FREDS INC
Form 10-Q
December 08, 2011

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

FORM 10-Q

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

For the quarterly period ended October 29, 2011.
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 001-14565

FRED'S, INC.
(Exact name of registrant as specified in its charter)

TENNESSEE	62-0634010
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

4300 New Getwell Road
Memphis, Tennessee 38118
(Address of Principal Executive Offices)

(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 x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

The registrant had 37,035,259 shares of Class A voting, no par value common stock outstanding as of December 1, 2011.

FRED'S, INC.

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Part I – FINANCIAL INFORMATION

Item 1. Financial Statements

FRED’S, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for number of shares)

	October 29, 2011 (unaudited)	January 29, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,978	$49,182
Receivables, less allowance for doubtful accounts of $1,310 and $1,218, respectively	32,158	28,146
Inventories	377,451	313,384
Other non-trade receivables	30,132	26,378
Prepaid expenses and other current assets	14,271	12,723
Total current assets	473,990	429,813
Property and equipment, at depreciated cost	160,850	139,931
Equipment under capital leases, less accumulated amortization of $5,035 and $4,967, respectively	108	-
Intangibles	26,068	22,193
Other noncurrent assets, net	3,331	3,591
Total assets	$ 664,347	$595,528
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 150,742	$81,002
Current portion of indebtedness	362	201
Accrued expenses and other	44,449	45,371
Deferred income taxes	24,019	21,142
Total current liabilities	219,572	147,716
Long-term portion of indebtedness	7,024	3,969
Deferred income taxes	2,134	2,069
Other noncurrent liabilities	20,834	17,886
Total liabilities	249,564	171,640
Commitments and Contingencies		
Shareholders’ equity:		
Preferred stock, nonvoting, no par value, 10,000,000 shares authorized, none outstanding	-	-
Preferred stock, Series A junior participating nonvoting, no par value, 224,594 shares authorized, none outstanding	-	-
Common stock, Class A voting, no par value, 60,000,000 shares authorized, 37,024,756 and 39,363,462 shares issued and outstanding, respectively	104,492	131,367
Common stock, Class B nonvoting, no par value, 11,500,000 shares authorized, none outstanding	-	-

Retained earnings	309,419	291,649
Accumulated other comprehensive income	872	872
Total shareholders' equity	414,783	423,888
Total liabilities and shareholders' equity	$ 664,347	$595,528

See accompanying notes to condensed consolidated financial statements.

FRED'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales	$444,378	$435,008	$1,381,467	$1,356,122
Cost of goods sold	308,412	305,261	980,628	963,490
Gross profit	135,966	129,747	400,839	392,632
Depreciation and amortization	8,463	7,502	24,312	21,692
Selling, general and administrative expenses	113,944	110,588	339,577	337,865
Operating income	13,559	11,657	36,950	33,075
Interest income	(34)	(58)	(149)	(178)
Interest expense	134	106	412	333
Income before income taxes	13,459	11,609	36,687	32,920
Provision for income taxes	4,427	3,791	13,055	11,953
Net income	$9,032	$7,818	$23,632	$20,967
Net income per share				
Basic	$0.24	$0.20	$0.61	$0.54
Diluted	$0.24	$0.20	$0.61	$0.54
Weighted average shares outstanding				
Basic	37,618	39,061	38,617	39,129
Effect of dilutive stock options	51	53	87	52
Diluted	37,669	39,114	38,704	39,181
Dividends per common share	$0.05	$0.04	$0.15	$0.12
Comprehensive income:				
Net income	$9,032	$7,818	$23,632	$20,967
Other comprehensive income (expense), net of tax postretirement plan adjustment	-	-	-	-
Comprehensive income	$9,032	$7,818	$23,632	$20,967

See accompanying notes to condensed consolidated financial statements.

FRED'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010
Cash flows from operating activities:		
Net income	$23,632	$ 20,967
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	24,312	21,692
Net loss on asset disposition	319	574
Provision for store closures and asset impairment	151	300
Stock-based compensation	1,338	1,544
Provision for uncollectible receivables	92	275
LIFO reserve increase	1,598	2,220
Deferred income tax expense (benefit)	2,746	(438)
Income tax benefit upon exercise of stock options	18	4
(Increase) decrease in operating assets:		
Trade and non-trade receivables	(6,967)	(7,554)
Insurance receivables	26	1,208
Inventories	(65,816)	(68,796)
Other assets	(1,288)	(3,608)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	68,963	45,611
Income taxes payable	(690)	5,123
Other noncurrent liabilities	2,901	1,767
Net cash provided by operating activities	51,335	20,889
Cash flows from investing activities:		
Capital expenditures	(37,471)	(20,123)
Proceeds from asset dispositions	119	161
Insurance recoveries for replacement assets	-	88
Asset acquisition, net (primarily intangibles)	(8,685)	(10,279)
Net cash used in investing activities	(46,037)	(30,153)
Cash flows from financing activities:		
Payments of indebtedness and capital lease obligations	(426)	(671)
Excess tax charges from stock-based compensation	(18)	(4)
Proceeds from exercise of stock options and employee stock purchase plan	287	366
Repurchase of shares	(28,482)	(2,989)
Cash dividends paid	(5,863)	(4,718)
Net cash used in financing activities	(34,502)	(8,016)
Increase in cash and cash equivalents	(29,204)	(17,280)
Cash and cash equivalents:		
Beginning of year	49,182	54,742
End of year	$19,978	$ 37,462

Supplemental disclosures of cash flow information:		
Interest paid	$263	$ 155
Income taxes paid	$11,504	$ 6,953
Non-cash investing and financial activities:		
Assets acquired through term loan	$3,497	$ -
Assets acquired through capital lease	$135	$ -

See accompanying notes to condensed consolidated financial statements.

