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FREDS INC
Form 8-K
July 09, 2004

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 1, 2004

Fred's, Inc.
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation)	00-19288 (Commission File Number)	62-0634010 (IRS Employer Identification No.)
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4300 New Getwell Road, Memphis, TN (Address of Principal Executive Offices)	38118 (Zip Code)
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Registrant's Telephone Number, including area code: (901) 365-8880

Item 4. Changes in Registrant's Certifying Accountants.

In its Proxy Statement dated May 21, 2004, the Company asked its stockholders to approve the appointment of Ernst & Young, LLP ("E&Y") as its auditors for the fiscal year ending January 29, 2005 ("fiscal 2004"), but reserved discretion for its Audit Committee to select a different auditing firm "at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders, including economic considerations" (emphasis added). Since April 30, 2004, Fred's has been disputing certain additional audit fees for fiscal 2003 that E&Y submitted to the Company after the filing of our Annual Report on 10-K. On June 11, 2004, E&Y submitted to the Company an engagement letter proposing fiscal 2004 auditing fees which were significantly higher than anticipated by the Company. Therefore, the Company's Audit Committee initiated the process of seeking 2004 quotes from other auditors, and instructed management to attempt to resolve the unanticipated year-end 2003 fee under dispute with E&Y before making a decision on which auditing firm to use for fiscal 2004. On July 1, 2004, E&Y notified the Company that it would review the Company's second quarter 2004 results, but would not act as the Company's independent auditor after that review and the filing of the related quarterly report on Form 10-Q. The Company's Audit Committee has accepted E&Y's withdrawal, effective after E&Y's completion of the second quarter review and

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that quarterly filing.

The audit reports of E&Y on the consolidated financial statements of the Company for the years in the two-year period ended January 31, 2004 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two year period ended January 31, 2004, and the subsequent interim period ended May 1, 2004, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of E&Y, would have caused them to make reference to the subject matter of the disagreement in their reports on the consolidated financial statements for such years.

During the past two fiscal years and through the date of this Report, E&Y has not advised the Company of any reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K under the Securities Exchange Act of 1934), other than E&Y reported to the Company that, in conducting its audit of the 2003 financial statements, it noted weaknesses in certain internal controls. The weaknesses related to (1) the number and qualifications of corporate accounting personnel, (2) procedures related to accounting for consideration received from vendors, and (3) the financial statement closing process. At the direction of its Audit Committee, the Company had taken steps to address the concerns expressed by E&Y during its work for the Company. Specifically, the Company has enhanced its internal controls by (i) hiring additional skilled accounting staff, including a certified public accountant (who reports directly to the

Audit Committee) to oversee internal controls and the Sarbanes-Oxley Act ("SOA") compliance process and engaging a third-party accounting firm experienced in SOA compliance to assist the Company in achieving timely and complete compliance on a timeline suggested by E&Y, (ii) focused additional personnel and reviews upon accounting for consideration received from vendors, and (iii) instituted more testing of results in the closing process before public reporting of quarterly and fiscal year end results.

The Company provided E&Y with a copy of this Form 8-K. Attached, as Exhibit 16.1 is a copy of E&Y's letter to the Securities and Exchange Commission, dated July 9, 2004.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements.

Not applicable.

(b) Pro Forma Financial Information.

Not applicable.

(c) Exhibits.

Exhibit No	Description
16.1	Letter of E&Y LLP dated July 9, 2004

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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 hereunto duly authorized.

FRED'S INC.

By: /s/ Jerry A. Shore

Its: Executive Vice President and
Chief Financial Officer

Date: July 9, 2004

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
16.1	Letter of E&Y LLP dated July 9, 2004 regarding change in certifying accountant.