

HomeStreet, Inc.
Form SC 13G/A
February 12, 2014

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

HomeStreet, Inc.
(Name of Issuer)

Common Stock, no par value
(Title of Class of Securities)

43785V102
(CUSIP Number)

December 31, 2013
(Date of Event which Requires Filing
of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
 Rule 13d-1(c)
 Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 43785V102

13G

Page 2 of 9 Pages

1NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Basswood Capital Management, L.L.C.

2CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3SEC USE ONLY

4CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY

6SHARED VOTING POWER

OWNED

1,025,418

BY

7SOLE DISPOSITIVE POWER

EACH

REPORTING

0

PERSON

8SHARED DISPOSITIVE POWER

WITH

1,025,418

9AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,025,418

10CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

11PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.11%

12TYPE OF REPORTING PERSON*

IA

CUSIP No. 43785V102

13G

Page 3 of 9 Pages

1NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Basswood Enhanced Long Short Fund, LP

2CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3SEC USE ONLY

4CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY

6SHARED VOTING POWER

OWNED

927,909

BY

7SOLE DISPOSITIVE POWER

EACH

REPORTING

0

PERSON

8SHARED DISPOSITIVE POWER

WITH

927,909

9AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

927,909

10CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

11PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.43%

12TYPE OF REPORTING PERSON*

PN

CUSIP No. 43785V102

13G

Page 4 of 9 Pages

1NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Basswood Enhanced Long Short GP, LLC

2CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3SEC USE ONLY

4CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY

6SHARED VOTING POWER

OWNED

927,909

BY

7SOLE DISPOSITIVE POWER

EACH

REPORTING

PERSON

0

8SHARED DISPOSITIVE POWER

WITH

927,909

9AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

927,909

10CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

11PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.43%

12TYPE OF REPORTING PERSON*

OO

CUSIP No. 43785V102

13G

Page 5 of 9 Pages

1NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Matthew Lindenbaum

2CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3SEC USE ONLY

4CITIZENSHIP OR PLACE OF ORGANIZATION

United States

5SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED

6SHARED VOTING POWER

BY
EACH

1,025,418

7SOLE DISPOSITIVE POWER

REPORTING
PERSON
WITH

0

8SHARED DISPOSITIVE POWER

1,025,418

9AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,025,418

10CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

11PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.11%

12TYPE OF REPORTING PERSON*

IN

CUSIP No. 43785V102

13G

Page 6 of 9 Pages

1NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Bennett Lindenbaum

2CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3SEC USE ONLY

4CITIZENSHIP OR PLACE OF ORGANIZATION

United States

5SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED

6SHARED VOTING POWER

BY
EACH

1,025,418

7SOLE DISPOSITIVE POWER

REPORTING
PERSON
WITH

0

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1,025,418

9AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,025,418

10CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

11PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.11%

12TYPE OF REPORTING PERSON*

IN

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- Item 1(a) Name of Issuer:
HomeStreet, Inc.
- Item 1(b) Address of Issuer's Principal Executive Offices:
601 Union Street, Suite 2000
Seattle, WA 98101
- Item 2(a) Name of Person Filing:
See Cover Pages, Item 1.
- Item 2(b) Address or Principal Business Office:
c/o Basswood Capital Management, L.L.C.
645 Madison Avenue, 10th Floor
New York, NY 10022
- Item 2(c) Citizenship:
See Cover Pages, Item 4.
- Item 2(d) Title of Class of Securities:
Common Stock, no par value
- Item 2(e) CUSIP Number:
43785V102
- Item 3 Not Applicable
- Item 4 Ownership:
The information required by Items 4(a)-(c) is set forth in Rows 5-11 of the cover page hereto for each Reporting Person and is incorporated herein by reference for each such Reporting Person.
- Item 5 Ownership of Five Percent or Less of a Class:
Not Applicable
- Item 6 Ownership of More than Five Percent on Behalf of Another Person:
Not Applicable

Item 7 Identification and Classification of the Subsidiary Which
Acquired the Security Being Reported on By the Parent Holding
Company:

Not Applicable

Item 8 Identification and Classification of Members of the Group:

Not Applicable

Item 9 Notice of Dissolution of Group:

Not Applicable

Item 10 Certification:

By signing below the signatory certifies that, to the best of his knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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SIGNATURE

After reasonable inquiry and to the best of the knowledge and belief of the undersigned, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: February 12, 2014

BASSWOOD CAPITAL MANAGEMENT, L.L.C.