FRED'S, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1: BASIS OF PRESENTATION

Fred's, Inc. and subsidiaries (“We”, “Our”, “Us” or “Company”) operates, as of October 29, 2011, 683 discount genera merchandise stores, including 22 franchised Fred's stores, in 15 states in the southeastern United States. There are 315 full service pharmacy departments located within our discount general merchandise stores.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and are presented in accordance with the requirements of 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 GAAP. The statements 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 GAAP. The statements should be read in conjunction with the Notes to the Consolidated Financial Statements for the fiscal year ended January 29, 2011 incorporated into Our Annual Report on Form 10-K.

The results of operations for the thirteen week and thirty-nine week periods ended October 29, 2011 are not necessarily indicative of the results to be expected for the full fiscal year.

NOTE 2: INVENTORIES

Merchandise inventories are valued at the lower of cost or market using the retail first-in, first-out (FIFO) method for goods in our stores and the cost first-in, first-out (FIFO) method for goods in our distribution centers. The retail inventory method is a reverse mark-up, averaging method which has been widely used in the retail industry for many years. This method calculates a cost-to-retail ratio that is applied to the retail value of inventory to determine the cost value of inventory and the resulting cost of goods sold and gross margin. The assumption that the retail inventory method provides for valuation at lower of cost or market and the inherent uncertainties therein are discussed in the following paragraphs. In order to assure valuation at the lower of cost or market, the retail value of our inventory is adjusted on a consistent basis to reflect current market conditions. These adjustments include increases to the retail value of inventory for initial markups to set the selling price of goods or additional markups to adjust pricing for inflation and decreases to the retail value of inventory for markdowns associated with promotional, seasonal or other declines in the market value. Because these adjustments are made on a consistent basis and are based on current prevailing market conditions, they approximate the carrying value of the inventory at net realizable value (market value). Therefore, after applying the cost to retail ratio, the cost value of our inventory is stated at the lower of cost or market as is prescribed by U.S. GAAP.

Because the approximation of net realizable value (market value) under the retail inventory method is based on estimates such as markups, markdowns and inventory losses (shrink), there exists an inherent uncertainty in the final determination of inventory cost and gross margin. In order to mitigate that uncertainty, the Company has a formal review by product class which considers such variables as current market trends, seasonality, weather patterns and age of merchandise to ensure that markdowns are taken currently, or a markdown reserve is established to cover future anticipated markdowns. This review also considers current pricing trends and inflation to ensure that markups are taken if necessary. The estimation of inventory losses (shrink) is a significant element in approximating the carrying value of inventory at net realizable value, and as such the following paragraph describes our estimation method as well as the steps we take to mitigate the risk of this estimate in the determination of the cost value of inventory.

The Company calculates inventory losses (shrink) based on actual inventory losses occurring as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between yearly physical inventory counts. The estimate for shrink occurring in the interim period between physical counts is calculated on a store-specific basis and is based on history, as well as performance on the most recent physical count. It is calculated by multiplying each store's shrink rate, which is based on the previously mentioned factors, by the interim period's sales for each store. Additionally, the overall estimate for shrink is adjusted at the corporate level to a three-year historical average to ensure that the overall shrink estimate is the most accurate approximation of shrink based on the Company's overall history of shrink. The three-year historical estimate is calculated by dividing the "book to physical" inventory adjustments for the trailing 36 months by the related sales for the same period. In order to reduce the uncertainty inherent in the shrink calculation, the Company first performs the calculation at the lowest practical level (by store) using the most current performance indicators. This ensures a more reliable number, as opposed to using a higher level aggregation or percentage method. The second portion of the calculation ensures that the extreme negative or positive performance of any particular store or group of stores does not skew the overall estimation of shrink. This portion of the calculation removes additional uncertainty by eliminating short-term peaks and valleys that could otherwise cause the underlying carrying cost of inventory to fluctuate unnecessarily. Management believes that the Company's retail inventory method provides an inventory valuation which reasonably approximates cost and results in carrying inventory at the lower of cost or market.

For pharmacy inventory, which was approximately $36.8 million and $32.5 million at October 29, 2011 and January 29, 2011, respectively, cost was determined using the retail LIFO (last-in, first-out) method in which inventory cost is maintained using the retail inventory method, then adjusted by application of the Producer Price Index published by the U.S. Department of Labor for the cumulative annual periods. The current cost of inventories exceeded the LIFO cost by approximately $25.6 million at October 29, 2011 and $24.0 million at January 29, 2011.

The Company has historically included an estimate of inbound freight and certain general and administrative costs in merchandise inventory as prescribed by GAAP. These costs include activities surrounding the procurement and storage of merchandise inventory such as merchandise planning and buying, warehousing, accounting, information technology and human resources, as well as inbound freight. The total amount of procurement and storage costs and inbound freight included in merchandise inventory at October 29, 2011 is $23.5 million, with the corresponding amount of $19.5 million at January 29, 2011.

