

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

February 09, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 9, 2001

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

&nbsp;nbsp;nbsp;

FOR THE QUARTERLY PERIOD ENDED DECEMBER 30, 2000

&nbsp;nbsp;nbsp;

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**

**33-0724325**

(State or Other Jurisdiction

of Incorporation or Organization) (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 2, 2001: 20,384,412 shares.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**CHARLOTTE RUSSE HOLDING, INC.**

**CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2000</b>	<b>December 30, 2000</b>
	<b>(audited)</b>	<b>(unaudited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$3,829,352	\$17,801,635
Inventories	15,026,508	12,474,598
Other current assets	2,115,376	2,118,622
Deferred tax assets	2,160,000	2,250,000
	<hr/>	<hr/>
Total current assets	23,131,236	34,644,855
Fixed assets, net	54,273,890	59,213,351
Goodwill, net	29,617,939	29,410,843
Other assets	1,482,345	1,372,111
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Total assets  
 \$108,505,410\$124,641,160

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**LIABILITIES AND  
 STOCKHOLDERS EQUITY**

Current liabilities:  
 Accounts payable trade  
     \$12,767,401\$13,266,186  
 Accounts payable other  
     4,780,008740,607  
 Accrued payroll and related expense  
     2,009,1793,000,884  
 Income and sales taxes payable  
     3,494,3278,887,969  
 Other current liabilities  
     4,705,0338,678,450

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Total current liabilities  
 27,755,94834,574,096

Notes payable to bank

Deferred rent  
     3,677,4804,186,526

Other liabilities  
     278,098250,025

Deferred tax liabilities  
     2,300,0002,500,000

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Total liabilities  
 34,011,52641,510,647

Commitments

Stockholders equity:  
 Preferred Stock \$0.01 par value,  
 3,000,000 shares authorized, none  
 issued and outstanding

Common Stock \$0.01 par value,  
 100,000,000 shares authorized,  
 issued and outstanding shares -  
 20,319,412 at September 30, 2000  
 and 20,398,660 at December 30,  
 2000203,194203,986

Additional paid-in capital  
     33,980,47034,532,220

Deferred compensation  
     (516,000)(480,000)

Retained earnings  
     40,826,22048,874,307

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Total stockholders equity  
 74,493,88483,130,513

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Total liabilities and stockholders  
equity  
\$108,505,410\$124,641,160

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See accompanying notes.

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**CHARLOTTE RUSSE HOLDING, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>December 25, 1999</b>	<b>December 30, 2000</b>
	_____	_____
Net sales	\$62,931,088	\$93,042,701
Cost of goods sold, including buying, distribution and occupancy costs		
41,623,08261,696,052		
_____		
_____		
Gross profit		
21,308,00631,346,649		
Selling, general and administrative expenses		
11,915,82617,570,488		
Amortization of goodwill and other intangibles		
223,842223,842		
_____		
_____		
Operating income		
9,168,33813,552,319		
Other expenses:		
Interest income (expense), net		
(196,124)40,593		
Other charges, net		
(65,262)(66,715)		
_____		
_____		
Total other expenses		

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(261,386)(26,122)

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Income before income taxes and  
extraordinary item  
8,906,952 13,526,197

Income taxes  
3,696,385 5,478,110

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Income before extraordinary  
item  
5,210,567 8,048,087

Extraordinary loss from early  
debt retirement, net of income  
taxes  
(311,314)

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Net income  
\$4,899,253 \$8,048,087

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Basic earnings per share:  
Income before extraordinary  
item  
\$0.26 \$0.40

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Net income  
\$0.25 \$0.40

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Diluted earnings per share:  
Income before extraordinary  
item  
\$0.23 \$0.35

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Net income  
\$0.22 \$0.35

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Weighted average shares  
outstanding:  
Basic  
19,675,418 20,347,509

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Diluted  
22,561,611 23,044,248

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See accompanying notes.

