

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**  
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### FILER

#### **ROSES STORES INC**

CIK: **85149** | IRS No.: **560382475** | State of Incorporation: **DE** | Fiscal Year End: **0131**  
Type: **10-Q** | Act: **34** | File No.: **000-00631** | Film No.: **95546630**  
SIC: **5331** Variety stores

Business Address  
*PO DRAWER 947  
218 S GARNETT ST  
HENDERSON NC 27536  
9194302600*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the Quarterly Period Ended April 29, 1995

OR

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

Commission File Number 0-631

ROSE'S STORES, INC.

Incorporated Under the Laws of Delaware

I.R.S. Employer Identification No. 56-0382475

P. H. Rose Building  
218 South Garnett Street  
Henderson, North Carolina 27536  
Telephone No. 919/430-2600

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Class	Shares Outstanding
Common Stock, no par value	-

The 18,758,000 formerly outstanding shares of Common Stock of the Company were cancelled on April 28, 1995, and 10,000,000 shares of the reorganized Company were issued in escrow to First Union National Bank on April 28, 1995, but under the terms of the escrow agreement, the shares have no voting rights until distributed to the beneficial owners thereof, pursuant to the Company's Modified and Restated First Amended Joint Plan of Reorganization.

PAGE

ROSE'S STORES, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements  
(Amounts in thousands except per share amounts)

The following summary of financial information of Rose's Stores, Inc. (the "Company"), which is unaudited, reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the information presented below for the thirteen weeks ended April 29, 1995 and April 30, 1994.

ROSE'S STORES, INC.  
STATEMENTS OF OPERATIONS (Unaudited)  
(Amounts in Thousands Except Per Share Amounts)

<TABLE>  
<CAPTION>

	For the Thirteen Weeks Ended	
	April 29, 1995	April 30, 1994
<S>	<C>	<C>
Revenue:		
Gross sales	\$ 159,407	174,583
Leased department sales	5,117	5,514
Net sales	154,290	169,069
Leased department income	1,114	1,300
Total revenue	155,404	170,369
Costs and Expenses:		
Cost of sales	116,838	126,696
Selling, general and administrative	35,486	40,181
Depreciation and amortization	1,812	2,475
Interest	726	1,784
Total costs and expenses	154,862	171,136
Earnings (Loss) Before Reorganization Expense	542	(767)
Reorganization Expense (Note 1)	(3,847)	(58,781)
Net Earnings (Loss)	\$ (3,305)	(59,548)
Earnings (Loss) Per Share (Note 2)	\$ (.18)	(3.17)
Weighted Average Shares (Note 2)	18,758	18,758

Note 1

Closed store provision (59 closings)	\$ -	(55,000)
DIP financing fees, amortization & expenses	(1,342)	(424)
Estimated professional fees	(2,318)	(3,115)
Other reorganization costs and expenses	(187)	(242)
TOTAL REORGANIZATION COSTS	\$ (3,847)	(58,781)

Note 2

The 18,758 formerly outstanding shares of the Company used to calculate earnings (loss) per share were cancelled on April 28, 1995.

</TABLE>

See notes to financial statements

PAGE

ROSE'S STORES, INC.  
BALANCE SHEETS  
(Amounts in thousands)

<TABLE>  
<CAPTION>

	April 29, 1995	January 28, 1995	April 30, 1994
<S>	(Unaudited) <C>	(Audited) <C>	(Unaudited) <C>
Assets			
Current Assets			
Cash and cash equivalents	\$ 622	1,350	1,863
Accounts receivable	9,235	12,140	13,314
Inventories	185,129	119,567	234,467
Prepaid merchandise	7,100	6,632	9,199
Other current assets	2,475	5,531	7,252
Total current assets	204,561	145,220	266,095
Property and Equipment, at cost			