NOTE 3: STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans in accordance with FASB ASC 718 “Compensation – Stock Compensation”. Under FASB ASC 718, stock-based compensation expense is based on awards ultimately expected to vest, and therefore has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant based on the Company’s historical forfeiture experience and will be revised in subsequent periods if actual forfeitures differ from those estimates.

FASB ASC 718 also requires the benefits of income tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required prior to FASB ASC 718. A summary of the Company’s stock-based compensation (a component of selling and general and administrative expenses) and related income tax benefit is as follows (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Stock option expense	$101	$111	$352	$435
Restricted stock expense	297	301	856	803
ESPP expense	43	36	130	106
Total stock-based compensation	$441	$448	$1,338	$1,344
Income tax benefit on stock-based compensation	$121	$126	$352	$361

The fair value of each option granted during the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010, respectively, are estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

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	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	October 29, 2011		October 30, 2010		October 29, 2011		October 30, 2010	
Stock Options								
Expected volatility	40.5	%	42.4	%	41.4	%	42.1	%
Risk-free interest rate	1.5	%	2.7	%	1.9	%	3.0	%
Expected option life (in years)	5.84		5.84		4.96		5.84	
Expected dividend yield	0.86	%	0.71	%	0.91	%	0.65	%
Weighted average fair value at grant date	$4.13		$5.34		$4.49		$4.96	
Employee Stock Purchase Plan								
Expected volatility	31.5	%	32.0	%	24.8	%	31.9	%
Risk-free interest rate	0.3	%	0.6	%	0.3	%	0.6	%
Expected option life (in years)	0.75		0.75		0.5		0.5	
Expected dividend yield	1.02	%	0.69	%	0.68	%	0.46	%
Weighted average fair value at grant date	$3.59		$2.64		$3.07		$2.42	

The following is a summary of the methodology applied to develop each assumption:

Expected Volatility - This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company uses actual historical changes in the market value of our stock to calculate expected price volatility because management believes that this is the best indicator of future volatility. The Company calculates weekly market value changes from the date of grant over a past period representative of the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-free Interest Rate - This is the yield of a U.S. Treasury zero-coupon bond issue effective at the grant date with a remaining term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected Lives - This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience. Options granted have a maximum term of seven and one-half years. An increase in the expected life will increase compensation expense.

Dividend Yield – This is based on the historical yield for a period equivalent to the expected life of the option. An increase in the dividend yield will decrease compensation expense.

Forfeiture Rate - This is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. This estimate is based on historical experience. An increase in the forfeiture rate will decrease compensation expense.

Employee Stock Purchase Plan

The 2004 Employee Stock Purchase Plan (the “2004 Plan”), which was approved by Fred’s stockholders, permits eligible employees to purchase shares of our common stock through payroll deductions at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. There were 41,154 shares issued during the thirty-nine weeks ended October 29, 2011. There are 1,410,928 shares approved to be issued under the 2004 Plan and as of October 29, 2011, there were 985,679 shares available.

Stock Options

The following table summarizes stock option activity during the thirty-nine weeks ended October 29, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Thousands)
Outstanding at January 29, 2011	918,462	$ 12.15	3.2	$ 1,524
Granted	78,478	$ 12.57		
Forfeited / Cancelled	(179,583)	$ 14.49		
Exercised	(10,217)	$ 11.23		
Outstanding at October 29, 2011	807,140	$ 11.70	3.1	$ 954
Exercisable at October 29, 2011	538,703	$ 11.89	2.4	$ 575

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Fred's closing stock price on the last trading day of the period ended October 29, 2011 and the exercise price of the option multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on that date. As of October 29, 2011, total unrecognized stock-based compensation expense net of estimated forfeitures related to non-vested stock options was approximately $483.9 thousand, which is expected to be recognized over a weighted average period of approximately 3.13 years. The total fair value of options vested during the thirty-nine weeks ended October 29, 2011 was $625.6 thousand.

Restricted Stock

The following table summarizes restricted stock activity during the thirty-nine weeks ended October 29, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested Restricted Stock at January 29, 2011	472,927	$ 12.55
Granted	187,454	$ 13.30
Forfeited / Cancelled	(51,868)	$ 12.74
Vested	(59,331)	$ 13.58
Non-vested Restricted Stock at October 29, 2011	549,182	$ 12.67

The aggregate pre-tax intrinsic value of restricted stock outstanding as of October 29, 2011 is $6.8 million with a weighted average remaining contractual life of 4.2 years. The unrecognized compensation expense net of estimated forfeitures, related to the outstanding stock is approximately $3.91 million, which is expected to be recognized over a weighted average period of approximately 6.5 years. The total fair value of restricted stock awards that vested during the thirty-nine weeks ended October 29, 2011 was $813.4 thousand.

NOTE 4: PROPERTY AND EQUIPMENT

Property and Equipment are carried at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the shorter of the initial term of the lease or the useful life of the improvement. Leasehold improvements added late in the lease term are amortized over the shorter of the remaining term of the lease (including the upcoming renewal option, if the renewal is reasonably assured) or the useful life of the improvement. Assets under capital leases are amortized in accordance with the Company’s normal depreciation policy for owned assets or over the lease term (regardless of renewal options), if shorter, and the charge to earnings is included in depreciation expense in the consolidated financial statements. Gains or losses on the sale of assets are recorded as a component of operating income.

