

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

January 18, 2002

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 18, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
**FOR THE QUARTERLY PERIOD ENDED DECEMBER 29, 2001**

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

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COMMISSION FILE NUMBER 0-27677

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**CHARLOTTE RUSSE HOLDING, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**33-0724325**  
(I.R.S. Employer  
Identification No.)

**4645 MORENA BOULEVARD, SAN DIEGO, CA 92117**  
(Address, including Zip Code, of Registrant's Principal Executive Offices)

**(858) 587-1500**  
(Registrant's Telephone Number, Including Area Code)

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

COMMON STOCK, par value \$0.01 per share, number of shares outstanding  
as of January 17, 2002: 20,858,483 shares.

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|  | December 29,<br>2001 | September 29,<br>2001 |
|--|----------------------|-----------------------|
|  | (unaudited)          | (audited)             |
| <b>ASSETS</b>  |                      |                       |
| Current assets:  |                      |                       |
| Cash and cash equivalents  | \$ 20,560,297        | \$ 10,031,398         |
| Inventories  | 16,122,222           | 23,536,420            |
| Other current assets   | 2,922,830            | 2,560,153             |
| Deferred tax assets  | 3,800,000            | 3,700,000             |
|  | <u>43,405,349</u>    | <u>39,827,971</u>     |
| Total current assets   | 43,405,349           | 39,827,971            |
| Fixed assets, net  | 81,438,257           | 77,350,576            |
| Goodwill, net  | 28,790,000           | 28,790,000            |
| Other assets   | 1,458,768            | 1,452,387             |
|  | <u>155,092,374</u>   | <u>147,420,934</u>    |
| Total assets   | \$ 155,092,374       | \$ 147,420,934        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                       |
| Current liabilities:   |                      |                       |
| Accounts payable trade   | \$ 13,861,777        | \$ 19,607,137         |
| Accounts payable other   | 1,749,264            | 4,825,946             |
| Accrued payroll and related expense  | 3,822,105            | 1,931,838             |
| Income and sales taxes payable   | 7,835,057            | 5,091,687             |
| Other current liabilities  | 9,554,019            | 5,928,411             |
|  | <u>36,822,222</u>    | <u>37,385,019</u>     |
| Total current liabilities  | 36,822,222           | 37,385,019            |
| Notes payable to bank  | -0-                  | -0-                   |
| Deferred rent  | 6,239,909            | 5,574,982             |
| Other liabilities  | 284,469              | 269,470               |
| Deferred tax liabilities   | 2,000,000            | 2,000,000             |
|  | <u>45,346,600</u>    | <u>45,229,471</u>     |
| Total liabilities  | 45,346,600           | 45,229,471            |
| Commitments  |                      |                       |
| Stockholders' equity:  |                      |                       |
| Preferred Stock \$0.01 par value, 3,000,000 shares authorized, none issued and outstanding   | -0-                  | -0-                   |
| Common Stock \$0.01 par value, 100,000,000 shares authorized, issued and outstanding shares 20,848,647 at December 29, 2001 and 20,802,747 at September 29, 2001 | 208,487              | 208,028               |
| Additional paid-in capital   | 40,092,452           | 40,038,464            |
| Deferred compensation  | (252,000)            | (372,000)             |
| Retained earnings  | 69,696,835           | 62,316,971            |
|  | <u>109,745,774</u>   | <u>102,191,463</u>    |
| Total stockholders' equity   | 109,745,774          | 102,191,463           |
| Total liabilities and stockholders' equity   | \$ 155,092,374       | \$ 147,420,934        |

See accompanying notes.

