

Citi Trends Inc
Form 10-Q
May 31, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2016

OR

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

Commission File Number 000-51315

CITI TRENDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

52-2150697

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

104 Coleman Boulevard
Savannah, Georgia 31408
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (912) 236-1561

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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Class	Outstanding as of May 16, 2016
Common Stock, \$.01 par value	14,905,489 shares

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CITI TRENDS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.

Condensed Consolidated Balance Sheets

April 30, 2016 and January 30, 2016

(Unaudited)

(in thousands, except share data)

	April 30, 2016	January 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,032	\$ 39,116
Short-term investment securities	40,215	32,671
Inventory	123,330	137,020
Prepaid and other current assets	13,536	12,201
Income tax receivable	—	1,285
Total current assets	230,113	222,293
Property and equipment, net	49,816	50,632
Long-term investment securities	24,327	30,890
Deferred tax asset	8,520	9,988
Other assets	703	705
Total assets	\$ 313,479	\$ 314,508
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 60,128	\$ 67,419
Accrued expenses	13,260	14,603
Accrued compensation	11,056	13,097
Income tax payable	1,231	—
Dividends payable	—	42
Layaway deposits	1,297	497
Total current liabilities	86,972	95,658
Other long-term liabilities	6,661	6,616

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Total liabilities	93,633	102,274
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,733,537 shares issued as of April 30, 2016 and 15,707,859 shares issued as of January 30, 2016; 14,900,349 shares outstanding as of April 30, 2016 and 14,874,671 shares outstanding as of January 30, 2016	155	154
Paid in capital	88,243	88,540
Retained earnings	146,633	138,725
Treasury stock, at cost; 833,188 shares held as of April 30, 2016 and January 30, 2016	(15,185)	(15,185)
Total stockholders' equity	219,846	212,234
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	\$ 313,479	\$ 314,508

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.

Condensed Consolidated Statements of Income

Thirteen Weeks Ended April 30, 2016 and May 2, 2015

(Unaudited)

(in thousands, except per share data)

	Thirteen Weeks Ended	
	April 30, 2016	May 2, 2015
Net sales	\$ 193,672	\$ 194,913
Cost of sales (exclusive of depreciation shown separately below)	(117,809)	(117,509)
Selling, general and administrative expenses	(58,331)	(55,812)
Depreciation	(4,444)	(4,813)
Asset impairment	(221)	—
Income from operations	12,867	16,779
Interest income	127	56
Interest expense	(40)	(47)
Income before income tax expense	12,954	16,788
Income tax expense	(4,217)	(5,509)
Net income	\$ 8,737	\$ 11,279
Basic net income per common share	\$ 0.60	\$ 0.75
Diluted net income per common share	\$ 0.60	\$ 0.74
Weighted average number of shares outstanding		
Basic	14,594	15,096
Diluted	14,603	15,181
Cash dividends declared per share	\$ 0.06	\$ —

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.

Condensed Consolidated Statements of Cash Flows

Thirteen Weeks Ended April 30, 2016 and May 2, 2015

(Unaudited)

(in thousands)

	Thirteen Weeks Ended	
	April 30, 2016	May 2, 2015
Operating activities:		
Net income	\$ 8,737	\$ 11,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,444	4,813
Asset impairment	221	—
Loss on disposal of property and equipment	39	24
Deferred income taxes	1,468	1,426
Noncash stock-based compensation expense	1,040	1,363
Excess tax benefits from stock-based payment arrangements	(192)	(1,293)
Changes in assets and liabilities:		
Inventory	13,690	14,905
Prepaid and other current assets	(1,335)	513
Other assets	2	9
Accounts payable	(7,437)	(15,304)
Accrued expenses and other long-term liabilities	(1,579)	524
Accrued compensation	(2,041)	(4,447)
Income tax receivable/payable	2,708	4,386
Layaway deposits	800	817
Net cash provided by operating activities	20,565	19,015
Investing activities:		
Sales/redemptions of investment securities	7,209	3,509
Purchases of investment securities	(8,190)	(7,247)
Purchases of property and equipment	(3,461)	(1,866)
Net cash used in investing activities	(4,442)	(5,604)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	192	1,293
Proceeds from the exercise of stock options	—	70
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(1,528)	(2,480)
Dividends paid to stockholders	(871)	—
Net cash used in financing activities	(2,207)	(1,117)
Net increase in cash and cash equivalents	13,916	12,294
Cash and cash equivalents:		
Beginning of period	39,116	74,514

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End of period	\$ 53,032	\$ 86,808
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 31	\$ 31
Cash payments (refunds) of income taxes	\$ 41	\$ (303)
Supplemental disclosures of noncash investing activities:		
Accrual for purchases of property and equipment	\$ 427	\$ 313

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

April 30, 2016

1. Basis of Presentation

Citi Trends, Inc. and its subsidiary (the “Company”) operate as an off-price retailer of urban fashion apparel and accessories for the entire family. As of April 30, 2016, the Company operated 526 stores in 31 states.