The following illustrates the breakdown of the major categories within Property and Equipment (in thousands):

	October 29, 2011	January 29, 2011
Property and equipment, at cost:		
Buildings and building improvements	$ 111,377	$ 96,923
Leasehold improvements	69,641	62,504
Automobiles and vehicles	5,245	5,198
Airplane	4,697	4,697
Furniture, fixtures and equipment	246,934	234,710
	437,894	404,032
Less: Accumulated depreciation and amortization	(285,164)	(271,129)
	152,730	132,903
Construction in progress	263	198
Land	7,857	6,830
Total Property and equipment, at depreciated cost	$ 160,850	$ 139,931

NOTE 5: EXIT AND DISPOSAL ACTIVITIES

Lease Termination

A lease obligation still exists for some store closures that occurred in 2008. We record the estimated future liability associated with the rental obligation on the cease use date (when the stores were closed). The lease obligations are established at the cease use date for the present value of any remaining operating lease obligations, net of estimated sublease income, and at the communication date for severance and other exit costs, as prescribed by FASB ASC 420, “Exit or Disposal Cost Obligations”. Key assumptions in calculating the liability include the timeframe expected to terminate lease agreements, estimates related to the sublease potential of closed locations, and estimates of other related exit costs. If actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary.

During the first three quarters of fiscal 2011, we incurred an additional $0.1 million in rent expense related to the revision of the estimated amount of the remaining lease liability for the fiscal 2008 store closures. We also utilized $0.4 million, leaving $0.4 million in the reserve at October 29, 2011.

The following table illustrates the exit and disposal activity related to the store closures discussed in the previous paragraph (in millions):

	Balance at January 29, 2011	Additions	Utilization	Ending Balance October 29, 2011
Lease contract termination liability	$ 0.7	$0.1	$0.4	$ 0.4

NOTE 6: ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that under GAAP are recorded as an element of shareholders’ equity but are excluded from net income. The Company’s accumulated other comprehensive income includes the unrecognized prior service costs, transition obligations and actuarial gains/losses associated with our postretirement benefit plan.

The following table illustrates the activity in accumulated other comprehensive income:

(in thousands)	Thirty-Nine Weeks Ended October 29, 2011	Thirty-Nine Weeks Ended October 30, 2010	Year Ended January 29, 2011
Accumulated other comprehensive income	$ 872	$ 904	$ 872
Amortization of postretirement benefit	-	-	-
Ending balance	$ 872	$ 904	$ 872

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NOTE 7: RELATED PARTY TRANSACTIONS

Atlantic Retail Investors, LLC, which is partially owned by Michael J. Hayes, a director of the Company, owned the land and buildings occupied by thirteen Fred’s stores, until March 2011 when, as described below, a portion of these properties were purchased by the Company. The terms and conditions regarding the leases on these locations were consistent in all material respects with other stores leases of the Company with unrelated landlords.

In February 2011, Atlantic Retail Investors, LLC, purchased the land and building occupied by one of Fred’s stores, bringing the total related party leases to thirteen. The store was purchased by Atlantic Retail Investors, LLC, from an independent landlord/developer. On March 30, 2011, Fred’s purchased ten of the thirteen properties leased from Atlantic Retail Investors, LLC, one of which has an additional parcel that is leased to an unrelated party, for $7.5 million in cash and assumed mortgage debt of $3.5 million. The Board of Directors approved these transactions based on an evaluation by an independent real estate broker, who concluded that all were acquired at comparable, and favorable, purchase prices to market value and were financially beneficial to Fred’s as the depreciation expense for the newly acquired assets will be less than the future value of the lease payments that would have been due.

In May 2011, Atlantic Retail Investors, LLC, purchased land and buildings occupied by four Fred’s stores, bringing the number of locations leased from Atlantic Retail Investors, LLC to seven. These stores were purchased by Atlantic Retail Investors, LLC, from a lender who had foreclosed on the independent landlord/developer. The terms and conditions regarding the leases on these locations are consistent in all material respects with the Company’s other store leases.

In June 2011, Fred’s purchased four of the seven leased properties from Atlantic Retail Investors, LLC together with an additional parcel at an existing owned location, for a total consideration of $2.4 million in cash. No mortgage debt was assumed in this transaction. The Board of Directors approved these transactions based on the financial terms that were more favorable to market value and financially beneficial to Fred’s as a result of the depreciation expense on the newly acquired assets being less than the future value of lease payments that would have been due.

As of October 29, 2011, Fred’s is leasing three properties from Atlantic Retail Investors, LLC. The total rental payments related to related party leases were $362.3 thousand and $923.5 thousand for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively.

Item 2:

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Executive Overview

During the third quarter of 2011, we continued the implementation of our key initiatives to differentiate our stores from other small-box discount retailers. The Core 5 Program is our long-term strategy designed to highlight key categories within our stores that differentiate us from our competition. The Core 5 categories - Home, Celebration, Pet, Pharmacy and Paper and Chemical – are strong trip driving departments in which FRED'S has a clear and marketable advantage versus small box competitors. Additionally, these categories have high household penetration and resonate with customers across multiple demographics. This initiative is also intended to shift our product mix toward the more discretionary, higher margin categories and away from the lower margin consumable categories, thus driving higher margin and leading to increased operating profit.

The implementation of the Core 5 Program requires a moderate refresh of the store to address space allocation, product placement and adjacencies and signage in the Core 5 categories. The implementation is also accompanied by an extensive direct mail marketing campaign timed to coincide with the refresh of the store and then continuing for six months thereafter. During the third quarter of 2011, we implemented the Core 5 Program in 79 stores, bringing the total completed stores to 411 over the past two years; 203 during 2011 and 208 in 2010.

