



*Low Price Leader*

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### **FRED'S COMPARABLE STORE SALES FOR SEPTEMBER INCREASE 1.1%**

MEMPHIS, Tenn. (October 7, 2008) – Fred's Inc. (NASDAQ:FRED) today reported sales for the five-week and eight-month periods ended October 4, 2008.

Fred's total sales for the month were \$161.3 million, up slightly from \$161.1 million in September 2007, with the year-over-year change reflecting the Company's previously announced program to close 75 underperforming stores and 22 underperforming pharmacies this year. Excluding stores closed in 2008, total sales from ongoing stores increased 4% in September versus the same month last year. Comparable store sales for the month increased 1.1% versus an increase of 1.0% in September 2007.

Total sales for the year-to-date period increased 4% to \$1.202 billion compared with \$1.157 billion in the year-earlier period. On a comparable store basis, sales increased 3.1% through the first eight months of fiscal 2008 compared with a 1.3% gain in the year-earlier period.

Commenting on the announcement, Michael J. Hayes, Chief Executive Officer, said, "Increased customer transactions during September demonstrate that our sales initiatives continue to improve the Fred's shopping experience for our customers and, in turn, are helping us grow market share. As the month came to an end, however, we saw a drop-off in our sales as our customers became more apprehensive about the credit crunch and grew more cash restrained. The sales trends in our pharmacy department also continue to affect our top-line sales – even though pharmacy margins are improving – as we experience comparable script growth that is less than the effect of the branded-to-generic script-mix shift.

"We attribute a large part of the end-of-month sales weakness to the unprecedented financial concerns that have affected the economy in recent weeks and the adjustments consumers are making in their spending to confront the new uncertainties," Hayes continued. "Considering the current pressures on our customers, we expect to see increased transaction growth near term in lower-margin departments and, as a result, we are lowering our outlook for third quarter earnings to a range of \$0.14 to \$0.16 per diluted share, representing an increase of 17% to 33% over the year-earlier quarter."

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Concluding, Hayes added, "Given these volatile times, the decisions we made in 2007 and earlier this year to improve our operations and strengthen our balance sheet are now delivering the desired results. Currently, we are in a cash-positive position and have not drawn on our revolving credit facility, in contrast to last year at this time when we had more than \$30 million outstanding under our revolver. While the current environment is very fluid and unpredictable, making our ability to forecast more challenging than ever, we remain focused on controlling inventory and maintaining a strong balance sheet. Even considering the critical economic issues we all now face, we anticipate that growth in our customer base will continue as consumers become more frugal in their purchases, stressing price and convenience, which puts Fred's in a healthy position as the economy works toward recovery."

Fred's did not open any stores or pharmacies in September. During the first eight months of the current fiscal year, Fred's has opened 17 new stores and four new pharmacies. During September, Fred's closed seven additional underperforming stores; to date, the Company has closed 74 stores and 22 pharmacies.

Fred's Inc. operates 658 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, those associated with the Company's announced strategic plan, lease buyouts and the underlying assumptions and projections upon which they are based, as well as risks that intended results may not be achieved or may not occur as quickly as expected; 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.*

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