales of this service. Accounts payable decreased $8.5 million, primarily a result of our exit of the retail business. Income taxes refundable increased $4.9 million as a result of an income tax loss carryback created during fiscal year 2009. Other liabilities decreased $2.1 million, as accruals for costs associated with our exit of the retail business were paid in fiscal year 2009. Accounts receivable increased $4.9 million; this was primarily a result of One Earth commencing production operations in fiscal year 2008.

Net cash provided by operating activities was $2.9 million for fiscal year 2008 compared to $14.8 million in fiscal year 2007. For fiscal year 2008, operating cash flow was used by a net loss of $6.5 million adjusted for the impact of impairment charges of $2.0 million, and a $3.4 million unrealized loss on

derivative financial instruments, $1.1 million of stock based compensation expense and non-cash items of $5.4 million, which consist of deferred income, the deferred income tax provision, gain on disposal of real estate and property and equipment, income from ethanol investments, and depreciation and amortization. Cash was provided by a decrease in inventory of $25.6 million, primarily due to store closings during fiscal year 2008 and our planned exit of the retail business. Additionally, cash was provided by a decrease in other assets of $2.5 million, primarily a result of prepaid commissions related to extended service contracts decreasing, reflecting our lower sales of this service. Accounts payable decreased $8.6 million, primarily a result of lower levels of inventory and our planned exit of the retail business. Other liabilities decreased $3.7 million, as accruals for variable incentive compensation decreased $2.2 million, a result of the decline in profitability. Income taxes refundable increased $5.4 million as a result of a loss carryback created during fiscal year 2008. Accounts receivable increased $2.3 million; this was primarily a result of Levelland Hockley commencing production operations in fiscal year 2008.

Investing Activities – Net cash used in investing activities was $30.7 million for fiscal year 2009. Capital expenditures in fiscal year 2009 totaled $35.7 million, the majority of which was for the construction of One Earth’s ethanol plant. Cash of $4.8 million was provided by proceeds from the sale of real estate and property and equipment.

Net cash used in investing activities was $91.6 million for fiscal year 2008. Capital expenditures in fiscal year 2008 totaled $101.3 million, all of which was for the construction of ethanol plants. Cash of $1.3 million was provided by proceeds from the sale of our partnership interests in synthetic fuel and $9.2 million was provided by proceeds from the sale of real estate and property and equipment. We purchased a promissory note from Patriot for $0.9 million.

Financing Activities – Cash provided by financing activities was $28.2 million for fiscal year 2009. During fiscal year 2009, we borrowed $49.0 million in long term debt. One Earth accounted for all of the borrowing as One Earth used loan proceeds to complete construction of its ethanol plant. Repayments of debt totaled $20.4 million during fiscal year 2009. Stock option exercises in fiscal year 2009 generated cash of $6.0 million. During fiscal year 2009, we purchased approximately 0.6 million shares of our common stock for $6.5 million in open market transactions.

Cash provided by financing activities was $52.9 million for fiscal year 2008. During fiscal year 2008, we borrowed $75.9 million in long term debt. Levelland Hockley and One Earth accounted for $19.9 million and $56.0 million, respectively, of the borrowing as they used loan proceeds to construct their ethanol plants. Repayments of debt totaled $6.7 million during fiscal year 2008. Stock option exercises in fiscal year 2008 generated cash of $1.5 million. During fiscal year 2008, we purchased approximately 1.6 million shares of our common stock for $17.7 million in open market transactions.

At January 31, 2010, we had a remaining authorization from our Board of Directors to purchase 482,701 shares of our common stock. All acquired shares will be held in treasury for possible future use.

At January 31, 2010, we had approximately $138.1 million of debt outstanding at a weighted average interest rate of 3.70%, with maturities from August 2011 to November 2015. During fiscal year 2009, we paid off $20.4 million of long-term mortgage debt from scheduled repayments and early payoffs. During fiscal year 2008, we paid off $6.7 million of long-term mortgage debt from scheduled repayments and early payoffs.

Levelland Hockley Subsidiary Level Debt

On September 27, 2006, Levelland Hockley entered into a construction and term loan agreement with Merrill Lynch Capital, now GE Business Financial Services, Inc. (“GE”), for a principal sum of up to

$43.7 million (including accrued interest). During the second quarter of fiscal year 2008, pursuant to the terms of the construction loan agreement, Levelland Hockley converted the construction loan into a permanent term loan. Beginning with the first monthly payment date on June 30, 2008, payments are 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 is required on the maturity date (June 30, 2013) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at a floating rate of 400 basis points above LIBOR (4.25%) at January 31, 2010. Borrowings are secured by all assets of Levelland Hockley. This debt is recourse only to Levelland Hockley and not to REX Stores Corporation or any of its other subsidiaries.

As of January 31, 2010, approximately $37.2 million was outstanding on the term loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDAR, debt service coverage ratio requirements, net worth requirements and other common covenants. Levelland Hockley was in compliance with all covenants at January 31, 2010.

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 over the loan term. At January 31, 2010, the Company's proportionate share of restricted assets related to Levelland Hockley was approximately $13.2 million; Levelland Hockley's restricted assets total approximately $23.6 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of Levelland Hockley per the terms of the loan agreement with GE.

One Earth Subsidiary Level Debt

In September 2007, One Earth 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 construction loan was converted into a term loan on July 31, 2009 as all of the requirements, for such conversion, of the construction and term loan agreement were fulfilled. The term loan bears interest at variable interest rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points (3.3% to 3.4% at January 31, 2010). Beginning with the first quarterly payment on October 8, 2009, payments are due in 20 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (July 31, 2014) for the remaining unpaid principal balance with accrued interest. This debt is recourse only to One Earth and not to REX Stores Corporation or any of its other subsidiaries.

Borrowings are secured by all property of One Earth. As of January 31, 2010, approximately $98.0 million was outstanding on the 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, 2010. One Earth has paid approximately $1,364,000 in financing costs. These costs are recorded as prepaid loan fees and will be amortized over the loan term. At January 31, 2010, our proportionate share of restricted assets related to One Earth was approximately $47.9 million. One Earth's restricted assets total approximately $65.0 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with First National Bank of Omaha.

One Earth has no outstanding borrowings on the $10,000,000 revolving loan as of January 31, 2010.

On a consolidated basis, approximately 24.8% of our net assets are restricted as of January 31, 2010.

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 and interest rate management.

The following table summarizes by category expected future cash outflows associated with contractual obligations in effect as of January 31, 2010 (amounts in thousands):

	Payment due by period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Lease obligations (a)	$ 2,579	$ 924	$ 1,262	$ 393	$ —
Long-term debt obligations	138,120	12,831	29,881	95,033	375
Interest on variable rate debt (b)	18,050	5,214	8,770	4,066	—
Interest on fixed rate debt	621	183	279	144	15
Other (c)	255	255	—	—	—
Total (d)	$ 159,625	$ 19,407	$ 40,192	$ 99,636	$ 390

(a) Amounts include minimum rentals of $0.5 million related to a warehouse location we no longer operate. We recognized expense related to the minimum rentals in fiscal years 2008 and 2009. We expect to pay these minimum rentals during fiscal years 2010 and 2011.

(b) The interest rates effective as of January 31, 2010 for variable rate loans were used to calculate future payments of interest on variable rate debt.

(c) Amounts represent construction and related commitments of One Earth for construction of its ethanol producing plant.

(d) We are not able to determine the likely settlement period for uncertain tax positions, accordingly $2,338,000 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, if any, for interest rate swaps, accordingly $5,884,000 of liabilities for derivative financial instruments have been excluded from the table above. We are not able to determine the likely settlement period, if any, for forward grain purchase contracts totalling 5,762,000 bushels of grain, accordingly the amounts associated with these contracts have been excluded from the table above.

Seasonality and Quarterly Fluctuations

The impact of seasonal and quarterly fluctuations has not been material to our results of operations for the past three fiscal years.

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 from the production of ethanol and distillers grains when title transfers to customers, generally upon shipment from our plant. Shipping and handling charges to ethanol customers are included in net sales and revenue.

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.

We sold retail 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. We retain the obligation to perform warranty service and such costs are charged to operations as incurred. All related revenue and expense is classified in discontinued operations.

We recognized income from synthetic fuel partnership sales as the synthetic fuel was 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. See Note 5 of the Notes to the Consolidated Financial Statements for a further discussion of synthetic fuel partnership sales.

Investments **–** 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 ASC 810 "Consolidation" 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 6 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 for which 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 ASC 320, "*Investments-Debt and Equity Securities*". Under ASC 320, 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 the accompanying Consolidated Statements of Operations for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

Vendor Allowances – Vendors often funded, up front, certain advertising costs and exposure to general changes in pricing to customers due to technological change. Allowances were deferred as received from vendors and recognized into income as an offset to the cost of merchandise sold when the related product was sold. All such allowances were used in the wind down of the Company's retail business during fiscal year 2009. Advertising costs were expensed as incurred.

Inventory Reserves – Inventory is recorded at the lower of cost or market, net of reserves established for estimated net realizable value. The market value of inventory is often dependent upon fluctuating commodity prices. 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, which is treated as a permanent write down of inventory, for inventory items that have a cost greater than net realizable value. The inventory reserve was approximately $0.6 million and $3.3 million at January 31, 2010 and January 31, 2009, 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 other than we no longer provide a reserve for obsolete retail inventory as this inventory was liquidated during fiscal year 2009. The assumptions we currently use include our estimates of the selling prices of ethanol and distillers grains.

Financial Instruments – Forward grain purchase and ethanol sale contracts are accounted for under the "normal purchases and normal sales" scope exemption of ASC 815, "*Derivatives and Hedging*" 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 of 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 ASC 815. 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 Consolidated Statements of Operations.

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. 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. We determined that it is more likely than not that we will be able to generate sufficient taxable income in future years to allow for the full utilization of the AMT credit carryforward and other deferred tax assets

other than those reserved. In determining the need for a valuation allowance, we have assumed that our ethanol plants and real estate assets will begin generating taxable income by fiscal year 2011. We are projecting that the operations of One Earth that began in fiscal year 2009 will also be profitable and that in future years, Levelland Hockley will show improved financial results over the current year. We are assuming that we will be relatively successful in our real estate marketing efforts. In addition, we have considered the fact that our AMT credit carryforward has an indefinite life. In general, we have used approximately $16.0 million as the assumed average of future years' pre-tax income. We believe our assumed target level of earnings is reasonable based upon expectations of real estate rental income and ethanol plant operating income. In addition, we considered other positive factors in our assessment. Although during fiscal years 2008 and 2009 we realized a taxable loss, historically, we have generated cumulative profitability over the past several years and expect to begin producing taxable income by fiscal year 2011 through our ethanol and real estate operations. In addition, we have significant financial resources to deploy in future income producing activities.

The valuation allowance was approximately $0.6 million at both January 31, 2010 and January 31, 2009. 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 income from our ethanol plants, leasing income and gains on real estate sales. Factors that could negatively affect future taxable income include adverse changes in the commercial real estate market and the ethanol crush spread. 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 ASC 740-10-25-5 on February 1, 2007. As a result of the adoption of this accounting standard, we recorded a $0.3 million decrease to retained earnings. As of January 31, 2010, total unrecognized tax benefits were $2.2 million, and accrued penalties and interest were $0.1 million. If we were to prevail on all unrecognized tax benefits recorded, approximately $0.1 million 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 fair value of the asset is 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. In addition, changes in expected future cash flows from our ethanol plants could result in additional impairment charges. Any adverse change in the spread between ethanol and grain prices could result in additional impairment charges.

Costs Associated with Exit Activities and Restructuring Costs – Restructuring charges include severance and associated employee termination costs, lease termination fees and other costs associated with the exit of our retail business. We record severance and associated employee termination costs pursuant to ASC 712, ASC 715 and ASC 420. ASC 420 requires that lease termination fees, net of expected sublease rental income, be recorded once the leased facility is no longer actively used in a revenue producing manner. Future changes to our estimates of employee layoffs or leased stores abandoned are unlikely to have a material impact on our restructuring accrual.

At January 31, 2010, we have an accrual of approximately $0.7 million for severance and other costs related to restructuring.

New Accounting Pronouncements

On September 15, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification") became the single source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but did not change or alter existing U.S. GAAP. The Codification became effective for us in the third quarter of fiscal year 2009.

During December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries. This guidance establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. We adopted the provisions of this guidance as of the beginning of its 2009 fiscal year. This guidance is to be applied prospectively as of the beginning of 2009 except for the presentation and disclosure requirements which are to be applied retrospectively. The consolidated financial statements conform to the presentation required under this guidance. Other than the change in presentation of noncontrolling interests, the adoption had no impact on our results of operations or financial position.

In April 2009, the FASB issued new accounting standards that require disclosures about the fair value of financial instruments in financial statements for interim and annual reporting periods of publicly traded companies. These accounting standards are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of these accounting standards did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued a new accounting standard which clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or are available to be issued. This accounting standard is effective for interim and annual periods ending after June 15, 2009. We adopted this accounting standard in the second quarter of fiscal year 2009. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures" ("ASU 2010-06"), which adds new disclosure requirements for transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. This ASU also clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. The ASU is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity on a gross basis, which is effective for the fiscal year ends beginning after December 15, 2010 and interim periods within those years. We do not expect this statement to have a material impact on our consolidated financial statements.

There were no other new accounting standards issued during fiscal year 2009 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, 2010, we had financial instruments which were sensitive to changes in interest rates. These financial instruments consist of ethanol related term loans, various mortgage notes payable secured by certain land, buildings and leasehold improvements and interest rate swaps.

Approximately $2.3 million of our debt consists of fixed rate debt. The interest rate on all fixed rate debt is 8.4%. The remaining $135.8 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 $1.4 million for the variable rate debt. Principal and interest are payable over terms which generally range from 5 to 10 years. The fair value of our long-term debt at January 31, 2010 was approximately $138.4 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 81% of our indebtedness was based on fixed interest rates at January 31, 2010. Including the impact of the interest rate swap agreements, after April 30, 2010, approximately 55% of our indebtedness will be based on fixed interest rates as Levelland Hockley's interest rate swap expires on April 30, 2010.

We manage 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 2,261,000 bushels of sorghum, the principal raw material for its ethanol plant. Levelland Hockley expects to take delivery of the sorghum by March 2010. Levelland Hockley has forward sales commitments for 4.2 million gallons of ethanol and 112,000 tons of distiller grains. Levelland Hockley expects to deliver the ethanol and distillers grains by March 2010. One Earth has forward purchase contracts for 3,501,000 bushels of corn, the principal raw material for its ethanol plant. One Earth expects to take delivery of the corn through March 2010. One Earth has sales commitments for 10.3 million gallons of ethanol and 25,200 tons of distiller grains. One Earth expects to deliver the ethanol and distiller grains through March 2010. Approximately 8% of our forecasted ethanol production during the next 12 months has been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of ethanol from the current pricing would result in a decrease in annual revenues of $24.9 million for the remaining 92% of forecasted ethanol production. Similarly, approximately 9% of our estimated corn/sorghum usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn/sorghum from current pricing would result in an increase in annual cost of goods of approximately $16.6 million for the remaining 91% of forecasted corn/sorghum usage.

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 commenced on April 30, 2008 and terminate on April 30, 2010. At January 31, 2010, we recorded a liability of $0.3 million, related to the fair value of the swap. The change in fair value was recorded as losses on derivative financial instruments in the accompanying Consolidated Statements of Operations.

One Earth entered into two forward interest rate swaps in the notional amounts of $50.0 million and $25.0 million with the First National Bank of Omaha during fiscal years 2008 and 2007. The $50.0 million swap fixed a portion of the variable interest rate of the term loan, subsequent to the plant completion date, at 7.9% while the $25.0 million swap fixed the rate at 5.49%. The swap settlements commence as of July 31, 2009; the $50.0 million swap terminates on July 8, 2014 and the $25.0 million swap terminates on

July 31, 2011. At January 31, 2010, we recorded a liability of $5.6 million related to the fair value of the swaps. The changes in fair value were recorded as losses on derivative financial instruments in the accompanying Consolidated Statements of Operations.

A hypothetical 10% change (for example, from 4.0% to 3.6%) in market interest rates at January 31, 2010 would change the fair value of the interest rate swap contracts by approximately $0.6 million.

Item 8. **Financial Statements and Supplementary Data**

REX STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	January 31,	
ASSETS	**2010**	**2009**
CURRENT ASSETS:		
Cash and cash equivalents	$ 100,398	$ 91,991
Accounts receivable-net	9,123	4,197
Inventory- net	8,698	24,374
Refundable income taxes	12,813	7,790
Prepaid expenses and other	2,691	1,063
Deferred taxes-net	6,375	13,230
Total current assets	140,098	142,645
Property and equipment-net	246,874	235,454
Other assets	8,880	12,414
Deferred taxes-net	8,468	18,697
Equity method investments	44,071	38,861
Investments in debt instruments	1,014	933
Restricted investments	2,100	2,284
TOTAL ASSETS	$ 451,505	$ 451,288

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
(Amounts in Thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	January 31, 2010	January 31, 2009
CURRENT LIABILITIES:		
Current portion of long term debt and capital lease obligations – alternative energy	$ 12,935	$ 5,898
Current portion of long term debt – other	371	1,576
Accounts payable –trade	6,976	24,917
Deferred income	7,818	11,952
Accrued restructuring charges	511	4,171
Deferred gain on sale and leaseback	—	1,558
Accrued real estate taxes	2,968	1,002
Derivative financial instruments	1,829	1,996
Other current liabilities	5,442	5,199
Total current liabilities	38,850	58,269
LONG TERM LIABILITIES:		
Long term debt and capital lease obligations – alternative energy	124,093	94,003
Long term debt – other	2,596	9,936
Deferred income	6,396	13,796
Deferred gain on sale and leaseback	—	3,467
Derivative financial instruments	4,055	4,032
Other	419	4,152
Total long term liabilities	137,559	129,386
COMMITMENTS AND CONTINGENCIES EQUITY:		
REX shareholders' equity:		
Common stock, 45,000 shares authorized, 29,853 and 29,853 shares issued at par	299	299
Paid in capital	141,698	142,486
Retained earnings	290,984	282,332
Treasury stock, 20,045 and 20,471 shares	(186,407)	(186,057)
Accumulated other comprehensive income, net of tax	49	—
Total REX shareholders' equity	246,623	239,060
Noncontrolling interests	28,473	24,573
Total equity	275,096	263,633
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 451,505	$ 451,288

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

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

	Years Ended January 31,		
	2010	2009	2008
Net sales and revenue	$ 170,264	$ 68,638	$ 382
Cost of sales	150,531	67,433	18
Gross profit	19,733	1,205	364
Selling, general and administrative expenses	(6,025)	(6,640)	(4,955)
Interest income	445	2,044	5,714
Interest expense	(4,741)	(3,174)	(604)
Loss on early termination of debt	(89)	—	(423)
Equity in income of unconsolidated ethanol affiliates	6,027	849	1,601
Realized investment gains	—	—	23,951
Income from synthetic fuel investments	—	691	6,945
Other income	748	—	—
Losses on derivative financial instruments	(2,487)	(3,797)	(2,601)
Income (loss) from continuing operations before income taxes and noncontrolling interests	13,611	(8,822)	29,992
(Provision) benefit for income taxes	(4,553)	2,747	(11,245)
Income (loss) from continuing operations including noncontrolling interests	9,058	(6,075)	18,747
Income (loss) from discontinued operations, net of tax	2,120	(2,176)	3,809
Gain on disposal of discontinued operations, net of tax	1,374	1,798	10,470
Net income (loss) including noncontrolling interests	12,552	(6,453)	33,026
Net (income) loss attributable to noncontrolling interests	(3,900)	3,156	841
Net income (loss) attributable to REX common shareholders	$ 8,652	$ (3,297)	$ 33,867
Weighted average shares outstanding – basic	9,254	10,170	10,420
Basic income (loss) per share from continuing operations attributable to REX common shareholders	$ 0.55	$ (0.29)	$ 1.88
Basic income (loss) per share from discontinued operations attributable to REX common shareholders	0.23	(0.21)	0.37
Basic income per share on disposal of discontinued operations attributable to REX	0.15	0.18	1.00
Basic net income (loss) per share attributable to REX common shareholders	$ 0.93	$ (0.32)	$ 3.25
Weighted average shares outstanding – diluted	9,551	10,170	11,721
Diluted income (loss) per share from continuing operations attributable to REX common shareholders	$ 0.54	$ (0.29)	$ 1.67
Diluted income (loss) per share from discontinued operations attributable to REX common shareholders	0.22	(0.21)	0.33
Diluted gain per share on disposal of discontinued operations attributable to REX common shareholders	0.15	0.18	0.89
Diluted net income (loss) per share attributable to REX common shareholders	$ 0.91	$ (0.32)	$ 2.89
Amounts attributable to REX common shareholders:			
Income (loss) from continuing operations, net of tax	$ 5,158	$ (2,919)	$ 19,588
Income (loss) from discontinued operations, net of tax	3,494	(378)	14,279
Net income (loss)	$ 8,652	$ (3,297)	$ 33,867

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended January 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) including noncontrolling interests	$ 12,552	$ (6,453)	$ 33,026
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,603	5,061	2,428
Stock based compensation expense	234	1,143	1,413
Impairment charges	1,533	1,961	158
Income from equity method investments	(6,027)	(849)	(1,601)
Dividends received from equity method investments	702	900	525
Income from synthetic fuel investments	—	(691)	(6,945)
(Gains) losses on derivative financial instruments	(144)	3,427	2,601
Gain on sale of investments	—	—	(23,951)
Gain on disposal of real estate and property and equipment	(2,003)	(3,410)	(16,584)
Deferred income	(16,559)	(6,776)	(4,819)
Excess tax benefits from stock option exercises	—	(12)	(69)
Deferred income tax	12,958	601	2,909
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(4,926)	(2,320)	126
Inventory	15,676	25,559	20,145
Prepaid expenses and other current assets	(1,628)	(93)	(859)
Income taxes refundable	(4,924)	(5,390)	—
Other long term assets	3,534	2,481	5,195
Accounts payable-trade	(8,457)	(8,560)	(3,041)
Other liabilities	(2,146)	(3,656)	4,172
Net cash provided by operating activities	10,978	2,923	14,829
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(35,652)	(101,271)	(68,754)
Proceeds from sale of synthetic fuel investments	—	1,264	15,210
Purchase of investments	(25)	(933)	(10,000)
Proceeds of note receivable and sale of investments	—	—	39,541
Acquisition, net of cash acquired	—	—	8,703
Proceeds from sale of real estate and property and equipment	4,756	9,172	94,775
Restricted investments	184	197	(75)
Net cash (used in) provided by investing activities	(30,737)	(91,571)	79,400
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long term debt	48,958	75,890	25,424
Payments of long term debt	(20,376)	(6,724)	(26,023)
Stock options exercised	6,038	1,453	5,596
Excess tax benefits from stock option exercises	—	12	69
Treasury stock acquired	(6,454)	(17,708)	(14,587)
Net cash provided by (used in) financing activities	28,166	52,923	(9,521)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,407	(35,725)	84,708
CASH AND CASH EQUIVALENTS-Beginning of year	91,991	127,716	43,008
CASH AND CASH EQUIVALENTS-End of year	$ 100,398	$ 91,991	$ 127,716
Non cash activities–Accrued capital expenditures	$ 265	$ 6,474	$ 8,100
Non cash activities–Assets acquired by capital leases	$ —	$ 2,922	$ —
Non cash activities–Payable related to plant construction refinanced to long term debt	$ 9,749	$ —	$ —

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED JANUARY 31, 2010, 2009 AND 2008 (Amounts in Thousands)

	REX Shareholders								
	Common Shares Issued		Treasury						
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
			(In Thousands)						
Balance at January 31, 2007, as reported	29,513	$ 295	19,089	$ (161,092)	$ 139,337	$ 252,249	$ —	$ —	$ 230,789
Effects of adoption of new accounting standard for noncontrolling interests	—	—	—	—	—	—	—	11,443	11,443
Balance at January 31, 2007, as adjusted	29,513	295	19,089	(161,092)	139,337	252,249	—	11,443	242,232
Net income						33,867		(841)	33,026
Effects of adoption of new accounting standard for income taxes						(287)			(287)
Treasury stock acquired			971	(18,045)					(18,045)
Stock based compensation					1,413				1,413
Stock options and related tax effects	300	3	(966)	8,444	607				9,054
Noncontrolling interests distribution						(200)		295	95
Acquisition of One Earth								16,832	16,832
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	$ —	$ 27,729	$ 284,320

See notes to consolidated financial statements.

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2010, 2009 AND 2008
(Amounts in Thousands)

	REX Shareholders								
	Common Shares Issued		Treasury						
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
	(In Thousands)								
Balance at January 31, 2008	29,813	$ 298	19,094	$ (170,693)	$ 141,357	$ 285,629	$ —	$ 27,729	$ 284,320
Net loss						(3,297)		(3,156)	(6,453)
Treasury stock acquired			1,636	(17,708)					(17,708)
Stock based compensation					1,143				1,143
Stock options and related tax effects	40	1	(259)	2,344	(14)	—	—	—	2,331
Balance at January 31, 2009	29,853	299	20,471	(186,057)	142,486	282,332	—	24,573	263,633
Net income						8,652		3,900	12,552
Treasury stock acquired			1,257	(15,694)					(15,694)
Stock based compensation					234				234
Stock options and related tax effects			(1,683)	15,344	(1,022)				14,322
Unrealized holding gains, net of tax	—	—	—	—	—	—	49	—	49
Balance at January 31, 2010	29,853	$ 299	20,045	$ (186,407)	$ 141,698	$ 290,984	$ 49	$ 28,473	$ 275,096

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, 2010, the Company maintains ownership interests in four ethanol entities and manages a portfolio of real estate located in 19 states. The Company operates in two reportable segments, alternative energy and real estate. The Company completed the exit of its retail business during fiscal year 2009 although it will continue to recognize, in discontinued operations, revenue and expense associated with administering extended service policies.

***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 2009" means the period February 1, 2009 to January 31, 2010.

***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 approximates fair value.

***Concentrations of Risk* –** The Company maintains cash and cash equivalents in accounts with financial institutions which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company does not believe there is significant credit risk on its cash and cash equivalents. During fiscal years 2009 and 2008, two customers accounted for approximately 64% and 87%, respectively of the Company's net sales and revenue. At January 31, 2010, these customers represented approximately 41% of the Company's accounts receivable balance.

***Inventory* –** Inventories are carried at the lower of cost or market on a first-in, first-out ("FIFO") basis. Alternative energy segment inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related by products. Reserves are established for estimated net realizable value based primarily upon commodity prices. The market value of inventory is often dependent upon changes in commodity prices. These reserves totaled $591,000 and $3,297,000 at January 31, 2010 and 2009, respectively.

The components of inventory at January 31, 2010, and January 31, 2009 are as follows (amounts in thousands):

	2010	2009
Retail merchandise, net	$ 190	$ 22,318
Ethanol and other finished goods, net	1,784	487
Work in process, net	1,577	341
Grain and other raw materials	5,147	1,228
Total	$ 8,698	$ 24,374

Property and Equipment **–** Property and equipment is recorded at cost. Assets under capital leases are capitalized at the lower of the net present value of minimum lease payments or the fair market value of the leased asset. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment. The components of property and equipment at January 31, 2010 and 2009 are as follows (amounts in thousands):

	2010	2009
Land and improvements	$ 26,405	$ 24,073
Buildings and improvements	59,024	40,987
Machinery, equipment and fixtures	187,526	70,408
Leasehold improvements	569	3,396
Construction in progress	127	121,333
	273,651	260,197
Less: accumulated depreciation	(26,777)	(24,743)
	$ 246,874	$ 235,454

In accordance with ASC 360-05 “*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 operations of $1,533,000 in fiscal year 2009. The Company recorded an impairment charge classified as discontinued operation of $639,000 and $158,000 in the fiscal years ended January 31, 2008 and 2007, respectively. The impairment charges in fiscal year 2009 relate to individual properties in the Company’s real estate segment. The impairment charges in fiscal years 2008 and 2007 all relate to individual stores in the Company’s former 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 and represent management’s estimate of the excess of net book value over fair value. Fair value is estimated using expected future cash flows on a discounted basis or appraisals of specific properties as appropriate. 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 an ethanol plant or deterioration in local real estate market conditions are indicators of possible impairment.

Investments – Restricted investments, which are principally money market mutual funds and cash deposits, are stated at cost plus accrued interest, which approximates market. Restricted investments at January 31, 2010 and 2009 are required by two states to cover possible future claims under extended service policies. In accordance with ASC 320, "*Investments-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, 2010 and 2009. The Company has the intent and ability to hold these securities to maturity.

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, with a one month lag. See Note 6 for a further discussion of the acquisitions of Levelland Hockley and One Earth. The Company accounts for investments in LLCs in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323 "*Investments-Equity Method and Joint Ventures*" are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method with a one month lag. 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 ASC 320, "*Investments-Debt and Equity Securities*". Under ASC 320, 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 the Consolidated Statements of Operations and a new cost basis in the investment is established.

Revenue Recognition – The Company recognizes sales from the production of ethanol and distillers grains when title transfers to customers, generally upon shipment from the ethanol plant. Shipping and handling charges to ethanol customers are included in net sales and revenue.

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.

The Company sold, prior to its exit of the retail business, extended service policies 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. The Company retains the obligation to perform warranty service and such costs are charged to operations as incurred. All related revenue and expense is classified as discontinued operations.

The Company recognized income from synthetic fuel partnership sales as production was completed and collectability of receipts was reasonably assured. The Company was paid for actual tax credits earned as the synthetic fuel was produced with the exception of production at the Pine Mountain (Gillette) facility. See Note 5 for a further discussion of synthetic fuel partnership sales.

***Costs of Sales* –** Ethanol cost of sales includes depreciation, costs of raw materials, inbound freight charges, purchasing and receiving costs, inspection costs, shipping costs, other distribution expenses, warehousing costs, plant management, certain compensation costs, and general facility overhead charges.

Real estate cost of sales includes depreciation, real estate taxes, insurance, repairs and maintenance and other costs directly associated with operating the Company's portfolio of real property.

***Vendor Allowances and Advertising Costs* –** Vendors often funded, up front, certain advertising costs and exposure to general changes in pricing to customers due to technological change. Allowances were deferred as received from vendors and recognized into income as an offset to the cost of merchandise sold when the related product was sold or expense incurred. All such allowances were used in the wind down of the Company's retail business during fiscal year 2009. Advertising costs were expensed as incurred.

***Selling, General and Administrative Expenses* –** The Company includes non-production related costs from its alternative energy segment such as utilities, property taxes, professional fees and certain payroll in selling, general and administrative expenses.

The Company includes costs not directly related to operating its portfolio of real property from its real estate segment such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

***Interest Cost* –** Interest expense of approximately $4,741,000, $3,174,000 and $604,000 for fiscal years 2009, 2008 and 2007, respectively, is net of approximately $1,651,000, $3,167,000 and $1,565,000 of interest capitalized related to equity investments, store improvements, ethanol plant or warehouse construction. Cash paid for interest in fiscal years 2009, 2008 and 2007 was approximately $2,886,000, $2,592,000 and $2,017,000, respectively.

***Deferred Financing Costs* –** Direct expenses and fees associated with obtaining 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 and distillers grain sale contracts are accounted for under the "normal purchases and normal sales" scope exemption of ASC 815, "*Derivatives and Hedging*" because these arrangements are for purchases of grain that will be delivered in quantities expected to be used and sales of ethanol quantities expected to be produced 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 ASC 815. 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 operations. The Company paid settlements of interest rate swaps of approximately $2,510,000, $369,000 and $0 in fiscal years 2009, 2008 and 2007, respectively.

Restructuring Costs – Restructuring charges include severance and associated employee termination costs, lease termination fees and other costs associated with the exit of the Company's retail business. The Company records severance and associated employee termination costs pursuant to ASC 712, ASC 715 and ASC 420. ASC 420 requires that lease termination fees, net of expected sublease rental income, be recorded once the leased facility is no longer actively used in a revenue producing manner. Future changes to the Company's estimates of employee layoffs or leased stores abandoned are unlikely to have a material impact on the Company's restructuring accrual.

