

Edgar Filing: FRED'S INC - Form 8-K

FREDS INC  
Form 8-K  
May 26, 2005

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

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FORM 8-K

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

Date of report (Date of earliest event reported): May 26, 2005

FRED'S, INC.  
(Exact Name of Registrant as Specified in Charter)

Commission File Number 00-19288

Tennessee  
(State or other jurisdiction  
of incorporation or organization)

62-0634010  
(I. R. S. Employer  
Identification No.)

4300 New Getwell Road, Memphis, TN  
(Address of principal executive offices)

38118  
(Zip Code)

Registrant's telephone number, including area code  
(901) 365-8880

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On May 26, 2005, Fred's, Inc. issued a press release announcing its financial results for the first fiscal quarter ended April 30, 2005. A copy of the press

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release is furnished as Exhibit 99.1 to this report and is incorporated herein by reference. The information in this report, including the exhibit attached hereto, is furnished pursuant to Item 2.02 and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

Item 9.01. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits:

Exhibit Number	Description
99.1	Press release issued by Fred's, Inc., dated May 26, 2005.

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SIGNATURE

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.

FRED'S, INC.  
(Registrant)

By: /s/ Jerry A. Shore  
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Jerry A. Shore,  
Executive Vice President and  
Chief Financial Officer

Date: May 26, 2005

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## INDEX TO EXHIBITS

Exhibit Number	Description
99.1	Press release issued by Fred's, Inc., dated May 26, 2005

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Exhibit 99.1

FRED'S

4300 New Getwell Road, Memphis, Tennessee 38118

Contact: Jerry A. Shore  
Executive Vice President and  
Chief Financial Officer  
(901) 362-3733, Ext. 2217

### FRED'S REPORTS FIRST QUARTER RESULTS

MEMPHIS, Tenn. (May 26, 2005) - Fred's, Inc. (NASDAQ/NM: FRED) today reported financial results for the first quarter ended April 30, 2005.

Net income for the first quarter of fiscal 2005 totaled \$6.7 million or \$0.17 per diluted share compared with \$7.2 million or \$0.18 per diluted share in the year-earlier quarter. As reported earlier, retail sales by Company stores for the first quarter increased 13% and total sales rose 12% to \$382.7 million compared with \$341.5 million in the same period last year. On a comparable store basis, sales increased 3.0% for the quarter, up from a 2.7% increase in the same period last year.

Commenting on the results, Michael J. Hayes, Chief Executive Officer, said, "The market remained tough throughout the first quarter, with customer count and spending suffering the last two weeks of each month. Overall sales were below plan, with a large part of this occurring at the end of April. Sales mix, which had been trending to the lower margin areas, stabilized in April for the first time in 10 months. We expected cost savings from operational and technology initiatives to help offset the effect of slower sales, but these initiatives did not begin to produce a meaningful impact until April. Thus, the combination of lower-than-expected sales and expense deleveraging caused us to miss our plan by one cent per share for the quarter.

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"Although the sales environment remains challenging, we continue to make progress on other strategic initiatives that we think will lead to improved sales and operating performance over the balance of the year, especially in the second half," Hayes continued. "Our inventory position is good, and with the recent success of our inventory allocation model, we are able to better position our inventory throughout our stores. New store and pharmacy openings are on plan, with 21 and 7, respectively, opened in the first quarter. Lastly, the implementation of our refrigerated foods program is on schedule for completion by the end of 2005. To date, 64 stores are on the cooler program and are now able to accept government aid electronic benefits transfer cards. Test stores with that program in place have experienced a significant improvement in comparable store sales compared with our overall Company average. All of these initiatives, as they progress, should contribute to improved results through the balance of 2005."

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Concluding, Hayes added: "As we look forward, we now believe that total sales for 2005 will increase in the range of 12% to 13% and that comparable store sales will increase in the range of 3% to 4%. The 70-basis-point deleveraging of operating expenses in the first quarter should begin to reverse over the balance of the year, resulting in overall positive expense leverage for 2005 as a whole. We believe the net effect of these changes will be to shift the one-cent shortfall in earnings from the first quarter to the second, but our plan for the year overall remains intact.

Fred's gross profit for the first quarter of 2005 was \$109.0 million compared with \$96.8 million in the same period last year, representing an increase of 13% for the period. Gross margin for the quarter was 28.5% of sales compared with 28.3% of sales in the year-earlier period.

