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Independent Investment Research

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RESEARCH REPORT

Friedman's Inc.

October 8, 2003

Symbol (NYSE)	FRM
Industry:	Specialty Retail
Recent Price:	$12.81
52-Week Price Range:	$6.36-$17.50
Target Price (12 months):	$18.84
Avg. Daily Vol. (30 day):	337,600

Fiscal Year Ending: September				
Year		EPS	P/E	REVS	PSR
2001	A	$ 0.84	15.3 x	$ 411.0	.6 x
2002	A	$ 1.34	9.6 x	$ 436.1	.6 x
2003*	E	$ 1.42	9.0 x	$ 611.2	.4 x
2004*	E	$ 1.57	8.2 x	$ 685.8	.4 x

Balance Sheet Data 6/28/03 (mil)	
Cash Equivalent:	$ 0.3
Working Capital:	$ 285.6
Long-Term Liabilities:	$ 126.6
Shareholders' Equity:	$ 303.8

Ownership and Valuation	
Shares Outstanding (mil):	18.9
Inside Ownership:	15%
Institutional Ownership:	65%
Equity Market Value (mil):	$ 242.5

Current Rating History	
Date Assigned:	5/7/03
Price at Rating:	$ 10.83
Original Price Target:	$ 14.49
Time Frame:	12 months

* with Crescent Jewelers consolidated

Annual Update Report

Rating: Strong Buy

Basis for Rating

The jewelry industry has performed better than the overall retail environment in recent years, and we believe favorable demographic trends argue for a continuation of superior relative performance through the remainder of the decade. Friedman's is the third largest specialty jewelry retailer in the United States. While expanding into 20 states, the Company has positioned itself as a hometown jeweler by paying close attention to local consumer preferences, making credit decisions at the store level, and creating a decentralized management structure. We believe these shares represent a timely investment for the following reasons:

- Friedman's is accelerating its store expansion at a time when difficult economic conditions are being translated into favorable store lease arrangements. The Company added 29 stores in the September quarter to the 675 stores open at June's end, bringing the full year increase to 54 stores. A planned increase of 56-66 stores in the September 2004 fiscal year would bring the store count to 760-770. These increases compare with net additions of 24 stores in fiscal 2001 and 7 stores in fiscal 2002

- Beginning with its September 2003 financial report, Friedman's will be consolidating the results of its Crescent Jewelers affiliate in accordance with FASB Interpretation No. 46. Management has previously indicated that this will add $0.03-$0.06 to reported fiscal 2003 EPS. We estimate that the benefit to fiscal 2004 EPS will be in the $0.10-$0.15 range.

- In order to finance the accelerated expansion program and support and, potentially, acquire Oakland, California-based Crescent Jewelers, as well as to repay some debt and build working capital, Friedman's sold 3,565,000 shares of Class A stock at $15.00 per share through a public offering on September 19.

- Friedman's target market of 18-45 year old, low to middle-income consumers is a large and growing market that is underserved.

- Friedman's unique in-store credit program enhances both sales and customer relationships with 75% of monthly credit payments made in person at the store.

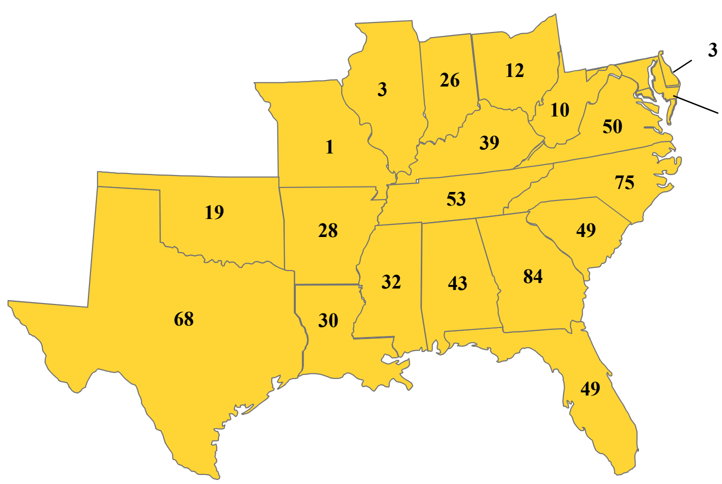
- A power strip center is a shopping center anchored by at least one large discounter. Friedman's strategy of opening new stores primarily in power strip centers enables it to reach its target market as the only specialty jewelry retailer in a high traffic area.

- In our judgment, the current share price still reflects some investor confusion regarding Friedman's investment in Crescent Jewelers, which we believe will be alleviated first by the financial consolidation of results in the September 2003 fiscal year report and then by the merger of the two companies on terms attractive to Friedman's the following year. Friedman's shares currently trade at only 8.2x our fiscal 2004 EPS projection versus 12.7x and 13.5x for the two larger specialty jewelry retailers, Zale Corporation (ZLC-$47) and Signet (SIGY-$56). We believe this low relative valuation is unjustified by the relative growth prospects of Friedman's and these two companies, and anticipate an upward revaluation of Friedman's shares over the next year. Based on a 12 multiple of our September 2004 EPS estimate of $1.57, we have a 12-15 month target price of $18.84 for the shares.