By: /s/ Matthew Lindenbaum
Name: Matthew Lindenbaum
Title: Managing Member

BASSWOOD ENHANCED LONG SHORT FUND, LP

By: Basswood Enhanced Long Short GP, LLC, its General Partner

By: /s/ Matthew Lindenbaum
Name: Matthew Lindenbaum
Title: Managing Member

BASSWOOD ENHANCED LONG SHORT GP, LLC

By: /s/ Matthew Lindenbaum
Name: Matthew Lindenbaum
Title: Managing Member

/s/ Matthew Lindenbaum
Matthew Lindenbaum, an individual

/s/ Bennett Lindenbaum
Bennett Lindenbaum, an individual

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(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).

Table of Contents**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	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

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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:				

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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

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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 for non-cash asset impairment expense), which are considered our most important operating statistics. Although non-GAAP measures such as EBITDA and Adjusted EBITDA provide useful information on an operating cash flow basis, they are limited measures in that they exclude the impact of cash requirements for capital expenditures, income taxes and interest expense. Therefore, EBITDA and Adjusted EBITDA should be used as supplements to results of operations and cash flows as reported under U.S. GAAP and should not be used as a singular measure of operating performance or as a substitute for U.S. GAAP results. Furthermore, such non-GAAP measures may not be comparable to similarly titled measures of other companies.

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Provided below is a reconciliation of net income to EBITDA and to Adjusted EBITDA for the twenty-six and thirteen week periods ended August 1, 2015 and August 2, 2014:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net income (loss)	\$ 11,441	\$ 6,500	\$ 162	\$ (2,579)
Plus:				
Interest expense	94	104	47	56
Income tax expense	5,735	2,661	226	
Depreciation	9,433	10,268	4,620	5,108
Less:				
Interest income	(115)	(92)	(59)	(39)
Income tax benefit				(2,379)
EBITDA	26,588	19,441	4,996	167
Asset impairment		83		83
Adjusted EBITDA	\$ 26,588	\$ 19,524	\$ 4,996	\$ 250

Accounting Periods

The following discussion contains references to fiscal 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. This discussion and analysis should be read with the unaudited condensed consolidated financial statements and the notes thereto.

Results of Operations

The following discussion of the Company's financial performance is based on the unaudited condensed consolidated financial statements set forth herein. The nature of the Company's business is seasonal. Historically, sales in the first and fourth quarters have been higher than sales achieved in the second and third quarters of the fiscal year. Expenses and, to a greater extent, operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of the Company's business may affect comparisons between periods.

Twenty-Six Weeks Ended August 1, 2015 and August 2, 2014

Net Sales. Net sales increased \$15.8 million, or 4.7%, to \$348.8 million in the first half of 2015 from \$333.0 million in the first half of 2014. The increase in sales was due to a 2.7% increase in comparable store sales and the opening of

13 new stores since last year's second quarter, partially offset by the impact of closing four stores since last year's second quarter. The increase in comparable store sales was reflected in an increase of 4% in the number of customer transactions, partially offset by an average unit sale that declined by 1% and a slight decrease in the average number of items per transaction. Comparable store sales changes by major merchandise class were as follows in the first half of 2015: Home +17%; Ladies +7%; Accessories +3%; Men's -1%; and Children's -2%.

The 2.7% comparable store sales increase in the 501 comparable stores resulted in a net increase of \$9.0 million in sales, while store opening and closing activity resulted in a net increase of \$6.8 million.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased \$4.4 million, or 2.1%, to \$210.7 million in the first half of 2015 from \$206.3 million in last year's first half due to the effect of the increase in sales discussed above, partially offset by an improvement in cost of sales as a percentage of sales to 60.4% in the first half of 2015 from 62.0% in last year's first half. The decrease in cost of sales as a percentage of sales was due primarily to a 140 basis points improvement in the core merchandise margin (initial mark-up, net of markdowns) as a result of improved inventory management and the resulting need for fewer merchandise markdowns in this year's first half.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$4.3 million, or 4.1%, to \$111.5 million in the first half of 2015 from \$107.2 million in last year's first half due to the opening of 13 new stores since last year's second quarter, together with normal inflationary pressure on expenses such as payroll, rent, and employee medical claims. As a percentage of sales, selling, general and administrative expenses decreased slightly to 32.0% in the first half of fiscal 2015 from 32.2% in the first half of fiscal 2014.

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Depreciation. Depreciation expense decreased \$0.9 million, or 8.1%, to \$9.4 million in the first half of 2015 from \$10.3 million in the first half of 2014 due to the slowing of our store opening pace in relation to previous years.

Income Tax Expense. Income tax expense increased \$3.0 million, to \$5.7 million in this year's first half from \$2.7 million in the first half of 2014 due to an increase in pretax income, accompanied by an increase in the effective income tax rate to 33.4% from 29.0%. The increase in the effective tax rate from last year resulted from tax credits being lower as a percentage of pretax income in fiscal 2015 due to the significant increase in pretax income this year.

Net Income. Net income increased 76.0% to \$11.4 million in the first half of 2015 from \$6.5 million in the first half of 2014 due to the factors discussed above.

