FRIEDMANS INC
Form 10-Q
August 11, 2003

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 June 28, 2003

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 (State or other jurisdiction of incorporation or organization)	58-2058362 (I.R.S. Employer Identification No.)
171 Crossroads Parkway Savannah, Georgia 31422 (Address of principal executive offices)	31401 (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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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 August 6, 2003 was 17,618,818.

The number of shares of Registrant's Class B Common Stock $.01 par value per share, outstanding at August 6, 2003 was 1,196,283.

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FRIEDMAN'S INC.

Part I. FINANCIAL INFORMATION

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

FRIEDMAN'S INC.
CONSOLIDATED INCOME STATEMENTS
(Unaudited)
(In thousands, except per share and number of store data)

	THREE MONTHS ENDED JUNE,		NINE MONTHS E
	2003	2002	2003
Net Sales	$ 97,031	$ 91,112	$ 393,518
Operating Costs and Expenses:			
Cost of goods sold, including occupancy distribution and buying	51,632	48,212	203,512
Selling, general and administrative	38,112	37,159	138,518
Depreciation and amortization	3,236	2,845	9,541
Income from operations	4,051	2,896	41,947

Interest and dividend income from related party	(1,475)	(657)	(4,509)
Interest expense	1,707	505	5,183
Income before income taxes and minority interest	3,819	3,048	41,273
Income tax expense	1,385	1,085	14,391
Minority interest	--	(52)	(44)
Net income	$ 2,434	$ 2,015	$ 26,926
Earnings per share - basic	$ 0.13	$ 0.11	$ 1.45
Earnings per share - diluted	$ 0.13	$ 0.11	$ 1.42
Weighted average shares - basic	18,647	18,620	18,630
Weighted average shares - diluted	19,142	19,050	18,928
Number of stores open	675	650	675

See notes to consolidated financial statements.

FRIEDMAN'S INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share and share amounts)

	JUNE 28, 2003	JU
	(Unaudited	
ASSETS		
Current Assets:		
Cash	$ 286	$
Accounts receivable, net of allowance for doubtful accounts of $24,538 at June 28, 2003, $23,400 at June 29, 2002 and $16,651 at September 28, 2002	176,433	
Inventories	153,134	
Deferred income taxes	3,788	
Other current assets	13,270	
Total current assets	346,911	
Equipment and improvements, net	52,947	
Tradename rights	5,022	
Receivable from Crescent Jewelers	--	
Investment in Crescent Jewelers	85,000	
Other assets	6,296	
Total assets	$ 496,176	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 41,601	$

Accrued and other liabilities	19,041
Bank debt, Crescent Jewelers	--
Bank debt, Friedman's and capital lease obligations	632
Total current liabilities	61,274
Long-term bank debt, Friedman's	126,565
Long-term capital lease obligation	--
Deferred income taxes and other liabilities	2,581
Stockholders' Equity:	
Preferred stock, par value $.01, 10,000,000 shares authorized and none issued	--
Class A common stock, par value $.01, 40,000,000 shares authorized 17,603,635, 17,423,706 and 17,423,706 issued and outstanding at June 28, 2003, June 29, 2002 and September, 28, 2002, respectively	176
Class B common stock, par value $.01, 7,000,000 shares authorized, 1,196,283 issued and outstanding	12
Additional paid-in-capital	155,523
Retained earnings	152,045
Stock purchase loans and deferred compensation	(2,000)
Total stockholders' equity	305,756
Total liabilities and stockholders' equity	$ 496,176

Note: The balance sheet at September 28, 2002 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)

	NINE MONTHS ENDED	
	JUNE 28, 2003	JUNE 29, 2002
Operating Activities:		
Net income	$ 26,926	$ 23,436
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,541	8,457
Provision for doubtful accounts	47,158	43,937
Minority interest in loss of consolidated subsidiary	(44)	(126)
Changes in assets and liabilities:		
Increase in accounts receivable	(73,723)	(64,422)
Increase in inventories	(16,528)	(7,884)
Increase in other assets	(2,311)	(904)