Less accumulated depreciation and amortization	-	34,707	40,704
Deferred Income Tax Benefits	-	3,164	6,447
Other Assets	-	95	653
	\$ 204,561	183,186	313,899
Liabilities and Stockholders' Equity (Deficit)			
Current Liabilities			
Reclamation claims	\$ -	-	2,271
DIP financing	-	600	13,100
Current maturities of capital lease obligations	400	628	2,043
Bank drafts outstanding	5,762	-	-
Accounts payable	37,642	23,392	38,623
Short-term debt	58,654	-	-
Reserve for store closings and remerchandising	4,952	8,530	41,027
Deferred tax liabilities	-	3,164	6,447
Accrued salaries and wages	5,262	7,821	7,138
Reorganization payables	4,352	-	-
Other current liabilities	13,421	9,076	16,038
Total current liabilities	130,445	53,211	126,687
Liabilities Subject to Settlement Under			
Reorganization Proceedings	-	156,474	221,464
Excess of Net Assets Over Reorganization Value	32,021	-	-
Capital Lease Obligations (excluding current maturities)	593	646	1,601
Deferred Income	1,481	1,993	1,922
Accumulated Postretirement Benefit Obligation	5,021	6,048	5,678
Stockholders' Equity (Deficit)			
Common Stock, Authorized 10,000 shares	35,000	-	-
Voting common stock (Cancelled 4/28/95)	-	2,250	2,250
Non-voting Class B stock (Cancelled 4/28/95)	-	18,795	18,795
Paid-in Capital-Stock Warrants (Cancelled 4/28/95)	-	2,700	2,700
Retained earnings (Accumulated deficit)	-	(40,313)	(48,580)
	35,000	(16,568)	(24,835)
Treasury stock, at cost (Cancelled 4/28/95)	-	(18,618)	(18,618)
Total stockholders' equity (deficit)	35,000	(35,186)	(43,453)
	\$ 204,561	183,186	313,899

</TABLE>

See notes to financial statements

ROSE'S STORES, INC.  
STATEMENTS OF CASH FLOWS (Unaudited)  
(Amounts in thousands)

<TABLE>

<CAPTION>

	For the Thirteen Weeks Ended	
	April 29, 1995	April 30, 1994
	<C>	<C>
<S>		
Cash flows from operating activities:		
Net earnings (loss)	\$ (3,305)	(59,548)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,812	2,475
(Gain) loss on disposal of property and equipment	(1)	(310)
LIFO expense (credit)	(364)	172
Provision for closed stores	-	55,000
Cash provided by (used in) assets and liabilities:		
(Increase) decrease in accounts receivable	(630)	1,743
(Increase) decrease in prepaid merchandise	(468)	1,558
(Increase) decrease in inventories	(40,291)	(31,489)
(Increase) decrease in other current and non-current assets	(3,152)	51
Increase (decrease) in accounts payable	14,361	(97)
Increase (decrease) in accrued expenses and other liabilities	(2,142)	(3,150)
Increase (decrease) in reserves for closed stores	\$ (1,731)	58,986
Non cash activities in closed store reserve:		
Provision for closed stores	-	(55,000)
Retirement of net book value of assets	623	6,901

Net cash increase (decrease) in provisions for closed stores	(1,108)	10,887
Increase (decrease) in deferred income	(201)	(374)
Increase (decrease) in accumulated postretirement benefit obligation	7	64
Net cash provided by (used in) operating activities	(35,482)	(23,018)
Cash flows from investing activities:		
Purchases of property and equipment	(510)	(278)
Proceeds from disposal of property and equipment	5	712
Net cash provided by (used in) investing activities	(505)	434
Cash flows from financing activities:		
Net activity on lines of credit	58,654	-
Proceeds (payments) of DIP Facility	(600)	13,100
Payments on pre-petition secured debt	(26,423)	-
Payments of unsecured claims	(1,593)	-
Principal payments on capital lease obligations	(281)	(607)
Increase (decrease) in bank drafts outstanding	5,502	-
Other	-	(1)
Net cash provided by (used in) financing activities	35,259	12,492
Net decrease in cash	(728)	(10,092)
Cash and cash equivalents at beginning of period	1,350	11,955
Cash and cash equivalents at end of period	\$ 622	1,863

</TABLE>

See notes to financial statements

Notes to Financial Statements:

- (1) On September 5, 1993, the Company filed a voluntary Petition for Relief under Chapter 11, Title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Eastern District of North Carolina (the "Bankruptcy Court") (See Part II, Item 1, Legal Proceedings). The Company's Modified and Restated First Amended Joint Plan of Reorganization (the "Plan") was approved by order of the Bankruptcy Court on April 24, 1995.

