MEXICO FUND INC
Form N-30B-2
March 28, 2002

The Mexico Fund, Inc.

Directors:

Juan Gallardo T. -- Chairman
Philip Caldwell
Jose Luis Gomez Pimienta
Claudio X. Gonzalez
Robert L. Knauss
Agustin Santamarina
Jaime Serra Puche

Officers:

Jose Luis Gomez Pimienta -- President
Samuel Garcia-Cuellar -- Secretary
Allan S. Mostoff -- Assistant Secretary
Sander M. Bieber -- Assistant Secretary
Carlos H. Woodworth -- Treasurer
Hector Trigos -- Research Vice President
Alberto Osorio -- Finance Vice President
Eduardo Solano -- Investor Relations Vice President

Investment Adviser --

Impulsora del Fondo Mexico, S.A. de C.V.

Custodian --

BBVA Bancomer, S.A.
Comerica Bank

Transfer Agent and Registrar --

American Stock Transfer & Trust Company

Counsel --

Dechert
Creel, Garcia-Cuellar y Muggenburg, S.C.

This report, including the financial statements herein, is transmitted to shareholders of The Mexico Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the report.

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The Mexico
Fund, Inc.

(Unaudited)

First Quarter Report
January 31, 2002

[LOGO] Mexico Fund logo

www.themexicofund.com

The Mexico Fund, Inc.
First Quarter Report
January 31, 2002

First Quarter Highlights

- The Fund's fiscal 2002 first quarter ended January 31, 2002.

- Led by positive trends in economic indicators and prospects for economic recovery in the U.S., stock prices on the Bolsa staged a strong rally during the quarter, with the IFCG Mexico Index, the Fund's benchmark, rising 24.2%

- Your Fund participated in this market upturn, with its market price and net asset value per share increasing 20.7% and 23.5%, respectively.

- The discount between the Fund's market price and NAV ended January 2002 at 11.7%, slightly lower than the 12.0% at the end of the 2001 fiscal year (October) and was down substantially from 18.2% one year ago.

Other Recent Highlights

- On March 6, 2002, the Fund announced Board approval of a policy to conduct quarterly in-kind repurchase offers at no less than 98% of net asset value ("NAV") for up to 100% of the Fund's outstanding shares.

- At the Fund's Annual Meeting on March 7, 2002, shareholders approved a policy for the Fund to conduct in-kind repurchases of Fund shares on a periodic basis. In addition, Mr. Juan Gallardo, Chairman of the Board, was re-elected for a three-year term and Mr. Emilio Carrillo Gamboa, the Fund's candidate for the Board, was elected as a new Board member. The proposal to implement a performance component to the Fund's investment advisory fee did not receive the necessary vote for approval by shareholders.

- The discount to NAV has declined further to approximately 7% as of March 12, 2002.

- Mexico's sovereign debt has been upgraded to an "investment-grade" rating by the three most important rating agencies, including Standard and Poor's.

- Your Fund has received from Lipper, a Reuters Company dedicated to mutual funds research, the Number One Performance Achievement Certificate for 2001 within the Latin American Funds category. According to Lipper, your Fund's NAV had a cumulative return of 15.90% during 2001 and a 32.45% return on market price.

The Mexico Fund, Inc. is a non-diversified closed-end management investment company with the investment objective of long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange. The Fund provides a vehicle to investors who wish to invest in Mexican companies through a managed non-diversified portfolio as part of their overall investment program.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

THE MEXICO FUND, INC.
TO OUR SHAREHOLDERS:

Economic Environment

The positive trends in Mexico's inflation and interest rates continued in spite of the volatility observed in international financial markets. Mexico's inflation rate declined throughout 2001, ending the year at 4.4%. This was a substantial drop from 9.0% one year earlier and was consistent with the 4.5% target rate set by the Central Bank. Interest rates for the 28-day Cetes (treasury bills) ended January 2002 at approximately 6.8%, compared with 17.6% at the end of 2000. Lower U.S. interest rates, strict adherence to a restrictive monetary policy and the strong valuation of the peso in relation to the US dollar were the driving forces behind the declining interest and inflation rates. For 2002, the Central Bank is striving to further reduce inflationary trends by setting a target inflation rate of 3.5%, and it has announced further restrictions to its monetary policy in order to compensate for the inflationary impact of recent increases in energy prices.

Prior to the events of September 11, 2001, the Mexican economy had shown signs of deceleration. Additionally, because of Mexico's close relationship with the United States, the deceleration of the U.S. economy further affected the performance of the Mexican economy. Gross domestic product (GDP) growth in Mexico went from 6.9% during 2000 to -0.3% during 2001. Last year, the most effected sectors of the economy were construction, which declined 4.5%, followed by the manufacturing industry, which declined 3.9%, and the mining sector, which declined 0.6%. In contrast, the economy was bolstered by the financial sector, which increased 4.1%, and the transportation and agricultural sectors, which expanded 2.8% and 2.5%, respectively. Economists estimate that due to recent signs of an economic recovery in the U.S., Mexico's GDP will begin to show positive growth during the second quarter of this year, and will advance by approximately 1.4% for the full year 2002.

Among the universe of developing nations, Mexico continues to be one of the most important recipients of direct foreign investment (DFI). During 2001, DFI into Mexico rose to $24.7 billion, almost twice the $13.2 billion received during 2000, led by Citibank's $12.5 billion purchase of Banamex-Accival, S.A. in August. Approximately 83% of DFI in 2001 came from the United States and 11% from European nations. It is expected that the flow of income from non-Mexican sources will decelerate in the near future as a consequence of the current global economic environment.

Although the rate of growth of Mexican exports has softened in recent months, Mexico continues to be the second largest

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trade partner of the United States, only after Canada. However, total trade between Mexico and the United States declined to $233 billion during 2001, from $247.6 billion in 2000. President Vicente Fox has announced his intention to further enhance trade relations with Central and South America, the European Union and Asia in an effort to diversify Mexican external trade.

The progress made in Mexico's fiscal and monetary policies was further underscored in February 2002, when Standard and Poor's (S&P), one of the most important rating agencies in the world, raised the rating of Mexico's sovereign debt to "investment grade." S&P reported that better management and coordination of fiscal and monetary policies, an enhanced taxation system, greater transparency of public sector accounts and improved government debt ratios were essential to this upgrade. Another factor cited by S&P was Mexico's greater economic and financial integration into the US economy due to the North American Free Trade Agreement (NAFTA). This follows the recent upgrades to "investment grade" rating from two other important agencies, Moody's Investors Services and Fitch IBCA. The investment grade rating provides Mexican public sector and private entities access to lower-cost and longer-term financing in international capital markets.

The Mexican Congress has approved the Income Law for 2002. Several tax amendments were made to maintain the original goal of achieving a budget deficit equivalent to 0.65% of Mexico's GDP. Additional revenue will come mainly from adjustments to the income tax, special tax on production and services and a new tax on luxury items. The original proposal of charging a 15% value added tax to all goods and services, including food and medicines, was rejected by Congress. Despite all tax changes, an Integral Fiscal Reform, which would enlarge the tax base, tax more consumption and less investment and reduce tax evasion, among other important changes, was not carried out.

Fund's Performance & Portfolio Strategy

Although Mexican economic activity has been contracting since mid-2001, the positive developments in inflation rates, interest rates and public sector finances, together with the anticipation that Mexico's sovereign debt could receive an "investment grade" rating, had a favorable impact on share prices on the Mexican Stock Exchange (Bolsa). During this fiscal quarter, stock prices, as measured by the Fund's benchmark, the IFCG Mexico index, rose 24.2%. The Fund benefited from the strong increase in the Bolsa, as its NAV increased 20.7%, and its share price on the NYSE increased 23.5%

To satisfy the IRS requirement that issuers that represent more than 5% of the Fund's

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portfolio may not exceed 50% of its total net assets, the Fund was forced to reduce its holdings of strong performers such as Grupo Financiero Bancomer, Walmex, and Telecom, which caused the appreciation of the Fund to lag the overall market. In addition, the Fund had to liquidate securities to raise sufficient cash with which to pay the extraordinary $127 million in dividends distributed in January 2002. The large cash reserve earmarked for the payment of the dividend was a hindrance to performance, and prevented the Fund from fully participating in the strong market rally.

The Fund's investment adviser believes that telecommunications and media remain among the most attractive sectors of the market, followed by certain banking, construction and retail issuers. The Fund redeployed proceeds from the sale of partial positions in Grupo Financiero Bancomer (financial group), Walmex (retail), Telecom (telecommunications holding company), Kimberly Clark (consumer goods), Femsa (beverages) and Grupo Modelo (beer producer), which had been sold to meet the IRS requirement, into Telecom's subsidiaries America Movil (wireless and internet services) and Telmex (largest telephone company in Mexico) in order to have strong representation in the telecom sectors. The Fund also increased its participation in other attractive sectors through positions in Iusacell (Mexico's second cellular provider), Grupo Carso (conglomerate), TVAzteca (television broadcaster), Alfa (industrial conglomerate) and ICA (construction).

These companies are perceived by the Fund's investment adviser to be in a position to benefit from the expected recovery of the U.S. and Mexican economies.

This Report includes, for your reference, a summary description of the Fund's ten largest holdings, which at the end of January 2002 represented approximately 78% of its total net assets. The Fund's investments are categorized according to the sector classification provided by the Mexican Stock Exchange.

The Fund has adopted a concentration policy that permits the Fund to concentrate its investments in any industry or group of industries in the IPC

Index (or any successor or comparable index as determined by the Board of Directors to be an appropriate measure of the Mexican market) if, at the time of investment, such industry represents 20% or more of the IPC Index, provided, however, that the Fund will not exceed the IPC Index concentration by more than 5%.

Currently, the only industry group that represents 20% or more of the value of the securities included in the IPC Index is the communications industry group. This industry category includes local, long-distance, and cellular telephone companies, as well as broadcast and me-

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dia companies. Approximately four-fifths of this industry group are telecommunications companies. As of January 31, 2002, both the Fund and the IPC index had approximately 40% of their values invested in this industry category. The Fund's investment adviser will continue to evaluate the concentration in this industry and may choose not to concentrate in this industry group in the future or to concentrate in other industries subject to the concentration policy described above.

Further Restructuring Efforts Taken by the Board of Directors

On March 6, 2002, the Fund announced Board approval of a policy to conduct quarterly in-kind repurchase offers at no less than 98% of net asset value ("NAV") for up to 100% of the Fund's outstanding shares in response to the desire of shareholders for greater liquidity and to achieve a more permanent narrowing of the discount to NAV. The Fund anticipates further amending its exemptive application currently pending with the SEC to permit the Fund to offer to repurchase in-kind up to 100% of the Fund's outstanding shares as part of its share repurchase policy currently under consideration by the SEC. However, the Fund is committed to this initiative and should the SEC not approve the Fund's exemptive application with the proposed amendment, it will conduct these in-kind repurchase offers under other existing SEC regulations.