As mentioned previously, our Pharmacy department is one of our Core 5 categories and is a key differentiating factor from other small-box discount retailers. As such, we have accelerated our growth strategy in this area and are aggressively pursuing opportunities to acquire independent pharmacies within our targeted markets. Our emphasis will continue to be on acquiring prescription files, but cold starts will be employed where it makes sense to do so. During the third quarter, we opened seven store and six express pharmacy locations and closed one store and three express pharmacy locations in our chain. During the first nine months of 2011, we opened ten store and ten express pharmacy locations and closed eight store and four express pharmacy locations. Two franchise locations were also closed during the first nine months.

Another key focus in the third quarter of 2011 has been improvement of our store in-stock position. Recognizing in-stock position as one of the fundamental drivers of our business, we have dedicated significant resources to improving the tools we use to monitor and measure in-stock position in our stores. As an extension of this initiative, we have made significant improvements to our freight flow processes to ensure that product is in the store and available for our customers. Improvements in store in-stock position during the year have been a factor in increasing store sales, as well as improving customer service scores. Improvements being made in the freight flow process will drive higher store in-stock results during the fourth quarter of 2011 and beyond.

Our Own Brand initiative continues to be a key strategy for the Company in terms of building customer loyalty and increasing gross margin. As of October 29, 2011, our Own Brand penetration rate is 19.1% of consumable product sales, which is relatively flat with last year. We see this as a positive during this year considering the sales mix shift toward basic and consumable products and the strong increase in national brand sales. Our commitment to quality in our Own Brand products is resonating with our customers and they continue to make the switch to our "Fred's Brand". We are continuing to add new products to our Own Brand line on an ongoing basis, with new items in food and health and beauty aids introduced in the third quarter of 2011.

While our private label, or FRED'S Brand products, continues to be a focus in 2011, we also carry many national brands in our stores, including products such as Coke, Purina, Energizer, Prestone, and Sunbeam. Our customers identify with these national brands, which provide them with a more complete shopping trip. On an ongoing basis, we will continue to evaluate additional national brands that are the most popular with our customers and will be adding those that complement our current product mix.

Gross margin improvement continues to be a key focus of the Company, as highlighted above with our Core 5 and Own Brand strategies. We are aggressively pursuing product sourcing improvements and cost reductions across all product lines in order to drive overall product costs down and in turn raise our gross margin. Additionally, we have implemented new processes intended to control both promotional and clearance markdowns. We also continue to make improvements in our loss prevention processes and procedures to control shrinkage in our stores and consequently increase gross margin.

Over the remainder of 2011, we intend to continue with capital improvements in infrastructure, including new stores and pharmacies, store remodels, distribution center upgrades and further development of our information technology capabilities. During the fourth quarter, the Company expects to open between 12 and 14 new stores. It is expected that 10 to 12 will have pharmacies at the time of opening. Technology upgrades will be made in the areas of IT software and hardware, RF gun replacements and pharmacy server upgrades.

As previously reported in the third quarter press release filed November 22, 2011, the Company expects total sales to increase 2% to 4% during the fourth quarter. Comparable store sales are expected to increase 1% to 3% versus an increase of 2.3% in the fourth quarter last year. Earnings per diluted share are forecasted to increase 5% to 23% to a range of $0.23 to $0.27 in the fourth quarter compared with $0.22 per diluted share in the same period last year. Based on this outlook, the Company expects total earnings per diluted share for 2011 to be in the range of $0.84 to $0.88, representing an increase of 12% to 17% over last year's $0.75.

Key factors that will be critical to the Company's future success include the successful roll-out of our Core 5 program, as well as managing the strategy for opening new stores and pharmacies, including the ability to open and operate efficiently, maintaining high standards of customer service, maximizing efficiencies in the supply chain, controlling working capital needs through improved inventory turnover, controlling the effects of inflation or deflation, controlling product mix, increasing operating margin through improved gross margin and leveraging operating costs, and generating adequate cash flow to fund the Company's future needs.

Other factors that will affect Company performance in 2011 include the continuing management of the impacts of the changing regulatory environment in which our pharmacy department operates. Additionally, we believe that the protracted elevation in commodity and fuel prices, as well as the unemployment rate continues to place tremendous economic pressure on the consumer. However, we also continue to believe that our affordable pricing and value proposition make us an attractive destination for the price conscious consumer.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The critical accounting matters that are particularly important to the portrayal of the Company's financial condition and results of operations, and require some of management's most difficult, subjective and complex judgments, are described in detail in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The preparation of condensed financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to inventories, income taxes, insurance reserves, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

RESULTS OF OPERATIONS

Thirteen Weeks Ended October 29, 2011 and October 30, 2010

Sales

Net sales for the third quarter of 2011 increased to $444.4 million from $435.0 million in 2010, a year-over-year increase of $9.4 million or 2.2%. The net sales increase during the quarter was driven by both higher pharmacy and store sales. General merchandise (non-pharmacy) sales increased 1.8% from 2010. We experienced sales increases primarily from categories such as food and pet, which were partially offset by sales decreases in home furnishings. On a comparable store basis, sales increased 1.5% on top of the 1.5% increase in the same period last year.