On April 28, 1995 (the "Effective Date"), the Company closed on its exit financing loan, thereby satisfying the last condition of the Plan and emerged from bankruptcy. The exit financing is a \$125,000 three-year revolving credit facility (to be reduced by \$5,000 on each anniversary) with a letter of credit sublimit in the aggregate principal amount of \$40,000 with the First National Bank of Boston and The CIT Group/Business Credit, Inc., as facility agents. The revolving credit facility is secured by a perfected first priority lien and security interest in all of the assets of the Company. On the Effective Date, pursuant to the Plan, the Company paid in full the claims of its Pre-Petition Secured Lenders in the amount of \$26,423, all amounts owing to GE Capital Corporation (the "Debtor-in-Possession (DIP) Facility"), and various administrative and tax claims as defined in the Plan. Under the exit financing facility, trade suppliers which extend credit to the Company will be supported by a \$5,000 letter of credit and a subordinated lien of \$15,000 in the real estate properties of the Company.

The revolving credit facility includes certain financial covenants and financial maintenance tests, including those relating to earnings before interest, taxes, depreciation and amortization (EBITDA), debt service coverage, capital expenditures limitations, minimum stockholders' equity, and minimum/maximum inventory levels, which are measured quarterly. The facility also includes restrictions on the incurrence of additional liens and indebtedness and a requirement that the facility be paid down to certain levels for 30 consecutive days

between December 1st and February 15th each year.

Also pursuant to the Plan, the Company issued and delivered to First Union National Bank of North Carolina, as Escrow Agent for the unsecured creditors of the Company, 9,850 shares of the Company's new common stock for distribution on allowed claims of unsecured creditors in accordance with a schedule for distributions set forth in the Plan; and 150 shares of the Company's new common stock were delivered to the Escrow Agent for distribution to officers of the Company pursuant to a consummation bonus plan approved by order of the Bankruptcy Court on February 14, 1995. An initial distribution of stock to unsecured creditors whose claims have been allowed will commence on or before June 12, 1995 pursuant to the Plan amounting to seventy percent (70%) of the stock relating to allowed claims. Subsequent distributions for allowed unsecured claims, payments for administrative claims and resolution of disputed claims will be made in accordance with the

PAGE

Notes to Financial Statements (Continued):

(1) Continued

provisions of the Plan and applicable orders of the Bankruptcy Court.

On the Effective Date, all shares of the Company's pre-emergence Voting Common Stock and Non-Voting Class B Stock were cancelled and the record owners of such stock as of such date became entitled to warrants to purchase the new common stock of the Company. One warrant will be issued for every 4.377 shares of pre-emergence Voting Common Stock or Non-Voting Class B Stock and will allow the holder to purchase one share of the new common stock. The warrants may be exercised at any time until they expire on April 28, 2002. The initial warrant exercise price of \$14.45 was calculated pursuant to a formula set forth in the Plan. The formula requires that the total allowed and disputed claims of the Company's unsecured creditors be divided by 10,000, the number of shares of the reorganized Company's stock to be issued under the Plan. This formula will be adjusted on each of the first three anniversaries of April 28, 1995 to reflect adjustments to the total of allowed and disputed claims of the Company's unsecured creditors, and will be further adjusted on the fourth, fifth and sixth anniversaries to reflect 105%, 110% and 115%, respectively of the total of the allowed and disputed claims of the unsecured creditors. Although there can be no assurance, the Company anticipates that the warrant exercise price will decrease as certain disputed claims are resolved over time.

(2) In 1990, the American Institute of Certified Public Accountants issued Statement of Position 90-7 ("SOP 90-7") "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" (sometimes called "Fresh-Start Reporting"). The application of Fresh-Start Reporting changed the Company's basis of accounting for financial reporting purposes. Specifically, SOP 90-7 required the adjustment of the Company's assets and liabilities to reflect their estimated fair market value at the Effective Date. At the same time, the Company made certain reclassifications between gross margin and expenses and changed the method of accruing certain expenses between periods. Accordingly, the statements of operations and changes in cash flows commencing May 1995, and the balance sheets beginning with April 1995, will not be comparable to the financial information for prior periods.

