

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended July 31, 1998

OR

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

Commission File Number 0-13283

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

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

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

(937) 276-3931

(Registrant's telephone number, including area code)

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

At the close of business on September 10, 1998, the registrant had 7,179,222 shares of Common Stock, par value \$.01 per share, outstanding.

REX STORES CORPORATION AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## REX STORES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

## A S E T S

	July 31 1998	January 31 1998	July 31 1997
		(In Thousands)	
ASSETS:			
Cash and cash equivalents	\$ 6,014	\$ 16,937	\$ 1,656
Short-term investments	1,744	1,637	1,647
Accounts receivable, net	518	2,775	808
Merchandise inventory	144,523	126,498	148,174
Prepaid expenses and other	2,833	2,078	5,121
Future income tax benefits	7,899	7,899	5,544
	-----	-----	-----
Total current assets	163,531	157,824	162,950
PROPERTY AND EQUIPMENT, NET	93,624	93,165	91,369
FUTURE INCOME TAX BENEFITS AND OTHER NONCURRENT ASSETS	12,727	9,541	8,519
	-----	-----	-----
Total assets	\$ 269,882	\$ 260,530	\$ 262,838
	=====	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Notes payable	\$ 13,618	\$ -	\$ 28,152
Current portion of long-term debt	3,011	2,959	3,190
Accounts payable, trade	49,507	49,832	31,941
Accrued income taxes	-	1,671	-
Current portion, deferred income and deferred gain on sale and leaseback	11,379	11,402	11,257
Accrued payroll	4,388	5,810	4,655
Other liabilities	10,612	7,263	5,758
	-----	-----	-----
Total current liabilities	92,515	78,937	84,953
	-----	-----	-----

Liabilities and Shareholders' Equity (Continued)

LONG-TERM LIABILITIES:

Long-term debt	53,093	52,661	52,219
Deferred income	16,928	17,886	17,683
Deferred gain on sale and leaseback	4,793	5,264	5,736
	-----	-----	-----
Total long-term liabilities	74,814	75,811	75,638
	-----	-----	-----

SHAREHOLDERS' EQUITY:

Common stock	97	97	97
Paid-in capital	58,403	57,896	57,672
Retained earnings	66,773	64,175	58,919
Treasury stock	(22,720)	(16,386)	(14,441)
	-----	-----	-----
Total shareholders' equity	102,553	105,782	102,247
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 269,882	\$ 260,530	\$ 262,838
	=====	=====	=====

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended July 31		Six Months Ended July 31	
	1998	1997	1998	1997
(In Thousands, Except Per Share Amounts)				
NET SALES	\$ 92,446	\$ 89,899	\$180,410	\$178,164
COSTS AND EXPENSES:				
Cost of merchandise sold	66,402	64,051	130,384	127,921
Selling, general and administrative expenses	21,818	21,660	43,034	43,233
Total costs and expenses	88,220	85,711	173,418	171,154
INCOME FROM OPERATIONS	4,226	4,188	6,992	7,010
INVESTMENT INCOME	45	22	223	50
INTEREST EXPENSE	1,659	1,963	2,918	3,495
Income before income taxes	2,612	2,247	4,297	3,565
PROVISION FOR INCOME TAXES	1,033	888	1,699	1,409
NET INCOME	\$ 1,579	\$ 1,359	\$ 2,598	\$ 2,156
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,644	7,885	7,670	7,940
BASIC NET INCOME PER SHARE	\$ 0.21	\$ 0.17	\$ 0.34	\$ 0.27
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVA- LENT SHARES OUTSTANDING	8,011	8,144	8,034	8,181
DILUTED NET INCOME PER SHARE	\$ 0.20	\$ 0.17	\$ 0.32	\$ 0.26

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares				Paid-in Capital	Retained Earnings
	----- Issued		----- Treasury			
	Shares	Amount	Shares	Amount (In Thousands)		
Balance at July 31, 1997	9,665	\$ 97	1,763	\$14,441	\$57,672	\$58,919
Common stock issued	23	-	-	-	224	-
Treasury stock acquired	-	-	192	1,945	-	-
Net income	-	-	-	-	-	5,256
	-----	-----	---	-----	-----	-----
Balance at January 31, 1998	9,688	\$ 97	1,955	\$16,386	\$57,896	\$64,175
Common stock issued	68	-	-	-	507	-
Treasury stock acquired	-	-	529	6,334	-	-
Net income	-	-	-	-	-	2,598
	-----	-----	---	-----	-----	-----
Balance at July 31, 1998	9,756	\$ 97	2,484	\$22,720	\$58,403	\$66,773
	=====	=====	=====	=====	=====	=====

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

REX STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended July 31	
	1998	1997
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,598	\$ 2,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	1,573	1,481
Deferred income	(981)	(182)
Accounts receivable	2,258	669
Merchandise inventory	(18,025)	(13,141)
Other current assets	(758)	(2,906)
Accounts payable, trade	(325)	676
Other liabilities	256	(1,931)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(13,404)	(13,178)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short-term investments and other assets	(3,293)	(2)
Capital expenditures	(4,175)	(3,680)
Capital disposals	1,675	1
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(5,793)	(3,681)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	13,618	16,010
Payments of long-term debt	(2,224)	(1,354)
Long-term debt borrowings	2,707	2,530
Common stock issued	507	443
Treasury stock acquired	(6,334)	(3,073)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,274	14,556
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,923)	(2,303)
CASH AND CASH EQUIVALENTS, beginning of period	16,937	3,959
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 6,014	\$ 1,656
	=====	=====

[FN]

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

REX STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1998

Note 1. Consolidated Financial Statements

The consolidated financial statements included in this report have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments necessary to state fairly the information set forth therein. Any such adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these unaudited consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 1998.