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

Net Sales. Net sales increased \$8.9 million, or 6.1%, to \$153.9 million in the second quarter of 2015 from \$145.0 million in the second quarter of 2014, consisting of a 3.9% increase in comparable store sales and the effect of opening 13 new stores since last year's second quarter, partially offset by the impact of closing four stores after the second quarter of 2014. The increase in comparable store sales was reflected almost entirely in an increase in the number of customer transactions, as the average number of items per transaction and the average unit sale were virtually unchanged. Comparable store sales changes by major merchandise class were as follows in the second quarter of 2015: Home + 17%; Ladies +7%; Accessories +6%; Children's -1%; and Men's -1%.

The 3.9% comparable store sales increase in the 501 comparable stores totaled \$5.6 million, while store opening and closing activity resulted in an increase of \$3.3 million in sales.

Cost of sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased \$1.7 million, or 1.8%, to \$93.2 million in the second quarter of 2015 from \$91.5 million in last year's second quarter due to the effect of the increase in sales discussed above, partially offset by an improvement in cost of sales as a percentage of sales to 60.6% in the second quarter of 2015 from 63.1% in the second quarter of 2014. The decrease in cost of sales as a percentage of sales was due to an improvement of 220 basis points in the core merchandise margin (initial mark-up, net of markdowns) as a result of improved inventory management and the resulting need for fewer merchandise markdowns in this year's second quarter.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$2.5 million, or 4.7%, to \$55.7 million in the second quarter of 2015 from \$53.2 million in last year's second quarter. As a percentage of

sales, selling, general and administrative expenses decreased to 36.2% in the second quarter of 2015 from 36.7% in the second quarter of 2014, due to the leveraging effect associated with the 3.9% increase in comparable store sales discussed above.

Depreciation. Depreciation expense decreased \$0.5 million, or 9.6%, to \$4.6 million in the second quarter of 2015 from \$5.1 million in the second quarter of 2014, due to the slowing of our store opening pace in relation to previous years.

Income Tax (Expense) Benefit. Income tax expense increased \$2.6 million, to \$0.2 million in this year's second quarter from a benefit of \$2.4 million in the second quarter of 2014 due to having pretax income in the second quarter of 2015 versus a pretax loss in the second quarter of 2014.

Net Income (Loss). Net income increased to \$0.2 million in the second quarter of 2015 from a net loss of \$2.6 million in the second quarter of 2014 due to the factors discussed above.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, opening of new stores, remodeling of our existing stores and the improvement of our information systems. In addition, on August 19, 2015, the Company announced that its board of directors had approved a share repurchase program of up to \$15 million and a quarterly cash dividend on our common stock of \$0.06 per share to be paid on September 15, 2015, to stockholders of record as of September 1, 2015. In recent years, we have met our cash requirements using cash flow from operations and short-term trade credit. We expect to be able to meet future cash requirements with cash flow from operations, short-term trade credit, existing balances of cash and investment securities and, if necessary, borrowings under our revolving credit facility.

Current Financial Condition. As of August 1, 2015, we had total cash and cash equivalents of \$54.4 million compared to \$74.5 million as of January 31, 2015. Additionally, we had \$24.8 million and \$36.5 million of short-term and long-term investment securities, respectively, as of August 1, 2015, compared with \$15.9 million and \$22.4 million, respectively, as of January 31, 2015. These securities are comprised of bank certificates of deposit and obligations of the U.S. Treasury, states and municipalities. Inventory represented 40.0% of our total assets as of August 1, 2015, compared to 41.2% as of January 31, 2015. Management's ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows From Operating Activities. Net cash provided by operating activities was \$12.8 million in the first half of 2015 compared to \$23.9 million in the same period of 2014. Sources of cash provided during the first half of 2015 included net income adjusted for noncash expenses such as depreciation, loss on disposal of property and equipment, deferred income taxes and stock-based compensation expense, totaling

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\$23.2 million (compared to \$19.1 million in the first half of 2014). Other significant sources of cash in the first half of 2015 were (1) a \$4.7 million decrease in inventory (compared to a \$6.0 million decrease in the first half of fiscal 2014) due to apparel retail seasonality which typically results in having more inventory at the beginning of the spring selling season than at the beginning of the back-to-school season, and (2) a \$2.6 million change in the income tax receivable/payable (compared to a \$2.2 million change in the first half of fiscal 2014) due to income tax expense being accrued on first half pretax income while no estimated tax payments were due during the first half. Significant uses of cash from operating activities were (1) a \$12.9 million decrease in accounts payable (compared to a \$1.2 million decrease in the first half of 2014) due to the payable balance at January 31, 2015 being unusually high as the result of a significant increase in the amount of purchases necessary in January 2015 to replenish merchandise levels when comparable store sales increased at a very high rate of 13.9% in the fourth quarter; since this higher level of purchases occurred in the last month of fiscal 2014, all such purchases were still in accounts payable as of January 31, 2015, and (2) a \$5.0 million decrease in accrued compensation (compared to a \$0.1 million increase in the first half of 2014) due to payment in the first half of 2015 of incentive compensation accrued in fiscal 2014.