Increase (decrease) in accounts payable and accrued liabilities	9,651	(9,541)
Net cash provided by (used in) operating activities	670	(7,047)
Investing Activities:		
Additions to equipment and improvements	(10,948)	(5,703)
Repayments of employee stock purchase loans	--	105
Net cash used in investing activities	(10,948)	(5,598)
Financing Activities:		
Net additions to (repayments of) revolving credit facilities	11,757	(21,275)
Proceeds from stock offering	--	34,965
Payments on capital lease obligations	(576)	(364)
Proceeds from employee stock purchases and options exercised	278	49
Payment of cash dividend	(1,166)	(880)
Net cash provided by financing activities	10,293	12,495
Increase (decrease) in cash	15	(150)
Cash, beginning of period	271	468
Cash, end of period	$ 286	$ 318

See notes to consolidated financial statements.

FRIEDMAN'S INC.

Notes to Consolidated Financial Statements

(Unaudited)

June 28, 2003

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 and nine-month periods ended June 28, 2003 are not necessarily indicative of the results that may be expected for the year ending September 27, 2003. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended September 28, 2002. Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

NOTE B - NEW ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46").

The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary") and if so when consolidation should be effective. This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is not sufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures regarding the nature, purpose, size and activities of the VIE and the enterprise's maximum exposure to loss as a result of its involvement with the VIE. We are required to adopt this interpretation no later than July 1, 2003 for any VIEs in which we hold a variable interest that we acquired before February 1, 2003. The interpretation is effective immediately for any VIEs created after January 31, 2003 and for VIEs in which an enterprise obtains an interest after that date. We have evaluated the requirements of FIN 46 and the impact it will have on our financial statements with respect to our investment in Crescent Jewelers. Based on this evaluation, we believe that Crescent Jewelers' financial statements will be consolidated with ours for financial reporting purposes. We expect to adopt FIN 46 with the reporting of our fiscal year ending September 27, 2003, effective as of the beginning of fiscal 2003 (September 29, 2002). In connection with our analysis and evaluation, we filed Form 8-K on April 29, 2003 discussing the expected consolidation of the financial statements of Crescent Jewelers. See "Liquidity and Capital Resources" for additional disclosure regarding our relationship with Crescent Jewelers.

We adopted Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144") on September 29, 2002. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FAS 121. FAS 144 is effective for fiscal years beginning after December 15, 2001. The pronouncement did not have a material impact on our consolidated financial statements.

NOTE C - RESTRICTED SHARES

In January 2003, we issued 132,500 shares of Class A Common Stock to four senior executives pursuant to the 1999 Long-Term Incentive Plan. Ownership rights to the shares will vest at the rate of twenty percent per year provided that the grantee is still employed by us on the vesting date. Accordingly, all shares are restricted prior to vesting. Compensation expense in an amount equal to the stock price on the grant date times the number of shares granted will be charged to earnings pro rata over the five-year vesting period assuming that each of the four recipients remains employed with us. In connection with this non-cash transaction, we recorded a $1.2 million increase to additional paid-in-capital and an offsetting $1.2 million increase to deferred compensation.

NOTE D - STOCK OPTION PLAN

We have elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations, which measures compensation cost using the intrinsic value method of accounting for its stock options. Accordingly, we do not recognize compensation cost based upon the fair value method of accounting as provided for under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("FAS No. 123"). If we had elected to recognize compensation cost based on the fair value of the options granted during the periods covered by this report, as prescribed by FAS No. 123, net income would have been reduced to the pro forma amounts indicated in the table below:

	THREE MONTHS ENDED JUNE,		NINE MONTHS ENDED JU	
	2003	2002	2003	200
Net income - as reported	$ 2,434	$ 2,015	$ 26,926	$ 23
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	77	--	77	
Deduct: Total stock-based employee compensation expense, net of related tax effect	(476)	(204)	(1,067)	
Net income - pro forma	$ 2,035	$ 1,811	$ 25,936	$ 22
Basic earnings per share - as reported	$ 0.13	$ 0.11	$ 1.45	$
Basic earnings per share - pro forma	$ 0.11	$ 0.10	$ 1.39	$
Diluted earnings per share - as reported	$ 0.13	$ 0.11	$ 1.42	$
Diluted earnings per share - pro forma	$ 0.11	$ 0.10	$ 1.37	$

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

The following discussion and other sections of this Form 10-Q 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 our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements are made based on management's current expectations or beliefs as well as assumptions made by, and information currently available to, management. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify such forward-looking statements. Our 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 under the section titled "Risk Factors" in the reports that we file with the SEC from time to time, including our Annual Report on Form 10-K for our fiscal year ended September 28, 2002. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

All of our critical accounting policies are presented in our Annual Report on Form 10-K for the fiscal year ended September 28, 2002.