Note 2. Accounting Policies

The interim consolidated financial statements have been prepared in accordance with the accounting policies described in the notes to the consolidated financial statements included in the Company's 1998 Annual Report on Form 10-K. While management believes that the procedures followed in the preparation of interim financial information are reasonable, the accuracy of some estimated amounts is dependent upon facts that will exist or calculations that will be accomplished at fiscal year end. Examples of such estimates include changes in the LIFO reserve (based upon the Company's best estimate of inflation to date) and management bonuses. Any adjustments pursuant to such estimates during the quarter were of a normal recurring nature.

Certain reclassifications have been made to prior year amounts to conform with their fiscal 1999 presentation.



Notes to Consolidated Financial Statements (Continued)

Note 3. Stock Option Plans

The following summarizes options granted, exercised and canceled or expired during the six months ended July 31, 1998:

	Shares Under Stock Option Plans
Outstanding at January 31, 1998 (\$3.375 to \$18.975 per share)	2,287,464
Granted (\$11.50 to \$12.50 per share)	346,625
Exercised (\$6.875 to \$10.375 per share)	68,145
Canceled or expired (\$14.30 per share)	6,993
	-----
Outstanding at July 31, 1998 (\$3.375 to \$18.975 per share)	2,558,951
	=====

Note 4. Net Income Per Share

Effective January 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS 128) "Earnings per Share," which replaces the calculation of primary and fully diluted earnings per share under previous accounting standards with basic and diluted earnings per share. As a result, the Company's reported net income per share amounts for the three and six month periods ended July 31, 1997 have been restated as follows:

	Per Share Amounts	
	Three Months Ended July 31, 1997	Six Months Ended July 31, 1997
Primary net income per share, as reported	\$0.17	\$0.26
Effect of SFAS 128	-	0.01
	-----	-----
Basic net income per share, as restated	\$0.17	\$0.27
	=====	=====

The following table reconciles the basic and diluted net income per share computations for each period presented:

	Three Months Ended					
	July 31, 1998			July 31, 1997		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic net income per share	\$1,579	7,644	\$0.21 =====	\$1,359	7,885	\$0.17 =====
Effect of stock options	-	367		-	259	
	-----	-----		-----	-----	
Diluted net income per share	\$1,579 =====	8,011 =====	\$0.20 =====	\$1,359 =====	8,144 =====	\$0.17 =====

	Six Months Ended					
	July 31, 1998			July 31, 1997		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic net income per share	\$2,598	7,670	\$0.34 =====	\$2,156	7,940	\$0.27 =====
Effect of stock options	-	364		-	241	
	-----	-----		-----	-----	
Diluted net income per share	\$2,598 =====	8,034 =====	\$0.32 =====	\$2,156 =====	8,181 =====	\$0.26 =====

As of July 31, 1998, a total of 1,139,967 shares subject to outstanding options at exercise prices ranging from \$13.00 to \$18.975 per share were not included in the common equivalent shares outstanding calculation as the exercise prices were above the average trading price of the Company's stock for the three and six months ended July 31, 1998.

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

The Company is a leader in the consumer electronics/appliance retailing industry with 220 stores in 35 states, operating predominantly in small to medium sized markets under the trade name "REX".

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	1998	1997	1998	1997
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	71.8	71.2	72.3	71.8
	-----	-----	-----	-----
Gross profit	28.2	28.8	27.7	28.2
Selling, general and administrative expense	23.6	24.1	23.8	24.3
	-----	-----	-----	-----
Income from operations	4.6	4.7	3.9	3.9
Interest, net	1.8	2.2	1.5	1.9
	-----	-----	-----	-----
Income before income taxes	2.8	2.5	2.4	2.0
Provision for income taxes	1.1	1.0	1.0	.8
	-----	-----	-----	-----
Net income	1.7%	1.5%	1.4%	1.2%
	=====	=====	=====	=====

## Comparison of Three and Six Months Ended July 31, 1998 and 1997

Net sales in the second quarter ended July 31, 1998 were \$92.4 million compared to \$89.9 million in the prior year's comparable period, representing an increase of \$2.5 million or 2.8%. This increase is primarily a result of an increase in comparable store sales of 2.0%, along with increased sales at non-comparable stores. Net sales for the first half of fiscal 1999 were \$180.4 million compared to \$178.2 million in the first half of fiscal 1998, representing an increase of \$2.2 million or 1.3%. This increase is primarily a result of an increase in non-comparable store sales, as comparable store sales were flat for the first half of fiscal 1999. The Company considers a store to be comparable after it has been open six fiscal quarters.