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. The Company adopted ASC 718 "*Compensation-Stock Compensation*", on February 1, 2006. The Company chose the Modified Prospective Application ("MPA") method for implementing this accounting standard. 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 to its adoption of this accounting standard, the Company accounted for stock-based compensation in compliance with APB 25, under which no compensation cost was recognized. ASC 718 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 ASC 718. 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 ASC 718 or a simplified alternative method described in the staff position. The Company chose to utilize the transition method prescribed by ASC 718, which requires the calculation of the APIC pool as if the Company had adopted ASC 718 for fiscal years beginning after December 15, 1994.

No options were granted in the fiscal years ended January 31, 2010, January 31, 2009 or January 31, 2008. The following table summarizes options granted, exercised and canceled or expired during

the fiscal year ended January 31, 2010:

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding—Beginning of year	2,715	$ 9.63		
Granted	—	—		
Exercised	(1,683)	8.87		
Canceled or expired	(208)	13.75		
Outstanding and exercisable—End of year	824	$ 10.14	2.0	$ 4,097

The total intrinsic value of options exercised in the fiscal years ended January 31, 2010, 2009 and 2008, was approximately $7.2 million, $2.2 million and $14.6 million, respectively, resulting in tax deductions to realize benefits of approximately $0.5 million, $0.9 million and $2.1 million, respectively. At January 31, 2010, there was no unrecognized compensation cost related to nonvested stock options. See Note 13 for a further discussion of stock options.

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.

Discontinued Operations – The Company classifies sold real estate assets and operations from its former retail segment in discontinued operations when the operations and cash flows of the store or real estate assets 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 or real estate assets 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. For purposes of reporting the operations of stores or real estate assets 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 or real estate assets as discontinued operations. For stores and warehouses closed for which the Company has a retained interest in the related real estate, operations are presented in the real estate segment when retail operations cease. 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 were not specific to components' operations.

New Accounting Pronouncements – On September 15, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification") became the single source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but did not change or alter existing

U.S. GAAP. The Codification became effective for the Company in the third quarter of fiscal year 2009.

During December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries. This guidance establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted the provisions of this guidance as of the beginning of its 2009 fiscal year. This guidance is to be applied prospectively as of the beginning of 2009 except for the presentation and disclosure requirements which are to be applied retrospectively. The consolidated financial statements conform to the presentation required under this guidance. Other than the change in presentation of noncontrolling interests, the adoption had no impact on the Company's consolidated financial statements.

In April 2009, the FASB issued new accounting standards that require disclosures about the fair value of financial instruments in financial statements for interim and annual reporting periods of publicly traded companies. These accounting standards are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of these accounting standards did not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued a new accounting standard which clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or are available to be issued. This accounting standard is effective for interim and annual periods ending after June 15, 2009. The Company adopted this accounting standard in the second quarter of fiscal year 2009. The adoption of this accounting standard did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures" ("ASU 2010-06"), which adds new disclosure requirements for transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. This ASU also clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. The ASU is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity on a gross basis, which is effective for the fiscal year ends beginning after December 15, 2010 and interim periods within those years. The Company does not expect this statement to have a material impact on its consolidated financial statements.

There were no other new accounting standards issued during fiscal year 2009 that had or are expected to have a material impact on the Company's consolidated financial statements.

2. QUARTERLY UNAUDITED INFORMATION

The following tables set forth the Company's net sales and revenue, gross profit (loss), net income (loss) and net income (loss) per share (basic and diluted) for each quarter during the last two fiscal years. The unaudited financial information has been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2009	July 31, 2009	October 31, 2009	January 31, 2010
Net sales and revenue (a)	$ 14,248	$ 17,145	$ 61,697	$ 77,174
Gross profit (a)	275	912	5,661	12,885
Net (loss) income	(1,731)	837	2,273	7,273
Basic net (loss) income per share attributable to REX common shareholders (b)	$ (0.19)	$ 0.09	$ 0.25	$ 0.78
Diluted net (loss) income per share attributable to REX common shareholders (b)	$ (0.19)	$ 0.09	$ 0.24	$ 0.75

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2008	July 31, 2008	October 31, 2008	January 31, 2009
Net sales and revenue (a)	$ 1,262	$ 24,971	$ 22,539	$ 19,866
Gross profit (loss) (a)	151	740	(2,357)	2,671
Net income (loss)	1,526	1,206	(650)	(5,379)
Basic net income (loss) per share attributable to REX common shareholders (b)	$ 0.14	$ 0.11	$ (0.07)	$ (0.57)
Diluted net income (loss) per share attributable to REX common shareholders (b)	$ 0.13	$ 0.11	$ (0.07)	$ (0.57)

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a) Amounts differ from those previously reported as a result of retail operations and certain real estate assets sold being reclassified as discontinued operations.

b) The total of the quarterly net income (loss) per share amounts do not equal the annual net loss or income per share amount due to the impact of varying amounts of shares and options outstanding during the year.

During the fourth quarter of fiscal year 2009, the Company identified an error in its classification of certain closed retail stores in continuing operations as of January 31, 2009 and for the interim periods subsequent to January 31, 2009 and for the classification of its extended warranty operations in continuing operations for interim periods subsequent to April 30, 2009. Management has evaluated the affects of the error on the consolidated financial statements for the years ended January 31, 2009 and 2008 and concluded the error was not material. The errors had no impact on the Company’s Consolidated Balance Sheet or the Consolidated Statements of Cash Flows for the years ended January 31, 2009, 2008 or 2007. The Company corrected the presentation for the years ended January 31, 2009 and 2008 in the accompanying Consolidated Statements of Operations. The errors had no impact on net income or loss on the Company’s Consolidated Statements of Operations; however it did impact the presentation of income or loss from continuing and discontinued operations by amounts not exceeding $30,000.

Because of the significance of the error correction to interim periods, the Company has summarized the effect of the restatement on the Consolidated Condensed Statements of Operations for the three-month periods ended April 30, 2009, July 31, 2009 and October 31, 2009, and the effect of the retrospective application of applying ASC 205-20 “Discontinued Operations” to financial statements previously issued. The impact of the correction of the error specific to income (loss) from continuing operations for the three-month periods ended April 30, 2009, July 31, 2009 and October 31, 2009 was $832,000, ($1,435,000) and ($556,000), respectively. The following reconciles certain

amounts reported in the Consolidated Condensed Statements of Operations previously reported to the reclassified and corrected amounts reported currently:

Three Months Ended April 30, 2009	As Reported	Reclassified for Operations Discontinued in Subsequent Periods and Correction of Error	As Restated
Net sales and revenue	$ 29,734	$ (15,486)	$ 14,248
Cost of sales	25,015	(11,042)	13,973
Gross profit	4,719	(4,444)	275
Selling, general and administrative expenses	5,749	(4,738)	1,011
Interest expense	878	(65)	813
(Loss) income from continuing operations including noncontrolling interests	(1,951)	312	(1,639)
(Loss) income from discontinued operations, net of tax	(402)	(184)	(586)
Loss on sale of discontinued operations, net of tax	—	(128)	(128)
Net loss attributable to REX common shareholders	(1,731)	—	(1,731)
Basic and diluted (loss) earnings per share from continuing operations attributable to REX common shareholders	$ (0.14)	$ 0.03	$ (0.11)
Basic and diluted loss per share from discontinued operations attributable to REX common shareholders	$ (0.05)	$ (0.02)	$ (0.07)
Basic and diluted loss per share from loss on sale of discontinued operations attributable to REX common shareholders	$ —	$ (0.01)	$ (0.01)
Basic and diluted net loss per share attributable to REX common shareholders	$ (0.19)	$ —	$ (0.19)

Three Months Ended July 31, 2009	As Reported	Reclassified for Operations Discontinued in Subsequent Periods and Correction of Error	As Restated
Net sales and revenue	$ 21,477	$ (4,332)	$ 17,145
Cost of sales	17,912	(1,679)	16,233
Gross profit	3,565	(2,653)	912
Selling, general and administrative expenses	1,905	(336)	1,569
Income (loss) from continuing operations including noncontrolling interests	442	(1,435)	(993)
(Loss) income from discontinued operations, net of tax	(52)	1,435	1,383
Gain on sale of discontinued operations, net of tax	251	—	251
Net income attributable to REX common shareholders	837	—	837
Basic and diluted earnings (loss) per share from continuing operations attributable to REX common shareholders	$ 0.07	$ (0.15)	$ (0.08)
Basic and diluted (loss) earnings per share from discontinued operations attributable to REX common shareholders	$ (0.01)	$ 0.15	$ 0.14
Basic and diluted earnings per share from gain on sale of discontinued operations attributable to REX common shareholders	$ 0.03	$ —	$ 0.03
Basic and diluted net income per share attributable to REX common shareholders	$ 0.09	$ —	$ 0.09

Three Months Ended October 31, 2009	As Reported	Reclassified for Operations Discontinued in Subsequent Periods and Correction of Error	As Restated
Net sales and revenue	$ 64,416	$ (2,719)	$ 61,697
Cost of sales	56,556	(520)	56,036
Gross profit	7,860	(2,199)	5,661
Selling, general and administrative expenses	2,581	(1,347)	1,234
Income (loss) from continuing operations including noncontrolling interests	3,307	(556)	2,751
Income (loss) from discontinued operations, net of tax	(22)	556	534
Net income attributable to REX common shareholders	2,273	—	2,273
Basic earnings (loss) per share from continuing operations attributable to REX common shareholders	$ 0.25	$ (0.06)	$ 0.19
Diluted earnings (loss) per share from continuing operations attributable to REX common shareholders	$ 0.24	$ (0.06)	$ 0.18
Basic earnings per share from discontinued operations attributable to REX common shareholders	$ —	$ 0.06	$ 0.06
Diluted earnings per share from discontinued operations attributable to REX common shareholders	$ —	$ 0.06	$ 0.06
Basic net income per share attributable to REX common shareholders	$ 0.24	$ —	$ 0.24
Diluted net income per share attributable to REX common shareholders	$ 0.24	$ —	$ 0.24

3. INVESTMENTS

The Company has debt and equity investments. The debt investments are accounted for under ASC 320, "*Investments-Debt and Equity Securities*", while the equity investments are accounted for under ASC 323 "*Investments-Equity Method and Joint Ventures*". The following tables summarize investments at January 31, 2010 and 2009 (amounts in thousands):

Debt Securities January 31, 2010

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Initial Investment
Patriot Renewable Fuels, LLC Convertible Note	16.00%	11/25/2011	Available for Sale	$ 1,014	$ 933

Debt Securities January 31, 2009

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Initial Investment
Patriot Renewable Fuels, LLC Convertible Note	16.00%	11/25/2011	Available for Sale	$ 933	$ 933

Unrealized holding gains were $81,000 ($49,000 net of income taxes) at January 31, 2010. There were no unrealized holding gains at January 31, 2009.

The Company has $743,000 and $933,000 at January 31, 2010 and 2009, respectively, 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 2.7% and 2.3% at January 31, 2010 and 2009, respectively.

In addition to the deposit with the Florida Department of Financial Services, the Company has $1,357,000 and $1,351,000 at January 31, 2010 and 2009, respectively, invested in a money market mutual fund to satisfy Florida Department of Financial Services regulations. This investment earned 0.1% and 1.3% at January 31, 2010 and 2009, respectively.

Equity Method Investments January 31, 2010

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	10%	$ 25,660	$ 20,025
Patriot Renewable Fuels, LLC	23%	18,411	16,000
Total Equity Securities		$ 44,071	$ 36,025

Equity Method Investments January 31, 2009

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	10%	$ 23,850	$ 20,000
Patriot Renewable Fuels, LLC	23%	15,011	16,000
Total Equity Securities		$ 38,861	$ 36,000

On October 1, 2006, the Company entered into an agreement to invest $20 million in Big River, an Iowa limited liability company and holding company for several entities. The Company funded this

investment in exchange for a 10% ownership interest. Big River Resources West Burlington, LLC, a wholly owned subsidiary of Big River, presently operates a 92 million gallon ethanol manufacturing facility. Big River Resources Galva, LLC, a wholly owned subsidiary of Big River, presently operates a 100 million gallon ethanol manufacturing facility. Big River Resources United Energy, LLC, a 50.5% owned subsidiary of Big River, presently operates a 100 million gallon ethanol manufacturing facility. The Company recorded income of $2,487,000, $2,397,000 and $2,379,000 as its share of earnings from Big River during fiscal years 2009, 2008 and 2007, respectively.

On June 8, 2006, the Company entered into an agreement to invest $16 million in Patriot which commenced production operations during fiscal year 2008. The Company funded this investment on December 4, 2006 in exchange for a 23% ownership interest. The facility has a nameplate capacity of 100 million gallons annually and began operations during the second quarter of fiscal year 2008. The Company recorded income of $3,540,000 and losses of $1,548,000 and $778,000 as its share of earnings or loss from Patriot during fiscal years 2009, 2008 and 2007, respectively.

Undistributed earnings of equity method investees totaled approximately $6.8 million at January 31, 2010.

Summarized financial information for each of the Company's equity method investees, as of their fiscal year end, is presented in the following table (amounts in thousands):

As of December 31, 2009

	Patriot	Big River
Current assets	$ 24,767	$ 101,710
Non current assets	179,954	371,669
Total assets	$ 204,721	$ 473,379
Current liabilities	$ 13,941	$ 46,162
Long-term liabilities	120,636	176,755
Total liabilities	$ 134,577	$ 222,917
Noncontrolling interests	$ —	$ 11,530

As of December 31, 2008

	Patriot	Big River
Current assets	$ 16,362	$ 77,298
Non current assets	179,358	262,752
Total assets	$ 195,720	$ 340,050
Current liabilities	$ 16,374	$ 41,638
Long-term liabilities	126,490	77,237
Total liabilities	$ 142,864	$ 118,875
Noncontrolling interests	$ —	$ 811

Summarized financial information for each of the Company's equity method investees is presented

in the following table for the years ended December 31, 2009, 2008 and 2007 (amounts in thousands):

Year Ended December 31, 2009

	Patriot	Big River
Net sales and revenue	$ 213,709	$ 448,145
Gross profit	$ 26,556	$ 43,317
Income from continuing operations	$ 17,288	$ 25,225
Net income	$ 17,288	$ 25,225

Year Ended December 31, 2008

	Patriot	Big River
Net sales and revenue	$ 63,534	$ 343,698
Gross (loss) profit	$ (2,029)	$ 34,735
(Loss) income from continuing operations	$ (9,103)	$ 24,540
Net (loss) income	$ (9,103)	$ 24,540

Year Ended December 31, 2007

	Patriot	Big River
Net sales and revenue	$ —	$ 130,449
Gross profit	$ —	$ 26,416
(Loss) income from continuing operations	$ (2,213)	$ 31,883
Net (loss) income	$ (2,213)	$ 31,883

Both Patriot and Big River have debt agreements that limit and restrict amounts the companies can pay in the form of dividends or advances to owners. The restricted net assets of Patriot and Big River combined at January 31, 2010 are approximately $298,076,000. At January 31, 2010, the Company’s proportionate share of restricted net assets of Patriot and Big River combined are approximately $38,926,000.

4. FAIR VALUE

Effective February 1, 2008, the Company adopted ASC 820 "*Fair Value Measurements and Disclosures*", which provides a framework for measuring fair value under GAAP. This accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also eliminated the deferral of gains and losses at inception of certain derivative contracts whose fair value was not evidenced by market observable data. ASC 820 requires that the impact of this change in accounting for derivative contracts be recorded as an adjustment to beginning retained earnings in the period of adoption. There was no impact on the beginning balance of retained earnings as a result of adopting ASC 820 because the Company held no financial instruments in which a gain or loss at inception was deferred.

Effective February 1, 2008, the Company determined the fair market values of its financial instruments based on the fair value hierarchy established. ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values which are provided below. The Company carries cash equivalents, restricted investments and derivative assets and liabilities at fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally or corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methods, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Unobservable inputs shall be developed based on the best information available, which may include the Company's own data.

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate pricing and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case interest rate, price or index scenarios are extrapolated in order to determine the fair value. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, the Company's own credit standing and other specific factors, where appropriate. To ensure the prudent application of estimates and management judgment in

determining the fair value of derivative assets and liabilities, various processes and controls have been adopted, which include: model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; periodic review and substantiation of profit and loss reporting for all derivative instruments. Financial assets and liabilities measured at fair value at January 31, 2010 on a recurring basis are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Cash Equivalents	$ 81,625	$ —	$ —	$ 81,625
Investments in Debt Securities	—	1,014	—	1,014
Restricted Investments	1,357	—	—	1,357
Total Assets	$ 82,982	$ 1,014	$ —	$ 83,996
Derivative Liabilities	$ —	$ 5,884	$ —	$ 5,884
Total Liabilities	$ —	$ 5,884	$ —	$ 5,884

Financial assets and liabilities measured at fair value at January 31, 2009 on a recurring basis are summarized below (amounts in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Cash Equivalents	$ 91,601	$ —	$ —	$ 91,601
Investments in Debt Securities	—	933	—	933
Restricted Investments	1,351	—	—	1,351
Total Assets	$ 92,952	$ 933	$ —	$ 93,885
Derivative Liabilities	$ —	$ 6,028	$ —	$ 6,028
Total Liabilities	$ —	$ 6,028	$ —	$ 6,028

No financial instruments were elected to be measured at fair value in accordance with ASC 470-20-25-21.

The Company reviews its long-lived assets balances for impairment on at least an annual basis based on the carrying value of these assets as of January 31. As a result of the increase in vacant owned real estate during the latter half of fiscal year 2009, the Company tested certain long-lived assets for impairment using a fair value measurement approach. The fair value measurement approach utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and a the implied fair value of these assets using recent sales data of comparable properties, and other subjective assumptions. Upon completion of its impairment analysis during the fourth quarter of fiscal year 2009, the Company determined that the carrying value of certain long-lived assets exceeded the fair value of these assets. Accordingly, the Company recorded long-lived asset impairment charges of approximately $1.5 million to properly reflect the carrying value of these assets.

Assets measured at fair value at January 31, 2010 on a non-recurring basis are summarized below (amounts in thousands):

	Year Ended January 31, 2010	Level 1	Level 2	Level 3	Total Losses
Property and equipment, net	$ 6,161	$ —	$ —	$ 6,161	$ 1,533

5. 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 19).

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. The Company earned and reported as income approximately $0.5 million and $4.2 million for fiscal years 2008 and 2007, respectively. No income was reported for fiscal year 2009.

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. The Company earned and reported as income approximately $0.2 million and $2.8 million for fiscal years 2008 and 2007, respectively. No income was reported for fiscal year 2009.

The Section 29/45K tax credit program expired, under current law, at the end of 2007. Thus, the Company does not expect to recognize any income or loss from the Colona and Somerset sales beyond fiscal year 2008.

Income from synthetic fuel investments also includes income related to the sale on March 30, 2004 of the Company's membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. In addition to certain other payments, 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 did not recognize any investment income from this sale during fiscal years 2009, 2008 or 2007.

6. 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 was a

development stage entity that completed construction of an ethanol production facility in Levelland, Texas during fiscal year 2008. Levelland Hockley commenced production operations in March of 2008. The ethanol plant has a nameplate 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.

As a result of losses incurred by Levelland Hockley and the decreasing spread between ethanol and grain prices, which negatively impacted profitability during fiscal year 2008, the Company performed an interim goodwill impairment analysis during the third quarter of fiscal year 2008. Based upon this review of goodwill, the Company recorded an impairment charge of $1.3 million during the third quarter of fiscal year 2008, which represented the entire goodwill balance. The impairment charge is included in selling, general and administrative expenses in the consolidated statements of operations and relates to the Company's alternative energy segment. There was no change in goodwill for the year ended January 31, 2010.

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		(583)
Noncontrolling interest		(11,443)
Net purchase price	$	11,500

Prepaid loan fees have an estimated useful life of 6 years. The entire amount of 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.

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 (amounts 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)
Noncontrolling interest	(16,832)
Net purchase price	$ 50,767

Prepaid loan fees have an estimated useful life of 6 years. One Earth was a development stage entity that has completed construction of an ethanol production facility in Gibson City, Illinois during fiscal year 2009. One Earth commenced operations in July of 2009. The ethanol plant has a nameplate 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 the period presented (in thousands, except per share amounts):

	Year Ended January 31, 2008
Net sales and revenue	$ 382
Net income	33,661
Basic net income per share	3.23
Diluted net income per share	2.87

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.

7. OTHER ASSETS

The components of other noncurrent assets at January 31, 2010 and 2009 are as follows (amounts in thousands):

	January 31,	
	2010	2009
Prepaid loan fees	$ 3,633	$ 4,515
Prepaid commissions	4,320	7,563
Other	927	336
Total	$ 8,880	$ 12,414

Prepaid loan fees represent amounts paid to obtain both mortgage debt and borrowings under the Levelland Hockley's and One Earth's debt arrangements. Such amounts are amortized as interest expense. Future amortization expense is as follows (amounts in thousands):

Years Ended January 31,	Amortization
2011	$ 1,117
2012	986
2013	854
2014	483
2015	187
Thereafter	6
Total	$ 3,633

Prepaid commissions represent sales commissions paid in connection with extended warranties sold by the Company's former retail 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):

Years Ended January 31,	Amortization
2011	$ 2,396
2012	1,195
2013	565
2014	164
Total	$ 4,320

8. NET INCOME PER SHARE FROM CONTINUING OPERATIONS

The Company reports net income per share in accordance with ASC 260, "*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 2009 and 2007 (amounts in thousands, except per-share amounts):

	2009		
	Income	Shares	Per Share
Basic net income per share from continuing operations attributable to REX common shareholders	$ 5,158	9,254	$ 0.55
Effect of stock options		297	
Diluted net income per share from continuing operations attributable to REX common shareholders	$ 5,158	$ 9,551	$ 0.54

	2007		
	Income	Shares	Per Share
Basic net income per share from continuing operations attributable to REX common shareholders	$ 19,588	10,420	$ 1.88
Effect of stock options		1,301	
Diluted net income per share from continuing operations attributable to REX common shareholders	$ 19,588	11,721	$ 1.67

As there was a loss from continuing operations in fiscal year 2008, basic loss per share from continuing operations equals diluted loss per share from continuing operations. For fiscal years 2009, 2008 and 2007, a total of 310,723, 2,715,001 and 162,719 shares, respectively, subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive.

9. SALE AND LEASEBACK TRANSACTIONS AND OTHER LEASES

On September 16, 2008, the Company completed a transaction for the sale and partial leaseback of its Cheyenne, Wyoming distribution center under a three year lease term. A pre-tax gain, classified as discontinued operations, of approximately $2.4 million (net of expenses) resulted from this sale. The Company recognized approximately $0.8 million $1.6 million of the gain in fiscal years 2009 and 2008, respectively. The lease has been accounted for as an operating lease.

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”) 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. All of the leases with Klac were terminated by January 31, 2010.

This transaction resulted in a gain (realized and deferred) of $14.8 million. Of this gain, $3.9 million and $1.5 million was recognized, in fiscal years 2009 and 2008, respectively. The gain recognized in fiscal years 2009 and 2008 was classified in discontinued operations. As a result of the wind down of the Company's retail business, the term over which the deferred gain was being amortized had been shortened and is based upon the Company abandoning, or otherwise ceasing use of the leased property. See Note 14 for a discussion of restructuring related charges. The leases have been accounted for as operating leases.

The Company is committed under operating and capital leases for one former retail warehouse location and equipment at ethanol plants. 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	Sublease Income	Total
2010	$ 85	$ (117)	$ (32)
2009	78	(136)	(58)
2008	84	(134)	(50)

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, 2010, future minimum annual rentals for all operating leases and sublease income are as follows (amounts in thousands):

Years Ended January 31	Minimum Rentals	Sublease Income
2011 (a)	$ 66	$ 65
2012 (a)	26	6
	$ 92	$ 71

(a) Amounts do not include minimum rentals related to a distribution center for which the related expense has been recognized as part of the Company's restructuring activities. Such amounts are $288,000 for the fiscal year ended January 31, 2011 and $146,000 for the fiscal year ended January 31, 2012.

At January 31, 2010, the Company has lease or sub-lease agreements, as landlord, for all or portions of eleven properties. The Company owns ten of these properties and is the tenant/sub landlord for one of the properties. All of the leases are accounted for as operating leases. The Company recognized lease revenue of approximately $1,089,000, $415,000 and $382,000 in fiscal years 2009, 2008 and 2007, respectively.

As of January 31, 2010, future minimum annual rentals on such leases are as follows (amounts in thousands):

Years Ended January 31		Minimum Rentals
2011	$	1,122
2012		1,043
2013		1,004
2014		905
2015		847
Thereafter		576
	$	5,497

Levelland Hockley leases certain real estate and equipment for its ethanol plant. These leases have been classified as capital leases. The following is a summary, at January 31, 2010, of the aggregate minimum future annual rental commitments for all capital leases:

Years Ended January 31		Minimum Rentals
2011	$	569
2012		569
2013		524
2014		393
Total minimum lease payments		2,055
Less amoun representing interest		172
Present value of minimum capital lease payments		1,883
Less current maturities of capital lease obligations		475
Long term capital lease obligations	$	1,408

The composition of capital leases reflected as property and equipment at January 31, 2010 and 2009 is as follows:

		2010		2009
Buildings and improvements	$	50	$	50
Machinery, equipment and fixtures		2,872		2,872
		2,922		2,922
Less: accumulated amortization		(399)		(141)
	$	2,523	$	2,781

10. COMMON STOCK

During fiscal years 2009, 2008 and 2007, the Company purchased 1,256,604 shares, 1,636,252 shares and 971,319 shares, respectively, of its common stock for $15,694,000 $17,708,000 and

80 $18,045,000, respectively. Included in these amounts are shares the Company received totaling 659,957 for the year ended January 31, 2010 and 186,919, for the year ended January 31, 2008 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 $9,239,000 and $3,458,000 for the years ended January 31, 2010 and 2008, respectively. At January 31, 2010, the Company had prior authorization by its Board of Directors to purchase, in open market transactions, an additional 482,701 shares of its common stock. Information regarding the Company's common stock is as follows (amounts in thousands):

	January 31, 2010	January 31, 2009
Authorized shares	45,000	45,000
Issued shares	29,853	29,853
Outstanding shares	9,808	9,382

11. LONG-TERM DEBT AND INTEREST RATE SWAPS

Long-term debt consists of notes payable secured by certain land, buildings and equipment. Interest rates ranged from 2.3% to 8.4% in fiscal years 2009 and 2008. Principal and interest are payable periodically 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 2009 and 2008:

Fiscal Year 2009

Interest Rates	Maturity	Balance (in thousands)
	Variable	
3.38% - 4.25%	Within five years	$ 135,790
	Fixed	
8.40%	Five to six years	$ 2,330

Fiscal Year 2008

Interest Rates	Maturity	Balance (in thousands)
	Variable	
2.30% - 5.44%	Within five years	$ 43,113
5.29%	Five to six years	56,042
	Total variable	$ 99,155
	Fixed	
6.75% - 7.21%	Within five years	$ 2,243
6.41% - 8.40%	Five to ten years	7,693
	Total fixed	$ 9,936

Annual expected maturities of long-term debt are as follows (amounts in thousands):

Years Ending January 31,	
2011	$ 12,831
2012	14,628
2013	15,253
2014	35,387
2015	59,646
Thereafter	375
	$ 138,120

In fiscal year 2009, the Company paid off approximately $8.0 million in mortgage debt prior to maturity. As a result, the Company expensed unamortized financing cost and prepayment penalties of approximately $89,000 as loss on early termination of debt.

The fair value of the Company's long-term debt at January 31, 2010 and 2009 was approximately $138.4 million and $109.6 million, respectively.

Levelland Hockley Subsidiary Level Debt

During the second quarter of fiscal year 2008, pursuant to the terms of the construction loan agreement, Levelland Hockley converted the construction loan into a permanent term loan. Beginning with the first monthly payment on June 30, 2008, payments are due in 59 equal monthly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (June 30, 2013) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at a floating rate of 400 basis points above LIBOR (4.3% at January 31, 2010), adjusted monthly through the maturity date. Borrowings are secured by all of the assets of Levelland Hockley. This debt is recourse only to Levelland Hockley and not to REX Stores Corporation or any of its wholly owned subsidiaries. As of January 31, 2010, approximately $37.2 million was outstanding on the term loan. Levelland Hockley is also subject to certain financial covenants under the loan agreement, including required levels of EBITDAR, debt service coverage ratio requirements, net worth requirements and other common covenants. Levelland Hockley was in compliance with all covenants at January 31, 2010.

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, 2010, the Company's proportionate share of restricted assets related to Levelland Hockley was approximately $13.2 million. Levelland Hockley's restricted assets total approximately $23.6 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of Levelland Hockley per the terms of the loan agreement with GE Capital.

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 commenced as of April 30, 2008 and terminate on April 30, 2010. At January 31, 2010 and 2009, the Company

recorded a liability of $329,000 and $1,351,000, respectively related to the fair value of the swap. The change in fair value was recorded in the Consolidated Statements of Operations.

One Earth Energy Subsidiary Level Debt

During the third quarter of fiscal year 2009, pursuant to the terms of the construction loan agreement, One Earth converted the construction loan into a term loan as all of the requirements, for such conversion, of the construction and term loan agreement were fulfilled. Beginning with the first quarterly payment on October 8, 2009, payments are due in 20 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (July 31, 2014) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points (3.3% to 3.4% at January 31, 2010). Borrowings are secured by all property of One Earth. This debt is recourse only to One Earth and not to REX Stores Corporation or any of its other subsidiaries. During fiscal year 2010, One Earth borrowed $49.0 million on this loan. As of January 31, 2010, approximately $98.0 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, working capital, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth was in compliance with all applicable covenants at January 31, 2010.

One Earth has a $10.0 million revolving loan facility that matures September 17, 2010. Borrowings under this facility bear interest at the greater of 2.0% or LIBOR plus 310 basis points. One Earth has no outstanding borrowings on the revolving loan as of January 31, 2010.

One Earth has paid approximately $1.4 million in financing costs. These costs are recorded as prepaid loan fees and are being amortized ratably over the term of the loan. At January 31, 2010, the Company's proportionate share of restricted assets related to One Earth was approximately $47.9 million. One Earth's restricted assets total approximately $65.0 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with First National Bank of Omaha.

One Earth entered into two forward interest rate swaps in the notional amounts of $50.0 million and $25.0 million with the Bank. The swap settlements commenced as of July 31, 2009; the $50.0 million swap terminates on July 8, 2014 and the $25.0 million swap terminates on July 31, 2011. The $50.0 million swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9% while the $25.0 million swap fixed the rate at 5.49%. At January 31, 2010 and 2009, the Company recorded a liability of $5.6 million and $4.7 million, respectively related to the fair value of the swaps. The change in fair value was recorded in the Consolidated Statements of Operations.

12. FINANCIAL INSTRUMENTS

The Company uses interest rate swaps to manage its interest rate exposure at Levelland Hockley and One Earth by fixing the interest rate on a portion of the variable rate debt these entities have. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. As of January 31, 2010, the notional value of the Levelland Hockley and One Earth interest rate swaps were $36.0 million and $72.2 million, respectively. At January 31, 2010, the Company has recorded a liability of $5.9 million related to the fair value of the swaps. The change in fair value was recorded in the Consolidated Statements of Operations. The notional amounts and fair values of derivatives, all of

which are not designated as cash flow hedges at January 31, 2010 are summarized in the table below (amounts in thousands):

	Notionaol Amount	Fair Value Liability
Interest rate swaps	$ 108,238	$ 5,884

As the interest rate swaps are not designated as cash flow hedges, the unrealized gain and loss on the derivatives is reported in current earnings. The Company reported losses of $2,487,000 and $3,797,000 and $2,601,000, in fiscal years 2009, 2008 and 2007, respectively.

