REX STORES CORP
Form 10-Q
June 09, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________________________ to ____________________________________

Commission File Number 001-09097

REX STORES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**31-1095548**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2875 Needmore Road, Dayton, Ohio	**45414**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 ( )

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.

Large accelerated filer ( )	Accelerated filer (X)
Non-accelerated filer ( ) (Do not check if a smaller reporting company)	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 ( ) No (X)

At the close of business on June 6, 2008 the registrant had 10,699,451 shares of Common Stock, par value $.01 per share, outstanding.

REX STORES CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
Unaudited

	April 30, 2008	January 31, 2008	April 30, 2007
Assets		(In Thousands)	
Current assets:			
Cash and cash equivalents	$ 106,301	$ 127,716	$ 105,355
Accounts receivable, net	3,025	1,877	3,439
Synthetic fuel receivable	-	573	5,485
Inventory, net	56,800	49,933	90,427
Prepaid expenses and other	2,204	2,492	1,428
Deferred taxes	10,399	10,599	7,288
Total current assets	178,729	193,190	213,422
Property and equipment, net	168,359	136,505	74,426
Assets held for sale, net	-	-	1,676
Other assets	14,098	14,803	13,590
Goodwill	1,322	1,322	1,322
Deferred taxes	21,929	21,929	26,290
Equity method investments	39,509	38,748	27,936
Investments in debt instruments	-	-	14,000
Restricted investments	2,491	2,481	2,425
Total assets	$ 426,437	$ 408,978	$ 375,087
Liabilities and shareholders' equity:			
Current liabilities:			
Current portion of long-term debt and capital lease obligations	$ 5,352	$ 4,101	$ 2,013
Accounts payable, trade	39,409	27,253	45,461
Deferred income	13,708	14,448	15,322
Deferred gain on sale and leaseback	1,436	1,436	5,420
Other current liabilities	5,928	13,617	8,606
Total current liabilities	65,833	60,855	76,822
Long-term liabilities:			
Long-term debt and capital lease obligations	45,276	35,224	20,627
Deferred income	16,282	17,172	18,677
Deferred gain on sale and leaseback	4,132	4,493	6,748
Derivative financial instruments	2,129	2,601	-
Other	6,485	4,313	940
Total long-term liabilities	74,304	63,803	46,992
Minority interest in consolidated subsidiaries	27,512	27,729	11,618
Shareholders' equity:			
Common stock	298	298	295
Paid-in capital	141,867	141,357	140,264
Retained earnings	287,155	285,629	259,496
Treasury stock	(170,532)	(170,693)	(160,400)

Total shareholders' equity	258,788	256,591	239,655
Total liabilities and shareholders equity	$ 426,437	$ 408,978	$ 375,087

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

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Income
Unaudited

	Three Months Ended April 30, 2008	Three Months Ended April 30, 2007
	(In Thousands, Except Per Share Amounts)	
Net sales and revenue	$ 47,101	$ 48,888
Cost of sales (excluding retail segment depreciation)	33,653	33,410
Gross profit	13,448	15,478
Selling, general and administrative expenses	(14,405)	(14,629)
Interest income	857	1,293
Interest expense	(121)	(74)
Loss on early termination of debt	-	(598)
Losses on sale of real estate, net	-	(10)
Equity in income of unconsolidated ethanol affiliates	1,048	1,110
Income from synthetic fuel investments	670	6,733
Unrealized gain on derivative financial instruments	472	-
Income from continuing operations before provision for income taxes, minority interest and discontinued operations	1,969	9,303
Provision for income taxes	(522)	(3,589)
Minority interest	217	(95)
Income from continuing operations	1,664	5,619
Loss from discontinued operations, net of tax	(138)	(961)
Gains on disposal of discontinued operations, net of tax	-	2,876
Net income	$ 1,526	$ 7,534
Weighted average shares outstanding - basic	10,729	10,468
Basic income per share from continuing operations	$ 0.15	$ 0.54
Basic loss per share from discontinued operations	(0.01)	(0.09)
Basic income per share on disposal of discontinued operations	-	0.27
Basic net income per share	$ 0.14	$ 0.72
Weighted average shares outstanding – diluted	11,620	11,799
Diluted income per share from continuing operations	$ 0.14	$ 0.48
Diluted loss per share from discontinued operations	(0.01)	(0.08)
Diluted income per share on disposal of discontinued operations	-	0.24
Diluted net income per share	$ 0.13	$ 0.64