The condensed consolidated balance sheet as of April 30, 2016 and the condensed consolidated statements of income and cash flows for the thirteen week periods ended April 30, 2016 and May 2, 2015 have been prepared by the Company without audit. The condensed consolidated balance sheet as of January 30, 2016 has been derived from the audited financial statements as of that date, but does not include all required year-end disclosures. In the opinion of management, such statements include all adjustments considered necessary to present fairly the Company’s financial position as of April 30, 2016 and January 30, 2016, and its results of operations and cash flows for all periods presented. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest Annual Report on Form 10-K for the year ended January 30, 2016.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) 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 information and footnotes required by U.S. GAAP for complete financial statements. Operating results for the thirteen weeks ended April 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 28, 2017.

The following contains references to fiscal years 2016 and 2015, which represent fiscal years ending or ended on January 28, 2017 and January 30, 2016, respectively. Fiscal 2016 and fiscal 2015 both have 52-week accounting periods.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates made by management include those used in the valuation of inventory, property and equipment, self-insurance liabilities, leases and income taxes. Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based on such periodic evaluations.

3. Cash and Cash Equivalents/Concentration of Credit Risk

For purposes of the condensed consolidated balance sheets and condensed consolidated statements of cash flows, the Company considers all highly liquid investments with maturities at date of purchase of three months or less to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in what it believes to be high credit quality banks and institutional money market funds. The Company maintains cash accounts that exceed federally insured limits.

4. Earnings per Share

Basic earnings per common share amounts are calculated using the weighted average number of common shares outstanding for the period. Diluted earnings per common share amounts are calculated using the weighted average

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number of common shares outstanding plus the additional dilution for all potentially dilutive securities, such as nonvested restricted stock and stock options. During loss periods, diluted loss per share amounts are based on the weighted average number of common shares outstanding, because the inclusion of common stock equivalents would be antidilutive.

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. This method assumes that the proceeds the Company receives from the exercise of stock options are used to repurchase common shares in the market. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of outstanding options and vesting of nonvested restricted stock. For the thirteen weeks ended April 30, 2016 and May 2, 2015, there were 10,000 and 20,000 stock options, respectively, and 291,000 and 387,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate basic earnings per share to the number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for the thirteen week periods ended April 30, 2016 and May 2, 2015:

	Thirteen Weeks Ended	
	April 30, 2016	May 2, 2015
Average number of common shares outstanding	14,594,180	15,095,729
Incremental shares from assumed exercises of stock options	—	771
Incremental shares from assumed vesting of nonvested restricted stock	9,197	84,837
Average number of common shares and common stock equivalents outstanding	14,603,377	15,181,337

5. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date. Fair value is established according to a hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. Level 3 inputs are given the lowest priority in the fair value hierarchy.

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As of April 30, 2016, the Company's investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U.S. Treasury (Level 1)	\$ 12,502	\$ 5	\$ —	\$ 12,507
Obligations of states and municipalities (Level 2)	9,070	2	(1)	9,071
Bank certificates of deposit (Level 2)	18,643	—	—	18,643
	\$ 40,215	\$ 7	\$ (1)	\$ 40,221
Long-term:				
Obligations of the U. S. Treasury (Level 1)	\$ 15,007	\$ 50	\$ —	\$ 15,057
Obligations of states and municipalities (Level 2)	62	—	—	62
Bank certificates of deposit (Level 2)	9,258	—	—	9,258
	\$ 24,327	\$ 50	\$ —	\$ 24,377

The amortized cost and fair market value of investment securities as of April 30, 2016 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 40,215	\$ 40,221
Mature after one year through five years	24,327	24,377
	\$ 64,542	\$ 64,598

As of January 30, 2016, the Company's investment securities were classified as held-to-maturity and consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U. S. Treasury (Level 1)	\$ 8,763	\$ 3	\$ (1)	\$ 8,765
Obligations of states and municipalities (Level 2)	2,930	2	—	2,932
Bank certificates of deposit (Level 2)	20,978	—	—	20,978
	\$ 32,671	\$ 5	\$ (1)	\$ 32,675
Long-term:				

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Obligations of the U. S. Treasury (Level 1)	\$ 20,002	\$ 33	\$ (7)	\$ 20,028
Bank certificates of deposit (Level 2)	10,888	—	—	10,888
	\$ 30,890	\$ 33	\$ (7)	\$ 30,916

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The amortized cost and fair market value of investment securities as of January 30, 2016 by contractual maturity were as follows (in thousands):

Amortized	Fair Market
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