In the normal course of its ethanol business, the Company enters into forward pricing agreements for the purchase of grain and for the sale of ethanol and distillers grains for delivery in future periods. The Company accounts for these forward pricing arrangements as normal purchases and normal sales pursuant to the "normal purchases and normal sales" scope exemption of ASC 815, "*Derivatives and Hedging*".

Levelland Hockley has forward purchase contracts for 2,261,000 bushels of sorghum, the principal raw material for its ethanol plant. Levelland Hockley expects to take delivery of the sorghum through March 2010. The unrealized loss of such contracts was approximately $327,000 at January 31, 2010.

One Earth has forward purchase contracts for 3,501,000 bushels of corn, the principal raw material for its ethanol plant. One Earth expects to take delivery of the corn through March 2010. The unrealized gain of such contracts was approximately $1,904,000 at January 31, 2010.

Levelland Hockley has sales commitments for 4,220,000 gallons of ethanol and 112,400 tons of distiller grains. Levelland Hockley expects to deliver the ethanol and distiller grains through March 2010. The unrealized loss of such contracts was approximately $81,000 at January 31, 2010.

One Earth has sales commitments for 10.3 million gallons of ethanol and 25,200 tons of distiller grains. One Earth expects to deliver the ethanol and distiller grains through March 2010. The unrealized loss of such contracts was approximately $2.1 million at January 31, 2010.

13. 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, 2010, 108,011 and 2,302,425 shares remain available for issuance under the 1995 and 1999 Plans, respectively.

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. As of January 31, 2010, 337,500 of these options remained outstanding.

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.

The following summarizes stock option activity for fiscal years 2009, 2008 and 2007 (amounts in thousands, except per-share amounts):

	2009		2008		2007	
	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	2,715	$ 9.63	3,016	$ 9.16	4,337	$ 8.18
Exercised	(1,683)	8.87	(299)	4.86	(1,266)	5.64
Canceled or expired	(208)	13.75	(2)	12.64	(55)	12.67
Outstanding—End of year	824	$ 10.14	2,715	$ 9.63	3,016	$ 9.16
Exercisable—End of year	824	$ 10.14	2,661	$ 9.57	2,854	$ 8.96

Price ranges and other information for stock options outstanding as of January 31, 2010 were as

follows (amounts in thousands, except per share amounts):

Range of Exercise Prices	Outstanding and Exercisable		
	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life
$8.01 to $12.02	513	$ 8.25	1.12
$12.04 to $16.04	311	13.27	3.46
	824	$ 10.14	2.00

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 $1,800, $15,000 and $18,000 for fiscal years 2009, 2008 and 2007, respectively, under the Plan.

14. RESTRUCTURING AND OTHER

During the fourth quarter of fiscal year 2008, the Company entered into an agreement with Appliance Direct, Inc. ("Appliance Direct") pursuant to which (i) the Company agreed to sell certain appliance inventory, furniture, fixtures and equipment at the store locations to be taken over by Appliance Direct and (ii) subsidiaries of Appliance Direct leased 37 retail store locations owned by the Company.

The Company agreed to pay Appliance Direct, as of the implementation date defined in the agreement, an amount equal to the adjusted book value liability of the Company's customer extended service plans for certain appliances previously sold at locations that Appliance Direct took over from the Company (the "ESP Credit").

During the fourth quarter of fiscal year 2008, the Company recorded a restructuring charge of approximately $4.2 million related to (i) a workforce reduction of a majority of employees located at its corporate headquarters, retail stores and distribution facilities and (ii) certain costs associated with the transition of the Company's retail business to Appliance Direct.

On July 31, 2009, the Company entered into a Third Amendment to Agreement and a Second Global Amendment to Multiple Leases (together, the "Amendments") with Appliance Direct. The Amendments (i) eliminated the right of Appliance Direct to purchase stores it leased from the Company (ii) eliminated the right of Appliance Direct to terminate certain leases in the future and (iii) eliminated the obligation of Appliance Direct to lease 22 properties from the Company. The terms of the 15 leases and one sub-lease under which the Company leased property to Appliance Direct remained in full force except as modified by the Amendments. As a result of these Amendments, the Company reduced the accruals for employee severance and bonus costs by approximately $0.7 million, for investment banker fees by approximately $0.3 million and for the ESP Credit by approximately $0.3 million during the second quarter of fiscal year 2009.

On September 30, 2009, the Company entered into a letter agreement with Appliance Direct pursuant to which (i) Appliance Direct agreed to vacate all properties leased from the Company and turn over possession of the leased premises to the Company and (ii) the Company and Appliance Direct agreed to release and discharge each other from all claims or causes of action whatsoever.

The Company completed its exit of the retail business as of July 31, 2009. The following is a summary of restructuring charges and payments (in thousands):

	Employee Severance and Bonus Costs	Lease Termination Costs	Investment Banker Fees	ESP Credit	Total Restructuring Accrual
Balance, January 31, 2008	$ —	$ —	$ —	$ —	$ —
Restructuring charges	2,839	—	834	498	4,171
Balance, January 31, 2009	2,839	—	834	498	4,171
Restructuring charges	85	2,951	—	—	3,036
Reversal of restructuring charges	(706)	(41)	(325)	(287)	(1,359)
Payments of restructuring liabilities	(1,999)	(2,471)	(509)	(211)	(5,190)
Balance, January 31, 2010	$ 219	$ 439	$ —	$ —	$ 658

Of the total accrual balance of $658,000, $511,000 is classified within current liabilities and $147,000 is classified within long term liabilities. The restructuring charges are all classified as discontinued operations. The accrued balances at January 31, 2010 are management's best estimate of the amounts to be incurred for the related categories.

15. COMMITMENTS

Levelland Hockley has a contract with Permian Basin Railways to utilize a minimum of 2,989 rail cars per year between April 1 and March 31. The contract matures March 31, 2017. The cars can be used to transport ethanol, grain, or any other product to or from the Company's location. In accordance with the agreement, a fee of $200 per car is assessed on any shortages of the annual rail car usage.

One Earth has a non-exclusive contract with an unrelated party ("Marketer") for ethanol marketing services. Under the terms of the contract, the Marketer will purchase portions of One Earth's ethanol production during the term of the contract. Additionally, One Earth is also required to share with the Marketer the additional profits and losses derived from the Marketer's gains on swaps and exchanges.

One Earth has a contract with an unrelated party ("Marketer") for distillers grains marketing. Under the terms of the contract, the Marketer will purchase all of One Earth's distillers grain production during the term of the contract.

One Earth has a contract with an unrelated party to lease rail cars. Under the terms of the contract, One Earth will pay approximately $55,000 per month. The contract has a term of three years and began June 1, 2009.

One Earth has a contract with an unrelated party to provide use of a natural gas pipeline. Under the terms of the contract, One Earth will pay approximately $37,000 per month. The contract has a term of ten years and began February 1, 2009.

16. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for fiscal years 2009, 2008 and 2007 consists of the following (amounts in thousands):

	2009	2008	2007
Federal:			
Current	$ (8,547)	$ (3,422)	$ 8,134
Deferred	12,561	489	2,685
	4,014	(2,933)	10,819
State and Local:			
Current	142	74	203
Deferred	397	112	223
	539	186	426
	$ 4,553	$ (2,747)	$ 11,245

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of January 31, 2010 and 2009 (amounts in thousands):

	2010	2009
Assets:		
Deferral of service contract income	$ 3,463	$ 6,049
Accrued liabilities	504	2,341
Inventory accounting	215	1,320
Installment sales of limited partnerships	1,297	1,297
Sale and leaseback accounting	—	1,759
Derivative accounting	1,729	1,699
Stock based compensation	464	1,436
Federal net operating loss carryforward	156	—
AMT credit carryforward	23,449	15,442
State net operating loss carryforward	1,473	487
Valuation allowance	(578)	(578)
Other items	2,358	1,933
Total	34,530	33,185
Liabilities:		
Basis in pass through entities	(6,201)	(408)
Depreciation	(12,106)	(850)
Other	(1,380)	—
Total	(19,687)	(1,258)
Net deferred tax asset	$ 14,843	$ 31,927

The Company has approximately $23,449,000 and $15,442,000 of alternative minimum tax (“AMT”) credit carryforwards as of January 31, 2010 and 2009, 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 $156 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 federal net operating loss carryforwards of approximately $10.0 million, which will expire in fiscal year 2019.

The Company has state net operating loss carryforwards of approximately $35.4 million, net of the federal benefit, which will begin to expire in fiscal year 2010.

The Company has a valuation allowance of approximately $578,000 at January 31, 2010. The Company reduced the valuation allowance by $231,000 and $150,000 in fiscal years 2008 and 2007, respectively. These adjustments to the valuation allowance are a result of estimates of realizing certain future state tax benefits. No adjustment was made in fiscal year 2009.

The Company paid income taxes of $14,000, $732,000 and $13,429,000 in fiscal years 2009, 2008 and 2007, respectively.

The effective income tax rate on consolidated pre-tax loss or income differs from the federal income tax statutory rate for fiscal years 2009, 2008 and 2007 as follows:

	2009	2008	2007
Federal income tax at statutory rate	35.0%	(35.0)%	35.0%
Ethanol small producer credit	—	(14.7)	—
State and local taxes, net of federal tax benefit	3.9	6.5	2.2
Net provision (reduction) in valuation allowance	—	(6.3)	(0.4)
Uncertain tax positions	(0.3)	(9.0)	(0.7)
Noncontrolling interest	(8.0)	29.2	0.8
Other	2.9	(1.8)	0.6
Total	33.5%	(31.1)%	37.5%

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, 2006 and prior.

The Company adopted the provisions of ASC 740-10-25-5 on February 1, 2007. As a result of the adoption of this accounting standard, the Company recorded a $287,000 decrease to retained earnings. As of January 31, 2010, total unrecognized tax benefits were $2,199,000, and accrued penalties and interest were $138,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately $129,000 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. As a result of statutes of limitation expiring, during fiscal year 2009, the Company reduced the liability for unrecognized tax benefits by $164,000 and related penalties and interest of $247,000. During fiscal year 2009, the Company recognized interest and penalties of $175,000 related to unresolved uncertain tax positions. Also during fiscal year 2009, the Company reduced the liability for uncertain tax positions by $2,740,000 related to prior year uncertain tax positions for which the Company obtained additional information during fiscal year 2009 and changed the amount of benefit recognized. The Company increased the liability for uncertain tax positions by $1,156,000 during fiscal year 2009 related to current year uncertain tax positions.

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):

	Years Ended January 31,	
	2010	2009
Unrecognized tax benefits, beginning of year	$ 4,160	$ 1,394
Changes for tax positions for prior years	(2,978)	(349)
Changes for tax positions for current year	1,156	3,115
Unrecognized tax benefits, end of year	$ 2,338	$ 4,160

17. COMPREHENSIVE INCOME (LOSS)

Comprehensive income includes net income (loss) and unrealized gains on securities classified as available for sale (net of the related tax effects), and are reported separately in shareholders' equity. The components of comprehensive income (loss) in fiscal years 2009, 2008 and 2007 are as follows (amounts in thousands):

	2009	2008	2007
Net income (loss) attributable to REX common shareholders	$ 8,652	$ (3,297)	$ 33,867
Unrealized holding gains on available for sale securities, net	49	—	—
Total comprehensive income (loss)	$ 8,701	$ (3,297)	$ 33,867

18. DISCONTINUED OPERATIONS

During fiscal year 2009, the Company completed the exit of its retail business. Accordingly, all operations of the Company's former retail segment and certain sold properties have been classified as discontinued operations for all periods presented. Once real estate property has been sold, and no continuing involvement is expected, the Company classifies the results of the operations as discontinued operations. The results of operations were previously reported in the Company's retail or real estate segment, depending on when the store ceased operations. Below is a table reflecting certain items of the income statement that were reclassified as

discontinued operations for fiscal years 2009, 2008 and 2007 (amounts in thousands):

	2009	2008	2007
Net sales and revenue	$ 35,017	$ 185,108	$ 270,674
Cost of merchandise sold	$ 23,243	$ 134,542	$ 195,555
Income (loss) before income taxes	$ 3,288	$ (3,385)	$ 5,903
(Provision) benefit for income taxes	(1,168)	1,209	(2,094)
Income (loss) from discontinued operations, net of tax	$ 2,120	$ (2,176)	$ 3,809
Gain on disposal before provision for income taxes	$ 2,131	$ 2,797	$ 16,162
Provision for income taxes	(757)	(999)	(5,692)
Gain on disposal of discontinued operations, net of tax	$ 1,374	$ 1,798	$ 10,470

19. CONTINGENCIES

The Company sold its entire interest, through a series of transactions, in three partnerships (Colona, Somerset and Gillette) 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 $59.3 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.

20. SEGMENT REPORTING

Beginning in the second quarter of fiscal year 2009, the Company realigned its reportable business segments to be consistent with changes to its management structure and reporting. The Company has two segments: alternative energy and real estate. In prior years, the real estate segment was formerly included in the retail segment and historical amounts have been reclassified to conform to the current year segment reporting presentation. For stores and warehouses closed for which the Company has a retained interest in the related real estate, operations are presented in the real estate segment when retail operations cease. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, indirect 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 below include corporate activities that are not separately reportable and income from synthetic fuel

investments (amounts in thousands):

	Years Ended January 31,		
	2010	2009	2008
Net sales and revenues:			
Alternative energy	$ 169,175	$ 68,223	$ —
Real estate	1,089	415	382
Total net sales and revenues	$ 170,264	$ 68,638	$ 382
Segment gross profit (loss):			
Alternative energy	$ 21,923	$ 807	$ —
Real estate	(2,190)	398	364
Total gross profit	$ 19,733	$ 1,205	$ 364

	Years Ended January 31,		
	2010	2009	2008
Segment profit (loss):			
Alternative energy segment profit (loss)	$ 17,811	$ (8,992)	$ 22,404
Real estate segment (loss) profit	(2,373)	116	177
Corporate expenses	(1,721)	(2,038)	(2,077)
Interest expense	(369)	(387)	(1,032)
Interest income	263	1,788	3,575
Income from synthetic fuel investments	—	691	6,945
Income (loss) from continuing operations before income taxes and noncontrolling interests	$ 13,611	$ (8,822)	$ 29,992

	Years Ended January 31,		
	2010	2009	2008
Sales of products alternative energy segment:			
Ethanol	83%	82%	—%
Distillers grains	17%	18%	—%
Total	100%	100%	—%
Sales of services real estate segment:			
Leasing	100%	100%	100%
Interest income:			
Alternative energy	$ 182	$ 256	$ 2,142
Real estate	—	—	—
Unallocated	263	1,788	3,572
Total interest income	$ 445	$ 2,044	$ 5,714
Depreciation and amortization expense:			
Alternative energy	$ 9,644	$ 3,543	$ —
Real estate	472	69	33
Total depreciation and amortization expense	$ 10,116	$ 3,612	$ 33
Equity in unconsolidated affiliates:			
Alternative energy	$ 6,027	$ 849	$ 1,601
Real estate	—	—	—
Total equity in unconsolidated affiliates:	$ 6,027	$ 849	$ 1,601

	Years Ended January 31,		
	2010	2009	2008
Additions to property and equipment:			
Alternative energy	$ 35,320	$ 107,575	$ 68,555
Real estate	332	—	—
Total additions to property and equipment	$ 35,652	$ 107,575	$ 68,555
Assets:			
Alternative energy	$ 302,228	$ 249,422	$ 167,070
Real estate	31,796	3,149	3,206
Corporate and other	117,481	198,717	238,702
Total assets	$ 451,505	$ 451,288	$ 408,978
Additions to other long lived assets:			
Alternative energy	$ 25	$ 284	$ 1,103
Real estate	—	—	—
Total additions to other long lived assets	$ 25	$ 284	$ 1,103
Long term debt and capital lease obligations			
Alternative energy	$ 124,093	$ 94,003	$ 22,072
Real estate	—	—	—
Corporate and other	2,596	9,936	13,152
Total long term debt and capital lease obligations	$ 126,689	$ 103,939	$ 35,224

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 and equivalents, 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 $17.9 million held by Levelland and One Earth will be used primarily to fund working capital needs for those entities.

21. SUBSEQUENT EVENTS

The company evaluated all subsequent event activity through the issue date of this Annual Report on Form 10-K and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

* * * * * *

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, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2010. 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 did not audit the financial statements of Patriot Renewable Fuels, LLC, an equity method investment, which statements reflect total assets of $18,411,000 and $15,011,000 as of January 31, 2010 and 2009, respectively, and equity in income (loss) of unconsolidated affiliates of $3,540,000, ($1,548,000) and ($788,000) for the years ended January 31, 2010, 2009, and 2008, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Patriot Renewable Fuels, LLC, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of REX Stores Corporation and subsidiaries as of January 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2010, 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 disclosed in Note 1 and Note 18, the consolidated financial statements have been adjusted for the retrospective application of Accounting Standards Codification (ASC) 810, *Consolidation* (formerly Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*), which became effective February 1, 2009 and the retrospective presentation of the Company's retail business as discontinued operations. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*), effective February 1, 2007.

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, 2010, 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 16, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

April 16, 2010

Schedule II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JANUARY 31, 2010, 2009 AND 2008
(Amounts in thousands)

		Additions	Deductions	
	Balance Beginning of Year	Charged to Cost and Expenses	Charges for Which Reserves Were Created	Balance End of Year
2010:				
Allowance for doubtful accounts	$ 447	$ —	$ 279	$ 168
2009:				
Allowance for doubtful accounts	$ 84	$ 499	$ 136	$ 447
2008:				
Allowance for doubtful accounts	$ 116	$ 169	$ 201	$ 84

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.

Material Changes to Disclosure Controls and Procedures

During fiscal year 2009, we have corrected errors in the process of calculating the significance of our equity method investees pursuant to Rule 3-09 of Regulation S-X. During fiscal 2008, deficiencies in our disclosure controls and procedures led to a failure to file required financial statements of Big River Resources, LLC and Patriot Renewable Fuels, LLC in accordance with Rule 3-09 of Regulation S-X in our Annual Report on Form 10-K for the year ended January 31, 2009. We have revised our calculations of significance of equity method investees, as appropriate, and have included required financial statements in this Annual Report on Form 10-K for the year ended January 31, 2010.

Material Changes to Internal Control Over Financial Reporting

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, 2010 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, 2010 based on those criteria.

The effectiveness of our internal control over financial reporting as of January 31, 2010 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 16, 2010
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 16, 2010

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, 2010, 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, 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, 2010, 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, 2010 of the Company and our report dated April 16, 2010 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule and included an explanatory paragraph regarding the Company's retrospective application of Accounting Standards Codification (ASC) 810, *Consolidation* (formerly Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*), which became effective February 1, 2009, the retrospective presentation of the Company's retail business as discontinued operations, and the adoption of the provisions of ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*), effective February 1, 2007.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

April 16, 2010

Item 9B. **Other Information**

None

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 9, 2010, 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 9, 2010 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 9, 2010 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 9, 2010 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 9, 2010 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, 2010 and 2009

Consolidated Statements of Operations for the years ended January 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the years ended January 31, 2010, 2009 and 2008

Consolidated Statements of Shareholders' Equity for the years ended January 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(a)(2)(i) 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)(2)(ii) Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons

Separate consolidated financial statements of Big River Resources, LLC and Patriot Renewable Fuels, LLC required pursuant to Rule 3-09 of Regulation S-X are filed as Exhibits 99(a) and 99(b) to this report.

(a)(3) Exhibits

See Exhibit Index at page 105 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 16, 2010

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 16, 2010
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 16, 2010
LAWRENCE TOMCHIN Lawrence Tomchin	Director	April 16, 2010
EDWARD M. KRESS Edward M. Kress	Director	April 16, 2010
ROBERT DAVIDOFF Robert Davidoff	Director	April 16, 2010
CHARLES A. ELCAN Charles A. Elcan	Director	April 16, 2010
DAVID S. HARRIS David S. Harris	Director	April 16, 2010
MERVYN L. ALPHONSO Mervyn L. Alphonso	Director	April 16, 2010

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) 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)

4(b) 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 (incorporated by reference to Exhibit 4(i) to Form 10-K for fiscal year ended January 31, 2008, File No. 001-09097)

4(c) 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 (incorporated by reference to Exhibit 4(j) to Form 10-K for fiscal year ended January 31, 2008, File No. 001-09097)

4(d) 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 (incorporated by reference to Exhibit 4(k) to Form 10-K for fiscal year ended January 31, 2008, File No. 001-09097)

4(e)	Fourth Amendment to Construction and Term Loan Agreement dated as of May 31, 2008 among Levelland/Hockley County Ethanol, LLC, the Lenders party thereto, and GE Business Financial Services Inc. (f/k/a Merrill Lynch Business Financial Services Inc.), as Administrative Agent (incorporated by reference to Exhibit 4(m) to Form 10-K for fiscal year ended January 31, 2009, File No. 001-09097)
4(f)	Fifth Amendment to Construction and Term Loan Agreement dated as of May 31, 2008 among Levelland/Hockley County Ethanol, LLC, the Lenders party thereto, and GE Business Financial Services Inc. (f/k/a Merrill Lynch Business Financial Services Inc.), as Administrative Agent (incorporated by reference to Exhibit 4(n) to Form 10-K for fiscal year ended January 31, 2009, File No. 001-09097)
4(g)	Sixth Amendment to Construction and Term Loan Agreement dated as of January 29, 2009 among Levelland/Hockley County Ethanol, LLC, the Lenders party thereto, and GE Business Financial Services Inc. (f/k/a Merrill Lynch Business Financial Services Inc.), as Administrative Agent (incorporated by reference to Exhibit 4(o) to Form 10-K for fiscal year ended January 31, 2009, File No. 001-09097)
4 (h)	Seventh Amendment to Construction and Term Loan Agreement dated as of September 4, 2009 among Levelland/Hockley County Ethanol, LLC, the Lenders party thereto, and GE Business Financial Services Inc., as Administrative Agent (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended July 31, 2009, File No. 001-09097)
4 (i)	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 (incorporated by reference to Exhibit 4(l) to Form 10-K for fiscal year ended January 31, 2008, File No. 001-09097)
4 (j)	First Amendment of Construction Loan Agreement dated September 19, 2008 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
4(k)	Second Amendment of Construction Loan Agreement dated January 30, 2009 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
4(l)	Third Amendment of Construction Loan Agreement dated September 18, 2009 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 (incorporated by reference to Exhibit 10(b) to Form 8-K filed November 30, 2008, File No. 001-09097)
10(c)*	Amendment No. 2 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and Stuart A. Rose (incorporated by reference to Exhibit 10(c) to Form 8-K filed November 30, 2005, File No. 001-09097)
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 (incorporated by reference to Exhibit 10(e) to Form 8-K filed November 30, 2005, File No. 001-09097)
10(f)*	Amendment No. 2 to Employment Agreement dated March 6, 2008 between Rex Radio and Television, Inc. and David L. Bearden (incorporated by reference to Exhibit 10(f) to Form 8-K filed November 30, 2005, File No. 001-09097)
10(g)*	Amendment No. 3 to Employment Agreement dated February 19, 2009 between Rex Radio and Television, Inc. and David L. Bearden (incorporated by reference to Exhibit 10(a) to Form 8-K filed February 20, 2009, File No. 001-09097)
10(h)*	Amendment No. 4 to Employment Agreement dated September 30, 2009 between Rex Radio and Television, Inc. and David L. Bearden (incorporated by reference to Exhibit 10(b) to Form 8-K filed October 6, 2009, 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(c) 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)
10(r)	Agreement dated January 29, 2009 between Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc., Stereo Town, Inc., Rex Alabama, Inc., REX Stores Corporation and Appliance Direct, Inc. (incorporated by reference to Exhibit 10(a) to Form 8-K filed February 2, 2009, File No. 001-09097)
10 (s)	Third Amendment to Agreement dated July 31, 2009 between Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc., Stereo Town, Inc., Rex Alabama, Inc., REX Stores Corporation and Appliance Direct, Inc. (incorporated by reference to Exhibit 10(a) to Form 8-K filed July 31, 2009, File No. 001-09097)
10(t)	Second Global Amendment to Multiple Leases dated July 31, 2009 between Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc., Stereo Town, Inc., Appliance Direct, Inc. and the Tenants (incorporated by reference to Exhibit 10(b) to Form 8-K filed July 31, 2009, File No. 001-09097)

10 (u) Letter Agreement dated September 30, 2009 between Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc., Stereo Town, Inc. and Appliance Direct, Inc. (incorporated by reference to Exhibit 10(a) to Form 8-K filed October 6, 2009, 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(a) Consent of Deloitte & Touche LLP to use its report dated April 16, 2010 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)

23(b) Consent of Christianson & Associates, PLLP to use its reports dated February 18, 2010 and February 6, 2008, relating to the financial statements of Big River Resources, LLC included in this annual report on Form 10-K into the Registration Statements

23(c) Consent of Boulay, Heutmaker, Zibell & Co, P.L.L.P. to use its report dated April 12, 2010 relating to the financial statements of Patriot Renewable Fuels, LLC included in this annual report on Form 10-K into the Registration Statements

23(d) Consent of Deloitte & Touche LLP to use its report dated November 24, 2009 relating to the financial statements of Patriot Renewable Fuels, LLC included in this annual report on Form 10-K into the Registration Statements

(31) Rule 13a-14(a)/15d-14(a) Certifications:

31 Certifications

(32) *Section 1350 Certifications:*

32 Certifications

(99) *Additional Exhibits*

99(a)	Consolidated financial statements of Big River Resources, LLC for the years ended December 31, 2009, 2008 and 2007 and for the four months ended December 31, 2006
99(b)	Financial statements of Patriot Renewable Fuels, LLC for the years ended December 31, 2009, 2008 and 2007

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 OF
CONSTRUCTION LOAN AGREEMENT

THIS FIRST AMENDMENT OF CONSTRUCTION LOAN AGREEMENT ("Amendment") is made this 19th day of September, 2008 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 BANKS party to the AGREEMENT. This Amendment amends that certain Construction Loan Agreement dated September 20, 2007 among the AGENT, BANKS and BORROWER ("AGREEMENT").

WHEREAS, pursuant to the AGREEMENT and the other LOAN DOCUMENTS, BANKS extended the CONSTRUCTION LOAN, REVOLVING LOAN and other financial accommodations and extensions of credit described in the AGREEMENT to BORROWER, all as more fully described in the AGREEMENT;

WHEREAS, pursuant to the AGREEMENT and those certain Revolving Promissory Notes of even date with the AGREEMENT executed and delivered by BORROWER in favor of BANKS, the LOAN TERMINATION DATE of the REVOLVING LOAN is September 19, 2008;

WHEREAS, BORROWER, as tenant, has entered into that certain Lease Agreement dated October 26, 2007 (the "Wellsite Lease") with Michael W. Herriott and Linda E. Herriott, as landlords, for the lease of the Premises defined therein for the drilling, construction and maintenance of water wells to provide water to the PROJECT;

WHEREAS, BORROWER, as tenant, has entered into that certain Lease Agreement dated October 2, 2007 (the "Scott Lease") with John T. Scott and Barbara A. Scott, as landlords, for the lease of the Premises defined therein for the construction, maintenance and repair of water line thereon;

WHEREAS, BORROWER has purchased additional real property from Edward Tucker (the "Tucker Land"), pursuant to a Warranty Deed dated May 9, 2008 and recorded May 14, 2008 as Document Number 242017 in the Ford County Recorder's Office;

WHEREAS, BORROWER has purchased additional real property from Heartland Bank and Trust Company (the "Maintenance Building Land"), pursuant to a Warranty Deed dated September 24, 2008 and recorded in the Ford County Recorder's Office on or about September 24, 2008;

WHEREAS, BANKS require as a condition of this Amendment, and BORROWER has agreed to grant BANKS a lien on BORROWER'S leasehold interests under the Wellsite Lease and Scott Lease and a lien on the Tucker Land and the Maintenance Building Land.

WHEREAS, BORROWER has requested, and conditioned upon the terms of this Amendment, BANKS have agreed, to extend the LOAN TERMINATION DATE of the REVOLVING LOAN to September 18, 2009 and otherwise amend the AGREEMENT as provided for in this Amendment; and

WHEREAS, the parties hereto agree to amend the AGREEMENT as provided for in this Amendment.

NOW, THEREFORE, in consideration of the amendments of the AGREEMENT set forth below, the mutual covenants herein and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties agree to amend the AGREEMENT as follows:

1. Capitalized terms used herein shall have the meaning given to such terms in the AGREEMENT, unless specifically defined herein.

2. The definition of the term “LOAN TERMINATION DATE” in Section 1.28 of the AGREEMENT is hereby amended by deleting the reference to September 19th, 2008 as the LOAN TERMINATION DATE applicable to the REVOLVING NOTES and inserting in lieu thereof September 18, 2009. Anywhere else in the AGREEMENT which refers to September 19, 2008 as the LOAN TERMINATION DATE of the REVOLVING NOTES is hereby amended consistent with the foregoing. To further evidence the extension of the LOAN TERMINATION DATE of the REVOLVING NOTES, BORROWER shall execute and deliver to each BANK with a REVOLVING LOAN COMMITMENT AMOUNT a FIRST AMENDED AND RESTATED REVOLVING PROMISSORY NOTE and all references to the REVOLVING NOTES in the AGREEMENT and the other LOAN DOCUMENTS are hereby amended to refer to such FIRST AMENDED AND RESTATED REVOLVING PROMISSORY NOTES.

3. Exhibit F of the AGREEMENT is hereby deleted in its entirety and the Exhibit F attached to this Amendment is inserted in lieu thereof.

4. This Amendment shall not be effective until BANK shall have received each of the following (each in form and substance acceptable to BANK) or the following conditions have been satisfied:

(a). This Amendment, duly executed by BORROWER.

(b). The FIRST AMENDED AND RESTATED REVOLVING PROMISSORY NOTES duly executed by BORROWER in favor of each BANK with a commitment in the REVOLVING LOAN in the amount of each such BANK's respective REVOLVING LOAN COMMITMENT AMOUNT.

(c). An amendment of the MORTGAGE duly executed by BORROWER and in recordable form reflecting the additional real property acquired or leased by BORROWER as described in such amendment of the MORTGAGE, together with an endorsement to AGENT's loan title policy which reflects the amendment of the MORTGAGE and a Memorandum of the Wellsite Lease.

(d). Such other matters as AGENT may reasonably require.

In addition, within 30 days after the date of this Amendment, BORROWER will obtain an Estoppel Agreement with Michael W. Herriott and Linda E. Herriott, the lessors under the Wellsite Lease as defined in and to be executed in connection with the amendment of the MORTGAGE referenced above.

5. Except as modified and amended herein, all other terms, provisions, conditions and obligations imposed under the terms of the AGREEMENT and the other LOAN DOCUMENTS shall remain in full force and effect and are hereby ratified and affirmed by Borrower. To the extent necessary, the other LOAN DOCUMENTS are hereby amended to be consistent with the terms of this Amendment.

6. Borrower certifies and reaffirms by its execution hereof that the representations and warranties set forth in the AGREEMENT and the other LOAN DOCUMENTS are true as of this date, and that no EVENT OF DEFAULT under the AGREEMENT or any other LOAN DOCUMENT, and no event which, with the giving of notices or passage of time or both, would become such an EVENT OF DEFAULT, has occurred as of execution hereof.

7. This Amendment may be executed simultaneously in several counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment on the date first written above.

