

Citi Trends Inc
Form 10-Q
September 06, 2018
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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 August 4, 2018

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 August 20, 2018
Common Stock, \$.01 par value	12,975,307 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

August 4, 2018 and February 3, 2018

(Unaudited)

(in thousands, except share data)

	August 4, 2018	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 40,992	\$ 48,451
Short-term investment securities	36,009	31,500
Inventory	138,801	137,701
Prepaid and other current assets	17,701	15,694
Total current assets	233,503	233,346
Property and equipment, net of accumulated depreciation of \$237,914 and \$229,699 as of August 4, 2018 and February 3, 2018, respectively	57,154	61,777
Long-term investment securities	13,020	25,451
Deferred tax asset	6,385	5,777
Other assets	720	720
Total assets	\$ 310,782	\$ 327,071
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 72,096	\$ 75,947
Accrued expenses	14,537	13,762
Accrued compensation	12,821	17,013
Income tax payable	299	1,916
Layaway deposits	1,706	532
Total current liabilities	101,459	109,170
Other long-term liabilities	8,338	8,433
Total liabilities	109,797	117,603

Stockholders' equity:

Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,829,380 shares issued as of August 4, 2018 and 15,777,946 shares issued as of February 3, 2018; 13,064,398 shares outstanding as of August 4, 2018 and 13,743,776 shares outstanding as of February 3, 2018	157	156
Paid in capital	90,729	90,605
Retained earnings	171,293	158,927
Treasury stock, at cost; 2,764,982 shares held as of August 4, 2018 and 2,034,170 shares held as of February 3, 2018	(61,194)	(40,220)
Total stockholders' equity	200,985	209,468
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	\$ 310,782	\$ 327,071

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

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Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Twenty-Six Weeks Ended August 4, 2018 and July 29, 2017

(Unaudited)

(in thousands, except per share data)

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Net sales	\$ 393,031	\$ 366,155
Cost of sales (exclusive of depreciation shown separately below)	(239,811)	(224,565)
Selling, general and administrative expenses	(125,290)	(120,321)
Depreciation	(9,650)	(8,887)
Asset impairment	(942)	(77)
Income from operations	17,338	12,305
Interest income	658	401
Interest expense	(75)	(74)
Income before income taxes	17,921	12,632
Income tax expense	(3,389)	(3,952)
Net income	\$ 14,532	\$ 8,680
Basic net income per common share	\$ 1.08	\$ 0.60
Diluted net income per common share	\$ 1.08	\$ 0.59
Weighted average number of shares outstanding		
Basic	13,446	14,550
Diluted	13,491	14,598
Cash dividends declared per share	\$ 0.16	\$ 0.14

Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Thirteen Weeks Ended August 4, 2018 and July 29, 2017

(Unaudited)

(in thousands, except per share data)

Thirteen Weeks Ended

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	August 4, 2018	July 29, 2017
Net sales	\$ 181,999	\$ 166,200
Cost of sales (exclusive of depreciation shown separately below)	(110,398)	(102,175)
Selling, general and administrative expenses	(62,285)	(59,834)
Depreciation	(4,676)	(4,589)
Asset impairment	(942)	(77)
Income (loss) from operations	3,698	(475)
Interest income	363	215
Interest expense	(38)	(37)
Income (loss) before income taxes	4,023	(297)
Income tax (expense) benefit	(788)	87
Net income (loss)	\$ 3,235	\$ (210)
Basic net income (loss) per common share	\$ 0.24	\$ (0.01)
Diluted net income (loss) per common share	\$ 0.24	\$ (0.01)
Weighted average number of shares outstanding		
Basic	13,314	14,382
Diluted	13,351	14,382
Cash dividends declared per share	\$ 0.08	\$ 0.08

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

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Citi Trends, Inc.