THREE MONTHS ENDED JUNE 28, 2003 COMPARED TO THREE MONTHS ENDED JUNE 29, 2002

RESULTS OF OPERATIONS

Net sales increased 6.5% to $97.0 million for the three months ended June 28, 2003, from $91.1 million for the three months ended June 29, 2002. The increase in sales was attributable to a comparable store sales increase of 3.2% and the net addition of 25 new stores from June 29, 2002 to June 28, 2003. We opened 18 stores and closed 2 stores in the quarter ended June 28, 2003 and, at quarter end, operated 675 stores, of which 449 were located in strip centers and 226 were located in malls. At June 29, 2002, we operated 650 stores, of which 430 were located in strip centers and 220 were located in malls.

Cost of goods sold, including occupancy, distribution and buying costs include: (i) merchandise acquisition cost, (ii) freight cost related to the receipt and distribution of merchandise, (iii) physical inventory adjustments, (iv) costs to refurbish customer returns, (v) payroll costs (including payroll taxes and employee benefit costs) associated with our buying and distribution personnel, (vi) other costs associated with our buying and distribution functions and (vii) store rents and other occupancy costs. Cost of goods sold, including occupancy, distribution and buying costs, increased 7.1% to $51.6 million, or 53.2% of net sales, for the three months ended June 28, 2003, versus $48.2 million, or 52.9% of net sales, for the three months ended June 29, 2002. The increase in cost of goods sold, including occupancy, distribution and buying costs was primarily due to higher merchandise and occupancy costs. The increase in merchandise costs as a percentage of net sales was primarily the result of a shift in sales mix. Lower margin bridal and diamond product categories constituted a higher percentage of sales while higher margin gold and semi-precious product categories constituted a lower percentage of sales, compared to the prior year. We do not expect the increase in cost of goods sold, including occupancy, distribution and buying costs as a percentage of net sales, to constitute a continuing material trend.

Selling, general and administrative expenses include: (i) payroll costs (including payroll taxes and employee benefit costs), excluding payroll costs associated with our buying and distribution personnel, (ii) advertising costs, (iii) operating costs such as insurance, utility, business related travel, professional service fees and other related business expenses, and (iv) provisions for bad debt and collection expense reduced by earned finance charges, earned credit insurance and late fee revenues. Selling, general and administrative expenses increased 2.6% to $38.1 million for the three months ended June 28, 2003, from $37.2 million for the three months ended June 29, 2002. As a percentage of net sales, selling, general and

administrative expenses decreased to 39.3% for the three months ended June 28, 2003, as compared to 40.8% for the comparable period last year. The decrease in selling, general and administrative expenses as a percentage of net sales was primarily the result of our ability to leverage existing infrastructure over a larger store base, higher sales and increases in credit revenues associated with the Company's receivable portfolio. We do not expect the decrease in selling, general and administrative expenses to constitute a continuing material trend.

Depreciation and amortization charges increased 13.7% to $3.2 million for the three months ended June 28, 2003, from $2.8 million for the three months ended June 29, 2002. Depreciation and amortization charges as a percentage of net sales was 3.3% for the three months ended June 28, 2003, compared to 3.1% for the three months ended June 29, 2002. Depreciation and amortization charges were higher primarily due to the addition of new stores and renovations of existing stores, as well as fixed asset impairment charges of $166,000, or 0.2% of net sales, related to store closings.

Interest and other income from a related party increased to $1.5 million for the three months ended June 28, 2003 compared to $0.7 million for the three months ended June 29, 2002. The increase was due to interest and dividend income earned on our investment in Crescent Jewelers. Interest expense increased to $1.7 million for the three months ended June 28, 2003 compared to $0.5 million for the three months ended June 29, 2002. The increase in interest expense was primarily due to higher average borrowing levels due primarily to our direct investment in Crescent Jewelers. See "Liquidity and Capital Resources."

