FRIEDMANS INC
Form 10-Q
February 13, 2001

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended December 30, 2000

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 0-22356

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

Delaware	58-2058362
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 West State Street Savannah, Georgia 31401	31401
(Address of principal executive offices)	(Zip Code)

(912) 233-9333
(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

The number of shares of Registrant's Class A Common Stock $.01 par value per share, outstanding at February 13, 2001 was 13,285,533.

The number of shares of Registrant's Class B Common Stock $.01 par value per share, outstanding at February 13, 2001 was 1,196,283.

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Friedman's Inc.

Part I. Financial Information
Item 1.

FRIEDMAN'S INC.
Consolidated Income Statements
(Unaudited)
(In thousands, except per share and share amounts)

	Three months ended December 30, 2000	
Net sales	$173,434	
Operating Costs and Expenses:		
Cost of goods sold including occupancy, distribution and buying	87,135	
Selling, general and administrative	56,239	
Depreciation and amortization	2,826	
Income from operations	27,234	

Interest and other income from related party........	(648)	
Interest expense..................................	1,422	
Income before income taxes.........................	26,460	
Income tax expense.................................	9,331	
Minority interest..................................	(202)	
Net income...	$ 17,331	
Earnings per share - basic.........................	$1.20	
Earnings per share - diluted.......................	$1.20	
Weighted average shares - basic....................	14,473	
Weighted average shares - diluted..................	14,473	
Number of stores open..............................	631	

See notes to consolidated financial statements.

FRIEDMAN'S INC.
Consolidated Balance Sheets
(In thousands, except per share and share amounts)

	December 3 2000 (U
Assets	
Current Assets:	
Cash	$ 301
Accounts receivable, net of allowance for doubtful accounts of $21,518 at December 30, 2000, $17,196 at January 1, 2000 and $13,514 at September 30, 2000	157,975
Inventories	153,393
Deferred income taxes	3,107
Other current assets	6,900
Total current assets	321,676
Equipment and improvements, net	57,883
Tradename rights, net	5,375
Other assets	3,775
Total assets	$ 388,709
Liabilities and Stockholders' Equity	
Current Liabilities:	
Accounts payable	$ 99,868
Accrued liabilities & other	35,732

Total current liabilities	135,600
Bank debt	22,307
Deferred income taxes and other	1,852
Minority interest in equity of subsidiaries	747
Stockholders' Equity:	
Preferred stock, par value $.01, 10,000,000 shares authorized; and none issued	--
Class A common stock, par value $.01, 25,000,000 shares authorized, 13,285,533, 13,236,322 and 13,271,207 issued and outstanding at December 30, 2000, January 1, 2000 and September 30, 2000, respectively	133
Class B common stock, par value $.01, 7,000,000 shares authorized, 1,196,283 issued and outstanding	12
Additional paid-in-capital	118,829
Retained earnings	110,404
Stock purchase loans	(1,175
Total stockholders' equity	228,203
Total liabilities and stockholders' equity	$ 388,709

Note: The balance sheet at September 30, 2000 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to consolidated financial statements.

FRIEDMAN'S INC.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three December 3 2000
Operating Activities:	
Net income	$ 17,331
Adjustments to reconcile net income to cash provided by (used in) operating activities:	
Depreciation and amortization	2,736
Provision for doubtful accounts	18,613
Income from related party	(84)
Changes in assets and liabilities:	
Increase in accounts receivable	(54,421)
Increase in inventories	(31,787)
(Increase) decrease in other assets	(971)
Increase in accounts payable and accrued liabilities	79,698
Net cash provided by operating activities	31,115
Investing Activities:	

Additions to equipment and improvements	(4,995)
Net cash used in investing activities	(4,995)
Financing Activities:	
Repayments of bank borrowings	(26,123)
Proceeds from employee stock purchases and options exercised	62
Payment of cash dividend	(217)
Net cash used in investing activities	(26,278)
(Decrease) Increase in cash	(158)
Cash, beginning of period	459
Cash, end of period	$ 301

See notes to condensed consolidated financial statements.

FRIEDMAN"S INC.

