

REEDS JEWELERS INC  
Form 10-Q  
July 15, 2003

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON DC 20549**

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTER ENDED MAY 31, 2003  
COMMISSION FILE NUMBER 0-15247**

**REEDS JEWELERS, INC.**

(Exact name of registrant as specified in its charter)

**North Carolina**  
(State or other jurisdiction of incorporation or organization)

**56-1441702**  
(I.R.S. Employer Identification No.)

**2525 South Seventeenth Street**  
**Wilmington, North Carolina**  
(Address of principal executive offices)

**28401**  
(Zip code)

**Registrant's telephone number, including area code:**  
(910) 350-3100

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 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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

The number of outstanding shares of Common Stock, par value \$0.10 per share, as of July 15, 2003 was 8,476,372.

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PART I

**Item 1. *Financial Statements***

The consolidated financial statements included herein have been prepared by Reeds Jewelers, Inc. (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the fiscal year ended February 28, 2003.

## REEDS JEWELERS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	February 28 2003	May 31 2003	May 31 2002
		(unaudited)	(unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 384,000	\$ 592,000	\$ 533,000
Accounts receivable:			
Customers, less allowance for doubtful accounts of \$499,000, \$304,000 and \$834,000, respectively	7,000	25,000	159,000
Other	1,411,000	2,158,000	1,095,000
Merchandise inventories	41,637,000	43,861,000	49,650,000
Income taxes receivable	305,000	88,000	7,300,000
Deferred income taxes, net of valuation allowance of \$341,000, \$340,000 and \$0, respectively (Note D)	1,327,000	1,267,000	
Other	758,000	803,000	954,000
	<u>45,829,000</u>	<u>48,794,000</u>	<u>59,691,000</u>
Property, furniture and equipment:			
Land and building	83,000	83,000	83,000
Furniture and equipment	20,000,000	20,340,000	20,155,000
Leasehold improvements	9,202,000	9,126,000	9,135,000
	<u>29,285,000</u>	<u>29,549,000</u>	<u>29,373,000</u>
Less accumulated depreciation and amortization	18,843,000	19,227,000	17,848,000
	<u>10,442,000</u>	<u>10,322,000</u>	<u>11,525,000</u>
Other assets:			
Deferred income taxes, net of valuation allowance of \$804,000, \$804,000 and \$0, respectively (Note D)	3,132,000	3,126,000	
Other receivable, less allowance of \$906,000, \$906,000, and \$906,000 respectively	5,474,000	5,474,000	5,474,000
Miscellaneous	1,142,000	1,130,000	1,081,000
	<u>9,748,000</u>	<u>9,730,000</u>	<u>6,555,000</u>
<b>TOTAL ASSETS</b>	<b>\$ 66,019,000</b>	<b>\$ 68,846,000</b>	<b>\$ 77,771,000</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 7,385,000	\$ 9,818,000	\$ 16,999,000
Accrued compensation	1,727,000	1,672,000	1,783,000
Accrued expenses	3,167,000	3,230,000	2,924,000
	<u>12,279,000</u>	<u>14,720,000</u>	<u>21,706,000</u>
Revolving credit note (Note E)	18,873,000	21,055,000	23,874,000
Subordinated notes payable to shareholders	2,579,000	2,579,000	2,579,000
Deferred income taxes (Note D)	3,292,000	3,227,000	
Other long-term liabilities	845,000	850,000	856,000
	<u>37,868,000</u>	<u>42,431,000</u>	<u>49,015,000</u>
Shareholders equity:			

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Common stock, par value \$0.10 per share; 25,000,000 shares authorized; 8,476,372 shares issued and outstanding in 2003 and 2002

	847,000	847,000	847,000
Additional paid-in capital	10,560,000	10,560,000	10,560,000
Retained earnings	16,744,000	15,008,000	17,349,000
	<u>          </u>	<u>          </u>	<u>          </u>
Total shareholders equity	28,151,000	26,415,000	28,756,000
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$66,019,000	\$68,846,000	\$77,771,000
	<u>          </u>	<u>          </u>	<u>          </u>

**REEDS JEWELERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three months ended May 31	
	2003	2002
Net sales	\$ 19,598,000	\$ 20,927,000
Cost of sales	9,874,000	10,462,000
	9,724,000	10,465,000
Gross profit	9,724,000	10,465,000
Selling, general and administrative expenses	10,493,000	10,805,000
Depreciation and amortization	596,000	602,000
	(1,365,000)	(942,000)
Operating loss	(1,365,000)	(942,000)
Interest expense	307,000	361,000
	(1,672,000)	(1,303,000)
Loss from continuing operations before income taxes	(1,672,000)	(1,303,000)
Income tax benefit	(482,000)	(482,000)
	(1,672,000)	(821,000)
Loss from continuing operations	(1,672,000)	(821,000)
Loss from discontinued operations, net of income tax benefit of \$0 and \$46,000, respectively	(64,000)	(79,000)
	\$ (1,736,000)	\$ (900,000)
Net loss	\$ (1,736,000)	\$ (900,000)
Basic and diluted net loss from continuing operations per share	\$ (0.19)	\$ (0.10)
Basic and diluted net loss from discontinued operations per share	(0.01)	(0.01)
	\$ (0.20)	\$ (0.11)
Basic and diluted net loss per share	\$ (0.20)	\$ (0.11)
Weighted average shares outstanding-diluted	8,476,372	8,476,372