Net income increased by 20.8% to $2.4 million for the three months ended June 28, 2003, compared to $2.0 million for the three months ended June 29, 2002. Basic and diluted earnings per share were $0.13 for the three months ended June 28, 2003, compared to $0.11 for the three months ended June 29, 2002. Basic weighted average common shares outstanding increased 0.1% to 18,647,000 for the three months ended June 28, 2003 from 18,620,000 for the three months ended June 29, 2002. Diluted weighted average common shares outstanding increased 0.5% to 19,142,000 for the three months ended June 28, 2003 from 19,050,000 for the three months ended June 29, 2002.

NINE MONTHS ENDED JUNE 28, 2003 COMPARED TO NINE MONTHS ENDED JUNE 29, 2002

RESULTS OF OPERATIONS

Net sales increased 7.3% to $393.5 million for the nine months ended June 28, 2003, from $366.8 million for the nine months ended June 29, 2002. The increase in sales was attributable to a comparable store sales increase of 4.6% and the net addition of 25 new stores from June 29, 2002 to June 28, 2003. We opened 40 stores and closed 15 stores during the nine months ended June 28, 2003.

Cost of goods sold, including occupancy, distribution and buying costs, increased 7.7% to $203.5 million, or 51.7% of net sales, for the nine months ended June 28, 2003, versus $188.9 million, or 51.5% of net sales, for the nine months ended June 29, 2002. The increase in cost of goods sold, including occupancy, distribution and buying costs was comparable to the increase in net sales. The increase in cost of goods sold as a percentage of net sales was primarily the result of a shift in sales mix to lower margin bridal and diamond products from higher margin gold and semi-precious products, compared to the prior year. We do not expect the increase in cost of goods sold, including occupancy, distribution and buying costs as a percentage of net sales, to constitute a continuing material trend.

Selling, general and administrative expenses increased 3.9% to $138.5 million for the nine months ended June 28, 2003, from $133.3 million for the nine months ended June 29, 2002. As a percentage of net sales, selling, general and administrative expenses decreased to 35.2% for the nine months ended June 28, 2003 as compared to 36.3% for the comparable period last year. The decrease in selling, general and administrative expenses as a percentage of net sales was primarily the result of our ability to leverage existing infrastructure over a larger store base and higher sales. We do not expect the decrease in selling, general and administrative expenses to constitute a continuing material trend.

Depreciation and amortization charges increased 12.8% to $9.5 million for the nine months ended June 28, 2003, from $8.5 million for the nine months ended June 29, 2002. Depreciation and amortization charges as a percentage of net sales was 2.4% for the nine months ended June 28, 2003, compared to 2.3% for the nine months ended June 29, 2002. Depreciation and amortization charges were higher primarily due to the addition of new stores and renovations of existing stores, as well as fixed asset impairment charges related to store closings of $400 thousand, or 0.1% of net sales compared to $70 thousand for the comparable period last year.

Interest and other income from a related party increased to $4.5 million for the nine months ended June 28, 2003, compared to $2.0 million for the nine months ended June 29, 2002. The increase was due to interest and dividend income earned on our investment in Crescent Jewelers. Interest expense increased to $5.2 million for the nine months ended June 28, 2003, compared to $2.2 million for the nine months ended June 29, 2002. The increase in interest expense was primarily due to higher average borrowing levels due primarily to our investment in Crescent Jewelers. See "Liquidity and Capital Resources."