In accordance with SOP 90-7, the reorganization value of the Company was determined as of the Effective Date. The reorganization value of \$35,000 was derived by an outside company using various valuation methods, including discounted cash flow analyses (utilizing the Company's projections), analyses of the market values of other publicly

traded companies whose businesses are reasonably comparable, and analyses of the present value of the Company's equity.

Notes to Financial Statements (Continued):

(2) Continued

The adjustments to reflect the adoption of Fresh-Start Reporting, including the adjustment to restate assets and liabilities at their fair value, and the adjustment to non-current assets for the excess of the fair value of net assets which exceeded reorganization value, have been reflected in the accompanying financial statements as follows:

BALANCE SHEETS

(Amounts in thousands)

<TABLE>

<CAPTION>

	Actual	"Fresh Start Accounting"		Restated
	April 29, 1995	DR	CR	April 29, 1995
<S>	<C>	<C>	<C>	<C>
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 622			622
Accounts receivable	12,076		2,841 (a)	9,235
Inventories	160,111	25,018 (b)		185,129
Prepaid merchandise	7,100			7,100
Other current assets	2,475			2,475
Total current assets	182,384	25,018	2,841	204,561
Property and Equipment, at cost,				
Less accumulated depreciation and amortization	33,703		33,703 (c)	-
Other Assets	6,302		6,302 (c)	-
	\$ 222,389	25,018	42,846	204,561
<b>Liabilities and Stockholders' Equity (Deficit)</b>				
Current Liabilities				
Current maturities of capital lease obligations	\$ 400			400
Bank drafts outstanding	5,762			5,762
Accounts payable	37,642			37,642
Short-term debt	58,654			58,654
Reserve for store closings and remerchandising	4,952			4,952
Accrued salaries and wages	5,212		50 (d)	5,262
Reorganization payables	-		4,352 (e)	4,352
Other current liabilities	9,543		3,878 (f)	13,421
Total current liabilities	122,165		8,280	130,445
Liabilities Subject to Settlement Under				
Reorganization Proceedings	130,276	130,276 (g)		-
Excess of Net Assets Over Reorganization Value	-		32,021 (h)	32,021
Capital Lease Obligations	593			593
Deferred Income	1,792	311 (i)		1,481
Accumulated Postretirement Benefit Obligation	6,055	1,034 (j)		5,021
Stockholders' Equity (Deficit)	(38,492)		73,492 (k)	35,000
	\$ 222,389	131,621	113,793	204,561

</TABLE>

PAGE

Notes to Financial Statements (Continued):

(2) Continued

Explanations of adjustment columns of the balance sheet are as follows:

(a) To reflect appropriate current value of accounts receivable

- (b) Adjust inventories to current market value
  - (c) Write off of long-term assets
  - (d) Increased bonuses payable as a result of emergence from bankruptcy
  - (e) Reclassified pre-petition priority claims and cure amounts
  - (f) Accrued an additional year of property taxes to reflect such taxes on assessment date basis, increased insurance and loss reserves, and accrued any remaining reorganization costs to be incurred after emergence from Chapter 11
  - (g) Unsecured pre-petition claims settled as follows:
    - (a) \$4,352 of priority claims and cure amounts reclassified to current liabilities
    - (b) The remaining unsecured claims settled with stock
  - (h) The excess reorganization value was allocated to non-current assets, with any excess recorded as a deferred credit to be amortized over the period of expected benefit but not more than 10 years.
  - (i) Reduction of deferred income to current value
  - (j) Adjustment to reverse unrecognized gain on transition obligation
  - (k) Value of new company established
- (3) The Company's consolidated financial statements for years prior to January 1995 include the accounts of a wholly-owned subsidiary after elimination of intercompany accounts and transactions. In January 1995, the wholly-owned subsidiary was merged with the Company.
- (4) The operating results presented herein are not necessarily indicative of the operating results for a full year due to seasonal factors, among other reasons.
- (5) Included in the reorganization costs for the first quarter of 1994 was a provision of \$55,000 for the estimated costs of closing 59 stores in 1994 and to realign corporate and administrative costs accordingly.
- (6) LIFO expense (credit) is included as an adjustment to reconcile net loss to net cash used in operating activities in the statements of cash flows because LIFO expense (credit) is a noncash item included in cost of sales to adjust inventories stated on a FIFO basis to a LIFO basis.