**Table of Contents****CHARLOTTE RUSSE HOLDING, INC.****CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)**

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 29,<br>2001 | December 30,<br>2000 |
| Net sales  | \$ 111,938,118       | \$ 93,042,701        |
| Cost of goods sold, including buying, distribution and occupancy costs | 79,645,559           | 61,696,052           |
| Gross profit   | 32,292,559           | 31,346,649           |
| Selling, general and administrative expenses                           | 20,017,649           | 17,570,488           |
| Amortization of goodwill   | -0-                  | 223,842              |
| Operating income   | 12,274,910           | 13,552,319           |
| Other income (expense):  |                      |                      |
| Interest income, net   | 1,508                | 40,593               |
| Other charges, net   | (78,296)             | (66,715)             |
| Total other expense  | (76,788)             | (26,122)             |
| Income before income taxes   | 12,198,122           | 13,526,197           |
| Income taxes   | 4,818,258            | 5,478,110            |
| Net income   | \$ 7,379,864         | \$ 8,048,087         |
| Earnings per share:  |                      |                      |
| Basic  | \$ 0.35              | \$ 0.40              |
| Diluted  | \$ 0.31              | \$ 0.35              |
| Weighted average shares outstanding:                                   |                      |                      |
| Basic  | 20,826,581           | 20,347,509           |
| Diluted  | 23,501,186           | 23,044,248           |

See accompanying notes.

**Table of Contents****CHARLOTTE RUSSE HOLDING, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

|   | Three Months Ended   |                      |
|---|----------------------|----------------------|
|   | December 29,<br>2001 | December 30,<br>2000 |
| <b>Operating Activities</b>   |                      |                      |
| Net income  | \$ 7,379,864         | \$ 8,048,087         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation and amortization   | 3,178,833            | 2,373,325            |
| Deferred rent   | 664,927              | 509,046              |
| Amortization of deferred compensation   | 27,000               | 36,000               |
| Loss on disposal of asset   | 23,745               | -0-                  |
| Deferred income taxes   | (100,000)            | 110,000              |
| Changes in operating assets and liabilities:                                      |                      |                      |
| Inventories   | 7,414,198            | 2,551,910            |
| Other current assets  | (362,677)            | (3,246)              |
| Accounts payable trade  | (5,745,360)          | 498,785              |
| Accounts payable other  | (3,076,682)          | (4,039,401)          |
| Accrued payroll and related expense   | 1,890,267            | 991,705              |
| Income and sales taxes payable  | 2,800,516            | 5,731,761            |
| Other current liabilities   | 3,645,674            | 3,964,910            |
| Other liabilities   | 14,999               | -0-                  |
| Net cash provided by operating activities   | 17,755,304           | 20,772,882           |
| <b>Investing Activities</b>   |                      |                      |
| Purchases of fixed assets   | (7,268,050)          | (7,083,480)          |
| Other assets  | (28,590)             | 88,024               |
| Net cash used in investing activities   | (7,296,640)          | (6,995,456)          |
| <b>Financing Activities</b>   |                      |                      |
| Payments on capital leases  | (20,066)             | (19,567)             |
| Proceeds from issuance of common stock  | 90,301               | 214,424              |
| Net cash provided by financing activities   | 70,235               | 194,857              |
| Net increase in cash and cash equivalents   | 10,528,899           | 13,972,283           |
| Cash and cash equivalents at beginning of the period                              | 10,031,398           | 3,829,352            |
| Cash and cash equivalents at end of the period                                    | \$20,560,297         | \$17,801,635         |

See accompanying notes.



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**CHARLOTTE RUSSE HOLDING, INC.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. Interim Financial Statements**

The accompanying unaudited consolidated financial statements of Charlotte Russe Holding, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures required by accounting principles generally accepted in the United States for complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements contain all material adjustments, consisting of normal recurring accruals, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods indicated, and have been prepared in a manner consistent with the audited financial statements as of September 29, 2001.

Due to the seasonal nature of the Company's business, the results of operations for the three month period ended December 29, 2001 are not necessarily indicative of the results of a full fiscal year.

These financial statements should be read in conjunction with the audited financial statements and the footnotes for the fiscal year ended September 29, 2001 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**2. Net Income Per Common Share**

In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share, the following table reconciles income and share amounts utilized to calculate basic and diluted net income per common share.