Net income increased by 14.9% to $26.9 million for the nine months ended June 28, 2003, compared to $23.4 million for the nine months ended June 29, 2002. Basic earnings per share was $1.45 for the nine months ended June 28, 2003, compared to $1.41 for the nine months ended June 29, 2002. Basic weighted average common shares outstanding increased 12.2% to 18,630,000 for the nine months ended June 28, 2003 from 16,604,000 for the nine months ended June 29, 2002. Diluted earnings per share was $1.42 for the nine months ended June 28, 2003, compared to $1.39 for the nine months ended June 29, 2002. Diluted weighted average common shares outstanding increased 12.2% to 18,928,000 for the nine months ended June 28, 2003 from 16,867,000 for the nine months ended June 29, 2002. The increase in basic and diluted earnings per share was primarily due to the issuance of 4.1 million shares of common stock in an offering completed on February 11, 2002.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended June 28, 2003, net cash provided by operating activities was $0.7 million, compared to net cash used in operating activities of $7.0 million for the nine months ended June 29, 2002. During the nine months ended June 28, 2003, cash provided by operating activities was positively impacted by net income and non-cash expenses for provision for doubtful accounts and depreciation and amortization, as well as increases in accounts payable, offset by increases in customer accounts receivables and inventories. In the nine months ended June 29, 2002, net income and non-cash expenses for provision for doubtful accounts and depreciation and amortization were more than offset by increases in accounts receivable and inventories and decreases in accounts payable and accrued liabilities.

Investing activities used cash of $10.9 million for the nine months ended June 28, 2003, compared to $5.6 million during the nine months ended June 29, 2002. The increase was due primarily to the opening of more stores than in the comparable period in the prior year and the construction of a new headquarters and distribution facility, which is expected to be complete in August 2003. We opened 40 new stores in the nine months ended June 2003 compared to 17 new stores in the nine months ended June 2002.

Financing activities provided $10.3 million of cash for the nine months ended June 28, 2003, compared to $12.5 million for the nine months ended June 29, 2002. In the current year, cash was provided by our revolving credit facility, while in the prior year, cash provided by the sale of common stock was used to pay down the revolving credit facility. Borrowings for the nine months ended June 28, 2003 were used principally for investment in new stores and construction of the new headquarters and distribution facility.

Our Credit Facility. On August 28, 2002, we entered into a new three-year $150 million secured revolving credit facility, which replaced our three-year $67.5 million senior secured revolving credit facility that was scheduled to expire on September 15, 2002. The facility provides for borrowings on 65% of eligible receivables and the lesser of 50% of eligible inventories or $75.0 million. Borrowings under the credit facility bear interest at our option of either the prime rate plus applicable margin ranging from zero to

0.25% or the Eurodollar rate plus applicable margin ranging from 1.75% to 2.50%. The applicable margin is determined based on a calculation of the fixed charge coverage ratio. The facility contains certain financial covenants and is secured by a lien on substantially all of our personal property. At June 28, 2003, $126.6 million was outstanding under the facility, with interest accruing on such borrowings in a range from 3.51% to 4.25%.

Our credit facility contains the following financial covenants:

- our trailing twelve-month consolidated leverage ratio, measured as of the end of each fiscal period, must not be greater than 2.0 to 1.0;

- our consolidated adjusted tangible net worth, measured as of the end of each fiscal period, must not be less than the sum of $140 million through August 23, 2003, and for each fiscal period thereafter, must not be less than the sum of $140 million plus, as of the end of each fiscal year, commencing with the fiscal year ending September 27, 2003, an amount equal to 50% of consolidated net income for that fiscal year, which increases will be cumulative, plus an amount equal to 75% of net proceeds from certain equity transactions;

- our consolidated fixed charge ratio for the preceding four fiscal quarters, measured as of the end of each fiscal quarter, must not be less than 1.15 to 1.0; and

- our retail sales for the fiscal period ending December of each year must not be less than 70% of the projected retail sales delivered to the agent and the lenders, in each case measured as of the fiscal period ending December.

We are currently in compliance with all of the financial covenants in our credit facility. For further information about the financial and other covenants contained in our credit facility, we refer you to the text of the agreement, which was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on September 10, 2002.

Financial Support of Crescent Jewelers. In connection with the credit facility, we restructured our financial support of Crescent Jewelers by terminating our guarantee of Crescent Jewelers' previous $112.5 million senior secured revolving credit facility and making a direct investment in Crescent Jewelers of $85.0 million. This investment consists of $50.0 million of series A preferred stock and a $35.0 million senior subordinated note. Based in part on our financial support of $85.0 million, on August 28, 2002, Crescent Jewelers replaced its previous $112.5 million senior secured revolving credit facility with a $50.0 million secured credit facility. We continue to hold a warrant that we received on September 15, 1999 to purchase 50% of the capital stock of Crescent Jewelers for an exercise price of $500,000. The warrant will expire on September 14, 2014.