The Company’s pharmacy department sales were 36.7% of total sales ($163.6 million) in 2011 compared to 36.2% of total sales ($158.9 million) in the prior year and continue to rank as the largest department within the Company. The total sales in this department increased 3.0% over 2010 with third party prescription sales representing approximately 91% of total pharmacy sales, the same as in the prior year. The Company’s pharmacy department continues to benefit from an ongoing program of purchasing prescription files from independent pharmacies as well as the addition of pharmacy departments in existing store locations.

Sales to the 22 franchised locations during the quarter decreased to $9.5 million (2.1% of sales) from $9.6 million (2.2% of sales) in 2010. The Company does not intend to expand its franchise network.

The following table illustrates the sales mix unadjusted for deferred layaway sales:

	Thirteen Weeks Ended			
	October 29, 2011		October 30, 2010	
Pharmaceuticals	36.7	%	36.2	%
Household Goods	20.3	%	20.5	%
Food and Tobacco	17.8	%	17.2	%
Paper and Cleaning Supplies	9.3	%	9.4	%
Health and Beauty Aids	7.6	%	7.5	%
Apparel and Linens	6.2	%	7.0	%
Franchise	2.1	%	2.2	%
	100.0	%	100.0	%

For the quarter, comparable store customer traffic increased 1.7% over last year while the average customer ticket decreased to $19.42 from $19.47 in 2010.

Gross Profit

Gross profit for the quarter increased to $136.0 million in 2011 from $129.7 million in 2010, a year-over-year increase of $6.3 million or 4.8%. Gross margin, measured as a percentage of sales was 30.6% in 2011, compared with 29.8% in the same quarter last year. The 80 basis point improvement was driven by controlling general merchandise markdowns and higher pharmacy department gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, including depreciation and amortization, increased to $122.4 million in 2011 (27.6% of sales) from $118.1 million in 2010 (27.1% of sales). Selling, general and administrative expenses deleveraged 50 basis points as a percent of sales due to increases in insurance expense ($1.6 million), depreciation and amortization expenses ($1.0 million), utilities ($.5 million) and repairs and maintenance ($.5 million).

Operating Income

Operating income increased to $13.6 million in 2011 (3.0% of sales) from $11.7 million in 2010 (2.7% of sales). The year-over-year favorable variance is attributable to the $6.3 million increase in gross profit as described in the Gross Profit section above offset by the $4.3 million increase in selling, general and administrative expenses as detailed in the Selling, General and Administrative Expenses section above.

Interest Expense, Net

Net interest expense for 2011 totaled $.1 million or less than .1% of sales compared to $.05 million which was also less than .1% of sales in 2010.

Income Taxes

The effective income tax rate was 32.9% in 2011 compared to 32.7% in 2010.

Net Income

Net income increased to $9.0 million ($0.24 per diluted share) in 2011 from $7.8 million ($0.20 per diluted share) in 2010. The increase in net income is primarily attributable to an increase in gross profit of $6.3 million which was offset by an increase in selling, general and administrative expenses of $4.3 million as detailed in the Selling, General and Administrative section above.

Thirty-nine Weeks Ended October 29, 2011 and October 30, 2010

Sales

Net sales for the first nine months of 2011 increased to $1.381 billion from $1.356 billion in 2010, a year-over-year increase of $25.3 million or 1.9%. The sales increase resulted primarily from categories such as food, pet, paper and chemical and beverage which were partially offset by sales decreases in electronics and home furnishings. On a comparable store basis, sales increased 0.7% ($9.0 million) compared with a 2.0% ($26.1 million) increase in the same period last year.

The Company's pharmacy department sales were 35.0% of total sales ($484.0 million) in 2011 compared to 34.5% of total sales ($469.3 million) in the prior year and continue to rank as the largest department within the Company. The total sales in this department increased 3.1% over 2010 with third party prescription sales representing approximately 91% of total pharmacy sales, the same as in the prior year. The Company's pharmacy department continues to benefit from an ongoing program of purchasing prescription files from independent pharmacies as well as the addition of pharmacy departments in existing store locations.

During the first nine months of 2011, two franchised locations closed leaving 22 franchised locations as of October 29, 2011. Sales to these 22 franchised locations during 2011 decreased to $27.5 million (2.0% of sales) from $28.5 million (2.1% of sales) in 2010. The Company does not intend to expand its franchise network.

The following table illustrates the sales mix unadjusted for deferred layaway sales:

	Thirty-Nine Weeks Ended			
	October 29, 2011		October 30, 2010	
Pharmaceuticals	35.0	%	34.5	%
Household Goods	22.8	%	22.9	%
Food and Tobacco	17.0	%	16.8	%
Paper and Cleaning Supplies	8.9	%	8.9	%
Health and Beauty Aids	7.5	%	7.5	%
Apparel and Linens	6.8	%	7.3	%
Franchise	2.0	%	2.1	%
	100.0	%	100.0	%

For the first nine months, comparable store customer traffic increased 0.7% over last year while the average customer ticket decreased 0.1% to $19.73 from $19.74 in 2010.

Gross Profit
Gross profit for the first nine months of 2011 increased to $400.8 million in 2011 from $392.6 million in 2010, a year-over-year increase of $8.2 million or 2.1%. Gross margin, measured as a percentage of sales remained flat at 29.0% in 2011 when compared to the same time period last year.

