Citi Trends Inc
Form 10-Q
August 31, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended August 1, 2015

OR

o	**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**
(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 x No o

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 x No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

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 17, 2015**
Common Stock, $.01 par value	15,552,131 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 1, 2015 and January 31, 2015

(Unaudited)

(in thousands, except share data)

	August 1, 2015	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 54,380	$ 74,514
Short-term investment securities	24,778	15,850
Inventory	126,346	131,057
Prepaid and other current assets	14,890	14,604
Income tax receivable		973
Deferred tax asset	4,056	4,359
Total current assets	224,450	241,357
Property and equipment, net of accumulated depreciation of $190,540 and $181,475 as of August 1, 2015 and January 31, 2015, respectively	47,903	47,603
Long-term investment securities	36,512	22,447
Deferred tax asset	6,557	6,328
Other assets	627	638
Total assets	$ 316,049	$ 318,373
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 59,391	$ 72,245
Accrued expenses	15,274	14,176
Accrued compensation	10,023	14,996
Income tax payable	310	
Layaway deposits	1,818	585
Total current liabilities	86,816	102,002
Other long-term liabilities	6,040	5,749
Total liabilities	92,856	107,751
Stockholders equity:		
Common stock, $0.01 par value. Authorized 32,000,000 shares; 15,717,920 shares issued as of August 1, 2015 and 15,743,617 shares issued as of January 31, 2015; 15,552,170 shares outstanding as of August 1, 2015 and 15,577,867 shares outstanding as of January 31, 2015	154	152
Paid in capital	86,726	85,598

Retained earnings		136,478		125,037
Treasury stock, at cost; 165,750 shares as of August 1, 2015 and January 31, 2015		(165)		(165)
Total stockholders equity		223,193		210,622
Commitments and contingencies (note 10)				
Total liabilities and stockholders equity	$	316,049	$	318,373

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 1, 2015 and August 2, 2014

(Unaudited)

(in thousands, except per share data)

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
Net sales	$ 348,791	$ 333,003
Cost of sales (exclusive of depreciation shown separately below)	(210,688)	(206,307)
Selling, general and administrative expenses	(111,515)	(107,172)
Depreciation	(9,433)	(10,268)
Asset impairment		(83)
Income from operations	17,155	9,173
Interest income	115	92
Interest expense	(94)	(104)
Income before income tax expense	17,176	9,161
Income tax expense	(5,735)	(2,661)
Net income	$ 11,441	$ 6,500
Basic net income per common share	$ 0.76	$ 0.44
Diluted net income per common share	$ 0.75	$ 0.43
Weighted average number of shares outstanding		
Basic	15,139	14,937
Diluted	15,193	14,946

Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Thirteen Weeks Ended August 1, 2015 and August 2, 2014

(Unaudited)

(in thousands, except per share data)

	Thirteen Weeks Ended	
	August 1, 2015	August 2, 2014
Net sales	$ 153,878	$ 144,987
Cost of sales (exclusive of depreciation shown separately below)	(93,179)	(91,540)

Selling, general and administrative expenses		(55,703)		(53,197)
Depreciation		(4,620)		(5,108)
Asset impairment				(83)
Income (loss) from operations		376		(4,941)
Interest income		59		39
Interest expense		(47)		(56)
Income (loss) before income tax (expense) benefit		388		(4,958)
Income tax (expense) benefit		(226)		2,379
Net income (loss)	$	162	$	(2,579)
Basic net income (loss) per common share	$	0.01	$	(0.17)
Diluted net income (loss) per common share	$	0.01	$	(0.17)
Weighted average number of shares outstanding				
Basic		15,183		14,972
Diluted		15,204		14,972

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 1, 2015 and August 2, 2014

(Unaudited)

(in thousands)

	Twenty-Six Weeks Ended August 1, 2015	Twenty-Six Weeks Ended August 2, 2014
Operating activities:		
Net income	$ 11,441	$ 6,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,433	10,268
Asset impairment		83
Loss on disposal of property and equipment	24	1
Deferred income taxes	74	156
Noncash stock-based compensation expense	2,248	2,116
Excess tax benefits from stock-based payment arrangements	(1,323)	(332)
Changes in assets and liabilities:		
Inventory	4,711	6,045
Prepaid and other current assets	(286)	(3,604)
Other assets	11	23
Accounts payable	(12,903)	(1,192)
Accrued expenses and other long-term liabilities	524	184
Accrued compensation	(4,973)	110
Income tax receivable/payable	2,606	2,226
Layaway deposits	1,233	1,309
Net cash provided by operating activities	12,820	23,893
Investing activities:		
Sales/redemptions of investment securities	12,429	5,937
Purchases of investment securities	(35,422)	(11,324)
Purchases of property and equipment	(8,843)	(5,649)
Net cash used in investing activities	(31,836)	(11,036)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	1,323	332
Proceeds from the exercise of stock options	70	
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(2,511)	(1,410)
Net cash used in financing activities	(1,118)	(1,078)
Net (decrease) increase in cash and cash equivalents	(20,134)	11,779
Cash and cash equivalents:		
Beginning of period	74,514	58,928
End of period	$ 54,380	$ 70,707
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 63	$ 70
Cash paid for income taxes	$ 3,055	$ 279
Supplemental disclosures of noncash investing activities:		
Accrual for purchases of property and equipment	$ 914	$ 295

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 1, 2015

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 1, 2015, the Company operated 518 stores in 31 states.

