

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

FREDS INC

CIK: **724571** | IRS No.: **620634010** | State of Incorpor.: **TN** | Fiscal Year End: **0127**
Type: **10-Q** | Act: **34** | File No.: **000-19288** | Film No.: **95546633**
SIC: **5331** Variety stores

Mailing Address
4300 NEW GETWELL ROAD
MEMPHIS TN 38118

Business Address
4300 NEW GETWELL RD
MEMPHIS TN 38118
9013623733

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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.

For the transition period from _____ to _____

Commission file number 000-19288

FRED'S, INC.

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of
incorporation or organization)

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

4300 New Getwell Rd., Memphis, Tennessee
(Address of principal executive offices)

38118
(zip code)

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

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

The registrant had 9,335,367 shares of common stock outstanding as of April 29, 1995.

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FRED'S, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except for number of shares)

	APRIL 29, 1995	JANUARY 28, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,703	\$ 5,944
Receivables, less allowance for doubtful accounts	5,299	4,033
Inventories	87,950	82,163
Deferred income taxes	1,525	1,590
Other current assets	671	756

Total current assets	99,148	94,486
Property and equipment, at depreciated cost	50,649	49,550
Equipment under capital leases, less accumulated amortization	877	951
Deferred income taxes	4,958	5,170
Other noncurrent assets	1,418	1,428
	\$157,050	\$151,585

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 27,532	\$ 24,324
Current portion of indebtedness	1,583	1,629
Current portion of capital lease obligations	400	408
Accrued liabilities	4,973	5,030
Income taxes payable	2,019	1,042
Total current liabilities	36,507	32,433
Indebtedness	2,566	2,938
Capital lease obligations	733	802
Other noncurrent liabilities	997	955
Total liabilities	40,803	37,128

Commitments and contingencies

Shareholders' equity:

Common stock, Class A voting, no par value, 9,335,367 shares at April 29, 1995 and 9,307,373 shares at January 28, 1995 issued and outstanding	63,458	63,185
Retained earnings	53,345	51,555
Loan to ESOP	(283)	(283)
Deferred compensation on restricted stock incentive plan	(273)	-
Total shareholders' equity	116,247	114,457
	\$157,050	\$151,585

See accompanying notes to consolidated financial statements

FRED'S, INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	THIRTEEN WEEKS ENDED	
	APRIL 29, 1995	APRIL 30, 1994
Net sales	\$ 97,050	\$ 90,904
Cost of goods sold	71,512	66,681
Gross profit	25,538	24,223
Selling, general and administrative expenses	21,852	19,846
Operating income	3,686	4,377
Interest expense, net	118	28
Income before taxes	3,568	4,349
Income taxes	1,313	1,570
Net income	\$ 2,255	\$ 2,779
Net income per share	\$.24	\$.30
Weighted average number of common shares and common equivalent shares outstanding	9,307	9,307

See accompanying notes to consolidated financial statements

FRED'S, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	THIRTEEN WEEKS ENDED	
	APRIL 29, 1995	APRIL 30, 1994
Cash flows from operating activities:		
Net income	\$ 2,255	\$ 2,779
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,254	974
Deferred income taxes	277	976
(Increase) decrease in assets:		
Receivables	(1,266)	(719)
Inventories	(5,787)	(5,795)
Other current assets	85	428

Other noncurrent assets	(73)	(11)
Increase (decrease) in liabilities:		
Accounts payable	3,208	2,586
Accrued liabilities	(57)	(831)
Income taxes payable	977	594
Other noncurrent liabilities	42	36
Net cash (used in) provided by operating activities	915	1,017
Cash flows from investing activities:		
Additions to property, equipment and equipment under capital leases	(2,196)	(2,392)
Net cash (used in) provided by investing activities	(2,196)	(2,392)
Cash flows from financing activities:		
Proceeds from borrowings and increase in capital lease obligations	-	1,700
Reduction of indebtedness and capital lease obligations	(495)	(69)
Payment of cash dividends	(465)	(465)
Net cash (used in) provided by financing activities	(960)	1,166
Increase (decrease) in cash and cash equivalents	(2,241)	(209)
Cash and cash equivalents:		
Beginning of period	5,944	8,070
End of period	\$ 3,703	\$ 7,861
Supplemental disclosures of cash flow information:		
Interest paid	\$ 51	\$ 100
Income taxes paid	\$ 60	\$ -

See accompanying notes to consolidated financial statements

FRED'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Fred's, Inc. ("Fred's" or the "Company") have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and notes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. The statements do reflect all adjustments (consisting of only normal

recurring accruals) which are, in the opinion of management, necessary for a fair presentation of financial position in conformity with generally accepted accounting principles. The statements should be read in conjunction with the Notes to the Consolidated Financial Statements for the fiscal year ended January 28, 1995 included in the Company's Annual Report on Form 10-K.