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

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Shareholders Equity
Unaudited

	Common Shares Issued		Treasury		Paid-in	Retained	Total Shareholders
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
				(In Thousands)			
Balance at January 31, 2008	29,813	$ 298	19,094	$ (170,693)	$ 141,357	$ 285,629	$ 256,591
Net income						1,526	1,526
Stock based compensation					348		348
Stock options exercised and related tax effects	-	-	(18)	161	162	-	323
Balance at April 30, 2008	29,813	$ 298	19,076	$ (170,532)	$ 141,867	$ 287,155	$ 258,788

	Common Shares Issued		Treasury		Paid-in	Retained	Total Shareholders
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
				(In Thousands)			
Balance at January 31, 2007	29,513	$ 295	19,089	$ (161,092)	$ 139,337	$ 252,249	$ 230,789
Net income						7,534	7,534
Cumulative effect of adopting FIN 48						(287)	(287)
Stock based compensation					364		364
Stock options exercised and related tax effects	4	-	(80)	692	563	-	1,255
Balance at April 30, 2007	29,517	$ 295	19,009	$ (160,400)	$ 140,264	$ 259,496	$ 239,655

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

REX STORES CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements Of Cash Flows
Unaudited

	Three Months Ended April 30, 2008	2007
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 1,526	$ 7,534
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	623	721
Stock based compensation expense	348	364
Impairment charges	-	65
Capitalized interest	-	(499)
Income from equity method investments	(1,048)	(1,110)
Minority interest	(217)	175
Income from synthetic fuel investments	(670)	(6,733)
Gain on disposal of real estate and property and equipment	(2)	(4,536)
Dividends received from equity method investees	400	175
Deferred income	(1,991)	(955)
Unrealized gain on derivative financial instruments	(472)	-
Loss on early termination of debt	-	620
Excess tax benefits from stock option exercises	(2)	(19)
Deferred income tax	200	1,859
Changes in assets and liabilities:		
Accounts receivable	(1,148)	(1,464)
Merchandise inventory	(6,867)	(20,349)
Prepaid expenses and other	288	867
Other long term assets	705	396
Accounts payable, trade	11,567	18,207
Other liabilities	(8,455)	(1,251)
Net cash used in operating activities	(5,215)	(5,933)
Cash flows from investing activities:		
Capital expenditures	(28,666)	(9,063)
Proceeds from sale of synthetic fuel investments	1,243	10,086
Proceeds from sale of real estate and property and equipment	10	77,276
Restricted investments	(10)	(19)
Net cash (used in) provided by investing activities	(27,423)	78,280
Cash flows from financing activities:		
Payments of long-term debt	(1,038)	(16,258)
Proceeds from long-term debt	11,936	4,984
Stock options exercised	323	1,255
Excess tax benefits from stock option exercises	2	19
Net cash provided by (used in) financing activities	11,223	(10,000)
Net (decrease) increase in cash and cash equivalents	(21,415)	62,347
Cash and cash equivalents, beginning of period	127,716	43,008
Cash and cash equivalents, end of period	$ 106,301	$ 105,355

Non cash investing activities Accrued capital expenditures	$	3,508	$	-
Non cash investing activities Assets acquired by capital leases	$	405	$	-

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
April 30, 2008

Note 1. ***Consolidated Condensed Financial Statements***

The consolidated condensed financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Financial information as of January 31, 2008 included in these financial statements has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2008 (fiscal year 2007). It is suggested that these unaudited consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2008. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

Basis of Consolidation – The consolidated condensed financial statements in this report include the operating results and financial position of REX Stores Corporation and its wholly and majority owned subsidiaries and all variable interest entities where the Company has been determined to be the primary beneficiary. During the second quarter of fiscal year 2007, the Company acquired additional membership units giving it a majority ownership interest in Levelland Hockley County Ethanol, LLC (“Levelland Hockley”). Levelland Hockley qualifies as a Variable Interest Entity (“VIE”), but not a Special Purpose Entity under FASB Interpretation No. 46R (“FIN 46R”), “Consolidation of Variable Interest Entities”. The Company is the primary beneficiary of Levelland Hockley, and in accordance with FIN 46R, the Company consolidated Levelland Hockley effective with the third quarter of fiscal year 2006. The Company includes the results of operations of Levelland Hockley in its Consolidated Condensed Statement of Income on a delayed basis of one month. Levelland Hockley commenced operations during the first quarter of fiscal year 2008 and, therefore, is no longer a development stage enterprise.