Condensed Consolidated Statements of Cash Flows

Twenty-Six Weeks Ended August 4, 2018 and July 29, 2017

(Unaudited)

(in thousands)

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Operating activities:		
Net income	\$ 14,532	\$ 8,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,650	8,887
Asset impairment	942	77
Loss on disposal of property and equipment	50	-
Deferred income taxes	(608)	1,741
Insurance proceeds related to operating activities	475	1,187
Noncash stock-based compensation expense	1,130	752
Changes in assets and liabilities:		
Inventory	(1,290)	1,764
Prepaid and other current assets	(2,292)	(1,375)
Other assets	-	5
Accounts payable	(3,899)	(8,255)
Accrued expenses and other long-term liabilities	229	783
Accrued compensation	(4,192)	747
Income tax payable/receivable	(1,617)	(315)
Layaway deposits	1,174	1,332
Net cash provided by operating activities	14,284	16,010
Investing activities:		
Sales/redemptions of investment securities	24,139	25,611
Purchases of investment securities	(16,217)	(20,311)
Purchases of property and equipment	(5,715)	(12,900)
Insurance proceeds related to investing activities	195	443
Net cash provided by (used in) investing activities	2,402	(7,157)
Financing activities:		
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(1,005)	(894)
Dividends paid to stockholders	(2,166)	(2,062)
Repurchase of common stock	(20,974)	(24,955)
Net cash used in financing activities	(24,145)	(27,911)
Net decrease in cash and cash equivalents	(7,459)	(19,058)
Cash and cash equivalents:		
Beginning of period	48,451	49,253

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End of period	\$ 40,992	\$ 30,195
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 63	\$ 63
Cash payments of income taxes	\$ 5,614	\$ 2,526
Supplemental disclosures of noncash investing activities:		
Accrual for purchases of property and equipment	\$ 499	\$ 1,022

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)

August 4, 2018

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 August 4, 2018, the Company operated 554 stores in 31 states.

The condensed consolidated balance sheet as of August 4, 2018, the condensed consolidated statements of operations for the twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017, and the condensed consolidated statements of cash flows for the twenty-six week periods ended August 4, 2018 and July 29, 2017 have been prepared by the Company without audit. The condensed consolidated balance sheet as of February 3, 2018 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 August 4, 2018 and February 3, 2018, 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 February 3, 2018.

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 twenty-six weeks ended August 4, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2019.

The following contains references to fiscal years 2018 and 2017, which represent fiscal years ending or ended on February 2, 2019 and February 3, 2018, respectively. Fiscal 2018 has a 52-week accounting period and fiscal 2017 had a 53-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. During loss periods, diluted loss

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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. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized. For the twenty-six weeks ended August 4, 2018 and July 29, 2017, there were 118,000 and 144,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended August 4, 2018 and July 29, 2017, there were 127,000 and 178,000 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 twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017:

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Average number of common shares outstanding	13,446,285	14,550,435
Incremental shares from assumed vesting of nonvested restricted stock	45,009	47,990
Average number of common shares and common stock equivalents outstanding	13,491,294	14,598,425

	Thirteen Weeks Ended	
	August 4, 2018	July 29, 2017
Average number of common shares outstanding	13,314,470	14,381,738
Incremental shares from assumed vesting of nonvested restricted stock	36,851	—
Average number of common shares and common stock equivalents outstanding	13,351,321	14,381,738

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 August 4, 2018, 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)	\$ 20,263	\$ -	\$ (107)	\$ 20,156
Obligations of states and municipalities (Level 2)	3,631	1	-	3,632
Bank certificates of deposit (Level 2)	12,115	-	-	12,115
	\$ 36,009	\$ 1	\$ (107)	\$ 35,903
Long-term:				
Obligations of the U. S. Treasury (Level 1)	\$ 4,935	\$ -	\$ (28)	\$ 4,907
Bank certificates of deposit (Level 2)	8,085	-	-	8,085
	\$ 13,020	\$ -	\$ (28)	\$ 12,992

The amortized cost and fair market value of investment securities as of August 4, 2018 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 36,009	\$ 35,903
Mature after one year through five years	13,020	12,992
	\$ 49,029	\$ 48,895

As of February 3, 2018, 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)	\$ 10,162	\$ -	\$ (25)	\$ 10,137
Obligations of states and municipalities (Level 2)	8,111	1	(2)	8,110
Bank certificates of deposit (Level 2)	13,227	-	-	13,227
	\$ 31,500	\$ 1	\$ (27)	\$ 31,474
Long-term:				

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Obligations of the U. S. Treasury (Level 1)	\$ 9,967	\$ -	\$ (116)	\$ 9,851
Bank certificates of deposit (Level 2)	15,484	-	-	15,484
	\$ 25,451	\$ -	\$ (116)	\$ 25,335

The amortized cost and fair market value of investment securities as of February 3, 2018 by contractual maturity were as follows (in thousands):