

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

August 01, 2008

[Table of Contents](#)

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2008**

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

COMMISSION FILE NUMBER 000-27677

**CHARLOTTE RUSSE HOLDING, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: CHARLOTTE RUSSE HOLDING INC - Form 10-Q

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

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

**4645 MORENA BOULEVARD**

**SAN DIEGO, CA**  
(Address of Principal Executive Offices)

**92117**  
(Zip Code)

**(858) 587-1500**

(Registrant's Telephone Number, Including Area Code)

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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 issuer's classes of common stock, as of the latest practicable date:

The number of shares of common stock outstanding as of July 29, 2008 was 20,871,889.

**Table of Contents**

**CHARLOTTE RUSSE HOLDING, INC.**

**TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>		<b>Page</b>
ITEM 1.	<b><u>CONSOLIDATED FINANCIAL STATEMENTS</u></b>	
	<u>Consolidated Balance Sheets as of June 28, 2008 (unaudited) and September 29, 2007 (audited)</u>	3
	<u>Consolidated Statements of Income for the three months and nine months ended June 28, 2008 and June 30, 2007 (unaudited)</u>	4
	<u>Consolidated Statements of Cash Flows for the nine months ended June 28, 2008 (unaudited) and June 30, 2007 (unaudited)</u>	5
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
ITEM 2.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	13
ITEM 3.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	23
ITEM 4.	<b><u>CONTROLS AND PROCEDURES</u></b>	23
<b>PART II. OTHER INFORMATION</b>		
ITEM 1.	<b><u>LEGAL PROCEEDINGS</u></b>	24
ITEM 1A.	<b><u>RISK FACTORS</u></b>	24
ITEM 2.	<b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	28
ITEM 3.	<b><u>DEFAULTS UPON SENIOR SECURITIES</u></b>	28
ITEM 4.	<b><u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></b>	29
ITEM 5.	<b><u>OTHER INFORMATION</u></b>	29
ITEM 6.	<b><u>EXHIBITS</u></b>	29

**Table of Contents****CHARLOTTE RUSSE HOLDING, INC.****CONSOLIDATED BALANCE SHEETS**

	June 28, 2008 (Unaudited)	September 29, 2007 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 45,901,995	\$ 68,212,148
Inventories	49,798,199	59,408,879
Prepaid rent		10,789,305
Landlord allowances receivable	9,770,183	8,150,288
Deferred tax assets	6,161,200	5,770,000
Other current assets	7,167,263	6,148,642
<b>Total current assets</b>	<b>118,798,840</b>	<b>158,479,262</b>
Fixed assets, net	222,291,085	217,597,747
Goodwill	28,790,000	28,790,000
Long-term deferred taxes	970,000	1,120,000
Other assets	1,085,302	1,126,114
<b>Total assets</b>	<b>\$ 371,935,227</b>	<b>\$ 407,113,123</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 30,928,568	\$ 30,580,874
Accounts payable, other	7,978,950	8,096,234
Accrued payroll and related expense	5,465,951	6,207,709
Income and sales taxes payable	2,378,480	2,455,421
Other current liabilities	9,540,886	6,707,952
<b>Total current liabilities</b>	<b>56,292,835</b>	<b>54,048,190</b>
Deferred rent	115,260,895	106,007,106
Other liabilities	1,028,244	
<b>Total liabilities</b>	<b>172,581,974</b>	<b>160,055,296</b>
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; shares issued and outstanding of 20,861,355 and 24,886,738 at June 28, 2008 and September 29, 2007, respectively	208,614	248,868
Additional paid-in capital	63,987,947	75,625,962
Retained earnings	135,156,692	171,182,997
<b>Total stockholders' equity</b>	<b>199,353,253</b>	<b>247,057,827</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 371,935,227</b>	<b>\$ 407,113,123</b>

*See accompanying notes.*



Table of Contents

## CHARLOTTE RUSSE HOLDING, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 28, 2008 (13 weeks)	June 30, 2007 (13 weeks)	June 28, 2008 (39 weeks)	June 30, 2007 (39 weeks)
Net sales	\$ 193,232,962	\$ 180,279,697	\$ 616,527,615	\$ 550,609,996
Cost of goods sold, including buying, distribution and occupancy costs	141,599,061	126,864,339	451,309,927	397,176,377
Gross profit	51,633,901	53,415,358	165,217,688	153,433,619
Selling, general and administrative expenses	41,272,866	37,870,182	128,252,581	111,894,610
Operating income	10,361,035	15,545,176	36,965,107	41,539,009
Other income:				
Interest income, net	297,876	1,194,104	2,311,359	3,729,035
Total other income	297,876	1,194,104	2,311,359	3,729,035
Income before income taxes	10,658,911	16,739,280	39,276,466	45,268,044
Income taxes	4,082,364	6,595,276	14,465,887	17,389,309
Net income	\$ 6,576,547	\$ 10,144,004	\$ 24,810,579	\$ 27,878,735
Earnings per share				
Basic	\$ 0.31	\$ 0.40	\$ 1.05	\$ 1.10
Diluted	\$ 0.31	\$ 0.40	\$ 1.04	\$ 1.09
Weighted average shares outstanding:				
Basic	20,989,953	25,330,549	23,609,819	25,230,485
Diluted	21,167,994	25,541,858	23,771,641	25,489,384