The Fund has received a favorable ruling from the IRS that the periodic in-kind share repurchases proposed by the Fund would not result in recognition of a taxable gain or loss by the Fund upon distribution of the in-kind proceeds of the repurchased Fund shares to participating shareholders. The favorable IRS ruling as to the tax treatment of the proposed repurchases is integral to the implementation of the policy. Shareholders who participate in a repurchase offer under the policy would recognize any taxable gain or loss on their Fund shares that are repurchased by the Fund. Fund shareholders who participate in the proposed periodic Fund in-kind repurchase policy should consult their own tax counsel as to the tax consequences of their participation and the tax consequences of the disposition of the in-kind proceeds.

Annual Shareholders' Meeting

On March 7, 2002, the Fund held its Annual Meeting of Shareholders in New York City. Shareholders of the Fund approved the re-election of Mr. Juan Gallardo, Chairman of the Board, for a three-year term and elected Mr. Emilio Carrillo Gamboa, the Fund's candidate for the Board, as a new Board member. Also, shareholders approved the implementation of the proposed periodic in-kind repurchase policy at no less than 98% of NAV. The proposal to incorporate a performance fee component to the current investment advisory contract did not re-

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ceive the minimum shareholder vote required for approval under the Investment Company Act of 1940.

The exact figures regarding the votes cast on the proposals that were acted upon at the meeting are as follows as provided by the independent Inspector of Election:

Proposal 1: Election of Directors

Juan Gallardo T.	Emilio Carrillo Gamboa
Votes For: 12,926,576	Votes For: 12,840,351
Votes Withheld: 352,257	Votes Withheld: 438,482

Proposal 2: Approval of Performance Fee Component

Votes For:	17,760,288
Votes Against:	9,690,082
Abstentions:	5,017,409

Proposal 3: Approval of Adoption of a Share Repurchase Policy

Votes For:	31,335,901
Votes Against:	855,794
Abstentions:	283,089

Although the votes for Proposal 2 indicate that a greater number of shareholders voted for the proposal than against it, the Investment Company Act of 1940, as amended, requires the approval of the lesser of (a) more than 50% of the outstanding shares of the Fund, or (b) 67% or more of the shares present at the meeting, if more than 50% of the outstanding shares are present at the meeting in person or by proxy where certain matters are involved, such as the investment advisory contract of the Fund. Since over 50% of the Fund's outstanding shares were present at the meeting, 67% of the shares voted were needed to vote in favor of the proposal and the votes in favor were, accordingly, not sufficient to approve the proposal.

The proposal submitted by Advantage Partners, L.P. that shareholders recommend to the Board converting the Fund to an open-end investment management company was withdrawn by Advantage Partners, L.P. from consideration at the Annual Meeting. Additionally, Laxey Partners Limited withdrew its proposals from consideration at the Annual Meeting.

Investor Relations

The Fund's web site presents the Fund's market price and NAV per share on a same-day basis and provides a downloadable database containing the most important historical figures for the Fund. Also available is the complete history of dividend distributions made by the Fund and additional links to useful sites of Mexican government agencies, capital markets and listed companies. Web site visitors may now request online to receive via

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regular mail a copy of this Annual Report and the most recent Quarterly and Monthly Summary Reports. We hope that the Fund's web site is a useful resource for information and we will continue working to improve it.

The Fund also has a toll-free telephone number that will provide you with the Fund's current NAV, quarterly reports and other Fund materials:

(800) 224-4134

The Fund also offers shareholders and the general public the ability to contact the Fund via e-mail with questions or requests for additional information about the Fund. Please direct your e-mail inquiries to:

Investor Relations Office
investor-relations@themexicofund.com

In addition to the quarterly reports published by the Fund, the Investment Adviser distributes a Monthly Summary Report with information about the Fund, the Mexican economy and the Bolsa. Interested persons may either access this report on the Fund's web site or receive it via regular mail. Please request this report through the Fund's web site or write to the Investment Adviser at:

Impulsora del Fondo Mexico, sa de cv.
77 Aristoteles St. 3/rd/ Floor
Polanco
11560 Mexico, D.F.
Mexico

Information on the Fund's NAV and market price per share is also published weekly in The Wall Street Journal, The New York Times and other newspapers in a table called "Closed-End Funds". The Fund's NYSE trading symbol is MXF.

The Fund's shares are also listed and traded on the Third Section ("Freiverkehr") of the Stuttgart Stock Exchange. The Fund's German Domestic Tax Representative is:

ARTHUR ANDERSEN
Wirtschaftsprufungsgesellschaft
Steuerberatungsgesellschaft mbH
Mergenthalerallee 10-12
65760 Eschborn/Frankfurt/M.
Postfach 53 23
65728 Eschborn/Frankfurt/M.
Germany
Telefon: 06196-99-6264
Telefax: 06196-99-6419

The Fund's dividend reinvestment plan and transfer agent is:

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
(212) 936-5100

Dividend Reinvestment Plan

The Fund's Dividend Reinvestment Plan (the "Plan") provides a convenient way to increase your holdings in the Common Stock of the Fund through the reinvestment of net investment income and capital gain distributions. Under the terms of the Plan, Fund shareholders are automatically enrolled as participants in the Plan. If you do not wish to participate in the Plan, please contact the Plan Agent. Upon any termination of participation under the Plan, the Plan Agent will cause a share certificate for the appropriate number of full shares to be delivered to the participant, and a cash adjustment for any fractional shares. At a shareholder's request, the Plan Agent will sell the participant's shares and remit any proceeds to the participant, net of brokerage commissions. Shareholders who do not participate in the Plan will receive all distributions in cash. The Plan provides a convenient way to increase your holdings in the Common Stock through the reinvestment of distributions.

Under the terms of the Plan, whenever the Fund declares a distribution, Plan participants will receive their distribution entirely in shares of Common Stock purchased either in the open market or from the Fund. If, on the date a distribution becomes payable or such other date as may be specified by the Fund's Board of Directors (the valuation date), the market price of the Common Stock plus estimated brokerage commissions is equal to or exceeds the NAV per share of Common Stock, the Plan Agent will invest the distribution in newly issued shares of Common Stock, which will be priced at NAV. If on the valuation date, the market price of the Common Stock plus estimated brokerage commissions is lower than the NAV per share, the Plan Agent will buy Common Stock in the open market. As a participant in the Plan, you will be charged a pro-rata portion of brokerage commissions on all open market purchases.

If your shares are registered or will be registered in the name of a broker-dealer or any other nominee, you must contact the broker-dealer or other nominee regarding his or her status under the Plan, including whether such broker-dealer or nominee will participate in the Plan on your behalf. Generally, shareholders receiving Common Stock under the Plan will be treated as having received a distribution equal to the amount payable to them in cash as a distribution had the shareholder not participated in the Plan.

If you have any questions concerning the Plan or would like a copy of the Plan brochure, please contact the Plan Agent:

American Stock Transfer & Trust Company
Attention: Dividend Reinvestment Department

40 Wall Street
New York, NY 10005
(212) 936-5100

Sincerely yours,

/s/ Jose Luis Gomez /s/ Juan Gallardo T.

Jose Luis Gomez Pimienta President	Juan Gallardo T. Chairman of the Board

March 27, 2002.

Description of the Fund's Ten Largest Holdings as of January 31, 2002.

1. Telefonos de Mexico ("Telmex") (17.24%)

Telmex is the major telecommunications company in Mexico and with more than 13 million lines provides local, domestic and international long-distance telephone services, internet access, wireless, data, audio and video transmission services. Telmex also provides telecommunication services in the United States.

2. America Movil ("AMX") (11.25%)

AMX is the leading provider of wireless communications services in Mexico, providing cellular telecommunications service in all nine regions in Mexico, including all major cities, and to approximately 85.5% of Mexico's population. The company has subsidiaries and joint ventures in the telecommunications sector in Guatemala, Ecuador, Argentina, Brazil, Colombia, Venezuela, the United States, Puerto Rico, Mexico and Spain. In addition, it has formed a new joint venture company with Bell Canada International Inc. and SBC International, Inc., that will serve as the principal vehicle for expansion in Latin America.

3. Cemex ("Cemex") (10.73%)

Cemex is the world's third largest cement producer, the largest trader of cement and the leading producer of white cement. The company also produces concrete mix, clinker and value added products. Cemex produces and operates in more than 30 countries around the world and has commercial relations with over 60 countries. Cemex is the leader in the cement markets of Mexico, Spain, Venezuela, Panama, Costa Rica, the Dominican Republic, Egypt and Colombia, and has important market presence in the Caribbean, Indonesia, the Philippines and the southwest region of the United States.

4. Wal-Mart de Mexico ("Walmex") (10.63%)

Walmex is the largest chain of retail stores in Mexico and has the dominant market position in the commercial sector of the country. The company is a subsidiary of the US firm Wal-Mart Stores, Inc (NYSE: WMT). Walmex has a total of 532 units in 50 cities in Mexico, which includes supermarkets, retail stores and restaurants.

5. Carso Global Telecom ("Telecom") (4.90%)

Telecom is dedicated to the telecommunications business and is the holding company of Telmex, America Movil (see above) and Prodigy Inc. (Nasdaq: PRGY) (US), and has a stock participation in McLeod USA, Inc. (Nasdaq: MCLD) (US).

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6. Fomento Economico Mexicano ("Femsa") (4.88%)

Femsa is Latin America's largest beverage company with exports to the United States, Canada and selected countries in Latin America, Europe and the Far East. Founded in 1890, Femsa is the largest totally integrated producer of soft drinks and beer in Mexico and is the controlling company of Coca-Cola Femsa (KOF), one of the leading bottlers in Latin America. Femsa also operates the largest chain of convenience stores in Mexico (Oxxo), produces packaging materials and is an important bottler in Argentina. Brand names produced by Femsa include "Sol" beer, "Coca-Cola", and the recently acquired "Sidral Mundet".

7. Grupo Financiero BBVA - Bancomer ("GFBB") (4.82%)

GFBB is the leading financial group in Mexico and the largest privately-owned financial institution in Latin America in terms of deposits and number of clients. Its main subsidiary is Bancomer, a banking institution with a network of 1,762 branches as of the end of September 2001. Bancomer also has overseas branches in London and Grand Cayman Island, agencies in New York and Los Angeles and a representative office in Sao Paulo, Brazil. Additionally, Bancomer has a subsidiary bank in the Cayman Islands, Mercury Bank & Trust Limited. Grupo Banco Bilbao Vizcaya Argentaria, the largest financial group in Spain in terms of market capitalization, is GFBB's main stockholder.

8. Grupo Modelo ("Gmodelo") (4.73%)

Founded in 1925, Gmodelo is the leader in the production, distribution and sale of beer in Mexico with a market share in the domestic and export markets of approximately 59%. The group exports its products to 150 countries and owns 10 brand names, including Victoria, Modelo and Corona, the most popular beer imported from Mexico. The company also imports and distributes in Mexico brand names of beer produced by its partner Anheuser-Busch, including Budweiser and Bud Light.

