

Citi Trends Inc  
Form 10-Q  
December 07, 2015  
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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 October 31, 2015

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)

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**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**52-2150697**

(I.R.S. Employer  
Identification No.)

**104 Coleman Boulevard  
Savannah, Georgia**

(Address of principal executive offices)

**31408**

(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.

**Class**  
Common Stock, \$.01 par value

**Outstanding as of November 23, 2015**  
15,172,985 shares

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**CITI TRENDS, INC.**

**FORM 10-Q**

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****Citi Trends, Inc.****Condensed Consolidated Balance Sheets****October 31, 2015 and January 31, 2015****(Unaudited)****(in thousands, except share data)**

	<b>October 31, 2015</b>	<b>January 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 41,585	\$ 74,514
Short-term investment securities	34,142	15,850
Inventory	129,433	131,057
Prepaid and other current assets	13,464	14,604
Income tax receivable	241	973
Deferred tax asset	4,544	4,359
Total current assets	223,409	241,357
Property and equipment, net of accumulated depreciation of \$194,998 and \$181,475 as of October 31, 2015 and January 31, 2015, respectively	49,978	47,603
Long-term investment securities	30,582	22,447
Deferred tax asset	8,271	6,328
Other assets	689	638
Total assets	\$ 312,929	\$ 318,373
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 58,210	\$ 72,245
Accrued expenses	16,246	14,176
Accrued compensation	13,491	14,996
Dividends payable	22	
Layaway deposits	2,284	585
Total current liabilities	90,253	102,002
Other long-term liabilities	6,225	5,749
Total liabilities	96,478	107,751
Stockholders equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,714,797 shares issued as of October 31, 2015 and 15,743,617 shares issued as of January 31, 2015; 15,248,764 shares outstanding as of October 31, 2015 and 15,577,867 shares outstanding as of January 31, 2015	154	152
Paid in capital	87,635	85,598

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Retained earnings	136,160	125,037
Treasury stock, at cost; 466,033 shares held as of October 31, 2015 and 165,750 shares held as of January 31, 2015	(7,498)	(165)
Total stockholders' equity	216,451	210,622
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	\$ 312,929	\$ 318,373

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

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**Citi Trends, Inc.**

**Condensed Consolidated Statements of Operations**

**Thirty-Nine Weeks Ended October 31, 2015 and November 1, 2014**

**(Unaudited)**

**(in thousands, except per share data)**

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 31,</b>	<b>November 1,</b>
	<b>2015</b>	<b>2014</b>
Net sales	\$ 507,728	\$ 489,697
Cost of sales (exclusive of depreciation shown separately below)	(308,253)	(304,849)
Selling, general and administrative expenses	(167,131)	(163,526)
Depreciation	(14,022)	(15,306)
Asset impairment		(83)
Income from operations	18,322	5,933
Interest income	222	135
Interest expense	(201)	(152)
Income before income tax expense	18,343	5,916
Income tax expense	(6,288)	(1,623)
Net income	\$ 12,055	\$ 4,293
Basic net income per common share	\$ 0.80	\$ 0.29
Diluted net income per common share	\$ 0.79	\$ 0.29
Weighted average number of shares outstanding		
Basic	15,112	14,952
Diluted	15,167	14,985
Cash dividends declared per share	\$ 0.06	\$

**Citi Trends, Inc.**

**Condensed Consolidated Statements of Operations**

**Thirteen Weeks Ended October 31, 2015 and November 1, 2014**

**(Unaudited)**

**(in thousands, except per share data)**

**Thirteen Weeks Ended**  
**October 31,                      November 1,**

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	2015	2014
Net sales	\$ 158,937	\$ 156,694
Cost of sales (exclusive of depreciation shown separately below)	(97,565)	(98,542)
Selling, general and administrative expenses	(55,616)	(56,354)
Depreciation	(4,589)	(5,038)
Income (loss) from operations	1,167	(3,240)
Interest income	107	43
Interest expense	(107)	(48)
Income (loss) before income tax (expense) benefit	1,167	(3,245)
Income tax (expense) benefit	(553)	1,038
Net income (loss)	\$ 614	\$ (2,207)
Basic net income (loss) per common share	\$ 0.04	\$ (0.15)
Diluted net income (loss) per common share	\$ 0.04	\$ (0.15)
Weighted average number of shares outstanding		
Basic	15,056	14,982
Diluted	15,115	14,982
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

Thirty-Nine Weeks Ended October 31, 2015 and November 1, 2014

(Unaudited)

(in thousands)

	Thirty-Nine Weeks Ended	
	October 31, 2015	November 1, 2014
Operating activities:		
Net income	\$ 12,055	\$ 4,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,022	15,306
Asset impairment		83
Loss on disposal of property and equipment	25	20
Deferred income taxes	(2,128)	424
Noncash stock-based compensation expense	3,178	3,043
Excess tax benefits from stock-based payment arrangements	(1,341)	(317)
Changes in assets and liabilities:		
Inventory	1,624	(2,015)
Prepaid and other current assets	1,140	(1,817)
Other assets	(51)	35
Accounts payable	(14,927)	3,441
Accrued expenses and other long-term liabilities	846	1,354
Accrued compensation	(1,505)	3,933
Income tax receivable/payable	2,073	(44)
Layaway deposits	1,699	1,844
Net cash provided by operating activities	16,710	29,583
Investing activities:		
Sales/redemptions of investment securities	14,702	7,340
Purchases of investment securities	(41,129)	(19,585)
Purchases of property and equipment	(13,830)	(9,089)
Net cash used in investing activities	(40,257)	(21,334)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	1,341	317
Proceeds from the exercise of stock options	70	
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(2,550)	(1,503)
Dividends paid to stockholders	(910)	
Repurchase of common stock	(7,333)	
Net cash used in financing activities	(9,382)	(1,186)
Net (decrease) increase in cash and cash equivalents	(32,929)	7,063
Cash and cash equivalents:		
Beginning of period	74,514	58,928
End of period	\$ 41,585	\$ 65,991
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 95	\$ 102



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Cash paid for income taxes	\$	6,343	\$	1,243
Supplemental disclosures of noncash investing activities:				
Accrual for purchases of property and equipment	\$	2,592	\$	(78)

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)**

**October 31, 2015**

1. Basis of Presentation

Citi Trends, Inc. and its subsidiary (the Company) operate as a value-priced retailer of urban fashion apparel and accessories for the entire family. As of October 31, 2015, the Company operated 520 stores in 31 states.

The condensed consolidated balance sheet as of October 31, 2015, the condensed consolidated statements of operations for the thirty-nine and thirteen week periods ended October 31, 2015 and November 1, 2014, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 31, 2015 and November 1, 2014 have been prepared by the Company without audit. The condensed consolidated balance sheet as of January 31, 2015 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 October 31, 2015 and January 31, 2015, 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 31, 2015.

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 thirty-nine weeks ended October 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 30, 2016.

The following contains references to years 2015 and 2014, which represent fiscal years ending or ended on January 30, 2016 and January 31, 2015, respectively. Fiscal 2015 and fiscal 2014 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 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 thirty-nine weeks ended October 31, 2015 and November 1, 2014, there were 19,000 and 29,000 stock options, respectively, and 348,000 and 572,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended October 31, 2015 and November 1, 2014, there were 18,000 and 27,000 stock options, respectively, and 366,000 and 600,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

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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 thirty-nine and thirteen week periods ended October 31, 2015 and November 1, 2014:

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	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 31, 2015</b>	<b>November 1, 2014</b>