



*The Low Price Leader*

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## **FRED'S REPORTS JANUARY SALES**

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### **COMPANY UPDATES 2010 STRATEGIC INITIATIVES**

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#### **COMPANY TO HOST CONFERENCE CALL TO DISCUSS 2010 OUTLOOK**

MEMPHIS, Tenn. (February 3, 2010) – Fred's Inc. (NASDAQ: FRED) today reported sales for the fiscal month, quarter and year ended January 30, 2010.

Fred's total sales for the four-week month decreased 1% to \$125.0 million from \$126.2 million in January 2009. Comparable store sales for the month declined 2.0% versus a 1.9% decline in comparable store sales for January 2009.

Fred's total sales for the 13-week fourth quarter increased 1% to 472.9 million versus \$469.4 million in the year-earlier quarter. Comparable store sales for the fourth quarter decreased 0.9% compared with a decline of 1.1% in the fourth quarter last year.

Total sales for fiscal 2009 were \$1.788 billion, down 1% from \$1.799 billion for fiscal 2008. Comparable store sales for 2009 rose 0.4% versus a 1.8% gain for the prior year.

Commenting on the announcement, Bruce A. Efird, Chief Executive Officer, said, "January sales were below expectation, with the miss resulting mainly from multiple ice and snow storms blanketing the majority of our stores in the Southeast. While December's sales and traffic demonstrated that our customers were willing to stretch for the holidays at Fred's, our January sales – outside of ongoing strong results in our pharmacy department – offer a fresh reminder that the consumer remains under considerable pressure. And although we saw momentary signals of a rebound in retail spending in December, the continued effect on the economy caused by significant job losses will remain a concern for the next six months as we cycle through this historic, double-digit rate of unemployment."

Efird noted that the Company's sales performance in November and January underscores the importance of the Company's program to implement new sales- and profit-driving initiatives for 2010. These initiatives reflect the results of research over the past nine months, along with extensive testing and recruiting efforts to support implementation, as management anticipated the market would undergo significant change during the recession. The Company's goal in developing this program was to be in a position to roll it out for 2010. Fred's key initiatives include:

- Fred's Core Five Program, which highlights trip-driving differentiation from small-box competitors, in terms of both price and selection, in the areas of Pharmacy, Pet products, Celebration, Paper and Chemical, and Home products departments;
- Expanded marketing efforts to drive home its brand differentiation and the existing strengths that Fred's brings to the discount store segment through changes in mailed circulars, in-store

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marketing, and direct mail advertising – all designed to expand Fred's customer base in existing markets;

- Increased investment in its stores, remodeling and updating more than 200 in 2010 with a customer-friendly layout developed in Fred's pilot program; this initiative will include upgraded fixtures, a cleaner look, improved adjacencies, relocating the pharmacy to the front in some stores, and signage upgrades inside and out;
- Increased advertising and additional in-store marketing to support Fred's roll-out of the new look that is specific to both urban and rural markets;
- The restructuring in January of its merchandising and marketing responsibilities, including the addition of two new divisional merchandise managers in the hard lines area; the Company increased the number of DMMs to five, adding expertise in three of the Core Five Program areas (Celebration, Pet and Home), and bringing new skills to product sourcing; this will allow a more balanced work load while targeting an increased focus on margin improvement, sales per square foot and improved inventory turnover; and
- The addition of new and exciting product lines, leading with Coca Cola, Purina pet products, and Energizer batteries, with additional new product introductions to be rolled out in the coming year.

Based on the sales shortfall Fred's experienced in the fourth quarter of 2009, management now expects earnings for the quarter to be in the range of \$0.14 to \$0.16 per diluted share. For the year 2009, the Company estimates earnings of \$0.59 to \$0.61 per diluted share, a 40% to 45% increase over 2008. While ending a challenging year with earnings short of expectations, the Company has continued to see improvement in the quality and strength of its balance sheet.

Looking ahead to 2010, management is optimistic that financial improvement will continue, with diluted earnings per share reaching the range of \$0.68 to \$0.75 for 2010. The Company anticipates continued consumer cautiousness through the first quarter and projects flat comparable store sales and earnings per diluted share in the range of \$0.15 to \$0.20. Sales and earnings should accelerate throughout 2010 as Fred's initiatives and marketing programs gain momentum.

Fred's will host a conference call tomorrow afternoon to review management's outlook for 2010 and the expected impact of initiatives to drive sales and earnings. A public, listen-only simulcast and replay of this conference call may be accessed at the Company's web site or at [www.earnings.com](http://www.earnings.com). The simulcast will begin at approximately 3:00 p.m. Eastern Time on Thursday; a replay of the call will be available beginning at approximately 6:00 p.m. Eastern Time and will run until March 4, 2010.

Fred's Inc. operates 669 discount general merchandise stores, including 24 franchised Fred's stores in the southeastern United States. For more information about the Company, visit Fred's Website at [www.fredsinc.com](http://www.fredsinc.com).

*Comments in this news release that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, general economic trends, changes in consumer demand or purchase patterns, delays or interruptions in the flow of merchandise between the Company's distribution centers and its stores or between the Company's suppliers and same, a disruption in the Company's data processing services, costs and delays in acquiring or developing new store sites, and other contingencies discussed in the Company's Securities and Exchange Commission filings. Fred's undertakes no obligation to release revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required to be reported under the rules and regulations of the Securities and Exchange Commission.*