

Citi Trends Inc
Form 10-Q
December 04, 2017
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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 28, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding as of November 20, 2017
Common Stock, \$.01 par value	13,739,868 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

October 28, 2017 and January 28, 2017

(Unaudited)

(in thousands, except share data)

	October 28, 2017	January 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,866	\$ 49,253
Short-term investment securities	30,298	38,026
Inventory	133,245	134,649
Prepaid and other current assets	15,280	13,749
Income tax receivable	1,125	1,635
Total current assets	214,814	237,312
Property and equipment, net of accumulated depreciation of \$225,977 and \$212,742 as of October 28, 2017 and January 28, 2017, respectively	63,571	59,280
Long-term investment securities	26,117	26,691
Deferred tax asset	7,444	8,506
Other assets	727	725
Total assets	\$ 312,673	\$ 332,514
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 68,047	\$ 75,433
Accrued expenses	14,842	15,584
Accrued compensation	14,079	8,921
Layaway deposits	1,913	471
Total current liabilities	98,881	100,409
Other long-term liabilities	8,786	8,514
Total liabilities	107,667	108,923

Stockholders' equity:

Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,772,958 shares issued as of October 28, 2017 and 15,732,339 shares issued as of January 28, 2017; 13,738,788 shares outstanding as of October 28, 2017 and 14,899,151 shares outstanding as of January 28, 2017	156	155
Paid in capital	90,305	90,036
Retained earnings	154,766	148,585
Treasury stock, at cost; 2,034,170 shares held as of October 28, 2017 and 833,188 shares held as of January 28, 2017	(40,221)	(15,185)
Total stockholders' equity	205,006	223,591
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	\$ 312,673	\$ 332,514

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 28, 2017 and October 29, 2016

(Unaudited)

(in thousands, except per share data)

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Net sales	\$ 543,098	\$ 509,664
Cost of sales (exclusive of depreciation shown separately below)	(334,659)	(313,345)
Selling, general and administrative expenses	(181,439)	(172,073)
Depreciation	(13,863)	(12,961)
Asset impairment	(77)	(282)
Income from operations	13,060	11,003
Interest income	617	408
Interest expense	(112)	(120)
Income before income taxes	13,565	11,291
Income tax expense	(4,238)	(3,510)
Net income	\$ 9,327	\$ 7,781
Basic net income per common share	\$ 0.66	\$ 0.53
Diluted net income per common share	\$ 0.65	\$ 0.53
Weighted average number of shares outstanding		
Basic	14,221	14,649
Diluted	14,270	14,652
Cash dividends declared per share	\$ 0.22	\$ 0.18

Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Thirteen Weeks Ended October 28, 2017 and October 29, 2016

(Unaudited)

(in thousands, except per share data)

Thirteen Weeks Ended

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	October 28, 2017	October 29, 2016
Net sales	\$ 176,943	\$ 160,716
Cost of sales (exclusive of depreciation shown separately below)	(110,094)	(100,386)
Selling, general and administrative expenses	(61,118)	(57,637)
Depreciation	(4,976)	(4,223)
Asset impairment	—	(61)
Income (loss) from operations	755	(1,591)
Interest income	216	146
Interest expense	(38)	(39)
Income (loss) before income taxes	933	(1,484)
Income tax (expense) benefit	(286)	648
Net income (loss)	\$ 647	\$ (836)
Basic net income (loss) per common share	\$ 0.05	\$ (0.06)
Diluted net income (loss) per common share	\$ 0.05	\$ (0.06)
Weighted average number of shares outstanding		
Basic	13,563	14,677
Diluted	13,614	14,677
Cash dividends declared per share	\$ 0.08	\$ 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 28, 2017 and October 29, 2016

(Unaudited)

(in thousands)

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Operating activities:		
Net income	\$ 9,327	\$ 7,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,863	12,961
Asset impairment	77	282
Loss on disposal of property and equipment	—	275
Deferred income taxes	1,062	1,493
Insurance proceeds related to operating activities	1,187	—
Noncash stock-based compensation expense	1,191	2,314
Excess tax benefits from stock-based payment arrangements	—	(181)
Changes in assets and liabilities:		
Inventory	508	6,268
Prepaid and other current assets	(1,822)	(2,346)
Other assets	(2)	(11)
Accounts payable	(7,402)	(8,321)
Accrued expenses and other long-term liabilities	(743)	1,199
Accrued compensation	5,158	(2,364)
Income tax receivable	510	(2,557)
Layaway deposits	1,442	1,477
Net cash provided by operating activities	24,356	18,270
Investing activities:		
Sales/redemptions of investment securities	37,764	37,120
Purchases of investment securities	(29,462)	(36,874)
Purchases of property and equipment	(18,385)	(16,667)
Insurance proceeds related to investing activities	443	—
Net cash used in investing activities	(9,640)	(16,421)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	—	181
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(921)	(1,559)
Dividends paid to stockholders	(3,146)	(2,631)
Repurchase of common stock	(25,036)	—
Net cash used in financing activities	(29,103)	(4,009)
Net decrease in cash and cash equivalents	(14,387)	(2,160)