Selling, general and administrative expenses for the first quarter of 2005 increased to 25.8% of sales versus 25.1% of sales in the first quarter last year. This increase was primarily attributable to an increase in store labor and advertising costs as a percent of sales, as well as increases in fuel prices and utilities expenses.

Operating income for the first quarter of 2005 declined 8% to \$10.2 million from \$11.1 million in the year-earlier period. Operating income for the quarter was 2.7% of sales versus 3.2% of sales in the first quarter of 2004.

Fred's Inc. operates 607 discount general merchandise stores, including 25 franchised Fred's stores in the southeastern United States. For more information about the Company, visit Fred's Website at [www.fredsinc.com](http://www.fredsinc.com).

A public, listen-only simulcast and replay of Fred's first quarter conference call may be accessed at the Company's web site or at [www.earnings.com](http://www.earnings.com). The simulcast will begin at approximately 10:00 a.m. Eastern Time today and a replay of the call will be available beginning at approximately noon Eastern Time and will run until June 26, 2005.

Comments in this news release that are not historical facts are forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, general economic trends, changes in consumer demand or purchase

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patterns, delays or interruptions in the flow of merchandise between the Company's distribution centers and its stores or between the Company's suppliers and same, a disruption in the Company's data processing services, and costs and delays in acquiring or developing new store sites. Fred's undertakes no obligation to release revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required to be reported under the rules and regulations of the Securities and Exchange Commission. FRED'S, INC. Unaudited Financial Highlights (in thousands, except per share amounts)

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### FRED'S, INC. Unaudited Financial Highlights (in thousands, except per share amounts)

	13 Weeks Ended April 30, 2005	13 Weeks Ended May 1, 2004
	-----	-----
		(as restated)
Net sales	\$ 382,738	\$ 341,486
Operating income	\$ 10,191	\$ 11,118
Net income	\$ 6,722	\$ 7,202
Net income per share:		
Basic	\$ 0.17	\$ 0.18
Diluted	\$ 0.17	\$ 0.18
Average shares outstanding:		
Basic	39,549	39,060
Diluted	39,714	39,706

### FRED'S, INC. Unaudited Financial Highlights (in thousands, except per share amounts)

	13 Weeks Ended April 30, 2005	% of Total	13 Weeks Ended May 1, 2004
	-----	-----	-----
			(as restated)
Net sales	\$ 382,738	100.0%	\$ 341,486
Cost of goods sold	273,709	71.5%	244,692
Gross profit	109,029	28.5%	96,794
Selling, general and administrative expenses	98,838	25.8%	85,676
Operating income	10,191	2.7%	11,118
Interest (income)/expense, net	158	0.0%	62

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Income before income taxes	10,033	2.7%	11,056
Provision for income taxes	3,311	.9%	3,854
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Net income	\$ 6,722	1.8%	\$ 7,202
	=====	=====	=====
Net income per share:			
Basic	\$ 0.17		\$ 0.18
	=====		=====
Diluted	\$ 0.17		\$ 0.18
	=====		=====
Weighted average shares outstanding:			
Basic	39,549		39,060
	=====		=====
Diluted	39,714		39,706
	=====		=====

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FRED'S, INC.  
Unaudited Balance Sheet  
(in thousands)

	April 30, 2005
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ASSETS:	
Cash and cash equivalents	\$ 16,488
Inventories	297,039
Receivables	20,609
Other non-trade receivables	11,872
Prepaid expenses and other current assets	6,568
	-----
Total current assets	352,576
Property and equipment, net	140,519
Other noncurrent assets	6,551
	-----
Total assets	\$ 499,646
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:	
Accounts payable	\$ 88,190
Current portion of indebtedness	18
Current portion of capital lease obligation	655
Accrued expenses and other	29,680
Deferred tax liability	17,829
Income taxes payable	2,277
	-----
Total current liabilities	138,649
Long-term portion of indebtedness	27,928
Deferred income taxes	8,279
Long-term portion of capital lease obligations	879

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Other noncurrent liabilities	2,486
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Total liabilities	178,221
Shareholders' equity	321,425
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Total liabilities and shareholders' equity	\$ 499,646
	=====

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