Company Profile

Friedman's, headquartered in Savannah, Georgia, is the third largest retailer of fine jewelry in the United States, operating 704 stores in 20 states in the Southeast as of October 2, 2003. As indicated in Figure 1 below, more than half of Friedman's stores are located in the Southeast's five coastal states—Virginia, North Carolina, South Carolina, Georgia and Florida—and in Texas. Two-thirds (477) of the stores are located in strip shopping centers and the remaining one-third (227) are located in enclosed malls.

Figure 1: Distribution of Friedman's Stores as of August 23, 2003



Source: Friedman's

Although the Company was founded in 1920, its growth began to greatly accelerate beginning in fiscal 1992 when the store base stood at 55. The surge in store openings peaked in fiscal 2000 when the net addition of 88 stores brought the total number of stores in operation up to 619. In an effort to allow its chain of stores to mature and improve in profitability, Friedman's added only 24 stores in fiscal 2001 and 7 stores in fiscal 2002 bringing the total to 650. Friedman's is now re-accelerating its store expansion at a time when difficult economic conditions are being translated into favorable store lease arrangements. The Company added 25 stores in the first nine months of fiscal 2003, and another 29 stores in the September quarter, and expects to add 56-66 stores in the September 2004 fiscal year.

Friedman's targets consumers with household income in the $34,000-$50,000 range (59% of U.S. population) and aged 18 to 45 years (43% of U.S. population). Diamonds account for approximately 68% of revenues; gold, 22%; watches, 5%; and gemstones, 5%. The Company uses extensive advertising to identify itself as a retailer of fine jewelry at value prices.

The Resilient Jewelry Industry

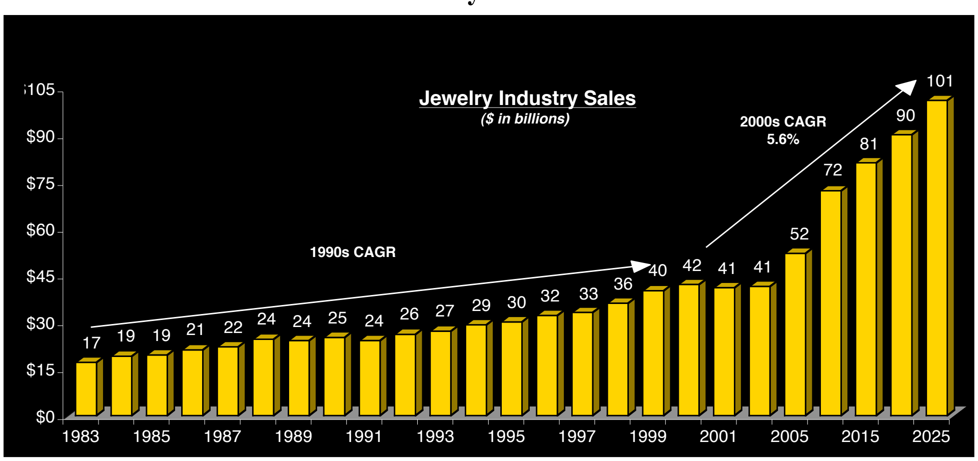
The jewelry industry enjoyed relatively stable sales growth over the past decade (see Table 1 and Chart 1 below). Since 1992, sales of fine jewelry at specialty jewelry stores have grown at a compounded annual rate of 5.2%, reaching $25.1 billion in 2002. Industry sales, after moving lower in 2001, rebounded to record levels last year. Based on the favorable demographics (see Charts 2 and 3 below) of the baby boomer generation entering the 45-54 age range, which historically has been the households spending the highest per capita on jewelry), this sector is likely to continue to gain an increasing percentage of the consumer dollar (rising from 1.8% in 1999 to a projected 2.6% in 2010). The 20-24 years old "echo boomers", an important Friedman's market, are also growing faster than the overall population

Table 1: Jewelry Industry Sales

Year	(Bil $)	% Change
1991	$23.90	----
1992	$25.80	7.90%
1993	$27.00	4.70%
1994	$28.80	6.70%
1995	$30.40	5.60%
1996	$32.20	5.90%
1997	$33.00	2.50%
1998	$35.70	8.20%
1999	$39.70	11.20%
2000	$41.60	4.80%
2001	$40.60	-2.40%
2002	$41.30	1.70%

Source: Jewelry Industry Research Institute

Chart 1. Jewelry Sales over Time



Source: Jewelry Industry Research Institute

Chart 2: U.S. Households by Age Range

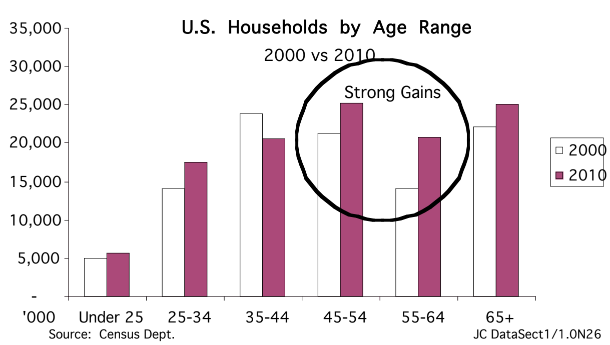
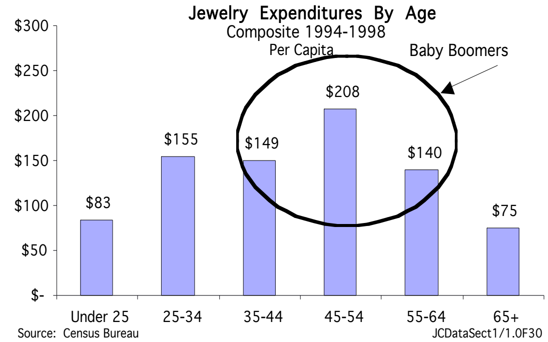