The Crescent Jewelers series A preferred stock carries a floating rate dividend equal to the all-in cost of funds under our credit facility, plus a pre-tax amount approximating a proportionate share of the 2% guarantee fee payable by Crescent Jewelers under our guarantee of its previous credit facility, less the tax benefit we receive from the dividends received deduction. This calculation currently yields an approximate dividend rate of 6.1%. Cumulative dividends on the series A preferred stock are payable semi-annually on January 15th and July 15th. At June 28, 2003, dividends on the Series A preferred stock in the amount of $2,705,000 were earned but not due to us until July 15, 2003.

The Crescent Jewelers senior subordinated note carries a floating interest rate equal to the all-in cost of funds under our credit facility, plus an amount approximating a proportionate share of the 2% guarantee fee payable by Crescent Jewelers under our guarantee of their previous credit facility. This calculation currently yields an approximate interest rate of 7.4%. Interest on the note is payable semi-annually on January 15th and July 15th. During the nine months ended June 28, 2003, $948,196 was paid to us by Crescent Jewelers as interest on the notes. At June 28, 2003, interest in the amount of $1,329,000

was earned but not due to us until July 15, 2003. On July 15, 2003, the interest due on the senior subordinated note was paid by Crescent in the form of additional subordinated notes.

The investments in Crescent Jewelers were recorded on our balance sheet as a noncurrent asset and are currently carried at their face value. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"), each quarter we are required to evaluate whether there has been an other than temporary decline in the value of the investment. Any other than temporary reduction in value would result in an immediate income statement charge, which would reduce our reported net income and our earnings per share. As a result of our evaluation for the quarter ended June 28, 2003, there has not been a decline in the value of our investment in Crescent Jewelers.

Dividends. On May 30, 2003, the Board of Directors declared a quarterly dividend of $.0225 per share payable on July 15, 2003, to holders of record of our Class A and Class B common stock as of June 27, 2003.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our market risk is limited to fluctuations in interest rates as it pertains to our borrowings under our credit facility. We pay interest on borrowings at our option of either the prime rate plus an applicable margin ranging from 0% to 0.25% or the Eurodollar rate plus an applicable margin ranging from 1.75% to 2.50%. If the interest rates on our borrowings average 100 basis points more in fiscal 2003 than they did in fiscal 2002, our interest expense would increase and income before income taxes would decrease by $450,000. This amount is determined solely by considering the impact of the hypothetical change in the interest rate on our borrowing cost without consideration for other factors such as actions management might take to mitigate its exposure to interest rate changes. In addition, the dividend on our preferred stock investment in Crescent Jewelers, as well as the interest rate on the subordinated debt we hold from Crescent Jewelers, are both calculated based on our borrowing costs. As a result, any increase in our borrowing costs would be offset, in part, by increases in the dividend and interest rate on our investments in Crescent Jewelers.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we concluded an evaluation of the effectiveness of our "disclosure controls and procedures" on July 22, 2003. Our evaluation tested controls and other procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on this evaluation, our principal executive officer and principal financial officer concluded as of July 22, 2003, that the information required to be disclosed in our reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, in a manner that allows timely decisions regarding required disclosure.

There were no significant changes in our disclosure controls and procedures or in other factors that could significantly affect these controls and procedures subsequent to July 22, 2003.

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Furnish the exhibits required by Item 601 of Regulation S-K.

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).
10.1	First Amendment to Amended and Restated Credit Agreement and Modification to Credit Documents, dated as of September 30, 2002.
10.2	Waiver and Second Amendment to Amended and Restated Credit Agreement and Credit Documents, dated as of October 24, 2002.
10.3	Waiver and Third Amendment to Amended and Restated Credit Agreement, dated as of May 15, 2003.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Current reports on Form 8-K dated December 20, 2002, April 3, 2003 and April 24, 2003 reporting Item 5 "Other Events" and Item 9 "Regulation FD Disclosure" were filed during the three-month period ended June 28, 2003.

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.

FRIEDMAN'S INC.

Date: August 8, 2003

BY: /s/ Victor M. Suglia
Victor M. Suglia
Senior Vice President and
Chief Financial Officer