ONE EARTH ENERGY, LLC

By: ________________________

Title: ________________________

FIRST NATIONAL BANK OF OMAHA,
in its capacity as a BANK,
ADMINISTRATIVE AGENT,
COLLATERAL AGENT and ACCOUNTS BANK

By: ________________________

Title: ________________________

1st FARM CREDIT SERVICES, as a BANK

By: ______________________________

Title: ______________________________

TRANSAMERICA OCCIDENTAL LIFE
INSURANCE COMPANY, as a BANK

By: ______________________________

Title: ______________________________

BUSEY BANK, as a BANK

By: ____________________________

Title: ____________________________

CAPITAL FARM CREDIT, as a BANK

By: ______________________________

Title: ______________________________

CITIZENS FIRST NATIONAL BANK, as a BANK

By: ______________________

Title: ______________________

COBANK, as a BANK

By: ______________________________

Title: ______________________________

DEERE CREDIT, INC., as a BANK

By: ________________________

Title: ________________________

FARM CREDIT SERVICES OF AMERICA, as a BANK

By: ____________________________

Title: ____________________________

M&I MARSHALL & ISLEY BANK, as a BANK

By: ____________________________

Title: ____________________________

QUAD CITY BANK AND TRUST, as a BANK

By: ______________________

Title: ______________________

EXHIBIT F
Real Estate Description

Project Site:

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 90º00’00” with the last described course; thence east 20.00 feet along said Right-of-Way Line which forms an angle to the left of 89º39’36” with the last described course; thence north 30.00 feet along said Right-of-Way Line which forms an angle to the left of 270º20’24” 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 89º39’36” 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 269º57’50” 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 90º02’10” 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 89º57’15” with the last described course to the Point

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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 90º56'03" 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 89º03'55" 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 90º23'11" 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 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 90º56'03" 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 89º03'55" 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 90º23'11" with the last described course; thence east

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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 269º36’49” 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 90º23’11” 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.

Wellsite Lease Premises:

A part of the 100-Foot-Wide former Norfolk Southern Railroad Right-of-Way in the West Half of the Northwest Quarter and the West Half of the Southwest Quarter, both in Section 10, Township 23 North, Range 9 East of the Third Principal Meridian, Ford County, Illinois, more particularly described as follows: Commencing at an existing brass survey monument at the Southwest Corner of said Section 10, thence north 2615.31 feet along the West Line of the Southwest Quarter of said Section 10 to the Centerline of said former Norfolk Southern Railroad; thence east 682.21 feet along said Centerline which forms an angle to the left of 90º-02’-23” with the last described course to the Point of Beginning. From said Point of Beginning, thence south 50.00 feet along a line which is perpendicular to said Centerline; thence east 600.00 feet along a line which is parallel with said Centerline and forms an angle to the right of 90º-00’-00” with the last described course; thence north 100.00 feet along a line which is perpendicular to said Centerline and approximately 50 feet normally distant west of the East Lines of the West Half of said Southwest Quarter and the West Half of said Northwest Quarter and forms an angle to the right of 90º-00’-00” with the last described course; thence west 600.00 feet along a line which is 50 feet normally distant north of and parallel with said Centerline and forms an angle to the right of 90º-00’-00” with the last described course; thence south 50.00 feet along a line which is perpendicular to said Centerline and forms an angle to the right of 90º-00’-00” with the last described course to the Point of Beginning, containing 1.377 acres, more or less.

PROPOSED ACCESS EASEMENT NO. 1:

A part of the 100-Foot-Wide former Norfolk Southern Railroad Right-of-Way in the West Half of the Northwest Quarter and the West Half of the Southwest Quarter, both in Section 10, Township 23 North, Range 9 East of the Third Principal Meridian, Ford County, Illinois, being the North 20 Feet of the South 60 Feet thereof, bounded on the west by the West Line of said Southwest Quarter and on the east by the West Line of said Well Site Lease Area.

PROPOSED ACCESS EASEMENT NO. 2:

The North 20 Feet of the South 60 Feet of said Well Site Lease Area.

PROPOSED ACCESS EASEMENT NO. 3:

The North 40 Feet of the West 50 Feet of the East 110 Feet of said Well Site Lease Area.

PROPOSED PERMANENT WATER LINE EASEMENT:

A part of the 100-Foot-Wide former Norfolk Southern Railroad Right-of-Way in the West Half of the Northwest Quarter and the West Half of the Southwest Quarter, both in Section 10, Township 23 North, Range 9 East of the Third Principal Meridian, Ford County, Illinois, being the North 25 Feet of said Right-of-Way, bounded on the west by the West Lines of said Northwest Quarter and said Southwest Quarter and on the east by the West Line of said Well Site Lease Area.

PROPOSED TEMPORARY EASEMENT NO. 1 FOR WORKING PURPOSES ONLY DURING CONSTRUCTION:

A part of the West Half of the Northwest Quarter of Section 10, Township 23 North, Range 9 East of the Third Principal Meridian, Ford County, Illinois, being a strip of land 15 feet in width lying north of and adjacent to the North Lines of said Proposed Permanent Water Line Easement and said Well Site Lease Area. Said strip is bounded on the west by the West Line of said Northwest Quarter and on the east by the Northerly Extension of the East Line of said Well Site Lease Area.

PROPOSED TEMPORARY EASEMENT NO. 2 FOR WORKING PURPOSES ONLY DURING CONSTRUCTION:

A part of the 100-Foot-Wide former Norfolk Southern Railroad Right-of-Way in the West Half of the Northwest Quarter and the West Half of the Southwest Quarter, both in Section 10, Township 23 North, Range 9 East of the Third Principal Meridian, Ford County, Illinois, being the North 15 Feet of the South 75 Feet thereof, bounded on the west by the West Line of said Southwest Quarter and on the east by the West Line of said Well Site Lease Area.

Scott Lease Premises:

A tract of land located and lying in Section 12, Township 23 North, Range 8 East of the 3rd Principal Meridian, in Ford County, Illinois, and more particularly described as follows:

The West Eighteen and one half (18 ½) acres of even width thereof, of the North Half of the Northeast Quarter of Section Twelve; and the West One and one-half (1 ½) acres of even width thereof, of the South Half of the Northeast Quarter of Section Twelve; and all that part of the North 50 feet of a strip of land being a portion of Norfolk and Western Railway Company's abandoned right of way (formerly the Lake Erie and Western Railroad Company) lying adjacent to the following described tract: the West 1-½ acres of even width thereof of the South Half of the Northeast Quarter of Section 12, Township 23 North, Range 8 East of the 3rd Principal Meridian, all in Ford County, Illinois, being a part of the real estate conveyed by Norfolk and Western Railway Company to Nickel Plate Trust No. 440, by Quitclaim Deed dated July 12, 1995, and recorded in the land records of Ford County, Illinois on July 20, 1995 as Document No. 200491.

Tucker Land:

A part of the Northeast 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 Southeast Corner 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 Southeast Corner being a point on the North Right-of-Way Line of Illinois Route 9. From said Point of Beginning, thence north 2410.66 feet along the East Line of said tract and along the East Line of a 250 foot wide tract of land conveyed to One Earth Energy, LLC by Warranty Deed Recorded May 2, 2007 as Document No. 238795 in said Recorder's Office to the Southwest Corner of a 100 foot wide tract of land conveyed to One Earth Energy, LLC by Warranty Deed Recorded July 30, 2007 as Document No. 239499 in said Recorder's Office; thence east 2081.00 feet along the South Line of said 100 foot wide tract which forms an angle to the left of 90º-02'-45" with the last described course to the Southeast Corner thereof said Southeast Corner being on the Centerline of Drummer Creek; thence southwesterly 353.09 feet along said Centerline which forms an angle to the left of 76º-32'-17" with the last described course; thence southeasterly 305.55 feet along said Centerline which forms an angle to the left of 202º-58'-52" with the last described course; thence southeasterly 227.43 feet along said Centerline which forms an angle to the left of 176º-05'-43" with

the last described course; thence southeasterly 237.04 feet along said Centerline which forms an angle to the left of 202º-11'-05" with the last described course; thence southeasterly 154.30 feet along said Centerline which forms an angle to the left of 178º-28'-23" with the last described course; thence southerly 148.21 feet along said Centerline which forms an angle to the left of 155º-58'-43" with the last described course; thence southwesterly 147.34 feet along said Centerline which forms an angle to the left of 156º-04'-33" with the last described course; thence southwesterly 302.93 feet along said Centerline which forms an angle to the left of 151º-47'-10" with the last described course; thence southwesterly 71.73 feet along said Centerline which forms an angle to the left of 193º-09'-03" with the last described course; thence southwesterly 60.70 feet along said Centerline which forms an angle to the left of 210º-14'-56" with the last described course to the Southwest Corner of a tract of land conveyed to Michael J. Smith and Charlene L. Smith by Corporation Deed Recorded June 15, 2005 as Document No. 232984, said Southwest Corner being a point on the Westerly Extension of the Centerline of Ninth Street in Gibson City, Illinois, according to said deed; thence west 129.70 feet along said Westerly Extension which forms an angle to the left of 96º-32'-57" with the last described course to the East Line of a tract of land conveyed to Roberta J. Strebeck by Warranty Deed Recorded June 26, 2007 as Document No. 239228 in said Recorder's Office; thence north 595.21 feet along said East Line which forms an angle to the left of 90º-18'-02" with the last described course to the Northeast Corner thereof; thence west 253.50 feet along the North Line of said tract Recorded as Document No. 239228 which forms an angle to the left of 270º-00'-00" with the last described course to the Northwest Corner thereof; thence south 530.00 feet along the West Line of said tract recorded as Document No. 239228 which forms an angle to the left of 270º-00'-00" with the last described course; thence west 879.00 feet along a line which forms an angle to the left of 92º-46'-46" with the last described course; thence south 605.00 feet along a line which forms an angle to the left of 265º-20'-13" with the last described course to a point of the North Right-of-Way Line of said Illinois Route 9 lying 645.00 feet east of the Point of Beginning; thence west 645.00 feet along said North Right-of-Way Line which forms an angle to the left of 91º-53'-00" with the last described course to the Point of Beginning, containing 91.955 acres, more or less. Part of Tax ID No. 09-11-10-201-005.

Maintenance Building Land:

Lot Eight (8) EXCEPT the North 30 feet thereof, in Jordan Industrial Park Subdivision, Third Addition, situated in the City of Gibson, County of Ford and State of Illinois, as per plat recorded as Document No. 226871 with the Ford County Recorder's Office. Parcel No. 09-11-10-100-033.

SECOND AMENDMENT OF
CONSTRUCTION LOAN AGREEMENT

THIS SECOND AMENDMENT OF CONSTRUCTION LOAN AGREEMENT ("Amendment") is made this ____ day of January, 2009 by and among ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), FIRST NATIONAL BANK OF OMAHA ("FNBO"), a national banking association headquartered in 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 BANKS party to the AGREEMENT. This Amendment amends that certain Construction Loan Agreement dated September 20, 2007 among the AGENT, BANKS and BORROWER ("AGREEMENT").

WHEREAS, pursuant to the AGREEMENT and the other LOAN DOCUMENTS, BANKS extended the LOANS and other financial accommodations and extensions of credit described in the AGREEMENT to BORROWER, all as more fully described in the AGREEMENT;

WHEREAS, pursuant to that certain First Amendment of Construction Loan Agreement dated September 19, 2008, the LOAN TERMINATION DATE of the REVOLVING LOAN was extended from September 19, 2008 to September 18, 2009, the Maintenance Building Land, Tucker Land, Wellsite Lease and Scott Lease were added as collateral for the LOANS and the MORTGAGE was amended accordingly, and the AGREEMENT was otherwise amended as provided for therein;

WHEREAS, BORROWER has entered in an additional SWAP CONTRACT in the notional amount of $25,000,000.00, and BORROWER and BANKS desire to amend the allocation of the TERM LOANS and add the FIXED RATE II TERM LOAN as provided for in this Amendment to reflect such additional SWAP CONTRACT;

WHEREAS, BORROWER has entered into that certain Agreement for Assignment of an Undivided Interest in Real Property and its Appurtenances dated December 9, 2008 (the "Ameren Agreement") with Ameren Energy Generating Company ("Ameren") for the use of a portion of the capacity of Ameren's natural gas pipeline to transport and supply natural gas to the PROJECT;

WHEREAS, the BANKS require as a condition of this Amendment that BORROWER collaterally assign the Ameren Agreement to the COLLATERAL AGENT;

WHEREAS, the BANKS further require that BORROWER plan and provide for a contingency to the Ameren Agreement to access sufficient supplies of natural gas to operate the PROJECT to its highest capacity should the Ameren Agreement terminate or not be extended beyond its stated term; and

WHEREAS, the parties hereto agree to amend the AGREEMENT as provided for in this Amendment.

NOW, THEREFORE, in consideration of the amendments of the AGREEMENT set forth below, the mutual covenants herein and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties agree to amend the AGREEMENT as follows:

1. Capitalized terms used herein shall have the meaning given to such terms in the AGREEMENT, unless specifically defined herein.

2. The definition of the term "LOANS" in the Recital to the AGREEMENT is hereby amended by including the TERM LOANS (as such term is defined below in this Amendment) within the definition of LOANS.

3. The definition of the term "LOAN DOCUMENTS" in Section 1.27 of the AGREEMENT is hereby amended to include the FIXED RATE II TERM NOTES.

4. The definition of the term "LOAN TERMINATION DATE" in Section 1.28 of the AGREEMENT is hereby amended by inserting " the FIXED RATE II NOTES," after "the "FIXED RATE NOTES".

5. The definition of the term "TERM NOTES" in Section 1.47 of the AGREEMENT is hereby amended by inserting " the FIXED RATE II NOTES," after "the FIXED RATE NOTES".

6. Section 2.5 of the AGREEMENT is hereby deleted in its entirety and the following is inserted in lieu thereof:

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-1, B-2, C, and D, respectively, and are by this reference made a part hereof. The TERM NOTES evidence the "TERM LOANS". The TERM LOANS will consist of a FIXED RATE LOAN in the principal amount of $50,000,000.00 evidenced by the FIXED RATE NOTES, the FIXED RATE II LOAN in the principal amount of $25,000,000.00 evidenced by the FIXED RATE II NOTES, a VARIABLE RATE LOAN in the principal amount of $15,000,000.00 evidenced by the VARIABLE RATE NOTES and the LONG TERM REVOLVING LOAN in the principal amount of $10,000,000.00 evidenced by the LONG TERM REVOLVING NOTES. The TERM NOTES will 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 will pay to ADMINISTRATIVE AGENT on the FIXED RATE NOTES, 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 to this AGREEMENT and by this reference made a part hereof, plus accrued interest on the FIXED RATE NOTES.

On the eighth (8th) day of every third (3rd) month, commencing three (3) months after the CONSTRUCTION LOAN TERMINATION DATE, BORROWER will pay to ADMINISTRATIVE AGENT on the FIXED RATE II NOTES, for the account of BANKS in accordance with their respective COMMITMENTS in the FIXED RATE II LOAN, the scheduled principal payment shown in Schedule II, attached to this AGREEMENT and by this reference made a part hereof, plus accrued interest on the FIXED RATE II NOTES.

In addition, on the eighth (8th) day of every third (3rd) month, commencing three (3) months after the CONSTRUCTION LOAN TERMINATION DATE, BORROWER will pay $870,773.16 to ADMINISTRATIVE AGENT, for the account of BANKS in accordance with their respective COMMITMENT in the VARIABLE RATE LOAN and LONG TERM REVOLVING LOAN, 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 then 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.

7. The Schedule II attached to this Amendment is hereby attached to and made a part of the AGREEMENT.

8. Section 2.6 of the AGREEMENT is hereby amended by adding new subsection (d) as follows:

(d). FIXED RATE II NOTES. Interest on the principal balance outstanding on the FIXED RATE II 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 II NOTES. The interest rate on the FIXED RATE II 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 II NOTES at a rate equal to the three month LIBOR RATE plus nine hundred (900) basis points.

9. Section 2.11 of the AGREEMENT is hereby deleted in its entirety and the following is inserted in lieu thereof:

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 in the aggregate; provided, however, that at any time FNBO's exposure on SWAP CONTRACTS exceeds $6,750,000.00 as determined by FNBO in its sole discretion, the remaining portion of $1,000,000.00 available to BORROWER for letters of credit will decrease dollar for dollar by the amount of such SWAP CONTRACT exposure in excess of $6,750,000.00.

10. The last paragraph of Section 2.12 of the AGREEMENT is hereby amended by inserting ", FIXED RATE II NOTES" after "FIXED RATE NOTES".

11. The last sentence of the last paragraph of Section 2.13 of the AGREEMENT is amended by deleting the reference to "two percent (2%)" as the Letter of Credit fee and inserting in lieu thereof "one percent (1%)".

12. Exhibit B, the form of FIXED RATE NOTE, is hereby re-named Exhibit B-1. New Exhibit B-2, the form of FIXED RATE II NOTE is hereby inserted into the AGREEMENT after Exhibit B-1.

13. BORROWER acknowledges that the Ameren Agreement expires on January 31, 2019 and that BORROWER has no automatic right or option under the Ameren Agreement to extend its term. On or before January 31, 2016, BORROWER agrees to use its best efforts to execute with Ameren an amendment or modification of the Ameren Agreement extending the term of the Ameren Agreement to no earlier than January 31, 2020 under terms acceptable to the ADMINISTRATIVE AGENT. In addition, on or before January 31, 2017, BORROWER agrees to take the following steps to ensure that the PROJECT will have access to sufficient quantities of natural gas to operate at the PROJECT's highest capacity after the expiration or termination of the Ameren Agreement:

(a). BORROWER will prepare, execute and record all easements necessary to construct, install, operate, maintain and repair a natural gas pipeline parallel to the Ameren pipeline of which Buyer's Property (as defined in the Ameren Agreement) is a part from the PROJECT site to the interstate natural gas pipeline system owned and operated by Natural Gas Pipeline Company of America, the current source of natural gas to the PROJECT. To the extent Ameren may legally and validly assign to BORROWER rights to use Ameren's easements for such area, then BORROWER will enter into assignments with Ameren for the right to use and enjoy the benefit of such existing easements. The foregoing easements and/or assignments will be in form and substance acceptable to the ADMINISTRATIVE AGENT. In the alternative, BORROWER may contract with a natural gas supplier other than Natural Gas Pipeline Company of America for the supply of natural gas to the PROJECT in sufficient quantities of natural gas to operate at the PROJECT's highest capacity. In such event, BORROWER will prepare, execute and record all easements necessary to construct, install, operate, maintain and repair a natural gas pipeline from the PROJECT site to such other source of natural gas to the PROJECT. BORROWER will collaterally assign to the COLLATERAL AGENT all contracts relating to pipelines and the supplying of natural gas to the PROJECT, including but not limited to contracts with Ameren and Natural Gas Pipeline Company of America, along with all consents required or deemed necessary by the COLLATERAL AGENT.

(b). On or before January 31, 2017, BORROWER will open, deposit and maintain with the ADMINISTRATIVE AGENT a reserve deposit account (the "Natural Gas Reserve Account") in an amount not less than the cost to acquire necessary easements and construct and install the natural gas pipeline referenced in Subsection (a) above in accordance with plans approved by the ADMINISTRATIVE AGENT. The Natural Gas Reserve Account will be titled in BORROWER's name and will be designated as the Natural Gas Reserve Account; however, the ADMINISTRATIVE AGENT will have exclusive dominion and control over such Natural Gas Reserve Account without further consent of BORROWER. BORROWER will use the proceeds of the Natural Gas Reserve Account to fund the cost of acquiring necessary easements in connection with and constructing and installing the natural gas pipeline referenced in Subsection (a) above. On or before January 31, 2017, BORROWER will provide to the ADMINISTRATIVE AGENT for the ADMINISTRATIVE AGENT's approval, plans and a budget for the construction of such natural gas pipeline and all costs incident thereto. The ADMINISTRATIVE AGENT reserves the right to hire a third party engineer or consultant at BORROWER's expense to review BORROWER's plans and specifications for such natural gas pipeline and to conduct periodic inspections of the construction at BORROWER's expense as determined necessary by the ADMINISTRATIVE AGENT. The proceeds of the Natural Gas Reserve Account will be disbursed by the ADMINISTRATIVE AGENT to the BORROWER to pay such construction costs in accordance with plans and a budget approved by the ADMINISTRATIVE AGENT. The Natural Gas Reserve Account will be disbursed in accordance with the ADMINISTRATIVE AGENT's requirements and procedures for disbursements and advances of funds on construction loans. BORROWER will not otherwise have the power or authority to close or withdraw funds from or write checks on

the Natural Gas Reserve Account or otherwise transfer or authorize the transfer of any funds on deposit in the Natural Gas Reserve Account in any manner, including, without limitation, the power to initiate wire transfers, ACH transfers or otherwise make withdrawals in any manner on the Natural Gas Reserve Account and the funds contained therein. BORROWER hereby grants to the COLLATERAL AGENT a security interest in the Natural Gas Reserve Account. In the event the Ameren Agreement is extended for the time period provided for above and in a manner and under terms acceptable to the ADMINISTRATIVE AGENT, then the Natural Gas Reserve Account will thereafter no longer be required and any balance therein will be disbursed to BORROWER.

BORROWER's failure to timely comply with the provisions of this Section 13 will constitute an EVENT OF DEFAULT under the AGREEMENT.

14. This Amendment shall not be effective until BANK shall have received each of the following (each in form and substance acceptable to BANK) or the following conditions have been satisfied:

(a). This Amendment, duly executed by BORROWER.

(b). A collateral assignment of the Ameren Agreement, in form and substance acceptable to the ADMINISTRATIVE AGENT.

(c). Such other matters as AGENT may reasonably require.

15. Except as modified and amended herein, all other terms, provisions, conditions and obligations imposed under the terms of the AGREEMENT and the other LOAN DOCUMENTS shall remain in full force and effect and are hereby ratified and affirmed by Borrower. To the extent necessary, the other LOAN DOCUMENTS are hereby amended to be consistent with the terms of this Amendment.

16. BORROWER certifies and reaffirms by its execution hereof that the representations and warranties set forth in the AGREEMENT and the other LOAN DOCUMENTS are true as of this date, and that no EVENT OF DEFAULT under the AGREEMENT or any other LOAN DOCUMENT, and no event which, with the giving of notices or passage of time or both, would become such an EVENT OF DEFAULT, has occurred as of execution hereof.

17. This Amendment may be executed simultaneously in several counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment on the date first written above.

ONE EARTH ENERGY, LLC

By: ____________________

Title: ____________________

FIRST NATIONAL BANK OF OMAHA,
in its capacity as a BANK,
ADMINISTRATIVE AGENT,
COLLATERAL AGENT and ACCOUNTS BANK

By: ____________________

Title: ____________________

1st FARM CREDIT SERVICES, as a BANK

By: ______________________________

Title: ______________________________

TRANSAMERICA LIFE INSURANCE COMPANY, as a BANK

By: ______________________________

Title: ______________________________

BUSEY BANK, as a BANK

By: ______________________________

Title: ______________________________

CAPITAL FARM CREDIT, as a BANK

By: ______________________

Title: ______________________

CITIZENS FIRST NATIONAL BANK, as a BANK

By: ____________________________

Title: ____________________________

COBANK, as a BANK

By: ______________________

Title: ______________________

DEERE CREDIT, INC., as a BANK

By: ______________________

Title: ______________________

FARM CREDIT SERVICES OF AMERICA, as a BANK

By: ______________________________

Title: ______________________________

M & I MARSHALL & IISLEY BANK, as a BANK

By: ____________________

Title: ____________________

QUAD CITY BANK AND TRUST, as a BANK

By: ______________________

Title: ______________________

SCHEDULE "II" TO CONSTRUCTION LOAN AGREEMENT

AMORTIZATION SCHEDULE – U.S. RULE (NO COMPOUNDING), 360 DAY YEAR

One Earth Energy, LLC Fixed Rate II Loan
Principal Schedule for Payments Plus Interest

AMORTIZATION SCHEDULE - U.S. Rule (no compounding), 360 Day Year

	Principal Payment	Balance (from $25,000,000.00)
1	$ 473,160.00	$24,526,840.00
2	$ 473,160.00	$24,053,840.00
3	$ 473,160.00	$23,580,520.00
4	$ 473,160.00	$23,107,360.00
5	$ 498,902.00	$22,608,458.00
6	$ 498,902.00	$22,109,556.00
7	$ 498,902.00	$21,610,654.00
8	$ 887,725.07	$20,722,928.93
9	$ 887,725.07	$19,835,203.86
10	$ 887,725.07	$18,947,478.79
11	$ 887,725.07	$18,059,753.72
12	$ 887,725.07	$17,172,028.65
13	$ 887,725.07	$16,284,303.58
14	$ 887,725.07	$15,396,578.51
15	$ 887,725.07	$14,508,853.44
16	$ 887,725.07	$13,621,128.37
17	$ 887,725.07	$12,733,403.30
18	$ 887,725.07	$11,845,678.23
19	$ 887,725.07	$10,957,953.16
20	$10,957,953.16	$ 0.00

EXHIBIT B
Fixed Rate II Note

FIXED RATE II 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 II 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 II 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 II NOTE in full or in part at any time. Provided, however, a condition of any prepayment of all of this FIXED RATE II NOTE, the 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 II NOTE shall be paid to BANK. In the event that BORROWER pre-pays all of this FIXED RATE II 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 BANKS. 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 BANKS for interest rate breakage fees or otherwise result in any prepayment fee.

ADDITIONAL TERMS AND CONDITIONS. This FIXED RATE II 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 II 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 II 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 II NOTE without in any way waiving or affecting any acceleration of this FIXED RATE II 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 II 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 II 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 II 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 II 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 4(L)

THIRD AMENDMENT OF
CONSTRUCTION LOAN AGREEMENT

THIS THIRD AMENDMENT OF CONSTRUCTION LOAN AGREEMENT ("Amendment") is made this 18th day of September, 2009 by and among ONE EARTH ENERGY, LLC, an Illinois limited liability company ("BORROWER"), FIRST NATIONAL BANK OF OMAHA ("FNBO"), a national banking association headquartered in 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 BANKS party to the AGREEMENT. This Amendment amends that certain Construction Loan Agreement dated September 20, 2007 among the AGENT, BANKS and BORROWER ("AGREEMENT").

WHEREAS, pursuant to the AGREEMENT and the other LOAN DOCUMENTS, BANKS extended the LOANS and other financial accommodations and extensions of credit described in the AGREEMENT to BORROWER, all as more fully described in the AGREEMENT;

WHEREAS, pursuant to that certain First Amendment of Construction Loan Agreement dated September 19, 2008, the LOAN TERMINATION DATE of the REVOLVING LOAN was extended from September 19, 2008 to September 18, 2009, the Maintenance Building Land, Tucker Land, Wellsite Lease and Scott Lease were added as collateral for the LOANS and the MORTGAGE was amended accordingly, and the AGREEMENT was otherwise amended as provided for therein;

WHEREAS, pursuant to that certain Second Amendment of Construction Loan Agreement dated January ___, 2009, the allocation of the TERM LOANS was modified by the addition of the FIXED RATE II TERM LOAN, provisions relating to the Ameren Agreement were added and the AGREEMENT was otherwise amended as provided for therein;

WHEREAS, BORROWER has requested, and under the terms of this Amendment Banks have agreed, to extend the LOAN TERMINATION DATE of the REVOLVING LOAN from September 18, 2009 to September 17, 2010, to modify the interest rate and non-usage fee applicable to the REVOLVING LOAN, and to otherwise amend the AGREEMENT as provided for in this Amendment; and

WHEREAS, the parties hereto agree to amend the AGREEMENT as provided for in this Amendment.

NOW, THEREFORE, in consideration of the amendments of the AGREEMENT set forth below, the mutual covenants herein and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties agree to amend the AGREEMENT as follows:

---

1. Capitalized terms used herein shall have the meaning given to such terms in the AGREEMENT as amended in this Amendment, unless specifically defined herein.

2. The definition of the term "LOAN TERMINATION DATE" in Section 1.28 of the AGREEMENT is hereby amended by deleting the reference to September 18th, 2009 as the LOAN TERMINATION DATE applicable to the REVOLVING NOTES and inserting in lieu thereof September 17, 2010. Anywhere else in the AGREEMENT which refers to September 18, 2009 as the LOAN TERMINATION DATE of the REVOLVING NOTES is hereby amended consistent with the foregoing. To further evidence the extension of the LOAN TERMINATION DATE of the REVOLVING NOTES and modification of the interest rate applicable thereto provided for below, BORROWER shall execute and deliver to each BANK with a REVOLVING LOAN COMMITMENT AMOUNT a SECOND AMENDED AND RESTATED REVOLVING PROMISSORY NOTE and all references to the REVOLVING NOTES in the AGREEMENT and the other LOAN DOCUMENTS are hereby amended to refer to such SECOND AMENDED AND RESTATED REVOLVING PROMISSORY NOTES.

3. Section 2.10 of the AGREEMENT is hereby deleted in its entirety and the following is inserted in lieu thereof:

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, the REVOLVING NOTES shall bear interest at a rate per annum equal to 3.100% plus the greater of (i) the three month LIBOR RATE or (ii) two percent (2%). 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 third month thereafter to the rate calculated above. After the applicable LOAN TERMINATION DATE, whether by acceleration or otherwise, interest shall accrue on the REVOLVING NOTES at a rate equal to the rate calculated above plus six percent (6%).

4. The definition of the term "INTEREST PERIOD" in Section 1.25 of the AGREEMENT is hereby deleted in its entirety and the following is inserted in lieu thereof:

1.25 "INTEREST PERIOD" means for the FIXED RATE NOTES, VARIABLE RATE NOTES, CONSTRUCTION NOTES, REVOLVING NOTES and LONG TERM REVOLVING NOTES a period of three (3) months; 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.

5. The definition of the term “LIBOR RATE” in Section 1.26 of the AGREEMENT is hereby deleted in its entirety and the following is inserted in lieu thereof:

> “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 ADMINISTRATIVE AGENT from the Bloomberg Finance, L.P. rate sheets, or any successor thereto, which shall be that rate in effect on the first EURODOLLAR BUSINESS DAY of each calendar month, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation, such rate to be reset at the beginning of each succeeding INTEREST PERIOD. The ADMINISTRATIVE AGENT will tell BORROWER the current LIBOR Rate upon BORROWER’s request.

6. The first sentence of the second paragraph of Section 2.13 of the AGREEMENT is hereby amended by deleting the reference to 35 basis points as the non-usage fee and inserting in lieu thereof 50 basis points.

7. Effective on the date of this Amendment, FNBO’s obligation to issue new letters of credit for the account of BORROWER is terminated and Section 2.11 of the AGREEMENT is hereby deleted in its entirety; provided, however, that subject to FNBO’s credit review and approval, FNBO may renew any letter of credit issued and outstanding on the date of this Amendment.

8. This Amendment shall not be effective until the ADMINISTRATIVE AGENT shall have received each of the following (each in form and substance acceptable to the ADMINISTRATIVE AGENT) or the following conditions have been satisfied:

(a). This Amendment, duly executed by BORROWER and each BANK.

(b). The SECOND AMENDED AND RESTATED REVOLVING PROMISSORY NOTES, duly executed by BORROWER.

(c). Such other matters as the ADMINISTRATIVE AGENT may reasonably require.

9. Except as modified and amended herein, all other terms, provisions, conditions and obligations imposed under the terms of the AGREEMENT and the other LOAN DOCUMENTS shall remain in full force and effect and are hereby ratified and affirmed by BORROWER. To the extent necessary, the other LOAN DOCUMENTS are hereby amended to be consistent with the terms of this Amendment.

10. BORROWER certifies and reaffirms by its execution hereof that the representations and warranties set forth in the AGREEMENT and the other LOAN DOCUMENTS are true and complete as of this date, and that no EVENT OF DEFAULT under the AGREEMENT or any other LOAN DOCUMENT, and no event which, with the giving of notices or passage of time or both, would become such an EVENT OF DEFAULT, has occurred as of execution hereof. This Amendment may be executed simultaneously in several

counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment on the date first written above.

ONE EARTH ENERGY, LLC

By: ______________________________

Title: ______________________________

FIRST NATIONAL BANK OF OMAHA, in its capacity as a BANK, ADMINISTRATIVE AGENT, COLLATERAL AGENT and ACCOUNTS BANK

By: ______________________________

Title: ______________________________

1st FARM CREDIT SERVICES, as a BANK

By: ______________________________

Title: ______________________________

TRANSAMERICA LIFE INSURANCE COMPANY, as a BANK

By: ______________________________

Title: ______________________________

BUSEY BANK, as a BANK

By: ________________________

Title: ________________________

CAPITAL FARM CREDIT, as a BANK

By: ______________________________

Title: ______________________________

CITIZENS FIRST NATIONAL BANK, as a BANK

By: ____________________

Title: ____________________

COBANK, as a BANK

By: ______________________________

Title: ______________________________

DEERE CREDIT, INC., as a BANK

By: ______________________________

Title: ______________________________

FARM CREDIT SERVICES OF AMERICA, as a BANK

By: ______________________________

Title: ______________________________

M & I MARSHALL & ISLEY BANK, as a BANK

By: ______________________________

Title: ______________________________

QUAD CITY BANK AND TRUST, as a BANK

By: ______________________________

Title: ______________________________

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[2][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	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.