Chart 3: Jewelry Expenditures by Age



Despite some movement toward consolidation, this remains a highly fragmented industry with approximately 25,000 jewelry stores nationwide and with the top 15 specialty jewelry retailers accounting for less than 20% of the total jewelry market. Zale Corporation, utilizing a number of different store names, is the largest U.S. retail jewelry chain but accounts for only 5% of the market.

Friedman's: "The Value Leader®"

Friedman's uses "The Value Leader" as a trademarked description of its jewelry chain and seeks to position itself as such by offering its customers a broad selection of competitively priced quality merchandise and a high level of service. Friedman's effort to offer value is reflected in a cost-aware company culture. As part of a cost conscious environment, Friedman's strives to achieve low costs in headquarters and regional management operations as displayed by its modest Oakland office and in the placement of regional managers' offices in the back of stores. The depreciation and interest on the new Savannah headquarters is expected to approximate the rent Friedman's has been paying on the various Savannah buildings the Company has leased.

Friedman's merchandise planning system allows stores to quickly replenish by item based on product sales and to focus its efforts on local customer purchasing preferences. In-case displays are customized for each store type and season. This merchandising approach is supported by different versions of advertising tailored to these local preferences as well as specific market demographics. The ability to maintain a high in-stock rate of advertised popular merchandise has resulted in a 25% improvement in the inventory turnover rate since fiscal 1999. This rate now stands at about 50% above the industry average at 1.5x.

Product quality is supported by Friedman's inspection policies. All of the merchandise received from vendors is examined at the Company's Savannah distribution center. This inspection is done in the absence of vendor representatives so as to eliminate any vendor influence. Shipments not in accordance with Friedman's quality and design requirements are returned and a charge-back against the purchase order is received.

Value is not simply an issue of product quality and price. Particularly in the jewelry industry, value includes the overall shopping experience. We are impressed that, unlike most of its competitors, Friedman's brightly illuminates its stores making them less intimidating for the 18-to-45 years old, low- to-middle income target customers. Friedman's store personnel are encouraged to know their customers, frequently greeting repeat customers by name. This all-encompassing value proposition has resulted in a high rate of repeat business.

The In-Store Credit Program

During the first nine months of fiscal 2003, 52.2% of Friedman's net merchandise sales were generated by credit sales. Friedman's proprietary credit program is one of the few in-house programs run by jewelry retailers. The Company encourages credit customers to make monthly payments at the store and approximately 75% do so. Friedman's stores average 10 in-person payments per day. The Company believes this program not only encourages additional purchases, but also strengthens their sales associates' personal relationships with customers. Moreover, Friedman's uses a standardized credit scoring model and system that enables sales associates to evaluate credit risk in the store, providing its customers convenient access to credit.

Importantly, the responsibility for collecting accounts receivable remains in the store rather than being given to a central collection operation. Each credit customer receives a thank you note shortly before the first monthly payment is due. If the first payment is a day late, the customer gets a friendly reminder call. These policies are part of a disciplined program of customer contact that not only helps to reduce the number of uncollectibles but also provides yet another avenue for building the sales associate/customer relationship.

Friedman's policy is generally to write off in full any credit accounts receivable where no payment has been made for 120 days or that, regardless of credit history, is judged uncollectible. Over the 2000–2002 period, year-end accounts receivable greater than 90 days past due have represented 4.6% to 5.8% of total accounts receivable. As of the end of the June 2003 quarter, this figure stood at 5.3%. Accounts receivables less than 30 days past due during this period represented 84.6% to 85.6% of the total. As of the end of the June quarter, this figure stood at 83.7%. Although recent results have somewhat reflected soft economic conditions, we believe Friedman's ability to achieve a reasonably stable credit portfolio experience in the current difficult economy speaks well of the Company's credit policies. Over the past year, Friedman's installed a new computerized credit system in order to further enhance efficiency and control.

The Power Strip Strategy

Friedman's follows a unique store location strategy, placing the majority (477) of their stores in power strip centers. These are high-traffic shopping centers anchored by at least one large discounter; and that discounter is Wal-Mart (WMT-$58) in 325 of its locations. Target (TGT-$39) is the anchor in 25 locations. Its stores are often complimented by the presence of other discount-oriented specialty retailers such as: Cato (CTR-$22): women's fashion apparel; Charming Shoppes (CHRS-$6): plus-size women's apparel; Dollar Tree (DLTR-$36): discount variety; and Payless Shoes (PSS-$14): family footwear.