The condensed consolidated balance sheet as of August 1, 2015, the condensed consolidated statements of operations for the twenty-six and thirteen week periods ended August 1, 2015 and August 2, 2014, and the condensed consolidated statements of cash flows for the twenty-six week periods ended August 1, 2015 and August 2, 2014 have been prepared by the Company without audit. The condensed consolidated balance sheet as of January 31, 2015 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 1, 2015 and January 31, 2015, and its results of operations and cash flows for all periods presented. It is suggested that these condensed consolidated financial statements 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 31, 2015.

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 1, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 30, 2016.

The following contains references to years 2015 and 2014, which represent fiscal years ending or ended on January 30, 2016 and January 31, 2015, respectively. Fiscal 2015 and fiscal 2014 both have 52-week accounting periods.

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 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. The Company includes as assumed proceeds the amount of compensation cost 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. For the twenty-six weeks ended August 1, 2015 and August 2, 2014, there were 20,000 and 30,000 stock options, respectively, and 368,000 and 598,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended August 1, 2015 and August 2, 2014, there were 20,000 and 30,000 stock options, respectively, and 349,000 and 607,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

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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 1, 2015 and August 2, 2014:

	Twenty-Six Weeks Ended	
	August 1, 2015	**August 2, 2014**
Average number of common shares outstanding	15,139,283	14,936,540
Incremental shares from assumed exercises of stock options	385	990
Incremental shares from assumed vesting of nonvested restricted stock	52,847	8,012
Average number of common shares and common stock equivalents outstanding	15,192,515	14,945,542

	Thirteen Weeks Ended	
	August 1, 2015	**August 2, 2014**
Average number of common shares outstanding	15,182,838	14,972,186
Incremental shares from assumed exercises of stock options		
Incremental shares from assumed vesting of nonvested restricted stock	20,854	
Average number of common shares and common stock equivalents outstanding	15,203,692	14,972,186

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.

As of August 1, 2015, 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 (Level 1)	$ 3,787	$ 3	$	$ 3,790
Obligations of states and municipalities (Level 2)	3,606	3		3,609
Bank certificates of deposit (Level 2)	17,385			17,385
	$ 24,778	$ 6	$	$ 24,784
Long-term:				
Obligations of the U. S. Treasury (Level 1)	25,000	22		25,022
Bank certificates of deposit (Level 2)	11,512			11,512
	$ 36,512	$ 22	$	$ 36,534

The amortized cost and fair market value of investment securities as of August 1, 2015 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	$ 24,778	$ 24,784
Mature after one year through five years	36,512	36,534
	$ 61,290	$ 61,318

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As of January 31, 2015, 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:								
Bank certificates of deposit (Level 2)	$	4,996	$		$		$	4,996
Obligations of states and municipalities (Level 2)		2,074						2,074
Obligations of the U. S. Treasury (Level 1)		8,780		9				8,789
	$	15,850	$	9	$		$	15,859
Long-term:								
Obligations of the U. S. Treasury (Level 1)	$	7,543	$	24	$		$	7,567
Bank certificates of deposit (Level 2)		14,904						14,904
	$	22,447	$	24	$		$	22,471

The amortized cost and fair market value of investment securities as of January 31, 2015 by contractual maturity were as follows (in thousands):

		Amortized Cost		Fair Market Value
Mature in one year or less	$	15,850	$	15,859
Mature after one year through five years		22,447		22,471
	$	38,297	$	38,330

There were no changes among the levels in the twenty-six weeks ended August 1, 2015.

Fair market values of Level 2 investments are determined by management with the assistance of a third party pricing service. Because quoted prices in active markets for identical assets are not available, these prices are determined by the third party pricing service using observable market information such as quotes from less active markets and quoted prices of similar securities.

6. Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. There was no impairment expense related to leasehold improvements and fixtures and equipment at underperforming stores in the twenty-six and thirteen week periods ended August 1, 2015. There was $0.1 million of impairment expense in the twenty-six and thirteen week periods ended August 2, 2014.

7. Revolving Line of Credit

On October 27, 2011, the Company entered into a five-year, $50 million credit facility with Bank of America. The facility was amended on August 18, 2015, extending the maturity date to August 18, 2020. The amended facility provides a $50 million credit commitment and a $25 million uncommitted accordion feature that under certain circumstances could allow the Company to increase the size of the facility to $75 million. Borrowings, if any, under the facility will bear interest (a) for LIBOR Rate Loans, at LIBOR plus either 1.25% or 1.5%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate plus either 0.25% or 0.5%, (ii) the Federal Funds Rate plus either 0.75% or 1.0%, or (iii) LIBOR plus either 1.25% or 1.5%, based in any such case on the average daily availability for borrowings under the facility. The facility continues to be secured by the Company s inventory, accounts receivable and related assets, but not its real estate, fixtures and equipment, and it contains one financial covenant, a fixed charge coverage ratio, which is applicable and tested only in certain circumstances. The facility has an unused commitment fee of 0.25% and permits the payment of cash dividends subject to certain limitations, including a requirement that there were no borrowings outstanding in the 30 days prior to the dividend payment and no borrowings are expected in the 30 days subsequent to the payment. The Company has had no borrowings under the credit facility.

8. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the

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realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

ASC 740-270, Income Taxes Interim Reporting , requires companies to calculate income taxes by applying their estimated full-year tax rate in each interim period unless the estimated full-year tax rate is not reliably predictable. For the twenty-six weeks ended August 1, 2015 and August 2, 2014, the Company utilized this annual effective tax rate method to calculate income taxes. Work opportunity tax credits (WOTC) earned on 2015 qualifying wages paid subsequent to December 31, 2014 were not available to the Company in the first half of 2015 due to the expiration of the program on December 31, 2014. It is possible that the federal government will retroactively reinstate WOTC back to the beginning of 2015 (as was done in 2014); however, due to the uncertainty involved, no WOTC benefits were recorded on 2015 qualifying wages in the twenty-six week period ended August 1, 2015.

9. Other Long-Term Liabilities

The components of other long-term liabilities as of August 1, 2015 and January 31, 2015 are as follows (in thousands):

	August 1, 2015	January 31, 2015
Deferred rent	$ 1,188	$ 1,209
Tenant improvement allowances	2,874	2,490
Other	1,978	2,050
	$ 6,040	$ 5,749

10. Commitments and Contingencies

On August 12, 2011, the Company received a letter of determination from the U.S. Equal Employment Opportunity Commission (the EEOC) commencing a conciliation process regarding alleged discrimination against males by the Company in its hiring and promotion practices during the years 2004 through 2006. The Company has not received full documentation or information from the EEOC in support of its letter of determination, but has undertaken its own internal analysis of the EEOC s claims and defenses to such claims and has had discussions with the EEOC in that regard. In the interest of reaching a satisfactory conciliation agreement with the EEOC, the Company proposed a total economic settlement offer of $1.0 million to cover all claims and the expenses of administering and complying with the settlement (excluding professional fees), with no reversion of unclaimed funds back to the Company. On March 19, 2015, the Company received a response from the EEOC proposing a settlement amount to be paid by the Company of $1.0 million to cover all claims. The EEOC s proposed conciliation agreement contained in its settlement proposal would require certain undertakings by the Company with regard to employment policies and procedures, training requirements, and a continuing reporting obligation to the EEOC for a period of two years, with the expenses incurred in connection with such undertakings to be paid by the Company. The Company has evaluated this proposed conciliation agreement and has addressed with the EEOC certain modifications to it, without affecting the overall settlement amount. The Company is awaiting a response from the EEOC regarding these proposed modifications.

The Company from time to time is also involved in various other legal proceedings incidental to the conduct of its business, including claims by customers, employees or former employees. Once it becomes probable that the Company will incur costs in connection with a legal proceeding and such costs can be reasonably estimated, it establishes appropriate reserves. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, the Company is not aware of any other legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition, results of operations or liquidity.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, growth or initiatives, statements of future economic performance, or statements regarding the outcome or impact of pending or threatened litigation. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors that may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words believe, anticipate, project, plan, expect, estimate, objective, forecast, goal, intend, result, or will continue and similar words and expressions generally identify forward-looking statements, although not all forward-looking statements contain such language. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements.

The factors that may result in actual results differing from such forward-looking information include, but are not limited to: transportation and distribution delays or interruptions; changes in freight rates; the Company s ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; the Company s ability to gauge fashion trends and changing consumer preferences; changes in consumer spending on apparel; changes in product mix; interruptions in suppliers businesses; a deterioration in general economic conditions caused by acts of war or terrorism or other factors; temporary changes in demand due to weather patterns; seasonality of the Company s business; delays associated with building, opening and operating new stores; delays associated with building, opening or expanding new or existing distribution centers; and other factors described in the section titled Item 1A. Risk Factors and elsewhere in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2015 and in Part II, Item 1A. Risk Factors and elsewhere in the Company s Quarterly Reports on Form 10-Q and any amendments thereto and in the other documents the Company files with the SEC, including reports on Form 8-K.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. Except as may be required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Form 10-Q or to reflect the occurrence of unanticipated events. Readers are advised, however, to read any further disclosures the Company may make on related subjects in its public disclosures or documents filed with the SEC, including reports on Form 8-K.

Overview

We are a value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. We operated 518 stores in both urban and rural markets in 31 states as of August 1, 2015.

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been opened for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2014 and fiscal 2015 are not considered comparable stores in fiscal 2015. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability.

In addition to sales, we measure cost of sales as a percentage of sales and store operating expenses, with a particular focus on labor, as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts. All of the statistics discussed above are critical components of earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA (comprised of EBITDA, as adjusted