PAGE

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Amounts in thousands)

Chapter 11 Proceedings

On September 5, 1993, the Company filed a voluntary Petition for Relief under Chapter 11, Title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Eastern District of North Carolina (the "Bankruptcy Court") Case No. 93-01365-5-ATS.

Technical modifications to the Company's First Amended Joint Plan of Reorganization (which was confirmed by the Bankruptcy Court on December 14, 1995) were approved by orders of the Bankruptcy Court dated February 3, 1995 and February 13, 1995 and a Modified and Restated First Amended Joint Plan of Reorganization (the "Plan") was approved by order of the Bankruptcy Court on April 24, 1995. On May 1, 1995, the Company announced that it had satisfied all conditions required under its plan of reorganization and had emerged from Chapter 11 of the United States Bankruptcy Code on April 28, 1995 (the "Effective Date").

For a further discussion of the Chapter 11 proceedings, see Note 1 to the Financial Statements.

Thirteen Weeks Ended April 29, 1995 compared to Thirteen Weeks Ended April 30, 1994

#### Revenue

The Company reported sales for the first quarter of 1995 of \$159,407, a decrease of \$15,176, or 8.7%, from the first quarter of 1994. The decline in sales was primarily attributable to a decline in sales on a comparable store basis of 3.1%, together with the decrease in the number of stores (106 in 1995 as compared to 113 in 1994). (Month-to-date sales trends are available from the offices of the Company upon request.)

#### Costs and Expenses

Year-to-date cost of sales as a percent to net sales was 75.7% for 1995 and 74.9% for 1994. The increase in the cost of sales was due primarily to an increase in promotional markdowns as a percent of sales and a decrease in markon which were offset somewhat by a decrease in the shrink percent.

Selling, general and administrative expenses as a percent of net sales were 23.0% in 1995 and 23.8% in 1994. The decrease was due in part to the realignment of corporate and administrative costs as well as planned reductions in store expenses that were made in the second quarter of 1994.

Reorganization costs during the first quarter of 1995 were \$3,847 and during the first quarter of 1994 were \$58,781. Included in reorganization costs are professional fees, DIP fees and expense

amortizations, and other expenditures related directly to the Chapter 11 filing. Also, included in the reorganization costs for the first quarter of 1994 is a provision of \$55,000 for the estimated costs of closing 59 stores in 1994 and to realign corporate and administrative costs accordingly.

#### Liquidity and Capital Resources

On the Effective Date, the Company satisfied the last condition under the Plan for its emergence from bankruptcy by closing on its exit financing loans. The exit financing is a \$125,000 three-year revolving credit facility (to be reduced by \$5,000 on each anniversary) with a letter of credit sublimit in the aggregate principal amount of \$40,000 with the First National Bank of Boston and The CIT Group/Business Credit, Inc., as facility agents. The revolving credit facility is secured by a perfected first priority lien and security interest in all of the assets of the Company. On the Effective Date, the Company drew down \$58,654 which was used to satisfy all outstanding indebtedness to GE Capital Corporation (the "DIP Facility") and to the Pre-Petition Secured Lenders as defined in the Plan. Under the exit financing facility, trade suppliers which extend credit to the Company will be supported by a \$5,000 letter of credit and a subordinated lien of \$15,000 in the real estate properties of the Company.

The revolving credit facility includes certain financial covenants and financial maintenance tests, including those relating to EBITDA, debt service coverage, capital expenditures limitations, minimum earnings stockholders' equity, and minimum/maximum inventory levels, which are measured quarterly. The facility also includes restrictions on the incurrence of additional liens and indebtedness and a requirement that the facility be paid down to certain levels for 30 consecutive days between December 1st and February 15th each year.

At the end of the first quarter of 1995, the Company had \$58,654 outstanding under its working capital facility and \$8,753 in outstanding letters of credit. The Company's unused availability was \$25,081 as of April 29, 1995. The Company invested \$510 in cash for property and equipment in the first quarter of 1995 compared to \$278 in the first quarter of 1994.

Cash used in operating activities was \$35,482 in the first quarter of 1995 and \$23,018 in the first quarter of 1994. The Company expects to realize positive cash flow from its 1995 operations.