The benefits of this strategy include lower opening and operating costs, which result in higher returns on investment and profit margins. Importantly, in most cases, Friedman's obtains the right to be the only retail jeweler in the center and has the option to break its lease if the anchor store is closed. The comparable economics of Friedman's power strip and mall store models are provided in Table 2 below:

Table 2: Power Strip vs. Mall Store Locations

	Power Strip		Mall	
	1st Year	5th Year	1st Year	5th Year
Investment				
Inventories, net of payables	$140,000	$210,000	$170,000	$305,000
Leaseholds/assets	$87,500	$25,000	$225,000	$112,500
Accounts receivable*	$42,500	$63,750	$63,750	$93,500
Total	$270,000	$298,750	$458,750	$511,000
Sales	$500,000	$750,000	$750,000	$1,100,000
Store contribution	$80,000	$165,000	$110,000	$220,000
As % of sales	16%	22%	15%	20%
As return on investment	30%	55%	24%	43%

* assumes receivables are financed at 7.5%

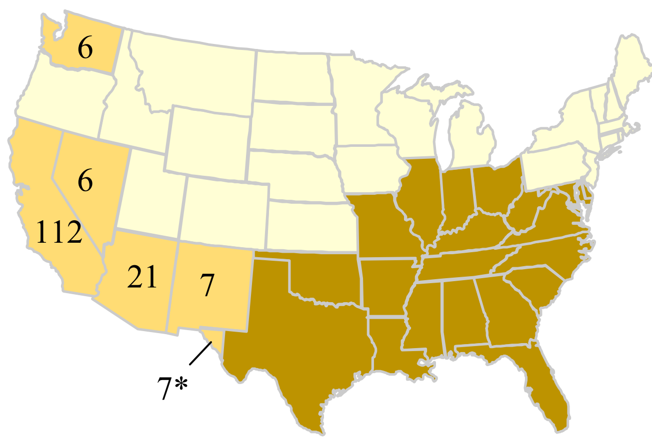
Source; Friedman's

The power strip strategy provides substantial growth opportunity. Currently, Wal-Mart, Friedman's preferred anchor, has 2,042 stores in Friedman's states of operation. This leaves 1,356 Wal-Mart anchored strips for consideration as possible locations for new stores in those states.

The Crescent Opportunity

Crescent Jewelers is a specialty retailer of fine jewelry based in Oakland, California; as of September 2003, it had 170 stores in six western states: California, Arizona, New Mexico, Nevada, Washington and Texas (see Figure 2 below). Of these, 100 stores are located in regional malls and 69 are located in power strip centers. Net sales for the 12 months ended September 28, 2002, were $138.4 million. We project sales of $144 million for 2003 and $164 million in 2004. Looking at Crescent on a stand-alone basis, we estimate earnings after preferred dividends paid to Friedman's of approximately $950,000 in fiscal 2003 and $3.25 million in fiscal 2005.

Figure 2: Distribution of Crescent Stores as of June 2003



* Three stores are Joyerias Itza stores

Source: Friedman's

In its home base of California, Crescent operates significantly more stores than its nearest competitor. Friedman's has maintained a strategic relationship with Crescent since 1996. It is management's stated goal to combine the companies at a time in the future when this merger would be viewed as statistically positive for Friedman's shares. More immediately, Friedman's indicated that it expects to consolidate Crescent Jewelers' operations with its own for financial reporting purposes (in line with its interpretation of current FASB requirements) in its September 27, 2003, fiscal year report, effective the beginning of fiscal 2003.

Crescent's business model fits well with Friedman's. It targets the same demographic market utilizing a value orientation and a proprietary credit program. The combination of the two companies would provide Friedman's the opportunity to expand to the West Coast; benefit from larger volume, buying thereby reducing its cost of goods; reduce overhead costs by eliminating duplicate operations; and trim financing costs.

We are particularly intrigued by Crescent's new Joyerias Itza store concept. These stores are aimed at the Spanish-speaking market, both by having advertising, signage and displays in the Spanish language and by having a product selection aimed at the Spanish-speaking consumer. Specifically, there is an emphasis on 14-carat gold, a product that tends to offer above-average margins relative to the overall fine jewelry mix. Starting with three stores in El Paso, the plan is to add two stores in El Paso in September, three more in a new market in time for the Christmas season and 7-12 stores in fiscal 2004, bringing the total to 15-20 Joyerias Itza stores. The Company believes that the market for this retailing concept can potentially support over 250 stores.

The current Friedman's arrangement with Crescent includes:

- ownership of a warrant to purchase 50% of Crescent's capital stock for $500,000.
- an $85 million direct investment in Crescent consisting of $50 million of Series A floating rate Preferred Stock and $35 million of a floating rate Senior Subordinated Note;
- use of "The Value Leader" trademark by Crescent; and
- an agreement under which Friedman's provides accounting and processing services for approximately $1 million in annual fees (which is accounted for by a reduction in Friedman's SG&A).

Crescent's results prior to the refinancing had been hampered by inadequate and high-cost credit. The $85 million direct investment by Friedman's was announced in August 2002; it replaced an arrangement whereby Friedman's guaranteed the obligations of Crescent under a $112.5 million senior secured revolving credit facility in return for a fee at a 2% per annum rate based on the preceding quarter. Importantly, Crescent's improved capitalization has enabled it to stock adequate inventory at more advantageous prices and resume store expansion. Crescent has gone from having 156 stores in June 2002 to 169 in June 2003, and plans are to have 185-190 stores in operation by this Christmas season (we expect a 50/50 split between strip center and mall-based stores in this expansion) and 207-217 by the end of fiscal 2004. This benefit, as well as lower borrowing costs, should enable Crescent to move towards greater profitability and bring closer the day when a merger can be contemplated.