Notes to Consolidated Financial Statements

(Unaudited)

December 30, 2000

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 30, 2000 are not necessarily indicative of the results that may be expected for the year ending September 30, 2001. For further information, refer to the financial statements and footnotes thereto included in the Friedman's Inc. Annual Report on Form 10-K for the year ended September 30, 2000.

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Note B - Earnings per Share

The dilutive effect of stock options on the weighted average number of shares outstanding for the period was zero for the three months ended December 30, 2000 and January 1, 2000.

Note C - Reclassifications

Certain balances as of January 1, 2000 have been reclassified to conform to the current year financial statement presentation.

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

Certain of the matters discussed in this document and in documents incorporated by reference in this document, including matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Friedman's Inc. ("Friedman's" or the "Company") to be materially different from future results performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify such forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including without limitation those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Future Performance" in Item 7 of the Company's Annual Report on Form 10-K. All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

Results of Operations

Net sales increased 14.5% to $173.4 million for the three months ended December 30, 2000, from $151.4 million for the three months ended January 1, 2000. Net sales, excluding the consolidation of internet operations, increased 14.4% to $173.3 million for the three months ended December 30, 2000 as compared to the comparable period last year. Comparable store net merchandise sales increased 5.5% for the three months ended December 30, 2000.

Cost of goods sold, including occupancy, distribution and buying costs, increased 11.0% to $87.1 million, or 50.2%, of net sales, for the three months ended December 30, 2000, versus $78.5 million, or 51.8%, of net sales, for the three months ended January 1, 2000. The decrease as a percentage of net sales was primarily the result of an improved merchandise gross margin rate and lower store occupancy costs. The improved gross margin rate was primarily due to lower sales of clearance merchandise as compared to comparable period in the prior year.

Selling, general and administrative expenses increased 21.3% to $56.2 million for the three months ended December 30, 2000, from $46.4 million for the three months ended January 1, 2000. As a percentage of net sales, selling, general and administrative expenses increased to 32.4% as compared to 30.6% for the comparable period last year. Excluding the consolidation of internet operations, selling, general and administrative expenses increased 20.0% to $55.7 million for the three months ended December 30, 2000 and as a percent to net sales, increased to 32.1%. The increase as a percentage of net sales was primarily the result of increases in advertising costs and provision for bad debt, partially offset by decreases in operating expenses. The increase in advertising was the result of increased television advertising and direct mail inserts compared to the comparable period last year. The increase in the provision for bad debt as a percentage of net sales was primarily the result of increased charge offs as compared to the comparable period last year.

Depreciation and amortization expenses increased 27.4% to $2.8 million for the three months ended December 30, 2000, from $2.2 million for the three months ended January 1, 2000. Depreciation and amortization expense as a percentage of net sales was 1.6% for the three months ended December 30, 2000 compared to 1.5% in the comparable period in the prior year. Excluding the consolidation of internet operations, depreciation and amortization expenses increased 23.2% to $2.7 million for the three months ended December 30, 2000 and as a percentage of net sales increased to 1.6%. In general, depreciation and amortization expenses as a percentage of net sales may continue to increase as a result of additional investments in systems and infrastructure, but management does not believe that such potential increases represent a material continuing trend.

Interest and other income from a related party increased to $648,000 for the three months ended December 30, 2000 compared to $583,000 for the three months ended January 1, 2000. Interest expense increased to $1.4 million for the three months ended December 30, 2000 compared to $1.0 million for the three months ended January 1, 2000. The increase in interest expense was due primarily to higher average outstanding borrowings on the

Company's line of credit and an increase in the Company's effective interest rate. See "Liquidity and Capital Resources."

Net income increased by 16.9% to $17.3 million for the three months ended December 30, 2000 compared to $14.8 million for the three months ended January 1, 2000. Net income, excluding the consolidation of internet operations, increased by 18.5% to $17.6 million for the three months ended December 30, 2000. Basic and diluted earnings per share increased 16.5% to $1.20 for the three months ended December 30, 2000 from $1.03 for the three months ended January 1, 2000. Basic and diluted earnings per share, excluding the consolidation of internet operations, increased 17.5% to $1.21, for the three months ended December 30, 2000. Basic and diluted weighted average common shares outstanding increased 0.3% to 14,473,000 for the three months ended December 30, 2000 from 14,427,000 for the comparable period in the prior year.