As of July 31, 1998, the Company had 220 stores compared to 219 stores one year earlier. There were two stores opened and four closed in the first half of fiscal 1999. In the prior year's first half there were two stores opened and three closed. The Company evaluates the performance of its stores on a continuous basis and, based on an assessment of factors it deems relevant, will close any store which is not adequately contributing to Company profitability.

Gross profit of \$26.0 million in the second quarter of fiscal 1999 (28.2% of net sales) was 0.8% higher than the \$25.8 million gross profit (28.8% of net sales) recorded in the second quarter of fiscal 1998. In the first half of fiscal 1999 gross profit was \$50.0 million (27.7% of net sales), a 0.4% decrease from \$50.2 million (28.2% of net sales) for the first half of fiscal 1998. The reduced gross profit margin, as a percent of net sales, for the first half of fiscal 1999 is primarily the result of a change in the merchandise mix, partially offset by the recognition of a higher amount of extended service contract revenues, which generally have a higher gross profit margin.

Selling, general and administrative expenses for the second quarter of fiscal 1999 were \$21.8 million (23.6% of net sales), a 0.7% increase over the \$21.7 million (24.1% of net sales) for the second quarter of fiscal 1998. Selling, general and administrative expenses for the first half of fiscal 1999 were \$43.0 million (23.8% of net sales), a 0.5% decrease from \$43.2 million (24.3% of net sales) for the first half of fiscal 1998. The decrease in expense, as a percent of net sales, is primarily attributable to lower advertising expenditures in certain markets, partially offset by an increase in incentive commissions for sales personnel.

Interest expense decreased to \$1.7 million (1.8% of net sales) for the quarter ended July 31, 1998 from \$2.0 million (2.2% of net sales) for the second quarter of fiscal 1998. Interest expense for the first half of fiscal 1999 decreased to \$2.9 million (1.5% of net sales) from \$3.5 million (1.9% of net sales) for the first half of fiscal 1998. The decrease in interest expense is a result of lower borrowings on the line of credit primarily due to lower inventory levels during the first half of fiscal 1999 compared to fiscal 1998.

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

As a result of the foregoing, net income for the second quarter of fiscal 1999 was \$1.6 million, a 16.2% increase from \$1.4 million for the second quarter of fiscal 1998. Net income for the first half of fiscal 1999 was \$2.6 million, a 20.5% increase from \$2.2 million for the first half of fiscal 1998.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$13.4 million for the first half of fiscal 1999, compared to \$13.2 million for the prior year's first half. Cash was provided by net income of \$2.6 million, adjusted for non-cash charges of \$592,000. The primary use of cash was an increase in inventory of \$18.0 million primarily due to seasonal fluctuations. Changes in other working capital items provided cash of approximately \$1.4 million.

At July 31, 1998, working capital was \$71.0 million compared to \$78.9 million at January 31, 1998. The ratio of current assets to current liabilities was 1.8 to 1 at July 31, 1998 and 2.0 to 1 at January 31, 1998.

The Company had outstanding borrowings on its revolving line of credit of \$13.6 million at July 31, 1998 at an average interest rate of approximately 7.75%. At July 31, 1998, the Company had approximately \$76.7 million borrowing availability on the revolving line of credit.

#### Forward-Looking Statements

This Form 10-Q contains or may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "believes", "estimates", "plans", "expects", "intends", "anticipates" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties. Factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Exhibit 99 to the Company's Form 10-Q for the quarter ended October 31, 1997 (File No. 0-13283).

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

None.

PART II. OTHER INFORMATION

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

The annual meeting of shareholders of REX Stores Corporation was held on June 4, 1998, at which the following matter was submitted to a vote of shareholders:

1. Election of five directors. The vote on this matter was as follows:

Nominee	For	Withheld	Broker Nonvotes
Stuart Rose	6,742,495	6,770	0
Lawrence Tomchin	6,742,495	6,770	0
Robert Davidoff	6,742,495	6,770	0
Edward Kress	6,742,435	6,830	0
Lee Fisher	6,742,495	6,770	0

Item 5. Other Information.

Shareholder proposals intended to be submitted at the Company's 1999 annual meeting of shareholders outside the processes of Rule 14a-8 will be considered untimely under Rule 14a-4(c)(1) if not received by the Company at its principal offices on or before March 17, 1999.

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

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

27 Financial Data Schedule

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended July 31, 1998.

SIGNATURES

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

REX STORES CORPORATION  
Registrant

September 10, 1998

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

September 10, 1998

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

0000744187  
 REX STORES CORPORATION  
 1,000  
 U.S. DOLLARS

6-MOS

	JAN-31-1999	FEB-1-1998	JUL-31-1998
		1	6,014
		1,744	
		993	
		475	
		144,523	
	166,717		110,345
		16,721	
		269,882	
	92,515		53,093
			97
	0		0
			102,456
269,882			180,410
	180,410		130,384
			130,384
			0
			0
	2,918		
		4,297	
		1,699	
2,598			
		0	
		0	
			0
		2,598	
		.34	
		.32	