9. Grupo Televisa ("Televisa") (4.64%)

Televisa is the largest media company in the Spanish-speaking world and a major participant in the international entertainment industry. Televisa has interests in television production and broadcasting, international distribution of television programming, direct-to-home satellite services, publishing, music recording, cable television, radio production and broadcasting, professional sports and show business promotion, paging services, feature film production and distribution and special events promotion and dubbing. Televisa also has an unconsolidated equity stake in Univision (NYSE: UVN), the leading Spanish-language television company in the United States, and owns the "esmas.com" internet portal.

10. Kimberly Clark de Mexico ("Kimber") (3.87%)

Kimber is Mexico's premier manufacturer of consumer paper products and is an affiliate of Kimberly Clark Corp. The Company produces tissue, diapers and feminine care products under brands such as Kleenex, Petalo, Huggies, Pull Ups, KleenBebe and Kotex, as well as printing and writing and specialty papers. Kimber is the market leader in all product categories in which it participates and it has excellent brand recognition among Mexican consumers. Kimber exports tissue and printing and writing paper to the United States and Central America.

The Mexico Fund, Inc.
Schedule of Investments as of January 31, 2002 (Unaudited)

Industries		Shares Held	Common Stock (93.36%)	Series	
Cement Industry		18,115,000	Cemex, S.A. de C.V.	CPO	$
Communications		19,000,000	America Movil, S.A. de C.V.	A	
		83,000,000	America Movil, S.A. de C.V.	L	
	(a)	17,967,700	Carso Global Telecom, S.A. de C.V.	A1	
	(a)	20,000,000	Grupo Iusacell, S.A.de C.V.	V	
	(a)	18,503,500	Grupo Televisa, S.A.	CPO	
	(a)	13,365,200	TV Azteca, S.A. de C.V.	CPO	
		19,000,000	Telefonos de Mexico, S.A. de C.V.	A	
		61,416,400	Telefonos de Mexico, S.A. de C.V.	L	1
					--
					3
Financial Groups	(a)	40,270,000	Grupo Financiero BBVA Bancomer, S.A. de C.V.	O	
	(a)	5,592,600	Grupo Financiero Banorte, S.A. de C.V.	O	
	(a)	14,481,000	Grupo Financiero Inbursa, S.A. de C.V.	O	
	(a)(b)	--	Grupo Financiero Scotiabank Inverlat Recovery Trust		
					--
Food, Beverages and Tobacco		10,789,100	Fomento Economico Mexicano, S.A. de C.V.	UBD	
		11,555,000	Grupo Bimbo, S.A. de C.V.	A	
		17,461,900	Grupo Modelo, S.A. de C.V.	C	
					--
					1
Holding Companies		4,500,000	Alfa, S.A. de C.V.	A	

	(a)	4,465,400	Corporacion Interamericana de Entretenimiento, S.A. de C.V....................................	B
	(a)	4,769,700	Grupo Carso, S.A. de C.V.........................	A1
Housing	(a)	6,968,200	Consorcio ARA, S.A. de C.V.......................	*
	(a)	9,000,000	Empresas ICA, Sociedad Controladora, S.A. de C.V..	*
Pulp and Paper		12,675,800	Kimberly-Clark de Mexico, S.A. de C.V............	A
Retail Stores		10,564,600	Controladora Comercial Mexicana, S.A. de C.V......	UBC
		11,602,400	Grupo Elektra, S.A. de C.V.......................	CPO
		13,090,000	Wal-Mart de Mexico, S.A. de C.V..................	C
		21,627,000	Wal-Mart de Mexico, S.A. de C.V..................	V
				1
			Total Common Stock (Identified Cost--$537,825,976)	$8

The Mexico Fund, Inc.
Schedule of Investments as of January 31, 2002 (Unaudited) -- (Continued)

Securities	Short-Term Securities (6.27%)	Val (Not
Repurchase Agreements	BBVA Bancomer, S.A., 7.90%, dated 01/31/02, due 02/01/02, repurchase price $55,085,303, collateralized by Bonos de Proteccion al Ahorro....................................	$ 55,0
	Comerica Bank, 1.47%, dated 01/29/02, due 02/01/02, repurchase price $1,073,273, collateralized by U.S. Government Agency Securities...........................	1,0
	Total Short-Term Securities (Identified cost--$56,146,358)	56,1
	Total Investments (Identified cost--$593,972,334).........	892,0
	Other Assets in Excess of Liabilities....................	3,3
	Net Assets Equivalent to $19.70 per share on 45,456,232 shares of capital stock outstanding (Note 7)............	$895,3

(a) Shares of these securities are currently non-income producing. Equity investments that have not paid dividends within the last twelve months are considered to be non-income producing.
(b) See Note 10 to Financial Statements.

See Notes to Financial Statements.

The Mexico Fund, Inc.
Statement of Assets and Liabilities as of January 31, 2002 (Unaudited)

Assets:	
Investments:	
Securities, at value (Note 1):	
Common stock (identified cost--$537,825,976)..	$835
Short term securities (identified cost--$56,146,358).....................................	56
Total investments (identified cost--$593,972,334)......................................	
Receivables from securities sold..	
Interest receivable..	
Prepaid Mexican withholding taxes (Note 1)..	
Total assets..	
Liabilities:	
Payable to Investment Advisor (Notes 2 and 3)..	
Accrued expenses and other liabilities...	
Total liabilities..	
Net Assets--Equivalent to $19.70 per share on 45,456,232 shares of capital stock outstanding (Note 7)..	

See Notes to Financial Statements.

The Mexico Fund, Inc.
Statement of Operations (Unaudited) For the Three Months Ended January 31, 2002

Net Investment Income:	
Income (Note 1):	
Dividends..	
Interest and discounts earned..	
Total income...	
Expenses:	
Investment advisory fee (Note 2)..	
Administrative services (Note 3)...	
Value-added taxes (Note 1)...	
Printing, distribution and mailing of shareholder reports..................................	
Legal fees...	

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  Directors' fees.........................................................................
  Directors' and Officers' expenses.......................................................
  Accounting and audit fees...............................................................
  Custodian fees (Note 5).................................................................
  Transfer agent and dividend disbursement fees...........................................
  Shareholders' information...............................................................
  Stock exchange fees.....................................................................
  Insurance...............................................................................
  Miscellaneous...........................................................................

   Operating expenses.....................................................................

   Net investment income (Note 1).........................................................

Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency
 Transactions:
Net realized gain on investments and foreign currency transactions (Notes 1 and 6)
  Proceeds from sales.....................................................................
  Cost of securities sold.................................................................

    Net realized gain on investments......................................................
    Net realized gain from foreign currency transactions..................................

    Net realized gain on investments and foreign currency transactions....................

Increase (decrease) in net unrealized gain on investments and translation of assets and liabiliti
 in foreign currency:
Investments:
  End of period (Note 6)..................................................................
  Beginning of period.....................................................................

   Increase in net unrealized gain on investments.........................................
Translation of assets and liabilities in foreign currency:
  End of period...........................................................................
  Beginning of period.....................................................................

Decrease in net unrealized gain on translation of assets and liabilities in foreign currency.....

Increase in net unrealized gain on investments and translation of assets and liabilities in forei
 currency.................................................................................

Net Increase in Net Assets Resulting from Operations......................................



See Notes to Financial Statements.



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                                                                                       For the
                                                                                  Three Months
The Mexico Fund, Inc.                                                              January 31,
Statements of Changes in Net Assets                                                  (Unaudited
---------------------------------------------------------------------------------------------------