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

<b>December 25, 1999</b>	<b>December 30, 2000</b>
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**Operating Activities**

Net income	\$4,899,253	\$8,048,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,747,630	2,373,325
Deferred rent	347,991	1509,046
Amortization of deferred compensation	36,000	36,000
Extraordinary loss from early debt retirement	532,160	
Deferred income taxes	110,000	
Changes in operating assets and liabilities:		
Inventories	1,838,951	2,551,910
Other current assets	(548,056)	(3,246)
Accounts payable trade	(2,078,991)	498,785
Accounts payable other	(3,698,688)	(4,039,401)
Accrued payroll and related expense	(873,005)	991,705
Income and sales taxes payable	4,171,105	731,761
Other current liabilities	4,255,008	3,964,910



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Other liabilities  
(103,707)

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Net cash provided by operating  
activities  
10,525,651,207,772,882

**Investing Activities**  
Purchases of fixed assets  
(6,053,772)(7,083,480)  
Other assets  
48,683,882,024

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Net cash used in investing  
activities  
(6,005,089)(6,995,456)

**Financing Activities**  
Payments on capital leases  
(107,382)(19,567)  
Payments on notes payable to  
bank and revolving credit facility  
(19,000,000)  
Proceeds from notes payable to  
bank and revolving credit facility  
1,000,000  
Repayments of notes receivable  
from officers  
1,000,000  
Proceeds from issuance of  
common stock  
13,533,500,214,424

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Net cash provided by (used in)  
financing activities  
(3,573,882)194,857

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Net increase in cash and cash  
equivalents  
946,680,139,72,283

Cash and cash equivalents at  
beginning of the period  
2,982,025,829,352

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Cash and cash equivalents at end  
of the period  
\$3,928,705,17,801,635

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See accompanying notes.

**Table of Contents****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 30, 2000.

Due to the seasonal nature of the Company's business, the results of operations for the three month period ended December 30, 2000 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 30, 2000 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 25, 1999</b>	<b>December 30, 2000</b>
Income before extraordinary item	\$5,210,567	\$8,048,087
	<b>_____</b>	<b>_____</b>
Net income	\$4,899,253	\$8,048,087
	<b>_____</b>	<b>_____</b>
Income before extraordinary item per share:		
Basic	\$0.26	\$0.40
Effect of dilutive securities stock options	(0.01)	(0.02)

Effect of dilutive securities  
warrants  
(0.02)(0.03)

Diluted  
\$0.23\$0.35

Net income:  
Basic  
\$0.25\$0.40

Effect of dilutive securities  
stock options  
(0.01)(0.02)

Effect of dilutive securities  
warrants  
(0.02)(0.03)

Diluted  
\$0.22\$0.35

Weighted average number of  
shares:  
Basic  
19,675,41820,347,509

Effect of dilutive securities  
stock options  
959,953879,467

Effect of dilutive securities  
warrants  
1,926,2401,817,272

Diluted  
22,561,61123,044,248

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**CHARLOTTE RUSSE HOLDING, INC.**

**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. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate and similar words. These forward-looking statements may also use different phrases. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements, which are subject to certain risks, uncertainties, and assumptions about us, may include, among other things, projections of our future results of operations or of our financial condition, our anticipated growth strategies, general and regional economic conditions, industry trends, consumer demands and preferences, competition from other retailers and uncertainties generally associated with women's apparel and accessory retailing.

There may be events in the future that we are not able to accurately predict, or which we do not fully control, that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause results to differ materially from those expressed or implied by these forward-looking statements, including shopping mall traffic and shopping patterns, timing of openings for new shopping malls or our stores, fashion trends, national or regional economic influences, and weather. A description of these factors, as well as others that could affect the Company's business, is set forth in the Company's Form 10-K for the fiscal year ended September 30, 2000 which should be read in conjunction with this Quarterly Report.

Due to the seasonal nature of the Company's business, the results of operations for the three month period ended December 30, 2000 are not necessarily indicative of the results of a full fiscal year.

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.