Liquidity and Capital Resources

During the three months ended December 30, 2000, net cash provided by the Company's operating activities was $31.1 million compared to $26.6 million for three months ended January 1, 2000. For the three months ended December 30, 2000, cash provided by operations was favorably impacted, as compared to the prior year, by increased net income and decreased net inventory levels, including accounts payable, offset by increases in customer accounts receivable.

Investing activities used cash of $5.0 million for the three months ended December 30, 2000 compared to $6.9 million during the three months ended January 1, 2000. The decrease is due primarily to the addition of 12 new stores for the three months ended December 30, 2000 compared to 33 new stores for the comparable period in the prior year and a $1.5 million investment in new store displays made in the comparable period in the prior year.

Financing activities used $26.3 million of cash for the three months ended December 30, 2000 compared to $19.7 million for three months ended January 1, 2000. This cash was used primarily to repay bank borrowings for both periods.

Currently, the Company has a three year $67.5 million senior secured revolving credit facility maturing on September 15, 2002. Borrowings under the credit facility bear interest at either the federal funds rate plus 0.5%, the prime rate or, at the Company's option, the eurodollar rate plus applicable margin ranging from 1.00% to 1.75%. The applicable margin is determined based on a calculation of the combined leverage ratio of the Company and Crescent Jewelers, an affiliate of the Company. The facility contains certain financial covenants and is secured by certain of the Company's assets. At December 30, 2000, $22.3 million was outstanding under the facility, with interest accruing on such borrowings in a range from 8.4% to 9.5%. Management believes that the Company's credit facility will be sufficient to fund the Company's working capital requirements through fiscal 2001.

In connection with the credit facility, the Company provides certain credit enhancements and guaranties the obligations of Crescent under its $112.5 million senior secured revolving credit facility. In consideration for this guaranty, Crescent makes quarterly payments to the Company in an amount equal to 2% per annum of the outstanding obligations of Crescent under its credit facility during the preceding fiscal quarter. In further consideration of this guaranty, Crescent issued the Company a warrant to purchase 7,942,904 shares of Crescent's non-voting Class A Common Stock, or approximately 50% of the capital stock of Crescent on a fully diluted basis, for an exercise price of $500,000.

On October 16, 2000, a quarterly dividend of $0.015 per share, or $217,000, was paid to stockholders of record of the Corporation at the close of business on September 30, 2000. On December 1, 2000 a quarterly dividend of $0.015 was declared, payable on January 17, 2001, to Stockholders of record as of December 31, 2000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company's market risk is limited to fluctuations in interest rates as it pertains to the Company's borrowings under its credit facility. The Company pays interest on borrowings at either the federal funds rate plus 0.5%, the prime rate or, at the Company's option, the eurodollar rate plus applicable margin ranging from 1.00% to 1.75%. If the interest rates on the Company's borrowings average 100 basis points more in fiscal 2001 than they did in fiscal 2000, the Company's interest expense would increase and income before income taxes would decrease by $499,000. This amount is determined solely by considering the impact of the hypothetical change in the interest rate on the Company's borrowing cost without consideration for other factors such as actions management might take to mitigate its exposure to interest rate changes.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

The Company did not file any Current Reports on Form 8-K during the three month period ended December 30, 2000.

The exhibits to this report on Form 10-Q are listed on the Exhibit Index which immediately follows the signature page hereto.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 on February 13, 2001.

FRIEDMAN'S INC.

By: /s/ Victor M. Suglia

Victor M. Suglia
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit

Number	
3.1	Registrant's Certificate of Incorporation, as amended (incorporated by reference from Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (File No. 333-17755) dated March 21, 1997).
3.2	Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-67662), and amendments thereto, originally filed on August 19, 1993).
4.1	See Exhibits 3.1 and 3.2 for provisions of the Certificate of Incorporation and Bylaws of the Registrant defining rights of holders of Class A and Class B Common Stock of the Registrant.
4.2	Form of Class A Common Stock certificate of the Registrant (incorporated by reference from Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-67662), and amendments thereto, originally filed on August 19, 1993).