Increase (Decrease) in Net Assets:
From Operations
Net investment income.............................................................   $     225,0
```

Net realized gain on investments and foreign currency transactions................	52,744,0
Increase (decrease) in net unrealized gain on investments and translation of assets and liabilities in foreign currency...	106,753,6
Net increase (decrease) in net assets resulting from operations...................	159,722,7
Dividends to shareholders from net investment income..............................	(6,086,5
Dividends to shareholders from net realized gain on investments...................	(121,218,1
	32,417,9
From Capital Share Transactions (Note 9)	
Repurchase of stock, at cost..	
Total increase (decrease) in net assets..	32,417,9
Net Assets:	
Beginning of period...	862,977,4
End of period...	$ 895,395,3

See Notes to Financial Statements.

(A) Including accumulated net investment loss of $(10,935,712) as of January 31, 2002 and $(6,026,930) as of October 31, 2001.

The Mexico Fund, Inc. Financial Highlights	For the Three Months Ended January 31, 2002 (Unaudited)	For the Year 2001	2000	
Per Share Operating Performance:				
Net asset value, beginning of period...............	$ 18.98	$ 20.84	$ 19.57	$
Net investment income (Note1).....................	0.01	0.23**	0.18**	
Net gain (loss) on investments and translation of foreign currency (Note 1).......................	3.51	(2.31)**	1.10**	
Total from investment operations...................	3.52	(2.08)**	1.28**	
Less Dividends:				
Dividends to shareholders from net investment income..	(0.13)	(0.13)	(0.19)	
Dividends to shareholders from net realized gains on investments................................	(2.67)	(0.05)	--	
Total dividends....................................	(2.80)	(0.18)	(0.19)	
Capital Share Transactions:				
Effect on NAV of stock repurchased...............	--	0.40	0.18	
Capital charge resulting from issuance of fund shares..	--	--	--	

Net asset value, end of period...................	$ 19.70	$ 18.98	$ 20.84	$
	========	========	==========	==
Market value per share, end of period............	$ 17.40	$ 16.70	$ 15.81	$
	========	========	==========	==
Total investment return based on market value per share..	21.76%	6.64%	11.82%	
Ratios to Average Net Assets:				
Expenses..	1.25%*	1.07%	0.96%	
Net investment income............................	0.11%*	1.12%	0.78%	
Supplemental Data:				
Net assets at end of period (in 000's)...........	$895,395	$862,977	$1,022,136	$9
Portfolio turnover rate..........................	9.25%	29.69%	22.27%	

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* Annualized

** Amounts were computed based on average shares outstanding during the period.

See Notes to Financial Statements.

The Mexico Fund, Inc.

Selected Quarterly Financial Data (Unaudited)

Investment income..
Net investment income..
Net realized gain on investments...
Net realized gain from foreign currency transactions...
Increase in net unrealized gain on investments...
Decrease in net unrealized gain on translation of assets and liabilities in foreign currency.....
Net assets...

See Notes to Financial Statements.

The Mexico Fund, Inc.

Notes to Financial Statements--

January 31, 2002 (Unaudited)

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1. Operations and Significant Accounting Policies:

The Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end management investment company. On October 16, 2000, the Fund received shareholder approval to convert from a diversified to a non-diversified investment company under the 1940 Act. The investment objective of the Fund is to seek long term capital appreciation through investment in securities, primarily equity, listed on the Mexican Stock Exchange.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

Valuation of investments -- Investments traded on the Mexican Stock Exchange are valued at the closing price reported by the Mexican Stock Exchange. The closing price represents the weighted average for the last ten minutes of operations in any business day. Short-term securities are carried at cost, plus accrued interest, which approximates market value. All other securities are valued in accordance with methods determined by the Board of Directors. If the Board of Directors believes that the price of a security obtained under the Fund's valuation procedures does not represent the amount that the Fund reasonably expects to receive on a current sale of the security, the Fund will value the security based on a method that the Board believes accurately reflects fair value.

Security transactions and investment income -- Security transactions are recorded on the date which the transactions are entered into (the trade date). Dividend income is recorded on the ex-dividend date and interest income is recorded as earned.

Foreign Currency -- The market value of Mexican securities, currency holdings and other assets and liabilities denominated in Pesos ("Ps.") was recorded in the financial statements after being translated into U.S. dollars based on the open market exchange rate prevailing in Mexico City at the end of the period. The open market exchange rate at January 31, 2002 was Ps. 9.1463 to $1.00.

The identified cost of portfolio holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when earned or incurred.

Since the net assets of the Fund are determined based on the currency exchange rate and market values at the close of each business day, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the year. Accordingly, the net realized and unrealized gain on investments presented in the accompanying financial statements include the effects of both such changes.

Reported net realized foreign exchange gains or losses arise from sales of short-term securities in exchange of property, payment of services or functional currency denominated assets, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded by the Fund, and the U.S. dollar equivalent of the amount actually received or paid.

Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in common stocks, resulting from changes in the exchange rate.

Repurchase Agreements -- The Fund enters into repurchase agreements with approved institutions. The Fund's repurchase agreements are fully collateralized by Mexican or U.S. Government securities. The Fund takes possession of the collateral and the Fund's investment advisor monitors the credit standing of repurchase

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agreement counterparties. The fair value of the collateral is at least equal to the principal amount of the repurchase transaction, including accrued interest, at all times. If the counterparty defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited. As of January 31, 2002, the Company has received collateral of $ 56,146,358 related to these repurchase agreements.

Realized gains and losses on investments -- Realized gains and losses on investments are determined on the identified cost basis.

Taxes -- No provision has been made for U.S. income taxes for the three months ended January 31, 2002, on net investment company taxable income or net long-term capital gains as defined by the Internal Revenue Code (the "Code"), since the Fund intends to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of such income to its shareholders.

The Fund is subject to Mexican withholding taxes in accordance with the Mexican Income Tax Law and with the provisions included in the treaty to avoid double taxation signed between Mexico and the United States, on specific sources of income. Such taxes will be applied to the shareholders upon payment of dividends by the Fund.

The provision for value-added taxes represents Mexican value-added tax on certain services rendered by Mexican corporations to the Fund.

Dividends to shareholders -- Cash dividends are recorded by the Fund on the ex-dividend date. Dividends paid to shareholders are subject to Mexican withholding taxes.

Lending of portfolio securities -- During fiscal year 1998, the Board of Directors approved a securities lending program for the Fund. Merrill Lynch Portfolio Services, Inc. served as the lending agent for the Fund from August 1998 through August 1999.

Cantor Fitzgerald & Co. served as the lending agent for the Fund from March 7, 2000 through September 29, 2000.

Since September 29, 2000, the Fund has not been actively lending portfolio securities under this Program.

2. Investment Advisory Agreement:

The Fund has a management contract with Impulsora del Fondo Mexico, S.A. de C.V. (the "Adviser"), a Mexican corporation registered under the U.S. Investment Advisers Act of 1940. The Adviser furnishes investment research and portfolio management services consistent with the Fund's stated investment policies. The Fund pays to the Adviser a monthly fee at the annual rate of 0.85% on the first $200 million of average daily net assets, 0.70% on the excess over $200 million up to $400 million and 0.60% on the excess over $400 million.

3. Administrative Services Agreement:

Effective April 1, 1994, the Fund entered into an Administrative Services Agreement with the Adviser, which provides for certain services to be performed by the Adviser, including among other administrative activities, the determination and publication of the net asset value of the Fund, the maintenance of the Fund's books and records in accordance with applicable U.S. and Mexican Laws and assistance in the preparation and filing of annual reports and tax returns. The term of this agreement was renewed by the Board of Directors through August 31, 2002. The annual fee payable to the Adviser by the Fund under this agreement was $350,000. Effective July 1, 2001, the Fund will pay to the Adviser a monthly fee at the annual rate of 0.07% of average daily net assets, with a minimun amount of $350,000.

4. Trust Agreement and Trustee:

BBVA Bancomer, S.A. ("Bancomer") was the trustee for the Mexican Trust through which the Fund invested. During 1997 and 1998, the Mexican governmental authorities gave approval to the Trustee for the transfer of the total assets and liabilities of the Trust to the Fund. On February 27, 1998, the Fund's shareholders approved matters in connection with the termination of the Trust Agreement with Bancomer. The termination was effective on March 31, 1998.

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5. Mandate Agreement and Mandatory Party:

In connection with the termination of the Trust Agreement discussed in the preceding note, on March 31, 1998, the Fund signed a Mandate Agreement with Bancomer. Under this Agreement, Bancomer acts as the Mandatory Party, performing certain activities related to the custody of the Fund's securities, that were previously performed under the trust agreement.

The annual fee payable to Bancomer under this Agreement is denominated in Mexican pesos, which currently translates to approximately $51,866. Due to the nature of this Agreement, the fees paid to Bancomer are consolidated with the Fund's custodian fees.

6. Purchases and Sales of Investments:

Purchases and sales of investments, excluding short-term securities, for the three months ended January 31, 2002 were as follows:

Purchases	
Common Stock......	$70,904,784
Total Purchases.	$70,904,784

Proceeds from Investments Sold

Common Stock......	$96,313,234
Total Sales.....	$96,313,234

As of January 31, 2002, net unrealized gains on investments in common stocks for Federal income tax purposes aggregated to approximately $298 million, of which approximately $319 million related to appreciated securities and approximately $21 million related to depreciated securities. The aggregate cost of investments in common stocks at January 31, 2002 for Federal income tax purposes was approximately $538 million.

7. Capital Stock:

At January 31, 2002, there were 150,000,000 shares of $1.00 par value common stock authorized, of which 45,456,232 shares were outstanding.

The Fund offers a Dividend Reinvestment Plan ("Plan") to its shareholders. Fund shareholders are automatically enrolled as participants in the Plan unless they notify the Fund's transfer agent otherwise.

On December 10, 1997, the Board of Directors declared a stock dividend of $29,625,602. This dividend was paid in shares of common stock of the Fund, and in cash by specific election. Some shareholders selected the stock dividend, therefore, on January 31, 1998 the Company issued 791,018 shares, which amounted to $15,078,787.

As of January 31, 2002, net assets were comprised of the following:

Common stock.....................	$ 45,456,232
Additional paid-in capital........	500,777,554
Accumulated net investment loss...	(10,935,712)
Undistributed net realized gain on investments.....................	62,006,736(A)
Unrealized appreciation of investments and translation of assets and liabilities in foreign currency.........................	298,090,579
	$ 895,395,389

(A) $ 51,792,171 for Federal Income Taxes

Dividends to shareholders from net investment income are determined based on Federal income tax regulations, whereas the corresponding net investment income as reflected in the accompanying financial statements, is presented in accordance with accounting principles generally accepted in the United States.

On November 14, 2001, and December 18, 2001, the Fund declared a total of $2.8006 per share in gross cash dividends, the tax character of the dividend included $2.4251 of long term of capital gains and $0.3755 of ordinary income. Ordinary income includes short term capital gains and net investment income. Those dividends correspond to the fiscal year ended October 31, 2001 and were paid on January 2002.

There were no significant differences between the book basis and tax basis of distributable earnings as of October 31, 2001.

Accumulated net realized losses from foreign currency transactions have been netted against undistributed net investment income to be consistent with the tax treatment for distributions from net investment income per the tax code.

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8. Capital Gains:

Net realized gains from security transactions, are distributed annually to shareholders. Capital loss carryforwards, if any, will be used to offset future capital gains available for distribution.

9. Stock Repurchase Program:

On July 31, 2000, the Board of Directors announced a Stock Repurchase Program pursuant to which the Fund may purchase in the open market up to 5,050,693 shares of its stock at prevailing market prices. The Program started on August 7, 2000 and was completed on May 29, 2001. The Fund repurchased the authorized 5,050,693 shares at a cost of $80,739,445.

10. Investments:

As a result of significant losses incurred by Grupo Financiero Scotiabank Inverlat, S.A. de C.V. ("Inverlat"), certain significant shareholders, together with the financial authorities, developed a

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recapitalization program. On July 23, 1996, after the absorption of accumulated losses through the total reduction of capital stock, shareholders of Inverlat approved a cash contribution by FOBAPROA (Banking Fund for Savings Protection) to cover such losses. As a consequence, all shares outstanding prior to July 23, 1996, were cancelled. The Fund has received an interest in a Recovery Trust set up to manage the recovery assets of Inverlat. Through the trust agreement, the Company may receive shares equal to 9% and up to 36% of their ownership interest. Management has assigned the market value of the Fund's holdings in the Recovery Trust at $0 as of January 31, 2002, due to the uncertainty regarding its ultimate realization.

According to the Bank Savings Protection Law, which was enacted on January 20, 1999, all assets of FOBAPROA have been transfered to a new entity called IPAB (Bank Savings Protection Institute). This transfer will not modify the market value assigned to the Recovery Trust.

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692

563

1,255

Balance at April 30, 2007

29,517

$

295

19,009

$

(160,400

)

$

140,264

$

259,496

$

239,655

Common Shares Total

Issued

Treasury

Paid-in Retained Shareholders

Shares

Amount

Shares

Amount

Capital

Earnings

Equity

(In Thousands) Balance at January 31, 2006 29,390 $294 19,289 $(162,762) $135,775 $240,898 $214,205 Net income 1,489 1,489 Stock based compensation 566 566 Stock options exercised and related tax effects

74

1

(108

)

910

	1,059
	1,970
Balance at April 30, 2006	
	29,464
$	295
	19,181
$	(161,852)
$	137,400
$	242,387
$	218,230

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

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

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,534	$ 1,489
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	721	985
Stock based compensation expense	364	566
Impairment charges	65	85
Capitalized interest	(499)	-
Income from equity method investments	(1,110)	-
Minority interest	175	-
Income from synthetic fuel investments	(6,733)	(2,062)
(Gain) loss on disposal of real estate and property and equipment	(4,536)	4
Dividends received from equity method investees	175	-
Deferred income	(955)	198
Loss on early termination of debt	620	-
Excess tax benefits from stock option exercises	(19)	(22)
Deferred income tax	1,859	382
Changes in assets and liabilities:		
Accounts receivable	(1,464)	(185)
Merchandise inventory	(20,349)	(11,145)
Prepaid expenses and other	867	913
Other long term assets	396	(303)
Accounts payable, trade	18,207	6,211
Other current liabilities	(1,251)	(3,172)
NET CASH USED IN OPERATING ACTIVITIES	(5,933)	(6,056)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,063)	(129)
Proceeds from sale of synthetic fuel investments	10,086	722
Proceeds from sale of real estate and property and equipment	77,276	10
Restricted investments	(19)	(19)
NET CASH PROVIDED BY INVESTING ACTIVITIES	78,280	584
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(16,258)	(718)
Proceeds from long-term debt	4,984	-
Stock options exercised	1,255	1,153
Excess tax benefits from stock option exercises	19	22
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(10,000)	457
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	62,347	(5,015)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	43,008	20,096
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 105,355	$ 15,081

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, 2007

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, 2007 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, 2007 (fiscal year 2006). 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, 2007. 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-owned subsidiaries and all variable interest entities where the Company has been determined to be the primary beneficiary. Levelland/Hockley County Ethanol, LLC ("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.

Note 2. ***Reclassifications***

The Company reclassified $10.2 million and $9.6 million of prepaid commissions from current and long term portion of deferred income on extended warranties to other assets at January 31, 2007 and April 30, 2006, respectively, to conform to current year presentation.

Note 3. ***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 2006 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 and income from synthetic fuel limited partnership sales 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 group for the following periods:

	Three Months Ended April 30,	
Product Category	2007	2006
Televisions	52.4%	56.4%
Appliances	29.8	23.2
Audio	5.6	8.5
Video	2.6	3.6
Extended warranties	5.4	3.9
Other	4.2	4.4
	100.0%	100.0%

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.

The Company's policy is to exclude taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction from revenue on a net reporting basis.

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 11 for a further discussion of synthetic fuel partnership sales.

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 gross margins may not be comparable to those of other retailers that include costs related to their distribution network in selling, general and administrative expense.

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

Interest expense of $165,000 for the quarter ended April 30, 2007 is net of approximately $499,000 of interest capitalized. No interest was capitalized in the quarter ended April 30, 2006. Cash paid for interest for the quarter ended April 30, 2007 and 2006 was approximately $734,000 and $490,000, respectively.

The Company applies an effective tax rate to interim periods that is consistent with the Company’s 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 carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company paid income taxes of approximately $107,000 and $0 for the quarter ended April 30, 2007 and 2006, respectively. See Note 13 for a discussion of the adoption of FIN 48.

Restricted investments, which are principally marketable debt securities of a federal government agency, are stated at cost plus accrued interest, which approximates market. Restricted investments at April 30, 2007 and 2006 are required by two states to cover possible future claims under product service contracts. In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”), the Company has classified the investments as held-to-maturity. The investments had maturity dates of less than one year at April 30, 2007 and 2006. The Company has the intent and ability to hold these securities to maturity.

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

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary (see Note 6 for a further discussion of the acquisition of Levelland/Hockley). Investments in businesses that the Company does not control, but has the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method.

Investments in debt securities are considered “held to maturity”, “available for sale”, or “trading securities” under SFAS 115. Under SFAS 115, held to maturity securities are required to be carried at their cost; while available-for-sale securities are required to be carried at their fair value,

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

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

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company adopted the provision of FIN 48 at the beginning of the first quarter of fiscal year 2007, and the details of the adoption of FIN 48 are described in Note 13.

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

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

Note 4. ***Accounting Changes***

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

Note 5. ***Sale and Leaseback Transaction and Other Leases***

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

A pre-tax financial statement gain of $3.2 million (net of expenses and losses) resulted from this sale. Of this gain, $2.2 million was classified as discontinued operations and the remaining $1.0 million was classified as continuing operations. The Company has also deferred $11.6 million, which represents the present value of the minimum lease payments and the gain associated with stores that the Company has continuing involvement with, as defined in SFAS 98, "Accounting for Leases". The deferred gain will be amortized as a reduction to lease expense over the lease or license periods or recognized as gain on disposal at the end of the lease or license period. The leases have been accounted for as operating leases. Future minimum annual rentals on the properties leased back are $3.0 million, $4.1 million and $4.4 million for the fiscal years ended January 31, 2008, 2009 and 2010, respectively, subject to earlier termination of individual leases.

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

Property Category	Number of Properties	Deferred Gain	Recognized Gain
Vacated	31	$ -	$ 3,026
Licensed	15	3,307	(580)
Leased until January 31, 2010	12	4,235	(216)
Leased until January 31, 2010			
(6 month kickout clause)	28	4,048	986
Total	86	$ 11,590	$ 3,216

In addition to the leaseback transaction described above, the Company is committed under operating leases for certain retail store locations. The lease agreements are for varying terms through 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 table is a summary of rental activity under operating leases (amounts in thousands):

Years Ended January 31	Minimum Rentals	Gain Amortization	Sublease Income	Total
Remainder of January 31, 2008	$ 7,132	$ (4,917)	$ (221)	$ 1,994
2009	7,134	(2,113)	(215)	4,806
2010	6,134	(2,113)	(135)	3,886
2011	495	(641)	(70)	(216)
2012	206	(641)	(5)	(440)
Thereafter	-	(1,768)	-	(1,768)
Total	$ 21,101	$ (12,193)	$ (646)	$ 8,262

Note 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). The results of Levelland/Hockleys operations have been included in the consolidated financial statements subsequent to the acquisition date. The aggregate purchase price was $11.5 million, all of which was cash.

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

(In thousands)

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

Prepaid loan fees have an estimated useful life of 6 years. None of the goodwill is expected to be deductible for income tax purposes. Levelland/Hockley is a development stage entity that has commenced construction of an ethanol production facility in Levelland, Texas, which will have a design capacity of 40 million gallons of ethanol annually. The purchase, along with the Companys $5 million convertible secured promissory note, enables the Company to secure a majority equity interest in Levelland/Hockley.

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Levelland/Hockley, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. 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 acquisitions had taken place at the beginning of the period presented.

The pro forma financial information for the period presented includes adjustments to interest income and expense and related income tax effects (in thousands, except per share data):

	Quarter Ended April 30, 2006
Net sales and revenue	$ 66,049
Net income	$ 1,390
Basic net income per share	$ 0.14
Diluted net income per share	$ 0.12

Note 7. ***Other Assets***

The components of other assets at April 30, 2007, January 31, 2007 and April 30, 2006 are as follows (amounts in thousands):

	April 30, 2007	January 31, 2007	April 30, 2006
Prepaid loan fees	$ 4,074	$ 4,377	613
Prepaid commissions	9,959	10,234	9,619
Advance equity investment	-	5,000	-
Other	131	155	334
Total	14,164	19,766	10,566
Less current portion	574	780	212
Long term	$ 13,590	$ 18,986	$ 10,354

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

<u>Year Ended</u>

Remainder of January 31, 2008	$ 574
January 31, 2009	899
January 31, 2010	788
January 31, 2011	644
January 31, 2012	591
Thereafter	578
Total	$ 4,074

Prepaid commissions represent sales commissions paid in connection with extended warranties sold by the Company's sales staff. Such amounts are capitalized and amortized

ratably over the life of the extended warranty plan sold. Future amortization is as follows (amounts in thousands):

Year Ended

Remainder of January 31, 2008	$ 3,216
January 31, 2009	3,490
January 31, 2010	1,925
January 31, 2011	963
January 31, 2012	358
Thereafter	7
Total	$ 9,959

Note 8. ***Long Term Debt***

The Company borrowed $5.0 million by obtaining one mortgage loan secured by five properties during the first quarter of fiscal year 2007. The mortgage loan bears interest at a variable rate of LIBOR plus 1.85% (presently 7.2%) and is payable over 5 years.

The Company paid off 28 mortgage loans that had a principal balance of $15.6 million in connection with the sale and leaseback transaction (see Note 5). In addition, the Company incurred prepayment penalties and the write off of prepaid loan fees, totaling $0.7 million, classified as loss on early termination of debt.

Note 9. ***Stock Option Plans***

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.

No options have been granted since fiscal 2004. The fair values of options granted were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions used for grants in the fiscal year ended January 31, 2005: risk-free interest rate of 4.7%, expected volatility of 65.4% and a weighted average stock option life of nine years for all years.

The total intrinsic value of options exercised during the quarters ended April 30, 2007 and 2006 was approximately $0.6 million and $1.8 million, respectively, resulting in tax deductions to realize benefits of approximately $0.2 million and $0.8 million, respectively. The following table summarizes options granted, exercised and canceled or expired during the three months ended April 30, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2007	4,336,893	$ 8.18		