|                                    | <b>Three Months Ended</b>    |                              |
|------------------------------------|------------------------------|------------------------------|
|                                    | <b>December 29,<br/>2001</b> | <b>December 30,<br/>2000</b> |
| Net income                         | \$ 7,379,864                 | \$ 8,048,087                 |
| Earnings per share:                |                              |                              |
| Basic                              | \$ 0.35                      | \$ 0.40                      |
| Effect of dilutive stock options   | (0.01)                       | (0.02)                       |
| Effect of dilutive warrants        | (0.03)                       | (0.03)                       |
| Diluted                            | \$ 0.31                      | \$ 0.35                      |
| Weighted average number of shares: |                              |                              |
| Basic                              | 20,826,581                   | 20,347,509                   |
| Effect of dilutive stock options   | 832,527                      | 879,467                      |
| Effect of dilutive warrants        | 1,842,078                    | 1,817,272                    |
| Diluted                            | 23,501,186                   | 23,044,248                   |

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**CHARLOTTE RUSSE HOLDING, INC.  
Notes to Consolidated Financial Statements (Continued)  
(Unaudited)**

**3. Recent Accounting Pronouncement**

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ( FAS 141 ) and No. 142, Goodwill and Other Intangible Assets ( FAS 142 ). FAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives, but with no maximum life. Effective the first quarter of fiscal 2002, the Company has adopted FAS 142 and the amortization of goodwill has been discontinued.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

We have made statements in this Quarterly Report that are forward-looking statements. In some cases you can identify these statements by forward-looking words such as may, will, should, expects, plans, anticipates, believes, estimates, intends, predicts, the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include, among other things, projections of our future financial performance, our anticipated growth strategies, anticipated trends in our business and consumer preferences especially with respect to the impact of economic weakness on consumer spending, as well as projections relating to our anticipated rate of new store openings, anticipated store opening costs, capital expenditures, inventory turnover rates and vendor delivery times. These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 13, 2001.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report might not occur.

**Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Financial Statements and Notes thereto of the Company included elsewhere in this Form 10-Q. The following table sets forth our operating results, expressed as a percentage of net sales, and store information for the periods indicated. These operating results are not necessarily indicative of the results that may be expected for any future period.

|  | <b>Three Months Ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>Dec. 29,<br/>2001</b>  | <b>Dec. 30,<br/>2000</b> |
| Net sales                                    | 100.0%                    | 100.0%                   |
| Cost of goods sold                           | 71.1                      | 66.3                     |
| Gross profit                                 | 28.9                      | 33.7                     |
| Selling, general and administrative expenses | 17.9                      | 18.9                     |
| Amortization of goodwill                     | 0.0                       | 0.2                      |
| Operating income                             | 11.0                      | 14.6                     |
| Interest income, net                         | 0.0                       | 0.0                      |
| Other charges, net                           | (0.1)                     | (0.1)                    |
| Income before income taxes                   | 10.9                      | 14.5                     |
| Income taxes                                 | 4.3                       | 5.9                      |
| Net income                                   | 6.6%                      | 8.6%                     |
| Number of stores open at end of period       | 212                       | 151                      |

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**Three Months Ended December 29, 2001 Compared to the Three Months Ended December 30, 2000**

*Net Sales.* Our net sales increased to \$111.9 million from \$93.0 million, an increase of \$18.9 million, or 20.3%, over the prior fiscal year. This increase reflects \$28.9 million of net sales from the 24 new stores opened during the three months ended December 29, 2001, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. This increase was partially offset by a 12.1% decrease in our comparable store sales, which resulted in decreased sales of \$10.0 million compared to the same period last year.

*Gross Profit.* Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to \$32.3 million from \$31.3 million, an increase of \$1.0 million, or 3.0%, over the same period last year. This increase was the result of higher net sales, offset in part by decreased gross profit margins. As a percentage of net sales, gross profit decreased to 28.9% from 33.7%. The decrease as a percentage of net sales was principally due to higher occupancy expenses, higher markdown expenses and lower initial markups.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased to \$20.0 million from \$17.6 million, an increase of \$2.4 million, or 13.9%, over the same period last year. This increase was attributable to new store expansion and increased corporate expenses. As a percentage of net sales, selling, general and administrative expenses decreased to 17.9% from 18.9%, primarily due to the impact of leveraging corporate expenses over a higher sales base.

*Amortization of Goodwill.* Our amortization of goodwill was discontinued as of the first quarter of fiscal 2002; therefore, this expense decreased \$0.9 million compared to the same period last year.

*Income Taxes.* Our effective tax rate of 39.5% approximates our statutory income tax rates.