Selling, General and Administrative Expenses
Selling, general and administrative expenses, including depreciation and amortization was $363.9 million in 2011 (26.3% of sales) compared to $359.6 million in 2010 (26.5% of sales). The 20 basis points leveraging as a percent of sales during the year resulted from management of advertising costs ($2.1 million), professional fees ($1.4 million) and property rental expenses ($0.7 million), which were partially offset by deleveraging in depreciation and amortization expenses ($2.6 million) and fuel ($1.2 million).

Operating Income
Operating income increased to $37.0 million in 2011 (2.7% of sales) from $33.1 million in 2010 (2.4% of sales). The year-over-year variance of $3.9 million is attributable to the $8.2 million increase in gross profit as described in the Gross Profit section above offset by the $4.3 million increase in selling, general and administrative expenses as detailed in the Selling, General and Administrative Expenses section above.

Interest Expense, Net
Net interest expense for 2011 totaled $0.3 million or less than .1% of sales compared to $.2 million which was also less than .1% of sales in 2010.

Income Taxes
The effective income tax rate was 35.6% in 2011 compared to 36.3% in 2010. The decrease in the effective tax rate was primarily attributable to one year employment tax credits resulting from the New Hire Act. The year over year benefit was partially offset by reduced federal benefit from Work Opportunity Tax Credits.

Net Income

Net income increased to $23.6 million ($.61 per diluted share) in 2011 from $21.0 million ($.54 per diluted share) in 2010. The increase in net income is primarily attributable to an increase in gross profit of $8.2 million driven by the sales increase of $25.3 million year over year as described in the sales section above and a reduction in income tax expense of $1.1 million related to the decrease in the effective tax rate as described in the Income Taxes section above. This favorability was offset by a $4.3 million increase in selling, general and administrative expenses as detailed in the Selling, General and Administrative Expenses section above.

LIQUIDITY AND CAPITAL RESOURCES

Due to the seasonality of our business, inventories are generally lower at year-end than at each quarter-end of the following year.

Cash provided by operating activities totaled $51.3 million during the thirty-nine week period ended October 29, 2011 compared to $20.9 million in the same period of the prior year. We generated operating cash flow primarily through $2.7 million more in annual income and $23.3 million from our ongoing initiative to better manage our Accounts Payable processes. We also used $3.0 million less to purchase inventory in the first nine months of 2011 versus the same time last year and had $0.6 million less in trade and non-trade receivables.

Cash used in investing activities totaled $46.0 million, and consisted primarily of expenditures related to existing stores ($28.0 million) of which $10.0 million was related to the acquisition of land and building as described in Note 7: Related Party Transactions, pharmacy acquisitions and new store openings ($4.6 million) and technology and other corporate expenditures ($4.8 million). During the first nine months of 2011, we opened ten new stores and ten pharmacy express locations. We also closed eight underperforming stores, re-located three pharmacy locations, closed one pharmacy location and closed two franchises. We also refreshed 79 stores with the Core 5 elements, bringing the total number of stores refreshed during 2010 and 2011 to 411 locations. In 2011, the Company is planning capital expenditures totaling approximately $44.2 million. Expenditures are planned totaling $38.0 million for new and existing stores and pharmacies. Planned expenditures also include approximately $3.8 million for technology upgrades and approximately $2.4 million for distribution center equipment and other capital maintenance. Technology upgrades in 2011 will be made in the areas of IT software and hardware, RF gun replacements and pharmacy server upgrades. To date, the Company has spent $3.0 million towards these transactions. In addition, the Company planned expenditures of approximately $12.5 million in 2011 for the acquisition of prescription lists and other pharmacy related items of which $8.7 million has been spent to date.

Cash used by financing activities totaled $34.5 million and included $5.9 million for the payment of cash dividends, $28.5 million for the repurchase of shares and $.4 million for the repayment of debt. The acceleration of the share repurchase during the year was due to the Company having sufficient working capital to support our operating needs coupled with the belief that the stock was trading below its intrinsic value. There was $7.4 million in debt outstanding at October 29, 2011 related to real estate mortgages compared to $4.2 million at January 29, 2011. The increase is attributable to $3.5 million of mortgage debt assumed in the related party acquisition completed on March 30, 2011 as described in the Note 7: Related Party Transactions.

We believe that sufficient capital resources are available in both the short-term and long-term through currently available cash and cash generated from future operations and, if necessary, we have the ability to obtain additional financing.

FORWARD-LOOKING STATEMENTS

Other than statements based on historical facts, many of the matters discussed in this Form 10-Q relate to events which we expect or anticipate may occur in the future. Such statements are defined as “forward-looking statements” under the Private Securities Litigation Reform Act of 1995 (the “Reform Act”), 15 U.S.C. Sections 77z-2 and 78u-5. The Reform Act created a safe harbor to protect companies from securities law liability in connection with forward-looking statements. We intend to qualify both our written and oral forward-looking statements for protection under the Reform Act and any other similar safe harbor provisions.