During the third quarter of fiscal year 2007, the Company acquired a majority ownership interest in One Earth Energy, LLC (“One Earth”). The Company includes the results of operations of One Earth in its Consolidated Condensed Statement of Income on a delayed basis of one month.

Note 2. ***Accounting Policies***

The interim consolidated condensed financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's 2007 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year end. Examples of such estimates include management bonuses, reserves for inventory obsolescence and the provision for income taxes. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature. Actual results could differ from those estimates.

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

	Three Months Ended April 30,	
Product Category	2008	2007
Televisions	51.4%	50.4%
Appliances	28.1	28.7
Audio	4.1	5.3
Video	1.8	2.6
Extended warranties	7.1	7.0
Ethanol and related by products	2.5	-
Other	5.0	6.0
	100.0%	100.0%

Revenue Recognition

The Company recognizes sales of retail products upon receipt by the customer. The Company will honor returns from retail customers within seven days from the date of sale. The Company establishes liabilities for estimated returns at the point of sale. Such liabilities are immaterial for all periods presented. The Company sells 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. Amortization of deferred contract revenues is included in net sales and revenue while amortization of deferred sales commissions is included in selling, general and administrative expenses. The Company retains the obligation to perform warranty service and such costs are charged to operations as incurred.

The Company recognizes 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.

The Company recognizes income from synthetic fuel partnership sales as production is completed and collectibility of receipts is reasonably assured. The Company is paid for actual tax credits earned as the synthetic fuel is produced with the exception of production at the Pine Mountain (Gillette) facility. The Company estimates the impact of oil prices and the likelihood of any phase out of Section 29/45K credits and the resulting reduction of synthetic fuel income quarterly. See Note 10 for a further discussion of synthetic fuel partnership sales.

Cost of Sales

Retail cost of sales includes the cost of merchandise (net of vendor allowances), markdowns and inventory shrink, receiving, warehousing and freight charges to deliver merchandise to retail stores, service repair bills as well as cash discounts and rebates. The Company classifies purchasing costs as selling, general and administrative expenses. As a result of this classification, the Company's retail gross margins may not be comparable to those of other retailers that include costs related to their distribution network in selling, general and administrative expense.

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.

Vendor Allowances and Advertising Costs

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

Selling, General and Administrative Expenses

The Company includes stores expenses from its retail segment (such as payroll and occupancy costs), advertising, purchasing, depreciation, insurance and overhead costs in selling, general and administrative expenses.

The Company includes non-production related costs from its alternative energy segment such as utilities, property taxes and certain payroll in selling, general and administrative expenses.

Interest Cost

Interest expense of $121,000 for the quarter ended April 30, 2008 is net of approximately $875,000 of interest capitalized. Interest expense of $74,000 for the quarter ended April 30, 2007 is net of approximately $499,000 of interest capitalized. Cash paid for interest for the quarter ended April 30, 2008 and 2007 was approximately $301,000 and $734,000, respectively.

Financial Instruments

Forward grain purchase and ethanol and distiller grain sale contracts are accounted for under the normal purchases and normal sales scope exemption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) because these arrangements are for purchases of grain that will be delivered in quantities expected to be used by the Company and sales of ethanol and distiller grain quantities expected to be produced by the Company over a reasonable period time in the normal course of business. The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreements were not designated for hedge accounting pursuant to SFAS 133. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the Consolidated Condensed Statements of Income.

Income Taxes

The Company applies an effective tax rate to interim periods that is consistent with the Companys estimated annual tax rate. 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 basis and operating loss and tax credit