Cash Flows From Investing Activities. Cash used in investing activities was \$31.8 million in the first half of 2015 compared to \$11.0 million in the first half of 2014. Purchases of investment securities, net of sales/redemptions, used cash of \$23.0 million and \$5.4 million in the first half of 2015 and 2014, respectively. Cash used for purchases of property and equipment totaled \$8.8 million and \$5.6 million in the first half of 2015 and 2014, respectively. The increase in capital expenditures was a result of opening nine new stores and relocating or expanding ten stores in the first half of 2015, compared with opening four new stores and relocating or expanding three stores in the first half of 2014.

Cash Flows From Financing Activities. Cash flows from financing activities were insignificant in the first twenty-six weeks of both 2015 and 2014.

Cash Requirements

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled \$54.4 million as of August 1, 2015); (ii) short-term and long-term investment securities (which equaled \$24.8 million and \$36.5 million, respectively, as of August 1, 2015); (iii) short-term trade credit; (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (v) a \$50 million revolving credit facility (under which we have no borrowings outstanding). Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

We believe that our existing sources of liquidity will be sufficient to fund our operations and anticipated capital expenditures for at least the next 12 months.

Critical Accounting Policies

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The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. There have been no material changes to the Critical Accounting Policies outlined in the Company's Annual Report on Form 10-K for the year ended January 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the twenty-six weeks ended August 1, 2015 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2015.

Item 4. Controls and Procedures.

We have carried out an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of August 1, 2015 pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information has been accumulated and communicated to our management, including the officers who certify our financial reports, as appropriate, to allow timely decisions regarding the required disclosures.

Our disclosure controls and procedures are designed to provide reasonable assurance that the controls and procedures will meet their objectives. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended August 1, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

On August 12, 2011, we 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 us in our hiring and promotion practices during the years 2004 through 2006. We have not received full documentation or information from the EEOC in support of its letter of determination, but have undertaken our own internal analysis of the EEOC's claims and defenses to such claims and have had discussions with the EEOC in that regard. In the interest of reaching a satisfactory conciliation agreement with the EEOC, we 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 us. On March 19, 2015, we received a response from the EEOC proposing a settlement amount to be paid by us of \$1.0 million to cover all claims. The EEOC's proposed conciliation agreement contained in its settlement proposal would require certain undertakings by us 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 us. We have evaluated this proposed conciliation agreement and have addressed with the EEOC certain modifications to it, without affecting the overall settlement amount. We are awaiting a response from the EEOC regarding these proposed modifications.

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

Item 1A. Risk Factors.

We cannot provide any guaranty of future cash dividend payments or that we will be able to actively repurchase our common stock pursuant to a share repurchase program.

We recently announced a quarterly cash dividend on our common stock. However, any determination to declare and pay cash dividends on our common stock in the future (quarterly or otherwise) will be based, among other things, upon our financial condition, results of operations, business requirements and our board of directors' conclusion in each instance that the declaration and payment of a cash dividend is in the best interest of our shareholders and is in compliance with all laws and agreements applicable to the dividend. We also recently announced that our board of directors has approved a share repurchase program, pursuant to which we may repurchase up to \$15 million of our common stock on the open market, in privately negotiated transactions or otherwise. However, there can be no assurance that we will be able to actively repurchase our common stock and we may suspend or discontinue the stock repurchase program at any time.

There are no other material changes to the Risk Factors described under the section "ITEM 1A. RISK FACTORS" in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

- 31.1 Certification of President and Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Chief Operating Officer and Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 101 The following financial information from Citi Trends, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 1, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets as of August 1, 2015 and January 31, 2015, (ii) the Condensed Consolidated Statements of Operations for the twenty-six and thirteen week periods ended August 1, 2015 and August 2, 2014, (iii) the Condensed Consolidated Statements of Cash Flows for the twenty-six week periods ended August 1, 2015 and August 2, 2014, and (iv) Notes to the Condensed Consolidated Financial Statements.*

* Included herewith.

Pursuant to Securities and Exchange Commission Release No. 33-8238, this certification will be treated as accompanying this Quarterly Report on Form 10-Q and not filed as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of Section 18 of the Securities Exchange Act of 1934 and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, and the undersigned also has signed this report in his capacity as the Registrant's Chief Financial Officer (Principal Financial and Accounting Officer).

CITI TRENDS, INC.

Date: August 31, 2015

By:	/s/ Bruce D. Smith
Name:	Bruce D. Smith
Title:	Chief Operating Officer and Chief Financial Officer