Although we view the Crescent relationship as a significant potential positive for Friedman's, the issue of shared ownership and management of the two companies has been a matter of investor concern. Phillip E. Cohen has effective control of Friedman's through his ownership, through MS Jewelers Corporation, of the Class B common stock, which has the right to elect 75% of Friedman's directors. Mr. Cohen is also a general partner of a limited partnership that controls 80% of Crescent.

In addition, Sterling B. Brinkley is Chairman of the Board of Friedman's and is also a Director of Crescent and has equity positions in both companies. Moreover, Bradley Stinn and Victor Suglia hold the CEO and CFO positions at both Friedman's and Crescent, and Mr. Stinn has equity in each business. Beyond the need for fairness opinions for any transaction between the companies and what we believe is a very reasonable presumption of honesty on the part of the participants, we expect that just on the basis of self-interest, given their larger investment in Friedman's, Mr. Brinkley, Mr. Stinn, and Mr. Suglia will aggressively protect the interests of Friedman's shareholders in any combination of the companies.

Moreover, although the strategic and operational benefits to Friedman's of a combination with Crescent are likely to be considerable, the incremental cost will be minimal. Crescent's projected 12 months EBITDA through September 2003 is $13.8 million. Assuming that Crescent would be valued at 7.5x EBITDA in an acquisition, a current enterprise value of $103.5 million is generated. Subtracting Friedman's current $85 million investment and Crescent's $42.7 million in bank debt results in a negative equity value. Accordingly, we believe the potential benefits to Friedman's substantially outweigh the risk of a burdensome payment for Crescent.

In any event, we believe the consummation of a Crescent takeover could be two to three years away, pending improved operating results for Crescent as it continues to benefit from the last year's financial restructuring and fully realizes the tax benefits from existing non-operating losses.

Management

- **Bradley J. Stinn, Chief Executive Officer (CEO) and Chairman of the Executive Committee of the Board of Directors.** Mr. Stinn has been CEO since 1992 and Chairman of the Executive Committee since July 1998. He has also been chairman and CEO of Crescent Jewelers since June 1995 and a director of MS Jewelers Corporation since May 1990.

- **Douglas Anderson, President and Chief Operating Officer (COO).** Mr. Anderson joined the firm as President and COO in September 2001. Prior to joining Friedman's, he was President and CEO of Thorn America, Inc. (operator of Rent-A-Center Stores) and, before that, of the Brookstone Company (a retailer and catalog marketer of specialty hard goods).

- **Victor M. Suglia, Senior Vice President and Chief Financial Officer (CFO).** Mr. Suglia has been Senior Vice President and CFO since June 1997 and the corporate Treasurer and Secretary since November 1997. In addition, he has served as CFO of Crescent Jewelers since September 1999. For the six years prior to joining Friedman's, Mr. Suglia was Vice President and corporate Controller of Saks Holdings, Inc.

Friedman's has an experienced top management team. However, we believe that equally important to the Company's success is its decentralized management structure. The 704 store managers are called Store Partners. Although salaried, the Store Partners are incentivized by quotas and commissions. Sales associates in the stores are also motivated by linking a substantial portion of their compensation to store performance. The Store Partners report to 55 "Senior Partners" who are responsible for approximately 13 stores each. Store Partners report on their business during each day to their Senior Partner, who reports to one of seven Territorial Vice Presidents, who are responsible for approximately 100 stores each. In this way, individual store performance is reviewed on a daily basis by senior management so that local opportunities and/or problems can be addressed immediately.

Financial Projections

We anticipate revenues for the Friedman's chain to generally grow at no less than a 10% rate next year, based on a continuation of same-store sales gains of 3%-3.5% and annual store additions in the 8%-9% range (56-66 stores, net). With operating margins expected to show modest improvement, reflecting continued attention to cost containment both at the store and headquarters level, and with net interest expense expected to decline, after-tax income (before the consolidation of Crescent results) is projected to rise 24.3% in the September 2004 fiscal year. Adjusting for a 21.3% increase in the average shares outstanding, and including estimated reported EPS contributions from Crescent of $0.03 in fiscal 2003 and $0.14 in fiscal 2004, we are projecting a 10.6% gain in earnings per share in fiscal 2004 from an estimated $1.42 to $1.57.

Risks

Competition

Friedman's competes with national, regional and local jewelry store businesses (57% of jewelry market), the jewelry departments of mass merchandisers and department stores (37% of jewelry market), and such alternative distribution channels as catalogs, home shopping and the Internet (6% of jewelry market). We believe Friedman's has shown itself to be a strong competitor of other specialty jewelry stores, with its regional focus making it the largest specialty jewelry retailer in its 20-state market. Aided by its cluster approach to siting stores, which has resulted in creating advertising critical mass in the majority of its markets, Friedman's is able to engage in cost-effective local advertising and is the most frequent advertiser in its markets. Its advertising includes newspaper inserts (150 million annually), television (70 spot markets with 1.2 billion impressions annually), and direct mail (6 million pieces mailed annually).