On the Effective Date, the Company entered into a Warrant Agreement and Escrow Agreement with First Union National Bank of North Carolina ("First Union") pursuant to which the Company issued to First Union 10,000 shares of Common Stock as Escrow Agent and 4,286 Warrants as Warrant Agent. The Escrow Agreement and Warrant Agreement specify the terms, conditions and procedures pursuant to which First Union will hold and deliver shares of Common Stock and Warrants under the terms of the Plan. (See Note 1 to the financial statements for further discussion.)  
PAGE

## PART II. OTHER INFORMATION

No securities (debt or equity) which were not registered under the Securities Act of 1933 were sold by the Company during the fiscal quarter ended April 29, 1995.

ITEM 1: Legal Proceedings (Amounts in thousands, except per share amounts)

The Company's business ordinarily results in a number of negligence and tort actions, most of which arise from injuries on store premises, injuries from a product, or false arrest and detainer arising from apprehending suspected shoplifters. The Company's liability for uninsured general damages and punitive damages is not considered material. No legal proceedings presently pending by or against the Company are described because the Company believes that the outcome of such litigation should not have a material adverse effect on the financial position of the Company.

On September 5, 1993, the Company filed a voluntary Petition for Relief under Chapter 11, Title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Eastern District of North Carolina (the "Bankruptcy Court") Case No. 93-01365-5-ATS (the "Chapter 11 Case").

The Chapter 11 Case is described in the Form 10-K of the Company for the year ended January 28, 1995. The following discussion sets forth certain developments in the Chapter 11 Case during the first quarter of 1995 and through the date hereof, but is not intended to be an exhaustive summary. For additional information regarding the effect of the Chapter 11 Case on the Company, reference should be made to the Bankruptcy Code.

Technical modifications to the Company's First Amended Joint Plan of Reorganization (which was confirmed by the Bankruptcy Court on December 14, 1994) were approved by orders of the Bankruptcy Court dated February 3, 1995 and February 13, 1995 and a Modified and Restated First Amended Joint Plan of Reorganization (the "Plan") was approved by order of the Bankruptcy Court on April 24, 1995. All conditions to effectuation of the Plan were met on April 28, 1995 (the "Effective Date"), and the Plan became effective as of such date.

On the Effective Date, pursuant to the Plan, the Company paid in full the claims of its Pre-Petition Secured Lenders, all amounts owing under

the DIP facility, and various administrative and tax claims due at the Effective Date. Also pursuant to the Plan, the Company issued and delivered to First Union National Bank of North Carolina, as Escrow Agent for the unsecured creditors of the Company, 9,850 shares of the Company's new common stock for distribution on allowed claims of unsecured creditors in accordance with a schedule for distributions set forth in the Plan; and 150 shares of the Company's new common stock were delivered to the Escrow Agent for distribution to officers of the Company pursuant to a consummation bonus plan approved by order of the

Bankruptcy Court on February 14, 1995. An initial distribution of stock to unsecured creditors whose claims have been allowed will commence on or before June 12, 1995 pursuant to the Plan amounting to seventy percent (70%) of the stock relating to allowed claims. Subsequent distributions for allowed unsecured claims, payments for administrative claims and resolution of disputed claims will be made in accordance with the provisions of the Plan and applicable orders of the Bankruptcy Court.

On the Effective Date, all shares of the Company's pre-emergence Voting Common Stock and Non-Voting Class B Stock were cancelled and the record owners of such stock as of such date became entitled to warrants to purchase the new common stock of the Company. One warrant will be issued for every 4.377 shares of pre-emergence Voting Common Stock or Non-Voting Class B Stock and will allow the holder to purchase one share of the new common stock. The warrants may be exercised at any time until they expire on April 28, 2002. The initial warrant exercise price of \$14.45 was calculated pursuant to a formula set forth in the Plan. The formula requires that the total allowed and disputed claims of the Company's unsecured creditors be divided by 10,000, the number of shares of the reorganized Company's stock to be issued under the Plan. This formula will be adjusted on each of the first three anniversaries of April 28, 1995 to reflect adjustments to the total of allowed and disputed claims of the Company's unsecured creditors, and will be further adjusted on the fourth, fifth and sixth anniversaries to reflect 105%, 110% and 115%, respectively of the total of the allowed and disputed claims of the unsecured creditors. Although there can be no assurance, the Company anticipates that the warrant exercise price will decrease as certain disputed claims are resolved over time.

