

Fred's

Vendor Standards—2010

WHEREAS: Reports of human rights abuses in the international subsidiaries and suppliers of some U.S.-based corporations has increased public awareness of the problems of child labor, forced labor and the denial of basic labor rights.

As investors, we believe it is prudent for our company to ensure that its employees, suppliers and vendors comply with the United Nations' International Labor Organization's (ILO) core labor standards. Human rights violations in the workplace or supply chain can damage our company's reputation, lead to the loss of brand value and result in costly litigation.

A large number of U.S. companies are purchasing agricultural raw materials grown or manufactured in countries or regions with alleged and well-documented human rights abuses and unfair labor practices. According to the U.S. Department of Labor, forced child labor in hazardous conditions is widespread in the cotton fields of Uzbekistan and the cocoa farms of West Africa. (U.S. Department of Labor's "2009 List of Goods Produced by Child Labor or Forced Labor").

Fred's sells products wholly or partially sourced from areas of the world where national policies are weak and/or unenforced. Our company's Vendor Code of Conduct expressly prohibits child labor and forced labor, and states that vendors "should take steps to ensure that subcontractors also operate in a manner that is consistent with the Code." However, there are no mechanisms described within the Code for monitoring, enforcement, or reporting.

Retailers including Walmart, Target and Kohl's have taken steps to monitor their supply chain, in some cases down to the commodity level. We believe adopting a more comprehensive Code may result in significant commercial advantages through enhanced corporate reputation, improved community and stakeholder relations and reduced risk of adverse publicity, consumer boycotts, divestment campaigns and lawsuits.

We believe Fred's Vendor Code should conform to the ILO core labor standards and the United Nations' Universal Declaration of Human Rights. Furthermore, we believe that a credible code compliance program includes independent monitoring, a transparent verification process and regular public reporting of monitoring results.

RESOLVED: Shareholders request that the Board of Directors:

1. Strengthen its Code of Vendor Conduct based on the ILO standards and the United Nations Universal Declaration of Human Rights,
2. Establish an independent monitoring process that assesses adherence to these standards throughout the supply chain, and,
3. Prepare an annual report, at reasonable cost and omitting proprietary information, that documents adherence to the Code; the first such report to be completed by December 2010.

Supporting Statement: Fred's is a highly regarded company with a commendable reputation for community involvement. Despite the well-documented human rights violations in sourcing agricultural commodities, Fred's does not have a program for monitoring its supply chain for the use of child labor, forced labor, or unfair labor practices, which may violate the company's Vendor Code.