Friedman's quality product line addresses a higher-priced market than that of mass merchandisers. The Company's success piggy-backing on the customer traffic of stores such as Wal-Mart and Target underscores the non-competitive nature of these discounters' jewelry offerings. Department stores are usually not located close to Friedman's power strip centers. Historically, catalogs, home shopping and the Internet have been unable to take a significant part of the fine jewelry market. (Friedman's own ongoing Internet operation has provided little benefit to the Company and was written off during fiscal 2001.)

Economic Weakness
Discretionary purchases, such as jewelry, typically suffer during difficult economic periods. Although many economic indicators have shown improvement in recent months, employment figures remain weak with unemployment stuck above 6% and new job creation sluggish at best. Accordingly, there is understandable concern as we enter the December quarter, which has accounted for over 40% of Friedman's annual sales. However, as pointed out earlier, the jewelry industry has held up surprisingly well on a consistent basis. In addition, with over 30% of Friedman's sales going to the bridal market, at least part of its business may be more stable than other "discretionary" sectors. High unemployment is often accompanied by deteriorating credit experiences. Although the situation may worsen, Friedman's credit policies have thus far been able to mitigate any worsening of credit portfolio ratios.

Legal Proceedings
In an 8-K filing, Friedman's disclosed on October 2 that it had been notified by the U.S. Department of Justice on September 29 that the Department was conducting an investigation relating to the allegations asserted in the Capital Factors lawsuit.

The Capital Factors lawsuit itself is not new news—the lawsuit was filed on August 13. In the lawsuit, Capital Factors, a receivables factoring company that factored the accounts receivable of Cosmopolitan, alleged that Friedman's, along with 13 other defendants, including Crescent Jewelers and Whitehall Jewellers "intentionally or negligently participated with Cosmopolitan in the misrepresentation of the balance of Cosmopolitan's accounts receivable, the effect of which was to induce Capital Factors to continue to advance funds to Cosmopolitan." Capital Factors also alleges that Cosmopolitan's customers "improperly made payments on accounts with Cosmopolitan directly to Cosmopolitan." In general, Capital Factors alleges damages against all defendants of "not less than $30 million" and seeks punitive damages.

Friedman's also previously reported that on September 8, 2003, Friedman's, Crescent and at least one other defendant, Whitehall Jewellers, were contacted by the SEC, which has opened an informal inquiry into the allegations contained in the Capital Factors lawsuit.

At the time of the lawsuit and in the prospectus for the September 19 common stock offering, Friedman indicated its intention "to vigorously defend the claims." After the SEC announcement, Friedman's stated that it intended "to fully cooperate with the SEC and provide the SEC with any information that it may request from the company in that regard."

Friedman's announced on October 2 that the Audit Committee of its Board of Directors, composed of independent directors, had initiated an internal investigation into the matter and that Friedman's and the Audit Committee intends "to fully cooperate with the Department of Justice and provide the Department with any information that it may request from the company in that regard."

A Justice Department investigation is always a cause of considerable concern. Still, in the recent prospectus, the Company expressed its belief that the Capital Factors lawsuit would not have "a material adverse effect" on its operations or operating expenses. While this may change as the investigation progresses, we have contacted Friedman's and, as of now, the Company indicates that its "stance on the lawsuit is unchanged." Furthermore, as we attempt to evaluate the lawsuit, we are struck by what, on the face of it, is the unlikelihood that 14 defendants, including numerous competitors, conspired to commit a fraud on behalf of a supplier. In sum, Friedman's shares have already weakened in response to the news of the Justice Department investigation, and as we are optimistic about the Company's fundamental outlook, we believe investors willing to accept the risk of adverse developments in the Capital Factors matter may discover the current depressed price an excellent buying opportunity.

Conclusion

Friedman's appears to be at a turning point. After closing under-performing stores in 2001 and limiting new store openings in 2002, the Company is now accelerating new store expansion both in its core chain and at its Crescent Jewelers affiliate. Friedman's regional concentration positions it as a leader in most of its geographic markets, and this is true of Crescent in California as well. Its jewelry market should continue to outperform the overall retail sector based on favorable demographic trends. We believe a perceived issue based, in our view, on unjustified concerns regarding a potential acquisition is well on its way to resolution. Friedman's announced stock offering will strengthen its financial base to support growth. In view of these considerations, we believe it is reasonable to anticipate that Friedman's shares will benefit not only from projected earnings gains but also from an expansion in their price/earnings multiple to peer levels and we are reconfirming our **Strong Buy** rating. Our 12-month price target for the stock of $18.84, based on our September 2004 fiscal year earnings per share estimate of $1.57 and a price/earnings multiple of 12x, is almost 50% above the current share price level.