Exercised	(84,076)	$ 9.83		
Forfeited	(43,200)	$ 12.67		
Outstanding at April 30, 2007	4,209,617	$ 8.10	3.5	$ 36,178
Exercisable at April 30, 2007	3,992,453	$ 7.76	3.2	$ 35,017

At April 30, 2007, there was approximately $2.4 million (pre-tax) of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted average period of 1.8 years.

Note 10. ***Income Per Share from Continuing Operations***

The following table reconciles the computation of basic and diluted net income per share from continuing operations for each period presented (in thousands, except per share amounts):

	Three Months Ended April 30, 2007			Three Months Ended April 30, 2006		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic income per share from continuing operations	$6,024	10,468	$0.57	$1,175	10,145	$0.12
Effect of stock options		1,331			1,398	
Diluted income per share from continuing operations	$6,024	11,799	$0.51	$1,175	11,543	$0.10

For the three months ended April 30, 2007 and 2006, a total of 274,704 shares and 481,854 shares, respectively, subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive.

Note 11. ***Synthetic Fuel***

Income from continuing operations for the first quarter of fiscal year 2007 includes approximately $4.9 million of pre-tax investment income from the sales of the Company's entire partnership interest in Colona SynFuel Limited Partnership, L.L.L.P., (Colona). The Company expects to receive payments from the three separate sales of its interests in Colona, on a quarterly basis through 2007, ranging from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold subject to certain annual limitations and production levels. During the first quarter of

fiscal year 2007, the Company recorded approximately $909,000 of income which relates to 2006 production and a change in the estimated Section 29/45K phase out. The 2006 production payments were based upon estimated income tax credits per ton of coal produced. The payment was made to the Company after the Internal Revenue Service published the 2006 income tax credit per ton amount in April of 2007. During the first quarter of fiscal year 2006, the Company recorded approximately $504,000 of income which relates to a payment received for 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The $504,000 payment was made to the Company after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006.

Income from continuing operations for the first quarter of fiscal year 2007 includes approximately $1.9 million of pre-tax investment income from the sale of the Company’s entire partnership interest in Somerset Synfuel, L.P. (Somerset), which produces synthetic fuel. Effective October 1, 2005, the Company sold its entire ownership interest in Somerset, which owned two synthetic fuel facilities. The Company received $1.2 million, net of commissions, at closing along with a secured contingent payment note that could provide additional investment income. The Company expects to receive quarterly payments through 2007 equal to 80% of the Section 29/45K tax credits attributable to the ownership interest sold, subject to production levels.

The Company sold its entire membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming on March 30, 2004. The Company received $2.8 million at the time of sale along with a secured contingent payment note that could provide additional income. The facility resumed commercial operations during the second quarter of fiscal 2005; as such, the Company received $3.5 million as a one-time payment per the terms of the purchase agreement. In addition, the Company is 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 of collecting payments related to production occurring after September 30, 2006. Thus, the Company cannot currently determine the impact and timing of income recognition, if any, related to production occurring after September 30, 2006.

As provided by the current Internal Revenue Code, the Code Section 29/45K tax credit program is expected to continue through December 31, 2007; however, recent increases in the price of oil could limit the amount of those credits or eliminate them altogether for 2007. This possibility is due to a provision of Section 29/45K that provides that if the average wellhead price per barrel for unregulated domestic crude oil for the year (the “Annual Average Price”) exceeds a certain threshold value (the “Threshold Price”), the Section 29/45K tax credits are subject to phase out. For calendar year 2006, the Threshold Price was $55.06 per barrel and the Phase Out Price was $69.12 per barrel, resulting in a phase out of 33% for calendar year 2006. The Threshold Price and the Phase Out Price are adjusted annually as a result of inflation and are published by the Internal Revenue Service in April of the following year.

The Company cannot predict with absolute certainty the Annual Average Price for 2007. Therefore, it cannot predict whether the price of oil will have a material effect on its synthetic fuel business after 2006. However, if during 2007 oil prices remain at historically high levels or increase, such that the Annual Average Price exceeds the Threshold Price, the Company's synthetic fuel business may be adversely affected for 2007, and, depending on the magnitude of such increases in oil prices, the adverse effect for 2007 could be material and could have an impact on the Company's synthetic fuel income. Based upon the price of oil to date and considering the NYMEX futures market, the Company estimates the tax credits would not be subject to a phase out as of April 30, 2007. Because synthetic fuel is not economical to produce absent the associated tax credits and the fact that the Company has no control or decision involvement with production levels, the Company cannot determine the impact of possible production reduction or elimination on the Company's financial results.

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

	Three Months Ended April 30,	
	2007	2006
February 1, 1999 Colona sale	$ 1,945	$ 259
July 31, 2000 Colona sale	1,552	473
May 31, 2001 Colona sale	1,379	421
October 1, 2005 Somerset sale	1,857	423
March 30, 2004 Gillette sale	-	486
	$ 6,733	$ 2,062

Note 12. ***Investments***

The following tables summarize investments at April 30, 2007, January 31, 2007 and 2006 (amounts in thousands):

Debt Securities April 30, 2007

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Carrying Amount
Federal National Mortgage Association Note	5.13%	5/16/2007	Held to Maturity	$ 1,492	$ 1,492
Millennium Ethanol, LLC Convertible Note	15.60%	4/1/2015	Available for Sale	14,000	14,000
Total Debt Securities				$ 15,492	$ 15,492

Debt Securities January 31, 2007

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

Debt Securities April 30, 2006

Investment	Coupon Rate	Maturity	Classification	Fair Market Value	Carrying Amount
Federal Home Loan Mortgage			Held to		

Corp Note	4.51%	5/9/2006	Maturity	$ 1,420	$ 1,420
Total Debt Securities				$ 1,420	$ 1,420

There were no material realized or unrealized holding gains or losses in fiscal year 2007 or 2006.

On March 17, 2006, the Company entered into an agreement to purchase a note in the principal amount of $14 million to be issued by Millennium Ethanol, LLC (Millennium) which has commenced construction of an ethanol producing facility in Marion, South Dakota. The facility is expected to have a design capacity of 100 million gallons annually. The Company funded the note on December 18, 2006. The note agreement provides the Company rights to purchase a minority equity interest in Millennium in exchange for the note. Monthly payments of principal and interest are scheduled to begin on the earlier of the date the ethanol plant is certified ready for production or April 1, 2008. Accrued interest receivable was approximately $819,000 at April 30, 2007. See Note 17 for a discussion of a subsequent event related to the Millennium note.

The Company has approximately $933,000, $933,000 and $917,000 at April 30, 2007, January 31, 2007 and April 30, 2006, 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 4.9%, 5.7% and 3.5% at April 30, 2007, January 31, 2007 and April 30, 2006, respectively.

The following table summarizes equity method investments at April 30, 2007 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	6.9%	$ 11,393	$ 10,000
Patriot Renewable Fuels, LLC	23.3%	16,543	16,000
Total Equity Securities		$ 27,936	$ 26,000

The following table summarizes equity method investments at January 31, 2007 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount	Initial Investment
Big River Resources, LLC	4.3%	$ 5,499	$ 5,000
Patriot Renewable Fuels,LLC	23.3%	16,200	16,000
Total Equity Securities		$ 21,699	$ 21,000

On October 1, 2006, the Company entered into an agreement to invest $20 million in Big River Resources, LLC (Big River). Big River is an Iowa limited liability company and holding company for several entities including Big River Resources West Burlington, LLC which presently operates a 52 million gallon ethanol manufacturing facility. The Company has funded $10 million of

this investment in exchange for a 6.9% ownership interest. The remaining $10 million investment is expected to occur in fiscal year 2007. The Company's final ownership percentage will be determined once Big River has obtained all funding. During the first quarter of fiscal year 2007, the Company recorded income of $1,070,000 as its share of earnings from Big River.

On June 8, 2006, the Company entered into an agreement to invest $16 million in Patriot Renewable Fuels, LLC ("Patriot") which has commenced construction of an ethanol producing facility in Annawon, Illinois. The facility is expected to have a design capacity of 100 million gallons annually. The Company funded this investment on December 4, 2006 in exchange for a 23.3% ownership interest. Patriot is a development stage enterprise; the Company has capitalized interest of $503,000 at April 30, 2007 as Patriot is constructing its ethanol plant. During the first quarter of fiscal year 2007, the Company recorded income of $40,000 as its share of earnings from Patriot.

Undistributed earnings of equity method investees totaled approximately $1.4 million at April 30, 2007.

Note 13. ***Income Taxes***

The effective tax rate on consolidated pre-tax income was 38.6% for the quarter ended April 30, 2007, 33.1% for the year ended January 31, 2007 and 38.7% for the quarter ended April 30, 2006. An adjustment for recognizing the benefit of Section 29/45K tax credits of (1.4)% is reflected in the effective rate for the year ended January 31, 2007. The provision for state taxes is approximately 3% and 6% for the quarters ended April 30, 2007 and 2006, respectively. The provision for state taxes is approximately (0.4)% for the year ended January 31, 2007.

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 years ended before January 31, 2002.

The Company adopted the provisions of FIN 48 on February 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $287,000 decrease to retained earnings. As of February 1, 2007, total unrecognized tax benefits were $639,000, and accrued penalties and interest were $301,000. If the company were to prevail on all unrecognized tax benefits recorded, approximately $639,000 of the reserve would benefit the effective tax rate. There were no unrecognized tax benefits that represented temporary differences. 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. There were no material adjustments to the recorded liability for unrecognized tax benefits during the first quarter of fiscal year 2007, other than those made in connection with the adoption of FIN 48 that are described above.

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 significant effect on results of operations or financial position.

Note 14. ***Discontinued Operations and Assets Held for Sale***

During the first three months of fiscal year 2007 the Company closed 25 stores in which the Company vacated the market or will not have a further continuing involvement with the related property. These stores, and certain other stores closed in previous periods were classified as discontinued operations for all periods presented. One closed store and one store to be closed are classified as held for sale. The net assets of those stores at April 30, 2007 were approximately $1.7 million. The Company expects to sell the fixed assets related to these stores within the next 12 months through normal real estate channels.

Below is a table reflecting certain items of the income statement that were reclassified as discontinued operations for the period indicated.

	Three Months Ended April 30,	
	2007	2006
	(In Thousands)	
Net sales and revenue	$ 11,789	$ 20,609
Cost of sales	9,326	14,706
(Loss) income before income taxes	(1,166)	483
Benefit (provision) for income taxes	408	(169)
Gain on disposal	3,490	-
Provision for income taxes	(1,222)	-
Net income	$ 1,510	$ 314

Note 15. ***Commitments***

On May 26, 2006, the Company entered into a contingent agreement to invest $24.9 million in One Earth Energy, LLC (One Earth) which was organized to construct and, subsequently, operate an ethanol producing facility in Gibson City, Illinois. The facility is expected to have a design capacity of 100 million gallons annually. The current agreement calls for the equity investment to occur before June 30, 2007, subject to One Earth obtaining additional financing and certain other conditions.

On October 1, 2006, the Company entered into an agreement to invest $20 million in Big River Resources, LLC (Big River.) The Company has funded $10 million of this investment in exchange for a 6.9% ownership interest. The remaining $10 million investment is expected to occur in fiscal year 2007, subject to certain conditions. The Companys final ownership percentage will be determined once Big River has obtained all funding.

Note 16. ***Segment Reporting***

The Company has two reportable segments, consumer electronics and appliance retailing

(retail) and alternative energy. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America.

Amounts in the other category below include business activities that are not separately reportable and income from synthetic fuel investments (amounts in thousands):

	Quarters Ended April 30,	
	2007	2006
Net sales and revenue:		
Retail	$ 57,933	$ 66,049
Alternative energy	-	-