Exhibit 23(a)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-3836, No. 33-81706, No. 33-62645, No. 333-69089, No. 333-35118, No. 333-69081 and No. 333-69690 on Form S-8 of our reports dated April 16, 2010, relating to the consolidated financial statements and consolidated financial statement schedule of REX Stores Corporation and subsidiaries ("the Company") (which reports express an unqualified opinion and refers to the report of other auditors, and included an explanatory paragraph regarding the Company's retrospective application of Accounting Standards Codification (ASC) 810, *Consolidation* (formerly Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*), which became effective February 1, 2009, the retrospective presentation of the Company's retail business as discontinued operations, and the adoption of the provisions of ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*), effective February 1, 2007) and the effectiveness of internal control over financial reporting, appearing in the Company's Annual Report on Form 10-K for the year ended January 31, 2010.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio
April 16, 2010

Exhibit 23(b)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-3836, No. 33-81706, No. 33-62645, No. 333-69089, No. 333-35118, No. 333-69081 and No. 333-69690 on Form S-8 of REX Stores Corporation and subsidiaries of our report dated February 18, 2010, relating to the financial statements of Big River Resources, LLC as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008 and our report dated February 6, 2008 relating to the financial statements as of December 31, 2007 and 2008 and for the year ended December 31, 2007 and the four months ended December 31, 2006, appearing in this annual Report on Form 10-K of REX Stores Corporation and subsidiaries for the year ended January 31, 2010.

/S/ Christianson & Associates, PLLP

Willmar, Minnesota
April 16, 2010

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-3836, No. 33-81706, No. 33-62645, No. 333-69089, No. 333-35118, No. 333-69081 and No. 333-69690 on Form S-8 of REX Stores Corporation and subsidiaries of our report dated April 12, 2010, relating to the financial statements of Patriot Renewable Fuels, LLC as of December 31, 2009 and for the year then ended, appearing in this annual Report on Form 10-K of REX Stores Corporation and subsidiaries for the year ended January 31, 2010.

/S/ Boulay, Heutmaker, Zibell and Co. P.L.L.P.

Minneapolis, Minnesota
April 16, 2010

Exhibit 23(d)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements No. 33-3836, No. 33-81706, No. 33-62645, No. 333-69089, No. 333-35118, No. 333-69081 and No. 333-69690 on Form S-8 of REX Stores Corporation and subsidiaries of our report dated November 24, 2009, relating to the financial statements of Patriot Renewable Fuels, LLC as of December 31, 2008 and 2007 and for the years ended December 31, 2008 and 2007, appearing in this annual Report on Form 10-K of REX Stores Corporation and subsidiaries for the year ended January 31, 2010.

/S/ DELOITTE & TOUCHE LLP

Davenport, Iowa
April 16, 2010

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 16, 2010

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 16, 2010

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, 2010, 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.

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

DOUGLAS L. BRUGGEMAN
Douglas L. Bruggeman
Vice President, Finance, Treasurer and
Chief Financial Officer

Dated: April 16, 2010

BIG RIVER RESOURCES, LLC

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants
Willmar, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the accompanying consolidated balance sheets of **Big River Resources, LLC** (an Iowa limited liability company) as of December 31, 2009 and 2008 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of **Big River Resources, LLC** as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Christianson & Associates, PLLP

Certified Public Accountants and Consultants

February 18, 2010

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 40,271,218	$ 50,247,424
Receivables		
Trade	24,881,446	7,950,981
Other	1,416,008	740,643
Inventories	29,271,292	16,860,159
Prepaid expenses	2,998,615	543,570
Derivative instruments	2,871,140	955,234
TOTAL CURRENT ASSETS	101,709,719	77,298,011
PROPERTY AND EQUIPMENT		
Land and land improvements	31,916,240	11,843,686
Building structure	62,762,668	11,528,933
Grain equipment	30,901,632	18,830,022
Process equipment	273,491,957	99,510,783
Other equipment	6,221,051	1,389,133
Construction in progress	587,425	136,378,693
	405,880,973	279,481,250
Accumulated depreciation	(40,617,012)	(22,828,998)
	365,263,961	256,652,252
OTHER ASSETS		
Investments	4,208,902	4,128,237
Other assets	200,000	—
Covenant not to compete, net of amortization	33,333	83,333
Financing costs, net of amortization	1,963,163	1,888,714
	6,405,398	6,100,284
TOTAL ASSETS	$ 473,379,078	$ 340,050,547

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008

LIABILITIES AND MEMBERS' EQUITY

	2009	2008
CURRENT LIABILITIES		
Payables		
Trade	$ 8,539,833	$ 7,284,621
Grain	7,969,243	8,641,900
Construction	243,382	7,724,204
Accrued loss on firm purchase commitments	—	4,941,011
Accrued expenses	5,083,871	1,366,886
Current maturities of long-term debt	24,325,696	11,679,384
TOTAL CURRENT LIABILITIES	46,162,025	41,638,006
LONG-TERM DEBT, less current maturities	176,754,976	77,237,342
MEMBERS' EQUITY	238,932,449	220,364,253
MINORITY INTEREST	11,529,628	810,946
	250,462,077	221,175,199
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 473,379,078	$ 340,050,547

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
December 31, 2009 and 2008

	2009	2008
SALES	$ 448,145,300	$ 343,697,815
COST OF SALES	404,828,503	308,962,871
GROSS PROFIT	43,316,797	34,734,944
OPERATING EXPENSES		
General and administrative	10,173,451	7,059,826
Long-lived asset impairment	—	5,778,081
INCOME FROM OPERATIONS	33,143,346	21,897,037
OTHER INCOME (EXPENSES)		
Gain on sale of construction time slot	—	500,000
Interest income	109,158	965,799
Interest expense	(4,844,667)	(1,744,727)
Other income (expense)	536,314	(40,957)
	(4,199,195)	(319,885)
NET INCOME BEFORE MINORITY INTEREST	28,944,151	21,577,152
MINORITY INTEREST IN SUBSIDIARY’S (INCOME) LOSS	(3,718,682)	2,963,008
NET INCOME	$ 25,225,469	$ 24,540,160

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
December 31, 2009 and 2008

Balance - December 31, 2007	$	200,482,209
Exercise of unit options, issuance of 67 membership units		335,000
Issuance of employee unit options		149,484
Distributions to members		(5,142,600)
Net income		24,540,160
Balance - December 31, 2008		220,364,253
Exercise of unit options, issuance of 84 membership units		355,013
Issuance of employee unit options		216,754
Distributions to members		(7,229,040)
Net income		25,225,469
Balance - December 31, 2009	$	238,932,449

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Net income	$ 25,225,469	$ 24,540,160
Charges to net income not affecting cash		
Depreciation and amortization	18,136,930	8,760,436
Long-lived asset impairment	—	5,778,081
Loss on firm purchase commitments	(4,941,011)	4,941,011
Compensation recognized from stock options	216,754	149,484
Loss (gain) on derivative instruments	6,307,451	(26,555,953)
Deferred income	—	(500,000)
Investment earnings	(80,665)	(1,360)
Minority interest in subsidiaries' gain (loss)	3,718,682	(2,963,008)
(Increase) decrease in current assets		
Receivables	(17,605,830)	(2,741,723)
Inventories	(10,887,207)	1,996,209
Net cash (paid) refunded on derivative instruments	(8,223,357)	25,915,907
Prepaid expenses	(2,455,045)	(63,991)
Increase (decrease) in current liabilities		
Accounts payable	582,555	8,796,168
Accrued expenses	3,716,985	878,155
Distributions payable	—	(4,100,680)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,711,711	44,828,896
INVESTING ACTIVITIES		
Payments for deposits	(200,000)	—
Purchase of property and equipment	(39,464,390)	(137,385,506)
Refund of investment	—	5,000,000
NET CASH USED IN INVESTING ACTIVITIES	(39,664,390)	(132,385,506)
FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	42,466,580	95,401,005
Net payments on long-term revolving loan	(7,000,000)	—
Principal payments on long-term debt borrowings	(19,302,634)	(7,081,279)
Payment for financing costs	(313,446)	(1,296,798)
Member contributions	355,013	335,000
Minority investment	7,000,000	—
Distribution to member	(7,229,040)	(5,142,600)
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,976,473	82,215,328
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,976,206)	(5,341,282)
CASH AND CASH EQUIVALENTS - beginning of year	50,247,424	55,588,706
CASH AND CASH EQUIVALENTS - end of year	$ 40,271,218	$ 50,247,424

See notes to consolidated financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Big River Resources, LLC, its wholly-owned subsidiaries, Big River Resources West Burlington, LLC (West Burlington), Big River Resources Galva, LLC (Galva), Big River Resources Quincy, LLC (Quincy), its 50% joint venture Big River Resources Grinnell, LLC (Grinnell) and its 50.5% ownership in Big River United Energy, LLC, (collectively, the company) are limited liability companies.

West Burlington owns and operates an ethanol plant located in West Burlington, Iowa with an annual production nameplate capacity of 92 million gallons that produces ethanol, non-food grade corn oil and distiller grains for commercial sales throughout the United States. West Burlington operates a grain elevator near Monmouth, Illinois (Monmouth) which buys corn and soybeans from farmers as a reserve corn supply to the ethanol operation in West Burlington, Iowa and for soybean sales throughout the United States.

Galva owns and operates an ethanol plant located near Galva, Illinois with an annual nameplate capacity of 100 million gallons that produces ethanol, non-food grade corn oil and distiller grains for commercial sales throughout the United States. As of December 31, 2008, the company was in the development stage with its efforts being principally devoted to grain merchandising and construction activities related to the ethanol plant. Construction was completed and the ethanol plant became operational in May 2009.

Grinnell is a development stage company that was organized to construct an ethanol plant near Grinnell, Iowa with a planned annual nameplate capacity of 100 million. As of December 31, 2009, the company has no formal plans to develop the plant.

Quincy was a development stage company with no operations. In November 2008, the Board of Directors approved a resolution to dissolve Quincy and distributed the net assets to Big River Resources, LLC.

Big River United Energy, LLC was formed on August 1, 2009 to acquire and operate an ethanol plant located in Dyersville, Iowa with an annual production nameplate capacity of 100 million gallons of denatured ethanol. The company began production of ethanol and distiller grains for commercial sales throughout the United States on September 16, 2009.

In September 2009, the company executed a purchase agreement with RBF Acquisition III, LLC to purchase substantially all of the assets of the Dyersville, Iowa ethanol plant which was formerly owned by VeraSun Energy Corporation for a price of $96,000,000.

The following shows the allocations of the purchase consideration at the closing:

Inventories	$ 1,523,926
Property and equipment	94,476,074
Issuance of long-term debt	$ 96,000,000

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PRINCIPALS OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of Big River Resources, LLC, and its subsidiaries. All significant intercompany account balances and transactions have been eliminated.

The company accounts for its investment in Grinnell on a consolidated basis because it is a variable interest entity and the company is its primary beneficiary.

FISCAL REPORTING PERIOD - The company has adopted a fiscal year ending December 31 for reporting financial operations.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period.

REVENUE RECOGNITION - Revenues from the production of ethanol, distillers grains, corn oil and grain merchandising are recorded at the time title to the goods and all risks of ownership transfers to customers. Ethanol, distillers grains and corn oil are generally shipped FOB shipping point. Shipping and handling charges to customers are included in revenues.

CASH AND CASH EQUIVALENTS - The company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

TRADE RECEIVABLES - The company has engaged the services of a national marketer to sell substantially all of its ethanol production and the majority of the distillers produced at Big River United Energy, LLC. The marketer handles nearly all sales functions including billing, logistics, and sales pricing. Once product is shipped, the marketer assumes the risk of payment from the consumer and handles all delinquent payment issues. In 2008, the company terminated its distiller grain marketing agreement at West Burlington and began marketing its own local truck distiller grains. The company generally bills weekly with payments due within 10 days of the invoice date, and considers accounts older than 120 days to be delinquent and would generally initiate collection procedures. If the collection procedures have not provided collection within one year of the invoice date, management generally will write off the account as a bad debt. Trade receivables are recorded net of anticipated uncollectible amounts. As of December 31, 2009 and 2008, there was no allowance for uncollectible amounts.

INVENTORIES - The ethanol, ethanol production in process, parts, chemicals and ingredients, and corn inventories are valued at the lower of cost (average cost method) or market. Soybeans and corn held at the elevator are recorded at net realizable value.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONCENTRATIONS OF CREDIT RISK - The company extends credit to its customers in the ordinary course of business. The company performs periodic credit evaluations of its customers and generally does not require collateral. The company's operations may vary with the volatility of the commodity and ethanol markets. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

PROPERTY AND EQUIPMENT - Property and equipment are stated at the lower of cost or fair value. Significant additions and betterments are capitalized with expenditures for maintenance, repairs and minor renewals being charged to operations as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	15–20 years
Building structure	10–20 years
Grain equipment	5–15 years
Process equipment	5–20 years
Other equipment	5–15 years

Construction in progress includes all expenditures directly related to the fermenters automated control system at the West Burlington plant, the distiller grains container loading system at the Galva plant and fermentation system at the Big River United Energy, LLC plant. These expenditures will be depreciated using the straight-line method over various estimated useful lives once the assets are placed into service.

The company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset. The amount of the loss is determined by comparing the fair market values of the asset to the carrying amount of the asset. At December 31, 2008, fair value of the land asset at Grinnell was estimated using the sales comparison, cost and market approaches which were included in an asset appraisal performed in 2008. The resulting long-lived asset impairment expense of $5,778,081 is included in loss from operations on the statement of operations at December 31, 2008.

DERIVATIVE INSTRUMENTS - The company recognizes its derivatives in the balance sheet and measures these instruments at fair value. In order for a derivative to qualify as a hedge, specific criteria must be met and appropriate documentation maintained. Gains and losses from derivatives that do not qualify as hedges, or are undesignated, must be recognized immediately in earnings. If the derivative does qualify as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will be either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE INSTRUMENTS (continued) - Additionally, the company evaluates its contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted as “normal purchases or normal sales”. Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period of time in the normal course of business.

Effective January 1, 2009, the company has elected to record its forward purchase and sales commitments at fair value as derivative instruments which the company believes to represent more accurate financial reporting. These contracts are marked to market as an asset or liability and a corresponding gain or loss is recognized for the change in market value.

FINANCING COSTS - Financing costs are recorded at cost and include expenditures directly related to securing debt financing. Amortization is computed using the straight-line method over the loans’ terms from six to eight years.

DEPOSITS - Deposits include monies deposited for a distilled spirits bond and is recorded at the scheduled recoverable value.

INVESTMENTS - Investments include stock in a lending cooperative bank and membership units in an ethanol plant located in Mitchell County, Iowa. The stock in a lending cooperative bank is recorded under the equity method which records the company’s share of the allocated earnings and distributions. The membership units in the ethanol plant are recorded at cost.

FAIR VALUE OF FINANCIAL INSTRUMENTS - Effective January 1, 2009, the company adopted, *Fair Value Measurements Topic* and *Fair Value Option for Financial Assets and Financial Liabilities Topic* of the FASB Accounting Codification, as they apply to its financial instruments. *Fair Value Measurements* defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. *Fair Value Option for Financial Assets and Financial Liabilities* permits companies to irrevocably choose to measure certain financial instruments and other items at fair value. *Fair Value Option for Financial Assets and Financial Liabilities* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued) - Under *Fair Value Measurements*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. *Fair Value Measurements* establishes a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. *Fair Value Measurements* requires the utilization of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in its balance sheets, the company has elected not to record any other assets or liabilities at fair value, as permitted by *Fair Value Option for Financial Assets and Financial Liabilities*.

No events occurred during the year ended December 31, 2009 that would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis. The carrying value of cash, accounts receivable, accounts payable and accrued expenses approximates fair value. It is not currently practicable to estimate the fair value of the debt financing. Because these agreements contain certain unique terms, covenants, and restrictions, as discussed in Note E, there are no readily determinable similar instruments on which to base an estimate of fair value. The company estimates that the fair value of all financial instruments at December 31, 2009 approximates their carrying values in the accompanying balance sheet.

COVENANT NOT TO COMPETE - The company established a non-compete agreement with the former owners of the elevator at the acquisition date. The agreement requires annual payments of $50,000 for 5 years in exchange for the former owners' compliance with the agreement. The intangible asset is being amortized over the 5 year term of the agreement using the straight-line method.

INCOME TAXES - The company is organized as a limited liability company under state law and is treated as a partnership for income tax purposes. Under this type of organization, the company's earnings pass through to the members and are taxed at the member level. The company is required to pay taxes to the State of Illinois.

STOCK-BASED COMPENSATION – The company accounts for stock-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the company using a fair value based method. The company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair value of stock-based awards.

NOTE B: INVENTORIES

	2009	2008
Ethanol	$ 5,046,540	$ 1,549,548
Ethanol in process	4,837,774	1,718,150
Distiller grains	947,668	165,889
Corn	9,048,762	2,781,904
Corn Oil	43,176	31,694
Repair parts	1,901,817	1,377,200
Chemicals and ingredients	1,199,794	394,209
Corn and soybeans held at elevators	6,245,761	8,841,565
	$ 29,271,292	$ 16,860,159

NOTE C: DERIVATIVE INSTRUMENTS

The company enters into derivative transactions to hedge its exposure to commodity price fluctuations. The company does not enter into derivative transactions for trading or speculative purposes.

The company, as a holder of derivative instruments, is required to provide qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses from derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

During 2009 and 2008, the company entered into corn, distillers grains, corn oil, natural gas, and ethanol derivative instruments. The company is required to record derivative financial instruments as either assets or liabilities at fair value in the statement of financial position. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item. Furthermore, the company must designate the hedging instruments based upon the exposure being hedged as a fair value hedge, a cash flow hedge, or a hedge against foreign currency exposure.

Commodity Contracts

The company hedges a portion of its future corn purchases and ethanol sales as well as its elevator corn and soybean purchases and sales to the extent considered necessary for minimizing risk from market price fluctuations. In connection with the execution of forward contracts at its ethanol plant and elevator operations, the company normally elects to create a hedging relationship by executing an exchange traded futures contract as an offsetting position. In this situation, the forward contract is valued at market price until delivery is made against the contract. The amounts recorded on the balance sheet represent the current fair market value of the instruments as determined by the broker with adjustments made by management for local basis.

NOTE C: DERIVATIVE INSTRUMENTS (continued)

These derivatives are not designated as hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. Management expects all open positions outstanding as of December 31, 2009 to be realized within the next fiscal year.

The open derivative instruments as of December 31, 2009 are as follows:

Ethanol Plants		
Forward purchase contracts		
Corn	15,274,000	Bu
Forward sales contracts		
Ethanol	13,354,000	Gal
Distillers grains	83,000	Ton
Corn Oil	1,798,000	Pounds
Positions on the Chicago Board of Trade		
Corn (short)	7,985,000	Bu
Ethanol (short)	19,411,500	Gal
Grain Elevator		
Forward purchase contracts		
Corn	330,000	Bu
Soybeans	50,000	Bu
Forward sales contracts		
Corn	550,000	Bu
Soybeans	30,000	Bu
Positions on the Chicago Board of Trade		
Corn (short)	1,180,000	Bu
Soybeans (short)	190,000	Bu

The following tables provide details regarding the company’s derivative financial instruments at December 31, 2009, none of which are designated as hedging instruments:

NOTE C: DERIVATIVE INSTRUMENTS (continued)

	Balance Sheet location	Assets	Liabilities
Commodity contracts	Derivative instruments	$ 2,871,140	$ —

	Statement of Operations location	Gain (loss) recognized for the year ended December 31, 2009
Commodity contracts	Cost of sales	$ (6,307,451)

NOTE D: FAIR VALUE MEASUREMENTS

The following table provides information on those assets measured at fair value on a recurring basis.

	Carrying Value in Balance Sheet at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Derivative instruments	$ 2,871,140	$ 2,871,140	$ —	$ —

NOTE E: LONG-TERM DEBT

West Burlington		
Construction and term loan, further terms detailed below.	$ 38,936,061	$ 50,500,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at $4,146 per month until January 2018 secured by letter of credit – Note L.	400,000	400,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at $3,704 per month until July 28, 2014, secured by letter of credit – Note L.	211,111	255,556
Non-interest bearing note payable to Iowa Department of Economic Development payable at $1,750 per month until February 2010 when $106,750 is due, secured by substantially all assets of the company.	108,500	127,750

NOTE E: LONG-TERM DEBT (continued)

	2009	2008
West Burlington (continued)		
Non-interest bearing non-compete agreement payable at $50,000 per year until September 2010,unsecured.	$ 50,000	$ 100,000
Galva		
Construction and term loan, further terms detailed below.	67,375,000	27,533,420
Construction and revolving loan, further terms detailed below.	5,000,000	10,000,000
Big River United Energy, LLC		
Term loan, further terms detailed below.	76,000,000	—
Revolving term loan, further terms detailed below.	13,000,000	—
	201,080,672	88,916,726
Current maturities	(24,325,696)	(11,679,384)
	$ 176,754,976	$ 77,237,342

Long-term debt maturities are as follows:

Years Ending December 31,	
2010	$ 24,325,696
2011	25,626,191
2012	26,832,540
2013	26,832,540
2014	17,837,762
Thereafter	79,625,943
	$ 201,080,672

West Burlington

The company entered into a credit agreement with CoBank to partially finance the construction of the plant expansion. Under the credit agreement, the lender has provided a construction and term loan for $55,000,000 and a construction and revolving term loan of $20,000,000. The loans are secured by substantially all assets and mortgage on real estate.

NOTE E: LONG-TERM DEBT (continued)

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: agent base variable rate, quoted fixed per annum rate or a fixed rate of LIBOR plus 3.00% (3.5% at December 31, 2009). The company shall select the applicable rate option at the time of each loan request. Once the company has shown profitable operations and completed the $9,000,000 in free cash flow payments, the interest rate parameters will be decreased from 0.0% to minus 0.25% for the agent base variable rate option and from plus 3.00% to plus 2.75% for the LIBOR fixed rate option.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2009 and 2008, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Construction and term loan

The company is required to make 24 quarterly principal installments of $2,250,000 beginning in August 2008 until May 2014 with a final installment in an amount equal to the remaining unpaid balance on August 2014. In addition to the required payments, the company, beginning with the fiscal year ending 2008 and ending with the fiscal year 2010, is required to make additional principal payments equal to 75% of the Company’s excess cash flow as defined in the loan agreement not to exceed an aggregate total of $9,000,000. Based on the operating results for the year ended December 31, 2009, the company is required to make an additional principal payment of $2,930,839 in 2010 which is included in current maturities of long-term debt.

Construction and revolving term loan

The company is required to make semi-annual principal payments beginning on March 2015 until March 2017 of a reducing commitment amount as follows:

Payment Date	Commitment Amount
March 1, 2015	$ 16,000,000
September 1, 2015	12,000,000
March 1, 2016	8,000,000
September 1, 2016	4,000,000
March 1, 2017	0

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment. As of December 31, 2009 and 2008, the company had no advances on this revolving term loan.

NOTE E: LONG-TERM DEBT (continued)

Galva

In January 2008, the company entered into a credit agreement with CoBank to partially finance the construction of the plant. Under the credit agreement, the lender has provided a construction and term loan for $70,000,000 and a construction and revolving term loan of $20,000,000. The loans are secured by substantially all assets and mortgage on real estate.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: agent base variable rate, quoted fixed per annum rate or a fixed rate of LIBOR plus 3.25% (3.75% at December 31, 2009). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions and capital expenditures, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2009 and 2008, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Construction and term loan

The company is required to make 25 quarterly principal installments of $2,625,000 beginning in December 2009 until December 2015 with a final installment in an amount equal to the remaining unpaid balance in January 2016. In addition to the required payments, beginning with the fiscal year ending 2009, the company is required to make additional principal payments equal to 75% of the company's excess cash flow as defined in the loan agreement. Based on the operating results for the year ended December 31, 2009, the company is required to make an additional principal payment of $1,641,912 in 2010, which is included in current maturities of long-term debt.

Construction and revolving term loan

The company is required to repay the outstanding loan balance at the time the commitment expires on June 1, 2016.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment.

NOTE E: LONG-TERM DEBT (continued)

Big River United Energy, LLC

The company entered into a credit agreement with AgStar to finance the purchase of the plant. Under the credit agreement, the lender has provided a term loan for $76,000,000, a term revolving loan of $20,000,000 and a revolving line of credit of $12,000,000. The loans are secured by substantially all assets and mortgage on real estate.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2009, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Term loan

The company is required to make interest only payments beginning in January 2010 based on a variable interest rate of 3.0% plus the greater of the LIBOR Rate or 2.0% (5% at December 31, 2009) until March 2011. Monthly principal and interest installments begin in April 2011 with a final installment in an amount equal to the remaining unpaid balance on September 15, 2015.

Revolving term loan

The company is required to make interest only payments beginning in January 2010 based on a variable interest rate of 3.0% plus the greater of the LIBOR Rate or 2.0% (5% at December 31, 2009) until maturity, September 15, 2015, when the amount of unpaid principal balance shall be payable in full.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment until September 15, 2015.

Revolving Line of Credit

The company is required to make interest only payments on any drawn funds beginning in January 2010 based on a variable interest rate of 4.0% plus the greater of the LIBOR Rate or 2.0% (6% at December 31, 2009) until maturity, September 15, 2015 when the amount of unpaid principal balance and all other amounts due shall be due.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment until September 15, 2015. As of December 31, 2009, the company has no funds drawn under this line of credit.

NOTE F: MEMBER'S EQUITY

The company was formed on March 6, 2006 as an Iowa Limited Liability Company and has a perpetual life. The company's ownership is divided into four classes of units: Class A, B, C and D membership units. The profits and losses of the company will be allocated among the unit holders in proportion to the total units held. Distributions will be made to unit holders in proportion to the total units held. Each member is entitled to one vote for each unit held as to matters submitted to the membership.

The Class A members appoint nine directors and Class B members appoint eight directors to the board of directors. Each member who holds 1,000 units is deemed to be a Class C unit holder and is entitled to appoint one director to the board of directors. The total number of directors appointed by the Class A members shall increase by one director for each additional Class C or Class D director appointed under the terms of the operating agreement. As of December 31, 2009, there are eleven Class A, eight Class B and two Class C directors. Transfer of the units is restricted pursuant to the operating agreement and to the applicable tax and securities laws and requires approval of the board of managers.

As of December 31, 2009 and 2008, the company had the following membership units issued:

	2009	2008
Class A	5,033.40	5,033.40
Class B	3,666.00	3,666.00
Class C	3,500.00	3,500.00
Class D	8,455.00	8,371.00
	20,654.40	20,570.40

NOTE G: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following is a schedule of supplemental disclosure of cash flow information for the years ended December 31, 2009 and 2008:

	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (net of capitalized interest of $84,619 and $128,519 in 2009 and 2008, respectively)	$ 3,206,237	$ 1,581,351
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable incurred for construction in progress	$ 243,382	$ 7,724,204
Amortization of financing costs capitalized a construction in progress	$ —	$ 23,514
Acquisition of net assets of RBF Acquisition III, LLC		
Assets acquired		
Inventories	$ 1,523,926	$ —
Property and equipment	94,476,074	—
Issuance of long-term debt	$ 96,000,000	$ —

NOTE H: CONCENTRATIONS

The company has an ethanol marketing agreement with an unrelated party which covers the entire ethanol marketing for the company. The agreement is renewed annually for one year terms, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement with a minimum and maximum cost per gallon. The ethanol could be marketed by other marketers without any significant effect on operations.

In August 2009, the company entered into a co-products marketing agreement with an unrelated party which covers a majority of the distillers grain marketing for BIG RIVER UNITED ENERGY, LLC. The initial term of the agreement ends August 2010 and shall be automatically extended for additional one year terms thereafter, unless with either party provides a 90 day written notice of termination. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

NOTE I: EMPLOYEE BENEFIT PLAN

The company has a defined contribution plan which covers full-time employees who meet age and length of service eligibility requirements. The company matches the participants' contribution up to a maximum of 4% of wages. For the years ended December 31, 2009 and 2008, company matching contributions to the plan were $162,231 and $101,773, respectively.

NOTE J: EQUITY-BASED COMPENSATION

In 2009, the company approved an equity-based compensation plan which provides for the issuance of unit options to purchase an aggregate of 123 units of the company to members of the board of directors and management for the purpose of providing services to facilitate the completion of the construction of Galva's ethanol plant. The unit options were issued in August 2009 and were exercisable at purchase prices between $1 and $5,000 per unit until October 2009.

The following assumptions were used to estimate the fair values of the options granted using the BSM option-pricing formula: The risk-free interest rate of 0.1% to 0.03% is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of 3 months and the expected volatility of 70.27% are based on the average reported lives and volatilities of a representative sample of a comparable company in the ethanol industry sector. The intrinsic value is calculated as the difference between the $5,000 per unit exercise price of the options and the $5,900 estimated current fair market value.

In October 2009, the members exercised 84 unit options and the company issued 84 Class D membership units for a total contribution of $355,013.

In 2008, the company approved an equity-based compensation plan which provides for the issuance of unit options to purchase an aggregate of 75 units of the company to members of the board of directors for the purpose of providing services to facilitate the expansion of the West Burlington facilities to 92 million gallons annual production. The unit options were issued in July 2008. The unit options were exercisable at a purchase price of $5,000 per unit until September 2008.

The following assumptions were used to estimate the fair values of the options granted using the BSM option-pricing formula: The risk-free interest rate of 1.82% is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of 3 months and the expected volatility of 43% are based on the average reported lives and volatilities of a representative sample of two comparable companies in the ethanol industry sector. The intrinsic value is calculated as the difference between the $5,000 per unit exercise price of the options and the $7,300 estimated current fair market value.

In September 2008, the members exercised 60 unit options and the company issued 60 Class D membership units for a total equity contribution of $300,000.

NOTE J: EQUITY-BASED COMPENSATION (continued)

The company recognized unit-based compensation expense of $216,754 and $149,484 for the years ended December 31, 2009 and 2008.

The following table summarizes the activity for outstanding options of the company:

	Issuable Upon Exercise of Options	Average Exercise Price
Balance at December 31, 2007	10	$ 5,000
Granted	—	—
Exercised	—	—
Canceled/forfeited/expired	—	—
Balance at December 31, 2008	10	5,000
Granted	123	4,472
Exercised	84	4,226
Canceled/forfeited/expired	49	5,000
Balance at December 31, 2009	—	$ —
Vested and exercisable as of December 31, 2009	—	—

NOTE K: LEASES

The company leases rail cars under a long-term operating lease agreement expiring at various dates through May 2014. The company is required to pay executory costs such as maintenance and insurance. Minimum fixed future lease payments consist of:

Years Ending December 31,	
2010	$ 5,477,063
2011	5,460,713
2012	4,393,006
2013	2,458,845
2014	358,920
Total minimum future lease payments	$ 18,148,547

Total rent expense of $3,420,803 and $1,821,423 was incurred in 2009 and 2008, respectively.

NOTE L: COMMITMENTS AND CONTINGENCIES

Substantially all of the companies' facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the control and disposition of such wastes will comply with the applicable federal and state requirements.

BIG RIVER RESOURCES WEST BURLINGTON, LLC

The company has construction in progress at December 31, 2009 for the fermenters automated control system at the West Burlington plant. At December 31, 2009, the company has outstanding commitments related to the construction in progress of approximately $438,000.

The company has issued unsecured promissory notes for the specific purpose of letter of credits totaling $622,222, which expire through September 2010, as security of certain debts. There is no amount drawn against these promissory notes as of December 31, 2009.