*See accompanying notes.*

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

	<b>Nine Months Ended</b>	
	<b>June 28, 2008</b>	<b>June 30, 2007</b>
	<b>(39 weeks)</b>	<b>(39 weeks)</b>
<b>Operating Activities</b>		
Net income	\$ 24,810,579	\$ 27,878,735
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	32,494,883	26,607,962
Amortization of construction allowances	(10,645,739)	(9,750,733)
Stock based compensation	2,315,924	1,628,000
Deferred rent	2,529,189	(747,529)
Loss on disposal of assets/impairments	1,571,951	3,281,054
Deferred income taxes	(241,200)	(120,000)
Changes in operating assets and liabilities:		
Inventories	9,610,680	(8,644,465)
Prepaid rent	10,789,305	(10,144,846)
Landlord allowance receivable	(1,619,895)	2,420,076
Other current assets	(928,706)	(4,748,810)
Accounts payable, trade	347,694	11,812,964
Accounts payable, other	(117,284)	579,967
Accrued payroll and related expense	(741,758)	(2,167,982)
Income and sales taxes payable	(76,941)	(2,911,895)
Landlord construction allowances	17,370,339	13,236,982
Other liabilities	3,693,893	(1,518,701)
<b>Net cash provided by operating activities</b>	<b>91,162,914</b>	<b>46,690,779</b>
<b>Investing Activities</b>		
Purchases of fixed assets	(38,723,770)	(59,232,805)
Other assets	(85,505)	(26,163)
<b>Net cash used in investing activities</b>	<b>(38,809,275)</b>	<b>(59,258,968)</b>
<b>Financing Activities</b>		
Proceeds from issuance of common stock	672,499	6,990,062
Excess tax benefits from option exercises	53,709	2,862,893
Repurchases of common stock	(75,390,000)	
<b>Net cash (used in) provided by financing activities</b>	<b>(74,663,792)</b>	<b>9,852,955</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(22,310,153)</b>	<b>(2,715,234)</b>
Cash and cash equivalents at beginning of the period	68,212,148	90,229,040
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 45,901,995</b>	<b>\$ 87,513,806</b>

*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, including 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 for the fiscal year ended September 29, 2007. Certain amounts have been reclassified in prior periods to conform to the current period presentation.

Due to the seasonal nature of the Company's business, the results of operations for the three and nine month periods ended June 28, 2008 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, 2007 included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 28, 2007.

**2. Stock Based Compensation**

*Stock Plan Activity*

Under the Company's 1999 Equity Incentive Plan (the Plan), the Company grants stock options to purchase common stock to some of its employees and non-employee directors at prices equal to the market value of the common stock on the date of grant. Options issued prior to fiscal 2008 generally vest ratably over five years and expire after 10 years. Outstanding awards that were previously granted under predecessor plans also remain in effect in accordance with their terms. Options issued in fiscal 2008 generally vest ratably over three years and expire after 10 years.

In the third quarter of fiscal 2008, the Company granted stock options covering a total of 11,800 shares.

## Edgar Filing: CHARLOTTE RUSSE HOLDING INC - Form 10-Q

At June 28, 2008, there were a total of 3,250,000 shares authorized under the Plan, of which 1,400,084 were outstanding and 615,075 were available for future issuance. In addition, there were 164,772 shares available for future purchase under the Company's Employee Stock Purchase Plan ( ESPP ) at June 28, 2008.

**Table of Contents****CHARLOTTE RUSSE HOLDING, INC.****Notes to Consolidated Financial Statements (Unaudited) (Continued)****2. Stock Based Compensation (continued)**

The Company recognized the following stock based compensation expense for the Plan and ESPP as follows:

	Three Months Ended		Nine Months Ended	
	June 28, 2008 (13 weeks)	June 30, 2007 (13 weeks)	June 28, 2008 (39 weeks)	June 30, 2007 (39 weeks)
Cost of goods sold	\$ 149,050	\$ 153,400	\$ 467,626	\$ 347,900
Selling, general and administrative expenses	626,042	414,880	1,848,298	1,280,100
Compensation expense	775,092	568,280	2,315,924	1,628,000
Income tax benefit	296,860	223,902	886,999	641,432
Reduction of net income	\$ 478,232	\$ 344,378	\$ 1,428,925	\$ 986,568
Reduction of earnings per share:				
Basic	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04
Diluted	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04

As of June 28, 2008, there was \$2.4 million (before any related tax benefit) of total unrecognized compensation expense related to non-vested share based compensation that is expected to be recognized over a weighted average period of 1.04 years.

**3. Net Income Per Common Share**

Basic earnings per share is calculated based on the weighted average outstanding common shares. Diluted earnings per share is calculated based on the weighted average outstanding shares and potentially dilutive stock options and restricted shares. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 128, *Earnings Per Share*, the following table reconciles net income and share amounts utilized to calculate basic and diluted net income per common share.

	Three Months Ended		Nine Months Ended	
	June 28, 2008 (13 weeks)	June 30, 2007 (13 weeks)	June 28, 2008 (39 weeks)	June 30, 2007 (39 weeks)
Net income	\$ 6,576,547	\$ 10,144,004	\$ 24,810,579	\$ 27,878,735

Edgar Filing: CHARLOTTE RUSSE HOLDING INC - Form 10-Q

Weighted average number of shares:

Basic	20,989,953	25,330,549	23,609,819 &nbsp;
-------	------------	------------	-------------------