Total net sales and revenues	$ 57,933	$ 66,049
Segment profit:		
Retail segment profit	$ 2,725	$ 940
Alternative energy segment profit	1,656	(440)
Corporate expense	(864)	(535)
Interest expense	(815)	(401)
Interest income	530	292
Income from synthetic fuel investments	6,733	2,062
Income from continuing operations before income taxes	$ 9,965	$ 1,918

	April 30, 2007	January 31, 2007	April 30, 2006
Assets:			
Retail	$ 261,785	$ 233,666	$ 267,672
Alternative energy	74,239	67,653	-
Corporate	39,063	44,123	42,031
Total assets	$ 375,087	$ 345,442	$ 309,703

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 synthetic fuel accounts receivable and deferred income tax benefits.

Cash, except for cash held by Levelland/Hockley, is considered to be fungible and available for both corporate and segment use dependent on liquidity requirements. Cash of approximately $7.7 million held by Levelland/Hockley will be used primarily to fund the construction of a 40 million gallon ethanol plant and to provide working capital until the plant commences operations.

Note 17. ***Subsequent Events***

On May 31, 2007, the Company entered into an agreement with U.S. BioEnergy Corporation and Millennium Ethanol, LLC (Millennium) for the conversion of the Companys $14 Million Convertible Secured Promissory Note including accrued interest, and Related Purchase Rights (the Note) issued by Millennium. Pursuant to the Note, funded in December 2006, the Companys interest will convert to 33.92% of the membership interests in Millennium.

US BioEnergy Corporation, has agreed to acquire Millennium for approximately $135 million (before certain expenses) payable in US BioEnergy common stock, cash, or any combination thereof at US BioEnergys election; provided that, in no event will US BioEnergy issue more then 11.5 million shares of stock in the transaction. If US BioEnergy would otherwise be required to issue more than 11.5 million shares of stock to provide approximately $135 million of value, US BioEnergy will pay the balance of the consideration in cash. If, however, the closing price of US BioEnergys common stock for the ten trading days immediately prior to the Special Meeting of Millenniums members to approve the merger is greater than or equal to $15.88 per share, the aggregate consideration payable to Millenniums members will be 8.5 million shares of US BioEnergy common stock. Should US Bio Energy elect to issue shares as full consideration for the acquisition, the Company would expect to receive approximately 3.3 million shares of US BioEnergy common stock, based upon the closing price of US BioEnergy common stock at May 31, 2007.

The proposed transaction is subject to customary closing conditions and regulatory approvals, including the affirmative vote of all Classes of Millenniums members.The transaction is expected to close in the third quarter of this year and has been unanimously approved by the governing boards of US BioEnergy and Millennium, respectively.

On May 31, 2007, the Companys Board of Directors increased the authorized number of shares that can be repurchased to 1 million shares.

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

We are a specialty retailer in the consumer electronics/appliance industry. As of April 30, 2007 we operated 164 stores in 35 states, predominantly in small to medium-sized markets under the trade name "REX".

In fiscal year 2006, we entered the alternative energy industry by investing in several entities organized to construct and, subsequently operate, ethanol producing plants. As we continue to seek to diversify sources of revenue and earnings, we have invested in four entities as of April 30, 2007, utilizing both debt and equity investments.

Since fiscal year 1998, we invested in three entities which owned facilities producing synthetic fuel. These entities earn federal income tax credits under Section 29/45K of the Internal Revenue Code based on the tonnage and content of solid synthetic fuel produced and sold to related

parties. We have sold our entire ownership interest in these entities in prior years, and as a result, receive payments in connection with current production of synthetic fuel.

Fiscal Year

All references in this report to a particular fiscal year are to REX's fiscal year ended January 31. For example, "fiscal year 2007" means the period February 1, 2007 to January 31, 2008.

Results of Operations

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

	Three Months Ended April 30,	
	2007	2006
Net sales and revenue	100.0%	100.0%
Cost of sales	69.7	72.3
Gross profit	30.3	27.7
Selling, general and administrative expenses	29.1	27.7
Interest income	2.2	0.4
Interest expense	(0.3)	(0.6)
Loss on early termination of debt	(1.1)	-
Gain on sale of real estate	1.7	-
Equity in income of unconsolidated ethanol affiliates	1.9	-
Income from synthetic fuel investments	11.6	3.1
Income from continuing operations before provision for income taxes, minority interest and discontinued operations	17.2	2.9
Provision for income taxes	6.6	1.1
Minority interest	(0.2)	-
Income from continuing operations	10.4	1.8
(Loss) income from discontinued operations, net of tax	(1.3)	0.5
Gain on disposal of discontinued operations, net of tax	3.9	-
Net income	13.0%	2.3%

Business Segment Results

As discussed in Note 16, our chief operating decision maker (as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information) evaluates the operating performance of our business segments using a measure we call segment profit. Segment profit excludes income taxes, interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America.

Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

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

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

	Quarters Ended April 30,	
	2007	2006
Net sales and revenue:		
Retail	$ 57,933	$ 66,049
Alternative energy	-	-
Total net sales and revenues	$ 57,933	$ 66,049
Segment profit:		
Retail segment profit	$ 2,725	$ 940
Alternative energy segment profit	1,656	(440)
Corporate expense	(864)	(535)
Interest expense	(815)	(401)
Interest income	530	292
Income from synthetic fuel investments	6,733	2,062
Income from continuing operations before income taxes	$ 9,965	$ 1,918

Comparison of Three Months Ended April 30, 2007 and 2006

All of our net sales and revenue was generated by our retail segment, as the only ethanol entity we consolidate did not have an operating plant in the first quarter of fiscal year 2007 or 2006. Net sales and revenue in the quarter ended April 30, 2007 were $57.9 million compared to $66.0 million in the prior year's first quarter, representing a decrease of $8.1 million or 12.3% . Net sales and revenue do not include sales from stores classified in discontinued operations.

This decrease was primarily caused by a decrease in comparable store sales of 10.0% for the first quarter of fiscal year 2007. The decrease in comparable store sales accounted for approximately $4.7 million of the decrease in net sales and revenue. In addition, the decrease was caused by a reduction of 47 stores (36 of which were classified as discontinued operations) since the end of the first quarter of fiscal year 2006. The reduction in stores accounted for approximately $3.4 million of the decrease. We consider a store to be comparable after it has been open six full fiscal quarters. Comparable store sales do not include sales of extended service contracts.

Our strongest product category for the first quarter of fiscal year 2007 was the appliance category which positively impacted comparable store sales by 4.2% . The appliance category performance was primarily due to improved sales across most of the appliance category products as we continue to emphasize a broader selection of appliance products. The television category negatively impacted comparable store sales by 9.1% . This resulted from gains in LCD and plasma television sales being offset by declines in high definition projection, light engine and traditional tube televisions. The audio category negatively impacted comparable store sales by 3.3% . The video category negatively impacted comparable store sales by 1.2% . Both the audio and video categories have been impacted by lower price points of their respective products, as these products are continuing to become more of a commodity item with very high levels of competition.

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

	Three Months Ended April 30,	
Product Category	2007	2006
Televisions	52.4%	56.4%
Appliances	29.8	23.2
Audio	5.6	8.5
Video	2.6	3.6
Extended warranties	5.4	3.9
Other	4.2	4.4
	100.0%	100.0%

As of April 30, 2007, we operated 164 stores compared to 211 stores one year earlier. We did not open any stores and closed 29 stores during the first three months of fiscal year 2007. We are marketing five of the closed locations for lease or sale. We sold 21 of the closed stores and abandoned three of the stores upon the expiration of our lease as tenant. We did not open any stores and closed five stores during the first three months of fiscal year 2006.

At April 30, 2007, we had lease agreements, as landlord/sub landlord, for all or parts of 15 properties. We own 12 of these properties and are the tenant/sub landlord for three of the properties. In five of the owned locations, we operate a store and lease a portion of the property to another party. We do not operate a store in seven of the owned properties. We have seven owned properties that are vacant at April 30, 2007. The assets for one of these properties are classified as assets held for sale.

Gross profit of $17.6 million (30.3% of net sales and revenue) in the first quarter of fiscal year 2007 was approximately $0.7 million lower than the $18.3 million (27.7% of net sales and revenue) recorded in the first quarter of fiscal year 2006. Gross profit for the first quarter of fiscal year 2007 was negatively impacted by lower sales compared to the prior year. This decrease was partially offset by higher gross profit margin percentage of approximately 2.6%. Gross profit was also positively impacted by a higher percentage of extended warranty sales, which have a higher gross profit margin, in the first quarter of fiscal year 2007 compared to the first quarter of fiscal year 2006.

Selling, general and administrative expenses for the first quarter of fiscal year 2007 were $16.9 million (29.1% of net sales and revenue), a decrease of $1.4 million or 7.7 % from $18.3 million (27.7% of net sales and revenue) for the first quarter of fiscal year 2006. The decrease in expenses was primarily a result of lower advertising expenses of $1.0 million as we had fewer markets to serve after our store closings.

Interest income was $1,293,000 (2.2% of net sales and revenue) for the first quarter of fiscal year 2007 compared to $292,000 (0.4% of net sales and revenue) for the first quarter of fiscal year 2006. The increase results primarily from larger amounts of excess cash invested in fiscal year 2007 versus 2006 and interest income from our alternative energy segment of $759,000.

Interest expense was $165,000 for the first quarter of fiscal year 2007 compared to $401,000 for the first quarter of fiscal year 2006. Interest expense for the current year has been lowered due to capitalizing interest on certain of our ethanol investments.

We paid off approximately $15.6 million of debt in connection with the sale and leaseback transaction with Klac. As a result, we incurred prepayment penalties and the write off of prepaid loan fees totaling approximately $651,000.

On April 30, 2007, we completed a transaction for the sale of 86 of our current and former store locations to Klac for $74.5 million in cash, before selling expenses. We also entered into leases to leaseback 40 of the properties from Klac for initial lease terms expiring January 31, 2010, with renewal options for up to 15 additional years. Both we and Klac may terminate a lease after the initial six months of the initial lease term on 28 of the leases. We also entered into license agreements with Klac for 15 of the properties that allow us to occupy the properties for up to 90 days rent free. Upon the expiration of the license period, we must vacate the property.

A pre-tax financial statement gain of $3.2 million (net of expenses and losses) resulted from this sale. Of this gain, $2.2 million was classified as discontinued operations and the remaining $1.0 million was classified as continuing operations. We also deferred $11.6 million, which represents the present value of the minimum lease payments and the gain associated with stores that we have continuing involvement with, as defined in SFAS 98, Accounting for Leases. The deferred gain will be amortized as a reduction to lease expense over the lease or license periods or recognized as gain on disposal at the end of the lease or license period. The leases have been accounted for as operating leases. Future minimum annual rentals on the properties leased back are $3.0 million, $4.1 million and $4.4 million for the fiscal years ended January 31, 2008, 2009 and 2010, respectively, subject to earlier termination of individual leases.

The following table summarizes the components of the sale and leaseback transaction amounts in thousands):

Property Category	Number of Properties	Deferred Gain	Recognized Gain
Vacated	31	$ -	$ 3,026
Licensed	15	3,307	(580)
Leased until January 31, 2010	12	4,235	(216)
Leased until January 31, 2010			
(6 month kickout clause)	28	4,048	986
Total	86	$ 11,590	$ 3,216

During the first quarter of fiscal year 2007, we recognized income of approximately $1,070,000 and $40,000 from our equity investments in Big River Resources, LLC and Patriot Renewable Fuels, LLC, respectively.