BIG RIVER RESOURCES GALVA, LLC

In October 2006, the company entered into a development agreement with the City of Kewanee for the extension of the Enterprise Zone, to include land east of Galva upon which the company intends to construct the ethanol facility. The company was obligated to compensate the City of Kewanee an amount equal to 20% of the gross value of any retailer's occupation tax exemption for which the company is eligible. Based on construction cost estimates at the time of execution of the agreement, an amount of $300,000 was estimated and paid within three months after the completion of construction. In addition, the company is obligated to pay an amount equal to 20% of the gross value of the state use tax exemption that results from the purchase of any utility product, commodity or resource that such tax may be exempted from under the regulations of the enterprise zone before an extension and as it may be amended. Based on the estimated usage of natural gas at the time of the execution of the agreement, an amount of $160 per year is estimated to be payable in quarterly installments. The term of the agreement commenced on the date of execution and shall expire December 31, 2017. For the years ended December 31, 2009 and 2008, the company made payments totaling $406,668 and $0, respectively under this agreement.

NOTE M: SUBSEQUENT EVENTS

Subsequent to year end, GS Clean Tech Corp. has filed a lawsuit against Big River Resources West Burlington, LLC and Big River Resources Galva, LLC in the U.S. District Court for infringement rights on its patent covering corn oil extraction technology. On July 1, 2009, Big River Resources Galva, LLC entered into a Corn Oil Tricanter Purchase and Installation Agreement with ICM, Inc. This agreement includes an indemnification clause that holds Big River Resources West Burlington, LLC and Big River Resources Galva, LLC harmless from all claims, liabilities, and costs including attorney fees arising out of the infringement of adversely owned patents. Due to this indemnification clause, the company does not expect to incur any costs related to the litigation. As such, no liability has been recorded as of December 31, 2009.

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through February 18, 2010, the date the financial statements were available to be issued.

BIG RIVER RESOURCES, LLC

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2007 and
Four Month Period Ended December 31, 2006

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants
Willmar, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the accompanying consolidated balance sheets of **Big River Resources, LLC** (an Iowa limited liability company) as of December 31, 2007 and 2006 and the related consolidated statements of operations, members' equity, and cash flows for the year ended December 31, 2007 and 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of **Big River Resources, LLC** as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Christianson & Associates, PLLP
Certified Public Accountants and Consultants

February 6, 2008

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 55,588,706	$ 16,469,036
Receivables		
Trade	5,170,559	4,948,720
Other	779,342	346,502
Inventories	18,856,368	15,450,920
Prepaid expenses	479,579	375,498
Commodity contracts and margin deposits	315,188	1,027,063
TOTAL CURRENT ASSETS	81,189,742	38,617,739
PROPERTY AND EQUIPMENT		
Land and land improvements	11,764,668	11,891,267
Building structure	11,240,105	10,583,619
Grain equipment	12,046,194	8,368,667
Process equipment	94,459,277	38,777,057
Other equipment	673,056	823,194
Construction in progress	35,662,324	6,185,758
Construction slot	—	2,156,154
	165,845,624	78,785,716
Accumulated depreciation	(14,304,573)	(9,625,357)
	151,541,051	69,160,359
OTHER ASSETS		
Investments	9,126,877	4,106,779
Other assets	90,000	90,000
Covenant not to compete, net of amortization	133,333	183,333
Financing costs, net of amortization	731,441	202,334
	10,081,651	4,582,446
TOTAL ASSETS	$ 242,812,444	$ 112,360,544

See notes to financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
LIABILITIES AND MEMBERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 3,653,378	$ 2,015,090
Accounts payable - grain	3,476,975	4,096,303
Accounts payable - construction	25,739,517	3,969,179
Distributions payable	4,100,680	7,249,500
Deferred income	500,000	1,500,000
Accrued expenses		
Compensation	295,229	46,633
Interest	—	6,002
State income tax	50,000	97,614
Other	143,502	1,291
Current maturities of long-term debt	115,445	115,445
TOTAL CURRENT LIABILITIES	38,074,726	19,097,057
LONG-TERM DEBT, less current maturities	481,555	598,750
MEMBERS’ EQUITY	200,482,209	92,664,737
MINORITY INTEREST	3,773,954	—
	204,256,163	92,664,737
TOTAL LIABILITIES AND MEMBERS’ EQUITY	$ 242,812,444	$ 112,360,544

See notes to financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2007 and Four Months Ended December 31, 2006

	2007	2006
SALES	$ 130,448,951	$ 45,241,517
COST OF SALES	104,032,549	29,157,894
GROSS PROFIT	26,416,402	16,083,623
OPERATING EXPENSES	5,542,350	1,819,688
INCOME FROM OPERATIONS	20,874,052	14,263,935
OTHER INCOME (EXPENSES)		
Gain on sale of construction time slot	8,843,846	500,000
Interest income	1,687,929	284,845
Interest expense	—	(105,168)
State income tax expense	(50,000)	(97,614)
Other income	403,335	50,535
	10,885,110	632,598
NET INCOME BEFORE MINORITY INTEREST	31,759,162	14,896,533
MINORITY INTEREST IN SUBSIDIARY’S LOSS	124,169	—
NET INCOME	$ 31,883,331	$ 14,896,533

See notes to financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2007 and Four Months Ended December 31, 2006

Balance - August 31, 2006	$ 47,912,431
Issuance of 2,749.93 membership units	27,544,349
Costs of raising capital	(175,791)
Issuance of 267.28 membership units	2,672,954
Distribution to member	(185,739)
Net income	14,896,533
Balance - December 31, 2006	92,664,737
Issuance of 17,486.19 membership units	87,622,698
Issuance of employee stock options	77,760
Distributions to members	(11,766,317)
Net income	31,883,331
Balance - December 31, 2007	$ 200,482,209

See notes to financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and Four Months Ended December 31, 2006

	2007	2006
OPERATING ACTIVITIES		
Net income	$ 31,883,331	$ 14,896,533
Charges to net income not affecting cash		
Depreciation	4,521,636	1,366,437
Compensation recognized from stock options	77,760	—
Amortization	252,334	28,665
Loss on hedging activities	(162,575)	1,245,746
Deferred income	(1,000,000)	1,500,000
Investment earnings	(20,098)	—
Minority interest in subsidiary's loss	(124,169)	—
(Increase) decrease in current assets		
Receivables	(654,679)	989,596
Inventories	(3,405,448)	(8,232,743)
Net cash paid on hedging activities	874,450	(2,267,506)
Prepaid expenses	(104,081)	(207,688)
Increase (decrease) in current liabilities		
Accounts payable	1,018,960	628,292
Accrued expenses	337,191	(314,618)
Distributions payable	(3,148,820)	(7,094,551)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,345,792	2,538,163
INVESTING ACTIVITIES		
Purchase of property and equipment	(65,131,990)	(8,103,071)
Purchase of investment	(5,000,000)	—
Payment from other assets	—	31,998
Proceeds from the sale of real estate	—	161,262
NET CASH USED IN INVESTING ACTIVITIES	(70,131,990)	(7,909,811)
FINANCING ACTIVITIES		
Principal payments on long-term debt borrowings	(117,195)	(7,471,815)
Net payments on revolving long-term debt	—	(13,936,000)
Payment for financing costs	(731,441)	—
Member contributions	87,622,698	30,217,303
Costs of raising capital	—	(175,791)
Distribution to member	(11,766,317)	(185,739)
Minority investment	3,898,123	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	78,905,868	8,447,958
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,119,670	3,076,310
CASH AND CASH EQUIVALENTS - beginning of year	16,469,036	13,392,726
CASH AND CASH EQUIVALENTS - end of year	$ 55,588,706	$ 16,469,310
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (net of capitalized interest of $165,987 and $38,453 in 2007 and 2006, respectively)	$ —	$ 178,962
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable incurred for construction in progress	$ 25,739,517	$ 3,969,179

See notes to financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Big River Resources, LLC, its wholly-owned subsidiaries, Big River Resources West Burlington, LLC (West Burlington), Big River Resources Galva, LLC (Galva), Big River Resources Quincy, LLC (Quincy), and its 50% joint venture Big River Resources Grinnell, LLC (Grinnell), (collectively, the company) are limited liability companies.

West Burlington owns and operates an ethanol plant located in West Burlington, Iowa with an annual capacity of 92 million gallons that produces ethanol and distiller grains for commercial sales throughout the United States. West Burlington operates a grain elevator near Monmouth, Illinois (Monmouth) which buys corn and soybeans from farmers as a reserve corn supply to the ethanol operation in West Burlington, Iowa and for soybean sales throughout the United States.

Galva is a development stage company that is constructing an ethanol plant near Galva, Illinois with a planned annual capacity of 100 million gallons with its efforts being principally devoted to organizational and construction activities.

Grinnell is a development stage company that is constructing an ethanol plant near Grinnell, Illinois with a planned annual capacity of 100 million gallons with its efforts being principally devoted to organizational and construction activities.

Quincy is a development stage companies with no operations.

PRINCIPALS OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of Big River Resources, LLC, and its subsidiaries. All significant intercompany account balances and transactions have been eliminated.

The company accounts for its investment in Grinnell on a consolidated basis because it is a variable interest entity and the company is its primary beneficiary.

FISCAL REPORTING PERIOD - The company has adopted a fiscal year ending December 31 for reporting financial operations.

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

REVENUE RECOGNITION - Revenues from the production of ethanol and distillers grains are recorded when title transfers to customers. Ethanol and distillers grains are generally shipped FOB shipping point. Shipping and handling charges to customers are included in revenues.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with the company's agreements for the marketing and sale of ethanol and distillers grains, commissions due to the marketers are deducted from the gross sales price at the time payment is remitted to the company.

CASH AND CASH EQUIVALENTS - The company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

TRADE RECEIVABLES - The company has engaged the services of a national marketer to sell substantially all of its ethanol and distiller grain production. The marketer handles nearly all sales functions including billing, logistics, and sales pricing. Once product is shipped, the marketer assumes the risk of payment from the consumer and handles all delinquent payment issues. The company considers accounts older than 120 days to be delinquent and would generally initiate collection procedures. If the collection procedures have not provided collection within one year of the invoice date, management generally will write off the account as a bad debt. Trade receivables are recorded net of anticipated uncollectible amounts. As of December 31, 2007 and 2006, there was no allowance for uncollectible amounts.

INVENTORIES - The ethanol, ethanol production in process, parts, chemicals and ingredients, and corn inventories are valued at the lower of cost (average cost method) or market. Soybeans and corn held at the elevator are recorded at net realizable value.

CONCENTRATIONS OF CREDIT RISK - The company extends credit to its customers in the ordinary course of business. The company performs periodic credit evaluations of its customers and generally does not require collateral. The company's operations may vary with the volatility of the commodity and ethanol markets. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

PROPERTY AND EQUIPMENT - Property and equipment are stated at the lower of cost or fair value. Significant additions and betterments are capitalized with expenditures for maintenance, repairs and minor renewals being charged to operations as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land and land improvements	15–20 years
Building structure	10–20 years
Grain equipment	5–15 years
Process equipment	5–20 years
Other equipment	5–15 years

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in progress includes all expenditures directly related to the construction of the Galva and Grinnell ethanol plants and the expansion of the rail yard at the West Burlington plant. These expenditures will be depreciated using the straight-line method over various estimated useful lives once the assets are placed into service.

The company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. The amount of the loss is determined by comparing the fair market values of the asset to the carrying amount of the asset. As of December 31, 2007, no impairment loss is recorded.

COMMODITY HEDGE ACCOUNT - The company hedges a portion of its forward corn and soybean purchase contracts and corn and natural gas costs and ethanol sales to the extent considered necessary for minimizing risk from market price fluctuations.

The hedge account recorded on the balance sheet includes the unrealized market gains and losses on the forward and futures contracts as well as the current fair market value of the hedges as determined by the broker. When a market value adjustment is necessary, the company records the adjustment directly to current earnings through cost of sales. For the year ended December 31, 2007 and the four month period ended December 31, 2006, the company incurred a net gain of $162,575 and a net loss of $1,384,650, respectively, including an unrealized gain of $79,712 and an unrealized loss of $476,850, respectively, on these hedging activities.

The company has categorized the cash flows related to the hedging activities in the same category as the product being hedged. Management expects all positions outstanding as of December 31, 2007 to be realized within the next fiscal year.

FINANCING COSTS – Financing costs are recorded at cost and include expenditures directly related to securing debt financing. Amortization is computed using the straight-line method over the loans' terms of eight years.

INVESTMENTS – Investments include stock in a lending cooperative bank and membership units in a development stage ethanol plant to be located in Mitchell County, Iowa. The stock in a lending cooperative bank is recorded under the equity method which records the company's share of the allocated earnings and distributions. The membership units in development stage ethanol plants are recorded at cost.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying amounts for cash and cash equivalents, receivables, and accounts payable approximate fair value. Management believes the fair value of its long-term debt obligations exceeds the carrying value. However, the company does not consider it practicable to estimate the fair value of its long-term debt due to the unique nature of the obligations.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

COVENANT NOT TO COMPETE – The company established a non-compete agreement with the former owners of the elevator at the acquisition date. The agreement requires annual payments of $50,000 for 5 years in exchange for the former owners' compliance with the agreement. The intangible asset is being amortized over the 5 year term of the agreement.

INCOME TAXES - The company is organized as a limited liability company under state law and is treated as a partnership for income tax purposes. Under this type of organization, the company's earnings pass through to the members and are taxed at the member level. The company is required to pay a replacement tax to the State of Illinois.

DEFERRED INCOME – Deferred income represents a refundable cash deposit received under the terms of a proposed sales agreement for a construction time slot. The non-refundable portion of the payment received under the agreement was recognized as other income. The cash deposit will be recognized as income when the sale is completed, or, if the sale does not occur, the cash deposit will be returned.

STOCK-BASED COMPENSATION – The company accounts for stock-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the company using a fair-value-based method. The company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair-value of stock-based awards.

RECLASSIFICATION - Certain reclassifications were made to the 2006 financial statements to conform to 2007 financial statement presentation. Such reclassifications had no effect on reported income.

NOTE B: INVENTORIES

	2007	2006
Ethanol	$ 2,546,131	$ 1,030,791
Ethanol in process	2,010,112	804,535
Distiller grains	300,791	155,322
Corn	2,526,865	2,192,720
Repair parts	1,078,686	1,005,335
Chemicals and ingredients	256,444	264,044
Corn and soybeans held at elevator	10,137,339	9,998,173
	$ 18,856,368	$ 15,450,920

NOTE C: LONG-TERM DEBT

	2007	2006
Non-interest bearing note payable to Iowa Department of Economic Development payable at $1,750 per month until February 2010 when $106,750 is due, secured by substantially all assets of the company.	$ 147,000	$ 169,750
Non-interest bearing note payable to Eastern Iowa Light and Power payable at $3,704 per month until July 28, 2014, secured by letter of credit – Note I.	300,000	344,445
Non-interest bearing non-compete agreement payable at $50,000 per year until September 2009, unsecured	150,000	200,000
	597,000	714,195
Current maturities	(115,445)	(115,445)
	$ 481,555	$ 598,750

In October 2007, the company entered into a credit agreement with a financial institution to partially finance the construction of the plant expansion at West Burlington. Under the credit agreement, the lender has provided a construction and term loan for $55,000,000 and a construction and revolving term loan of $20,000,000. The loans are secured by substantially all assets.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: agent base variable rate, quoted fixed per annum rate or a fixed rate of LIBOR plus 3.00%. The company shall select the applicable rate option at the time of each loan request. Once the company has shown profitable operations and completed the $9,000,000 in free cash flow payments, the interest rate parameters will be decreased from 0.0% to minus 0.25% for the agent base variable rate option and from plus 3.00% to plus 2.75% for the LIBOR fixed rate option.

The construction term loan and revolving construction term loan described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, require minimum debt service coverage, net worth and working capital requirements. Specific terms for each loan are as follows:

Construction and term loan

The company is required to make 24 quarterly principal installments of $2,250,000 beginning in August 2008 until May 2014 with a final installment in an amount equal to the remaining unpaid balance on August 2014. In addition to the required payments, the company, beginning with the fiscal year ending 2008 and ending with the fiscal year 2010, is required to make additional principal payments equal to 75% of the Company's excess cash flow as defined in the loan agreement not to exceed an aggregate total of $9,000,000.

Construction and revolving term loan

The company is required to make semi-annual principal payments beginning on March 2015 until March 2017 of a reducing commitment amount as follows:

Payment Date	Commitment Amount
March 1, 2015	$ 16,000,000
September 1, 2015	12,000,000
March 1, 2016	8,000,000
September 1, 2016	4,000,000
March 1, 2017	0

In addition, the company agrees to pay a monthly commitment fee at a rate of 1.5% of the average daily unused portion of the commitment until June 1, 2008 when the rate shall be reduced to 0.5%.

Long-term debt maturities are as follows:

Years Ending December 31,	
2008	$ 115,445
2009	115,445
2010	115,445
2011	65,445
2012	65,445
Thereafter	119,775
	$ 597,000

NOTE D: MEMBERS' EQUITY

The company was formed on March 6, 2006 as an Iowa Limited Liability Company and has a perpetual life. The company's ownership is divided into four classes of units: Class A, B, C and D membership units. The profits and losses of the company will be allocated among the unit holders in proportion to the total units held. Distributions will be made to unit holders in proportion to the total units held. Each member is entitled to one vote for each unit held as to matters submitted to the membership.

NOTE D: MEMBERS' EQUITY (continued)

Class A members appoint nine directors and Class B members appoint eight directors to the board of directors. Each member who holds 1,000 units is deemed to be a Class C unit holder and is entitled to appoint one director to the board of directors. The total number of directors appointed by the Class A members shall increase by one director for each additional Class C or Class D director appointed under the terms of the operating agreement. Transfer of the units is restricted pursuant to the operating agreement and to the applicable tax and securities laws and requires approval of the board of managers.

In June 2006, the members of West Burlington voted to approve the reorganization into a holding company structure by merging West Burlington with Big River Resources Holding Company, LLC effective July 1, 2006. The reorganization was consummated through the adoption of a merger agreement and plan of merger between the holding company and West Burlington, where Big River Acquisition, LLC, a separate subsidiary of the holding company, was merged into West Burlington, with West Burlington being the surviving entity of the merger and becoming a wholly-owned subsidiary of the holding company. As a result of the merger 5,036.4 Class A and 3,666 Class B membership units were issued to the former members of West Burlington.

In April 2006, the company purchased 100% of the outstanding units of Galva pursuant to the Purchase Agreement for a total of $310,000. The former members of Galva could elect to receive payment under the agreement in cash or in membership units of the company. As a result of the purchase agreement, 20 Class D membership units of the company were issued along with cash payments totaling $110,000.

In May 2006, the company entered into a nonbinding letter of intent with a party related through common ownership for a joint venture with Grinnell for the development and construction of a 100 million gallon plant near Grinnell, Iowa with each entity owning 50% of the project.

In October 2006, the company purchased 100% of the outstanding units of Quincy pursuant to the Merger Agreement for a total of $3,088,000. The former members of Quincy could elect to receive payment under the agreement in cash or in membership units of the company. As a result of the merger agreement, 267.28 Class D membership units of the company were issued along with cash payments totaling $415,200.

The company raised additional equity in a Private Placement Memorandum. The Offering was for a maximum of 10,500 Class C and Class D membership units for sale at $10,000 per unit for a maximum of $105,000,000 and reserving the right to accept subscriptions up to 10% over the maximum offering amount. The offering was closed on October 1, 2006 receiving subscriptions for approximately 3,500 Class C and 8,304.00 Class D membership units for a total of $109,997,200. The Private Placement Memorandum required that 25% of the purchase price be paid at the time of subscription with the remainder due in installments as determined by the board of directors with the membership units being issued as payment is made.

NOTE D: MEMBERS' EQUITY (continued)

As of December 31, 2007 and 2006, the company had the following membership units issued:

	2007	2006
Class A	5,033.40	5,033.40
Class B	3,666.00	3,666.00
Class C	3,500.00	875.00
Class D	8,304.00	2,162.21
	20,503.40	11,736.61

On October 18, 2006, the board of directors of West Burlington approved an increase in the distribution to one of its pre-merger members of $185,739 to correct for a previous underpayment of distribution.

NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS

The company had a management agreement with a party related through common ownership which required payment of $250,000 a year plus an incentive bonus. The incentive bonus was two percent of the defined annual bonus net income between $2,000,001 and $5,000,000 and four percent of the bonus net income between $5,000,000 and $10,000,000. The term of the agreement was for three years expiring on January 21, 2007. On that date, the contract was allowed to expire and was not renewed.

The company has a risk management agreement with a party related through common ownership which requires payment of $10,000 per month. The term of the agreement is for the period ending August 31, 2008, and shall be automatically extended for additional one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term.

The company has a grain procurement agreement with a party related through common ownership to act as the grain merchandiser to originate all grains required for ethanol production at the West Burlington facility as well as the Grinnell facility. The agreements expire in August 2007 for West Burlington and June 2008 for Grinnell. The agreements shall be automatically extended for additional one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term. The agreements requires payment on an agreed upon amount per bushel for this service.

NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)

The company has an ethanol sales and marketing agreement with a party related through common ownership which covers the entire ethanol marketing for the West Burlington facility as well as future output from the Galva and Grinnell facilities once construction is completed and ethanol production begins. The term of the agreement expires in December 31, 2007 for the West Burlington and Galva facilities. The term for the Grinnell facility is for three years commencing when production begins. Each of the agreements shall be automatically extended for additional one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreements with a minimum and maximum cost per gallon.

The company has a co-products marketing agreement which covers the entire distillers grains marketing for the West Burlington facility as well as future output from the Galva and Grinnell facilities once construction is completed and production begins. The term of the agreement expires in December 31, 2009 for the West Burlington facility and three years from the start of operations at the Galva and Grinnell facilities. The agreements shall be automatically extended for additional one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement with a minimum and maximum cost per ton. In January 2008, the company gave written notice of its intention to terminate the co-products marketing agreement for the West Burlington and Galva facilities effective March 1, 2008.

The company has a plant management agreement with a party related through common ownership to manage the affairs of the Grinnell facility including providing a general manager and risk management services for the company. The agreement requires payment of $445,000 a year plus an incentive bonus. The incentive bonus is four percent of the defined annual bonus net income in excess of $10,000,000 not to exceed $500,000 per year. The term of the agreement is for three years commencing when a general manager is retained and is automatically extended for additional one year terms thereafter, unless either party provides prior ninety day written notice. Operational expenses shall not exceed the expenses budgeted for that quarter without board approval.

The company has a project management agreement with a party related through common ownership in connection with the development and construction of the Grinnell facility. The agreement requires payment of $15,000 per month. The company incurred $60,000 under this contract for services received during the period the company was involved with pre-construction activities, however, the agreement has been suspended until such time the company is able to continue with the project. Upon such time, the term of the agreement shall continue until the date on which ethanol and co-products are produced on a commercial scale at the plant.

NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)

In November 2007, the party related through common ownership divested its ownership in the companies which provide risk management, grain procurement and co-products marketing for the West Burlington facility and the co-products marketing Galva facilities.

Transactions and balances with related parties are as follows:

	2007	2006
Sales		
Ethanol	$ 107,466,876	$ 38,680,839
Distiller grains	17,439,756	5,083,479
Accounts Receivable		
Ethanol and distiller grains	5,170,560	4,946,355
Purchases		
Corn	66,747,991	17,555,753
Accounts Payable		
Corn	1,467,381	1,942,394
Denaturant	180,471	114,769
Freight	114,892	99,412
Railcar lease	16,712	20,000
Marketing and management fees	22,555	132,510
Expenses		
Denaturant	3,671,322	1,631,578
Freight	7,059,174	2,649,260
Railcar lease	1,258,103	80,019
Ethanol marketing fees	853,387	249,585
Distiller grain marketing fees	469,584	146,182
Management fees	144,650	184,132
Corn procurement fees	563,626	202,447

NOTE F: EMPLOYEE BENEFIT PLAN

The company has a defined contribution plan which covers full-time employees who meet age and length of service eligibility requirements. The company matches the participants’ contribution up to a maximum of 4% of wages. For the year and period ended December 31, 2007 and 2006, contributions of $89,216 and $29,607, respectively, were made by the company.

NOTE G: EQUITY-BASED COMPENSATION

The company has an equity-based compensation plan which provides for the issuance of stock options to two members of management for the purpose of providing services to facilitate the planned future operations of the company. Under the plan, each of the

members were issued five options that will be exercisable upon completion of the West Burlington plant expansion with additional options to be exercisable upon starting production of Galva and three additional ethanol plants.

The following assumptions were used to estimate the fair values of the options granted using the BSM option-pricing formula: The risk-free interest rate of 4.70% to 4.88% is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of 1.5 to 3 years and the expected volatility of 44% are based on the average reported lives and volatilities of a representative sample of two comparable companies in the ethanol industry sector. The intrinsic value is calculated as the difference between the $5,000 per unit exercise price of the options and the $10,000 estimated current fair market value.

The company recognized stock-based compensation expense of $77,760 for the year ended December 31, 2007. Approximately $27,333 of total unrecognized compensation cost related to stock options is expected to be recognized over a period of 1.5 years. To the extent the forfeiture rate is different than anticipated; stock-based compensation related to these awards will be different from our expectations.

NOTE H: LEASES

The company leases rail cars under a long-term operating lease agreement expiring in March 2013. The company is required to pay executory costs such as maintenance and insurance. Minimum fixed future lease payments consist of:

Years Ending December 31,	
2008	$ 960,260
2009	960,260
2010	960,260
2011	960,260
2012	960,260
Thereafter	240,065
Total minimum future lease payments	$ 5,041,365

Total rent expense of $1,262,236 and $159,264 was incurred in 2007 and 2006, respectively.

NOTE I: COMMITMENTS AND CONTINGENCIES

Substantially all of the companies’ facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the

control and disposition of such wastes will comply with the applicable federal and state requirements.

BIG RIVER RESOURCES WEST BURLINGTON, LLC

The company has construction in progress at December 31, 2007 for the expansion of the rail yard at the West Burlington plant and upgrades to the grain receiving at the Monmouth facility. At December 31, 2007, the company has outstanding commitments related to the construction in progress of approximately $1,323,000.

The company has forward purchase and sales commitment contracts as follows:

	Amount			Average Price	Final Delivery Date
Forward purchase contracts					
Corn	9,887,024	Bu	$	3.36	December 2009
Soybeans	301,403	Bu		9.71	January 2009
Natural gas	375,251	Dth		7.36	March 2008
Forward sales contracts					
Ethanol	11,177,501	Gal		1.84	June 2008
Distillers grains	29,492	Ton		105.69	August 2008
Soybeans	350,037	Bu		10.38	March 2008

The company has issued an unsecured letter of credit as security of certain debt in the amount of $355,555 which expires October 2008. There is no amount drawn against this letter of credit as of December 31, 2007.

BIG RIVER RESOURCES GALVA, LLC

Project Construction

The total cost of the project, including construction of the ethanol plant, working capital and start-up expenses, is expected to approximate $187,600,000. In August 2007, the company executed a lump sum design-build contract with a contractor, a party related through common ownership, to design and build the ethanol plant to be located near Galva, Illinois at a total contract price of approximately $118,462,000. As part of the contract, the company paid a mobilization fee of $8,000,000, subject to retainage. Monthly applications will be submitted for work performed in the previous period. Final payment will be due when final completion has been achieved.

NOTE I: COMMITMENTS AND CONTINGENCIES (continued)

The design-build agreement includes a provision whereby the general contractor receives an early completion bonus of $10,000 per day for each day the construction is complete prior to 545 days from the date construction began. However, the total amount paid for the early completion bonus shall not exceed $1,000,000. The contract may be terminated by the company upon a ten day written notice subject to payment for work completed, termination fees, and any applicable costs and retainage. As of December 31, 2007, the company has incurred approximately $17,490,000 for these services with approximately $8,540,000 included in construction payable.

Construction Contracts

In December 2006, the company entered into an agreement with an affiliate of the general contractor, a related party through common ownership, for Phase I and Phase II engineering services for a fee of $92,500, which shall be included in and credited to the design-build agreement's contract price. In addition to this fee, the company will reimburse the contractor for agreed upon subcontractors' fees and other reimbursable expenses. Either party may terminate this agreement upon twenty days written notice if the non-terminating party has defaulted through no fault of the terminating party or if the company abandons development of the plant. In such event, the company would be obligated for any services rendered and any reimbursable expenses. As of December 31, 2007, the company has incurred approximately $74,000 under this agreement.

In July 2007, the company entered into an agreement with an unrelated party, for phase I dirt work for an original contract price of approximately $3,486,000. As a result of approved change orders, the contract price has decreased by approximately $699,000, resulting in a current contract price of approximately $2,787,000. The company may terminate the contract upon 3 days written notice to the contractor. In such event, the company would owe the contractor any fees incurred prior to the termination, plus actual direct costs resulting from the termination. As of December 31, 2007, the company has incurred approximately $2,554,000 under this agreement, with approximately $927,000 included in construction payable.

In August 2007, the company entered into an agreement with an unrelated party for the design, fabrication, furnishing and construction of a complete drilled caisson system to support the concrete dried distillers grains storage. The fee for these services is a lump sum price of $528,400. Services are expected to commence as soon as weather permits.

NOTE I: COMMITMENTS AND CONTINGENCIES (continued)

In September 2007, the company entered into an agreement with an unrelated party for the installation of stone columns for deep soil stabilization. The original fee for these services was a lump sum price of approximately $552,100. As a result of approved change orders, the contract price has increased by approximately $193,700, resulting in a current contract price of approximately $745,800. As of December 31, 2007, the company has incurred approximately $533,500 with approximately $26,700 included in construction payable.

Property Contract

In July 2006, the company entered into an option to purchase approximately 198 acres in Henry County, Illinois, and related buildings, equipment and other assets for a purchase price of $6,985,000. The company paid a non-refundable option deposit of $69,850, which was applied to the purchase price of the property. The company had the option to extend the option period on a monthly basis by providing a written notice and payment of an additional $30,000 per month. The company extended the option period through December 31, 2006 and paid an additional $150,000, all of which was applied toward the purchase price of the property. In January 2007, the company exercised the option and closed on the purchase of the property and paid a total of $6,985,000, including application of all previous payments.

Development Agreement

In October 2006, the company entered into a development agreement with the City of Kewanee for the extension of the Enterprise Zone, pending approval from the state of Illinois, to include land east of Galva upon which the company intends to construct the ethanol facility. Management anticipates obtaining the approval from the State of Illinois in 2008, however, the State of Illinois is under no obligation to approve the extension. The company will be obligated to compensate the City of Kewanee an amount equal to 20% of the gross value of any retailer's occupation tax exemption for which the company is eligible. Based on construction cost estimates at the time of execution of the agreement, an amount of $300,000 is estimated to be payable within three months after the completion of construction. In addition, the company is obligated to pay an amount equal to 20% of the gross value of the state use tax exemption that results from the purchase of any utility product, commodity or resource that such tax may be exempted from under the regulations of the enterprise zone before an extension and as it may be amended. Based on the estimated usage of natural gas at the time of execution of the agreement, an amount of $160,000 per year is estimated to be payable in quarterly installments, with the initial payment being due within three months of the start of operations. The term of the agreement commenced on the date of execution and shall expire December 31, 2017.

NOTE I: COMMITMENTS AND CONTINGENCIES (continued)

BIG RIVER RESOURCES GRINNELL, LLC

Going concern

Site work commenced on December 1, 2006, however due to pending litigation relating to zoning issues at the facility, the company's debt financing has been delayed. As a result, no date has been set to mobilize the design-builder, to start the next phase of construction for the facility. A majority of the contested issues were favorably decided for the company on summary judgment, with the company prevailing on the remaining issues at trial in September 2007. The plaintiff requested a reconsideration of the decision which was subsequently denied. The plaintiff has filed a Notice of Appeal.

Because it is unclear whether the company will be successful in resolving the lawsuits, there is uncertainty about the company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the company be unsuccessful in its efforts to continue as a going concern.