The words “believe”, “anticipate”, “project”, “plan”, “expect”, “estimate”, “objective”, “forecast”, “goal”, “intend”, “will likel continue” and similar expressions generally identify forward-looking statements. All forward-looking statements are inherently uncertain, and concern matters that involve risks and other factors that may cause the actual performance of the Company to differ materially from the performance expressed or implied by these statements. Therefore, forward-looking statements should be evaluated in the context of these uncertainties and risks, including but not limited to:

- Economic and weather conditions which affect buying patterns of our customers and supply chain efficiency.
- Changes in consumer spending and our ability to anticipate buying patterns and implement appropriate inventory strategies.
- Continued availability of capital and financing.
- Competitive factors.
- Unemployment.
- Changes in reimbursement practices for pharmaceuticals.
- Governmental regulation.
- Increases in fuel and utility rates.
- Potential adverse results in the litigation described under Legal Proceedings on page 18.
- Other factors affecting business beyond our control, including (but not limited to) those discussed under Part 1, ITEM 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Consequently, all forward-looking statements are qualified by this cautionary statement. Readers should not place undue reliance on any forward-looking statements. We undertake no obligation to update any forward-looking statement to reflect events or circumstances arising after the date on which it was made.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We have no holdings of derivative financial or commodity instruments as of October 29, 2011. We are exposed to financial market risks, including changes in interest rates. We had no borrowings under our Revolving Credit Agreement, which bears interest at LIBOR plus 100 basis points. An increase in interest rates of 100 basis points would not significantly affect our income. All of our business is transacted in U.S. dollars and, accordingly, foreign exchange rate fluctuations have not had a significant impact on us, and they are not expected to in the foreseeable future.

Item 4.

CONTROLS AND PROCEDURES

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78 et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Additionally, they concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that the Company is required to file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting. There have been no changes during the quarter ended October 29, 2011 in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In December 2008, a lawsuit entitled Whiteaker, et al v. FRED'S Stores of Tennessee, Inc., et al, was filed in the United States District Court in the Northern District of Mississippi, in which the plaintiffs allege past and future damages as a result of a 2006 trip and fall accident at a Fred's store. The Company denied liability and vigorously defended the case on its merits. In accordance with FASB ASC 450, "Contingencies", the Company did not feel that a loss in this matter was probable or could be reasonably estimated. However, on November 17, 2010, a jury rendered a $1.1 million verdict and apportioned the Company with 81% fault. The judge then vacated the $1.1 million verdict and ordered a new trial on damages. Prior to the new trial commencing, the Company's insurance carrier settled the matter for $700,000. This case is covered by the Company's General Liability insurance, which has a $250,000 deductible that has been reserved for.

In July 2008, a lawsuit styled Jessica Chapman, on behalf of herself and others similarly situated, v. FRED'S Stores of Tennessee, Inc. was filed in the United States District Court for the Northern District of Alabama, Southern Division, in which the plaintiff alleges that she and other female assistant store managers are paid less than comparable males and seeks compensable damages, liquidated damages, attorney fees and court costs. The plaintiff filed a motion seeking collective action. Briefs have been filed, but the court has not ruled. The Company believes that all assistant managers have been properly paid and that the matter is not appropriate for collective action treatment. Discovery has not yet begun. The Company is and will continue to vigorously defend this matter. In accordance with FASB ASC 450, “Contingencies”, the Company does not feel that a loss in this matter is probable or can be reasonably estimated. Therefore, we have not recorded a liability for this case.

In addition to the matters disclosed above, the Company is party to several pending legal proceedings and claims arising in the normal course of business. Although the outcome of the proceedings and claims cannot be determined with certainty, management of the Company is of the opinion that it is unlikely that these proceedings and claims will have a material adverse effect on the financial statements as a whole. However, litigation involves an element of uncertainty. There can be no assurance that pending lawsuits will not consume the time and energy of our management or that future developments will not cause these actions or claims, individually or in aggregate, to have a material adverse effect on the financial statements as a whole. We intend to vigorously defend or prosecute each pending lawsuit.

Item 1A. Risk Factors

The risk factors listed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the fiscal year ended January 29, 2011, should be considered with the information provided elsewhere in this Quarterly Report on Form 10-Q, which could materially adversely affect the business, financial condition or results of operations. There have been no material changes to the risk factors as previously disclosed in such Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On August 27, 2007, the Board of Directors approved a plan that authorized stock repurchases of up to 4.0 million shares of the Company’s common stock. Under the plan, the Company may repurchase its common stock in the open market or through privately negotiated transactions at such times and at such prices as determined to be in the Company’s best interest. These repurchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. The following table sets forth the amounts of our common stock purchased by the Company through October 29, 2011 (amounts in thousands, except price data). The repurchased shares have been cancelled and returned to authorized but unissued shares.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program
Balance at January 29, 2011				2,537.8
January 30 - February 26, 2011	-	$ -	-	2,537.8
February 27 - April 2, 2011	2.0	$ 12.50	2.0	2,535.8
April 3, - April 30, 2011	-	$ -	-	2,535.8
May 1, - May 28, 2011	-	$ -	-	2,535.8
May 29, - July 2, 2011	256.5	$ 13.99	256.5	2,279.3
July 3, - July 30, 2011	161.5	$ 13.86	161.5	2,117.8
July 31, - August 27, 2011	473.4	$ 11.00	473.4	1,644.4
August 28, - October 1, 2011	1,331.7	$ 11.21	1,331.7	312.7
October 2, - October 29, 2011	222.7	$ 11.04	222.7	90.0

Item 4. Removed and Reserved

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer.
31.2 Certification of Chief Financial Officer.
32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to rule 13a–14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

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.
Date: December 8, 2011	/s/ Bruce A. Efird Bruce A. Efird Chief Executive Officer and President
Date: December 8, 2011	/s/ Jerry A. Shore Jerry A. Shore Executive Vice President and Chief Financial Officer