*Net Income.* Our net income decreased to \$7.4 million from \$8.0 million, a decrease of \$0.6 million, or 8.3%, from the same period last year. This decrease was primarily due to the increase in gross profit being more than offset by an increase in selling, general and administrative expenses.

**Recent Developments**

During the first quarter of fiscal 2002, the continuation of reduced mall traffic, especially in the Florida region, adversely impacted sales at stores that had been open for at least one year. As a result, comparable store sales declined 12.1% from prior year levels. The sales declines caused store occupancy and payroll expenses to rise as a percent of sales and resulted in reduced operating income margins.

We are cautious about the near-term economic outlook. We have seen no significant improvement in sales trends during the initial weeks of the second quarter of fiscal 2002. To the extent that consumer spending remains soft in future quarters, it would be difficult for comparable stores sales and operating income margins to show improvement over their prior year performances.

**Liquidity and Capital Resources**

Our capital requirements result primarily from capital expenditures related to new store openings. We have historically satisfied our cash requirements principally through cash flow from operations, although we have also used borrowings under our unsecured credit facility. Due to rapid turnover of inventory, we generate trade payables and other accrued liabilities sufficient to offset our working capital requirements, and this allows us to generally operate with negative working capital. As of December 29, 2001, we had net working capital of approximately \$6.6 million which included \$20.6 million of cash and cash equivalents.

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Net cash provided by operations was \$17.8 million for the three months ended December 29, 2001 compared with \$20.8 million during the three months ended December 30, 2000. Cash flows from operating activities for the period were primarily generated by income from operations and changes in working capital account balances.

Net cash used in investing activities was \$7.3 million for the three months ended December 29, 2001 compared with \$7.0 million in the three months ended December 30, 2000. Cash used in investing activities primarily represents capital expenditures for store openings, store remodeling, and fixtures.

In the three months ended December 29, 2001 and December 30, 2000, we opened 24 and 15 new stores, respectively. During fiscal 2002, we plan to open at least 55 new Charlotte Russe and Rampage stores. We also continue to test of our Charlotte's Room concept, and we opened two additional stores during the first quarter of fiscal 2002. We anticipate that total capital expenditures during fiscal 2002 will approximate \$30.0 million. We plan to fund these expenditures with cash flows from operations and from borrowings under the \$15.0 million revolving credit facility, as may be required.

Net cash provided by financing activities was \$70,200 for the three months ended December 29, 2001 compared with \$195,000 for three months ended December 30, 2000. Financing activities primarily represent the proceeds of stock option exercises.

We believe that cash generated from operations and funds available under our revolving credit facility will be sufficient to fund our store expansion program and working capital requirements for at least the next 12 months.

**Inflation**

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented. There can be no assurance, however, that our business will not be affected by inflation in the future.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risks relate primarily to changes in interest rates. We borrow money, when necessary, on a revolving basis under our \$15.0 million revolving credit facility to fund capital expenditures and other working capital needs. Our revolving credit facility carries a variable interest rate pegged to market indices and, therefore, our statements of income and our cash flows may be impacted by changes in interest rates. As of December 29, 2001, there was no amount outstanding under the revolving credit facility.

Another component of interest rate risk involves the short-term investment of excess cash in short-term, investment-grade interest-bearing securities. These are considered to be cash equivalents and are shown that way on our balance sheets. Changes in interest rates affect the investment income we earn on our investments and, therefore, impact our cash flows and results of operations.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. As of the date of this filing, the Company is not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company's business, financial condition or results of operations.

**ITEM 2. CHANGES IN SECURITIES**

**Unregistered Sales of Securities**

None.

**Dividends**

We have never declared nor paid dividends on our common stock and we do not intend to pay any dividends on our common stock in the foreseeable future. We currently intend to retain earnings to finance future operations and expansion. Moreover, under the terms of the revolving credit facility, dividends, distributions and capital stock redemptions are restricted to \$5.0 million or less in any fiscal year, of which up to \$2.5 million may be cash dividends paid on a non-cumulative basis.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits: None.

(b) Reports on Form 8-K: No reports were filed on Form 8-K during the quarter with which this report is filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on the 18th day of January, 2002.

**CHARLOTTE RUSSE HOLDING, INC**