Project Construction

The total cost of the project, including the construction of the ethanol plant and start-up expenses, is expected to approximate $172,000,000. The company obtained a build slot under a master design-build agreement with a general contractor through US BioEnergy Corporation, a member of the company. The cost to design and build the ethanol plant under the current design-build agreement is approximately $123,000,000, however, the design-builder may require an amendment to the contracted price, should the company continue with the construction of the ethanol facility.

Construction Contracts

In July 2006, the company entered into an agreement with an unrelated party for construction of water wells for the proposed ethanol plant. The cost of these wells was estimated to be $1,563,960. In August 2006, the company made a deposit of $300,000 for three wells to be constructed. As of December 31, 2007, only one well was completed and $100,000 of the original deposit was applied toward the fees. The terms of the agreement indicate that in the event of a plant cancellation due to legal reasons, there would be a refund of any deposit remaining. Because of the uncertainty of the project, an amount of $200,000 has been recorded in accounts receivable.

NOTE I: COMMITMENTS AND CONTINGENCIES (continued)

In November 2006, the company entered into an agreement with an unrelated party to construct new electric facilities and to remove other electric facilities located on the proposed ethanol plant property. The estimated price for these services is $677,220. The company was required to pay 50% of the estimated amount within 45 days of execution of the agreement and will pay the remaining 50% of the estimated amount at least 30 days prior to commencement of the work. Within 90 days of completion of the work, the actual costs will be reconciled against the amount paid, and either a refund or an additional invoice will be issued to the company. Either party may terminate the agreement upon the prior written agreement of both parties. As of December 31, 2007, the company has incurred approximately $111,300 under this contract.

Development Agreement

In December 2006, the company entered into a private development agreement with Poweshiek County, Iowa and the City of Grinnell, whereas the parties intend to enter into a contract under the High Quality Jobs Creation Act, but desire to provide for additional consideration between themselves. The company agreed to pay one-half of the remaining cost after application of all grant funds for construction of turn lanes. The company agrees to make annual payments to the City of Grinnell based on the following schedule, which may be extended as a result of unavoidable delays as defined under the agreement:

$60,000 from year 2010 – 2014
$65,000 from year 2015 – 2019
$70,000 from year 2020 – 2024
$75,000 from year 2025 – 2029

The County of Poweshiek agrees to provide an exemption from taxation to the company for the years 2010 through 2030 or until the aggregate amount of exempted taxes equals $12,000,000. The exemption does not include taxation from debt service or for the physical plant and equipment levy of the schools. In addition, the County of Poweshiek and the company will share equally in the cost of the construction of certain roadway leading onto the property where the ethanol facility will be located.

Buy-sell Provision

On February 1, 2007, The company and US BioEnergy Corporation (US BioEnergy) entered into an Operating agreement related to Grinnell. The operating agreement contained terms and conditions related to the operation and governance of the company. The company and US BioEnergy each own 50% of Grinnell.

In the event of a change in control of a member of Grinnell, as defined in the operating agreement, the other member shall have the right to either purchase the units held by the changed member or to sell the units held by the other member.

NOTE I: COMMITMENTS AND CONTINGENCIES (continued)

On November 29, 2007, VeraSun Energy Corporation, Host Acquisition Corporation, a direct, wholly owned subsidiary of VeraSun, and US BioEnergy entered into an Agreement and Plan of Merger whereby Host Acquisition Corporation will merge with and into US BioEnergy, with US BioEnergy continuing as the surviving corporation following the merger.

The merger is subject to a number of closing conditions, including the approval of the merger by the shareholders of US BioEnergy, the approval of the issuance of VeraSun Common Stock in the merger by the shareholders of VeraSun and clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

BIG RIVER RESOURCES QUINCY, LLC

Assignment of Construction Time Slot

In December 2006, the company entered into an agreement to assign its rights to a construction build-date to an unrelated entity in exchange for $12 million which was to be paid in cash of $2 million in December 2006, $4 million in February 2007 and $6 million on the earlier of April 1, 2007 or the receipt by the purchaser of project financing proceeds. The company received $2,000,000 as of December 31, 2006. If the purchaser and the design builder failed to enter into a design-build agreement, the company was required to refund $1,500,000. This amount was recorded as deferred revenue as of December 31, 2006. The company recognized other income of $500,000 in 2006 for the amount that was not refundable.

The company received $12 million under the agreement as of December 31, 2007. Other income of $8,843,846 was recognized for the year ended December 31, 2007, which represents the amount that is not refundable under the agreement. In February 2007, the company entered into a non-interest bearing contingent promissory note with the assignee whereby the company agrees to reimburse assignee at the rate of $20,000 per day up to $1,000,000 if substantial completion under the design-build agreement does not occur before November 25, 2008. The contractor has agreed to reimburse the company for one-half of any amount owed under the contingent promissory note agreement. The potential obligation under the promissory note of $500,000 is recorded as deferred revenue on the balance sheet as of December 31, 2007.

Patriot Renewable Fuels, LLC

Financial Statements for the Years Ended December 31, 2009 and December 31, 2008 And Report of Independent Registered Public Accounting Firm

PATRIOT RENEWABLE FUELS, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Patriot Renewable Fuels, LLC
Annawan, Illinois

We have audited the accompanying balance sheet of Patriot Renewable Fuels, LLC as of December 31, 2009 and the related statements of operations, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Patriot Renewable Fuels, LLC as of December 31, 2008, were audited by other auditors whose report dated November 24, 2009, expressed an unqualified opinion on those statements.

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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Patriot Renewable Fuels, LLC as of December 31, 2009 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
April 12, 2010

PATRIOT RENEWABLE FUELS, LLC

Balance Sheets

	December 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,028,894	$ 2,181,961
Accounts receivable, net	6,587,083	6,096,918
Inventory	5,764,097	6,230,835
Prepaid expenses and other current assets	1,386,711	1,852,846
Total current assets	24,766,785	16,362,560
PROPERTY AND EQUIPMENT		
Property and equipment, at cost	155,859,646	155,812,610
Accumulated depreciation	(11,799,466)	(2,984,707)
Property and equipment, net	144,060,180	152,827,903
OTHER NONCURRENT ASSETS		
Deferred financing costs, net	558,107	708,074
Notes receivable	32,754,979	23,788,083
Interest receivable	2,580,819	2,033,506
Total other noncurrent assets	35,893,905	26,529,663
TOTAL ASSETS	$ 204,720,870	$ 195,720,126
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,619,739	$ 5,188,218
Accrued expenses and other current liabilities	3,218,317	3,576,850
Current portion of interest rate swap	1,618,486	—
Current portion of long term debt	6,484,485	7,608,529
Total current liabilities	13,941,027	16,373,597
LONG-TERM LIABILITIES		
Long term debt	84,288,353	91,512,811
Revolving loan	—	2,013,204
Interest rate swap	2,747,249	6,318,012
Deferred income	33,600,244	26,646,364
Total long-term liabilities	120,635,846	126,490,391
COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY, 65,000 units authorized; 45,741 units issued and outstanding	70,143,997	52,856,138
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 204,720,870	$ 195,720,126

Notes to the Financial Statements are an integral part of this Statement.

PATRIOT RENEWABLE FUELS, LLC

Statements of Operations

	Years Ended December 31,	
	2009	2008
REVENUES	$ 213,709,222	$ 63,534,383
COST OF GOODS SOLD	187,152,983	65,562,932
GROSS MARGIN	26,556,239	(2,028,549)
OPERATING EXPENSES	3,292,085	2,426,152
OPERATING INCOME (LOSS)	23,264,154	(4,454,701)
OTHER INCOME (EXPENSE)		
Interest expense	(8,381,686)	(2,603,204)
Interest income	551,127	1,671,990
Derivative gain (loss)	1,796,231	(3,688,140)
Other income (expense)	58,033	(28,751)
Total other expense, net	(5,976,295)	(4,648,105)
NET INCOME (LOSS)	$ 17,287,859	$ (9,102,806)

Notes to the Financial Statements are an integral part of this Statement.

PATRIOT RENEWABLE FUELS, LLC

Statement of Changes in Members' Equity

BALANCE - January 1, 2008	$	57,958,944
Beneficial conversion feature of convertible subordinated debt		4,000,000
Net loss for the year ended December 31, 2008		(9,102,806)
BALANCE - December 31, 2008	$	52,856,138
Net income for the year ended December 31, 2009		17,287,859
BALANCE - December 31, 2009	$	70,143,997

Notes to the Financial Statements are an integral part of this Statement.

PATRIOT RENEWABLE FUELS, LLC

Statements of Cash Flows

	Years Ended December 31,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 17,287,859	$ (9,102,806)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,953,274	2,556,880
Interest income accrued on tax increment financing notes receivable	(547,313)	(1,646,410)
Change in fair value of derivative instruments	(1,952,277)	3,688,140
Noncash interest expense related to debt discount amortization	1,333,333	129,630
Changes in operating assets and liabilities:		
Accounts receivable	(490,165)	(6,096,918)
Inventory	466,738	(6,230,835)
Prepaids and other current assets	466,135	(1,342,752)
Accounts payable	(1,986,369)	2,666,821
Accrued expenses	(358,533)	3,095,268
Net cash flows provided by (used in) operating activities	21,172,682	(12,282,982)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(669,769)	(56,889,651)
Disposals of property and equipment	39,059	—
Net cash flows used in investing activities	(630,710)	(56,889,651)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances (payments) on line of credit, net	(2,013,204)	2,013,204
Proceeds from debt	1,008,290	66,234,718
Payments on long term debt	(10,690,125)	(1,008,290)
Proceeds from convertible subordinated debt	—	4,000,000
Payments on deferred financing costs	—	(78,301)
Net cash flows provided by (used in) financing activities	(11,695,039)	71,161,331
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,846,933	1,988,698
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,181,961	193,263
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 11,028,894	$ 2,181,961
SUPPLMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of amount capitalized during 2008	$ 8,152,636	$ 1,054,522
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable incurred for property and equipment	$ —	$ 2,500,000
Notes receivable included in deferred income	$ 8,966,896	$ 10,860,398
Donation of roadway to municipality	$ —	$ 5,608,972
Retainage refund used to reduce property and equipment amounts due contractor	$ 582,110	$ —

Notes to the Financial Statements are an integral part of this Statement.

PATRIOT RENEWABLE FUELS, LLC

Notes to Financial Statements

December 31, 2009

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – Patriot Renewable Fuels, L.L.C. (an Illinois Limited Liability Company, the "Company") is a dry mill, corn-based processing facility that produces fuel-grade ethanol and distillers grains, a co-product of the ethanol production, that are derived from corn. The ethanol plant is located in Annawan, Illinois and the Company sells its production of ethanol throughout the United States and distillers grains to various international locations.

The Company began construction of the facility in November 2006, and it was commissioned on August 31, 2008. The year ended December 31, 2008 reflects approximately four full months of operations from the time of commissioning and eight months of construction activity. The ethanol plant has a nameplate capacity (guaranteed by the design-builder) to produce 100 million gallon per year of denatured fuel-grade ethanol and approximately 320 thousand tons of dried distillers grains with solubles (DDGS) and process 35.7 million bushels of corn.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The Company uses estimates and assumptions in accounting for the following significant matters, among others: economic lives of property and equipment, realizability of accounts receivable, valuation of inventory, the valuation of tax increment financing and subordinated debt, and analysis of long-lived assets impairment. Actual results may differ from previously estimated amounts, and such differences may be material to the financial statements. The Company periodically reviews estimates and assumptions, and the effects of revisions are reflected in the period in which the revision is made.

Revenue Recognition – The Company sells ethanol and DDGS pursuant to marketing agreements (discussed further in Note 9), and recognizes revenue at the time of loading ethanol or distillers grains into trucks, railcars, or containers. This is the point at which the marketer has taken title and assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Title is generally assumed by the buyer at the Company's shipping point.

In accordance with the Company's agreements for the marketing and sale of ethanol and distilled grain products, commissions and freight expenses due to the marketers are deducted from the gross sales price as earned. These commissions and outbound freight expense are recorded net of revenues as they do not provide an identifiable benefit that is sufficiently separable from the sale of ethanol and related products.

Expense Recognition – Cost of goods sold primarily consists of costs for raw materials, utilities, conversion costs, warehousing costs, salaries, wages and expenses for plant operating staff and plant management depreciation and amortization expenses, general facility overhead charges, property taxes, and property and casualty insurance.

General and administrative expenses consist primarily of salaries and expenses for management, administrative and accounting employees, fees paid to outside service providers such as legal, accounting, and consulting firms.

Cash and Cash Equivalents – All highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents. The Company maintains cash and cash equivalents primarily in accounts with three financial institutions which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts or any losses in connection with these balances. At December 31, 2009 and 2008, the Company had $102 and $2,511,762,

respectively, in money market funds which are classified as cash equivalents and recorded at cost which approximates fair value.

Accounts Receivable – Accounts receivable are recorded at their estimated net realizable value and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statement of cash flows. The Company does not have any off-balance sheet credit exposure related to its customers. Accounts are considered past due if payment is not made on a timely basis in accordance with the Company's credit terms. Accounts considered uncollectible are written off. The Company follows a policy of providing an allowance for doubtful accounts when deemed necessary; however, based on historical experience, and its evaluation of the current status of receivables, the Company is of the belief that such accounts will be collectible in all material respects and thus an allowance was not necessary at December 31, 2009 or 2008. It is possible this estimate will change in the future.

The Company performs periodic credit evaluations of its marketers and has not required collateral. The Company's operations vary with the volatility of the market for inputs (including corn, natural gas, chemicals, and denaturant) and for finished products (ethanol and DDGS), and to mitigate that volatility the Company actively seeks to minimize inventory and accounts receivable levels.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined using the first in, first out (FIFO) method. Market is based on current replacement values except that it does not exceed net realizable values and it is not less than net realizable values reduced by allowances from normal profit margin. Inventories consist of raw materials (corn, chemicals, denaturant), work in process, finished goods (ethanol and DDGS) and spare parts.

All materials and production costs related to the production of ethanol and distillers grains not sold are capitalized as inventory and recognized as cost of sales when the sale of the products is recognized.

Prepaid Expenses – Prepaid expenses are recorded for non-inventory purchases that will be consumed in less than one year. Included in prepaid expenses and other assets are certain costs paid in advance for natural gas expenses. As of December 31, 2009 and 2008 the total amount included on the balance sheet was $775,094 and $1,229,420 for prepaid natural gas expenses, respectively.

Property and Equipment – Property and equipment is stated at cost. Depreciation is determined using the straight-line method for financial reporting purposes over the estimated useful lives of the assets ranging from 3 to 30 years as shown in the table below.

Asset Description	Years
Land improvements	10-30 years
Buildings	15-30 years
Process equipment	10-20 years
Grain handling equipment	10 years
Railroad and rail equipment	20 years
Office and computer equipment	3-5 years

The Company expenses maintenance and repair expenses as incurred, major improvements are capitalized.

The Company initiated ethanol and DDGS production on August 31, 2008 and began depreciating the plant on that date. Prior to that time, the Company capitalized interest on its construction in progress

activities related to the ethanol plant. Interest capitalized for the year ended December 31, 2008 was $2,208,197.

Property and equipment are reviewed for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company has identified no such impairment losses for the years ended December 31, 2009 or 2008.

Notes Receivable – During the years ended December 31, 2009 and 2008, the Company received promissory notes from the Village of Annawan (the “Village”) under a tax increment financing agreement (“TIF”). The Village provided funds in the form of interest bearing notes. The notes will bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum.

Deferred Financing Costs – Costs incurred in connection with the acquisition of financing for the ethanol plant discussed in Note 5 were deferred and amortized over the term of the respective financing using the effective interest method. Accumulated amortization was $422,058 and $272,091 at December 31, 2009 and 2008, respectively.

Accounts Payable – Accounts payable are recorded as invoices are received from vendors at the invoiced amount. Accrued payables for raw materials received but not invoiced are included in accounts payable.

Interest Rate Swap – The Company entered into derivative contracts to fix the interest rate for a portion of its long term debt. The Company records the interest rate swap at fair value with changes in fair value recognized in earnings since the interest rate swap was not designated as a cash flow hedge. See Note 6 for further discussion.

Deferred Income – Proceeds received from the Village under the TIF agreement are recorded as deferred income and will be amortized into income over the life of the related property and equipment.

Convertible Debt - The Company issued $4,000,000 of convertible subordinated notes on November 25, 2008, the proceeds of which are recorded as long term debt, at a discount based on the conversion feature. The notes bear interest at a rate of 16%, compounded quarterly, and are convertible to units each year at the anniversary date as follows: $1,500 per unit at November 25, 2009, $1,000 per unit at November 25, 2010, and $500 per unit at November 25, 2011 The intrinsic value of the beneficial conversion feature at the time of issuance was recorded as a discount on note and a component of members’ equity. The discount will be amortized to expense over the three year term of the convertible subordinated debt.

Income Taxes – The Company is treated as a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, the earnings and losses are included in the income tax returns of the members. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements. Differences between the financial statement basis of assets and tax basis of assets is related to capitalization and amortization of organization and start-up costs for tax purposes, whereas these costs are expensed for financial statement purposes. In addition, the Company uses the modified accelerated cost recovery system method (MACRS) for tax depreciation instead of the straight-line method that is used for book depreciation, which also causes temporary differences.

In June 2006, the Financial Accounting Standards Board ("FASB") issued authoritative accounting guidance relating to the recognition of income tax benefits. This authoritative guidance provides a two-step approach to recognizing and measuring tax benefits when realization of the benefits is uncertain. The first step is to determine whether the benefit meets the more-likely-than-not condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%. Primarily due to the Company's tax status as a partnership, the adoption of this guidance on January 1, 2009, had no material impact on the Company's financial condition or results of operations.

Fair Value – The carrying amounts for cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value. Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based on nominal and current interest rates, and have been evaluated for credit swap default risk. The fair value of the debt approximates its carrying value due to its short maturity or floating interest rates, as applicable.

Environmental Liabilities – The Company's operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdiction in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of material in its location. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational heath, and the production, handling, storage and use of hazardous materials to prevent environmental or other damage, and to limit the financial liability which could result from such events. An environmental liability is recorded by the Company if the liability is probable and the costs can be reasonably estimated. No such liabilities were recorded at December 31, 2009, and 2008 and the Company is not currently a party to any unsettled legal proceedings at December 31, 2009.

Reclassifications – A reclassification was made to the previously issued 2008 statement of cash flows in order for comparability to the 2009 statement of cash flows. This reclassification had no effect on operating cash flow as previously reported.

Adoption of New Accounting Pronouncements – Effective July 2009, the FASB Accounting Standards Codification, also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. All accounting references have been updated, and therefore SFAS references have been replaced with a definition of the accounting policy where applicable. The Company adopted this guidance for the reporting period ended December 31, 2009. The only impact of adopting this provision was to update and remove certain references in the financial statements to technical accounting literature.

In March 2008, the FASB issued new accounting guidance of the accounting for derivatives and hedging. This guidance requires, among other things, enhanced disclosure about the volume and nature of derivative and hedging activities and a tabular summary showing the fair value of derivative instruments included in the statement of financial position and statement of operations. This guidance also requires expanded disclosure of contingencies included in derivative instruments related to credit risk. This guidance was adopted by the Company on January 1, 2009 and did not have a material impact on the financial statements other than enhancing disclosures relating to outstanding derivative instruments.

2. INVENTORY

A summary of inventory at December 31, 2009 and 2008 is as follows:

	2009	2008
Raw materials	$ 1,914,494	$ 2,639,996
Work in process	1,147,920	1,269,110
Finished goods	1,940,412	1,954,742
Spare parts	761,271	366,987
Totals	$ 5,764,097	$ 6,230,835

The Company performs a lower of cost or market analysis on inventory to determine if the market values of certain inventories are less than their carrying value, which is attributable primarily to decreases in market prices of corn and ethanol. Based on the lower of cost or market analysis, the Company was not required to record a lower of cost or market charge on any inventories for the years ended December 31, 2009 and 2008.

3. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2009 and 2008 is as follows:

	2009	2008
Land and land development	$ 18,047,564	$ 18,187,718
Process and grain handling equipment	110,629,526	110,544,360
Buildings	26,202,724	26,337,650
Furniture, fixtures, and computer equipment	856,188	742,882
Construction in process	123,644	—
	155,859,646	155,812,610
Less: accumulated depreciation	(11,799,466)	(2,984,707)
Total property and equipment, net	$ 144,060,180	$ 152,827,903

4. TAX INCREMENT FINANCING

During the years ended December 31, 2009, 2008 and 2007, the Company received amounts from the Village of Annawan, Illinois (“Village”) under a TIF agreement. The Village provided funds in the form of interest bearing notes in 2009 and 2008, as well as cash proceeds from a TIF bond issuance in 2007. The notes bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. Bonds issued to fund the TIF arrangement are not a liability of the Company but are an obligation of the Village since the Company does not guarantee the TIF debt and has no obligation to satisfy any shortfall in annual debt service requirements. The bonds and related notes are to be repaid by the Village from the incremental increase in property taxes related to the improvement of the Company’s real property. The proceeds of the financing have been recorded as deferred income and will be amortized into income with such amortization amount based on the life of the related property and equipment. The amount of reimbursements to be received under the TIF agreement is not to exceed $41,772,000 plus related interest on the TIF notes receivable. As of December 31, 2009, the Company had received $9,000,000 in cash from the Village in addition to a $32,754,979 note receivable. The Company recorded $41,754,979 and $32,788,083 of deferred income related to the amounts received,

and has amortized $2,013,016 and $532,927 of deferred income, which is included in the statements of operations for the years ended December 31, 2009 and 2008, respectively. The Company also reduced deferred income by $5,608,792 related to the transfer of property rights for the plant access road from the Company to the Village. The fair value of the asset was deemed to approximate the cost basis due to the recently completed construction of the plant. As of December 31, 2009 and 2008, the unamortized deferred income balance was $33,600,244 and $26,646,364, respectively. The notes had accrued interest receivable of $2,580,819 and $2,033,506 at December 31, 2009 and 2008, respectively, and is recorded separate from the notes received as interest receivable. At December 31, 2009, the Company has recorded a valuation allowance of $1,374,009 against the interest receivable based on the uncertainty of future cash flows of the Village. Interest income was accrued on the notes receivable at an interest rate of 6.1% and 7.2% for the years ended December 31, 2009 and 2008, respectively, and was included in the statements of operations.

5. LONG TERM DEBT AND REVOLVING LINE OF CREDIT

	2009	2008
Secured by substantially all assets:		
Fixed Rate Loan, variable interest of 90 day LIBOR plus 300 basis points with a minimum rate of 5.5%, swapped to a fixed rate of 8.655%	$ 42,998,088	$ 46,950,000
Variable Rate Loan, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%	28,811,787	33,050,000
Long-Term Reducing Revolving Loan, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%	17,500,000	18,991,710
Unsecured:		
Convertible subordinated debt, fixed interest rate of 16%, convertible to membership units	4,000,000	4,000,000
Discount on convertible subordinated debt	(2,537,037)	(3,870,370)
Total debt	90,772,838	99,121,340
Less: current maturities	(6,484,485)	(7,608,529)
Total long-term debt	$ 84,288,353	$ 91,512,811

On November 28, 2006, the Company entered into a definitive loan agreement (the “Agreement”) with a financial institution (the “Bank”) for a Construction Loan of up to $93,900,000, a Revolving Line of Credit of $7,000,000 and Letters of Credit of $3,000,000 to provide financing for construction and operation of the ethanol plant. In connection with the Agreement, the Company also entered into an interest rate swap agreement fixing the interest rate on $46,950,000 of debt at 8.655%.

On September 22, 2008, the Agreement was amended (the "2nd Amendment") to increase the amount available under the Construction Loan to $100,000,000, increase the Revolving Line of Credit to $12,000,000, and reduce the Letters of Credit to $972,685. In addition, the 2nd Amendment also provided for a $4,000,000 Bridge Loan to be issued subject to replacement by issuance of convertible subordinated debt ("Subordinated Debt") by the Company.

On October 8, 2008 ("Completion Date") the Construction loan was converted into three term loans. One term loan, the Fixed Rate Note, is for $46,950,000, and the balance is subject to the interest rate swap agreement (see Note 6). The remaining amounts of the Construction Loan were converted to a Variable Rate Note of $33,050,000 and a Long Term Reducing Revolving Loan of $20,000,000. At December 31, 2009, the balance on these three loans was $42,998,088, $28,811,787, and $17,500,000, respectively. At December 31, 2008, the balance on these three loans was $46,950,000, $33,050,000, and $19,991,710, respectively.

The Agreement also provides for a Revolving Loan under which the Company can borrow the lesser of (1) a borrowing base calculation defined in the Agreement or (2) $12,000,000. The Revolving Loan matured on April 30, 2009. On April 30, 2009, and May 31, 2009, respectively, the Revolving Loan was amended to reduce the amount available from $12,000,000 to $6,000,000 and to extend the maturity date from April 30, 2009 to August 31, 2009. On August 31, 2009, the Company executed an extension to the Revolving Loan as described in the following paragraph. At December 31, 2009 and 2008 the Company had borrowings of $0 and $2,013,204, respectively, under the Revolving Loan. Interest is payable quarterly on outstanding borrowings.

On August 31, 2009, the Company entered into an amended and restated loan agreement (the "Restated Agreement") with the Bank. The Restated Agreement reduced the maximum availability on the Revolving Loan to $5,000,000 and extended the maturity date to July 31, 2010. The Restated Agreement also revised the fixed charge and net worth covenant requirements; eliminated the working capital covenant; increased the base rate on the various loans, except for the Fixed Rate Loan, from LIBOR plus three hundred basis points, to LIBOR plus four hundred fifty basis points with a minimum interest rate of 5.5%; and established a maximum required debt service reserve of $5,000,000 to be funded by an annual excess cash flow calculation. As of December 31, 2009, the Company owed the maximum of $5,000,000 as the result of this calculation and paid that amount on January 22, 2010. This debt service reserve is fully funded and will require no additional contributions for the term of the Restated Agreement.

The Restated Agreement contains various restrictive covenants which, among other matters, require that the Company meet certain financial ratios. The Company is in compliance with the financial covenants of the Restated Agreement as of December 31, 2009 and expects to remain in compliance throughout 2010. At December 31, 2008 the Company was subject to a minimum net worth covenant, the testing of which was deferred to March 31, 2009 and subsequently superseded by the Restated Agreement.

The Fixed Rate Note bears interest at a variable rate of 90 day LIBOR plus three hundred basis points, with a minimum rate of 5.5%. The Variable Rate Note, the Long Term Reducing Revolving Loan, and the Revolving Loan bear interest at a variable rate of 90 day LIBOR plus four hundred fifty basis points, with a minimum rate of 5.5%. The minimum rate of 5.5% was in effect at December 31, 2009. The Fixed and Variable Rate notes bore interest at a variable rate of 90 day LIBOR plus three hundred basis points and the Long Term Reducing Revolving Loan and the Revolving Loan bore interest at a variable rate of 30 day LIBOR plus three hundred basis points (7.52% and 4.54%, respectively) at December 31, 2008. The borrowings under the Agreement are collateralized by substantially all of the assets of the Company. The term loans require quarterly interest and principal payments and mature five years after the Completion Date of the Construction loan. In addition, the Company must make additional annual

principle payments up to a maximum of $4,000,000 based on an excess cash flow calculation, as defined in the Restated Agreement. As of December 31, 2009, the Company owed an additional $4,000,000 as the result of this calculation and paid that amount on January 22, 2010. As of December 31, 2008 no additional amounts were owed under this calculation.

Annual expected maturities for long term debt are as follows as of December 31, 2009:

2010	$	6,484,485
2011		10,731,038
2012		9,905,955
2013		63,651,360
Total	$	90,772,838

On November 25, 2008, the Company issued Convertible Subordinated Debt totaling $4,000,000 to five related parties (see Note 7). The Subordinated Debt bears interest at a rate of 16%, has a term of three years, and is convertible to membership units at each anniversary date at a cost of $1,500, $1,000, and $500 per unit, respectively, on November 25, 2009, 2010, and 2011. Due to the favorable conversion rate of this convertible debt, the Company recognized a beneficial conversion feature of $4,000,000, resulting in a discount of $4,000,000 to the convertible subordinated debt. This discount will be recognized in interest expense over the three year life of the debt. The Company recognized interest expense of $1,333,333 and $129,630 during 2009 and 2008, respectively, related to amortization of this debt discount.

6. DERIVATIVE INSTRUMENTS

From time to time the Company enters into derivative transactions to hedge its exposures to interest rate and commodity price fluctuations. The Company does not enter into derivative transactions for trading purposes.

The Company provides qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses from derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

As of December 31, 2009, the Company had entered into an interest rate swap agreement along with corn derivative instruments. The Company records its derivative financial instruments as either assets or liabilities at fair value in the statement of financial position. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item. Based upon the exposure being hedged, the Company may designate its hedging instruments as a fair value hedge, a cash flow hedge or a hedge against foreign currency exposure. In order to qualify for hedge accounting, the Company must formally document, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an on-going basis. The Company does not currently have any derivative instruments that are designated as effective hedging instruments for accounting purposes.

Commodity Contracts

As part of its hedging strategy, the Company may enter into corn commodity-based derivatives, through its corn procurement agent (discussed in Note 8), in order to protect cash flows from fluctuations caused by volatility in commodity prices and to protect gross profit margins from potentially adverse effects of market and price volatility on corn purchase commitments where the prices are set at a future date. These

derivatives are not designated as effective hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. Corn derivative changes in fair market value are included in cost of goods sold. At December 31, 2009, the total notional amount of the Company's outstanding corn derivative instruments was approximately 1,360,000 bushels that were entered into to hedge forecasted corn purchases through July 2010.

Interest Rate Contact

In accordance with the Agreement as discussed in Note 5 the Company entered into a forward interest rate swap (the "Swap") in the notional amount of $46,950,000 during 2007, to limit its exposure to the impact of increasing interest rates on its results of operations and future cash outflows for interest. The Swap fixed the interest rate of the Fixed Rate Loan subsequent to the Completion Date at 8.655%. The Swap is effective as of October 8, 2008 and terminates on October 8, 2013.

At December 31, 2009, the Company had approximately $44 million of notional amount outstanding in swap agreements that exchange the variable interest rate (three-month LIBOR plus 300 basis points) for a fixed interest rate (8.655%) over the term of the agreement. At December 31, 2009, the fair value of the interest rate swap totaled approximately $4,400,000, of which approximately $1,600,000 is classified as a current liability and approximately $2,800,000 classified as a long-term liability. The entire amount of the interest rate swap at December 31, 2008 was classified as a long-term liability. This agreement is not designated as an effective hedge for accounting purposes and the change in fair market value and associated net settlements are recorded in interest expense.

The following tables provide details regarding the Company's derivative financial instruments at December 31, 2009:

	Balance Sheet location	Assets	Liabilities
Corn contracts	Accounts payable	$ —	$ (90,225)
Interest rate swap	Interest rate swap - current	—	(1,618,486)
Interest rate swap	Interest rate swap – long-term	—	(2,747,249)
Totals		$ —	$ (4,455,960)

The following tables provide details regarding the Company's derivative financial instruments at December 31, 2008:

	Balance Sheet location	Assets	Liabilities
Interest rate swap	Interest rate swap – long-term	$ —	$ (6,318,012)
Totals		$ —	$ (6,318,012)

The following tables provide details regarding gains and (losses) from the Company's derivative financial instruments in the statement of operations, none of which are designated as hedging instruments:

	Statement of Operations location	Year ended December 31, 2009	Year ended December 31, 2008
Corn contracts	Costs of goods sold	$ 364,959	$ 1,970,117
Interest rate swap	Derivative gain (loss)	1,796,231	(3,688,140)
Total gain (loss)		$ 2,161,190	$ (1,718,023)

7. RELATED PARTY TRANSACTIONS

The Company has engaged CGB Enterprises Co. ("CGB", an equity member who also has one board seat) to source corn for the plant under a long term agreement on a fee per bushel basis (discussed further in Note 9).

The Company purchases chemicals used in its production process from Michlig Agricenter, Inc. ("Michlig"), on the basis of price and availability. There are no volume or price commitments by either party. The sole owner of Michlig is a Board member of the Company.