Table 3. Friedman's Inc.
Balance Sheet
(in thousands of dollars)

	6/28/03 Friedman's	6/28/03 Crescent	6/28/03 Pro Forma Consolidation Adjustments	6/28/03 Pro Forma Consolidation	6/29/02 Friedman's
Assets					
Current Assets					
Cash and cash equivalents	$ 286	$ 69	$ -	$ 355	$ 318
Net accounts receivable	$ 176,433	$ 68,207	$ -	$ 244,640	$ 153,180
Inventories, at cost	$ 153,134	$ 44,345	$ -	$ 197,479	$ 144,404
Other current assets	$ 17,058	$ 5,349	$ (4,399)	$ 18,008	$ 12,668
Total Current Assets	$ 346,911	$ 117,970	$ (4,399)	$ 460,482	$ 310,570
Equipment and improvements, net	$ 52,947	$ 15,008	$ -	$ 67,955	$ 51,438
Intangibles, net	$ 5,022	$ 2,264	$ -	$ 7,286	$ 5,022
Receivables from Crescent Jewelers	$ -	$ -	$ -	$ -	$ 108,885
Investment in Crescent Jewelers	$ 85,000	$ -	$ (85,000)	$ -	$ -
Other assets	$ 6,296	$ 4,330	$ -	$ 10,626	$ 3,327
Total assets	$ 496,176	$ 139,572	$ (89,399)	$ 546,349	$ 479,242
Liabilities and Stockholders' Equity					
Current Liabilities					
Accounts payable	$ 41,601	$ 25,845	$ -	$ 67,446	$ 27,400
Accrued Liabilities	$ 19,041	$ 9,291	$ (4,399)	$ 23,933	$ 21,180
Bank debt, Crescent Jewelers	$ -	$ 42,692	$ -	$ 42,692	$ 108,885
Bank debt, Friedman's and capital lease obligation	$ 632	$ -	$ -	$ 632	$ 39,589
Total current liabilities	$ 61,274	$ 77,828	$ (4,399)	$ 134,703	$ 197,054
Long term bank debt, Friedman's	$ 126,565	$ -	$ -	$ 126,565	$ -
Long term capital lease obligation	$ -	$ -	$ -	$ -	$ 653
Deferred Income taxes and other	$ 2,581	$ 1,117	$ -	$ 3,698	$ 1,257
Minority interest in equity of subsidiaries	$ -	$ -	$ -	$ -	$ 61
Subordinated Debt	$ -	$ 35,000	$ (35,000)	$ -	$ -
Redeemable Preferred Stock	$ -	$ 50,000	$ (50,000)	$ -	$ -
Stockholders' Equity					
Common stock	$ 188	$ 79	$ (79)	$ 188	$ 186
Additional paid-in-capital	$ 155,523	$ 31,779	$ (31,779)	$ 155,523	$ 154,027
Retained earnings	$ 152,045	$ (55,558)	$ 31,185	$ 127,672	$ 126,977
Stock purchase loans and compensation	$ (2,000)	$ (673)	$ 673	$ (2,000)	$ (973)
Total stockholders' equity	$ 305,756	$ (24,373)	$ -	$ 281,383	$ 280,217

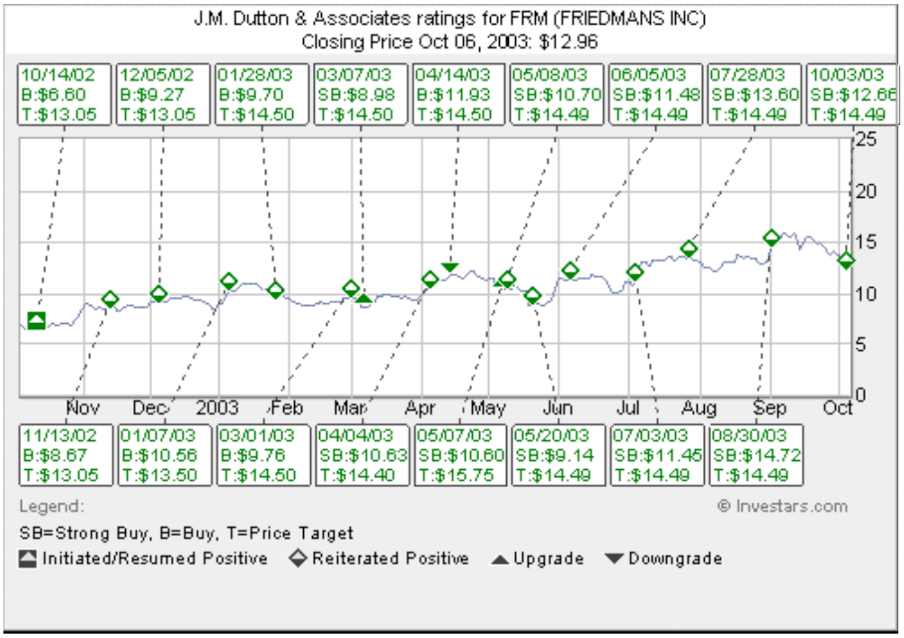
Adjustments eliminate intercompany receivables and payables between Friedman's and Crescent, the Friedman's investment in Crescent, and Crescent equity accounts at the balance sheet date and reflects in retained earnings the impact of the consolidation of Crescent on net income for the nine months ended June 28, 2003.