On or about May 24, 1995, First Union National Bank of North Carolina as Warrant Agent for the Company, pursuant to a Warrant Agreement and in accordance with the Plan of Reorganization and applicable orders of the Bankruptcy Court, commenced the process of distributing the warrants to record owners of the pre-emergence Voting Common Stock and Non-Voting Class B Stock of the Company. To obtain the warrant certificates, each shareholder must deliver the stock certificates of pre-emergence stock to the Warrant Agent and furnish certain information and documents to the Warrant Agent. Inquiries regarding the warrant distribution procedures are to be directed to First Union National Bank of North Carolina, Shareholder Services Administration Group, 230 South Tryon Street, 11th Floor, Charlotte, North Carolina 28288-1154, telephone number (800)829-8432.

#### ITEM 2: Changes in Securities

For information with respect to this Item, see Item 1 - Legal Proceedings.

PAGE

#### ITEM 6: Exhibits and Reports on Form 8-K

- (a) All exhibits included in the Company's 1994 Form 10-K are included herein by reference.

(b) The Company filed the following reports on Form 8-K during the quarter covered by this report:

Form 8-K dated January 28, 1995, reporting in Item 5 the financial performance through December 31, 1994, and revised projections for 1995 to 1997.

Form 8-K dated February 13, 1995, reporting in Item 5 the Bankruptcy Court approved amendment changing the record date for distributions of the New Rose's Warrants and New Rose's Common Stock Secondary Distribution to the Effective Date of the Plan.

Form 8-K dated April 24, 1995, reporting in Item 5 the approval by the Bankruptcy Court of a Modified and Restated First Amended Joint Plan of Reorganization which was filed as an exhibit in Item 7. In addition, the Company filed in Item 7 various exhibits relating to its obligations with respect to the compensation of its officers and directors, the Short-Term Incentive Compensation Plan and New Equity Compensation Plan.

Form 8-K dated May 1, 1995, reporting in Item 5 the effectuation of the Plan on April 28, 1995. In addition, the quantitative maintenance criteria for inclusion in the Nasdaq National Market System, set forth in Part III, Section 5 of Schedule D to the NASD Bylaws, and the status of the Company's compliance with each of such criteria were included. The Company also included in Item 7 the Proforma Financial Statement of Rose's Stores, Inc., as of April 29, 1995.

Form 8-K dated April 28, 1995, reporting in Item 5 that the Company entered into a Warrant Agreement and Escrow Agreement with First Union National Bank of North Carolina on April 28, 1995. In addition, the Company reported that it had satisfied the last condition under the Modified Plan for its emergence from bankruptcy by closing on its exit financing loans. The Company also included various exhibits relating to these events in Item 7 including a copy of the Revolving Credit Agreement.

Form 8-K dated April 28, 1995, reporting in Item 5 the revision of the Independent Auditor's Report and Note 18, Subsequent Events, to the financial statements due to the Company's emergence from Chapter 11. The financial statements were included as an exhibit in Item 7.

Form 8-K dated April 29, 1995, reporting in Item 5 a summary of the Company's 1995 financial plan which includes the actual operating results for the quarter ended April 29, 1995.

SIGNATURES

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

ROSE'S STORES, INC.

Date June 12, 1995

By /s/ R. Edward Anderson

R. Edward Anderson  
President,  
Chief Executive Officer

Date June 12, 1995

By /s/ Jeanette R. Peters

Jeanette R. Peters  
Senior Vice President,  
Chief Financial Officer

<TABLE> <S> <C>

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This schedule contains summary financial information extracted from Rose's Stores, Inc., Form 10-Q for the quarter ended April 29, 1995, and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<CIK> 0000085149

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<F1>The Company emerged from Chapter 11 on April 28, 1995, and adopted Statement of Position 90-7. (See Note 2 to the Financial Statements.)

<F2>Includes reorganization expense of \$3,847.

<F3>The 18,758 formerly outstanding shares of the Company used to calculate earnings (loss) per share were cancelled on April 28, 1995.

</FN>

</TABLE>