The results of operations for the thirteen week period ended April 29, 1995 are not necessarily indicative of the results to be expected for the full fiscal year.

NOTE 2: NET INCOME PER SHARE

Net income per share is based on the weighted average number of common shares and common equivalent shares outstanding. See Exhibit 11.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Fred's operates 184 discount general merchandise stores in nine states in the southeastern United States. Eighty-six of the stores have full service pharmacies.

Due to the seasonality of Fred's business and the continued increase in the number of stores and pharmacies, inventories are generally lower at year-end than at each quarter-end of the following year. As shown on the consolidated statement of cash flows, inventories increased \$5,787,000 during the thirteen week period ended April 29, 1995. In addition, cash was used to fund accounts receivable (\$1,266,000), capital expenditures incurred primarily in connection with opening new stores and pharmacies and purchasing enhanced point-of-sale cash registers (\$2,196,000) and cash dividends (\$465,000). The increased inventory levels and other cash outlays were financed from increased accounts payable (\$3,208,000), net income, and existing cash. The Company believes that sufficient capital resources are available in both the short-term and long-term through currently available cash, cash generated from future operations and, if necessary, the ability to obtain additional financing.

The Company has a \$12,000,000 revolving credit commitment and a \$4,500,000 term loan. At April 29, 1995, there were no borrowings outstanding under the revolving credit agreement and there was \$3,900,000 outstanding under the term loan.

RESULTS OF OPERATIONS

THIRTEEN WEEKS ENDED APRIL 29, 1995 AND APRIL 30, 1994

Net sales increased from \$90.9 million in 1994 to \$97.1 million in 1995, an increase of \$6.2 million or 6.8%. The increase was attributable to comparable store sales increases of 3.0% (\$2.3 million) and sales by stores not yet included as comparable stores (\$3.7 million). Wholesale sales to franchisees and independents increased \$.2 million or 1.8% in 1995.

Gross profit decreased from 26.6% of sales in 1994 to 26.3% in 1995 because of the Company's implementation of a more competitive pricing strategy. The Company's management believes that the new pricing strategy will result in increased market share and restore earnings growth; however, the process of educating Fred's customers to the strong everyday values will take time.

Selling, general and administrative expenses increased from \$19.8 million in 1994 to \$21.9 million in 1995 due primarily to expenses associated with new stores and pharmacies. As a percentage of sales, expenses increased from 21.8% to 22.5% primarily because the Company's retail business, which carries higher expense percentages than the wholesale business, increased as a percentage of the total.

EFFECT OF INFLATION

The impact of inflation on labor and occupancy costs can significantly affect Fred's operations. Many of Fred's employees are paid hourly rates related to the federal minimum wage and, accordingly, any increase affects Fred's. In addition, payroll taxes, employee benefits and other employee-related costs continue to increase. Occupancy costs, including rent, maintenance, taxes and insurance, also continue to rise. Fred's believes that maintaining adequate operating margins through a combination of price adjustments and cost controls, careful evaluation of occupancy needs, and efficient purchasing practices is the most effective tool for coping with increasing costs and expenses.

SEASONALITY

Fred's business is subject to seasonal influences, but the Company has tended to experience less seasonal fluctuation than many other retailers due to the Company's mix of everyday basic merchandise. The fourth quarter is typically the most profitable quarter because it includes the Christmas selling season. The overall strength of the fourth quarter is partially mitigated, however, by the

inclusion of the month of January, which is generally the least profitable month of the year.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

Exhibit 11 - Computation of Net Income Per Share

Reports on Form 8-K:

Not Applicable.

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.

FRED'S, INC.

/s/Michael J. Hayes

Michael J. Hayes

Chief Executive Officer

Date: June 1, 1995

Date: June 1, 1995

/s/Bruce D. Smith
Bruce D. Smith
Chief Financial Officer

EXHIBIT 11

FRED'S, INC.

COMPUTATION OF NET INCOME PER SHARE

(unaudited)

(in thousands, except per share amounts)

	THIRTEEN WEEKS ENDED	
	APRIL 29, 1995	APRIL 30, 1994
PRIMARY NET INCOME PER SHARE		
Net income	\$ 2,255	\$ 2,779
Weighted average number of common shares outstanding during the period	9,307	9,307
Additional shares attributable to common stock equivalents	-	-
	9,307	9,307
Net income per share	\$.24	\$.30