**Table of Contents****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 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>December 25, 1999</b>	<b>December 30, 2000</b>
Net sales	100.0%	100.0%

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Cost of goods	66.166.3
<hr/>	
Gross profit	33.933.7
Selling, general and administrative expenses	18.918.9
Amortization of goodwill and other intangibles	0.40.2
<hr/>	
Operating income	14.614.6
Interest income (expense), net	(0.3)0.0
Other charges, net	(0.1)(0.1)
<hr/>	
Income before income taxes and extraordinary item	14.214.5
Income taxes	5.95.9
<hr/>	
Income before extraordinary item	8.38.6
Extraordinary loss from early debt retirement	(0.5)0.0
<hr/>	
Net income	7.8%8.6%
<hr/>	
Number of stores open at the end of period	109151
<hr/>	

**Three Months Ended December 30, 2000 Compared to Three Months Ended December 25, 1999**

**Net Sales.** Net sales increased to \$93.0 million from \$62.9 million, an increase of \$30.1 million, or 47.8%, over the same period last year. This increase is attributable primarily to \$27.9 million of net sales for the 15 new stores opened during the three months ended December 30, 2000, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. Our comparable store sales increased by 3.7% and contributed \$2.2 million to the net sales increase during the three months ended December 30, 2000. Further, our net sales for this quarter compared to the same period last fiscal year were favorably impacted by the inclusion of sales for the full week immediately following Christmas, which is generally a higher than average sales period. This week was included in the second quarter of the prior fiscal year, which will affect the comparison of our operating results for the second quarter of fiscal year 2001 to the same period in the prior fiscal 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 \$31.3 million from \$21.3 million, an increase of \$10.0 million, or 47.1%, over the same period last year. This increase is the result of higher net sales partially offset by decreased gross profit margin. As a percentage of net sales, gross profit decreased to 33.7% from 33.9%. The decrease in gross profit as a percentage of net sales was principally due to increased markdown, freight and inventory shrink expenses, partially offset by higher initial markups and lower occupancy and distribution expenses.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased to \$17.6 million from \$11.9 million, an increase of \$5.7 million or 47.5% over the same period last year. This increase is attributable to new store expansion and increased corporate expenses. As a percentage of sales, selling, general and administrative expenses are 18.9%, which is consistent with the same period of the prior year.

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**Amortization of Goodwill and Other Intangibles.** Amortization of goodwill and other intangibles expense remained constant at \$0.2 million during these two periods.

**Income Taxes.** The effective tax rate of 40.5% compares to an effective tax rate of 41.5% for the same period of the prior year. Our effective tax rate exceeds statutory tax rates due to non-deductible amortization of goodwill associated with the acquisition of the business in September 1996. Since amortization is a fixed amount, increases in pre-tax earnings reduce the effect of this tax difference as a percentage of pre-tax earnings.

**Net Income.** Net income for the three months ended December 30, 2000 increased to \$8.0 million from \$4.9 million, an increase of \$3.1 million, or 64.3%, over the same period last year. This increase was primarily due to an increase in gross profit and lower interest expense, partially offset by an increase in selling, general and administrative expenses. Our net income was also favorably impacted by the fiscal calendar mentioned above.

## **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. At December 30, 2000, we had approximately \$17.8 million of cash and cash equivalents on hand. Due to the rapid turnover of our 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 30, 2000, we had net working capital of approximately \$0.1 million due to a higher than normal cash balance.

Net cash provided by operations was \$20.8 million for the three months ended December 30, 2000 compared with \$10.5 million during the three months ended December 25, 1999. Cash flows from operating activities for the period was primarily generated by income from operations and changes in working capital account balances.

Net cash used in investing activities was \$7.0 million for the three months ended December 30, 2000 compared with \$6.0 million in the three months ended December 25, 1999. Cash used in investing activities primarily represents capital expenditures for store openings, store remodeling, and fixtures.

In the three months ended December 30, 2000 and December 25, 1999, we opened 15 and 13 stores, respectively. During fiscal 2001, we plan to open at least 43 new Charlotte Russe and Rampage stores. We will also significantly broaden the test of our Charlotte's Room concept, with 10 to 12 test locations planned for the next 12 to 18 months. We anticipate that total capital expenditures during fiscal 2001 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 \$0.2 million for the three months ended December 30, 2000 compared with \$3.6 million of net cash used in financing activities for the three months ended December 25, 1999. Financing activities for the three months ended December 30, 2000 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.

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### **CHARLOTTE RUSSE HOLDING, INC.**

#### **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 30, 2000, 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.

### **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 expansions. Moreover, under the terms of our 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. SUBMISSION 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 for  
which this  
report is  
filed.



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**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 9th day of February, 2001.

CHARLOTTE RUSSE HOLDING, INC.

By: /s/ DANIEL T. CARTER

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Daniel T. Carter  
Executive Vice President and Chief Financial Officer