Source: Company SEC filings

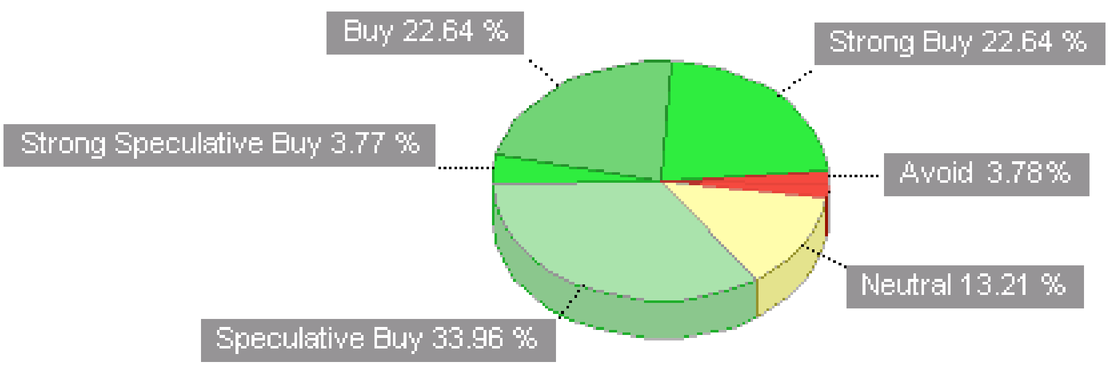
Table 4. Friedman's Inc.
Earnings Model
For The Years Ended September 30
(in thousands of dollars except per share data)

	2000	% of Sales	2001	% of Sales	2002	% of Sales	2003E	% of Sales	2004E	% of Sales
Net Sales	$ 376,351		$ 411,037		$ 436,069		$ 468,891		$ 521,792	
Operating Costs/Expenses										
Costs of Goods Sold	$ 199,646	53.05%	$ 216,265	52.61%	$ 227,486	52.17%	$ 246,088	52.48%	$ 271,627	52.06%
Selling, Gen. & Admin.	$ 133,316	35.42%	$ 160,941	39.15%	$ 161,536	37.04%	$ 168,613	35.96%	$ 186,248	35.69%
EBITDA	$ 43,389		$ 33,831		$ 47,047		$ 54,190		$ 63,917	
Depreciation/Amortization	$ 9,479	2.52%	$ 13,881	3.38%	$ 11,340	2.60%	$ 12,821	2.73%	$ 13,525	2.59%
Income from Operations	$ 33,910	9.01%	$ 19,950	4.85%	$ 35,707	8.19%	$ 41,369	8.82%	$ 50,391	9.66%
Net Interest	$ 2,388		$ 2,511		$ 305		$ 971		$ 200	
Pretax Income	$ 31,522	8.38%	$ 17,439	4.24%	$ 35,402	8.12%	$ 40,398	8.62%	$ 50,191	9.62%
Income Tax Expense	$ 11,849		$ 6,584		$ 12,415		$ 13,990		$ 17,316	
Tax Rate	37.6%		37.8%		35.1%		34.6%		34.5%	
Minority Interest	$ (31)		$ (1,374)		$ (180)		$ (44)		$ -	
Net Income	$ 19,704	5.24%	$ 12,229	2.98%	$ 23,167	5.31%	$ 26,452	5.64%	$ 32,875	6.30%
Earnings Per Share - FD	$ 1.36		$ 0.84		$ 1.34		$ 1.39		$ 1.43	
Weighted Aver. Shrs. Outstndg.	14,445		14,531		17,347		18,997		23,050	
Crescent Jewelers										
Net Sales							$ 144,500		$ 164,000	
Operating Costs/Expenses										
Costs of Goods Sold							$ 78,030	54.00%	$ 86,920	53.00%
Selling, Gen., & Admin.							$ 50,575	35.00%	$ 57,400	35.00%
EBITDA							$ 15,895		$ 19,680	
Depreciation/Amortization							$ 3,600	2.49%	$ 3,900	2.38%
Income from Operations							$ 12,295	8.51%	$ 15,780	9.62%
Net Interest							$ 5,800		$ 5,800	
Pretax Income							$ 6,495	4.49%	$ 9,980	6.09%
Income Tax Expense							$ 2,273		$ 3,493	
Tax Rate							35.00%		35.00%	
Preferred Dividend							$ 3,240		$ 3,240	
Net Income Available to Common Shareholders							$ 982	0.68%	$ 3,247	1.98%
Earnings Per Friedman's Share - FD							$ 0.03		$ 0.14	
Combined Friedman's & Crescent										
Net Sales							$ 613,391		$ 685,792	
EBITDA							$ 70,085		$ 83,597	
Net Income							$ 27,434		$ 36,122	
Earnings Per Share - FD							$ 1.42		$ 1.57	

Source: Company SEC filings and J.M. Dutton & Associates estimates



J. M. Dutton Ratings Breakdown - All Covered Companies



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Paul Resnik has over thirty years of experience in the investment industry. He is currently the principal of Resnik Asset Management Co., Inc. (RAMCO), a registered investment advisor providing equity portfolio management to high net worth individuals. Prior to founding RAMCO in 1995, he held executive positions in portfolio and securities analysis and investment strategy at major investment firms including Merrill Lynch, Paine Webber, E.F. Hutton, Shearson Lehman Brothers and Smith Barney. At E.F. Hutton, Mr. Resnik created the firm's Equity Research Marketing Department. In this position, he provided investment guidance to the firm's representatives and, at public seminars across the country, to individual investors. At Lehman Brothers, Mr. Resnik was a member of the highly rated Equity Research Department's Investment Policy Committee which, in addition to working with securities analysts in determining common stock investment ratings, selected the firm's well-known annual "Uncommon Values" list. His professional designations include Chartered Financial Analyst and Registered Supervisory Analyst. He is a member of the Association for Investment Management and Research (AIMR).

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