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Cash and cash equivalents:		
Beginning of period	49,253	39,116
End of period	\$ 34,866	\$ 36,956
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 95	\$ 95
Cash payments of income taxes	\$ 2,666	\$ 4,574
Supplemental disclosures of noncash investing activities:		
Accrual for purchases of property and equipment	\$ 289	\$ 697

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 28, 2017

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 28, 2017, the Company operated 549 stores in 31 states.

The condensed consolidated balance sheet as of October 28, 2017, the condensed consolidated statements of operations for the thirty-nine and thirteen week periods ended October 28, 2017 and October 29, 2016, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 28, 2017 and October 29, 2016 have been prepared by the Company without audit. The condensed consolidated balance sheet as of January 28, 2017 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 28, 2017 and January 28, 2017, and its results of operations and cash flows for all periods presented. These condensed consolidated financial statements should 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 28, 2017.

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 28, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending February 3, 2018.

The following contains references to fiscal years 2017 and 2016, which represent fiscal years ending or ended on February 3, 2018 and January 28, 2017, respectively. Fiscal 2017 has a 53-week accounting period and fiscal 2016 had a 52-week accounting period.

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

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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. Prior to the adoption of ASU No. 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting, in the first quarter of fiscal 2017, the Company included as assumed proceeds the amount of compensation costs 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. Following the adoption of ASU No. 2016-09, the assumed proceeds include only the amount of compensation costs attributed to future services and not yet recognized but does not include any tax benefits arising from the assumed exercise of outstanding options and the vesting of nonvested restricted stock. For the thirty-nine weeks ended October 28, 2017 and October 29, 2016, there were 0 and 5,000 stock options, respectively, and 137,000 and 247,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended October 28, 2017 and October 29, 2016, there were 0 and 3,000 stock options, respectively, and 124,000 and 224,000 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 thirty-nine and thirteen week periods ended October 28, 2017 and October 29, 2016:

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Average number of common shares outstanding	14,221,388	14,648,961
Incremental shares from assumed vesting of nonvested restricted stock	49,030	3,065
Average number of common shares and common stock equivalents outstanding	14,270,418	14,652,026
	Thirteen Weeks Ended	
	October 28, 2017	October 29, 2016
Average number of common shares outstanding	13,563,295	14,676,990
Incremental shares from assumed vesting of nonvested restricted stock	51,109	—
Average number of common shares and common stock equivalents outstanding	13,614,404	14,676,990

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:

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 October 28, 2017, 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 and U.S. government agencies (Level 1)	\$ 10,164	\$ —	\$ (25)	\$ 10,139
Obligations of states and municipalities (Level 2)	4,215	—	(1)	4,214
Bank certificates of deposit (Level 2)	15,919	—	—	15,919
	\$ 30,298	\$ —	\$ (26)	\$ 30,272
Long-term:				
Obligations of the U. S. Treasury (Level 1)	\$ 9,961	\$ —	\$ (68)	\$ 9,893
Obligations of states and municipalities (Level 2)	—	—	—	—
Bank certificates of deposit (Level 2)	16,156	—	—	16,156
	\$ 26,117	\$ —	\$ (68)	\$ 26,049

The amortized cost and fair market value of investment securities as of October 28, 2017 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 30,298	\$ 30,272
Mature after one year through five years	26,117	26,049
	\$ 56,415	\$ 56,321

As of January 28, 2017, 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)	\$ 9,995	\$ 1	\$ —	\$ 9,996
Obligations of states and municipalities (Level 2)	14,816	2	(1)	14,817
Bank certificates of deposit (Level 2)	13,215	—	—	13,215
	\$ 38,026	\$ 3	\$ (1)	\$ 38,028

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Long-term:

Obligations of the U. S. Treasury (Level 1)	\$ 15,011	\$ —	\$ (51)	\$ 14,960
Bank certificates of deposit (Level 2)	11,680	—	—	11,680
	\$ 26,691	\$ —	\$ (51)	\$ 26,640

The amortized cost and fair market value of investment securities as of January 28, 2017 by contractual maturity were as follows (in thousands):

	Amortized	Fair Market
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