During the construction of the ethanol plant, the Company engaged Scheckel Construction Co. ("Scheckel") for the land preparation. The sole owner of Scheckel is a Board member of the Company. The total amount of contracted services received from Scheckel under the agreement, inclusive of executed change orders, was $6,477,000, all of which had been incurred as of December 31, 2008. The Company has also engaged Fagen, Inc. ("Fagen") as the general contractor for the design and construction of the Project. The sole owner of Fagen is an equity member of the Company. The total amount of contracted services received from Fagen under the agreement, inclusive of executed change orders, was $116,226,000, all of which had been incurred as of December 31, 2008.

Total amounts paid to related parties during the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
CGB	$ 145,489,886	$ 51,949,765
Fagen	2,025,327	47,848,996
Michlig	678,152	360,243
Scheckel	—	434,289
Totals	$ 148,193,365	$ 100,593,293

Total amounts payable to related parties at December 31, 2009 and 2008 were as follows:

	2009	2008
CGB	$ 1,189,843	$ 1,393,245
Fagen	—	2,500,000
Michlig	20,112	71,538
Totals	$ 1,209,955	$ 3,964,783

The Company has engaged Murex N.A, LTD, ("Murex", an equity member) to market ethanol for the plant under a long term agreement on a percentage of revenue commission basis. Total amounts owed to the Company from Murex, as of December 31, 2009 and 2008 were $5,997,273 and $5,012,279, respectively.

As discussed in Note 5, the Company entered into subordinated debt agreements with certain equity members. Those agreements are related party transactions as each party is an equity member.

8. COMMITMENTS AND CONTINGENCIES

Corn Origination Agreement

The Company has a corn origination agreement with CGB, an equity member of the Company, whereby they are entitled to the exclusive right for procurement of 100% of the corn needs for the plant. The contract commenced in 2008 and continues for four years from the first delivery date. The price of the corn purchased will be the bid price CGB establishes with the producer of corn plus a set fee per bushel. At December 31, 2009, the Company had open forward corn purchase commitments for 2,296,676 bushels at an average price of $4.23 with CGB. The Company purchased approximately $145,500,000 of corn from CGB during 2009, of which approximately $1,200,000 is included in accounts payable at December 31, 2009. The Company purchased approximately $52,000,000 of corn from CGB during fiscal 2008, of which approximately $1,400,000 is included in accounts payable at December 31, 2008.

Ethanol Marketing Agreement

The Company has a marketing agreement with Murex, an equity member of the Company, whereby they are entitled to the exclusive right for sale and distribution of 100% of the plant's ethanol. The Company pays the buyer a percentage of the net sales price for certain marketing costs. The initial term is for five years beginning in August 2008 with one year renewal terms unless notice is given by either party at least 90 days prior to the end of the current term. The Company had approximately $197,500,000 of ethanol sales to Murex during 2009, of which approximately $6,000,000 is included in accounts receivable at December 31, 2009. The Company had approximately $60,400,000 of ethanol sales to Murex during fiscal 2008, of which approximately $5,000,000 is included in accounts receivable at December 31, 2008. For the year ended December 31, 2009, ethanol sales are recorded net of commissions and freight totaling approximately $2,100,000 and $14,000,000, respectively. For the year ended December 31, 2008, ethanol sales are recorded net of commissions and freight totaling approximately $730,000 and $4,600,000, respectively.

Distillers Grains Marketing Agreement

The Company has a marketing agreement with CHS, Inc., whereby they are entitled to the exclusive right for sale and distribution of 100% of the plant's dried distiller's grains with solubles, wet distiller's grains and solubles. The initial term of the agreement was one year, but the agreement is to remain in effect until terminated by either party at its unqualified option, by providing written notice of not less than 90 days to the other party. Neither party to the agreement has provided such notice. For the year ended December 31, 2009, DDGS commissions and freight amounted to approximately $800,000 and $375,000, respectively. For the year ended December 31, 2008, DDGS commissions and freight amounted to approximately $200,000 and $1,600,000, respectively.

9. CONCENTRATIONS

For the years ended December 31, 2009 and 2008, two customers accounted for all of the Company's revenues and trade accounts receivable. Accounts receivable for the ethanol marketer represented 91% and 82% of total outstanding receivables at December 31, 2009 and 2008, respectively. Accounts

receivable for the dry distiller grains marketer represented 9% and 14% of total outstanding receivables at December 31, 2009 and 2008, respectively. Revenues for the ethanol marketer represented 83% and 85% of total revenues for the years ended December 31, 2009 and 2008, respectively. Revenues for the dry distiller grains marketer represented 17% and 15% of total revenues for the years ended December 31, 2009 and 2008, respectively.

All of the Company's revenue is generated from the sale of two products, ethanol and distillers grains.

10. MEMBERS' EQUITY

As specified in the Company's operating agreement, the Company has one class of membership units. The Company is authorized to issue up to 65,000 membership units. No additional units may be issued for less than $500 per unit without the consent of the majority of the membership units then outstanding. Profits and losses of the Company are allocated to members based on the proportion of units held. As of December 31, 2009 and 2008 the Company had 45,741 membership units issued and outstanding.

11. FAIR VALUE MEASUREMENTS

The Company follows accounting guidance related to fair value disclosures. For the Company, this guidance applies to certain derivative investments. The authoritative guidance also clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the value financial instruments. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities.

These inputs are summarized in the three broad levels listed below:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability.

The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009:

	Carrying Amount in Balance Sheet	Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Liabilities:					
Corn contracts	$ (90,225)	$ (90,225)	$ (90,225)	$ —	$ —
Interest rate swap	(4,365,735)	(4,365,735)	—	(4,365,735)	—

The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008:

	Carrying Amount in Balance Sheet	Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Liabilities:					
Interest rate swap	$ (6,318,012)	$ (6,318,012)	$ —	$ (6,318,012)	$ —

Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based on current market interest rates and yield curves, and have been evaluated for credit swap default risk. The fair value of corn contracts are based on quoted market prices in active markets.

12. OPERATING LEASES

The Company has various equipment leases under non-cancelable leases through October 2013. Rent expense for operating leases was approximately $133,000 and $30,000 for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009, the Company had the following minimum lease commitments for payment of rentals under leases, which at inception had a non-cancelable term of over one year:

Periods Ending December 31,	
2010	$ 144,551
2011	133,097
2012	105,713
2013	48,065
Total minimum lease commitments	$ 431,426

13. RISKS AND UNCERTAINTIES

The Company has certain risks and uncertainties that it experiences during volatile market conditions, which can have a significant impact on operating results. A majority of the Company's revenues are derived from the sale and distribution of ethanol to customers primarily located in the U.S. Corn for the production process is supplied to the plant primarily from local agricultural producers purchased on the open market. For the fiscal year ended December 31, 2009 ethanol sales averaged 84% of total revenues and corn costs averaged 76% of cost of goods sold.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the cost at which it purchases corn. The price of ethanol and the cost of corn are both influenced, not necessarily in similar directions, by factors such as supply and demand, the weather, and by government policies and programs. Ethanol is also influenced by unleaded gasoline prices and the petroleum markets as a whole, which do not necessarily impact the cost of corn. Similarly, the cost of corn may be influenced, independently of ethanol, by other grain markets such as wheat and soybeans. The Company utilizes various risk management policies and programs to protect against the price volatility of these commodities, as well as those of natural gas and distillers grains.

14. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, the Company may be named as a defendant in legal proceedings related to various issues, including without limitation, workers' compensation claims, tort claims, or contractual disputes. The Company is not currently a party to any material pending legal proceedings and they are not currently aware of any such proceedings being contemplated.

Patriot Renewable Fuels, LLC

Financial Statements for the
Years Ended December 31, 2008 and 2007 and
Independent Auditors' Report

PATRIOT RENEWABLE FUELS, LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Patriot Renewable Fuels, LLC
Annawan, Illinois

We have audited the accompanying balance sheets of Patriot Renewable Fuels, LLC (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, members' equity, and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

November 24, 2009

PATRIOT RENEWABLE FUELS, LLC

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,181,961	$ 193,263
Accounts receivable	6,096,918	
Inventory	6,230,835	
Prepaid expenses and other	1,852,846	510,094
Total current assets	16,362,560	703,357
PROPERTY AND EQUIPMENT:		
Property and equipment, at cost	155,812,610	114,544,604
Accumulated depreciation	(2,984,707)	(25,937)
Property and equipment, net	152,827,903	114,518,667
OTHER NONCURRENT ASSETS:		
Deferred financing costs, net	708,074	760,809
Notes receivable	23,788,083	12,927,685
Interest receivable	2,033,506	387,096
Total other noncurrent assets	26,529,663	14,075,590
TOTAL ASSETS	$ 195,720,126	$ 129,297,614
LIABILITIES AND MEMBERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,188,218	$ 12,534,249
Accrued expenses	3,576,850	481,582
Current portion of long term debt	7,608,529	
Total current liabilities	16,373,597	13,015,831
NONCURRENT LIABILITIES:		
Long-term debt	91,512,811	33,765,282
Revolving loan	2,013,204	
Derivative liability	6,318,012	2,629,872
Deferred income	26,646,364	21,927,685
Total liabilities	142,863,988	71,338,670
MEMBERS’ EQUITY:		
Members’ capital	64,016,373	60,016,373
Retained deficit	(11,160,235)	(2,057,429)
Total members’ equity	52,856,138	57,958,944
TOTAL LIABILITIES AND MEMBERS’ EQUITY	$ 195,720,126	$ 129,297,614

See notes to financial statements.

PATRIOT RENEWABLE FUELS, LLC

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
NET REVENUE	$ 63,534,383	
COST OF GOODS SOLD	65,562,932	
GROSS MARGIN	(2,028,549)	
OPERATING EXPENSES	2,426,152	$ 1,309,588
Loss from operations	(4,454,701)	(1,309,588)
OTHER (INCOME) EXPENSE:		
Interest expense	2,603,204	
Interest income	(1,671,990)	(1,583,077)
Derivative loss	3,688,140	2,629,872
Other (income) expense	28,751	(143,383)
Total other expense	4,648,105	903,412
NET LOSS	$ (9,102,806)	$ (2,213,000)

See notes to financial statements.

PATRIOT RENEWABLE FUELS, LLC

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Members' Capital	Retained Earnings (Deficit)	Total
BALANCE AT JANUARY 1, 2007	$ 60,136,523	$ 155,571	$ 60,292,094
Abandoned contributions	(120,150)		(120,150)
Net loss		(2,213,000)	(2,213,000)
BALANCE AT DECEMBER 31, 2007	60,016,373	(2,057,429)	57,958,944
Issuance of convertible debt	4,000,000		4,000,000
Net loss		(9,102,806)	(9,102,806)
BALANCE AT DECEMBER 31, 2008	$ 64,016,373	$ (11,160,235)	$ 52,856,138

See notes to financial statements.

PATRIOT RENEWABLE FUELS, LLC

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,102,806)	$ (2,213,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Abandoned equity contributions		(120,150)
Depreciation and amortization	2,686,510	152,918
Gain on disposal of equipment		(1,793)
Interest income on tax increment financing notes receivable	(1,646,410)	(387,096)
Derivative loss	3,688,140	2,629,872
Changes in operating assets and liabilities:		
Accounts receivable	(6,096,918)	
Inventory	(6,230,835)	
Prepaids and other current assets	(1,342,752)	(449,304)
Accounts payable	2,666,821	(3,497)
Accrued expenses	3,095,268	21,965
Net cash flows from operating activities	(12,282,982)	(370,085)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		(15,000,000)
Proceeds from sale of investments		32,300,000
Other proceeds from property and equipment		13,939
Purchase of property and equipment	(56,889,651)	(96,309,640)
Net cash flows from investing activities	(56,889,651)	(78,995,701)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from tax increment financing		9,000,000
Payments on deferred financing costs	(78,301)	(13,850)
Advances on line of credit, net	2,013,204	
Proceeds from debt	66,234,718	33,765,282
Payments on long term debt	(1,008,290)	
Proceeds from convertible subordinated debt	4,000,000	
Net cash flows from financing activities	71,161,331	42,751,432
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,988,698	(36,614,354)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	193,263	36,807,617
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,181,961	$ 193,263

(Continued)

PATRIOT RENEWABLE FUELS, LLC

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007 (CONCLUDED)

		2008		2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -				
Cash paid during the year for interest, net of amount capitalized	$	1,054,522	$	1,347
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Accounts payable incurred for property and equipment	$	2,500,000	$	12,512,852
Notes receivable included in deferred income		10,860,398		12,927,685
Donation of roadway to municipality		5,608,972		

See notes to financial statements.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – Patriot Renewable Fuels, L.L.C., an Illinois Limited Liability Company, (the "Company") is a dry mill, corn-based processing facility that produces ethanol and distillers grains that are derived from corn. The ethanol plant is located in Annawan, Illinois and will produce 100 million gallon per year of denatured fuel grade ethanol and approximately 320,000 tons of dried distillers grains with soluble ("DDGS") and process 35.7 million bushels of corn at nameplate (guaranteed by the design-builder) capacity.

The Company began construction of the facility in November 2006 and it was commissioned on August 31, 2008. The year ended December 31, 2008 reflects approximately four full months of operations from the time of commissioning and eight months of construction activity. The ethanol plant processed 12.1 million bushels of corn and produced 33.8 million gallons of denatured fuel grade ethanol in the year ending December 31, 2008, along with approximately 96,000 tons of DDGS.

Use of Estimates – The preparation of 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk – The Company performs periodic credit evaluations of its marketers and has not required collateral. The Company's operations vary with the volatility of the market for inputs (including corn, natural gas, chemicals, and denaturant) and for finished products (ethanol and DDGS), and to mitigate that volatility the Company actively seeks to minimize inventory and accounts receivable levels.

Cash Equivalents – All highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents. The Company maintains cash and cash equivalents primarily in accounts with two financial institutions which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts or any losses in connection with these balances. At December 31, 2008, the Company had $2,511,762 in money market funds which are classified as cash equivalents and recorded at cost which approximates fair value.

Accounts Receivable – Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company does not have any off-balance sheet credit exposure related to its customers, nor has it experienced any write-offs of uncollectible accounts and no allowance for doubtful accounts is recorded.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the first in, first out method. Inventories consist of raw materials (corn, chemicals, denaturant), work in process, finished goods (ethanol and DDGS).

All materials and production costs related to the production of ethanol and distillers grains not sold are capitalized as inventory and recognized as cost of sales when the sale of the product is recognized.

Prepaid Expenses – Prepaid expenses are recorded for non-inventory purchases that will be consumed in less than one year. Included in prepaid expenses and other assets are certain costs paid in advance for natural gas expenses. As of December 31, 2008 the amount included on the balance sheet is $1,229,420 for prepaid natural gas expenses.

Property and Equipment – Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method for financial reporting purposes over the estimated useful lives of the assets.

Estimated useful lives are as follows:

Land improvements	30 years
Buildings	15 – 30 years
Process equipment	10 – 20 years
Grain handling equipment	10 years
Railroad and rail equipment	20 years
Office and computer equipment	3 – 5 years

The Company expenses maintenance and repair expenses as incurred, major improvements are capitalized.

The Company initiated ethanol and DDGS production on August 31, 2008 and began depreciating the plant on that date. Prior to that time, the Company capitalized interest on its construction in progress activities related to the ethanol plant. Interest capitalized for the years ended December 31, 2008 and 2007 was $2,208,197 and $532,194, respectively.

The Company reviews property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset or assets may be impaired and that the undiscounted cash flows expected to be generated by the assets are less than the carrying amount of those assets. The Company has identified no such impairment losses.

Deferred Financing Costs – Costs incurred in connection with the acquisition of financing for the ethanol plant were deferred and amortized over the term of the respective financing using the straight-line method. Accumulated amortization was $272,091 and $141,056 at December 31, 2008 and 2007, respectively.

Notes Receivable – During the years ended December 31, 2008 and 2007, the Company received cash and promissory notes from the Village of Annawan (the “Village”) under a tax increment financing agreement (“TIF”). The Village provided funds in the form of interest bearing notes and cash proceeds from a TIF bond issuance. The notes will bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum.

Interest Rate Swap – The Company entered into an interest rate swap to fix the interest rate for a portion of its long term debt. The Company records the interest rate swap at fair value with changes in fair value recognized in earnings since the interest rate swap was not designated as a cash flow hedge. The Company recognizes the fair value of its interest rate swap as “Derivative liability” on the balance sheets.

Deferred Income – Proceeds received from the Village under the TIF agreement are recorded as deferred income and amortized into income over the life of the related property and equipment.

Convertible Debt – The Company issued $4,000,000 of convertible subordinated notes on November 25, 2008, the proceeds of which are recorded as long term debt, at a discount based on the conversion feature. The notes bear interest at a rate of 16% and are convertible to units each year at the anniversary date as follows: $1,500 per unit at November 25, 2009, $1,000 per unit at November 25, 2010, and $500 per unit at November 25, 2011. The intrinsic value of the beneficial conversion feature at the time of issuance was recorded as a discount on note and a component of members' equity. The discount will be amortized to expense over the three year term of the convertible subordinated debt.

Revenue Recognition **–** The Company sells ethanol and DDGS pursuant to marketing agreements, and recognizes revenue at the time of loading ethanol or distillers grains into trucks, railcars, or containers. This is the point at which the marketer takes ownership of the product and assumes risk of loss.

In accordance with the Company's agreements for the marketing and sale of ethanol and related products, commissions and freight due to the marketers are deducted from the gross sales price at the time payment is remitted to the Company. Product sales are recorded net of freight and commission. For the year ended December 31, 2008, ethanol sales are recorded net of commissions totaling $730,228 and freight totaling $4,630,789. DDGS sales are also recorded net of commissions and freight of $199,513 and $1,641,901, respectively, for the year ended December 31, 2008.

Expense Recognition **–** Cost of goods sold primarily consists of costs for raw materials, utilities, conversion costs, warehousing costs, salaries, wages and expenses for plant operating staff and plant management depreciation and amortization expenses, general facility overhead charges, property taxes and property and casualty insurance.

Operating expenses consist primarily of salaries and expenses for management, administrative and accounting employees, fees paid to outside service providers such as legal, accounting, and consulting firms.

Income Taxes – The Company is organized as a limited liability company. This provides that in lieu of corporate income taxes the members are to separately account for their proportionate share of the Company's items of income, deductions, losses and credits. Therefore, these financial statements do not include a provision for income taxes.

Fair Value – The carrying amounts for cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value. Fair values of derivative financial instruments are determined based on quoted market prices. Fair values of interest rate swap agreements are computed based on nominal and current interest rates, and have been evaluated for credit swap default risk. The fair value of the debt approximates their carrying value due to their short maturity or floating interest rates, as applicable.

Impact of New Accounting Pronouncements – Effective July 1, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") became the single official source of authoritative, nongovernmental generally accepted accounting principles ("GAAP") in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP. The Company's accounting policies were not affected by the conversion to ASC.

In July 2006, the FASB issued new accounting guidance of the accounting for uncertainty in income taxes. This guidance prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This guidance is effective for fiscal years beginning after December 15, 2008. The Company currently evaluates uncertain tax positions by estimating the amount that is probable and estimable of being payable, if successfully challenged by such tax authorities, under the provisions of accounting for contingencies. The Company has not yet determined the impact of adopting the new guidance.

In September 2006, the FASB issued new accounting guidance of the accounting for fair value measurements and disclosures. This guidance defines fair value of financial and nonfinancial assets and liabilities, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This guidance applies to fair value measurements that are already required or permitted by existing standards except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value and nullifies the Emerging Issues Task Force guidance that prohibited recognition of gains or losses at the inception of derivative transactions whose fair value is estimated by applying a model. This guidance clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability, in an orderly transaction between market participants. This guidance is effective for the Company's year ending December 31, 2008. On November 14, 2007, the FASB approved to defer the effective date for all nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company adopted this guidance, as it relates to financial assets and liabilities as of January 1, 2008 (see Note 12). The Company does not anticipate that the adoption of this guidance, as it relates to the nonfinancial assets and liabilities will have a material impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued new accounting guidance of the accounting for derivatives and hedging. This guidance requires, among other things, enhanced disclosure about the volume and nature of derivative and hedging activities and a tabular summary showing the fair value of derivative instruments included in the statement of financial position and statement of operations. This guidance also requires expanded disclosure of contingencies included in derivative instruments related to credit risk. This guidance is effective for the Company's year ending December 31, 2009. The adoption of this guidance is not expected to have a material effect on the Company's financial statements other than providing certain enhanced disclosures.

In May 2009, the FASB issued new accounting guidance of the accounting for subsequent events, which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is effective for interim periods ending after June 15, 2009. The adoption of this guidance is not expected to have a material effect on the Company's financial statements other than providing certain enhanced disclosures.

2. INVENTORY

A summary of inventory at December 31, 2008 is as follows:

Raw materials	$ 2,639,996
Work in process	1,269,110
Finished goods	1,954,742
Other	366,987
	$ 6,230,835

3. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2008 and 2007 is as follows:

	2008	2007
Land and land development	$ 18,187,718	$ 3,681,142
Process and grain handling equipment	110,544,360	
Buildings	26,337,650	749,336
Furniture, fixtures and computer equipment	742,882	183,276
Construction in progess		109,930,850
	155,812,610	114,544,604
Accumulated depreciation	(2,984,707)	(25,937)
Property and equipment, net	$ 152,827,903	$ 114,518,667

4. TAX INCREMENT FINANCING

During the years ended December 31, 2008 and 2007, the Company received amounts from the Village under a TIF agreement. The Village provided funds in the form of interest bearing notes and cash proceeds from a TIF bond issuance. The notes will bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. Bonds issued under the TIF arrangement are not a liability of the Company but are an obligation of the Village since the Company does not guarantee the TIF debt and has no obligation to satisfy any shortfall in annual debt service requirements. The bonds and related notes are to be repaid by the Village from the incremental increase in property taxes related to the improvement of the Company's real property. The proceeds of the financing have been recorded as deferred income and are amortized into income with such amortization amount based on the life of the related property and equipment. The amount of reimbursements to be received under the TIF agreement is not to exceed $41,772,000 plus related interest on the TIF notes receivable. As of December 31, 2008 and 2007, the Company had received $9,000,000 in cash from the Village in addition to $23,788,083 and $12,927,685 of notes receivable, respectively. The Company recorded $32,788,083 of deferred income related to the amounts received, and has amortized $532,927 of deferred revenue, which is included in the statement of operations for the year ended December 31, 2008. The Company also reduced deferred income by $5,608,792 related to the transfer of property rights for the plant access road from the Company to the Village. The fair value of the asset was determined to approximate the cost basis due to the recent construction. As of December 31, 2008 and 2007 the remaining unamortized deferred income balance was $26,646,364 and $21,927,685, respectively. Interest of $2,033,506 and $387,096 was accrued on the notes receivable at an interest rate of 7.2% and included in the statements of operations for the years ended December 31, 2008 and 2007, respectively.

5. LONG TERM DEBT

Debt consists of the following at December 31, 2008 and 2007:

	2008	2007
Construction loan, variable interest of 90 day LIBOR plus 300 basis points		$ 33,765,282
Fixed rate loan, variable interest of 90 day LIBOR plus 300 basis points, swapped to fixed rate of 8.655%	$ 46,950,000	
Variable rate loan, variable interest of 90 day LIBOR plus 300 basis points	33,050,000	
Long-term reducing revolving loan, variable interest of 30 day LIBOR plus 300 basis points	18,991,710	
Convertible subordinated debt, unsecured, fixed interest rate of 16% convertible to membership units	4,000,000	
Discount on convertible subordinated debt	(3,870,370)	
	99,121,340	33,765,282
Less current maturities	7,608,529	
Long-term portion	$ 91,512,811	$ 33,765,282

On November 28, 2006, the Company entered into a loan agreement (the “Agreement”) with a financial institution (the “Bank”) for a construction loan of up to $93,900,000, a revolving loan of $7,000,000 and letters of credit of $3,000,000 to provide financing for construction and operation of the ethanol plant. In connection with the Agreement, the Company also entered into an interest rate swap agreement fixing the interest rate on $46,950,000 of debt.

On September 22, 2008, the Agreement was amended (the “Amendment”) to increase the amount available under the construction loan to $100,000,000, increase the revolving loan to $12,000,000, and reduce the letters of credit to $972,685. In addition, the Amendment also provided for a $4,000,000 bridge loan to be issued subject to replacement by issuance of convertible subordinated debt (“Subordinated Debt”) by the Company.

On October 8, 2008 (“Completion Date”) the construction loan was converted into three term loans. One term loan, the fixed rate loan, is for $46,950,000, and the balance is subject to the interest rate swap agreement (see Note 6). The remaining amounts of the construction loan were converted to a variable rate loan of $33,050,000 and a long-term reducing revolving loan of $20,000,000.

The Agreement also provides for a revolving loan under which the Company can borrow the lesser of (1) a borrowing base calculation defined in the Agreement or (2) $12,000,000 and matured on April 30, 2009. On April 30, 2009, and May 31, 2009, respectively, the revolving loan was amended to reduce the amount available from $12,000,000 to $6,000,000 and to extend the maturity date from April 30, 2009 to August 31, 2009. Interest is payable quarterly on outstanding borrowings. At December 31, 2008 the Company had borrowings of $2,013,204 under the revolving loan. On August 31, 2009, the Company executed an extension to the revolving loan as described in Note 13.

The fixed and variable rate notes bear interest at a variable rate of 90 day LIBOR plus three hundred basis points, and the long-term reducing revolving loan and the revolving loan bear interest at a variable rate of 30 day LIBOR plus three hundred basis points (7.52% and 4.54%, respectively, at December 31, 2008). The borrowings under the Agreement are collateralized by substantially all assets of the Company. The term loans require quarterly interest and principal payments and mature five years after the Completion Date of the construction loan. In addition, subsequent to the Completion Date, the Company must make additional annual principal payments based on an excess cash flow calculation, as defined in the Agreement. As of December 31, 2008, no additional amounts were owed under this calculation. Annual expected maturities for long term debt are as follows as of December 31, 2008:

Year Ending December 31,	
2009	$ 7,608,529
2010	8,200,730
2011	8,952,098
2012	9,481,919
2013	64,878,064
	$ 99,121,340

The Agreement contains various restrictive covenants which, among other matters, require that the Company meet certain financial ratios. At December 31, 2008 the Company was subject to a minimum net worth covenant, the requirement of which was deferred to March 31, 2009. Beginning in February 2009 the Company was to be subject to a minimum working capital covenant and in March 2009 to a minimum fixed charge covenant. The requirement for these covenants was also deferred to March 31, 2009. The Company was in violation of these covenants as of March 31, 2009 and obtained a waiver of the violations on May 31, 2009 extending the covenant measurement until August 31, 2009. On August 31, 2009, the Company entered into an amended and restated agreement with the Bank as described in Note 13.

On November 25, 2008, the Company issued Subordinated Debt totaling $4,000,000 to five related parties (see Note 7). The Subordinated Debt bears interest at a rate of 16%, has a term of three years, and is convertible to membership units at each anniversary date at a cost of $1,500, $1,000, and $500 per unit, respectively, on November 25, 2009, 2010, and 2011.

6. INTEREST RATE SWAP

As discussed in Note 6, the Company entered into a forward starting interest rate swap (the “Swap”) in the notional amount of $46,950,000 during 2007. The Swap fixed the variable interest rate portion of the term loan subsequent to the Completion Date at 8.655%. The variable rate under the Agreement is equal to LIBOR plus three hundred basis points. The Swap is effective as of October 8, 2008 and terminates on October 8, 2013.

At December 31, 2008 and 2007, the Company recorded a liability related to the fair value of the Swap of $6,318,012 and $2,629,872, respectively. The change in fair value of the Swap was recorded in the statements of operations.

7. RELATED PARTY TRANSACTIONS

The Company has engaged CGB Enterprises Co. (“CGB”), an equity member, to source corn for the plant under a long term agreement on a fee per bushel basis. During the construction of the ethanol plant, the Company engaged Scheckel Construction Co. (“Scheckel”) for the land preparation. The sole owner of Scheckel is a Board member of the Company. The Company has also engaged Fagen, Inc. (“Fagen”) as the general contractor for the design and construction of the Project. The sole owner of Fagen is an equity member of the Company.

Total amounts paid to related parties during the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Fagen	$ 47,848,996	$ 75,628,825
Scheckel	434,289	3,163,551
CGB	51,949,765	
	$ 100,233,050	$ 78,792,376

Total amounts payable to related parties at December 31, 2008 and 2007 were as follows:

	2008	2007
Fagen	$ 2,500,000	$ 11,139,627
Scheckel		318,556
CGB	1,393,245	
Other		37,100
	$ 3,893,245	$ 11,495,283

The Company has engaged Murex N.A, LTD, (“Murex”), an equity member, to market ethanol for the plant under a long term agreement on a percentage of revenue commission basis. Total amounts owed to the Company from Murex, as of December 31, 2008 were $5,012,279.

As discussed in Note 5, the Company entered into convertible subordinated debt agreements with certain equity members of the Company.

8. CONTINGENCIES

The Company’s operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdiction in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of material in its location. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational heath, and the production, handling, storage and use of hazardous materials to prevent environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities are recorded when the Company’s liability is probable and the costs can be reasonably estimated. No such liabilities were recorded at December 31, 2008 and 2007 and the Company is not currently a party to any unsettled legal proceedings at December 31, 2008.

9. COMMITMENTS

The Company executed a corn origination agreement with CGB, an equity member of the Company, whereby CGB is entitled to the exclusive right for procurement of 100% of the corn needs for the plant. The Company executed a marketing agreement with Murex, an equity member of the Company, whereby Murex is entitled to the exclusive right for sale and distribution of 100% the plant's ethanol. The Company executed a marketing agreement with CHS, Inc., whereby CHS, Inc. is entitled to the exclusive right for sale and distribution of 100% of the plant's dried distiller's grains with solubles, wet distiller's grains and solubles.

10. MAJOR CUSTOMERS

For the year ended December 31, 2008, two customers accounted for all of the Company's revenues and trade accounts receivable. Revenues for the ethanol marketer represented 85% of total revenues for the year ended December 31, 2008. Revenues for the dry distiller grains marketer represented 15% of total revenues for the year ended December 31, 2008. Accounts receivable for the ethanol marketer represented 82% of total outstanding receivables at December 31, 2008. Accounts receivable for the dry distiller grains marketer represented 14% of total outstanding receivables at December 31, 2008.

11. MEMBERS' EQUITY

As specified in the Company's operating agreement, the Company has one class of membership units. The Company is authorized to issue up to 65,000 membership units. No additional units may be issued for less than $500 per unit without the consent of the majority of the membership units then outstanding. Profits and losses of the Company are allocated to members based on the proportion of units held. As of December 31, 2008 and 2007 the Company had 45,741 membership units issued and outstanding.

12. FAIR VALUE MEASUREMENTS

The Company determines the fair market value of its interest rate swaps, based on the fair value definition and hierarchy levels established in the accounting guidance for fair value measurements and disclosures. This guidance establishes three levels within its hierarchy that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs, including Level 1 prices that have been adjusted; quoted prices for similar assets or liabilities; quoted prices in markets that are less active than traded exchanges; and other inputs that are observable or can be substantially corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity, which requires the Company to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Interest rate swap liability	$ —	$ 6,318,012	$ —

13. SUBSEQUENT EVENT

On August 31, 2009, the Company entered into an amended and restated loan agreement (the “Restated Agreement”) with the Bank. The Restated Agreement reduced the maximum availability on the revolving loan to $5,000,000 and extended the maturity date under the revolving loan to July 31, 2010. The Restated Agreement also revised the fixed charge and net worth covenant requirements; eliminated the working capital covenant; increased the base rate on the various loans, except for the fixed rate loan, to LIBOR plus four hundred fifty basis points with a minimum interest rate of 5.5%; and established a required debt service reserve of $5,000,000 to be funded by an annual excess cash flow calculation.

The Company is in compliance with the covenants of the Restated Agreement as of September 30, 2009 and expects to be in compliance with the covenants throughout 2010.

* * * * *