Results for the first quarter of fiscal years 2007 and 2006 reflect the impact of the sales of our investment in Colona SynFuel Limited Partnership, L.L.L.P. (Colona) and Somerset Synfuel, L.P. (Somerset), which produce synthetic fuel. We sold our ownership interest in the Colona limited partnership through a series of three sales. We expect to receive payments from the three separate sales of our interests in Colona, on a quarterly basis through 2007, which will range from 74.25% to 82.5% of the federal income tax credits attributable to the interest sold subject to certain annual limitations and production levels. During the first quarter of fiscal year 2007, we recorded approximately $909,000 of income which relates to a payment received for 2006 production. The 2006 production payments were based upon estimated income tax credits per ton of coal produced. The $909,000 payment was made to us after the Internal Revenue Service published the 2006 income tax credit per ton amount in April of 2007. During the first quarter of fiscal year 2006, we recorded approximately $504,000 of income which relates to a payment received for 2005 production. The 2005 production payments were based upon estimated income tax credits per ton of coal produced. The $504,000 payment was made to us after the Internal Revenue Service published the 2005 income tax credit per ton amount in April of 2006.

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

We sold our entire membership interest in the limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We received $2.8 million at the time of sale on March 30, 2004 along with a secured contingent payment note that could provide additional investment income to us.

The facility resumed commercial operations during the second quarter of fiscal 2005; as such, we received $3.5 million as a one-time payment per the terms of the purchase agreement. In addition, we are eligible to receive $1.50 per ton of “qualified production” produced by the facility and sold through 2007. The plant was subsequently sold and during the third quarter of fiscal year 2006, we modified our agreement with the owners and operators of the synthetic fuel facility. Based on the terms of the agreement, we are not currently able to determine the likelihood of collecting payments related to production occurring after September 30, 2006. Thus, we cannot currently determine the impact and timing of income recognition related to production occurring after September 30, 2006. At April 30, 2007, we estimate that there is approximately 3.1 million tons of production for which we did not recognize income.

As provided by the current Internal Revenue Code, the Code Section 29/45K tax credit program is expected to continue through December 31, 2007; however, recent increases in the price of oil could limit the amount of those credits or eliminate them altogether for 2007. This possibility is due to a provision of Section 29/45K that provides that if the average wellhead price per barrel for unregulated domestic crude oil for the year (the “Annual Average Price”) exceeds a certain threshold value (the “Threshold Price”), the Section 29/45K tax credits are subject to phase out. For calendar year 2006, the Threshold Price was $55.06 per barrel and the Phase Out Price was $69.12 per barrel. The Threshold Price and the Phase Out Price are adjusted annually as a result of inflation and are published by the Internal Revenue Service in April of the following year.

We cannot predict with absolute certainty the Annual Average Price for 2007. Therefore, we cannot predict whether the price of oil will have a material effect on our synthetic fuel income after 2006. However, if during 2007 oil prices remain at historically high levels or increase, such that the Annual Average Price exceeds the Threshold Price, our synthetic fuel income may be adversely affected for 2007, and, depending on the magnitude of such increases in oil prices, the adverse affect for 2007 could be material and could have an impact on our synthetic fuel income. Based upon the price of oil to date and considering the NYMEX futures market, we estimate the tax credits would not be subject to a phase out as of April 30, 2007. Because synthetic fuel is not economical to produce absent the associated tax credits and the fact that we have no control or decision involvement with production levels, we cannot determine the impact of possible production reduction or elimination on our financial results.

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

	Three Months Ended April 30	
	2007	2006
	(In Thousands)	
February 1, 1999 Colona sale	$ 1,945	$ 259
July 31, 2000 Colona sale	1,552	473
May 31, 2001 Colona sale	1,379	421
October 1, 2005 Somerset sale	1,857	423
March 30, 200 Gillette sale	-	486
	$ 6,733	$ 2,062

Our effective tax rate was 38.6% and 38.7% for the first quarter of fiscal years 2007 and 2006, respectively.

Minority interest of $95,000 represents the owners (other than us) share of the income of Leveland/Hockley County Ethanol, LLC.

During the quarter ended April 30, 2007 we closed 29 stores that were classified as discontinued operations. As a result of these closings and certain other store closings from prior periods, we had a loss from discontinued operations, net of tax benefit, of $0.8 million for the first quarter of fiscal year 2007 compared to income of $0.3 million for the first quarter of fiscal year 2006.

As a result of the previously discussed sale and leaseback with Klac and the sale of two properties that had been previously closed, we had a gain from discontinued operations, net of tax expense, of approximately $2.3 million for the first quarter of fiscal year 2007.

As a result of the foregoing, net income for the first quarter of fiscal year 2007 was $7.5 million, an increase of $6.0 million from $1.5 million for the first quarter of fiscal year 2006.

Liquidity and Capital Resources

Net cash used in operating activities was approximately $5.9 million for the first quarter of fiscal year 2007, compared to $6.1 million for the first quarter of fiscal year 2006. For the first three months of fiscal year 2007, cash was provided by net income of $7.5 million, adjusted for the impact of $6.7 million for gains on our installment sales of the limited partnership interests, the gain on the disposal of real estate and property and equipment of $4.5 million and non-cash items of $2.1 million, which consisted of depreciation and amortization, stock based compensation expense, impairment charges, deferred income and the deferred income tax provision. In addition, accounts payable provided cash of $18.2 million, primarily a result of changes in inventory levels and extended terms from vendors. The primary use of cash was an increase in inventory of $20.3 million primarily due to seasonal fluctuations. The inventory increase from January 31, 2007 primarily results from higher television levels. The other use of cash was a decrease in other current liabilities of $1.3 million.

For the first three months of fiscal year 2006, cash was provided by net income of $1.5 million, adjusted for the impact of $2.1 million for gains on our installment sales of the limited partnership interests, non-cash items of $1.9 million, which consisted of depreciation and amortization, stock based compensation expense, impairment charges, deferred income and the deferred income tax provision. In addition, accounts payable provided cash of $6.2 million, primarily a result of changes in inventory levels and prepaid expenses provided cash of $0.9 million. The primary use of cash was an increase in inventory of $11.1 million primarily due to seasonal fluctuations. The other use of cash was a decrease in other current liabilities of $3.2 million.

At April 30, 2007, working capital was $136.6 million compared to $83.8 million at January 31, 2007. This increase is primarily a result of the sale and leaseback transaction with Klac and greater cash proceeds from our synthetic fuel investments. The ratio of current assets to current liabilities was 2.8 to 1 and 2.6 to 1 at April 30, 2007 and January 31, 2007, respectively.

Cash of $78.3 million was provided by investing activities for the first quarter of fiscal year 2007, compared to $1.0 million for the first quarter of fiscal year 2006. During the first quarter of fiscal year 2007, we received proceeds of $77.3 million from the sale and leaseback transaction with Klac and other real estate sales and $10.1 million from the installment sales of our ownership interests in synthetic fuel entities. We had capital expenditures of approximately $9.1 million during the first quarter of fiscal year 2007, primarily related to the Levelland/Hockley County Ethanol, LLC ethanol plant construction.

Cash of $0.6 million was provided by investing activities for the first quarter of fiscal year 2006. During the first quarter of fiscal year 2006, we received proceeds of $0.7 million from installment sales of our ownership interests in synthetic fuel entities. We had capital expenditures of approximately $0.1 million during the first quarter of fiscal year 2006, primarily related to improvements at selected stores.

Cash used in financing activities totaled approximately $10,000,000 for the first quarter of fiscal year 2007 compared to cash provided by financing activities of $457,000 for the first quarter of fiscal year 2006. Cash was provided by new debt borrowings of $5.0 million and stock option activity of $1.3 million. Cash of $16.3 million was used for scheduled and early payments of mortgage debt. On May 31, 2007, our Board of Directors increased our share repurchase authorization to one million shares.

Cash provided by financing activities totaled approximately $0.5 million for the first quarter of fiscal year 2006. Cash was provided by stock option activity of $1.2 million. Cash of $0.7 million was used for scheduled payments of mortgage debt.

On October 1, 2006, we entered into an agreement to invest $20 million in Big River Resources, LLC (Big River). Big River is an Iowa limited liability company and holding company for several entities including Big River Resources West Burlington, LLC which presently operates a

52 million gallon ethanol manufacturing facility. We have funded $10 million of this investment in exchange for a 6.9% ownership interest. The remaining $10 million investment is expected to occur in fiscal year 2007. Our final ownership percentage will be determined once Big River has obtained all funding. Big River intends to expand the plant to produce approximately 80 million gallons annually and intends to develop additional ethanol production plants.

On May 26, 2006, we entered into a contingent agreement to invest $24.9 million in One Earth Energy, LLC (“One Earth”) which was organized to construct and, subsequently, operate an ethanol producing facility in Gibson City, Illinois. The facility is expected to have a design capacity of 100 million gallons annually. The current agreement calls for the equity investment to occur before June 30, 2007, subject to One Earth obtaining additional financing and certain other conditions.

We believe we have sufficient resources to fund these and other potential ethanol investments.

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. Such statements can be identified by use of forward-looking terminology such as “may,” “expect,” “believe,” “estimate,” “anticipate” or “conti the negative thereof or other variations thereon or comparable terminology. Readers are cautioned that there are risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. These risks and uncertainties include the risk factors set forth from time to time in the Company’s filings with the Securities and Exchange Commission and among other things: risks and uncertainties relating to the proposed acquisition of REX Stores' interest in Millennium Ethanol, LLC by U.S. BioEnergy Corporation including, but not limited to the satisfaction of conditions to closing; including receipt of member, regulatory and other consents and approvals; delays in consummating the proposed transaction; uncertainty of the financial performance of U.S. BioEnergy Corporation following completion of the proposed transaction; fluctuations in the market prices and trading volumes of U.S. BioEnergy Corporation common stock; the highly competitive nature of the consumer electronics retailing industry, changes in the national or regional economies, weather, the effects of terrorism or acts of war on consumer spending patterns, the availability of certain products, technological changes, changes in real estate market conditions, new regulatory restrictions or tax law changes relating to the Company’s synthetic fuel investments, the fluctuating amount of quarterly payments received by the Company with respect to sales of its partnership interest in a synthetic fuel investment, the potential for Section 29/45K tax credits to phase out based on the price of crude oil adjusted for inflation, and the uncertain amount of synthetic fuel production and resulting income received from time to time from the Company’s synthetic fuel investments. As it relates to ethanol investments, risks and uncertainties include among other things: the uncertainty of constructing plants on time and on budget, the price volatility of corn, dried distiller grains, ethanol, gasoline and natural gas, and the ability to remain in compliance with related debt covenants. Other factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2007 (File No. 001-09097).

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

No material changes since January 31, 2007.

Item 4. ***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 of the end of the period covered by this report. Based on that evaluation, the 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 and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 1A. ***Risk Factors***

During the quarter ended April 30, 2007, there have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended January 31, 2007.

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

The annual meeting of shareholders of REX Stores Corporation was held on May 31, 2007, at which the following matter was submitted to a vote of shareholders:

1. Election of seven directors.

Nominee	For	Withheld
Stuart A. Rose	7,394,636	2,006,790
Lawrence Tomchin	7,200,479	2,200,947
Robert Davidoff	9,029,455	371,971
Edward M. Kress	7,201,154	2,200,272
Charles A. Elcan	6,995,392	2,406,034
	9,030,613	370,813

David S. Harris		
Mervyn L. Alphonso	9,202,680	198,746

Item 6. ***Exhibits.***

The following exhibits are filed with this report:

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

32 Section 1350 Certifications

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

Signature	Title	Date
/s/ Stuart A. Rose (Stuart A. Rose)	Chairman of the Board (Chief Executive Officer)	June 8, 2007
/s/ Douglas L. Bruggeman (Douglas L. Bruggeman)	Vice President, Finance and Treasurer (Chief Financial Officer)	June 8, 2007